CANADIAN APARTMENT PROPERTIES

REAL ESTATE INVESTMENT TRUST

ANNUAL INFORMATION FORM

For the year ended December 31, 2010

Dated March 31, 2011

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ANNUAL INFORMATION FORM

**CANADIAN APARTMENT PROPERTIES
REAL ESTATE INVESTMENT TRUST**

(Information as at December 31, 2010, unless otherwise indicated)

1 - FORWARD-LOOKING INFORMATION

Certain statements contained, or contained in documents incorporated by reference, in this Annual Information Form of Canadian Apartment Properties Real Estate Investment Trust ("**CAPREIT**") 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 capital investments, CAPREIT's acquisition and capital investment strategy, and to 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 at current low rates; that interest rates will rise modestly in 2011; 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; and that rental rates on turnovers will remain stable and that CAPREIT will effectively manage price pressures relating to its energy usage. With respect to CAPREIT's financial outlook regarding capital investments, certain specific assumptions were made 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 Annual Information Form 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: real property ownership, leasehold interests, co-ownerships, investment restrictions, operating risk, energy costs, including energy hedging activities, 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 (the "**Units**") and of CAPREIT's subsidiary, CAPREIT Limited Partnership ("**CAPLP 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. A comprehensive discussion of risk factors may be found in the "Risks Factors" section of this Annual Information Form. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

2 - NOTE REGARDING FINANCIAL INFORMATION

Financial data included in this Annual Information Form has been prepared in accordance with Canadian generally accepted accounting principles ("**GAAP**"). This Annual Information Form should be read in conjunction with CAPREIT's management discussion and analysis of the results of operations and financial condition for the year ended December 31, 2010, incorporated herein by reference, and the consolidated annual audited financial statements for the year ended December 31, 2010, each of which is publicly available at www.sedar.com under CAPREIT's profile.

3 - NON-GAAP MEASURES

In this Annual Information Form, as a complement to results provided in accordance with GAAP, CAPREIT also discloses and discusses certain non-GAAP financial measures, including Net Operating Income, Net Rental Revenue Run-Rate, Funds From Operations, Normalized Funds From Operations and Adjusted Funds From Operations. These non-GAAP measures are further defined and discussed below. CAPREIT has presented such non-GAAP measures because it believes these non-GAAP measures are either relevant measures used by CAPREIT to assess its ability to earn and distribute cash returns to holders of Units ("**Unitholders**") and to evaluate the trust's performance or may be useful measures to investors to similarly evaluate the trust. These non-GAAP measures should not be construed as alternatives to net income (loss) or cash flows from operating activities determined in accordance with GAAP as an indicator of CAPREIT's performance. In addition, these non-GAAP measures may not be comparable to similar measures (or similarly titled measures) presented by other trusts, real estate investment trusts or companies in similar or different industries.

Net Operating Income ("**NOI**") is a key indicator of operating performance in the real estate industry and of CAPREIT's performance. NOI is comprised of all rental revenues generated at the property level, less (i) related direct costs such as utilities, realty taxes, insurance, repairs and maintenance and on-site wages and salaries, and (ii) an appropriate allocation of overhead costs.

Net Rental Revenue Run-Rate is defined as CAPREIT's share of the residential rent roll at period end adjusted for the historical averages of the following: (i) net vacancy loss, (ii) tenant inducements, (iii) bad debt, and (iv) commercial leasing income.

Funds From Operations ("**FFO**") is a measure of the operating performance based on the funds generated from the business before reinvestment or provision for other capital needs. FFO as presented is substantially in accordance with the recommendations of the Real Property Association of Canada. Management considers FFO to be an important measure of CAPREIT's operating performance.

Normalized Funds From Operations ("**NFFO**") is an important measure of CAPREIT's operating performance. Management considers NFFO to be a better year-over-year comparator of performance than FFO as it adjusts for non-recurring or unusual items. 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. CAPREIT calculates NFFO by excluding from FFO the effect of the change in fair value of hedging instruments and the effect of certain non-recurring items, such as losses incurred on the amendment of natural gas physical delivery contracts.

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 provision for maintenance property capital investments. CAPREIT 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.

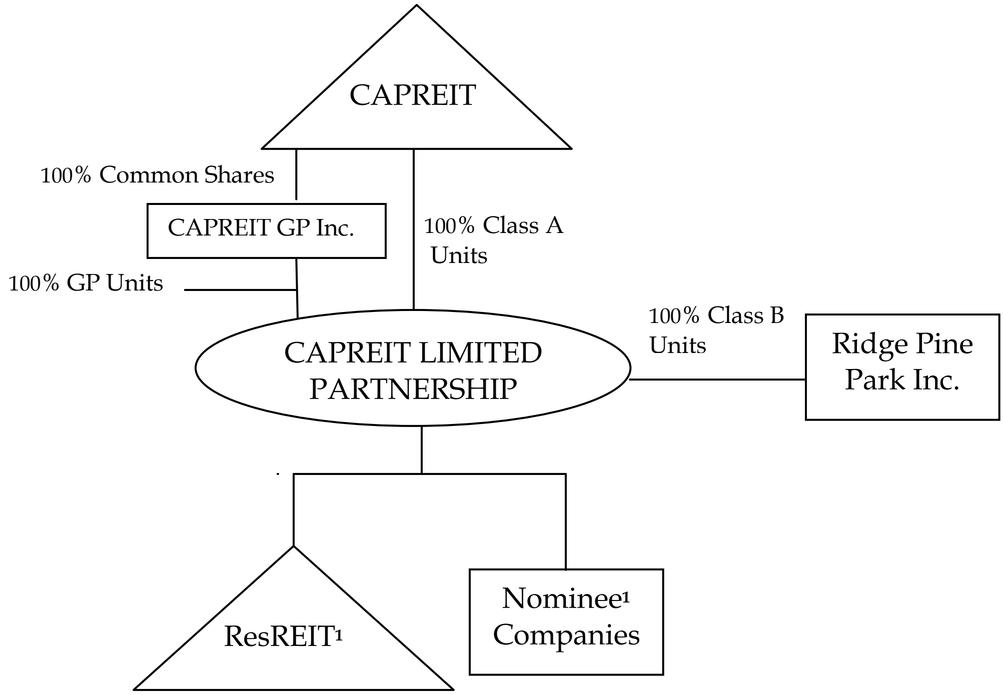
4 - TRUST STRUCTURE

CAPREIT converted from a "closed-end" to an "open-end" real estate investment trust on January 8, 2008. CAPREIT was created and is governed by a declaration of trust dated February 3, 1997, under the laws of the Province of Ontario, as amended and restated from time to time, including most recently on November 13, 2009 (the "**Declaration of Trust**").

Although CAPREIT qualifies as a "mutual fund trust" as defined in the *Income Tax Act* (Canada) (the "**Tax Act**"), CAPREIT is not a "mutual fund" as defined by applicable securities legislation.

The head office of CAPREIT is located at 11 Church Street, Suite 401, Toronto, Ontario, M5E 1W1.

CAPREIT Limited Partnership ("**CAPLP**"), a subsidiary of CAPREIT, is a limited partnership established under the laws of the Province of Manitoba pursuant to a limited partnership agreement dated June 26, 2007, as amended, among CAPREIT GP Inc., CAPREIT and other limited partners from time to time. CAPREIT GP Inc., a company incorporated under the laws of the Province of Ontario on June 21, 2007, is the general partner of CAPLP and CAPREIT is the sole shareholder of CAPREIT GP Inc.



[1] CAPREIT indirectly holds all of its real estate beneficially through CAPLP, or ResREIT (a trust), which holds one property on behalf of CAPLP. All of CAPREIT's real estate is held legally by nominee companies incorporated or formed in various Canadian jurisdictions. CAPREIT owns indirectly through CAPLP a 100% interest in all nominee companies with the exception of five nominee companies in which CAPREIT owns indirectly a 50% interest.

5 - INTERPRETATION

CAPREIT owns all of its property interests, owes all of its mortgage debt and debt obligations, and carries on its operating business, indirectly through CAPLP. For simplicity, and unless the context otherwise requires, we use terms in this Annual Information Form to refer to CAPREIT's business and operations as a whole. Accordingly, in this Annual Information Form, unless the context otherwise requires, references to CAPREIT include CAPLP. References to CAPREIT's business, properties or portfolios and operations refer to the activities of CAPREIT and its subsidiaries as a whole, including CAPLP, CAPREIT's ownership of and investment in properties indirectly through CAPLP and CAPREIT's operations through its indirect interest in CAPLP, respectively.

6 - GENERAL DEVELOPMENT OF THE BUSINESS

6.1 History

CAPREIT commenced activities on February 4, 1997, when it acquired six multi-unit residential apartment buildings. On May 21, 1997, in connection with the closing of its initial public offering ("**Initial Public Offering**") of Units of CAPREIT, CAPREIT acquired an additional six multi-unit residential apartment buildings and 117 townhomes. CAPREIT continued to expand by acquiring selected multi-unit residential properties over the years, and combining with

Residential Equities Real Estate Investment Trust (“**ResREIT**”) on June 1, 2004. CAPREIT’s combination with ResREIT created one of Canada’s largest multi-family residential property owners, with a national presence from coast-to-coast. The acquisition of ResREIT effectively doubled the size of CAPREIT’s property portfolio, broadened its geographic diversification and enhanced the portfolio’s quality and composition by adding a number of high-end luxury buildings situated in superior downtown locations in key cities.

CAPREIT owns interests in multi-unit residential properties, including apartments, townhomes and manufactured home communities (“**MHC**”) located in and near major urban centres across Canada. As at December 31, 2010, CAPREIT had ownership or co-ownership interests in a portfolio that included 27,172 residential suites (CAPREIT’s share 26,017 suites), well diversified by geographic location and asset type, and two Ontario MHCs comprising 1,325 land lease sites. As at December 31, 2010, CAPREIT had 734 employees (783 employees as at December 31, 2009).

The investment policies and operations of CAPREIT are governed by its Declaration of Trust and are subject to the control and direction of its trustees, a majority of whom must at all times be “independent” (as defined in National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”)). CAPREIT’s property management and other day-to-day operations have been fully internalized since November 11, 1999. Since April 1, 2008, CAPREIT’s day-to-day operations and property management have been carried out by CAPLP. See “Management of CAPREIT, Trustees and Executive Officers”.

The following tables contain selected historical financial information of CAPREIT that has been derived from, and should be read in conjunction with, the historical audited consolidated annual financial statements of CAPREIT for the year ended December 31, 2010, and also in conjunction with management’s discussion and analysis of financial condition and the results of operations for the year ended December 31, 2010, available on SEDAR at www.sedar.com under CAPREIT’s profile.

Statements of Income ($000s)			
	For the period January 1, 2010 to December 31, 2010	For the period January 1, 2009 to December 31, 2009	For the period January 1, 2008 to December 31, 2008
Operating Revenues			
Revenues from Income Properties	$ 333,465	$ 321,159	$ 310,563
Operating Expenses			
Realty Taxes	42,621	41,236	40,566
Property Operating Costs	103,135	105,491	101,661
	145,756	146,727	142,227
Net Operating Income	187,709	174,432	168,336
Depreciation	82,765	76,252	69,766
Amortization	4,123	3,503	2,946
Trust Expenses	14,012	16,834	13,155
Mortgage Interest	77,211	74,772	73,133
Interest on Bank Indebtedness	6,102	3,838	4,109
Net Loss on Natural Gas Contracts	4,497	–	–
Other Income	(1,854)	(1,853)	(1,886)
Severance and Other Employee Termination Costs	736	–	–
Income from Continuing Operations Before Other Costs, Gains (Losses) and Income Taxes	117	1,086	7,113
Reorganization Costs	–	–	(1,599)
Unrealized Loss (Gain) on Derivative Financial Instruments	(174)	742	(17,627)
Realized Gain on Derivative Financial Instruments	–	4,063	–
Recovery of (Provision for) Future Income Taxes	50,429	9,120	(9,134)
Income (Loss) From Continuing Operations	50,372	15,011	(21,247)
Income from Discontinued Operations	12,949 (2)	705	17,770 (1)
Net Income (Loss)	$ 63,321	$ 15,716	$ (3,477)

Selected Balance Sheet Data ($000s)			
	As at December 31, 2010	As at December 31, 2009	As at December 31, 2008
Assets:			
Income Properties – Continuing Operations	$ 2,267,859	$ 2,148,761	$ 2,135,920
Total Assets	$ 2,353,420	$ 2,279,779	$ 2,243,294
Liabilities:			
Mortgages Payable – Continuing Operations	$ 1,633,861	$ 1,512,715	$ 1,440,299
Bank Indebtedness	$ 39,358	$ 146,891	$ 121,029
Total Liabilities	$ 1,757,572	$ 1,822,595	$ 1,757,361

Notes:

(1) Includes gain on sale of assets of $17,046.

(2) Includes gain on sale of assets of $11,688.

Reconciliation of Net Income, FFO and NFFO ($000s, except per Unit amounts)					
	For the period January 1, 2010 to December 31, 2010		For the period January 1, 2009 to December 31, 2009		For the period January 1, 2008 to December 31, 2008
Net Income (Loss)	$ 63,321		$ 15,716		$ (3,477)
Adjustments: (Recovery of) Provision for Future Income Taxes	(51,355)		(9,568)		9,134
Reorganization Costs (1)	–		–		1,599
Depreciation	83,999		78,648		72,007
Amortization of Tenant Improvements	261		294		287
Amortization of Intangibles Assets	633		981		1,282
Amortization of Above-and-Below Market Leases	(82)		(120)		(420)
Gain on Sale of Assets	(11,688)		–		(17,046)
FFO	$ 85,089		$ 85,951		$ 63,366
Adjustments: Severance and Other Employee Termination Costs	736		–		–
Net Loss on Natural Gas Contracts	4,497		–		–
Unrealized (Loss) Gain on Derivative Financial Instruments	174		(742)		17,627
Realized Gain on Derivative Financial Instruments	–		(4,063)		–
Retiring Allowance (2)	–		1,642		–
Amortization of Loss on Derivative Financial Instruments included in Mortgage Interest	1,096		592		–
NFFO	$ 91,592		$ 83,380		$ 80,993
FFO per Unit	$1.268		$ 1.302		$ 0.969
NFFO per Unit	$1.364		$ 1.263		$ 1.238

Notes:

(1) See Reorganization Costs under the Net Income (Loss) Section in the MD&A for year ended December 31, 2009.

(2) See Trust Expenses under the Net Income (Loss) Section in the MD&A for year ended December 31, 2009. Amount includes $122 of non-cash compensation costs related to the accelerated vesting of LTIP and SELTIP Units previously awarded.

Quarterly Results ($000s)

The following table provides selected consolidated financial data for CAPREIT for the eight quarters ending in the most recently completed fiscal year.

Period Ended	Revenue from Income Properties	Net Income (Loss)	Net Income (Loss) Per Unit - Basic
December 31, 2010	$ 85,519	$ 49,875	$ 0.726
September 30, 2010	84,490	12,693	0.190
June 30, 2010	82,430	5,543	0.083
March 31, 2010	81,026	(4,790)	(0.072)
December 31, 2009	81,329	10,192	0.154
September 30, 2009	80,521	950	0.014
June 30, 2009	79,557	9,073	0.138
March 31, 2009	79,752	(4,499)	(0.068)

6.2 Recent Developments

Normal Course Issuer Bid

On June 22, 2010, CAPREIT announced that the Toronto Stock Exchange ("**TSX**") had approved its notice of intention to make a normal course issuer bid for its Units (the "**NCIB**") as appropriate opportunities arise from time to time. Pursuant to the notice, CAPREIT is permitted to acquire over the 12-month period from June 25, 2010 to June 24, 2011 up to 6,425,179 Units (representing 10% of the then outstanding Units after deducting Units held by insiders) at market prices through the facilities of the TSX. Any tendered Units taken up and paid for by CAPREIT will be cancelled. For the year ended December 31, 2010, CAPREIT acquired no Units under the NCIB.

2010 Annual and Special Meeting

At CAPREIT's annual and special meeting of Unitholders and Special Unitholders held on May 19, 2010, Unitholders and Special Unitholders approved the reconfirmation of the Unitholders' Rights Plan Agreement with effect on May 21, 2010; the adoption of the RUR Plan (as defined below) and the grant of RURs (as defined below) to employees and officers of CAPREIT made thereunder; and an amendment to the Employee Unit Purchase Plan to allow participation by CAPREIT's President and Chief Executive Officer and Chief Financial Officer.

2009 Normal Course Issuer Bid

On June 19, 2009, CAPREIT announced that the TSX had approved its notice of intention to make a normal course issuer bid for its Units (the "**2009 NCIB**") as appropriate opportunities arose from time to time. Pursuant to the notice, CAPREIT was permitted to acquire over the 12-month period from June 25, 2009 to June 24, 2010 up to 6,344,344 Units (representing 10% of the then outstanding Units after deducting Units held by insiders) at market prices through the facilities of the TSX. Any tendered Units taken up and paid for by CAPREIT were to be cancelled. For the year ended December 31, 2009, CAPREIT acquired no Units under the 2009 NCIB.

Restructuring to Qualify as a REIT

On December 24, 2010, CAPREIT announced that it had completed the necessary tax restructuring to qualify as a real estate investment trust ("**REIT**") under Canadian income tax legislation affecting the treatment of publicly traded investment trusts commencing for the 2011 taxation year. A trust which qualifies as a REIT for a taxation year is not subject to the rules in the Tax Act which apply to a specified investment flow through trust or partnership ("**SIFT**") and its unitholders (the "**SIFT Rules**") and, accordingly, CAPREIT will continue to be able to flow income through to Unitholders on a tax effective basis.

Generally, to qualify as a REIT, CAPREIT's assets must be limited to income-producing real property and substantially all of CAPREIT's revenues must be derived from rental revenue and capital gains arising on dispositions of such properties. CAPREIT's assets and operating activities were largely unaffected by the restructuring. All noncompliant assets have either been disposed of or restructured as necessary. As a result of the completion of its restructuring, the non-cash future income tax liability of $53.2 million recorded at September 30, 2010 that arose primarily as a result of the introduction of the SIFT Legislation in 2007, reversed in the fourth quarter of 2010 through the consolidated statement of income and comprehensive income as a one-time non-cash future income tax recovery.

Conversion to an ''open-end'' Trust

At the annual and special meeting of Unitholders and Special Unitholders held on May 26, 2005, Unitholders approved a resolution authorizing the conversion of CAPREIT from a ''closed-end'' to an ''open-end'' trust on the terms and conditions described in the management information circular dated April 26, 2005. On January 8, 2008, CAPREIT announced that it had completed its conversion to an "open-end" trust. The conversion removed certain investment restrictions on CAPREIT and provided it with greater flexibility in structuring certain indirect investments.

CAPREIT Limited Partnership

CAPLP, a subsidiary of CAPREIT, is a limited partnership established under the laws of the Province of Manitoba pursuant to a limited partnership agreement dated June 26, 2007, among CAPREIT GP Inc., CAPREIT and other limited partners, as amended from time to time. CAPREIT GP Inc. is the general partner of CAPLP and CAPREIT is the sole shareholder of CAPREIT GP Inc.

On July 10, 2007, as partial consideration for the acquisition of two MHCs in Ontario located near Bowmanville and Grand Bend (the "Rice Portfolio"), CAPLP issued $8.0 million in CAPLP Class B Units to the vendor, at a weighted average price of $19.45 per Unit, which are exchangeable into 411,311 CAPREIT Units on a one-for-one basis pursuant to the terms of an exchange agreement dated July 9, 2007 between CAPREIT, CAPREIT GP Inc. and CAPLP (the "Exchange Agreement"). Combined, the two communities consisted of 1,233 land lease sites on 371 acres of land. The total acquisition costs were $76.7 million and included the acquisition of all community services and amenities. The purchase was financed by $55.0 million in new mortgage financing at an effective interest rate of 5.71% for a term of five years, the issuance to the vendor of $8.0 million of new CAPLP Class B Units and the balance from CAPREIT's acquisition facility.

On April 1, 2008, pursuant to its previously announced reorganization to convert to an "open-end" real estate investment trust, CAPREIT transferred the beneficial interest in all its properties, mortgage debt and debt obligations to CAPLP.

Equity Offering

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 approximately $125.4 million (the "**Equity Offering**"). On December 23, 2010, CAPREIT issued an additional 350,000 Units at $17.30 per Unit for aggregate gross proceeds of approximately $6.1 million, pursuant to the partial exercise of the over-allotment option granted to the underwriters in connection with the Equity Offering. The net proceeds of approximately $125.3 million were used to repay borrowings on the Acquisition and Operating Facility (as defined below).

Large Borrower Agreement

During the third quarter of 2010, 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 a large borrower agreement with CMHC, dated August 9, 2010, which provides for, among other things: (i) additional financial covenants and limitations on indebtedness, none of which are inconsistent with CAPREIT's current operating policies; (ii) the posting of letters of credit securing CAPREIT's obligations under the large borrower agreement; (iii) cross collateralization of mortgage loans for CMHC-insured mortgage lenders and; (iv) enhanced disclosure to CMHC. The large borrower agreement has not materially affected the manner in which CAPREIT conducts its business or its approach to mortgage financing.

Natural Gas Supply

With the authorization of CAPREIT's Board of Trustees, 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 realization of a $4.5 million loss inherent in the physical delivery contracts, which was realized through the use of derivative financial instruments entered into with a creditworthy counterparty. The revised strategy eliminated the protection afforded by formerly fixed pricing arrangements; however, management expected to achieve long-term energy cost savings as a result of declining natural gas prices, including related commodity tax savings, providing management with greater flexibility to lock in natural gas prices in the future when deemed appropriate.

In the third quarter of 2010, CAPREIT entered into a floating-to-fixed natural gas financial instrument covering the period from November 2010 through March 2011 ("**Winter 2011**") and in the fourth quarter of 2010, a second floating-to-fixed natural gas financial instrument was entered into covering the same period. The two financial instruments fix the price of natural gas at $4.32 and $3.58 per gigajoule for 2,700 and 500 gigajoules per day, respectively, which combined, represents approximately 85% of CAPREIT's anticipated Winter 2011 natural gas delivery requirements. These fixed prices compare favourably to the average price per gigajoule at which CAPREIT converted its fixed price natural gas commitments to spot pricing arrangements effective

March 1, 2010, of $5.05 per gigajoule and the average price paid by CAPREIT for natural gas from November 2009 through March 2010 of $6.49 per gigajoule. As at December 31, 2010, approximately 85% of CAPREIT's natural gas requirements for the period covering January 1, 2011 to March 31, 2011 are subject to fixed price contracts having an average price of $4.20 per gigajoule. No fixed price contracts for natural gas are in place for the remainder of 2011.

6.3 Recent Property Acquisitions and Dispositions

CAPREIT continues to further diversify its property portfolio by geography and to maintain a balance among asset types and demographic segments.

Subsequent to December 31, 2010, CAPREIT completed the acquisition of a mid-tier townhome complex comprising 83 suites, located in Burlington, Ontario. The purchase price of $8.9 million, excluding closing and transaction costs, was funded with a new CMHC-insured mortgage of $6.8 million at an interest rate of 4.26%, maturing on March 1, 2021, and the balance from the Acquisition and Operating Facility.

Subsequent to December 31, 2010, CAPREIT also entered into an agreement to acquire five properties comprising 495 suites located in the Greater Vancouver Region of British Columbia. The total purchase price, excluding closing and transaction costs, will be approximately $72 million. CAPREIT expects to finance the acquisition with new ten-year CMHC-insured mortgages of approximately $49 million and the balance will be funded from the Acquisition and Operating Facility. The acquisition is scheduled to close in mid-April 2011.

On March 29, 2011, CAPREIT sold a property consisting of 143 suites for a total sale price of approximately $6 million; the purchaser assumed the $2.1 million existing mortgage.

As outlined in detail below, during 2010, CAPREIT acquired 668 residential suites and 23 additional MHC land lease sites at its Bowmanville, Ontario and Grand Bend, Ontario manufactured home communities for total acquisition costs of approximately $118.7 million, which were funded from assumed or financed mortgages of $71.2 million and the balance drawn from the Acquisition and Operating Facility and Land Lease Facility (as hereinafter defined). During 2010, CAPREIT sold multiple non-core properties consisting of 338 suites in Montréal, 146 suites in London, 570 suites in Mississauga and Kitchener and 56 suites in Toronto for a total sale price of approximately $74.7 million, resulting in a gain of $11.7 million being recognized.

On December 20, 2010, CAPREIT acquired 9 MHC land lease sites (six near Bowmanville, Ontario and three in Grand Bend, Ontario) for total acquisition costs of approximately $0.5 million, all of which were funded from the Land Lease Facility.

On July 29, 2010, CAPREIT acquired 8 properties (two affordable, four mid-tier and two luxury) comprising 307 suites located in or near Victoria, British Columbia. The total acquisition costs of $47.2 million were funded from: (i) conventional mortgage financings in the amount of $25.6 million for a five-year term, which was subsequently replaced with a 10-year CMHC-insured mortgage at an average interest rate of 3.67% maturing on December 1, 2020; (ii) assumption of an existing mortgage in the amount of $0.8 million at an interest rate of 4.73%, maturing on February 1, 2016; and (iii) the balance from the Acquisition and Operating Facility.

On May 14, 2010, CAPREIT completed the acquisition of a luxury property comprising 199 suites, located in Mississauga, Ontario. Total acquisition costs of $31.7 million were satisfied with a new CMHC-insured mortgage in the amount of $22.2 million at an interest rate of 3.37% for a five-year term maturing on June 1, 2015, and the balance from the Acquisition and Operating Facility.

