CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

REPORT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008

CAPREIT

11 Church Street, Suite 401 • Toronto, Ontario M5E 1W1 • Tel. 416-861-9404 • Fax 416-861-9209

November 10, 2008

Report to Unitholders

We generated another quarter of strong performance for the three months ended September 30, 2008. Operating revenues rose 8.8% to $80.7 million primarily due to acquisitions completed over the last twelve months and higher average monthly rents and occupancies. Average monthly rents increased for the residential suite portfolio to $945 compared to $918 last year, while occupancy strengthened to 98.3% from 97.9%. Occupancy for the land lease portfolio has remained very stable at 99.8% since acquisition. Looking ahead, we believe demand for rental accommodation will continue to increase in the majority of our markets, resulting in further gradual increases in average monthly rents and sustainable occupancies in the range of 98%.

Operating expenses in the third quarter improved to 42.6% as a percentage of operating revenues compared to 43.3% in the same period last year, primarily due to lower utilities costs as a percentage of revenues resulting from our ongoing energy management strategies, as well as lower realty taxes as a percentage of revenues compared to the same period last year. As a result of the higher revenues and improved operating performance, net operating income ("NOI") for the third quarter of 2008 rose 10.2% to $46.4 million. As a percentage of revenues, NOI increased to 57.4% for the third quarter of 2008 compared to 56.7% last year.

Funds From Operations ("FFO") increased 12.8% in the third quarter to $23.5 million or $0.358 per Unit. The 2.9% growth in FFO per Unit in the quarter was despite a 9.5% increase in the weighted average number of Units outstanding compared with the third quarter of 2007. The FFO payout ratio was 77.6%, while the effective FFO payout ratio, excluding cash reinvested through the DRIP, was 64.6%. We were pleased to announce our eleventh consecutive quarter of stabilized portfolio growth as NOI for properties owned at December 31, 2006 increased 4.7% for the three months ended September 30, 2008, a key driver in the 5.4% increase in FFO per Unit through the first nine months of 2008.

Our balance sheet remained very strong at quarter end. The ratio of total debt (including borrowings on the Acquisition and Operating Facilities) to gross book value (not including any fair value adjustments related to the significant appreciation in the value of CAP REIT's portfolio) was 61.6% as at September 30, 2008 compared to 65.3% in the prior year. The weighted average interest rate for the mortgage portfolio was 5.33%, while the weighted average term to maturity was 5.2 years. Approximately 95.1% of CAP REIT's mortgages are CMHC insured, a key advantage in this time of tightened credit conditions. Our interest coverage ratio also improved to 2.09 compared to 1.95 at the same time last year. Availability under our Acquisition and Operating Facilities rose to $127.6 million from $64.9 million at the same time last year. Importantly, we believe our strong balance sheet and conservative leverage and coverage ratios, combined with ongoing access to lower cost CMHC-insured financing, will continue to provide us with the necessary financial resources and credit to maintain our value enhancing programs.

Looking ahead, fundamentals in the Canadian apartment business remain strong despite the current economic slowdown we are experiencing, and we are confident our solid operating performance is sustainable going forward. The cost gap between renting and owning a home has reached historic highs, and with consumer sentiment turning more negative toward home ownership due to reduced expectations of housing price gains and a significant tightening in mortgage requirements, demand for apartment and townhouse rentals remains very strong in the majority of our markets. In addition, the defensive characteristics of our property portfolio due to its diversification by both geography and asset type continue to mitigate risk to any one region or demographic sector. We also believe our strong presence in the Ontario market will serve to further protect Unitholders as the province's diversified economic base is not tied to any one cyclical industry.

[signed]
Thomas Schwartz
President and Chief Executive Officer

[signed]
Michael Stein
Chairman

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

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

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008

NOVEMBER 10, 2008

TABLE OF CONTENTS

SECTION I

FORWARD-LOOKING DISCLAIMER

The following management's discussion and analysis ("MD&A") of the results of operations and financial condition for the three and nine months ended September 30, 2008 and 2007 should be read in conjunction with Canadian Apartment Properties Real Estate Investment Trust's ("CAP REIT") consolidated financial statements for the period as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2007, contained in CAP REIT's 2007 Annual Report. Certain statements in this MD&A could be considered forward-looking information. This forward-looking information is subject to certain risks and uncertainties that could result in actual results differing materially from these forward-looking statements. These risks and uncertainties are more fully described in regulatory filings that can be obtained on SEDAR at www.sedar.com. The information in this MD&A is based on information available to management as of November 10, 2008.

OVERVIEW

CAP REIT is an unincorporated open-ended real estate investment trust created by a declaration of trust (the "Declaration of Trust") dated February 3, 1997 under the laws of the Province of Ontario, as amended on July 11, 2008. CAP REIT owns interests in multi-unit residential rental properties, including apartments, townhouses and land lease communities located in and near major urban centres across Canada. At September 30, 2008, CAP REIT had ownership interests in a portfolio that included 27,461 residential suites (CAP REIT's share – 26,306 suites), and two Ontario land lease communities comprising 1,278 sites, well diversified by geographic location and asset types. At September 30, 2008, CAP REIT had 823 employees.