On April 12, 2010, CAPREIT completed the acquisition of a luxury property comprising 162 suites, located in Vancouver, British Columbia. Total acquisition costs of $38.4 million were funded by the assumption of an existing CMHC-insured first mortgage of $22.7 million at an effective interest rate of 4.59%, maturing on April 5, 2017, and the balance from the Acquisition and Operating Facility.

On February 22, 2010, CAPREIT acquired 14 MHC land lease sites (13 near Bowmanville, Ontario and one site in Grand Bend, Ontario) for total acquisition costs of $0.9 million, all of which were funded from the Land Lease Facility.

On November 24, 2010, CAPREIT sold a property consisting of 56 suites in Toronto, Ontario for a total sale price of $6.4 million. On July 29, 2010, CAPREIT sold five properties consisting of 570 suites in Mississauga and Kitchener, Ontario for a total sale price of $45.9 million; approximately $20.1 million of mortgages were repaid. On July 5, 2010, CAPREIT sold a property consisting of 146 suites in London, Ontario, for a total sale price of $7.6 million; $5.7 million of mortgages were repaid. On June 9, 2010, CAPREIT sold an apartment complex consisting of 250 suites in Montréal, Québec, for a total sale price of $11.8 million; approximately $4.0 million of mortgages were repaid. On June 3, 2010, CAPREIT sold a property consisting of 88 suites in Montréal, Québec, for a total sale price of $3 million; approximately $1.9 million of mortgages were repaid. The net cash proceeds of $68.8 million from these sales were used to pay down $31.7 million of existing mortgage debt, with the balance used to repay a portion of the borrowings under the Acquisition and Operating Facility.

As outlined in detail below, during 2009, CAPREIT acquired 24 additional MHC land lease sites at its Bowmanville, Ontario and Grand Bend, Ontario manufactured home communities for total acquisition costs of $1.4 million.

On August 14, 2009, CAPLP acquired 14 MHC land lease sites (11 sites near Bowmanville, Ontario and three sites in Grand Bend, Ontario) for total acquisition costs of $0.9 million, which were funded from the Land Lease Facility.

On February 10, 2009, CAPLP acquired 10 MHC land lease sites (eight sites near Bowmanville, Ontario and two sites in Grand Bend, Ontario) for a total acquisition cost of $0.5 million, which were funded from the Land Lease Facility.

As outlined in detail below, during 2008, CAPREIT acquired 1,391 residential suites and 20 MHC land lease sites for total acquisition costs of approximately $119.8 million and sold 1,630 residential suites for a total sales price of $127.6 million.

On January 10, 2008, CAPREIT acquired two adjoining apartment properties located in Toronto, Ontario comprising 143 suites. The total acquisition cost of $14.3 million was satisfied by

$10.8 million in new mortgage financing insured with CMHC at an interest rate of 4.69% for a five-year term and the balance from the Acquisition and Operating Facility.

On January 18, 2008, CAPREIT sold ten non-core properties consisting of 558 suites in Ontario and 920 suites in Québec for a total sale price of $121.3 million. The purchaser assumed $57.6 million of existing mortgages. In a separate transaction on January 21, 2008, CAPREIT sold two Québec City apartment properties containing 152 suites for a sale price of $6.4 million. Mortgages of $2.2 million were repaid with the proceeds. The net cash proceeds of $63.0 million from these sales were used to repay bank indebtedness under the Acquisition and Operating Facility.

On April 8, 2008, CAPREIT acquired nine land lease sites (six sites near Bowmanville, Ontario and three sites in Grand Bend, Ontario) for total acquisition costs of $0.6 million, and on September 1, 2008 an additional 11 land lease sites (nine sites near Bowmanville, Ontario and two sites in Grand Bend, Ontario) for total acquisition costs of $0.7 million, all of which were funded from the Land Lease Facility.

On April 30, 2008, CAPREIT acquired an apartment complex located in Richmond, British Columbia, comprising 174 suites. The total acquisition costs of $24.2 million were satisfied by the assumption of an existing mortgage of $5.8 million maturing in 2016 at an interest rate of 4.60%, new CMHC-insured mortgage financing of $6.8 million maturing in 2013 at 4.45% and the balance from the Acquisition and Operating Facility.

On July 31, 2008, CAPREIT acquired a 50% interest in a portfolio of eight properties in Toronto, Ontario totalling 784 suites. The total acquisition costs for the 50% interest of $47.9 million were satisfied by the assumption of existing mortgages of $15.0 million maturing between 2011 and 2019 at an average interest rate of 4.75%, new CMHC-insured mortgages of $14.7 million for five-year terms at an average interest rate of 4.55% and the balance from the Acquisition and Operating Facility.

On August 29, 2008, CAPREIT acquired a 137-suite apartment building in Victoria, British Columbia. The total acquisition costs of $14.3 million were satisfied by new CMHC-insured financing of $10.2 million for a five-year term at 4.35% and the balance from the Acquisition and Operating Facility.

On December 5, 2008, CAPREIT completed the acquisition of a 153-suite, 19-storey, luxury apartment building in Québec City, Québec. The total acquisition costs of approximately $17.8 million were satisfied by the assumption of a CMHC-insured mortgage of approximately $10.5 million maturing in 2011 with an interest rate of 4.21%, a new $2.2 million five-year mortgage with an interest rate of 3.62% and the balance from the Acquisition and Operating Facility.

6.4 Amendments to the Declaration of Trust

On May 26, 2005, the Declaration of Trust was amended by the Board of Trustees as follows. First, the Declaration of Trust was amended by deleting the opening paragraph of Section 4.2 of the Declaration of Trust in its entirety and replacing it with a single restriction to the effect that CAPREIT's borrowings, including the Acquisition and Operating Facility, shall not exceed 70% of the gross book value of CAPREIT's assets. Second, the Declaration of Trust was amended to grant the Board of Trustees the authority to convert CAPREIT's structure from a "closed-end" to an "open-end" trust and to add a limited redemption right for Unitholders.

On May 25, 2006, the Declaration of Trust was amended by resolution of the Unitholders of CAPREIT as follows. First, the Declaration of Trust was amended by deleting Sections 4.1(1) and 4.1(6) in their entirety and replacing them with investment restrictions that would permit investments by CAPREIT outside of Canada and in buildings that may not be substantially occupied. Second, the Declaration of Trust was amended by changing the investment restrictions contained in Sections 4.1(4) and 4.2(7) to add flexibility to CAPREIT's ability to participate in joint ventures and to provide that CAPREIT may guarantee the indebtedness of a third party. Third, Section 4.1(5) of the Declaration of Trust was amended to permit investments in securities of other entities, including corporations, provided their activities are similar to those of CAPREIT. Fourth, Section 4.2(5) of the Declaration of Trust was deleted in its entirety and Clause 4.2(12)(b) was amended to provide that the exclusive test for limiting indebtedness be measured on a portfolio basis and be limited to a maximum of 70% of the gross book value of CAPREIT's assets and to provide that the restrictions on CAPREIT's floating rate and short-term debt may be overridden where the Board of Trustees believes it is in the interests of CAPREIT to do so.

On May 23, 2007, the Declaration of Trust was amended by resolution of the Unitholders of CAPREIT by deleting Section 4.1(1) in its entirety and replacing it with investment restrictions to expand the scope of permissible acquisition activities to include condominium conversions and sales.

On January 8, 2008, the Declaration of Trust was amended by resolution of the Unitholders of CAPREIT to convert CAPREIT from a "closed-end" trust to an "open-end" trust. As part of the conversion, the Declaration of Trust was also amended to include a right of redemption (see "Right of Redemption"). The Declaration of Trust was also amended to modify those provisions that restrict the investments that may be made by CAPREIT in accordance with paragraph 108(2)(b) of the Tax Act.

On May 21, 2008, the Declaration of Trust was amended by resolution of the Unitholders and Special Unitholders of CAPREIT. First, the restriction in Subsection 4.1(1) was narrowed, allowing CAPREIT to acquire, invest in, develop, and manage a broader range of assets (real property-related businesses outside the category of multi-unit residential real property). Corresponding changes were made to other provisions of Section 4.1 to ensure consistency with the revision to Subsection 4.1(1). Second, the restriction in Subsection 4.1(4) that CAPREIT may only invest in joint venture arrangements on certain conditions, were found to be redundant and removed. Third, the specific inclusion of third party guarantees in Subsection 4.2(5)(e) was eliminated and "contingent liabilities" was excluded from the definition of "indebtedness". Fourth, the restriction in Subsection 4.2(11), which restricted the amount of indebtedness of CAPREIT at floating interest rates or having original maturities of less than one year to 10% of CAPREIT's total indebtedness, was removed. Lastly, certain amendments were made which gave Board of Trustees the flexibility to establish and amend operating policies related to appropriate delegations of authority in connection with acquisitions, dispositions, and financing of CAPREIT.

On May 20, 2009, the Declaration of Trust was amended as approved by resolution of the Unitholders and Special Unitholders of CAPREIT. First, all references to "Distributable Income" in the Declaration of Trust were eliminated. Secondly, amendments were made to Section 11.1(5) to permit the Board of Trustees to make other amendments resulting from changes in accounting standards. On November 13, 2009, as approved by Unitholders and Special Unitholders at the Annual and Special Meeting of Unitholders and Special Unitholders held May 20, 2009, amendments were made to Section 9.1 of the Declaration of Trust to remove the requirement to make mandatory distributions. This amendment was made to avoid the Units being categorized as a liability under IFRS as adopted by GAAP.

7 - DESCRIPTION OF THE BUSINESS

7.1 Summary

The objectives of CAPREIT are (i) to provide Unitholders with long-term, stable and predictable monthly cash distributions; (ii) to grow NFFO, sustainable distributions and Unit value through the active management of the properties, accretive acquisitions and strong financial management; and (iii) to reinvest capital within the property portfolio in order to ensure life safety of residents and maximize earnings and cash flow potential.

7.2 The Residential Real Estate Market

(a) The Multi-Unit Residential Real Estate Market

CAPREIT's real property portfolio is comprised primarily of interests in income-producing multi-unit residential properties. Properties consist of well-located, low-rise and high-rise apartment buildings and townhome complexes in or near urban centres throughout Canada. This particular type of real estate differs significantly from the commercial real estate investment market particularly because of the following:

- residential tenancy agreements tend to have terms of one year or less, thereby allowing for more frequent changes to rental rates;
- cash flow for each property is generated by a diverse resident base. The temporary loss of any one of these residents through turnover will have no significant effect on CAPREIT's overall income stream;
- the demand for residential rental accommodation is much more consistent and stable than the demand for commercial rental space, reflecting demographic trends and reflecting that the need for housing, unlike its commercial counterpart, is governed to a lesser extent by economic business cycles;
- the costs necessary to attract and retain residential tenants are generally lower and much more predictable than in the case of commercial tenancies, regardless of the stage of the business cycle;
- the value of residential buildings has historically been less susceptible to economic business cycles than other classes of income-producing real estate; and
- properties can often be purchased at amounts below replacement cost.

While the characteristics detailed above mitigate the detrimental effects of severe cyclical swings in the real estate industry, the residential market is not completely immune to supply and demand imbalances nor variances in general economic conditions (see "Risk Factors").

(b) The Manufactured Home Communities Real Estate Market

CAPREIT has supplemented its portfolio of multi-unit residential properties with the acquisition of MHCs in Ontario. Homeowners in a MHC own their homes and enter into lease agreements for the lots on which their homes are located, typically for a term of approximately 20 years, for a monthly rental charge. In Ontario, residents are subject to annual provincial guideline rent increases. Homeowners are responsible for all of their utility costs and all sites are connected to full municipal services. The homes are constructed by a home builder in a variety of styles and floor plans, and can be customized to an owner's specifications. Homeowners are primarily persons seeking the lifestyle and amenities provided by these communities along with the serenity, security, location and affordability they offer. Owning and operating a MHC is similar to owning and operating a multi-unit residential property. However, owning and operating MHCs offers the following advantages: significantly lower capital investment and maintenance costs; minimal rent collection issues; reduced exposure to energy costs; stable occupancies; and generally longer lease terms with low resident turnover.

7.3 Competition

Competition for Real Property Investments

CAPREIT competes for suitable real property investments with individuals, corporations and institutions (both Canadian and foreign) and other real estate investment trusts which are presently seeking, or which may seek in the future, real property investments similar to those desired by CAPREIT. A number of these investors may have greater financial resources than those of CAPREIT, or operate without the investment or operating restrictions of CAPREIT or according to more flexible conditions. An increase in the availability of investment funds, and an increase in interest in real property investments, may increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

Competition for Residents

The real estate business is competitive. Numerous other developers, managers and owners of properties compete with CAPREIT in seeking residents. The existence of competing developers, managers and owners and competition for CAPREIT's residents could have an adverse effect on CAPREIT's ability to lease suites in its properties and on the rents charged, and could adversely affect CAPREIT's revenues and, consequently, its ability to meet its obligations and pay distributions.

CAPREIT's growth in the past has come from its focused acquisition program. Management has demonstrated an ability to locate and complete property purchases at accretive purchase prices. There is a risk that continuing increased competition for apartment and townhome acquisitions may increase purchase prices to levels that are not accretive to Unitholders.

Ownership of apartment buildings is diverse and very fragmented, and the owner often performs rental management. CAPREIT believes there are acquisition opportunities as a result of the fragmented market and opportunities to enhance income through the application of professional management practices and gaining efficiencies of scale.

Many city centres in our markets have seen a significant increase in new condominium construction. In certain markets a significant proportion of new condominiums constructed are being used as rental properties. Condominiums are targeted primarily at the luxury market and provide competition for CAPREIT in such market segment. In addition, in view of the current low interest rate environment, mortgage loans for home ownership are available at attractive interest rates, providing competition to CAPREIT for residents, primarily in the affordable and mid-tier segments. This competition could adversely affect CAPREIT's ability to lease suites in its properties and on the rents charged and could lead to increased leasing, marketing and refurbishment costs necessary to lease and release suites.

7.4 Owned Properties

Types of Property Interests

CAPREIT's investments in its property portfolio reflect different forms of property interests, including fee simple, operating leasehold interests and land leasehold interests.

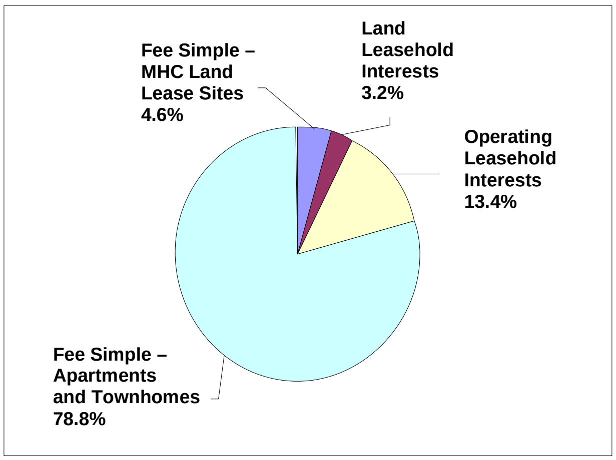
The majority (December 31, 2010 – 78.8%; December 31, 2009 - 79.2%) of CAPREIT's investments in its property portfolio are in the form of fee simple, representing freehold ownership of the properties subject only to typical encumbrances that run with the property, including mortgages.

CAPREIT owns leasehold interests in fifteen properties located in the Greater Toronto Area ("**GTA**"). The leases mature between 2033 and 2037. While separate lease arrangements exist for each property, all such leases have a common general structure: 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. Operating leasehold interests accounted for approximately 13.4% of CAPREIT's investment property interests as at December 31, 2010 (December 31, 2009 - 13.2%). CAPREIT has the option to acquire fee simple interests in 14 of the properties exercisable between the 26th and 35th year of the respective leases. In the case of the 15th property, comprising 327 suites, CAPREIT's option entitles it to acquire a prepaid operating leasehold interest in the property maturing in 2072. The purchase options are independently exercisable, enabling CAPREIT to acquire additional interests in any or all of the properties. The option prices vary by property and by the year in which the option is exercised. If CAPREIT elects to exercise any option prior to the maturity of the lease term, CAPREIT would be entitled to receive a *prorata* amount of the prepaid original rent based on the remaining lease term. In addition, under certain circumstances, the option price may be reduced by the unamortized portion of certain capital expenditures incurred during the last ten years of the lease term.

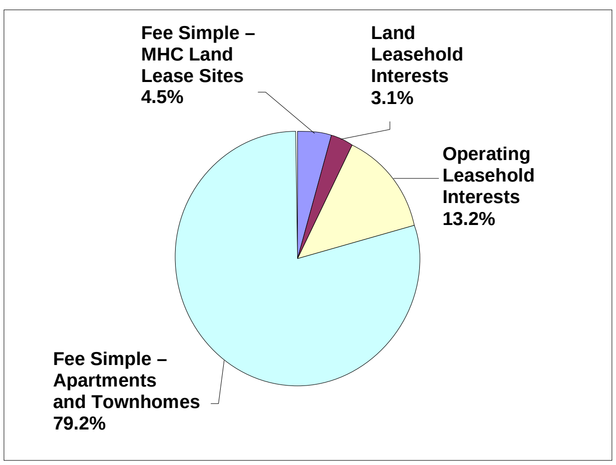
CAPREIT owns leasehold interests in three land parcels located in Alberta and British Columbia. CAPREIT has acquired a residential building on each of the three land parcels and must pay ground rent on an annual basis for its use of the land. The leasehold interests mature in 2045, 2068 and 2070. CAPREIT does not have the right to acquire the land or to extend the lease term upon maturity of the respective leases. These three leasehold interests accounted for approximately 3.2% of CAPREIT's investment property portfolio interests as at December 31, 2010 (December 31, 2009 - 3.1%).

CAPREIT has fee simple interests in two MHC land lease sites whereby CAPREIT owns lots, which it rents to residents under long-term leases of approximately 20 years. Interests in MHCs accounted for approximately 4.6% of CAPREIT's investment property portfolio interest as at December 31, 2010 (December 31, 2009 - 4.5%).

As at December 31, 2010



As at December 31, 2009



Portfolio Diversification

CAPREIT's investment property portfolio continues to be diversified by geography and balanced among asset types and demographic segments. CAPREIT's long-term goal is to further enhance the geographic diversification and defensive nature of its portfolio through future acquisitions, as well as through dispositions of non-core and underperforming properties.

During 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.

The tables that follow provide certain additional information relating to CAPREIT's diversification by geographic region and property type.

Property Portfolio by Geography **As at December 31**				
	2010 Number of Suites and Sites	**%**	**2009 Number of Suites and Sites**	**%**
Ontario				
GTA	14,184	49.8	14,178	49.0
Ottawa	1,527	5.4	1,527	5.3
London/Kitchener/Waterloo	903	3.2	1,482	5.1
Other Ontario	1,470	5.1	1,470	5.1
Ontario Residential Suites	18,084	63.5	18,657	64.5
MHC Land Lease Sites	1,325	4.6	1,302	4.5
Ontario Residential Suites and MHC Land Lease Sites	19,409	68.1	19,959	69.0
Québec				
Greater Montréal Region	2,207	7.7	2,545	8.8
Québec City	1,909	6.7	1,909	6.6
	4,116	14.4	4,454	15.4

British Columbia				
Greater Vancouver Region	1,453	5.1	1,291	4.5
Victoria	815	2.9	508	1.8
	2,268	8.0	1,799	6.3
Alberta				
Edmonton	310	1.1	310	1.1
Calgary	1,070	3.8	1,070	3.7
	1,380	4.9	1,380	4.8
Nova Scotia				
Halifax	1,083	3.8	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	27,172	95.4	27,614	95.5
Total Residential Suites and MHC Land Lease Sites	28,497	100.0	28,916	100.0

Note: Suite count as at December 31, 2009 not adjusted for properties sold during 2010.

Property Portfolio by Sector				
As at December 31	**2010**	%	**2009**	%
Affordable	1,357	4.8	3,638	12.6
Mid-tier	15,718	55.2	14,711	50.9
Luxury	10,097	35.4	9,265	32.0
Total Residential Suites	27,172	95.4	27,614	95.5
MHC Land Lease Sites	1,325	4.6	1,302	4.5
Total Residential Suites and MHC Land Lease Sites	28,497	100.0	28,916	100.0

Note: Suite count as at December 31, 2009 not adjusted for properties sold during 2010.

The following table summarizes certain aspects of CAPREIT's properties on a property-by-property basis. Unless otherwise indicated, CAPREIT holds the fee simple.

Occupancy and Average Monthly Rent Per Suite and Site

					As at December 31, 2010		As at December 31, 2009	
RESIDENTIAL SUITES	**City**	**Province**	**Year Built**	**Total Suites and Sites (1)**	**Occupancy %**	**Average Mthly Rent (2) $**	**Occupancy %**	**Average Mthly Rent (2) $**
Affordable								
1110 Queens Avenue	Victoria	BC	1968	17	94.1%	640	N/A	N/A
827 Selkirk Avenue	Victoria	BC	1968	23	95.7%	667	N/A	N/A
195 Wellington Street South	Hamilton	ON	1958	143	99.3%	586	96.5%	563
135, 139, 143 & 147 8th Street and 148 & 170 Islington Avenue	Toronto	ON	1950	278	99.6%	785	98.9%	771
10 San Romanoway	Toronto	ON	1977	428	97.4%	988	97.9%	975
Choisy Portfolio	Montréal	QC	1964	437	96.3%	603	97.7%	602
2010 22nd Street West	Saskatoon	SK	1978	31	93.5%	662	96.8%	641
Subtotal				**1,357**	**97.6%**	**763**	**97.9%**	**755**
Mid-tier								
501-40th Avenue N.W.	Calgary	AB	1977	188	86.2%	899	98.9%	1,034
924 - 7th Avenue S.W.	Calgary	AB	1969	154	92.9%	982	98.7%	1,035
6707 Elbow Drive S.W.	Calgary	AB	1971	272	96.3%	996	98.2%	1,018
4501-37th Street N.W.	Calgary	AB	1975	139	100.0%	1,014	93.5%	970
612 Clarke Road	Coquitlam	BC	1970-1975	50	98.0%	830	100.0%	831
114 & 1132 Howie Avenue	Coquitlam	BC	1974	54	98.1%	808	100.0%	802
544 Sydney Avenue	Coquitlam	BC	1972	74	100.0%	901	90.5%	802
329 Sherbrooke Street	New Westminster	BC	1972	60	100.0%	840	100.0%	821
10851-10991 Mortfield Road	Richmond	BC	1972	218	97.7%	1,035	99.5%	1,031
Dolphin Square	Richmond	BC	1978	174	98.9%	851	99.4%	830

					As at December 31, 2010		As at December 31, 2009	
RESIDENTIAL SUITES	City	Province	Year Built	Total Suites and Sites (1)	Occupancy %	Average Mthly Rent (2) $	Occupancy %	Average Mthly Rent (2) $
243 Gorge Road East	Victoria	BC	1974	97	100.0%	841	97.9%	809
215, 217, 219 & 221 Gorge Road East	Victoria	BC	1974	111	98.2%	792	97.3%	742
155 & 157 Gorge Road East	Victoria	BC	1974	163	96.9%	865	92.6%	789
1039 View Street	Victoria	BC	1978	137	97.8%	705	94.9%	672
1140 Hillside Avenue	Victoria	BC	1974	28	100.0%	875	N/A	N/A
625 Constance Avenue	Victoria	BC	1974	29	82.8%	668	N/A	N/A
200 Gorge Road West	Victoria	BC	1974	45	100.0%	908	N/A	N/A
3501 Savannah Avenue	Victoria	BC	1974	48	100.0%	965	N/A	N/A
11-111, 115-159 & 76-128 Balmoral Drive	Brampton	ON	1964-1967	101	100.0%	1,245	97.0%	1,185
5 King's Cross Road and 3 & 11 Knightsbridge Road	Brampton	ON	1976-1977	703	99.3%	1,060	96.7%	1,011
800-806 Clark Boulevard	Brampton	ON	1973	183	98.9%	1,159	98.4%	1,140
75, 80, 85 & 90 Orenda Court	Brampton	ON	1976	241	98.8%	1,065	98.3%	1,042
511 Guelph Line	Burlington	ON	1964	83	100.0%	994	100.0%	963
1360-1422 Tyandaga Park Drive	Burlington	ON	1968	83	100.0%	1,090	100.0%	1,074
640 Guelph Line	Burlington	ON	1964-1965	83	100.0%	923	100.0%	903
4067 Longmoor Drive	Burlington	ON	1973	91	100.0%	980	98.9%	948
236 Dixon Road	Etobicoke	ON	1963	123	99.2%	1,072	95.9%	1,016
190-200 Kingsview Boulevard, 15-25 Blackfriar Avenue & 65-75 Bridesburg Drive	Etobicoke	ON	1962	107	99.1%	1,262	98.1%	1,212
186 Kingsview Boulevard, 10-41 Blackfriar Avenue And 15, 25 & 55 Bridesburg Drive	Etobicoke	ON	1962	357	97.5%	987	97.8%	964
282 Silverstone Drive (4)	Etobicoke	ON	1970	111	98.2%	1,130	97.3%	1,095
724 & 744 Fanshawe Park Road East	London	ON	1972	276	96.0%	705	94.2%	689

					As at December 31, 2010		As at December 31, 2009	
RESIDENTIAL SUITES	**City**	**Province**	**Year Built**	**Total Suites and Sites (1)**	**Occupancy %**	**Average Mthly Rent (2) $**	**Occupancy %**	**Average Mthly Rent (2) $**
3420 and 3425 Morning Star Drive	Mississauga	ON	1972	247	98.8%	1,028	99.2%	1,013
3455 Havenwood Drive	Mississauga	ON	1967	58	98.3%	1,463	100.0%	1,457
1560 Bloor Street East	Mississauga	ON	1965	141	98.6%	1,143	99.3%	1,123
1425 Bodmin Road, 2360 Bonner Road and 2333 & 2345 Truscott Road	Mississauga	ON	1967/ 1968/ 1974	601	99.0%	1,042	97.2%	1,007
75 & 77 Huron Heights Drive	Newmarket	ON	1978	110	99.1%	1,074	99.1%	1,046
35-45 Bredin Parkway	Orangeville	ON	1979-1980	93	97.8%	1,032	100.0%	1,005
1265 Wellington Street (3)	Ottawa	ON	1973	72	100.0%	752	100.0%	736
3528, 3530, 3532 & 3550 Downpatrick Road (3)	Ottawa	ON	1974	207	100.0%	828	100.0%	814
180 Lees Avenue (3)	Ottawa	ON	1980-1981	335	100.0%	1,046	100.0%	1,003
2969 Fairlea Crescent (3)	Ottawa	ON	1978	163	100.0%	790	100.0%	770
1525, 1535 & 1545 Alta Vista Drive (3)	Ottawa	ON	1969-1971	750	99.7%	834	99.7%	819
1865 & 1875 Glenanna Road, 1800 & 1850 Valley Farm Road and 1480 Pickering Parkway	Pickering	ON	1983	327	100.0%	1,168	100.0%	1,154
370 McCowan Road	Toronto	ON	1965	207	99.5%	997	100.0%	958
1050 Markham Road	Toronto	ON	1967	295	99.3%	1,032	98.6	1,012
4000 and 4010 Lawrence Avenue East	Toronto	ON	1967	362	97.0%	974	97.2%	950
10 and 30 Tuxedo Court	Toronto	ON	1968	424	99.8%	993	99.8%	970
61-69 Eastdale Avenue and 2-12 & 16-24 Goodwood Park Crescent	Toronto	ON	1974	16	93.8%	1,386	93.8%	1,369
75 Eastdale Avenue	Toronto	ON	1974	232	96.1%	1,034	96.6%	1,015
1757 & 1759 Victoria Park Avenue	Toronto	ON	1963	200	99.0%	1,032	97.5%	989
18 Panorama Court	Toronto	ON	1973	204	99.5%	1,062	98.5%	1,027
215 Markham Road	Toronto	ON	1968	192	100.0%	1,001	98.4%	960

					As at December 31, 2010		As at December 31, 2009	
RESIDENTIAL SUITES	**City**	**Province**	**Year Built**	**Total Suites and Sites (1)**	**Occupancy %**	**Average Mthly Rent (2) $**	**Occupancy %**	**Average Mthly Rent (2) $**
567 Scarborough Golf Club Road	Toronto	ON	1968	224	96.9%	982	98.7%	973
1004 Lawrence Avenue East	Toronto	ON	1966	65	96.9%	956	98.5%	927
124 Broadway Avenue	Toronto	ON	1956	86	100.0%	1,008	97.7%	968
2928 & 2932 Yonge Street & 1 Cheritan Avenue	Toronto	ON	1935	156	100.0%	1,048	96.2%	985
30 Livonia Place	Toronto	ON	1979	200	99.5%	973	97.0%	928
33 Eastmount Avenue	Toronto	ON	1965	211	99.5%	1,117	99.1%	1,084
7 & 9 Roanoke Road	Toronto	ON	1963	226	96.5%	983	95.6%	945
25 Bay Mills Boulevard	Toronto	ON	1974	281	100.0%	1,142	99.6%	1,080
500 Murray Ross Parkway	Toronto	ON	1978	390	99.5%	1,024	97.4%	978
3000, 3015-3017 Queen Street East	Toronto	ON	1940	136	100.0%	1,093	99.3%	1,061
11 Dervock Crescent and 75 Talara Crescent	Toronto	ON	1959	143	100.0%	986	100.0%	941
8 Vista Park Drive (4)	Toronto	ON	1969-1971	56	98.2%	1,112	100.0%	1,107
7 Vista Park Drive (4)	Toronto	ON	1969-1971	84	96.4%	1,059	100.0%	1,071
6 Vista Park Drive (4)	Toronto	ON	1969-1971	108	98.1%	1,071	99.1%	1,059
2 Vista Park Drive (4)	Toronto	ON	1969-1971	121	99.2%	992	100.0%	979
90-98 Churchill Street	Waterloo	ON	1971-1974	59	100.0%	895	95.8%	812
100, 101, 200 & 201 White Oaks Court	Whitby	ON	1978-1979	704	97.9%	961	96.4%	933
12 Deerford Road (4)	Willowdale	ON	1969	137	99.3%	1,089	100.0%	1,075
4760 Cote-des-Neiges	Montréal	QC	1970	125	96.8%	736	98.4%	730
2235 Prud Homme	Montréal	QC	1930	22	95.5%	565	100.0%	573
2569 & 2573 Boul Perron and 2516 & 2507-11 Rue Montarville	Montréal	QC	1977 & 1985	88	98.9%	680	100.0%	670

					As at December 31, 2010		As at December 31, 2009	
RESIDENTIAL SUITES	**City**	**Province**	**Year Built**	**Total Suites and Sites (1)**	**Occupancy %**	**Average Mthly Rent (2) $**	**Occupancy %**	**Average Mthly Rent (2) $**
2430, 2490 & 2510 Rue de Boulogne and 2477 Rue Montarville and 535 Rue Beaubien	Montréal	QC	1975-1976	180	99.4%	682	100.0%	667
10250 & 10300 Bois de Boulogne	Montréal	QC	1965	241	96.7%	927	97.9%	619
Joie de Vivre - 135, 145-155 Deguire	Montréal	QC	1971	393	96.7%	688	91.3%	640
Carrefour des Erables	Montréal	QC	1972-1975	419	90.7%	558	95.9%	579
1805 de Grandville	Québec City	QC	1971	80	97.5%	609	98.8%	597
2415 & 2425 chemin Ste-Foy and 2416 & 2426 chemin Quatre Bourgeois	Québec City	QC	1961	84	100.0%	682	100.0%	660
2300 2e Avenue and 2305 Benoit XV	Québec City	QC	1968	97	99.0%	663	100.0%	655
3040-3094 rue des Chatelets	Québec City	QC	1962	240	100.0%	686	100.0%	671
621-705 rue Gingras	Québec City	QC	1978	40	100.0%	878	100.0%	856
28, 30, 32 & 34 Ste. Ursule	Québec City	QC	1966	78	100.0%	558	98.7%	539
2200 and 2220 Chapdelaine	Québec City	QC	1972	215	99.5%	719	100.0%	686
4902 Queen Street	Regina	SK	1977	108	100.0%	883	100.0%	858
615 Confederation Drive	Saskatoon	SK	1978	102	93.1%	801	98.0%	808
Subtotal				**15,718**	**98.3%**	**944**	**98.0%**	**921**
Luxury								
9100 Bonaventure Drive S.E.	Calgary	AB	1982	317	96.8%	1,012	93.1%	974
8510-111th Street	Edmonton	AB	1965	310	98.1%	1,013	94.2%	1,008
1021 Howay Street	New Westminster	BC	1970	108	99.1%	943	98.1%	912
1959-1999 Marine Drive S.E.	Vancouver	BC	1975	473	99.2%	1,008	99.8%	995
990 Broughton Street	Vancouver	BC	1970	80	96.3%	1,211	98.8%	1,192

					As at December 31, 2010		As at December 31, 2009	
RESIDENTIAL SUITES	**City**	**Province**	**Year Built**	**Total Suites and Sites (1)**	**Occupancy %**	**Average Mthly Rent (2) $**	**Occupancy %**	**Average Mthly Rent (2) $**
1450 West Georgia	Vancouver	BC	1954 /2000	162	100.0%	1,273	N/A	N/A
70-76 Dallas Road	Victoria	BC	1974	55	94.5%	1,175	N/A	N/A
535 Niagara Street	Victoria	BC	1974	62	100.0%	891	N/A	N/A
1333 South Park Street	Halifax	NS	1965	400	99.0%	1,308	99.3%	1,262
1030 South Park Street	Halifax	NS	1972	251	100.0%	917	99.2%	886
20, 40, 60 & 80 Charlotte Lane	Halifax	NS	1992-1995	302	96.0%	841	96.4%	824
2074 Robie Street	Halifax	NS	1975	130	98.5%	942	95.4%	866
5200 Lakeshore Road	Burlington	ON	1966	72	100.0%	1,154	98.6%	1,104
505 Locust Street	Burlington	ON	1975	118	100.0%	1,158	99.2%	1,099
75, 85 & 95 Fiddlers Green Road	London	ON	1980	426	98.8%	802	94.4%	775
1315 Silver Spear Road	Mississauga	ON	1970	90	98.9%	1,066	96.7%	1,020
2121 Rathburn Road East	Mississauga	ON	1980	139	99.3%	1,238	100.0%	1,223
1355 Silver Spear Road	Mississauga	ON	1975	199	99.0%	1,055	99.0%	1,037
2076 Sherobee Road	Mississauga	ON	1984	199	99.0%	1,346	98.5%	1,308
1055 Bloor Street East	Mississauga	ON	1971	323	99.7%	1,120	99.4%	1,095
2100 Sherobee Road	Mississauga	ON	1984	199	99.0%	1,345	N/A	N/A
297 Queens Avenue	Oakville	ON	1972	78	100.0%	1,243	100.0%	1,208
1297 Marlborough Court and 1360 White Oaks Boulevard	Oakville	ON	1975	266	98.9%	1,297	96.6%	1,264
6 John Street	Oakville	ON	1978	75	100.0%	1,563	100.0%	1,527
355 St. Clair Avenue West	Toronto	ON	1969	168	97.0%	2,456	98.2%	2,407
44 Stubbs Drive	Toronto	ON	1970	84	97.6%	1,496	97.6%	1,472
625 Evans Avenue	Toronto	ON	1967	85	100.0%	1,241	100.0%	1,211
88 Isabella Street	Toronto	ON	1968	82	100.0%	1,187	97.6%	1,136

RESIDENTIAL SUITES	City	Province	Year Built	Total Suites and Sites (1)	As at December 31, 2010 Occupancy %	As at December 31, 2010 Average Mthly Rent (2) $	As at December 31, 2009 Occupancy %	As at December 31, 2009 Average Mthly Rent (2) $
1 & 23 Oriole Road	Toronto	ON	1954-1955	127	100.0%	1,056	96.9%	999
20 Shallmar Boulevard	Toronto	ON	1963	155	100.0%	1,229	98.7%	1,169
56-88 Cassandra Boulevard	Toronto	ON	1965	160	98.1%	1,298	94.4	1232
33 Davisville Avenue	Toronto	ON	1973	266	99.2%	959	99.2%	942
141 Davisville Avenue	Toronto	ON	1970	313	100.0%	1,006	98.7%	971
33 Orchardview Boulevard	Toronto	ON	1976	327	99.1%	1,128	97.9%	1,100
111 Davisville Avenue	Toronto	ON	1970	370	99.2%	1,075	98.4%	1,046
100 Wellesley Street East	Toronto	ON	1970	424	99.3%	1,216	98.3%	1,190
411 Duplex Avenue	Toronto	ON	1974	455	99.6%	1,166	98.2%	1,138
77 Huntley Street	Toronto	ON	1973	561	99.3%	1,040	98.4%	1,001
321 Chaplin Crescent (4)	Toronto	ON	1967	74	98.6%	1,298	95.9%	1,247
55 William Street East	Waterloo	ON	2000	142	100.0%	1,360	100.0%	1,327
4 Sandbar Willoway (4)	Willowdale	ON	1971	93	97.8%	1,579	100.0%	1,583
450 & 455 rue Rancine	Montréal	QC	1968	194	92.8%	774	97.9%	812
321 Lanthier Avenue	Montréal	QC	1978	108	97.8%	1,328	98.1%	1,308
736 Pere-Marquette	Québec City	QC	1971	44	95.5%	807	100.0%	814
435 Chemin Ste-Foy	Québec City	QC	1972	121	95.0%	1,040	100.0%	1,071
440 Pere-Marquette	Québec City	QC	1973	150	99.3%	919	97.3%	882
Faubourg de la Pointe	Québec City	QC	2000-2001	136	98.5%	906	99.3%	900
Domaine Laudance	Québec City	QC	1992-1998	235	96.2%	848	98.7%	853
Domaine Lebourgneuf	Québec City	QC	1989-1994	236	99.6%	744	100.0%	724
250 Grand Allée Ouest	Québec City	QC	1971	153	95.4%	1,150	98.0%	1,143

					As at December 31, 2010		As at December 31, 2009	
RESIDENTIAL SUITES	**City**	**Province**	**Year Built**	**Total Suites and Sites (1)**	**Occupancy %**	**Average Mthly Rent (2) $**	**Occupancy %**	**Average Mthly Rent (2) $**
Subtotal				**10,097**	**98.6%**	**1,107**	**98.0%**	**1,073**
Total Residential Suites				**27,172**	**98.4%**	**997**	**98.0%**	**969**
MHC Land Lease Sites								
Wilmot Creek	Clarington	ON		933	100.0%	674	100.0%	661
Grand Cove	Grand Bend	ON		392	100.0%	499	99.7%	480
Total MHC Land Lease Sites				**1,325**	**100.0%**	**622**	**99.9%**	**607**
Total Residential Suites and MHC Land Lease Sites				**28,497**	**98.4%**	**979**	**98.1%**	**952**
Summary								
Total Residential Suites as at December 31, 2009				27,614	98.4%	994	98.0%	959
Residential Suites sold since January 1, 2010				(1,110)	--	--	96.9	728
Continuing Residential Suites as at December 31, 2010				26,504	98.4%	994	98.0%	969
Residential Suites acquired since January 1, 2010				668	98.2%	1,124	--	--
Total Residential Suites as at December 31, 2010				**27,172**	**98.4%**	**997**	**98.0%**	**969**
MHC Land Lease Sites at December 31, 2009				1,302	100.0%	622	99.9%	607
MHC Land Lease Sites acquired since January 1, 2010				23	100.0%	599	--	--
Total MHC Land Lease Sites as at December 31, 2010				**1,325**	**100.0%**	**622**	**99.9%**	**607**
Total Residential Suites and MHC Land Lease as at December 31, 2010				**28,497**	**98.4%**	**979**	**98.1%**	**952**

Notes:

(1) Total suites and sites include co-ownership interests (for CAPREIT's share of suites see notes 3 and 4 below).
(2) Based on gross rent (excluding revenue from parking, laundry and other sources) less vacancies, divided by the total number of suites and sites.
(3) CAPREIT's 50% share of suites for Lees, Wellington, Downpatrick, Fairlea and Alta Vista are 167, 36, 104, 82 and 375, respectively.

(4) CAPREIT's 50% share of suites for Silverstone, Park Vista, Sandbar Willoway, Chaplin and Deerford is 56, 184, 46, 37 and 69, respectively.

7.5 Cyclical Nature of the Business

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

7.6 Property Capital Improvements and Investments

Given the expertise and experience of its executives and employees, CAPREIT's growth strategy includes the acquisition of properties below current replacement costs which may require immediate and/or planned capital improvements and repairs. CAPREIT's acquisition strategy includes improving the operating performance of such properties by investing annually in capital improvements to grow and sustain the portfolio's future rental income potential over the useful economic life. Prior to acquisition, CAPREIT obtains a building condition audit conducted by an independent professional engineer in respect of each of its properties for the purposes of enabling CAPREIT to evaluate the condition and structural integrity of each building and major building and operating components and systems and identifying and assessing the cost of deficiencies that are the subject of any outstanding or likely work orders and/or deferred maintenance items. Each property is measured against a standard that is at least consistent with its market segment and current rent levels. Each of the building condition audits is completed on the basis of work which is required to be completed within approximately one to five years and may include work which is recommended to be performed in subsequent years. The investments identified by these audits, which include improvements to major building structures, parking garages and balconies, are estimated at the time of acquisition and included in the acquisition analysis to ensure the transaction is accretive to Unitholders and are funded periodically over several years from mortgage advances or refinancings and equity financings.

In 2009, CAPREIT completed a capital review of its entire investment property portfolio and refined its multi-year capital investment plan. This multi-year plan, which captures the items previously identified in CAPREIT's acquisition analyses, will ensure capital investments are well planned by management and are consistent with the objectives of CAPREIT.

To achieve its property capital investment objectives and taking into account CAPREIT's acquisition history, the soft economic conditions and the availability of competitive pricing from construction trades, CAPREIT formulated and embarked on a multi-year capital investment plan in 2009, which accelerated spending on building improvement programs ($81.6 million for the year ended December 31, 2010; $85.6 million for the year ended December 31, 2009), and includes upgrading parking garages, balconies and other structural improvements. These investments are closely connected to CAPREIT's property acquisitions, were anticipated at the time of such acquisitions and were included in the acquisition analyses to ensure such transactions were accretive. CAPREIT believes that these investments will increase the productive capacity, the useful economic life and operating capabilities of CAPREIT's properties and enhance future cash flow generating potential. CAPREIT also believes that these building improvement programs, combined with existing suite improvement, common area and environment-friendly and energy-savings initiatives, will enable CAPREIT to reposition its portfolio and maintain high occupancy levels despite the currently soft economic conditions. These investments are expected to continue to increase average monthly rents while improving life safety and resident services. CAPREIT believes that strategic investments taken at this time will position the portfolio for improved operating performance as the economy strengthens and over the long term.

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

Property Capital Investments by Category

Year ended December 31		**2010**	**%**		**2009**	**%**
($ Thousands)						
Building Improvements	$	43,512	53.3	$	55,978	65.4
Suite Improvements		18,317	22.5		15,462	18.1
Common Area		7,764	9.5		4,573	5.3
Energy-Saving Initiatives		3,318	4.1		1,903	2.2
Equipment		5,233	6.4		5,395	6.3
Boiler and Elevators		2,194	2.7		1,232	1.5
Appliances		1,249	1.5		1,030	1.2
	$	81,587	100.0	$	85,573	100.0

Based on CAPREIT's multi-year property capital investment plan, management expects CAPREIT to complete property capital investments of approximately $100 million to $110 million during 2011, including approximately $10.5 million in investments in high-efficiency boilers and other energy-saving initiatives.

Set out in the table below is management's current estimate of CAPREIT's investments in building improvements for 2011 through 2014 for properties owned as of February 22, 2011. These estimates were established through consultations with an independent engineering firm, and include the effects of the delays in the completion of projects previously scheduled for 2010. Building improvements represent the most significant category of property capital investment at present, but are expected to decline significantly in the coming years.

Projected Future Investments in Building Improvements

Year ended December 31	**Estimated Range**				
($ Thousands)					
2011	$	58,000	–	$	62,000
2012	$	37,000	–	$	39,000
2013	$	32,000	–	$	37,000
2014	$	12,000	–	$	15,000

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

Capital Investment Strategy

CAPREIT's capital investment strategy will continue to:

- focus on environmentally friendly and energy savings initiatives, including high efficiency boilers that will reduce greenhouse gas emissions and be in a position to benefit from future carbon credit programs, individual suite metering, energy-efficient lighting systems, water savings and garbage recycling programs, all of which are designed to improve overall portfolio net operating income;

- accelerate building improvement programs to take advantage of soft economic conditions and availability of competitive pricing from construction trades, to re-position the portfolio and to complete value-enhancing capital investments combined with continued emphasis on improving life safety and resident service;

- direct discretionary capital investments at properties and initiatives where management expects to generate additional net operating income as an outcome of the improvements; and

- emphasize common area improvements and curbside appeal to maintain CAPREIT's high occupancy goals.

7.7 Environmental

Environmental and ecological legislation and policies have become increasingly important, and generally restrictive, in recent years. Under various laws, CAPREIT could be liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties (or former properties) or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect CAPREIT's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in regulatory enforcement proceedings and/or private claims against CAPREIT. Unless determined otherwise by the Board of Trustees, it is CAPREIT's operating policy to obtain a Phase I environmental assessment, conducted by an independent and experienced environmental consultant, prior to acquiring a property. Phase I environmental assessments have been performed in respect of each of the properties. Where Phase I environmental assessments warrant further analysis, it is CAPREIT's operating policy to obtain Phase II or Phase III environmental assessments. Wherever required by environmental regulations, CAPREIT also carries out assessments to determine the presence of asbestos–containing material and underground storage tanks to ensure compliance with appropriate provincial legislation. CAPREIT maintains environmental liability insurance to protect against such risks. Management is not aware of any environmental condition with respect to any of the properties that it believes would have a material adverse effect on CAPREIT, nor is management aware of any material non-compliance with environmental laws or of any pending or threatened investigations or actions by environmental regulatory authorities relating to environmental conditions at its properties that would have a material adverse effect on CAPREIT.

7.8 Divestitures

As a component of CAPREIT's growth strategy, CAPREIT monitors its portfolio and, from time to time, identifies certain non-core properties for divestitures. The funds from these divestitures are used to acquire additional strategic assets better suited to CAPREIT's portfolio composition and property management objectives or to retire existing debt. For the year ended December 31, 2010, CAPREIT divested itself of a total of 1,110 suites and sites for total net proceeds of $68.8 million.

7.9 Mortgage Financing

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. CAPREIT is required to comply with limitations on its debt contained in the Declaration of Trust and under the terms of its other borrowing agreements. As at December 31, 2010, CAPREIT was in compliance in all material respects with the debt restrictions under the Declaration of Trust and under the terms of its borrowing agreements.

As at December 31, 2010, the weighted average interest rate on outstanding mortgage indebtedness was 4.82% (December 31, 2009 - 5.07%). CAPREIT intends to manage the mortgage portfolio to ensure that the portfolio weighted average term to maturity remains in the five-year range and to gradually extend the term as credit conditions improve and where long-term interest rates are deemed attractive. CAPREIT focuses on ownership of multi-unit residential real estate which is eligible for government-backed mortgage insurance administered by CMHC. As a result, CAPREIT is able to obtain lower interest rates than are available under conventional mortgages and the overall renewal risk for mortgage refinancing is reduced as the mortgage insurance premium is transferable between CMHC approved lenders and is effective for the full amortization period of the underlying mortgage (ranging between 25-35 years). As at December 31, 2010, 95.5% of CAPREIT's mortgage portfolio was CMHC insured (excluding MHC interests) (December 31, 2009 – 96.2%).

In the third quarter of 2010, management revised its total mortgage renewal and refinancing plan for 2010 to between $250 million and $275 million. The revised targets excluded the $47.7 million in new borrowings used to fund acquisitions during 2010. For the year-ended December 31, 2010, total refinancings of $280.3 million, including $182.9 million for renewals of existing mortgages and $97.4 million for additional top up financing were completed at a weighted average rate of 3.57%, significantly below the weighted average interest rate of mortgages matured in 2010 of 4.89%. Management expects to raise between $250 million and $275 million in total mortgage renewals and refinancings for 2011 at rates significantly below the weighted average interest rate of mortgages maturing in 2011 of 5.11%. During 2011, total debt repayments (including maturing mortgages) will represent approximately 17.1% of the total mortgage portfolio.

The following table summarizes future mortgage principal repayments, including maturities, and effective weighted average interest rates as at December 31, 2010.

($ Thousands)								
Year		**Principal Repayments**		**Mortgage Maturities**		**Mortgage Balance**	**% of Total Mortgage Balance**	**Interest Rate (%)** (1)
2011	$	49,632	$	229,861	$	279,493	17.1	5.11
2012		42,337		200,047		242,384	14.8	5.29
2013		38,324		164,717		203,041	12.4	4.78
2014		30,592		215,299		245,891	15.0	4.23
2015		26,390		110,557		136,947	8.3	3.94
2016		21,619		47,094		68,713	4.2	4.96
2017		18,192		101,575		119,767	7.3	4.75
2018		17,559		52,234		69,793	4.3	4.69
2019		15,292		82,760		98,052	6.0	5.15
2020		12,448		54,647		67,095	4.1	4.66
2021 – 2025		27,038		74,980		102,018	6.2	5.23
2026 onward		1,507		3,695		5,202	0.3	5.15
	$	300,930	$	1,337,466	$	1,638,396	100.0	4.82 (2)
Deferred financing costs and fair value adjustments						(4,535)		
Mortgages Payable					$	1,633,861		

Notes:
(1) Effective weighted average interest rates for maturing mortgages only.
(2) Effective weighted average interest rate including deferred financing costs and fair value adjustments but excluding CMHC premiums. Additionally, 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 December 31, 2010 would be 4.90% (December 31, 2009– 5.15%).

7.10 Acquisition and Operating Facility and Land Lease Facility

CAPREIT has arranged revolving credit facilities to provide interim partial funding for future property acquisitions and operating expenses on a floating rate basis with two Canadian chartered banks. Bank indebtedness of CAPREIT also includes CAPLP's land lease facility used to fund operating, development and acquisition costs for the Bowmanville and Grand Bend MHCs.

On April 1, 2008, CAPREIT transferred the beneficial interest in all of its properties along with the related debt obligations to CAPLP and restructured its credit facilities on June 30, 2008, into one credit agreement comprising an acquisition and operating facility (the "**Acquisition and Operating Facility**") and a land lease facility (the "**Land Lease Facility**" and, collectively with the Acquisition and Operating Facility, the "**Credit Facilities**"). Effective June 30, 2010, the Credit Facilities were renewed.