On January 8, 2008, CAP REIT completed its conversion from a "closed-end" investment trust to an "open-end" trust. Unitholders granted the trustees the authority to convert from a "closed-end" trust to an "open-end" trust, if and when they considered it desirable, at the annual and special meeting of CAP REIT's Unitholders on May 26, 2005. The conversion removes certain investment restrictions on CAP REIT and provides it with greater flexibility in structuring certain indirect investments. The conversion has resulted in certain amendments to CAP REIT's Declaration of Trust which, among other things, now provides Unitholders with a restricted right of redemption. The conversion will not affect the investment focus of CAP REIT. In addition, on April 1, 2008, pursuant to the reorganization, CAP REIT transferred the beneficial interest of all its properties along with the related mortgages and all the corporate debt obligations to CAPREIT Limited Partnership ("CAPLP").

On January 10, 2008, CAP REIT acquired two adjoining apartment properties located in North Toronto close to the Bayview Shopping Centre. The complex, consisting of 143 mid-tier suites, has easy access to Sheppard Avenue, Highway 401 and the subway line. The total acquisition cost for the property was $14.3 million with a new CMHC insured mortgage of $10.8 million for a five-year term at an interest rate of 4.69%. The balance of the purchase was funded from CAP REIT's Acquisition Facility. The property has had extensive retrofits to the roof, windows, balconies and heating system. In addition, the opportunity exists to enhance cash flow from the property as a number of existing rents are well below market.

On January 18, 2008, CAP REIT sold ten non-core properties consisting of 558 suites in Ontario and 920 suites in Quebec for a total sales price of $121.3 million. The purchaser assumed $57.6 million of existing mortgages. In a separate transaction on January 21, 2008, CAP REIT also sold two Quebec City apartment properties containing 152 suites for a total sales price of $6.4 million. Mortgages of $2.2 million were repaid. The net cash proceeds of $63.0 million from these sales were used to repay bank indebtedness. A gain of approximately $17.0 million ($0.261 Per Unit) has been recognized.

On April 8, 2008, CAPLP 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 (note 8(b) to the consolidated financial statements).

On April 30, 2008, CAP REIT 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 4.6%, new CMHC-insured mortgage financing of $6.8 million maturing in 2013 at 4.45% and the balance from the Acquisition Facility.

On July 31, 2008, CAP REIT acquired a 50% interest in a portfolio of eight high-quality 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%, with the balance from the Acquisition Facility.

On August 29, 2008, CAP REIT 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% with the balance from the Acquisition Facility.

The following outlines the per Unit (basic) Net Income (Loss), Distributable Income, Funds From Operations, cash distributions, payout ratio, effective payout ratio, the closing price, and market value of equity on the Toronto Stock Exchange ("TSX") for the last trading day of the period. CAP REIT currently pays monthly cash distributions of $0.09 per Unit to its Unitholders. Since its inception, CAP REIT has increased monthly cash distributions eight times, and by approximately 51%.

Nine Months Ended September 30, Per Unit Information, unless noted		**2008**		**2007**
Net Income (Loss)	$	0.348	$	(0.998)
Distributable Income (DI)[1]	$	0.963	$	0.911
Funds From Operations (FFO)[2]	$	0.945	$	0.897
Cash Distributions[3]	$	0.810	$	0.810
Payout Ratio[1]		86.6%		90.9%
Effective Payout Ratio[1][4]		71.2%		73.7%
Closing Price	$	15.90	$	19.10
Market Value of Equity ($ millions)[5]	$	1,074	$	1,175

(1) Non-GAAP measure: (see page 12 for reconciliation of Cash Provided By Operating Activities to DI).
(2) Non-GAAP measure: (see page 14 for reconciliation of Net Income (Loss) to FFO).
(3) Includes distributions declared in September but paid in October.
(4) Excludes from distributions cash reinvested by Unitholders through the Distribution Reinvestment Plan ("DRIP").
(5) Defined as the closing price of Units for the last trading day of the period times the number of Units outstanding on that date.

OBJECTIVES

CAP REIT's objectives are:

- To provide Unitholders with long-term, stable and predictable monthly cash distributions.
- To grow Distributable Income, distributions and Unit value through the active management of its properties, accretive acquisitions and strong financial management.
- To continue the realization and reinvestment of capital within the property portfolio in order to maximize earnings and cash flow potential.

BUSINESS STRATEGY

To meet its objectives, CAP REIT has defined the following strategies:

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

Cost Controls – While ensuring the needs of its residents are met, CAP REIT also carefully monitors operating costs to ensure it is delivering services to its residents both efficiently and cost effectively. As the portfolio has grown, CAP REIT has also strived to capture available economies of scale and cost synergies. CAP REIT's new enterprise-wide procurement system, implemented in 2007, has streamlined and centralized purchasing controls and procedures and is generating reduced costs through national master sourcing contracts, improved pricing and enhanced operating efficiencies.