The maximum amount available under the Acquisition and Operating Facility is $270 million, comprising one facility for a three-year term maturing on June 30, 2013, subject to compliance with various provisions of the credit agreement, in order to fund ongoing working capital requirements, general corporate purposes, acquisitions and improvements to the properties. Floating charge debentures on certain of CAPREIT's investment properties have been provided as security, however, the current agreement provides for converting these floating charges into fixed charges. Pursuant to an agreement made as of June 30, 2010, CAPREIT covenanted to register such debentures against most of its properties subject to obtaining any required consents, in each case subordinate to the charges securing CAPREIT's mortgage financing. As at December 31, 2010, the weighted average floating interest rate for amounts drawn under the Acquisition and Operating Facility was 3.95% (December 31, 2009 -

3.39%). At December 31, 2010, the borrowings outstanding under the Acquisition and Operating Facility were $38.0 million (December 31, 2009 - $144.8 million). As at December 31, 2010, letters of credit in the amount of approximately $9.7 million (December 31, 2009 – approximately $6.0 million) were outstanding, which reduce the maximum amount available under the Acquisition and Operating Facility.

The Land Lease Facility was established to fund operating, development and acquisition costs associated with CAPREIT's MHC land lease portfolio. The maximum amount available under the facility is $10 million for a one-year term and matures on June 30, 2011. Floating charge debentures on the MHC properties have been provided as security, however, the current agreement provides for converting these floating charges into fixed charges. As at December 31, 2010, the borrowings outstanding under this facility were approximately $1.4 million (December 31, 2009 – approximately $2.1 million). In addition, letters of credit in the amount of $84,000 (December 31, 2009 - $106,000) were outstanding, which reduce the maximum available under the facility. At December 31, 2010, the weighted average floating interest rate for amounts drawn under this facility was 4.17% (December 31, 2009 – 3.38%).

7.11 Employees

As of December 31, 2010, CAPREIT employed 734 individuals (December 31, 2009 - 783) in various capacities at CAPREIT's corporate offices and on-site at the properties.

7.12 Future Trends

The discussion that follows, including as to specific anticipated performance of the investment property portfolio by geographic region, constitute forward-looking information and is subject to the risk factors and based on the assumptions set out herein (see "Forward-Looking Information" and "Risk Factors"). The ownership interests, expressed as percentages, are based on suite and site count in the province to CAPREIT's total suite and site count.

With an improving national economy, management believes the multi-unit residential rental business will continue to strengthen 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 control initiatives have proven effective, which should lead to stable net operating income over this period. CAPREIT 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 recent soft economic climate.

CAPREIT's investment property portfolio interests in Ontario represent 68.1% of CAPREIT's total investment property portfolio (including MHC land lease sites and leasehold interests) and had an occupancy rate of 99.0% as at December 31, 2010 (69.0% and 98.2% as at December 31, 2009). Management expects the Ontario rental market to remain strong during 2011, although the introduction of the federal HST (as defined below) in Ontario, effective July 1, 2010, created cost challenges. Management estimates that HST harmonization increased total operating costs in Ontario and British Columbia (see below) by $1.4 million in 2010.

CAPREIT's investment property portfolio interests in Québec represent 14.4% of CAPREIT's total property portfolio interests and had an occupancy rate of 96.8% as at December 31, 2010 (15.4% and 97.9% as at December 31, 2009). CAPREIT expects the Québec City rental market to remain stable and the Montréal region occupancy to improve in 2011.

CAPREIT's investment property portfolio interests in British Columbia represent 8.0% of its total property portfolio and had an occupancy rate of 98.4% as at December 31, 2010 (6.3% and 97.9% as at December 31, 2009). Through acquisitions completed in 2008 and 2010, CAPREIT has established sufficient critical mass to support the establishment of local infrastructure. As a result, CAPREIT is well positioned to build its presence in British Columbia through accretive acquisitions and improve its operating performance in British Columbia. The acquisition of properties during the second and third quarters of 2010 combined with improving industry and economic conditions in British Columbia resulted in a 5.6% increase in average monthly rents. Management expects British Columbia's rental market to remain strong during 2011. The introduction of the HST in British Columbia, effective July 1, 2010, was a negative development, but since the announced exemption from the applicability of the HST to residential energy extends to landlords supplying energy to tenants, the taxes on residential energy have not increased in British Columbia as much as they have in Ontario. In addition, only 8% of CAPREIT's investment property portfolio is located in British Columbia.

CAPREIT's investment property portfolio interests in Alberta represent 4.9% of CAPREIT's total property portfolio interest and had an occupancy rate of 95.4% as at December 31, 2010 (4.8% and 95.8% as at December 31, 2009). Weak market conditions in Alberta, combined with continued lower rents and high incentives offered by competitors during the year, resulted in a 1.5% drop in average monthly rents on a year-over-year basis. Management believes the Alberta market will remain challenging but is expected to improve slightly during 2011. CAPREIT's expectation assumes, among other factors, that firming commodity prices, a stabilizing global economy and changes to Alberta's resource royalty regime will lead to a generally improved Alberta economy, which will benefit CAPREIT's operations in Alberta. The overall impact on CAPREIT will be minimal as only 5% of its overall residential suite portfolio is located in the province.

CAPREIT's Nova Scotia investment property portfolio interests represent 3.8% of its total property portfolio interests and had an occupancy rate of 98.3% as at December 31, 2010 (3.7% and 98.0% as at December 31, 2009). CAPREIT expects that its presence in primarily downtown locations will serve to maintain or increase occupancy and rents in the medium term.

CAPREIT's Saskatchewan investment property portfolio interests represent 0.8% of its total interests and had an occupancy rate of 96.3% as at December 31, 2010 (0.8% and 98.8% as at December 31, 2009). The Saskatchewan economy is generally strong and CAPREIT believes that it can maintain or improve occupancy levels and average monthly rents, primarily on turnovers, over the medium term. The overall impact to CAPREIT of its Saskatchewan property portfolio is minimal at less than 1% and, accordingly, operating improvements are not expected to materially affect the performance of CAPREIT.

However, as a result of some continued uncertainty in economic conditions in particular regions, CAPREIT may have to account for an increase in bad debt, experience a reduction in occupancy levels in some markets and tenant inducement costs may increase over the short term. CAPREIT believes the strong defensive characteristics of its property portfolio, due to diversification by both geography and property type, 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, CAPREIT may also experience difficulty in obtaining long-term financing (i.e., financing for terms of ten years and longer) at acceptable interest rates due to credit market conditions.

In July 2010, the provinces of Ontario and British Columbia harmonized their provincial sales taxes ("**PST**") with the federal goods and services tax ("**GST**") into one harmonized sales tax ("**HST**"), applied to the majority of goods and services sold in each such province. The HST resulted in an increase in CAPREIT's operating costs in these provinces which cannot immediately be passed through to residents by rental rate increases. CAPREIT has identified and implemented procurement practices to mitigate the higher costs, including HST associated savings with the amendment of some fixed priced physical delivery contracts into spot pricing arrangements.

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.

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 heating 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 because 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.

7.13 Risk Factors

There are certain risks inherent in an investment in the Units and in the activities of CAPREIT, including the following, which investors should carefully consider before investing in Units.

Related to Ownership and Operation of Real Property

Real Property Ownership

Real property investments are relatively illiquid. This illiquidity will tend to limit the ability of CAPREIT to respond to changing economic or investment conditions. If CAPREIT were required to quickly liquidate assets, there is a risk the proceeds realized from such sale would be less than the book value of the assets or less than what could be expected to be realized under normal circumstances. By specializing in a particular type of real estate, CAPREIT is exposed to adverse effects on that segment of the real estate market and does not benefit from a broader diversification of its portfolio by property class.

CAPREIT is committed to preserving the life safety of its residents and to ensuring its properties are well maintained. The multi-unit residential rental business, like any other real estate enterprise, is capital intensive and is exposed to various risks associated with maintaining the infrastructure of its property portfolio.

Leasehold Interests

Some long-term leases and ground leases are subject to elements of risk. Unlike a freehold interest, a lessee's interest in a lease may be affected by mortgage defaults by the lessor, which cannot be cured by the lessee.

Pursuant to the terms of certain of CAPREIT's long-term leases, CAPREIT is responsible for payment of all taxes, utilities, insurance, maintenance, repairs and replacements in respect of all of the leased premises, with certain exceptions in the last 10 years of each of those long-term leases. Upon the transfer of such a long-term lease by CAPREIT, CAPREIT will only be released from liability thereunder if the transferee meets certain tests. The lessor under any such long-term lease may terminate such long-term lease, only if there is a substantial event of default (as defined in the leases) by CAPREIT, which remains uncured after a cure period.

CAPREIT has the option to acquire fee simple interests in 14 of the operating leasehold interest properties, exercisable between the 26th and 35th year of the respective leases. In the case of the 15th property, CAPREIT's option entitles it to acquire a prepaid operating leasehold interest in the property maturing in 2072. If CAPREIT chooses not to exercise any or all such options, the NOI and cash flow associated with such properties would no longer contribute to CAPREIT's results of operations and could adversely impact its ability to make distributions to Unitholders.

Co-ownerships

CAPREIT has entered into co-ownership relationships with two other entities. If the properties in the respective portfolios do not perform, do not perform as expected, or there is a default on financial obligations, CAPREIT has an associated risk. CAPREIT aims to reduce this risk by seeking to: (i) negotiate contractual rights upon default of a partner; (ii) enter into agreements with financially stable partners; and/or (iii) work with partners who have a historical record of success.

Investment Restrictions

CAPREIT has been structured and operates in adherence to the stringent investment restrictions and operating policies as set out in its Declaration of Trust and as applicable under tax laws relating to real estate investment trusts (also see "Taxation Related Risks" in this section). These policies cover such matters as the type and location of properties that CAPREIT can acquire, the maximum leverage allowed, environmental matters and investment restrictions. In addition, pursuant to the Declaration of Trust, CAPREIT's overall leverage is limited to 70% of its reported Gross Book Value, unless a majority of trustees, in their discretion, determine that the maximum amount of indebtedness shall be based on the appraised value of the real properties of CAPREIT. (See "Description of Capital Structure and Governing Policies")

Operating Risk

CAPREIT is subject to general business risks and to risks inherent in the multi-unit residential rental property industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economic rents (including anticipated increases in rent), controlling bad debt exposure, rent control regulations, increases in labour costs and other operating costs including the costs of utilities, possible future changes in labour relations, competition from other landlords or the oversupply of rental accommodations, the imposition of increased taxes or new taxes, capital investment requirements, changes in interest rates, and changes in the availability and cost of long-term financing which may render refinancing of mortgages difficult or unattractive.

While CAPREIT strives to achieve geographic and asset class diversification of its portfolio, changes in general economic conditions will also affect the performance of the portfolio. Additionally, the portfolio is currently weighted with 68% of its overall portfolio (by number of suites) in Ontario (50% in the GTA), making CAPREIT's performance particularly sensitive to its performance in and changes affecting, Ontario and, in particular, the GTA.

CAPREIT's investment properties generate income through rental payments made by the residents thereof. Residential tenant leases are relatively short, exposing CAPREIT to market rental-rate volatility. Upon the expiry of any lease, there can be no assurance that such lease will be renewed or the resident replaced. The terms of any subsequent lease may be less favourable to CAPREIT than the existing lease. Renewal rates may be subject to restrictions on increases to the then current rent (see "Government Regulations" in this section). As well, unlike commercial leases, which are generally "net" leases and allow a landlord to recover expenditures, residential leases are generally "gross" leases and the landlord is not able to pass on costs to its residents. Moreover, there is no assurance that occupancy levels achieved to date at the properties will continue to be achieved and/or that occupancy levels expected in the future will be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to, or the financial position of CAPREIT.

Energy Costs and Hedging

As a significant part of CAPREIT's operating expenses are 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.

With the authorization of the Board of Trustees, effective March 1, 2010, management of CAPREIT implemented a revised natural gas supply strategy that, in effect, converted substantially all of the prior fixed price natural gas commitments to spot pricing arrangements through the amendment of physical delivery contracts and the use of derivative financial instruments. The revised strategy eliminates the protection afforded by former fixed pricing arrangements, which could negatively impact the performance of CAPREIT, its ability to pay distributions and the value of the Units.

Environmental Matters

Environmental and ecological legislation and policies have become increasingly important, and generally restrictive, in recent years. Under various laws, CAPREIT could be liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect an owner's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in claims against the owner by private plaintiffs. Notwithstanding the foregoing, management of CAPREIT is not aware of any environmental condition with respect to any of the properties that it believes would have a material adverse effect on CAPREIT.

Insurance

All real property investments owned and operated by CAPREIT entail an inherent risk of liability. From time to time, CAPREIT will be subject to lawsuits as a result of its business operations. It is CAPREIT's policy to protect against this risk by maintaining a comprehensive insurance program to cover general liabilities i.e. fire, flood, injury or death, rental loss, environmental insurance, etc., with policy specification limits and deductibles as deemed appropriate based on the nature of the risk, historical experience and industry standards. There are some types of losses, including those of a catastrophic nature, that are generally uninsurable or not economically feasible to insure, or might be subject to insurance coverage limitations, such as large deductibles or co-payments. There can be no assurance that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. In addition, should an uninsured or underinsured loss occur, CAPREIT could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but CAPREIT would continue to be obligated to repay any recourse mortgage indebtedness on such properties. These types of events/losses could adversely affect the performance of CAPREIT, its ability to make distributions and the market value of the Units.

On November 26, 2008, a tragic accident occurred at one of CAPREIT's properties located in St. Laurent, Québec. An investigation of the accident by the authorities was completed in January 2010. The investigating authority's conclusions included: (1) that there were a number of deficiencies in the original construction of the garage slab which reduced the slab's resistance in the area of the collapse. These deficiencies were not sufficient to cause the collapse alone; and (2) repairs to the slab by previous owners were not completed properly. The investigating authority also accepted expert evidence that (i) only "specialists in appraisals of reinforced concrete structure would have been in a position to correctly interpret the significance" of visible indicators of its condition and these visual indicators would not have indicated the scope of the rebar corrosion and (ii) those responsible for maintaining the building were not in a position to appreciate the urgency of the situation. All claims related to this event have been referred to CAPREIT's insurers who are responding in accordance with CAPREIT's insurance policies.

Capital Investments

For prudent management of its property portfolio, CAPREIT makes significant property capital investments throughout the period of ownership of its properties (for example, to upgrade and maintain building structure, balconies, parking garages, electrical and mechanical systems). CAPREIT has prepared building condition reports and has committed to a multi-year property capital investment plan. CAPREIT must continuously monitor its properties to ensure appropriate and timely capital repairs and replacements are carried out in accordance with its property capital investment programs. CAPREIT requires sufficient capital to carry out its planned property capital investment and repair and refurbishment programs to upgrade its properties or be exposed to operating business risks arising from structural failure, electrical or mechanical breakdowns, fire or water damage, etc., which may result in significant loss of earnings to CAPREIT. A significant increase in capital investment requirements or difficulties securing financing or the availability of financing on reasonable terms could adversely impact the cash available to CAPREIT and its ability to pay distributions.

Related to Financing

Indebtedness

A portion of CAPREIT's cash flow is devoted to servicing its debt, and there can be no assurance that CAPREIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. CAPREIT has and will continue to have substantial outstanding consolidated indebtedness comprising mainly property mortgages and indebtedness under its Credit Facilities. CAPREIT is subject to the risks associated with debt financing, including the risk that CAPREIT may be unable to make interest or principal payments or meet loan covenants, the risk that defaults under a loan could result in cross-defaults or other lender rights or remedies under other loans, and the risk that existing indebtedness may not be able to be refinanced or that the terms of such refinancing may not be as favourable as the terms of existing indebtedness. In such circumstances, CAPREIT could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing and its ability to make property capital investments and distributions to Unitholders could be adversely affected.

CAPREIT currently has access to the government-backed mortgage insurance program through the *National Housing Act*, which is administered by CMHC, and seeks to minimize its interest rate risk by ensuring the maturity dates of its mortgage portfolio are staggered over a number of years. However, there can be no guarantee that the provisions of the mortgage insurance program may not be changed in the future so as to make costs of obtaining mortgage insurance prohibitive or so as to restrict access to the insurance program in the future. To the extent that any financing requiring CMHC consent or approval is not obtained or that such consent or approval is only available on unfavourable terms, CAPREIT may be required to finance a conventional mortgage which may be less favourable to CAPREIT than a CMHC-insured mortgage.

CAPREIT's Land Lease Facility of $10 million matures on June 30, 2011, and the three-year revolving Acquisition and Operating Facility of $270 million matures on June 30, 2013. CAPREIT's Acquisition and Operating Facility and Land Lease Facility are at floating interest rates and, accordingly, changes in short-term borrowing rates will affect CAPREIT's costs of borrowing. CAPREIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing or cost-effective financing. As at the date hereof, it is difficult to forecast the future state of the commercial loan market. If, because of CAPREIT's level of indebtedness, the level of cash flows, lenders' perceptions of CAPREIT's creditworthiness or other reasons, management is unable to renew, replace or extend the Credit Facilities on acceptable terms, or to arrange for alternative financing, CAPREIT may be required to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding could be arranged, if such financing is available on acceptable terms, or at all. Such measures could include deferring property capital investments, dispositions of one or more properties on unfavourable terms, reducing or eliminating future cash distributions or other discretionary uses of cash, or other, more severe actions. Also, disruptions in the credit markets and uncertainty in the economy could adversely affect the banks that currently provide the Credit Facilities, could cause the banks or a bank to elect not to participate in any new Credit Facilities sought, or could cause other banks that are not currently participants in the Credit Facilities to be unwilling or unable to participate in any such new facility.

Furthermore, given the relatively small size of the Canadian marketplace, there are a limited number of lenders from which CAPREIT can reasonably expect to borrow and the number of lenders currently participating in the CMHC insured mortgage market is even smaller. Consequently, it is possible that financing which CAPREIT may require in order to grow and expand its operations, upon the expiry of the term of existing financing, or refinancing any particular property owned by CAPREIT or otherwise, may not be available or may not be available on favourable terms.

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's hedging strategy establishes minimum criteria for counterparties, it does not eliminate the risk that a counterparty might fail to honour its obligations.

Related to Taxes and Regulations

Taxation Related Risks

There can be no assurance that Canadian federal income tax laws in respect of the treatment of mutual fund trusts will not be changed in a manner that adversely affects CAPREIT or CAPREIT's Unitholders. If CAPREIT ceases to qualify as a "mutual fund trust" under the Tax Act, CAPREIT will be required to pay a tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by CAPREIT may have adverse income tax consequences for certain of CAPREIT's Unitholders, including non-resident persons and trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, tax-free savings accounts and registered disability savings plans, which acquired an interest in CAPREIT directly or indirectly from another CAPREIT Unitholder. If CAPREIT ceases to qualify as a "mutual fund trust" or "registered investment" under the Tax Act and CAPREIT Units cease to be listed on a designated stock exchange, CAPREIT Units will cease to be qualified investments for trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit sharing plans, registered retirement income funds, registered education savings plans and tax-free savings accounts. CAPREIT will endeavour to ensure CAPREIT Units continue to be qualified investments for trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit sharing plans, registered retirement income funds, registered education savings plans and tax-free savings accounts; however, there can be no assurance that this will be the case. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments by such trusts.

On June 22, 2007, the SIFT Rules were enacted in the Tax Act. The SIFT Rules modified the federal income tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships. Under the SIFT Rules, a SIFT will generally be taxed in a manner similar to corporations on income from a business carried on in Canada by the SIFT and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act) at a rate similar to the combined federal/provincial tax rate of a taxable Canadian corporation. Distributions of income and capital gains that are subject to the SIFT Rules will be taxed as eligible dividends from a taxable Canadian corporation in the hands of the beneficiaries of the SIFT. The SIFT Rules are applicable to SIFTs beginning with the 2007 taxation year. However, subject to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 and as later amended (the "**Normal Growth Guidelines**"), the SIFT Rules will not apply until the 2011 taxation year to a trust that would have been a SIFT on October 31, 2006 if the definition of a "SIFT Trust" in the Tax Act had been in force and applied to the trust on that date. Accordingly, on the basis that CAPREIT has at all relevant times complied with the Normal Growth Guidelines, the SIFT Rules have not been applicable to CAPREIT.

Certain real estate investment trusts that satisfy specified conditions (the "**REIT Exception**") are excluded from the SIFT definition and, therefore, will not be subject to the SIFT Rules. In general, in order to qualify for the REIT Exception in respect of a taxation year:

i) The trust must, at no time in that taxation year, hold non-portfolio property other than "qualified REIT property" (as defined in the Tax Act);

ii) Not less than 95% of the trust's revenues for that taxation year must be derived from rent from real or immovable properties, interest, capital gains from disposal of real or immovable properties, dividends and royalties;

iii) Not less than 75% of the trust's revenues for that taxation year must be derived from rent from, interest from mortgages or hypothecs on, and capital gains from the disposal of, real or immovable properties; and

iv) The trust must, throughout the taxation year, hold real or immovable properties, cash and certain government-guaranteed debt with a total fair market value that is not less than 75% of the trust's equity value.

On December 16, 2010, the Department of Finance released proposed amendments to the tax provisions that relax certain requirements in order to qualify for the REIT Exception and reduce the likelihood of REITs such as CAPREIT being treated as a SIFT in a given year. The most significant changes under the proposed amendments are to allow a REIT to hold non-portfolio property that is not qualified REIT property of up to 10% of the total fair market value of all the trust's non-portfolio property and to reduce to 90% the amount of the trust's revenues that must be derived from rent from real or immovable properties, interest, capital gains from disposal of real or immovable properties, dividends and royalties. The proposed amendments have not yet received Royal assent.

On December 24, 2010, based on the REIT Exception guidelines, CAPREIT completed the necessary restructuring to qualify as a REIT commencing for the 2011 taxation year and therefore not subject to taxation as a SIFT. Accordingly, provided that CAPREIT continues to satisfy the REIT Exception, CAPREIT will continue to be able to flow income through to Unitholders on a tax effective basis. CAPREIT's assets and operating activities were largely unaffected by the restructuring. All noncompliant assets were either disposed of or restructured as necessary. As a result of the completion of its restructuring, the non-cash future income tax liability of $53.2 million recorded at September 30, 2010 that arose primarily as a result of the introduction of the SIFT legislation in 2007, reversed in the fourth quarter of 2010 through the consolidated statement of income and comprehensive income as a one-time non-cash future income tax recovery.

Excluded from the definition of a SIFT is a partnership, such as CAPLP, that is not publicly-traded and the equity (and equity-like debt) of which is wholly-owned by any combination of a SIFT, a REIT, or a taxable Canadian corporation.

If CAPREIT did not qualify for the REIT Exception, the SIFT Rules would apply to CAPREIT effective for the 2011 taxation year. To the extent that CAPREIT does not qualify for the REIT Exception, CAPREIT will consider alternative measures, including restructuring, assuming that these measures are in the best interests of its Unitholders, in order to qualify for the REIT Exception. No assurances can be given that CAPREIT will qualify for the REIT Exception. If applicable, the SIFT Rules may have a material adverse effect on Unitholders' returns.

CAPREIT or its subsidiaries may be reassessed for taxes from time to time. Such reassessments together with associated interest and penalties could adversely affect CAPREIT and CAPREIT's Unitholders.

Harmonization of Federal Goods and Services Tax and Provincial Sales Tax

Ontario, British Columbia and the federal government have enacted legislation to harmonize the PST with the federal GST into the HST effective July 1, 2010. Currently, there is generally no GST on residential rents (i.e., they are generally GST exempt). As input tax credits for GST paid can generally only be claimed if the payments are in respect of commercial activities and exempt activities (such as renting residential properties) are not commercial activities, entities engaged in exempt activities will generally not be able to claim input tax credits for GST or HST paid. In the future, the effect of increasing the tax rate (due to the provincial portion of the HST) to a variety of new business input costs that are presently not subject to PST means landlords will have to absorb the additional tax costs on business inputs.

Government Regulations

Multi-unit residential rental properties are subject to rent control legislation in most provinces in Canada. Each province in which CAPREIT operates maintains distinct regulations with respect to tenants' and landlords' rights and obligations. The legislation in various degrees provides restrictions on the ability of a landlord to increase rents above an annually prescribed guideline or require the landlord to give tenants sufficient notice prior to an increase in rent or restricts the frequency of rent increases permitted during the year. The annual rent increase guidelines as per applicable legislation attempts to link the annual rent increases to some measure of changes in the cost of living index over the previous year. The legislation also, in most cases, provides for a mechanism to ensure rents can be increased above the guideline increases for extraordinary costs. As a result of rent controls, CAPREIT may incur property capital investments in the future that will not be fully recoverable from rents charged to the tenants.

Applicable legislation may be further amended in a manner that may adversely affect the ability of CAPREIT to maintain the historical level of cash flow from its properties. In addition, applicable legislation provides for compliance with several regulatory matters involving tenant evictions, work orders, health and safety issues, fire and maintenance standards, etc. Additional information relating to each province is provided below.