Capital Investments – CAP REIT believes it acquires properties at prices significantly below their current replacement costs, and is committed to improving its operating performance by incurring appropriate capital expenditures in order to replace and maintain the productive capacity of its property portfolio so as to sustain its rental income-generating potential over the portfolio's useful life. Management is increasingly focusing its capital investments toward energy saving and other programs that improve overall net operating income.

Portfolio Growth – CAP REIT will grow its portfolio over the long term through accretive acquisitions while capturing economies of scale and cost synergies, thereby increasing Distributable Income per Unit. As a component of this growth strategy, CAP REIT will monitor its portfolio and, from time to time, identify certain non-core properties for disposal. The funds from these disposals will be used to acquire additional strategic assets better suited to CAP REIT's portfolio composition and property management objectives. Management believes the continued realization and reinvestment of capital is a fundamental component of its growth strategy, and demonstrates the success of its past investment programs and its ability to maximize and manage the earnings and cash flow potential of its property portfolio.

Financial Management – CAP REIT takes a long-term, conservative approach and strives to manage its exposure to interest rate volatility by proactively managing its mortgage debt portfolio to fix and, where possible, reduce average interest rates, extend the average term to maturity and stagger maturity dates.

KEY PERFORMANCE MEASUREMENTS

To achieve its objectives, CAP REIT has defined a number of key operating and performance measurements to measure the success of its operating and financial strategies:

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

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

Net Operating Income – This is defined as operating revenues less operating expenses. As a measure of its operating performance, CAP REIT strives to achieve an annual net operating income margin that is approximately 53% of operating revenues.

Distributable Income and Funds From Operations – CAP REIT also strives to increase Distributable Income and Funds From Operations annually, on a per Unit basis.

Payout Ratio – To help ensure it retains sufficient cash to meet its capital investment objectives, CAP REIT targets an annual payout ratio of between 85% and 90%.

Portfolio Growth – Management's objective is to acquire between 1,500 and 2,000 suites on an annual basis.

Financing – CAP REIT takes a very proactive approach with its mortgage portfolio, ensuring it is properly positioned to manage interest expense volatility risk by achieving the lowest possible average interest rates while mitigating refinancing risk by extending the portfolio's average term to maturity and staggering the maturity dates. In addition, CAP REIT focuses on ensuring capital adequacy by maintaining compliance with investment and debt restrictions in its Declaration of Trust and its debt covenants.

PROPERTY PORTFOLIO

CAP REIT's property portfolio continues to be well diversified by geography and balanced among asset types and demographic segments. Management intends to further enhance the geographic diversification through future acquisitions of properties and portfolios in regions primarily outside the Greater Toronto Area ("GTA").

Portfolio by Asset Type

As at September 30,	2008	%	2007	%
Affordable	3,638	12.7	4,154	14.3
Mid-tier	14,667	51.0	14,519	49.9
Luxury	9,156	31.9	9,180	31.6
Total Residential Suites	27,461	95.6	27,853	95.8
Land Lease Sites	1,278	4.4	1,233	4.2
Total Residential Suites and Land Lease Sites	28,739	100.0	29,086	100.0

Portfolio by Geography

As at September 30,	2008	%	2007	%
Ontario				
Greater Toronto Area	14,178	49.3	13,346	45.9
Ottawa	1,527	5.3	1,527	5.2
London/Kitchener/Waterloo	1,482	5.2	1,482	5.1
Other Ontario	1,470	5.1	1,933	6.6
Ontario Residential Suites	18,657	64.9	18,288	62.9
Land Lease Sites	1,278	4.4	1,233	4.2
Ontario Residential Suites and Land Lease Sites	19,935	69.3	19,521	67.1
Quebec				
Montreal	2,545	8.9	3,465	11.9
Quebec City	1,756	6.1	1,908	6.6
	4,301	15.0	5,373	18.5
Nova Scotia				
Halifax	1,083	3.8	1,083	3.7
Alberta				
Edmonton	310	1.1	310	1.0
Calgary	1,070	3.7	1,070	3.7
	1,380	4.8	1,380	4.7
Saskatchewan				
Saskatoon	133	0.4	133	0.5
Regina	108	0.4	108	0.4
	241	0.8	241	0.9
British Columbia				
Greater Vancouver Region	1,291	4.5	1,117	3.8
Victoria	508	1.8	371	1.3
	1,799	6.3	1,488	5.1
Total Residential Suites	27,461	95.6	27,853	95.8
Total Residential Suites and Land Lease Sites	28,739	100.0	29,086	100.0

Through accretive acquisitions and non-core property dispositions, CAP REIT continues to enhance the geographic diversification of its residential suites portfolio. In the past 12 months, CAP REIT acquired 1,238 residential suites and 45 land lease sites for total acquisition costs of approximately $103.2 million and sold 1,630 residential suites for total sales price of $127.7 million. Over the past three years, CAP REIT has increased its presence in markets with higher growth potential and also acquired two land lease communities while maintaining its strong presence in the Ontario residential suite market. Strategic acquisitions in Ontario were made in 2008 to capitalize on its established infrastructure, and while management continues to target growth in markets outside Ontario, it continues to believe its Ontario portfolio will benefit Unitholders as the province's diversified economic base is not tied to any one cyclical industry. The geographic diversification of its portfolio also enables CAP REIT to mitigate the risks arising from a downturn in specific markets due to current economic conditions.