CAPREIT currently has an interest in properties located in the Province of Ontario. The *Residential Tenancies Act, 2006* (Ontario) (the "**RTA**"), which came into force January 31, 2007, provides restrictions upon the ability of a landlord to increase rents above an annually prescribed guideline, and requires that the landlord give tenants ninety days' prior written notice of an increase in rent. Unless landlord and tenant mutually agree that landlord will add a parking space or an additional "prescribed" service, rent cannot be increased more than once in any twelve month period, or at least twelve months after a new tenant has taken occupancy of a unit. The Ontario guideline for 2011 is 0.7%. For subsequent years, the guideline will be the percentage change from year to year in the Consumer Price Index for Ontario for prices of goods and services as reported monthly by Statistics Canada, averaged over the twelve-month period that ends at the end of May of the previous calendar year. In order to increase rents above the guideline, a landlord must make an application to the Landlord and Tenant Board (the "**Board**") based on an extraordinary increase in the cost for municipal or utility levies and charges, certain eligible capital expenditures incurred with respect to a residential complex or rental unit therein, or operating costs related to third-party security services provided in respect of a residential complex or building in which rental units are located. A rent increase based on capital expenditures or security services may not be more than 3% above the prescribed guideline for each year, provided that if a landlord can justify a larger increase, such increase may be taken over three years. There is no limit for rent increases based on increases in the cost for municipal or utility levies. Furthermore, a landlord's application to increase rent can be dismissed in the event that the landlord has not completed items in work orders for which the compliance period has expired and which were found by the Board to be related to a serious breach of a health, safety, housing or maintenance standard. Similarly, a tenant can make an application to the Board on the grounds that the residential complex or units in it do not comply with health, safety, housing and maintenance standards, and in such event, the Board can order, among other things, that the landlord complete related items in work orders. As a result, CAPREIT may, in the future, incur capital or other expenditures which may not be fully recoverable from tenants.

The RTA also permits tenants to bring proceedings to reduce rent due to reductions or discontinuances in services or facilities or due to a reduction in the applicable municipal taxes. The RTA also provides for automatic rental reductions upon expiry of prescribed periods where rent has been increased in connection with eligible capital expenditures or upon reductions in municipal taxes or utility costs.

The RTA provides tenants of residential rental properties with a high level of security of tenure and prescribes certain procedures, including mandatory notice periods, which must be followed by a landlord in order to terminate a residential tenancy. As certain proceedings may need to be brought before the Landlord and Tenant Board it may take several months to terminate a residential lease, even where the tenant's rent is in arrears.

The applicable legislation may be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner which will materially adversely affect the ability of CAPREIT to maintain the historical level of earnings of its properties.

Alberta, British Columbia, Nova Scotia, Saskatchewan and Québec, the other provinces in which CAPREIT owns properties, also have legislation applicable to residential tenancies which may impact upon CAPREIT's relations with tenants in such provinces.

In Alberta, landlords are generally restricted from increasing rents payable in respect of existing residential tenancies more than once in a period of 365 days (which period commences on the commencement of the tenancy or the last increase in rent, as applicable). Pursuant to the regulations made under the *Residential Tenancies Act* (Alberta) (the "**AB RTA**"), a landlord shall not increase the rent payable by a tenant under a residential tenancy agreement in respect of a fixed-term tenancy for a term of one year or more. Further, a landlord shall not increase the rent payable by a tenant who is occupying the same premises under 2 or more consecutive residential tenancy agreements in respect of fixed-term tenancies each for a term of less than one year unless 365 days has passed since the commencement of the first of those tenancies or the last increase in rent. Pursuant to the regulations under the AB RTA, if the 365th day occurs during the term of a fixed-term tenancy, the landlord shall not increase the rent until the expiration of that tenancy.

Pursuant to the AB RTA a landlord shall not increase the rent payable under a residential tenancy agreement unless the landlord serves on the tenant a written notice of the increase in rent: (a) in respect of a weekly tenancy, at least 12 tenancy weeks before the effective date of the increase; (b) in respect of a monthly tenancy, at least 3 tenancy months before the effective date of the increase; and (c) in respect of any other periodic tenancy (as that term is defined in the AB RTA), at least 90 days before the effective date of the increase. A residential tenancy agreement could require a period of notice longer than the periods specified by the AB RTA and the landlord must comply with such longer period of notice before increasing the rent payable.

In British Columbia, landlords are restricted from increasing rents payable in respect of existing residential tenancies within twelve months of the commencement of the tenancy or a previous rental increase, and any such rental increases require three months prior notice to the tenants. The *Residential Tenancy Act* (British Columbia) (the "**BC RTA**") restricts the ability of a landlord to increase rents above a prescribed amount. A landlord may not impose a rent increase that is greater than the percentage amount equal to the inflation rate plus 2%. The inflation rate is the 12 month average percent change in the all-items Consumer Price Index for

British Columbia ending in the July that is most recently available for the calendar year in which the rent increase takes effect, being 2.3% for a rent increase taking effect in 2011. Unless tenants agree in writing, a landlord may only impose a rent increase greater than the prescribed amount by an order granted following an application (fees are between $200 - $500) made pursuant to the BC RTA, followed by notice to all tenants and a hearing. Grounds for a rent increase exceeding the prescribed amount include situations where: (i) the landlord has completed significant repairs or renovations that could not have been foreseen under reasonable circumstances and will not re-occur within a reasonable time period; (ii) where there have been extraordinary increases in operating expenses that have caused the landlord to incur a financial loss; (iii) financial loss has been incurred arising from an unforeseen increase in financing costs; or (iv) it can be demonstrated that rent is significantly lower than similar units in the area. As a result, CAPREIT may, in the future, incur capital or other expenditures which may not be fully recoverable from tenants, unless such an application was successfully made.

In Nova Scotia, landlords are restricted from increasing rents payable in respect of existing residential tenancies more than once in a period of one year (a withdrawal of services is deemed to be a rent increase) and any such rental increases require four months' prior notice to the tenants (seven months' notice for mobile home parks). In Saskatchewan, landlords are restricted from increasing rents payable in respect of existing residential tenancies more than once in a period of six months and any such rental increases require six months' prior notice to the tenants.

Québec also has a notice requirement in respect of rent increases. At the renewal of the lease, the landlord may modify its conditions, particularly the term or the rent, but only if a notice of modification is given to the tenant not less than three months nor more than six months before the expiration of the given lease. If the term of the lease is less than twelve months, the notice shall be given not less than one month nor more than two months before the end of the lease term. A tenant who objects to the modification proposed by the landlord is required to notify the landlord, within one month after receiving the notice of modification of the lease, that he or she objects or that he or she is vacating the premises; otherwise, the tenant is deemed to have agreed to the renewal of the lease on the conditions proposed by the landlord. Where a tenant refuses any such rent increase, the landlord may bring an application to a residential tenancies tribunal, which reviews such matters on a case-by-case basis.

Alberta, Nova Scotia and Saskatchewan do not specifically limit the rents payable by residential tenants.

In each province, the applicable legislation may be subject to further regulations or may be amended, repealed or enforced in a way, or new legislation may be enacted, which will materially adversely affect the ability of CAPREIT to maintain such properties' historical level of earnings.

The nature of high-rise apartment construction and operation is such that refurbishment and structural repairs are required periodically, in addition to regular ongoing maintenance. In addition, legislation relating to, among other things, environmental and fire safety standards is continuously evolving and changes thereto may give rise to ongoing financial and other obligations of CAPREIT, the costs of which may not be fully recoverable from tenants.

Controls over Financial Reporting

CAPREIT maintains information systems, procedures and controls to ensure all information disclosed externally is as complete, reliable and timely as possible. Such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with GAAP.

Because of the inherent limitations in all control systems, including well-designed and operated systems, no control system can provide complete assurance that the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. These inherent limitations include, without limitation, the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

International Financial Reporting Standards

GAAP, as used by publicly accountable enterprises, has been fully converged with IFRS as at January 1, 2011, as previously confirmed by Canada's Accounting Standards Board (the "**AcSB**"). IFRS will have an impact on accounting, financial reporting and supporting information technology systems and processes. It may also have an impact on taxes, contractual commitments involving GAAP-based clauses (including debt covenants), employee compensation plans and performance metrics. Accordingly, CAPREIT's implementation plan includes measures to provide extensive training to key finance personnel, to review relevant contracts and agreements and to increase the level of awareness and knowledge amongst CAPREIT's management, the Board of Trustees, the audit committee and investors. Changing from current GAAP to IFRS may materially affect CAPREIT's reported financial position, FFO, NFFO and other financial measures (see "International Financial Reporting Standards" discussion contained in the 2010 Annual Management Discussion and Analysis filed on February 22, 2011).

Other Legal and Regulatory Risks

CAPREIT is subject to a wide variety of laws and regulations across all jurisdictions and faces risks associated with legal and regulatory changes and litigation. CAPREIT relies on internal and external legal counsel to assist in remaining current with legal and regulatory changes and its ability to respond to litigation.

Related to CAPREIT's Securities, Organization and Structure

Nature of CAPREIT Units

Units and Special Units are not traditional equity investments and Unitholders and Special Unitholders do not have all of the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring "oppression" or "derivative" actions against CAPREIT. The Units and Special Voting Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of that Act or any other legislation. Furthermore, CAPREIT is not a trust company and, accordingly, it is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company. In addition, although CAPREIT is intended to qualify as a "mutual fund trust" as defined by the Tax Act, CAPREIT is not a "mutual fund" as defined by applicable securities legislation.

Securities like the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the business of CAPREIT and should not be viewed by investors as shares or interests in CAPREIT, or any other company or entity. The Units do not represent debt instruments and there is no principal amount owing to Unitholders under the Units. Each Unit represents an equal, undivided, beneficial interest in CAPREIT.

Unitholder Liability

Recourse for any liability of CAPREIT is limited to the assets of CAPREIT. The Declaration of Trust provides that no Unitholder or Special Unitholder or annuitant (an "**annuitant**") under a plan of which a Unitholder or Special Unitholder acts as a trustee or carrier will be held to have any personal liability and that no recourse shall be had to the private property of any Unitholder, Special Unitholder or annuitant for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of CAPREIT or of the trustees.

Certain provincial legislatures have passed legislation that provides for statutory limited liability for unitholders of public income trusts governed as a contractual matter by the laws of their jurisdictions. Certain of these statutes have not yet been judicially considered and it is possible that reliance on such statute by a Unitholder or Special Unitholder or annuitant could be successfully challenged on jurisdictional or other grounds.

Liquidity and Price Fluctuation of Units

CAPREIT is an unincorporated "open-end" investment trust and its Units are listed on the TSX. There can be no assurance that an active trading market in the Units will be sustained.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. The prices at which Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results, distributions and other factors beyond the control of CAPREIT. One of the factors that may influence the market price of the Units is the annual yield on the Units. Accordingly, an increase in market interest rates may lead purchasers of Units to demand a higher annual yield which could adversely affect the market price of the Units. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Units. Accordingly, the Units may trade at a premium or a discount to the value of CAPREIT's underlying assets.

In addition, changes in CAPREIT's creditworthiness or perceived creditworthiness may affect the market price or value and/or the liquidity of the Units.

The Declaration of Trust imposes various restrictions on Unitholders. Non-residents and non-Canadian partnerships are prohibited from beneficially owning more than 49% of the outstanding Units (on a non-diluted and diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain non-resident persons and partnerships to acquire Units, to continue to hold Units and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and other investors and thereby adversely affect the liquidity and market value of the Units.

Dilution

Subject to applicable laws, CAPREIT is authorized to issue an unlimited number of Units for the consideration and on the terms and conditions that the Board of Trustees determine without Unitholders' approval. Unitholders have no pre-emptive right in connection with any such further issuance. The Board of Trustees has the discretion to issue additional Units in other circumstances, pursuant to CAPREIT's various incentive plans. Any issuance of additional Units may have a dilutive effect on the holders of Units. Furthermore, timing differences may occur between the issuance of additional Units and the time the proceeds may be used to invest in new properties. Depending on the duration of this timing difference, this may be dilutive.

Distributions

Cash distributions are not guaranteed. Distributions on the Units are established by the Board of Trustees and are subject to change at the discretion of the Board of Trustees. While CAPREIT has historically made monthly cash distributions to Unitholders, the actual amount of distributions paid in respect of the Units will depend upon numerous factors, all of which are susceptible to a number of risks and other factors beyond the control of CAPREIT. The market value of the Units will deteriorate if CAPREIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of the cash distributions for tax purposes may change over time and may affect the after-tax return for Unitholders.

Distribution Reinvestment Plan ("DRIP") Participation

Participation by Unitholders in CAPREIT's DRIP is determined by factors such as CAPREIT's overall performance and also by many factors outside the control of management such as, but not limited to, market trends, general economic conditions and the liquidity and credit crisis. Declining DRIP participation may adversely affect funds available for distribution to Unitholders, to make interest and principal payments and make property capital investments. Additionally, such effects may adversely affect Unit prices.

Potential Conflicts of Interest

CAPREIT may be subject to various conflicts of interest because of the fact that certain of the trustees and officers of CAPREIT are engaged in a wide range of real estate and other business activities. CAPREIT may become involved in transactions which conflict with the interests of the foregoing.

The trustees may from time to time deal with persons, firms, institutions or corporations with which CAPREIT may be dealing, or which may be seeking investments similar to those desired by CAPREIT. The interests of these persons could conflict with those of CAPREIT. In addition, from time to time, these persons may be competing with CAPREIT for available investment opportunities.

CAPREIT's Declaration of Trust contains "conflicts of interest" provisions requiring trustees to disclose material interests in material contracts and transactions and to refrain from voting thereon.

Dependence on Key Personnel

The success of CAPREIT depends to a significant extent on the efforts and abilities of its executive officers and other members of management, as well as its ability to attract and retain qualified personnel to manage existing operations and future growth. Although CAPREIT has entered into employment agreements with certain of its key employees, it cannot be certain that any of those persons will not voluntarily terminate his or her employment with CAPREIT.

The loss of an executive officer or other key employee could have a material adverse effect on the business, operating results or financial condition of CAPREIT.

Related to the Real Estate Industry

General Economic Conditions

CAPREIT is affected by general economic conditions, local real estate markets, competition from other available rental premises, including new developments, and various other factors. Competition for residents also comes from opportunities for individual home ownership, including condominiums, which can be particularly attractive when home mortgage loans are available at relatively low interest rates. The existence of competing developers, managers and owners and competition for CAPREIT's residents could have an adverse effect on CAPREIT's ability to lease suites in its properties and on the rents charged, and may increase leasing and marketing costs and refurbishing costs necessary to lease and release suites, all of which could adversely affect CAPREIT's revenues and, consequently, its ability to meet its obligations and pay distributions. In addition, any increase in the supply of available rental accommodation in the markets in which CAPREIT operates or may operate could have an adverse effect on CAPREIT.

Competition for Residents

The real estate business is competitive. Numerous other developers, managers and owners of properties compete with CAPREIT in seeking residents. The existence of competing developers, managers and owners and competition for CAPREIT's residents could have an adverse effect on CAPREIT's ability to lease suites in its properties and on the rents charged, and could adversely affect CAPREIT's revenues and, consequently, its ability to meet its obligations and pay distributions. For example, increased condominium construction in the GTA could impact the rental market and affect residential rental fundamentals.

Furthermore, a decrease in interest rates may encourage residents to purchase condominiums or other types of housing, which could result in a reduction in demand for rental properties. Changes in interest rates may also have effects on vacancy rates, rent levels, refurbishing costs and other factors affecting CAPREIT's business and profitability, including its financing costs.

Competition for Real Property Investments

CAPREIT competes for suitable real property investments with individuals, corporations and institutions (both Canadian and foreign) and other real estate investment trusts which are presently seeking, or which may seek in the future, real property investments similar to those desired by CAPREIT. A number of these investors may have greater financial resources than those of CAPREIT, or operate without the investment or operating restrictions of CAPREIT or according to more flexible conditions. An increase in the availability of investment funds, and an increase in interest in real property investments, may tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

CAPREIT's growth in the past has come from its focused acquisition program. CAPREIT has demonstrated an ability to locate and complete property purchases at accretive capitalization rates. There is a risk that continuing increased competition for apartment and townhome acquisitions may increase purchase prices to levels that are not accretive to Unitholders.

Continued Growth

CAPREIT expects it will have opportunities to acquire properties that will be accretive and enable CAPREIT to increase cash flow to Unitholders, but there can be no assurance that this will be the case. Furthermore, as CAPREIT's intention is to distribute a substantial proportion of its NFFO, the ability of CAPREIT to fund growth will be dependent on external sources of funding. Lack of availability of such funds could limit the future growth of CAPREIT. In addition, CAPREIT's ability to grow may involve the disposition of non-core or underperforming properties, which may be affected by market conditions and other factors.

Acquisitions

CAPREIT's external growth prospects will depend in large part on identifying suitable acquisition opportunities that meet CAPREIT's investment criteria and satisfy its rigorous due diligence process. In addition, external growth prospects will be affected by competition for acquisition opportunities, the purchase price, ability to obtain adequate financing and financing on reasonable terms, consummating acquisitions (including obtaining necessary consents) and effectively integrating and operating the acquired properties. Acquired properties may not meet financial or operational expectations due to unexpected costs associated with acquiring the property, as well as the general investment risks inherent in any real estate investment or acquisition. Moreover, newly acquired properties may require significant management attention or property capital investments that would otherwise be allocated to other properties. If CAPREIT is unable to manage its growth and integrate its acquisitions effectively, its business, operating results and financial condition could be adversely affected.

Acquisition agreements entered into with third parties may be subject to unknown, unexpected or undisclosed liabilities which could have a material adverse impact on the operations and financial results of CAPREIT. CAPREIT's due diligence investigations and representations and warranties obtained from third party vendors may not adequately protect against these liabilities and any recourse against such vendors may be limited by the financial capacity of such vendors.

8 - DESCRIPTION OF CAPITAL STRUCTURE AND GOVERNING POLICIES

8.1 General

CAPREIT is an unincorporated "open-end" real estate investment trust created pursuant to the Declaration of Trust and governed by the laws of the Province of Ontario.

8.2 Units and Special Voting Units

The beneficial interests in CAPREIT are divided into two classes of trust units, described and designated as Units and Special Voting Units. The aggregate number of Units and Special Voting Units which CAPREIT may issue is unlimited. As at December 31, 2010, there were 77,025,320 Units (excluding 74,103 Deferred Units (as defined herein) and 72,887 RURs, but including the 411,311 CAPLP Units exchangeable for Units) issued and outstanding and a further 575,151 Units are issuable pursuant to CAPREIT's Unit incentive plans, which consist of a Unit Option Plan, Unit Purchase Plan, Employee Unit Purchase Plan, Long-Term Incentive Plan, Senior Executive Long-Term Incentive Plan, Deferred Unit Plan and Restricted Unit Rights Plan (all as more fully described below). The 411,311 CAPLP Units are issuable upon the exchange of the CAPLP Class B Units issued as partial consideration for the acquisition of the Rice Portfolio. As at December 31, 2010, there were 411,311 Special Voting Units issued and outstanding. Units represent a Unitholder's proportionate undivided beneficial interest in CAPREIT. No Unit has any preference or priority over another. No Unitholder has or is deemed to have any right of ownership in any of the assets of CAPREIT. Each Unit confers the right to one vote at any meeting of Unitholders and to participate *pro rata* in any distributions by CAPREIT and, in the event of termination of CAPREIT, in the net assets of CAPREIT remaining after satisfaction of all liabilities. Units will be issued in registered form and are transferable. Issued and outstanding Units may be subdivided or consolidated from time to time by the Board of Trustees without Unitholder approval. No certificates for fractional Units will be issued and fractional Units will not entitle the holders thereof to vote.

Holders of Special Voting Units are not entitled to any share of or interest in the distributions or net assets of CAPREIT. Special Voting Units may be issued in series and may only be issued in connection with or in relation to Exchangeable Securities (as defined below) issued and shall be automatically cancelled on the issuance of Units on exercise, conversion or cancellation of Exchangeable Securities. Subject to the restrictions set forth in the Declaration of Trust, each holder of Special Voting Units is entitled to a number of votes at all meetings of Unitholders or in respect of any written resolution of Unitholders equal to the number of Units into which the Exchangeable Securities to which such Special Voting Units relate are, directly or indirectly, exchangeable or convertible (other than in respect of Exchangeable Securities which have been so exchanged, converted or cancelled). Holders of Special Voting Units are not entitled to any distributions of any nature whatsoever from CAPREIT nor do they have any legal or beneficial interests in any assets of CAPREIT on termination or winding-up of CAPREIT.

8.3 Meetings of Unitholders

The Declaration of Trust provides that meetings of Unitholders and Special Unitholders must be called and held for the appointment, election or removal of trustees; the appointment or removal of the auditors of CAPREIT; the approval of amendments to the Declaration of Trust (except as described under "Amendments to Declaration of Trust"), including the amendment of any right with respect to any outstanding Units to reduce the amount payable thereon upon termination of CAPREIT or to diminish or eliminate any voting rights pertaining thereto, the amendment of the duration or termination provisions of CAPREIT and the amendment of the powers, duties, obligations, liabilities or indemnification of the trustees; the sale or transfer of the assets of CAPREIT as an entirety or substantially as an entirety other than as part of an internal reorganization of the assets of CAPREIT as approved by the Board of Trustees; and the termination of CAPREIT. Meetings of the Unitholders and Special Unitholders will be held at such time and place as the Board of Trustees shall prescribe for the purpose of electing trustees, appointing the auditors of CAPREIT and transacting such other business as the Board of Trustees may determine or as may properly be brought before the meeting. The annual meeting of Unitholders and Special Unitholders shall be held after delivery to the Unitholders and Special Unitholders of the annual report and, in any event, within 180 days after the end of each fiscal year of the trust, or such later date (not later than fifteen months after holding the last preceding annual meeting of the Unitholders and Special Unitholders) as the Board of Trustees may determine is in the best interests of the Unitholders and Special Unitholders, subject to the receipt of all applicable regulatory approvals.

A meeting of Unitholders and Special Unitholders may be convened at any time and for any purpose by the Board of Trustees and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 5% of the Units and Special Voting Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting. Unitholders and Special Unitholders have the right to obtain a list of Unitholders and Special Unitholders to the same extent and upon the same conditions as those which apply to shareholders of a corporation governed by the *Canada Business Corporations Act*.

Unitholders and Special Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and a proxy need not be a Unitholder or Special Unitholder.

8.4 Purchases of Units

CAPREIT may from time to time purchase for cancellation Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an "issuer bid" under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof. A Unitholder will not have the right at any time to require CAPREIT to purchase such Unitholder's Units, except as described under "Right of Redemption" below (see ''Recent Developments — Normal Course Issuer Bid'').

8.5 Take-over Bids

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for Units or Special Voting Units, within the meaning of the *Securities Act* (Ontario) and not less than 90% of the Units (or Special Voting Units, if the take-over bid is made for Special Voting Units), other than Units (or Special Voting Units, if the take-over bid is made for Special Voting Units) held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror, are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units (or Special Voting Units, if the take-over bid is made for Special Voting Units) held by Unitholders who did not accept the offer either at the election of such Unitholders, on the terms offered by the offeror or at the fair value of such Unitholders' Units (or Special Voting Units, if the take-over bid is made for Special Voting Units) determined in accordance with the procedures set out in the Declaration of Trust.

8.6 Issuance of Units

CAPREIT may issue new Units and Special Voting Units from time to time. Unitholders and Special Unitholders do not have any pre-emptive rights whereby additional Units or Special Voting Units proposed to be issued are first offered to existing Unitholders or Special Unitholders. New Units may be issued for cash through public offerings, through rights offerings to existing Unitholders (i.e., in which Unitholders receive rights to subscribe for new Units in proportion to their existing holdings of Units, which rights may be exercised or sold to other investors) or through private placements (i.e., offerings to specific investors which are not made generally to the public or existing Unitholders), except that Special Voting Units shall only be issued in connection with the issuance of securities of a trust, limited partnership or corporation other than CAPREIT that are convertible or exchangeable directly for Units without the payment of additional consideration (for example, CAPLP Units) ("**Exchangeable Securities**"). In certain instances, CAPREIT may also issue new Units or Special Voting Units as consideration for the acquisition of new properties or assets. The price or the value of the consideration for which Units or Special Voting Units may be issued will be determined by the Board of Trustees, and in the case of offerings of Units, generally in consultation with investment dealers or brokers, if applicable, who may act as underwriters or agents in connection with such offerings.

8.7 Right of Redemption

Units (but not Special Voting Units) are redeemable at any time on demand by the holders thereof upon delivery to CAPREIT of the certificate or certificates representing such Units, accompanied by a duly completed and properly executed notice requesting redemption. Upon receipt of the redemption request by CAPREIT, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the ''**Redemption Price**'') equal to the lesser of (i) 90% of the ''market price'' of the Units on the principal market on which the Units are quoted for trading during the ten (10) trading day period ending on the date on which the Units are surrendered to CAPREIT for redemption; and (ii) the ''closing market price'' of the Units on the principal market on which the Units are quoted for trading on the date that the Units are surrendered to CAPREIT for redemption.

''**Market price''** will be an amount equal to the simple average of the closing price of the Units for each of the ten (10) trading days on the principal market on which the Units are quoted for trading and on which there was a closing price; provided that, if the applicable exchange or market does not provide a closing price but only provides the highest and lowest prices of the Units traded on a particular day, the market price shall be an amount equal to the weighted average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five (5) of the ten (10) trading days, the "market price" shall be the weighted average of the following prices established for each of the ten trading days: the average last bid and last ask prices for each day on which there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides for a closing price; and the weighted average of the highest and lowest price of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day. The ''closing market price'' on a particular day shall be an amount equal to the closing price of the Units if there was a trade on that day and the exchange or market provides a closing price; an amount equal to the weighted average of the highest and lowest prices of Units if there was trading and the exchange or other market provides only the highest and lowest prices of Units traded on that day; and the weighted average of the last bid and last ask prices of the Units if there was no trading on that day.