Portfolio Average Monthly Rents and Occupancy (Asset Type)

	Total Portfolio				Properties Owned Prior to September 30, 2007				Properties Acquired Since September 30, 2007	
As at September 30,	**2008**		**2007 (1)**		**2008**		**2007 (1)**		**2008**	
	Avg. Mthly Rents	**Occ. %**	**Avg. Mthly Rents**	**Occ. %**	**Avg. Mthly Rents**	**Occ. %**	**Avg. Mthly Rents**	**Occ. %**	**Avg. Mthly Rents**	**Occ. %**
Affordable	$ 830	97.2	$ 816	96.5	$ 830	97.2	$ 816	96.5	$ -	-
Mid-tier	$ 898	98.1	$ 870	97.7	$ 897	98.1	$ 870	97.7	$ 913	99.2
Luxury	$ 1,063	98.9	$ 1,029	98.8	$ 1,062	98.9	$ 1,029	98.8	$ 1,118	98.1
Average Residential Suites	$ 945	98.3	$ 918	97.9	$ 945	98.2	$ 918	97.9	$ 939	99.0
Average Land Lease Sites	$ 588	99.8	$ 589	99.8	$ 588	99.8	$ 589	99.8	$ N/A	N/A

(1) 2007 has been adjusted to exclude properties sold in January 2008.

Average monthly rents are defined as actual residential rents, net of vacancies, divided by the total number of suites in the property and do not include revenues from parking, laundry or other sources.

Average monthly rents increased across all sectors of the residential suite portfolio resulting in a 2.9% increase in overall average monthly rents at September 30, 2008 to $945, compared to $918 last year. Average monthly rents for the properties owned prior to September 30, 2007 also increased at September 30, 2008 to $945 from $918 at September 30, 2007, with solid gains of between 1.7% and 3.2% in all segments of the portfolio due to CAP REIT's successful sales and marketing strategies and continuing strength in the Canadian residential rental sector. The occupancy at September 30, 2008 for the residential suite portfolio also improved significantly to 98.3% from 97.9% in the prior year. The average monthly rents and occupancies for the land lease portfolio continue to remain very strong since acquisition.

Suite turnovers in the residential suite portfolio (excluding co-ownerships) remained steady during the first nine months of 2008 and CAP REIT generated increases of approximately $21 or 2.2% in average monthly rents compared to $20 or 2.1% in the prior year. Average monthly rents increased on lease renewals by approximately $21 or 2.3% compared to $27 or 2.9% last year. Management believes that, as occupancies in the portfolio continue to strengthen and the market for rental accommodation improves, CAP REIT will generate additional rent increases on both turnover and lease renewals.

Portfolio Average Monthly Rents and Occupancy (By Geography)

As at September 30,		**2008**			**2007** [(1)]	
		Average Monthly Rents	**Occ. %**		**Average Monthly Rents**	**Occ. %**
Ontario						
Greater Toronto Area	$	1,050	98.2	$	1,031	98.0
Ottawa		820	99.9		798	100.0
London/Kitchener – Waterloo		810	98.0		800	98.2
Other Ontario		919	98.1		876	94.7
	$	1,009	98.3	$	987	97.9
Quebec						
Montreal		642	96.9		621	95.7
Quebec City		743	99.3		719	98.6
	$	683	97.9	$	661	96.9
Nova Scotia						
Halifax	$	974	98.2	$	942	97.9
Alberta						
Edmonton	$	1,052	99.4	$	940	100.0
Calgary		1,081	97.5		1,008	99.2
	$	1,074	97.9	$	993	99.3
Saskatchewan						
Saskatoon	$	698	97.7	$	557	100.0
Regina		815	100.0		665	100.0
	$	750	98.8	$	605	100.0
British Columbia						
Greater Vancouver Region	$	916	99.5	$	889	99.5
Victoria		734	97.0		721	98.9
	$	865	98.8	$	847	99.3
Total Residential Suites	$	945	98.3	$	918	97.9
Land Lease Sites	$	588	99.8	$	589	99.8
Total Residential Suites and Land Lease Sites	$	929	98.3	$	903	98.0

(1) 2007 has been adjusted to exclude properties sold in January 2008.

Overall average occupancies improved from 98.0% to 98.3% due to the strong performance in the majority of the regions in which CAP REIT operates. The increases in occupancies were primarily due to strengthening demand for apartments and townhouses as the cost gap between owning and renting has reached historical highs and the tightening mortgage requirements for home purchases. Also contributing to the increases were the capital improvement programs aimed at enhancing the property portfolio, and successful sales and marketing strategies to attract and retain residents. As a result of these factors, and tightened vacancies across the portfolio, overall, average monthly rents in the residential suite portfolio (defined as average monthly rents before vacancies) increased by approximately 2.9% in the first nine months of 2008 compared to the prior period last year. Management believes overall annual occupancies can be maintained in the 98% range, which, combined with increases in overall average monthly rents, will provide the basis for sustained revenue growth in the future.

Management also believes its national 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 group.

SECTION II

RESULTS OF OPERATIONS

Nine Months Ended September 30, ($ Thousands)		**2008**	**%**		**2007**	**%**
Operating Revenues	$	237,802	100.0	$	216,078	100.0
Operating Expenses						
Realty Taxes		31,394	13.2		28,977	13.4
Utilities		30,699	12.9		29,944	13.9
Other		46,343	19.5		42,571	19.7
Total Operating Expenses		108,436	45.6		101,492	47.0
Net Operating Income	$	129,366	54.4	$	114,586	53.0

Net Operating Income ("NOI") is not a measure defined by Canadian generally accepted accounting principles ("GAAP"). Management believes NOI is a key measure of operating performance in the real estate industry and includes all rental revenues generated at the property level, less related direct costs such as utilities, realty taxes, insurance, repairs and maintenance and on-site wages and salaries. It may not, however, be comparable to similar measures presented by other real estate trusts or companies.

Operating Revenues

Total operating revenues for the nine months ended September 30, 2008 increased compared to the same period last year primarily due to acquisitions completed over the past twelve months as well as increased average monthly rents and occupancy for the total portfolio compared to the same period last year. CAP REIT increased average monthly rents in the residential portfolio to $945 at September 30, 2008 compared to $918 last year and improved overall occupancy to 98.3% from 98.0%. Overall operating revenues were also favourably impacted by continuing increases in ancillary income including parking revenues as a result of improved utilization and enforcement. As CAP REIT continues to enhance the profile of its resident base and increase the level of service to its residents, it expects to realize future growth in operating revenues.

Overall vacancies, bad debts and tenant inducements as a percentage of operating revenues reduced to 3.8% of revenues for the nine months ended September 30, 2008 compared to 5.0% in the prior year. The unamortized balance of tenant inducements was $0.3 million at September 30, 2008 compared to $0.4 million at September 30, 2007, which will be amortized and offset to revenues from income properties.

Operating Expenses

Operating expenses for the nine months ended September 30, 2008 rose in comparison to the same period last year primarily due to the increase in the size of the property portfolio resulting from acquisitions completed over the past twelve months. Overall operating expenses as a percentage of operating revenues improved in comparison to last year, primarily due to the following factors:

- Realty taxes as a percentage of revenues decreased slightly due to the enhanced diversification of the portfolio in regions with lower taxation rates.
- Utility costs as a percentage of revenues decreased from 13.9% to 12.9% despite a colder winter due to CAP REIT's energy management strategies, which include various energy savings programs combined with lower gas and hydro prices resulting from its proactive strategy of locking in future prices where possible.
- Other operating expenses as a percentage of revenues decreased slightly in the first nine months of 2008 primarily due to lower repair and maintenance, and insurance costs, as well as reduced on-site expenses despite an increase in wages and benefits compared with the prior year. Other operating expenses in 2007 were negatively impacted due to the rollout of the lease administration system, which

resulted in higher payroll and site operating expenses during the stabilization period primarily in the first and second quarters.

Net Operating Income

Nine Months Ended September 30,	2008			2007				
($ Thousands)							Change in NOI	
	NOI	NOI as % of Revenues	% of Total NOI	NOI	NOI as % of Revenues	% of Total NOI	$	%
Ontario	$ 90,137	53.2	69.7	$ 81,726	51.6	71.3	$ 8,411	10.3
Quebec	14,430	53.6	11.2	14,013	54.9	12.2	417	3.0
Alberta	9,566	60.4	7.4	7,495	59.0	6.6	2,071	27.6
British Columbia	8,593	60.4	6.6	5,138	59.5	4.5	3,455	67.2
Nova Scotia	5,860	60.7	4.5	5,657	59.8	4.9	203	3.6
Saskatchewan	780	50.4	0.6	557	43.0	0.5	223	40.0
Total	$ 129,366	54.4	100.0	$ 114,586	53.0	100.0	$ 14,780	12.9

Overall NOI improved by $14.8 million or 12.9% through the nine months ended September 30, 2008 and the NOI margin increased to 54.4% as compared to 53.0% in the previous year. While CAP REIT continued to increase NOI in all of its markets through the first nine months of 2008, it is gradually increasing its presence in regions with higher growth potential, such as British Columbia, while maintaining a strong presence in the Ontario market with longer term potential. With the successful implementation of its diversification strategy, CAP REIT has established an infrastructure in the British Columbia region to further its growth in this market.

Ontario:

As a result of CAP REIT's efforts to enhance the diversification of its total portfolio, the Ontario portfolio represented 69.7% of total NOI for the nine months ended September 30, 2008 compared to 71.3% in the same prior year period. Despite this decrease, the NOI contribution from the Ontario portfolio increased 10.3% while the NOI as a percentage of revenues improved primarily due to the steady increase in gross monthly rents and strong occupancies combined with improved profitability from the two land lease sites acquired in 2007. Management believes its strong presence in Ontario will benefit Unitholders during the current economic slowdown as the province's diversified economy is not tied to any single cyclical industry.