The aggregate cash Redemption Price payable by CAPREIT in respect of any Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the following month; provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that (i) the total amount payable by CAPREIT in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed $50,000, provided that such limitation may be waived at the discretion of the Board of Trustees; (ii) at the time such Units are tendered for redemption the outstanding Units of CAPREIT shall be listed for trading on a stock exchange or traded or quoted on any other market which the Board of Trustees considers, in its sole discretion, provides representative fair market value prices for the Units; or (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which CAPREIT Units are quoted for trading) on the date that the Units are tendered for redemption or for more than five trading days during the ten day trading period commencing immediately after the date on which the Units are tendered for redemption.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then the Redemption Price for such Units shall be satisfied by the distribution *in specie* of certain securities held by CAPREIT, as determined by the Board of Trustees and, subject to any applicable regulatory approvals. No fractional securities owned by CAPREIT (the ''**Securities**'') will be distributed and where a number of Securities to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number. CAPREIT shall be entitled to all income paid or accrued and unpaid on the Securities on or before the date of the distribution *in specie*. The holders of Securities will be subject to the provisions of all material agreements that relate to such Securities.

8.8 Limitation on Non-Resident Ownership

At no time may non-residents of Canada (within the meaning of the Tax Act) be the beneficial owners of more than 49% of the Units, on a basic or fully-diluted basis (and for greater certainty, including Units into which Exchangeable Securities may be converted or exchanged), and the Board of Trustees shall inform the transfer agent and registrar of this restriction. The transfer agent and registrar, at the request of CAPREIT, shall require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the transfer agent and registrar becomes aware, as a result of requiring such declarations as to beneficial ownership, that the beneficial owners of 49% of the Units (on a basic or fully-diluted basis, including Units into which Exchangeable Securities may be converted or exchanged) are, or may be, non-residents or that such a situation is imminent, the transfer agent and registrar will advise the Board of Trustees and, upon receiving direction from the Board of Trustees, may make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the transfer agent and registrar determines that more than 49% of the Units (on a basic or fully-diluted basis, including Units into which Exchangeable Securities may be converted or exchanged) are held by non-residents, the transfer agent and registrar upon receiving direction and a suitable indemnity from the Board of Trustees, may send a notice to non-resident holders of the Units or Exchangeable Securities, chosen in inverse order to the order of acquisition or registration or in such manner as the Board of Trustees may consider equitable and practicable, requiring them to sell their Units or Exchangeable Securities or a portion thereof within a specified period of not more than 30 days. If the Unitholders receiving such notice have not sold the specified number of Units or Exchangeable Securities or provided the Board of Trustees with satisfactory evidence that they are not non-residents within such period, the transfer agent and registrar may on behalf of such Unitholders sell such Units or Exchangeable Securities and, in the interim, shall suspend the voting and distribution rights attached to such Units or Exchangeable Securities (other than the right to receive the net proceeds from the sale). Upon such sale or conversion, the affected holders shall cease to be holders of Units or Exchangeable Securities and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificate representing such securities.

8.9 Information and Reports

CAPREIT will furnish to Unitholders and Special Unitholders such consolidated financial statements (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' or Special Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each annual or special meeting of Unitholders and Special Unitholders, the Board of Trustees will provide the Unitholders and Special Unitholders (along with notice of such meeting) with information similar to that required to be provided to shareholders of a public corporation governed by the *Canada Business Corporations Act*.

8.10 Amendments to Declaration of Trust

The Declaration of Trust may be amended or altered from time to time. Certain amendments (including termination of CAPREIT) require approval by at least two-thirds of the votes cast at a meeting of the Unitholders and Special Unitholders called for such purpose. Other amendments to the Declaration of Trust require approval by a majority of the votes cast at a meeting of the Unitholders and Special Unitholders called for such purpose.

The Board of Trustees may, without the approval of the Unitholders and Special Unitholders, make certain amendments to the Declaration of Trust, including:

- amendments for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Board of Trustees or over CAPREIT, its status as a "mutual fund trust", a "registered investment" or, if applicable, a "real estate investment trust" under the Tax Act or the distribution of Units or Special Voting Units;

- amendments which, in the opinion of the Board of Trustees, provide additional protection for the Unitholders or Special Unitholders;

- amendments, which in the opinion of the Board of Trustees, are necessary or desirable to remove any conflicts or inconsistencies in the Declaration of Trust;

- amendments of a minor or clerical nature or to correct typographical mistakes, ambiguities or manifest omissions or errors, which amendments in the opinion of the Board of Trustees are necessary or desirable and not prejudicial to the Unitholders and Special Unitholders;

- such amendments to the Declaration of Trust as the Board of Trustees in its discretion deems necessary or desirable as a result of changes in taxation laws or accounting standards from time to time which may affect CAPREIT, the Unitholders, the Special Unitholders or annuitants under a plan of which a Unitholder or Special Unitholder acts as a trustee or carrier;

- amendments, which in the opinion of the Board of Trustees, are not prejudicial to Unitholders or Special Unitholders and are necessary or desirable (which, for greater certainty, exclude amendments in respect of which a Unitholder and Special Unitholder vote is specifically otherwise required); and
- amendments, which in the opinion of the Board of Trustees, are necessary or desirable to enable CAPREIT to issue Units or Special Voting Units for which the purchase price is payable on an instalment basis, as permitted pursuant to section 5.3 (Consideration of Units) of the Declaration of Trust.

8.11 Term of CAPREIT and Sale of Substantially All Assets

CAPREIT has been established for an indefinite term. Pursuant to the Declaration of Trust, termination of CAPREIT or the sale or transfer of the assets of CAPREIT as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of CAPREIT as approved by the Board of Trustees) requires approval by at least two-thirds of the votes cast at a meeting of the Unitholders and Special Unitholders.

8.12 Unitholders' Rights Plan

CAPREIT has established a Unitholders' rights plan (the "**Rights Plan**"). The Rights Plan utilizes the mechanism of the Permitted Bid (as hereinafter described) to ensure that a person seeking control of CAPREIT gives Unitholders and the Board of Trustees sufficient time to evaluate the bid, negotiate with the initial bidder and encourage competing bids to emerge. The purpose of the Rights Plan is to protect Unitholders by requiring all potential bidders to comply with the conditions specified in the Permitted Bid provisions or risk being subject to the dilutive features of the Rights Plan. Generally, to qualify as a Permitted Bid, a bid must be made to all Unitholders and must be open for 60 days after the bid is made. If more than 50% of the Units held by Independent Unitholders (as hereinafter defined) are deposited or tendered to the bid and not withdrawn, the bidder may take up and pay for such Units. The take-over bid must then be extended for a further period of ten days on the same terms to allow those Unitholders who did not initially tender their Units to tender to the take-over bid if they so choose. Thus, there is no coercion to tender during the initial 60-day period because the bid must be open for acceptance for at least ten days after the expiry of the initial tender period. The Rights Plan will likely make it impractical for any person to acquire more than 20% of the outstanding Units without the approval of the Board of Trustees except pursuant to the Permitted Bid procedures or pursuant to certain other exemptions outlined below. Management believes that the Rights Plan taken as a whole should not be an unreasonable obstacle to a serious bidder willing to make a bona fide and financially fair offer open to all Unitholders.

The terms of the Rights Plan were established on a basis that takes account of concerns expressed by institutional investors with respect to certain of the provisions of such plans. The provisions of the Rights Plan relating to portfolio managers are designed to prevent the triggering of the Rights Plan by virtue of the customary activities of such persons (see "Portfolio Managers" below).

Summary

The following is a summary of the principal terms of the Rights Plan.

Term

The Board of Trustees first adopted a Unitholders' rights plan agreement (the "**Rights Plan**") dated as of May 3, 2002, and amended and restated on May 26, 2005, which was reconfirmed and amended by Unitholders at the 2005 annual and special meeting of Unitholders, and which was set to expire on May 21, 2007. At CAPREIT's annual and special meeting of Unitholders held on May 23, 2007, Unitholders approved the Rights Plan with effect on May 21, 2007 to replace CAPREIT's previous Unitholder rights plan agreement upon its expiry. The term of the Rights Plan is five years, beginning May 21, 2007 (the "**Effective Date**") and ending on May 21, 2012, subject to the Rights Plan being reconfirmed by the Unitholders after three years. Accordingly, at CAPREIT's annual and special meeting of Unitholders held on May 19, 2010, Unitholders reconfirmed the Rights Plan.

Issue of Rights

On the Effective Date, one right (a "**Right**") was issued and attached to each outstanding Unit. One Right was also issued and attached to each subsequently issued Unit and will be issued and will attach to any subsequently issued Units. The initial exercise price of each Right is $100 (the "**Exercise Price**"), subject to appropriate anti-dilution adjustments.

Rights Exercise Privilege

The Rights will separate from the Units to which they are attached and will become exercisable at the time (the "**Separation Time**") that is ten trading days after the earlier of (i) a person having acquired, or (ii) the commencement or announcement date in respect of a take-over bid to acquire, 20% or more of the Units of CAPREIT, other than by an acquisition pursuant to a Permitted Bid.

The acquisition by a person (an "**Acquiring Person**"), including persons acting in concert, of 20% or more of the Units of CAPREIT, other than by way of a Permitted Bid in certain circumstances, is referred to as a "Flip-in Event". Any Rights held by an Acquiring Person on or after the earlier of the Separation Time or the first date of public announcement by CAPREIT or an Acquiring Person that an Acquiring Person has become such, will become void upon the occurrence of a Flip-in Event. Ten trading days after the occurrence of the Flip-in Event, the Rights (other than those held by the Acquiring Person) will permit the holder to purchase, for example, Units with a total market value of $200, on payment of $100 (i.e., at a 50% discount).

The issue of the Rights is not initially dilutive. Upon a Flip-in Event occurring and the Rights separating from the attached Units, reported earnings per Unit on a fully diluted or non-diluted basis may be affected. Holders of Rights who do not exercise their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

Certificates and Transferability

Prior to the Separation Time, the Rights will be evidenced by a legend imprinted on certificates for Units and will not be transferable separately from the attached Units. From and after the Separation Time, the Rights will be evidenced by Rights certificates which will be transferable and traded separately from the Units.

Permitted Bid Requirements

The requirements of a Permitted Bid include the following:

- The take-over bid must be made by way of a take-over bid circular.
- The take-over bid must be made for all Units and to all holders of Units, other than the bidder.
- The take-over bid must contain, and the provisions for the take-up and payment for securities tendered or deposited thereunder must be subject to, an irrevocable and unqualified condition that no securities shall be taken up or paid for pursuant to the take-over bid prior to the close of business on a date which is not less than 60 days following the date of the take-over bid.
- The take-over bid must contain irrevocable and unqualified provisions that, unless the take-over bid is withdrawn, securities may be deposited pursuant to the take-over bid at any time prior to the close of business on the date of first take-up or payment for securities and that all securities deposited pursuant to the take-over bid may be withdrawn at any time prior to the close of business on such date.
- The take-over bid must contain an irrevocable and unqualified condition that more than 50% of the outstanding Units held by Independent Unitholders (defined below), determined as at the close on business on the date of first take-up or payment for securities under the take-over bid, must be deposited to the take-over bid and not withdrawn at the close of business on the date of first take-up or payment for securities.
- If more than 50% of the Units held by Unitholders other than the bidder, its affiliates and persons acting jointly or in concert with the bidder (the "**Independent Unitholders**") are tendered to the take-over bid and not withdrawn as at the close on business on the date of first take-up or payment for securities under the take-over bid, the offeror will make a public announcement of that fact and the take-over bid will remain open for deposits and tenders of securities for not less than 10 business days from the date of such public announcement.

The Rights Plan allows a competing Permitted Bid (a "**Competing Permitted Bid**") to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that, provided it is outstanding for a minimum period of 35 days (or such other minimum period of days as may be prescribed by applicable law in Ontario), it may expire on the same date as the Permitted Bid.

Waiver and Redemption

The Board of Trustees acting in good faith may, with the consent of the Unitholders (or instalment receipts related to Units, if any), prior to a Flip-in Event, waive the dilutive effects of the Rights Plan in respect of a particular Flip-in Event. At any time prior to the occurrence of a Flip-in Event, the Board of Trustees may, at their option, redeem all, but not less than all, of the outstanding Rights at a price of $0.001 each.

Waiver of Inadvertent Flip-in Event

The Board of Trustees acting in good faith may, in respect of any Flip-in Event, waive the application of the Rights Plan to that Flip-in Event, provided that (i) the Board of Trustees has determined that the Acquiring Person became an Acquiring Person by inadvertence and without any intent or knowledge that it would become an Acquiring Person, and (ii) such Acquiring Person has reduced its beneficial ownership of Units (or instalment receipts related to Units, if any) such that at the time of waiver it is no longer an Acquiring Person.

Portfolio Managers

The provisions of the Rights Plan relating to portfolio managers are designed to prevent the occurrence of a Flip-in Event solely by virtue of the customary activities of such managers, including trust companies and other persons, where a substantial portion of the ordinary business of such person is the management of funds for unaffiliated investors, so long as any such person does not propose to make a take-over bid either alone or jointly with others.

Supplement and Amendments

CAPREIT is authorized to make amendments to the Rights Plan to correct any clerical or typographical error or, subject to certain exceptions, which are required to maintain the validity of the Rights Plan as a result of any changes in law or regulation.

Eligibility for Investment in Canada

Provided that CAPREIT Units are qualified investments for registered retirement savings plans, registered retirement income funds, registered education savings plans, registered disability savings plans, tax-free savings accounts and deferred profit sharing plans at all material times and that CAPREIT deals at arm's length with each person who is an annuitant, beneficiary, employer or subscriber under, or holder of, such plan, the Rights will each be qualified investments under the Tax Act for registered retirement savings plans, registered retirement income funds, registered education savings plans, registered disability savings plans, tax-free savings accounts and deferred profit sharing plans. The issue of Rights will not affect the status under the Tax Act of the Units for such purposes nor will it affect the eligibility of such securities as investments for investors governed by certain Canadian federal and provincial legislation governing insurance companies, trust companies, loan companies and pension plans.

General

Until a Right is exercised, the holders thereof, as such, will have no rights as a Unitholder.

8.13 Senior Executive Long-Term Incentive Plan

CAPREIT has adopted a senior executive long-term incentive plan (the ''**SELTIP**'') that is available to the Chief Executive Officer and Chief Financial Officer of CAPREIT and such other persons as the Compensation and Governance Committee (as defined below) of CAPREIT may from time to time direct (the ''**SELTIP Participants**''). The SELTIP is intended to facilitate long-term ownership of Units by the SELTIP Participants and to provide SELTIP Participants with additional incentives by increasing their interest, as owners, in the trust. As well, the Board of Trustees believes that the SELTIP will encourage the SELTIP Participants to remain with the trust. The Compensation and Governance Committee of the Board of Trustees may award SELTIP Units, subject to the attainment of specified performance objectives, to SELTIP Participants. The SELTIP Participants can subscribe for Units of CAPREIT at a purchase price equal to the weighted average trading price of the Units on the TSX for five trading days prior to issuance. SELTIP Participants who are non-executive trustees are permitted to participate in the SELTIP, provided that no such trustee shall at any time be issued Units under the SELTIP which would result in the non-executive trustees collectively holding an aggregate number of Units (including Units issuable pursuant to the exercise of options granted pursuant to the CAPREIT's Unit Option Plan) in excess of 0.5% of the aggregate number of Units, on a non-diluted basis, outstanding from time to time. The purchase price is payable in instalments, with an initial instalment of 5% paid when the Units are issued. The balance of the beneficial ownership of the SELTIP Units will be represented by instalment receipts issued by CAPREIT (the "**SELTIP Instalment Receipts**") which are due over a term not exceeding thirty years. Participants are required to pay interest at a thirty-year fixed rate based on CAPREIT's fixed borrowing rate for long-term mortgage financing and are required to apply cash distributions received by them on these Units toward the payment of interest and principal instalments until the tenth anniversary of issuance. Following the tenth anniversary, cash distributions shall be applied to pay interest only and any excess shall be distributed to the SELTIP Participants. On the thirtieth anniversary of the date of issuance of the SELTIP Units, the SELTIP Participants must pay the balance, if any, of the principal in respect of SELTIP Instalment Receipts. SELTIP Participants may pre-pay any remaining instalments at their discretion. The SELTIP Instalment Receipts are non-recourse to the SELTIP Participants and are secured by the Units as well as the distributions on the Units. If SELTIP Participant fails to pay interest and/or principal, CAPREIT may elect to re-acquire or sell the pledged Units in satisfaction of the outstanding amounts. The maximum available for future issuance under all Unit incentive plans as at December 31, 2010, was 575,151 Units. As at December 31, 2010, 817,914 Units have been issued under the SELTIP. This figure includes 672,084 Units originally issued to CAPREIT's Chief Executive Officer and its former Chief Financial Officer pursuant the LTIP (as defined below) that were, effective August 21, 2007, ''converted'' to Units on the terms and conditions of the SELTIP, pursuant to a resolution of Unitholders at the Annual and Special Meeting of Unitholders of CAPREIT held on May 23, 2007. The granting of additional awards under the SELTIP has been suspended at this time, following a full review by the Compensation and Governance Committee of the Board of Trustees, in consultation with Mercer (Canada) Limited. The SELTIP remains in place and the terms of outstanding awards will remain unchanged.

8.14 Long-Term Incentive Plan

CAPREIT has adopted a long-term incentive plan (the ''**LTIP**'') that is available to certain trustees, officers and employees of CAPREIT (''**LTIP Participants**''). The objective of the LTIP is to encourage increased long-term equity participation in CAPREIT by LTIP Participants. The Compensation and Governance Committee of the Board of Trustees may award LTIP Units, subject to the attainment of specified performance objectives to LTIP Participants. The LTIP Participants can subscribe for Units of CAPREIT at a purchase price equal to the weighted average trading price of the Units on the TSX for five trading days prior to issuance. Non-executive trustees are permitted to participate in the LTIP, provided that no such trustee shall at any time be issued Units under the LTIP which would result in the non-executive trustees collectively holding an aggregate number of Units (including Units issuable pursuant to the exercise of options granted pursuant to the CAPREIT's Unit Option Plan) in excess of 0.5% of the aggregate number of Units, on a non-diluted basis, outstanding from time to time. The purchase price is payable in instalments, with an initial instalment of 5% paid when the Units are issued. The balance of the beneficial ownership of the LTIP Units will be represented by instalment receipts issued by CAPREIT (the "**Instalment Receipts**") which are due over a term not exceeding ten years. Participants are required to pay interest at a ten-year fixed rate based on CAPREIT's fixed borrowing rate for long-term mortgage financing, and are required to apply cash distributions received by them on these Units towards the payment of interest and remaining instalments. Participants may pre-pay any remaining instalments at their discretion. The Instalment Receipts are non-recourse to the Participants and are secured by the Units as well as the distributions on the Units. If a Participant fails to pay interest and/or principal, CAPREIT may elect to re-acquire or sell the pledged Units in satisfaction of the outstanding amounts. The maximum available for future issuance under all Unit incentive plans as at December 31, 2010, was 575,151 Units. As at December 31, 2010, 1,619,187 Units have been issued under the LTIP. The Board of Trustees' current policy is not to award LTIP Units to trustees under the LTIP. The granting of additional awards under the LTIP has been suspended at this time, following a full review by CAPREIT's compensation and governance committee, in consultation with Mercer (Canada) Limited. The LTIP remains in place and the terms of outstanding awards will remain unchanged.

8.15 Unit Option Plan

CAPREIT has adopted a Unit option plan (the "**Unit Option Plan**"). Participation in the Unit Option Plan is restricted to (i) trustees, officers and employees of CAPREIT, (ii) persons or companies engaged to provide ongoing management or consulting services for CAPREIT, and (iii) personal holding companies or family trusts of any persons referred to in (i) and (ii), all as approved by the Compensation and Governance Committee of the Board of Trustees. Options have a maximum term of ten years and are exercisable at a price not less than the closing price of the Units on the TSX on the last trading day on which the Units traded prior to the date of that grant. The maximum available for future issuance under all Unit incentive plans as at December 31, 2010 was 575,151 Units. As at December 31, 2010, options in respect of 2,366,000 Units have been granted (of which 1,825,000 were cancelled or expired and 541,000 are outstanding) under the Unit Option Plan. Except with respect to any options which are required to be awarded to the President and Chief Executive Officer in accordance with the terms of his employment contract, the Board of Trustees' current policy is not to award any further options under the Unit Option Plan. In connection with the Equity Offering and the exercise of the overallotment option related to the Equity Offering, 228,000 options were issued to the President and Chief Executive Officer in December 2010.

8.16 Unit Purchase Plan

CAPREIT has adopted a Unit purchase plan (the "**Unit Purchase Plan**") with the intent of advancing the interests of CAPREIT and Unitholders by providing short-term loans to senior officers of CAPREIT to encourage and assist the acquisition of CAPREIT Units by them. Annual specified performance objectives will be based upon the ability of CAPREIT to meet annual targeted performance levels established for each fiscal year by the Compensation and Governance Committee.

Under the terms of the Unit Purchase Plan, loans may be made to participants for the purchase of Units. Loans must be repaid in full no later than the third anniversary of the date of the loan. Loans will bear interest at a rate determined by the Compensation and Governance Committee and may be interest free. Units purchased with loan proceeds will be pledged as collateral security for the repayment of the loan to such participant. A participant may not assign, transfer or dispose of his interest in the Units acquired under the Unit Purchase Plan and CAPREIT reserves the right to amend or terminate the Unit Purchase Plan at any time. The maximum available for future issuance under all Unit incentive plans as at December 31, 2010 was 575,151 Units. As at December 31, 2010, 423,725 Units have been issued under the Unit Purchase Plan. The Board of Trustees' current policy is not to issue any further Units under the Unit Purchase Plan. As such, no Units were issued under this plan in 2010. As at December 31, 2010, all loans made to participants for the purchase of Units under the Unit Purchase Plan were repaid in full.

8.17 Employee Unit Purchase Plan

CAPREIT has adopted an Employee Unit Purchase Plan that is available to certain full-time employees and senior officers of CAPREIT (a "**Participant**"). Under the terms of the Employee Unit Purchase Plan, each Participant is entitled to acquire a number of Units up to a maximum of 5% of their respective annual salary from payroll deductions. A Participant may not assign, transfer or dispose of his interest in the Employee Unit Purchase Plan and CAPREIT reserves the right to amend or terminate the Employee Unit Purchase plan at any time. Units issuable under the Employee Unit Purchase Plan will be issued at the weighted average trading price of the Units on the TSX for the five trading days immediately preceding the date of issue. In addition, Participants receive an additional amount equal to 10% of the Units purchased pursuant to the Employee Unit Purchase Plan, which amount is automatically paid in the form of additional Units at the time of purchase of Units. The maximum available for future issuance under all Unit incentive plans as at December 31, 2010 was 575,151 Units. As at December 31, 2010, 96,033 Units have been issued under the Employee Unit Purchase Plan.

In 2010, consistent with the objective of facilitating the further alignment of the President and Chief Executive Officer's and Chief Financial Officer's interests with those of Unitholders, and in consideration of the intended suspension of granting of additional awards under the LTIP and the SELTIP, the Compensation and Governance Committee recommended, and the Board of Trustees approved, an amendment to the Employee Unit Purchase Plan to allow participation by the President and Chief Executive Officer and the Chief Financial Officer. At CAPREIT's annual and special meeting of Unitholders held on May 19, 2010, Unitholders and Special Unitholders approved such amendment.

8.18 Deferred Unit Plan

CAPREIT has adopted a deferred unit plan (the "**Deferred Unit Plan**") to promote a greater alignment of interests between the non-executive trustees of CAPREIT and Unitholders.

Under the terms of the Deferred Unit Plan, non-executive trustees have the right to receive a percentage of their annual retainer in the form of deferred units ("**Deferred Units**"). Each trustee who elects to participate may be paid 25%, 50%, 75% or 100% (the "**Elected Percentage**") of his annual retainer payable in respect of a calendar year (the "**Elected Amount**"), subject to an annual maximum Elected Percentage established by the Compensation and Governance Committee, in the form of Deferred Units, in lieu of cash. CAPREIT will match the Elected Amount in the form of Deferred Units having a value equal to the volume weighted average price of all Units traded on the TSX for the five trading days immediately preceding the date on which board compensation is payable. The maximum Elected Percentage in respect of 2010 is 100% of a trustee's annual board compensation. The maximum Elected Percentage in respect of 2009 was 50% of a trustee's annual board compensation.

Under no circumstances shall Deferred Units be considered Units nor entitle a participant to any Unitholder rights, including, without limitation, voting rights, distribution entitlements (other than as described below) or rights on liquidation. One Deferred Unit is equivalent in value to one Unit.

The Deferred Units earn additional Deferred Units for the distributions that would otherwise have been paid on the Deferred Units. The Deferred Units and additional Deferred Units are credited to each trustee's Deferred Unit account and are not issued to the trustee until the trustee elects to withdraw such Units. Each trustee may elect to withdraw up to 20% of the Deferred Units credited to his Deferred Unit account only once in a five-year period. Upon withdrawal, one Unit is issued for each withdrawn Deferred Unit.

The maximum available for future issuance under all Unit incentive plans as at December 31, 2010 was 575,151 Units. As at December 31, 2010, 74,103 Deferred Units have been issued under the Deferred Unit Plan.

8.19 Restricted Unit Rights Plan

During the first quarter of 2010, CAPREIT adopted the Restricted Unit Rights Plan (the "**RUR Plan**") as the primary plan through which long-term incentive compensation will be awarded. The RUR Plan was approved by Unitholders on May 19, 2010. The Compensation and Governance Committee of the Board of Trustees may award Restricted Unit Rights

("**RURs**"), subject to the attainment of specified performance objectives to certain officers and key employees, collectively the "**Participants**". The purpose of the RUR Plan is to provide its Participants with additional incentive and to further align the interest of its Participants with Unitholders through the use of RURs which, upon vesting, are exercisable for Units. RUR Plan Units will be issued from treasury upon vesting.