Quebec:

Total NOI as a percentage of revenues from the province was lower in the first nine months of 2008 at 11.2% of total NOI compared to 12.2% for the same period last year. Primarily due to increased average monthly rents and occupancies, the NOI contribution from Quebec through the first nine months of 2008 increased 3.0% compared to the same period last year while the NOI margin decreased to 53.6% from 54.9% last year, primarily due to increased wages. Management believes NOI margins will improve as the Quebec market stabilizes. CAP REIT also believes the Quebec rental market will remain stable during the current economic slowdown.

Alberta:

CAP REIT continues to maintain a strong presence in the Alberta market. Mainly due to acquisitions completed in 2007 and an increase in average monthly rents, the overall contribution to NOI increased 27.6% to 7.4% of total NOI in the first nine months of 2008 from 6.5% last year. In addition, the NOI margin rose to 60.4% in the first nine months of 2008 from 59.0% for the same period last year. While the Alberta market has softened with a slight decrease in occupancies, management believes average monthly rents will remain strong as its portfolio is well located in Calgary and Edmonton.

British Columbia:

CAP REIT continues to target the British Columbia market for future expansion. Due to the acquisitions completed in Vancouver and Victoria over the last twelve months, combined with increased monthly average rents and steady occupancies, the NOI contribution from the British Columbia portfolio in the first nine months of 2008 increased 67.2% to 6.6% of total NOI from 4.5% for the same period last year. The NOI margin also increased to 60.4% from 59.5% for the same period last year. With its growth in the region, CAP REIT has established infrastructure and critical mass to build its presence in this market going forward. Management believes the ongoing tight market will continue to generate high occupancies and average monthly rents going forward.

Nova Scotia:

Occupancies and average monthly rents were higher in Nova Scotia compared to the same period last year, resulting in a slight decrease in NOI contribution to 4.5% compared to 4.9% in 2007 while the NOI margin improved slightly in the first nine months of 2008 to 60.7% from 59.8% for the same period last year. Management believes its presence primarily in downtown locations will serve to maintain stable occupancies and average monthly rents going forward.

Saskatchewan:

The Regina and Saskatoon markets continued to perform well through the first nine months of 2008 with a significant 24.0% increase in average monthly rents and a slight decrease in occupancies compared to the same period last year. As a result, the NOI contribution increased by 40.0%, while the NOI margin increased to 50.4% from 43.0% for the same period last year. The province's economy remains strong, and CAP REIT believes it is well positioned to maintain solid occupancies and average monthly rents over the long term.

NET INCOME (LOSS)

Nine Months Ended September 30, ($ Thousands, except per Unit amounts)	**2008**	**2007**
Net Operating Income	$ 129,366	$ 114,586
Less: Trust Expenses	8,975	8,206
Mortgage Interest	55,765	51,077
Interest on Bank Indebtedness	2,935	4,318
Other Income	(1,409)	(673)
Subtotal	$ 63,100	$ 51,658
Less: Depreciation	53,424	49,475
Amortization	2,245	2,038
Income From Continuing Operations Before Other Costs and Income Taxes	7,431	145
Reorganization Costs	(1,599)	-
Provision for Future Income Taxes	(243)	(59,608)
Income (Loss) Before Discontinued Operations	5,589	(59,463)
Income From Discontinued Operations	17,155	137
Net Income (Loss)	$ 22,744	$ (59,326)
Net Income (Loss) Per Unit From Continuing Operations – Basic	$ 0.086	$ (1.000)
Net Income Per Unit From Discontinued Operations – Basic	$ 0.262	0.002
Net Income (Loss) Per Unit - Basic	$ 0.348	$ (0.998)
Net Income (Loss) Per Unit From Continuing Operations – Diluted	$ 0.086	$ (1.000)
Net Income Per Unit From Discontinued Operations – Diluted	$ 0.261	0.002
Net Income (Loss) Per Unit - Diluted	$ 0.347	$ (0.998)
Weighted Average Number of Units (000s) – Basic	65,358	59,447
Weighted Average Number of Units (000s) – Diluted	65,609	59,859

Depreciation and Amortization

CAP REIT depreciates its properties on a straight-line basis over their estimated useful lives, not exceeding 40 years. Depreciation expense increased in the first nine months of 2008 due to new acquisitions as well as capital expenditures incurred for the property portfolio.

Amortization expense in the first nine months of 2008 increased slightly in comparison to the same period last year to $2.2 million as compared to $2.0 million last year.

Trust Expenses

Trust expenses include costs directly attributable to head office, such as salaries, trustee fees, professional fees for legal and accounting services, trustees' and officers' insurance premiums, and other general and administrative expenses. Trust expenses as a percentage of revenues remained stable at 3.8% mainly due to the increased size of the portfolio and slight increases in overall compensation costs, legal expenses, compliance costs and trustee fees. Trust expenses were also impacted by higher compensation costs related to CAP REIT's Incentive Plans at $1.2 million as compared to $0.9 million in the previous year. Management believes it has built an operating platform sufficient to manage the strong growth it expects to generate in the future.

Interest on Mortgages and Bank Indebtedness

Mortgage interest expense increased in the first nine months of 2008 due to new debt associated with the acquisition of properties and top up mortgage financings. Mortgage interest expense as a percentage of operating revenues decreased to 23.5% in the first nine months of 2008 compared to 23.6% in the prior year.

Interest on bank indebtedness relates to borrowings under CAP REIT's Acquisition and Operating Facilities and CAPLP's Land Lease Facility. The interest costs for the nine months ended September 30, 2008 decreased to $2.9 million from $4.3 million primarily due to the repayment of bank indebtedness using funds from the sales of non-core assets and mortgage refinancings during the period, and lower interest rates on floating rate debt. The weighted average interest rate for the Acquisition and Operating Facilities was 4.69% at September 30, 2008 compared to 6.20% for the same period in 2007. At September 30, 2008, the weighted average interest rate for the Land Lease Facility was 4.18%.

The interest coverage ratio (defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by interest expense) improved to a strong 2.09 times for the nine months ended September 30, 2008 compared to 1.95 times for the same period in the previous year.

Other Income

Other income includes interest, dividends and other (see notes 2(g) and 5 to the consolidated financial statements).

Reorganization Costs

These costs represent amounts incurred to complete the reorganization of CAP REIT's capital structure and include exclusively legal, accounting and tax consulting involved with the following:

1. Setting up of CAPLP and the issuance of CAPLP Units exchangeable into CAP REIT Units.
2. Conversion from closed-end to an open-end trust structure including changes to the Declaration of Trust.
3. Transfer of beneficial interest in all the properties, mortgage debt and trust debt obligations from CAP REIT to CAPLP.

In accordance with Canadian generally accepted accounting principles, CAP REIT has expensed these reorganization costs. These costs have been added back for the calculation of Distributable Income and Funds From Operations (as explained in later sections), as they do not impact the determination of CAP REIT's ongoing capacity to pay distributions to the Unitholders or in the measurement of its operating performance.

Future Income Taxes

CAP REIT uses the liability method of accounting for future income taxes. The provision for future income taxes aggregating to $52.0 million represents the cumulative amount of taxes applicable to temporary differences, between the carrying amount of assets and liabilities and their carrying amounts for tax purposes that are expected to reverse on or after January 1, 2011. The change in the future income tax liability has been recorded as a provision to the consolidated statement of operations and comprehensive income (loss) in the amount of $0.2 million for the nine-month period ended September 30, 2008 ($59.6 million – September 30, 2007). Future income taxes are measured at the tax rates expected to apply in the future when temporary differences reverse. (Also see Taxation of Income Trusts and note 9 to the consolidated financial statements.)

Gain on Disposal

One of CAP REIT's key performance objectives is to maximize the earnings and cash flow potential from its operating properties and from time to time dispose of non-core properties. During the first quarter of 2008, CAP REIT completed the sales of twelve non-core properties, resulting in a gain on sale of approximately $17.0 million ($0.261 per Unit). Management believes the gain demonstrates its success in enhancing the value of its properties primarily through its active property management and capital investment programs thereby facilitating the continued realization and reinvestment of its capital to implement its growth strategy.

STABILIZED PORTFOLIO PERFORMANCE

Nine Months Ended September 30,	2008	2007
Stabilized Suites	24,105	24,105
Operating Revenues ($ millions)	$ 217.8	$ 210.2
Net Operating Income ($ millions)	$ 117.0	$ 110.9
Net Operating Income Margin	53.7%	52.8%
Change in Operating Revenues	3.6%	
Change in Operating Costs	(1.5%)	
Change in NOI	5.6%	

Stabilized properties for the nine months ended September 30, 2008 are defined as all properties owned by CAP REIT as at December 31, 2006 and, therefore, do not take into account the impact on performance of acquisitions completed during 2008 and 2007.

As of September 30, 2008, CAP REIT has generated eleven consecutive quarters of stable or improved stabilized NOI growth. In the third quarter of 2008, operating revenues increased 3.5% and operating costs increased 1.8%, resulting in a 4.7% increase in NOI for the period. For the first nine months of 2008, operating revenues for the stabilized portfolio increased by 3.6% while operating costs increased by 1.5%, which resulted in a 5.6% increase in NOI for the nine months ended September 30, 2008. This solid increase in stabilized portfolio NOI was the key driver in CAP REIT's 5.4% increase in Funds From Operations Per Unit through the nine months ended September 30, 2008.

The NOI margin increased to 53.7% in the first nine months of 2008 compared to 52.8% in the same period last year. NOI for the first nine months of 2007 was negatively impacted by increased costs for higher payroll and on-site costs, due to the roll out of the new lease administration system.

For properties acquired since December 31, 2006 (comprising 3,479 suites in 2008 as compared to 2,588 suites in 2007), the NOI margin was 61.5% in the first nine months of 2008 as compared to 62.8% during the same period last year. The non-stabilized portfolio comprises acquisitions completed recently in higher profitability markets, primarily in British Columbia, and the land lease sites in Ontario, where the NOI margins are higher than the portfolio average.