The RURs earn notional distributions in respect of each distribution paid on RURs commencing from the grant date and such notional distributions are used to calculate additional RURs ("**Distribution RURs**"), which are accrued for the benefit of the Participants. The Distribution RURs are credited to the Participants only when the underlying RURs upon which the Distribution RURs are earned become vested.

Effective February 24, 2010, 69,552 RURs were granted at $14.09 based on the market price equal to the weighted average trading price of the Units for the five trading days prior to the grant date. The fair value of the compensation costs for these RURs was $972 based on the closing market price of Units on the date of grant. As the RURs vest in their entirety on the third anniversary of the grant date, the compensation costs are amortized on a straight-line basis over the three-year vesting period. On October 8, 2010, 743 RURs were cancelled at a fair value of $10. During the year ended December 31, 2010, total net compensation costs of $273 were expensed in relation to awards granted under the RUR Plan. As at December 31, 2010, 72,887 RURs were outstanding.

8.20 Executive RRSP Plan

The CAPREIT Executive Registered Retirement Savings Plan (the "**RRSP Plan**") was established in 2008 in order to assist designated executives in accumulating retirement savings.

Under the RRSP Plan, CAPREIT or one of its affiliates may make contributions on designated executives' behalf, in such amounts and in such years as it determines at its sole discretion. The contributions will be deposited into participants' self-directed RRSP accounts to be used solely for purposes of the RRSP Plan. It is CAPREIT's general expectation that RRSP Plan contributions will be made annually and equal to 5 percent of participating executives' base salary, subject to applicable Tax Act limitations. However, there is no guarantee that contributions will be made in any particular year or that any contributions which are made will equal any specific amount. Without limiting the generality of the foregoing, the making of contributions or the level thereof in any given year may depend on CAPREIT and/or individual performance in that year.

8.21 Investment Restrictions

The Declaration of Trust provides for certain restrictions on investments which may be made by CAPREIT. The assets of CAPREIT may be invested only in accordance with the following restrictions:

(a) CAPREIT shall focus its activities primarily on the acquisition, holding, developing, maintaining, improving, leasing, or management of income producing real property with an emphasis on real property which is being utilized or intended to be utilized to provide living accommodation (the "**Focus Activities**");

(b) notwithstanding anything else contained in the Declaration of Trust, CAPREIT shall not make any investment, take any action or omit to take any action that would result in Units or Special Voting Units not being units of a "mutual fund trust" within the meaning of the Tax Act, that would result in Units being disqualified for investment by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans or that would, if CAPREIT is a registered investment within the meaning of the Tax Act, result in CAPREIT paying a tax under the registered investment provisions of the Tax Act imposed for exceeding certain investment limits;

(c) CAPREIT may, directly or indirectly, make such investments, do all such things and carry out all such activities as are necessary or desirable in connection with the conduct of its activities provided they are not otherwise specifically prohibited under the Declaration of Trust;

(d) CAPREIT may invest in freehold, leasehold, or other interests in property (real, personal, moveable or immovable);

(e) CAPREIT may make its investments and conduct its activities directly or indirectly through an investment in one or more persons on such terms as the Board of Trustees may from time to time determine;

(f) except for temporary investments held in cash, deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities, or money market instruments of, or guaranteed by, a Canadian bank listed on Schedule I to the *Bank Act* (Canada) maturing prior to one year from the date of issue, CAPREIT may not hold securities other than securities of a person:

    (i) acquired in connection with the carrying on, directly or indirectly, of CAPREIT's activities or the holding of its assets; or

    (ii) which focuses its activities primarily on Focus Activities and ancillary activities;

(g) CAPREIT shall not invest in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;

(h) CAPREIT shall not acquire any interest in a single real property if, after giving effect to the proposed acquisition, the cost to CAPREIT of such acquisition (net of the amount of acquisition debt) will exceed 20% of CAPREIT's Adjusted Unitholders' Equity (as defined in the Declaration of Trust);

(i) CAPREIT may invest in operating businesses;

(j) CAPREIT may invest in mortgages and mortgage bonds (including a participating or convertible mortgage) where the aggregate amount of such investments after giving effect to the proposed investment, will not exceed 20% of the Adjusted Unitholders' Equity; and

(k) notwithstanding any other provision of the Declaration of Trust but subject always to (b) above, CAPREIT may make investments not otherwise permitted under the Declaration of Trust, provided the aggregate amount of such investments (which, in the case of an amount invested to acquire real property, is the purchase price less the amount of any indebtedness assumed or incurred by CAPREIT and secured by a mortgage on such property) will not exceed 20% of the Adjusted Unitholders' Equity of CAPREIT after giving effect to the proposed investment.

8.22 Operating Policies

The Declaration of Trust provides that the operations and affairs of CAPREIT shall be conducted in accordance with the following policies:

(a) CAPREIT shall not purchase, sell, market or trade in currency or interest rate futures contracts otherwise than for hedging purposes where, for the purposes hereof, the term "hedging" shall have the meaning ascribed thereto by National Policy No. 39 adopted by the Canadian Securities Administrators, as amended from time to time;

(b) any written instrument creating an obligation which is or includes the granting by CAPREIT of a mortgage, and (ii) to the extent the Board of Trustees determines to be practicable and consistent with its fiduciary duty to act in the best interests of the Unitholders and Special Unitholders, any written instrument which is, in the judgment of the Board of Trustees, a material obligation shall contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the trustees, Unitholders, Special Unitholders, annuitants under a plan of which a Unitholder or Special Unitholder acts as a trustee or carrier, or officers, employees or agents of CAPREIT, but that only property of CAPREIT or a specific portion thereof shall be bound; CAPREIT, however, is not required, but shall use all reasonable efforts, to comply with this requirement in respect of obligations assumed by CAPREIT upon the acquisition of real property;

(c) CAPREIT shall not incur or assume any indebtedness if, after giving effect to the incurring or assumption of the indebtedness, the total indebtedness of CAPREIT (including the amount then advanced under the Credit Facilities) would be more than 70% of the Gross Book Value, unless a majority of the trustees, in their discretion, determine that the maximum amount of indebtedness shall be based on the appraised value of the real properties of CAPREIT. For the purposes of this subparagraph, "indebtedness" means (without duplication) on a consolidated basis:

(i) any obligation of CAPREIT for borrowed money (other than under the Credit Facilities),

(ii) any obligation of CAPREIT (other than under the Credit Facilities) incurred in connection with the acquisition of property, assets or businesses other than the amount of future income tax liability arising out of indirect acquisitions,

(iii) any obligation of CAPREIT issued or assumed as the deferred purchase price of property, and

(iv) any capital lease obligation of CAPREIT;

provided that (A) for the purposes of (i) through (iv), an obligation (other than convertible debentures) will constitute indebtedness only to the extent that it would appear as a liability on the consolidated balance sheet of CAPREIT in accordance with generally accepted accounting principles, (B) obligations referred to in clauses (i) through (iii) exclude trade accounts payable, security deposits, distributions payable to Unitholders, contingent liabilities and accrued liabilities arising in the ordinary course, and (C) convertible debentures will constitute indebtedness to the extent of the principal amount thereof outstanding;

(d) CAPREIT shall obtain an independent appraisal of each real property that it intends to acquire;

(e) CAPREIT shall obtain and maintain at all times insurance coverage in respect of potential liabilities of CAPREIT and the accidental loss of value of the assets of CAPREIT from risks, in amounts, with such insurers, and on such terms as the Board of Trustees considers appropriate, taking into account all relevant factors including the practices of owners of comparable properties; and

(f) unless the Board of Trustees determines it is not necessary, CAPREIT shall have conducted a Phase I environmental audit of each real property to be acquired by it and, if the Phase I environmental audit report recommends that further environmental audits be conducted, CAPREIT shall have conducted such further environmental audits, in each case by an independent and experienced environmental consultant; such audit, as a condition to any acquisition, shall be satisfactory to the Board of Trustees.

8.23 Amendments to Investment Restrictions and Operating Policies

Pursuant to the Declaration of Trust, all of the investment restrictions set out under the headings "Investment Restrictions" and the operating policies set out under the heading "Operating Policies" may be amended only with the approval of at least $66^2/_3$% of the votes cast at a meeting of Unitholders and Special Unitholders called for such purpose except for amendments, which in the opinion of the Board of Trustees, are not prejudicial to Unitholders or Special Unitholders and are necessary or desirable (which, for greater certainty, exclude amendments in respect of which a Unitholder and Special Unitholder vote is specifically otherwise required).

9 - DISTRIBUTIONS

9.1 Distribution Policy

The following outlines the distribution policy of CAPREIT as contained in the Declaration of Trust. The distribution policy may be amended only with the approval of a majority of the votes cast at a meeting of Unitholders and Special Unitholders.

Distributions are determined by the Board of Trustees. All declared distributions are due and payable on or about the 15th day of each month with the exception of the year end distribution which is payable on December 31st and due on January 15th of the immediately following year. Distributions may be adjusted for amounts paid in prior periods.

Distributions are made in cash or Units pursuant to any distribution reinvestment plan or Unit purchase plan.

The cost for Canadian tax purposes of Units held by a Canadian resident Unitholder will generally be reduced by the non-taxable portion of distributions made to the Unitholder other than the non-taxable portion of certain capital gains. A Unitholder will generally realize a capital gain to the extent that the Unitholder's tax cost of his or her Units would otherwise be a negative amount. Unitholders should seek advice from their respective tax advisors with respect to any specific tax matters.

9.2 Cash Distributions

CAPREIT's monthly distribution for each of the three most recently completed financial years has been $0.09 per Unit. In determining the amount of monthly cash distributions, the Board of Trustees relies upon cash flow information, including NFFO, and management forecasts and budgets.

9.3 Distribution Reinvestment Plan

CAPREIT has established a DRIP. Under the DRIP, a participant may purchase additional Units with the cash distributions paid on the Eligible Units which are registered in the name of the participant or held in a participant's account maintained pursuant to the DRIP. Each participant will also receive a right to receive an additional amount equal to 5% of their monthly distributions reinvested pursuant to the DRIP, which amount 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 of the trading price for Units of CAPREIT on the TSX for the five trading days immediately preceding the relevant Distribution

Date. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP. Full investment of participants' funds is possible under the DRIP because the DRIP permits fractions of Units as well as whole Units to be purchased and held for participants. Distributions in respect of whole Units and fractions of Units acquired under the DRIP will be held by the agent for the DRIP for the participants' account and automatically invested under the DRIP in additional Units. For the year ended December 31, 2010, the average participation rate in the DRIP was approximately 12.1% of Units outstanding compared to 10.8% for the year ended December 31, 2009.

9.4 Credit and Stability Ratings

Stability Rating - Units

Although CAPREIT has not requested a rating, Dominion Bond Rating Service ("**DBRS**") has assigned a stability rating of "STA-3 (high)" to CAPREIT. This rating is based on publicly available information and CAPREIT did not provide any non-public information to DBRS for this purpose. This stability rating is based on a rating scale developed by DBRS that provides an indication of both the stability and sustainability of an income fund's distributions per unit. Rating categories range from STA-1 to STA-7, with STA-1 being the highest rating possible and STA-7 the lowest. DBRS further separates the ratings into high, middle and low to indicate where within the ratings category they fall. Ratings take into consideration seven main factors being: (i) operating characteristics, (ii) asset quality, (iii) financial profile, (iv) diversification, (v) size and market position, (vi) sponsorship and governance and (vii) growth. In addition, consideration is given to specific structural or contractual elements that may eliminate or mitigate risks or other potential negative factors. DBRS issued a rating report on January 13, 2011, in which it identified certain challenges relating to above-average concentration in the GTA, competition from condominium development in core markets, and presence in regulated rental markets which limit rent increases (see "Risk Factors"). Income funds rated STA-3 are considered by DBRS to have good stability and sustainability of distributions per unit. The stability rating accorded to CAPREIT is not a recommendation to buy, sell or hold securities of CAPREIT and is subject to revision or withdrawal by DBRS at any time.

Issuer (Credit) Rating

Although CAPREIT has neither issued debt to the public nor requested a rating, it has been assigned an issuer rating by DBRS of BBB (low) with a stable trend with respect to its general senior unsecured obligations. This rating is based on publicly available information and CAPREIT did not provide any non-public information to DBRS for this purpose. Credit ratings are forward-looking measures that assess an issuer's ability and willingness to make timely payments of principal and interest. DBRS rating categories range from highest credit quality (generally AAA) to issuers with missed payments or about to miss a scheduled payment (D). A credit rating in the BBB category is generally an indication of adequate credit quality as defined by DBRS. A rating outlook, expressed as a positive, stable or negative trend, provides an opinion regarding the likely direction of any medium term rating actions. The credit rating accorded to CAPREIT is not a recommendation to buy, sell or hold securities of CAPREIT and is subject to revision or withdrawal by DBRS at any time.

10 - MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of results of operations and financial position of CAPREIT for the year ended December 31, 2010 is incorporated herein by reference.

11 - MARKET FOR SECURITIES

Trading Price and Volume

Units of CAPREIT are listed and posted for trading on the TSX under the symbol "CAR.UN". As at December 31, 2010, there were 77,025,320 Units (excluding 74,103 Deferred Units and 72,887 RURs) issued and outstanding. The following table indicates the high and low trading price and the volume of the Units traded on the TSX on a monthly basis for the year ended December 31, 2010**:**

Month	High	Low	Volume
January	$14.75	$14.01	3,212,615
February	$14.73	$13.92	2,519,409
March	$14.74	$13.93	4,758,477
April	$14.83	$14.24	2,971,623
May	$15.42	$11.02	3,794,411
June	$15.83	$14.78	2,749,930
July	$15.75	$14.95	1,687,933
August	$16.88	$15.27	2,094,831
September	$17.26	$15.94	3,229,925
October	$18.38	$17.00	2,794,482
November	$17.72	$16.67	3,754,233
December	$17.35	$16.77	3,544,672

12 - MANAGEMENT OF CAPREIT, TRUSTEES AND EXECUTIVE OFFICERS

12.1 General

The investment policies and operations of CAPREIT are subject to the control and direction of the trustees, a majority of whom must be independent trustees. Pursuant to NI 52-110, an independent trustee is one who has no direct or indirect material relationship with CAPREIT. Trustees hold office for a term ending following the annual meeting subsequent to the annual meeting at which they were elected by Unitholders and Special Unitholders.

12.2 Trustees and Executive Officers

The name, province of residence, office held with CAPREIT, principal occupations held during the preceding 5 years and the period during which each trustee or executive officer has served are as follows:

Name and Municipality of Residence	Office	Principal Occupations during preceding five years	Year first became a Trustee or Executive Officer	Number of Units beneficially owned, or controlled or directed, directly or indirectly as at December 31, 2010 (1)
Thomas Schwartz Toronto, Ontario	President and Chief Executive Officer and a Trustee	President and Chief Executive Officer of CAPREIT	1997	2,341,253
Michael Stein Toronto, Ontario	Chairman and a Trustee	Chairman and Chief Executive Officer of MPI Group Inc.	1997	568,906
Harold Burke (3)(4) Toronto, Ontario	Trustee	Principal, Dundee Real Estate Asset Management (a real estate management firm) and former tax partner at Pricewaterhouse-Coopers LLP (an accounting firm)	2010	100
Paul Harris(2) Montréal, Québec	Trustee	Partner, Davies, Ward, Phillips & Vineberg LLP (a law firm)	1998	35,000
Edwin F. Hawken(2)(3) Toronto, Ontario	Trustee	Corporate Director	2004	56,664
Stanley Swartzman(3)(4)(5) Toronto, Ontario	Lead Trustee	Corporate Director	1997	104,021
David Williams(2)(4) Toronto, Ontario	Trustee	Interim President and CEO, Shoppers Drug Mart Corporation	2002	51,102
Maria Amaral Toronto, Ontario	Senior Vice President, Finance	Senior Vice President, Finance and former Vice President, Finance of CAPREIT	2002	202,505
Mark Kenney Newmarket, Ontario	Chief Operating Officer	Chief Operating Officer of CAPREIT and former Vice President, Operations of CAPREIT	2002	236,876

Name and Municipality of Residence	Office	Principal Occupations during preceding five years	Year first became a Trustee or Executive Officer	Number of Units beneficially owned, or controlled or directed, directly or indirectly as at December 31, 2010 [(1)]
Richard J. Smith Richmond Hill, Ontario	Chief Financial Officer	Chief Financial Officer of CAPREIT, former Executive Vice-President and Chief Financial Officer of MI Developments Inc. and Vice-President, Corporate Development of Magna International Inc.	2009	7,361

Notes:

(1) Individual trustees and executive officers have furnished information as to Units beneficially owned, or controlled or directed, directly or indirectly, by them. The number of Units includes, among other things, LTIP and SELTIP units, as applicable. Each of Michael Stein, Harold Burke, Paul Harris, Edwin F. Hawken, Stanley Swartzman and David Williams holds Deferred Units of 15,611, 4,126, 13,349, 9,796, 15,611 and 15,611, respectively, which are not included in the total number of Units. Each of Thomas Schwartz, Maria Amaral, Mark Kenney and Richard Smith also holds Restricted Unit Rights of 26,901, 7,289, 12,398 and 2,630, respectively, which are not included in the total number of Units. In addition, Thomas Schwartz, Paul Harris, Maria Amaral and Mark Kenney hold 228,000, 20,000, 77,000 and 20,000 options respectively, which are not included in the total number of Units.

(2) Member of Compensation and Governance Committee.

(3) Member of Investment Committee.

(4) Member of Audit Committee.

(5) Mr. Swartzman currently acts as the Lead Trustee of the Board of Trustees.

Based on information provided by such persons, as of December 31, 2010, the trustees and executive officers of CAPREIT, as a group, beneficially owned, or controlled or directed, directly or indirectly, an aggregate of 3,603,788 Units of CAPREIT, representing approximately 4.7% of CAPREIT's issued and outstanding Units.

The nature and extent of the experience of the trustees and executive officers of CAPREIT in the real estate industry and their principal occupations during the last five years and their current public board memberships are as follows.

Thomas Schwartz graduated as a Chartered Accountant in 1975 and went on to pursue a career in real estate development. Mr. Schwartz, along with a partner, founded Intraurban Projects in 1976 to specialize in the development of new housing projects in mature communities. Intraurban has built and developed over 2,500 housing units serving all market segments from luxury to affordable. Mr. Schwartz, through York Heritage Properties and Intraurban Projects, has participated in the development, construction, and management of over 600,000 sq. ft. of office, commercial and retail space. Mr. Schwartz is active in industry and government affairs. He has served on the Board of Directors of the Greater Toronto Home Builders Association, the City of Toronto's Housing Action Committee, as Director of Kehilla Residential Consultants, on the Board of Directors of the Ontario New Home Warranty Program, and as Chairman of the Board of Directors of the Federation of Rental-housing

Providers of Ontario. Mr. Schwartz is currently on the Board of Trustees of Chartwell Seniors Housing REIT and is a member of the Schulich School of Business Advisory Council – Program in Real Estate and Infrastructure.

Michael Stein has been Chairman and Chief Executive Officer of MPI Group Inc., a company engaged in real estate investment and development, since 1994. Mr. Stein has also held the position of Chairman and Chief Executive Officer of MICC Properties Inc., a company engaged in real estate investment and development, since 1987. Mr. Stein has also been a director of Minera Andes Inc., a TSX-listed company, since February 23, 2009. Between 1978 and 1987, Mr. Stein held progressively senior positions, ultimately holding the position of Executive Vice President responsible for operations, with The Mortgage Insurance Co. of Canada. Between 2000 and 2006, Mr. Stein was a member of the Board of Directors of Goldcorp Inc., a public natural resource company the shares of which are listed on the TSX and New York Stock Exchange. Mr. Stein is a graduate engineer and holds a master of business administration in finance and international business from Columbia University in New York.

Harold Burke is a Principal at Dundee Real Estate Asset Management, a division of Dundee Realty Corporation, which he joined in July 2008. Mr. Burke has more than 30 years of professional practice in the tax area, at PricewaterhouseCoopers LLP, its predecessor, Coopers & Lybrand LLP, and another major Canadian accounting firm. Mr. Burke is recognized as a specialist in the area of real estate-related financial services as well as in domestic and international taxation issues. While a senior partner at PricewaterhouseCoopers, Mr. Burke advised a diverse domestic and foreign clientele many of which were public, private and institutional, on a variety of matters including mergers and acquisitions, capital markets financing and investment structuring. He is a Chartered Accountant and holds the Institute of Corporate Directors, Institute-Certified Director Designation, ICD.D.

Paul Harris has been a senior partner in the law firm of Davies Ward Phillips & Vineberg LLP since 1984. Mr. Harris' current directorships include The Montréal Alouettes Football Club.

Edwin F. Hawken is Chairman of Danier Leather Inc. He was Chief Executive Officer and a Director of Commcorp Financial Services Inc. from 1991 to 1997. From 1987 to 1991, Mr. Hawken was a Senior Vice President of CIBC and President of CIBC Leasing Inc.

Stanley Swartzman was Executive Vice President of Loblaw Properties Limited, the company responsible for all Canadian real estate and development matters for Loblaw Companies Limited, from 1997 to 1999. From 1983 to 1996, Mr. Swartzman was President of IPCF Properties Inc., the company which was previously responsible for real estate and development matters for Loblaw Companies Limited in Ontario and Eastern Canada. Since July 2008, Mr. Swartzman has served as a director of GT Canada Capital Corporation and is the Chairman of its investment committee. Mr. Swartzman was formerly a director of Centre Fund Corporation and served on its audit committee.

David Williams was the former President and Chief Executive Officer of the Ontario Workplace Safety and Insurance Board. Prior to that Mr. Williams held senior executive and finance roles with George Weston Limited and Loblaw Companies Limited, including a term as Chief Financial Officer of Loblaw Companies Limited. Mr. Williams is Interim President and

Chief Executive Officer, and also serves as Chair of the Board of Directors, of Shoppers Drug Mart Corporation. He also serves as a Lead Independent Director of Aastra Technologies Limited and a director of Toronto Hydro Electric System Limited. Mr. Williams is a graduate of the ICD Corporate Governance College.

Maria Amaral joined CAPREIT in 1997 and is currently its Senior Vice President, Finance. Prior to this appointment, Mrs. Amaral held the position of CAPREIT's Vice President, Finance. Mrs. Amaral has been involved in all aspects of corporate and property management accounting and financial due diligence of real estate portfolios since 1986. Mrs. Amaral was Accounting Manager of MPI Group Inc., a company engaged in real estate investment and development, since 1995. Mrs. Amaral also held the position of Accounting Manager of MICC Properties Inc., a real estate investment and development company, since 1987. Prior to 1987, Mrs. Amaral, as Chief Accountant, was responsible for property management accounting with Guaranty Properties Limited, a subsidiary of Guaranty Trust Company of Canada. Mrs. Amaral is a Certified Management Accountant.

Mark Kenney joined CAPREIT in 1998 and is currently its Chief Operating Officer. Prior to this appointment, Mr. Kenney held the position of Vice President, Operations of CAPREIT. Mr. Kenney has over 15 years of experience in the multi-family sector, having worked previously at Realstar Management Partnership as District Manager of Western Canada and Northern Ontario (1995 to 1998) and Greenwin Property Management as Senior Property Manager prior to 1995. Mr. Kenney is also a director of the Federation of Rental Providers of Ontario since 2009 and was a director of the Greater Toronto Apartment Association from 1998 to 2009.

Richard J. Smith joined CAPREIT in 2009 and is currently its Chief Financial Officer. Mr. Smith served as Executive Vice-President and Chief Financial Officer of MI Developments Inc. from July 2007 to September 2009. From June 2004 to July 2007, Mr. Smith was employed by Magna International Inc., in his latest capacity as its Vice-President, Corporate Development. From 1999 to 2004, Mr. Smith worked at Scotia Capital Inc. in the Mergers & Acquisitions Group. Prior to that, Mr. Smith worked at Coopers & Lybrand in its Ottawa office. Mr. Smith is a Chartered Accountant and a U.S. CPA (Illinois). Mr. Smith holds a master of business administration and Juris Doctor degree from the University of Toronto.

12.3 Trustees

The Declaration of Trust provides that the assets and operations of CAPREIT will be subject to the control and authority of a minimum of seven and a maximum of eleven trustees. The number of trustees within such minimum and maximum numbers may be changed by the Unitholders and Special Unitholders or, if authorized by the Unitholders and Special Unitholders, by the Board of Trustees, provided that the Board of Trustees may not, between meetings of Unitholders and Special Unitholders, appoint an additional trustee if, after such appointment, the total number of trustees would be greater than one and one-third times the number of trustees in office immediately following the last annual meeting of Unitholders and Special Unitholders. At the 1998 annual and special meeting of Unitholders, Unitholders approved an increase in the number of trustees from seven to nine, seven of whom are independent trustees, and also approved a resolution authorizing the Board of Trustees to increase or decrease, from time to time, the number of trustees. A majority of the trustees are required to be independent of the management of CAPREIT. A vacancy occurring among the trustees may be filled by resolution of the remaining trustees or by the Unitholders and Special Unitholders at a meeting of the Unitholders and Special Unitholders. A trustee elected or appointed to fill a vacancy shall hold office for the remaining term of the trustee he or she is succeeding.

All of the trustees are elected annually by resolution passed by a majority of the votes cast at a meeting of the Unitholders and Special Unitholders.

The Declaration of Trust provides for the appointment by the Board of Trustees of an audit committee (the "**Audit Committee**"), compensation and governance committee (the "**Compensation and Governance Committee**") and an investment committee (the "**Investment Committee**"). The approval of the independent trustees is required prior to CAPREIT making any acquisition or disposition of real property, and for the assumption or granting of any mortgage. A trustee may be removed with or without cause by two-thirds of the votes cast at a meeting of Unitholders and Special Unitholders or by the written consent of Unitholders and Special Unitholders holding in the aggregate not less than two-thirds of the outstanding Units and Special Voting Units entitled to vote thereon or with cause by the resolution passed by an affirmative vote of not less than two-thirds of the remaining trustees.

The standard of care and duties of the trustees provided in the Declaration of Trust are similar to those imposed on a director of a corporation governed by the *Canada Business Corporations Act*. Accordingly, each trustee is required to exercise the powers and discharge the duties of his or her office honestly, in good faith and in the best interests of CAPREIT and the Unitholders and Special Unitholders and, in connection therewith, to exercise that degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

12.4 Conflict of Interest Restrictions and Provisions

The Declaration of Trust contains "conflict of interest" provisions that serve to protect Unitholders without creating undue limitations on CAPREIT. Given that the trustees are engaged in a wide range of real estate and other activities, the Declaration of Trust contains provisions, similar to those contained in the *Canada Business Corporations Act*, that require each trustee to disclose to CAPREIT any interest in a material contract or transaction or proposed material contract or transaction with CAPREIT (including a contract or transaction involving the making or disposition of any investment in real property or a joint venture arrangement) or the fact that such person is a director or officer of or otherwise has a material interest in any person who is a party to a material contract or transaction or proposed material contract or transaction with CAPREIT. Such disclosure is required to be made at the first meeting at which a proposed contract or transaction is considered. In the event that a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by the trustees, a trustee is required to disclose in writing to CAPREIT or request to have entered into the minutes of meetings of the Board of Trustees the nature and extent of his interest forthwith after the trustee becomes aware of the contract or transaction or proposed contract or transaction. In any case, a trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to his or her remuneration as a trustee, officer, employee or agent of CAPREIT or one for indemnity under the provisions of the Declaration of Trust or the purchase of liability insurance.

CAPREIT has also adopted a Code of Business Ethics and Conduct, which provides a framework of guidelines and principles to govern and encourage ethical and professional behaviour in conducting its business. The Code of Business Ethics and Conduct applies to all trustees, officers and employees of CAPREIT and provides guidelines for identifying and reporting conflicts of interest or potential conflicts of interest.

12.5 Independent Trustee Matters

The following matters require the approval of at least a majority of the independent trustees to become effective:

- the grant of options under CAPREIT's Unit Option Plan;
- the grant of Units under CAPREIT's Unit Purchase Plan, LTIP, SELTIP and Deferred Unit Plan;
- the grant of RURs under CAPREIT's Restricted Unit Rights Plan;
- the acquisition or disposition of real property and the assumption or granting of any mortgage by CAPREIT;
- the demolition of all or substantially all of a property owned by CAPREIT;
- the entering into of an arrangement in which a non-independent trustee or an officer of CAPREIT has a material interest;
- the enforcement of any agreement entered into by CAPREIT with a non-independent trustee or an officer of CAPREIT, or an affiliate or associate of such party;
- to increase the number of trustees by no more than one-third in accordance with Section 2.1 of the Declaration of Trust and to appoint trustees to fill the vacancies so created; and
- to recommend to Unitholders or Special Unitholders that the number of trustees be increased, where a vote of Unitholders or Special Unitholders thereon is required, and to nominate individuals as trustees to fill the vacancies so created.

12.6 Audit Committee

The Audit Committee must consist of at least three trustees, all of whom must be independent and financially literate, as those terms are defined in NI 52-110. The Audit Committee assists the trustees in fulfilling their oversight responsibilities in respect of CAPREIT's accounting and reporting practices.

Pursuant to its charter, a copy of which is attached hereto as Appendix "A", the Audit Committee is responsible for the review of the consolidated financial statements, accounting policies and reporting procedures of CAPREIT. In addition, the Audit Committee is responsible for reviewing, on an annual basis, the principal risks that CAPREIT is faced with, and considering whether adequate systems are in place to manage such risks and that such systems appear effective.

The Audit Committee reviews CAPREIT's quarterly and annual consolidated financial statements and other required financial documents or documents that contain financial disclosure (such as press releases), reviews with management and the external auditors the state of internal controls, and makes appropriate reports thereon to the Board of Trustees. The Audit Committee has unrestricted access to the senior management of CAPREIT and to CAPREIT's external auditor, who regularly attends the Audit Committee meetings.

As at the date of this Annual Information Form, the Audit Committee consists of the following members: Harold Burke, Stanley Swartzman and David Williams. Harold Burke serves as Chairman of the Audit Committee. All members of the Audit Committee are independent and financially literate, as those terms are defined in NI 52-110. The following is a brief summary of the education or experience of each member of the Audit Committee that is relevant to the performance of his or her responsibilities as a member of the Audit Committee, including any education or experience that has provided the member with an understanding of the accounting principles used by CAPREIT to prepare its annual and quarterly consolidated financial statements.

Name of Audit Committee Member	**Relevant Education and Experience**
Harold Burke	• More than 30 years professional practice in the tax area at PricewaterhouseCoopers LLP, its predecessor, Coopers & Lybrand LLP and another major Canadian accounting firm • Chartered accountant • Holds the Institute of Corporate Directors, Institute-Certified Designation, ICD.D
Stanley Swartzman	• University of Witwatersrand (South Africa) – Quantity Surveying • Former Managing Director responsible for total business operations of a small conglomerate consisting of four operating companies in South Africa • Former President of IPCF Properties (wholly owned subsidiary of Loblaw Companies Limited) responsible for complete operation and financial performance in real estate development consisting of shopping centers, warehouses, offices and residential properties • 40 years of general business experience

Name of Audit Committee Member	Relevant Education and Experience
David Williams	• Interim President and CEO, Shoppers Drug Mart Corporation • Member, Society of Certified General Accountants of Canada [1972] • Member of Audit Committee and Director of several public companies including Toronto Hydro – Electric System Limited • CFO, Loblaw Companies Limited [1982] • Executive Vice President, Loblaw Companies Limited [1985 - 1998] • Executive Vice President, George Weston Limited [1996 - 1998] • President and CEO, Ontario Workplace Safety and Insurance Board [1998-2003] • Graduate of ICD Corporate Governance College [2006]

Further to CAPREIT's Audit Committee Charter attached hereto as Appendix "A", the Audit Committee has adopted specific policies and procedures for the engagement of non-audit services provided by its external auditor. The Audit Committee must pre-approve all engagements (and fees related thereto) for non-audit services. In connection with this requirement, the Audit Committee has adopted an internal policy allowing management to engage external non-audit services, subject to the following approval process:

Limit	Required Approval
Up to $50,000	Chief Executive Officer or Chief Financial Officer
$50,000 to $100,000	Chairman of the Audit Committee
Over $100,000	Audit Committee

In addition to compliance with the above process, management must notify the Audit Committee of any assignments to the external auditor for non-audit services prior to the next scheduled Audit Committee meeting.

The Audit Committee is responsible for monitoring CAPREIT's external auditor and ensuring that the external auditor is and remains independent of management. For a description of the external auditor service fees see section 18 below.

12.7 Compensation and Governance Committee

The Declaration of Trust requires the creation of a Compensation and Governance Committee, consisting of at least three trustees, to review the governance of CAPREIT and compensation offered to officers of CAPREIT. All of the members of the Compensation and Governance Committee must at all times be "independent", as this term is defined in NI 52-110, and free from any relationship that, in the opinion of the Board of Trustees, would interfere with the exercise of his or her independent judgement as a member of the Compensation and Governance Committee and each of whom should be familiar with corporate governance practices.

As at the date of this Annual Information Form, the members of the Compensation and Governance Committee are as follows: Paul Harris; Edwin F. Hawken and David Williams. David Williams serves as Chairman of the Compensation and Governance Committee.

12.8 Investment Committee

The Declaration of Trust provides that the trustees shall appoint from among their number an Investment Committee consisting of at least three trustees. A majority of the members of the Investment Committee must have had at least five years of substantial experience in the real estate industry. In addition, a majority of the members of the Investment Committee must be independent trustees. The duties of the Investment Committee are to review acquisition and disposition proposals for CAPREIT, subject to such authority as the Board of Trustees may delegate to the officers of CAPREIT, and to perform such other duties as the Board of Trustees may delegate to the Investment Committee pursuant to Article 8 of the Declaration of Trust.

As at the date of this Annual Information Form, the members of the Investment Committee are as follows: Harold Burke; Edwin F. Hawken and Stanley Swartzman. Stanley Swartzman serves as Chairman of the Investment Committee.

12.9 Remuneration of Trustees and Officers

A person who is employed by and receives salary from CAPREIT will not receive any remuneration from CAPREIT for serving as a trustee. Trustees who were not so employed during fiscal 2010 received a flat annual retainer from CAPREIT in the amount of $55,000, other than the Chairman of each of the Audit Committee, the Investment Committee and the Compensation and Governance Committee, who each received an additional $7,000 per year for each committee on which he served as Chair, the lead trustee, who received an additional $10,000 for serving as lead trustee, and the Chairman of the Board of Trustees who received an additional $20,000. Pursuant to the terms of the Deferred Unit Plan, in 2010, each non-executive trustee was entitled to elect to receive up to 100% of his board compensation (being $55,000), in the form of Deferred Units, in lieu of cash, which amount was matched by CAPREIT. As a result, for non-executive trustees who elected to receive 100% of their board compensation in the form of Deferred Units, such trustee's annual compensation for 2010 (including the impact of Deferred Units issued and matched by CAPREIT), amounted to $110,000.

The position of lead trustee was created in 2006 and the lead trustee's responsibilities are to act as the effective leader of the Board of Trustees and ensure that the Board of Trustee's agenda will enable it to successfully carry out its duties.

In fiscal 2010, no additional meeting or written resolutions fees were paid to the trustees. The officers of CAPREIT are entitled to participate in the LTIP and Unit Option Plan described under the headings "Long-Term Incentive Plan" and "Unit Option Plan" and certain officers are entitled to participate in the SELTIP and Employee Unit Purchase Plan described under the headings "Senior Executive Long-Term Incentive Plan" and "Employee Unit Purchase Plan". Non-executive trustees are entitled to participate in the Deferred Unit Plan described under the heading "Deferred Unit Plan".

13 - LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Management of CAPREIT is not aware of any litigation outstanding, threatened or pending as of the date hereof by or against it or relating to its business which would be material to CAPREIT's financial condition or results of operations.

During the year ended December 31, 2010, no penalties or sanctions were imposed against CAPREIT by a court relating to securities legislation or by a securities regulatory authority, no other penalties or sanctions were imposed by a court or regulatory body against CAPREIT that would likely be considered important to a reasonable investor in making an investment decision, and CAPREIT entered into no settlement agreements before court relating to securities legislation or with a securities regulatory authority.

14 - INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

CAPREIT has entered into construction management agreements with a company that is controlled by Mr. Thomas Schwartz and Mr. Michael Stein, both trustees and officers of CAPREIT, to provide construction management services to carry out the capital improvements for the properties. The total construction management fees for 2010 amounted to $1.46 million (4.5% of construction costs up to $20 million, 3.0% for the next $15 million and 1.0% thereafter) (2009 - $1.58 million; 2008 – approximately $1.35 million) (excluding GST) and have been capitalized to income producing properties. At December 31, 2010, there was $72,000 in construction management fees outstanding in accounts payable and other liabilities.

CAPREIT has a lease for head office space with a company in which Mr. Thomas Schwartz, a trustee and officer of CAPREIT, has an 18% beneficial interest. The yearly minimum annual base rental payments are $407,000 plus GST (which rent is based on fair market rents at the date the lease was entered into); effective July 1, 2010, rental payments were subject to HST in Ontario. The total rent, including operating costs, paid by CAPREIT for such head office space for 2010 was $730,000 (2009 - $653,000; 2008 - $636,000), and has been expensed as trust expenses. On August 21, 2009, the lease was renewed for an additional term of 5 years commencing November 1, 2009, expiring October 31, 2014.

15 - TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Units is Computershare Investor Services Inc. at its principal offices in Toronto, Ontario.

16 - MATERIAL CONTRACTS

See "Description of Capital Structure and Governance Policies – Long-Term Incentive Plan"; "Description of Capital Structure and Governance Policies – Senior Executive Long-Term Incentive Plan"; and "Description of Capital Structure and Governance Policies – Restricted Unit Rights Plan".

17 - INTEREST OF EXPERTS

CAPREIT's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditors' report dated February 22, 2011 in respect of CAPREIT's consolidated annual financial statements with accompanying notes as at and for the years ended December 31, 2010 and 2009. PricewaterhouseCoopers LLP has advised that they are independent with respect to CAPREIT within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

18 - EXTERNAL AUDITOR FEES

The following chart summarizes the fees for services provided by the auditors to CAPREIT for the fiscal years 2010 and 2009.

Summary of External Audit Fees

Nature of Fees	2010	2009
Audit fees [1]	$671,492	$455,335
Audit-related fees [2]	77,958	170,372
Tax fees [3]	273,616	149,258
All other fees [4]	84,341	165,924
Total	**$1,107,407**	**$940,889**

Notes:

(1) "Audit fees" include fees paid for audit and review services in respect of the annual and quarterly consolidated financial statements and other regulatory filings.

(2) "Audit-related fees" include fees paid for services related to consultations regarding financial reporting and accounting standards and assistance with compliance requirements.

(3) "Tax fees" include fees paid for tax compliance and tax advisory services, including namely the review of tax returns and other structuring matters.

(4) "Other fees" include fees paid for all other services other than those presented in the categories of audit fees, audit-related fees and tax fees, including namely advisory services for business transformation and other corporate matters.

The Audit Committee considered and agreed that the above fees are compatible with maintaining the independence of CAPREIT's auditors. Further, the Audit Committee determined that, in order to ensure the continued independence of the auditors, only limited non-audit related services will be provided to CAPREIT by CAPREIT's external auditors and in such case, only with the prior approval of the Audit Committee.

19 - ADDITIONAL INFORMATION

Additional information, including trustee and officer remuneration and indebtedness, principal holders of CAPREIT's securities and interests of insiders in material transactions is contained in CAPREIT's information circular for its upcoming annual and special meeting of Unitholders and Special Unitholders. Additional information, including CAPREIT's consolidated audited annual financial statements for the year ended December 31, 2010, and management's discussion and analysis may be found on SEDAR at www.sedar.com under

CAPREIT's profile. CAPREIT will provide any person, upon request to the Chief Financial Officer of CAPREIT, any of the following documents:

(a) one copy of the Annual Information Form of CAPREIT, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;

(b) one copy of the consolidated audited financial statements of CAPREIT for its most recently completed financial year together with the accompanying report of the auditor and one copy of any quarterly consolidated financial statements of CAPREIT subsequent to the consolidated annual audited financial statements for its most recently completed financial year; and

(c) one copy of the information circular of CAPREIT in respect of its most recent annual meeting of Unitholders and Special Unitholders that involved the election of trustees or one copy of any annual filing prepared in lieu of that information circular, as appropriate.

When the securities of CAPREIT are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus that has been filed by CAPREIT in respect of a distribution of securities, the foregoing documents, in addition to any other documents that are incorporated by reference into the short form prospectus or preliminary short form prospectus, will be provided free of charge. At other times, CAPREIT may require the payment of a reasonable charge if the request is made by a person who is not a securityholder of CAPREIT.

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APPENDIX "A"

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF TRUSTEES

1. PURPOSE

The Audit Committee (the "**Committee**") is a committee of the Trustees (the "**Trustees**") of Canadian Apartment Real Estate Investment Trust, (the **"Trust**"). The Committee and its Chair are appointed by the Trustees for the purpose of assisting the Trustees in fulfilling their oversight responsibilities. The Committee will primarily fulfill this role by carrying out the activities enumerated in this Charter. The Committee is, however, independent of the Trustees and the Trust, and in carrying out its role of assisting the Trustees in fulfilling their oversight responsibilities the Committee shall have the ability to determine its own agenda and any additional activities that the Committee shall carry out.

2. COMPOSITION

The Committee is comprised of not less than three trustees, each of whom is and must at all times be independent and financially literate within the meaning of applicable Canadian securities laws. The members of the Committee, and its Chair, shall be appointed by the Trustees on an annual basis or until their successors are duly appointed. A majority of the members of the Committee must be resident Canadians.

3. LIMITATIONS ON COMMITTEE'S DUTIES

In contributing to the Committee's discharge of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended or may be construed as imposing on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which the Trustees are subject.

It is not the duty of the Committee to prepare financial statements or ensure their accuracy or absence of errors and omissions, to plan or conduct audits, to determine that the financial statements are complete and accurate and in accordance with Canadian generally accepted accounting principles, to conduct investigations, or to assure compliance with laws and regulations or the Trust's internal policies, procedures and controls, as these are the responsibility of management and in certain cases the external auditor.

Members of the Committee are entitled to rely, absent actual knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, (iii) representations made by management as to the non-audit services provided to the Trust by the external auditor, (iv) financial statements of the Trust represented to them by a member of management or in a written report of the external auditors to present fairly the financial position of the Trust in accordance with generally accepted accounting principles, and (v) any report of a lawyer, accountant, auditor, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

4. FUNCTION

The primary function of the Audit Committee is to assist the Board of Trustees in fulfilling their roles as Trustees of the Trust by:

(2) recommending to the Board the appointment and compensation of the Trust's external auditor;

(3) overseeing the work of the external auditor, including the resolution of disagreements between the external auditor and management;

(4) establishing pre-approval processes for all non-audit services (or delegating such pre-approval if and to the extent permitted by law) to be provided to the Trust by the Trust's external auditor;

(5) reviewing and approving the annual and interim financial statements, related management discussion and analysis ("**MD&A**"), and annual and interim earnings press releases before such information is publicly disclosed to determine whether they are complete and consistent with the information known to the Committee members about the Trust and its operations;

(6) satisfying themselves that adequate procedures are in place for the review of the Trust's public disclosure of financial information, including any information extracted or derived from its financial statements, and including periodically assessing the adequacy of such procedures;

(7) establishing procedures for the receipt, retention and treatment of complaints received by the Trust regarding accounting, internal controls or auditing matters, and for the confidential, anonymous submission by employees of the Trust of concerns regarding questionable accounting or auditing matters and including the establishment and review of a whistle blower policy; and

(8) reviewing and approving any proposed hiring of current or former partner or employee of the current and former external auditor of the Trust.

The Audit Committee should primarily fulfill these responsibilities by carrying out the activities enumerated in this Charter. However, it is not the duty of the Committee to prepare financial statements, or to plan or conduct audits, as these are the responsibility of management and in certain cases the external auditor, as the case may be.

5. COMPOSITION OF THE COMMITTEE AND MEETINGS

(9) The Audit Committee must be constituted as required under Multilateral Instrument 52-110 *Audit Committees*, as it may be amended from time to time ("MI 52-110").

(10) All members of the Committee must (except to the extent permitted by MI 52-110) be free from any direct or indirect relationship with the Trust that, in the opinion of the Board, would reasonably interfere with the exercise of his or her independent judgment as a member of the Committee.

(11) All members of the Committee must (except to the extent permitted by MI 52-110) be financially literate (which is defined as the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Trust's financial statements).

(12) The members of the Committee shall be elected by the Board on an annual basis or until their successors shall be duly appointed. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

(13) Any member of the Audit Committee may be removed or replaced at any time by the Board of Trustees and shall cease to be a member of the Audit Committee on ceasing to be a Trustee. The Board of Trustees may fill vacancies on the Audit Committee by election from among the Board of Trustees. If and whenever a vacancy shall exist on the Audit Committee, the remaining members may exercise all of its powers so long as a quorum remains.

(14) The Committee shall meet at least four times annually, or more frequently as circumstances require.

(15) The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their duties, members of the Committee shall have full access to all corporate information and any other information deemed appropriate by them, and shall be permitted to discuss such information and any other matters relating to the financial position of the Trust with senior employees, officers and the external auditor of the Trust, and others as they consider appropriate.

(16) In order to foster open communication, the Committee or its Chair shall meet at least annually with management and the external auditor in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately. In addition, the Committee or its Chair should meet with management quarterly in connection with the Trust's interim financial statements.

(17) Quorum for the transaction of business at any meeting of the Committee shall be a majority of the number of members of the Committee or such greater number as the Committee shall determine by resolution.

(18) Meetings of the Audit Committee shall be held from time to time and at such place as any member of the Committee shall determine upon reasonable notice to

each of its members, which shall not be less than 48 hours. The notice period may be waived by all members of the Committee. Each of the Chairman of the Board and the external auditor, and the Chief Executive Officer, the Chief Financial Officer or the Secretary of the Trust, shall be entitled to request that any member of the Committee to call a meeting.

(19) The Committee shall determine any desired agenda items.

6. ACTIVITIES

The Audit Committee shall, in addition to the matters described in 0:

(20) Review and recommend to the Board changes to this Charter as considered appropriate from time to time.

(21) Regularly update the Board about Committee activities and make appropriate recommendations.

(22) Review the public disclosure regarding the Audit Committee required by MI 52-110.

(23) Review and discuss, on an annual basis, with the external auditor all significant relationships they have with the Trust to assess their independence.

(24) Review the performance of the external auditor and any proposed discharge of the external auditor when circumstances warrant.

(25) Periodically consult with the external auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the financial statements, including the adequacy of internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.

(26) Review, with the Trust's counsel, any legal matters that could have a significant impact on the Trust's financial statements.

(27) Periodically obtain updates from management, general counsel, others as appropriate regarding compliance.

(28) Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.

(29) Review correspondence and findings of any examinations by regulatory agencies.

(30) Arrange for the external auditor to be available to the Committee and the Board of Trustees as needed.

(31) Review the integrity of the financial reporting processes, both internal and external, in consultation with the external auditor.

(32) Consider the external auditor's judgments about the quality, transparency and appropriateness, not just the acceptability, of the Trust's accounting principles and financial disclosure practices, as applied in its financial reporting, including the degree of aggressiveness or conservatism of its accounting principles and underlying estimates, and whether those principles are common practices or are minority practices.

(33) Review all material balance sheet issues paying particular attention to judgemental areas and complex and/or unusual transactions, material contingent obligations (including those associated with material acquisitions or dispositions) and material related party transactions.

(34) Consider proposed major changes to the Trust's accounting principles and practices.

(35) Review with management and the external auditor the Trust's accounting policies and any changes that are proposed to be made thereto, including all critical accounting policies and practices used, any alternative treatments of financial information that have been discussed with management, the ramification of their use and the external auditor's preferred treatment and any other material communications with management with respect thereto. Review the disclosure and impact of contingencies and the reasonableness of the provisions, reserves and estimates that may have a material impact on financing reporting.

(36) If considered appropriate, establish separate systems of reporting to the Committee by each of management and the external auditor.

(37) Review the scope and plans of the external auditor's audit and reviews. The Committee may authorize the external auditor to perform supplemental reviews or audits as the Committee may deem desirable.

(38) Periodically consider the need for an internal audit function, if not present.

(39) Following completion of the annual audit and, if applicable, quarterly reviews, review separately with each of management and the external auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and, if applicable, reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditor received during the course of the audit and, if applicable, reviews.

(40) Where there are significant unsettled issues between management and the external auditor that do not affect the audited financial statements, the

Committee shall seek to ensure that there is an agreed course of action leading to the resolution of such matters.

(41) Review the system in place to seek to ensure that the financial statements, MD&A and other financial information disseminated to governmental organizations and the public satisfy applicable requirements.

(42) Review with the external auditor and management significant findings during the year and the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.

(43) Review activities, organizational structure and qualifications of the Chief Financial Officer and the staff in the financial reporting area and see to it that matters related to succession planning are raised for consideration by the Board of Trustees.

(44) Review management's program of risk assessment and steps taken to address significant risks or exposures of all types, including insurance coverage and tax compliance.

7. GENERAL MATTERS

(45) The Committee is authorized to retain independent counsel, accountants, consultants and any other professionals (“Advisors”) it deems necessary to carry out its duties, and the Committee shall have the authority to determine the compensation of and to cause the Trust to pay any such Advisors.

(46) The Committee is authorized to communicate directly with the external (and, if applicable, internal) auditors as it sees fit.

(47) If considered appropriated by it, the Committee is authorized to conduct or authorize investigations into any matters within the Committee's scope of responsibilities, and to perform any other activities as the Committee or the Board deems necessary or appropriate.

(48) Review the public disclosure regarding the Committee required from time to time by applicable Canadian securities laws, including:

(a) the Charter of the Committee;

(b) the composition of the Committee;

(c) the relevant education and experience of each member of the Committee;

(d) the external auditor services and fees; and

(e) such other matters as the Trust is required to disclose concerning the Committee.

(49) Review in advance, and approve, the hiring and appointment of the Trust's senior financial executives.

(50) Perform any other activities as the Committee or the Trustees deems necessary or appropriate.

(51) Notwithstanding the foregoing and subject to applicable law, the Committee shall not be responsible for preparing financial statements, for planning or conducting internal or external audits or for determining that the Trust's financial statements are complete and accurate and are in accordance with generally accepted accounting principles, as these are the responsibility of management and in certain cases the external auditor, as the case may be. Nothing contained in this Charter is intended to make the Committee liable for any non-compliance by the Trust with applicable laws or regulations.

(52) The Committee is a committee of the Board of Trustees and is not and shall not be deemed to be an agent of the Trust's unitholders for any purpose whatsoever. The Board of Trustees may, from time to time, permit departures from the terms hereof, either prospectively or retrospectively, and no provision contained herein is intended to give rise to civil liability to securityholders of the Trust or to any other liability whatsoever.