SECTION III

DISTRIBUTABLE INCOME, DISTRIBUTIONS TO UNITHOLDERS, PAYOUT RATIO AND DRIP

Distributable Income

Distributable Income ("DI") is not a measure defined by GAAP, nor does it have a standard definition, and as such may not be comparable to other trusts that use similar terms. Management considers DI to be a key cash flow measure for determining CAP REIT's capacity to pay cash distributions to its Unitholders, one of CAP REIT's key objectives. CAP REIT calculates DI as defined in its Declaration of Trust, which requires

CAP REIT to declare distributions to Unitholders each year not less than the greater of: (i) 85% of its DI (or a lesser amount at the discretion of the trustees); or (ii) an amount calculated to ensure CAP REIT will not be subject to tax on its income and capital gains.

Pursuant to guidance provided in National Policy 41-201, summarized below is a reconciliation of cash provided by operating activities as presented in the consolidated financial statements to DI.

Nine Months Ended September 30, ($ Thousands, except per Unit amounts)			**2008**		**2007**
Cash Provided By Operating Activities		$	56,375	$	41,247
Add:	Changes in Non-cash Operating Assets and Liabilities		6,058		13,678
	Fair Value Adjustment of Utility Contracts		(44)		176
	Reorganization Costs (2)		1,599		-
Less:	Amortization of Other Financing Costs		(1,001)		(889)
	Amortization of Leasehold Improvements		(58)		(55)
Distributable Income (DI) (1)			62,929		54,157
Retention of DI			(8,413)		(4,955)
Distributions Declared to Unitholders		$	54,516	$	49,202
DI Per Unit – Basic (1)		$	0.963	$	0.911
DI Retention Per Unit			0.153		0.101
Distributions Declared to Unitholders Per Unit		$	0.810	$	0.810
DI Per Unit – Diluted (1)		$	0.959	$	0.905

(1) 2008 excludes gain on disposal of properties of $17,046 or $0.261 per Unit.

(2) See Reorganization Costs on page 10.

Management relies on cash flow information including budgets to establish the level of cash distributions to Unitholders, which are paid monthly. DI for the nine months ended September 30, 2008 has increased by 16.2% over the comparable period in 2007 primarily due to acquisitions and higher overall occupancies and average monthly rents, partially offset by a marginal increase in operating costs.

Distributions to Unitholders and Payout Ratio

Nine Months Ended September 30, ($ Thousands, except where noted)		**2008**		**2007**
Distributions Declared	$	54,516	$	49,202
Distributions Declared Per Unit	$	0.810	$	0.810
Retention of DI(1)	$	8,413	$	4,955
Payout Ratio		86.6%		90.9%

(1) Defined as Distributable Income less distributions declared.

Management expects that DI on an annualized basis will be sufficient to fund its current level of distributions and ensure the annual payout ratio will be in the 85% to 90% range.

DRIP Investment and Effective Payout Ratio

Nine Months Ended September 30, ($ Thousands, except where noted)	2008	2007
Distributions Reinvested[(1)]	$ 9,711	$ 9,285
Net Distributions Declared[(2)]	$ 44,805	$ 39,918
% Reinvested	17.8%	18.9%
Retention of DI[(3)]	$ 18,124	$ 14,240
Effective Payout Ratio[(4)]	71.2%	73.7%

(1) Cash reinvested by Unitholders through the DRIP.
(2) Distributions declared less cash reinvested through the DRIP.
(3) Defined as Distributable Income less distributions declared after DRIP reinvestment.
(4) Excludes from distributions cash reinvested by Unitholders through the DRIP.

Average DRIP participation for the quarter ended September 30, 2008 was 16.9% compared to 17.9% for the quarter ended September 30, 2007.

Comparison of Distributions Declared to Cash Flow Provided By Operations and Net Income (Loss)

A comparison of distributions declared to Unitholders with cash flows provided by operating activities and net income (loss) is as follows:

Nine Months Ended September 30, ($ Thousands)	2008	2007
Cash Flows Provided By Operating Activities	$ 56,375	$ 41,247
Net Income (Loss)	$ 22,744	$ (59,326)
Distributions Declared	$ 54,516	$ 49,202
Excess (Shortfall) Between Cash Flows Provided By Operating Activities and Distributions Declared *(i)*	$ 1,859	$ (7,955)
Shortfall Between Net Income (Loss) and Distributions Declared *(ii)*	$ (31,772)	$ (108,528)

(i) Difference between cash flows provided by operating activities and distributions declared

Management relies on cash flow information to establish the overall level of cash distributions to Unitholders. GAAP defined quarterly cash flows from operating activities (which include non-cash operating assets and liabilities such as prepaid expenses and accounts payable and other liabilities) are not used to establish the level of current period Unitholders' distributions because fluctuations in the timing of payments for utility expenses and realty taxes is impacted by seasonality and timing of installment payments. In addition, the timing and level of repair and maintenance expenses, which include suite turnover costs, tend to vary based on market conditions.

Cash flows provided by operating activities are the primary source of liquidity to fund CAP REIT's interest expense, trust expense and distributions to Unitholders. For the nine months ended September 30, 2008 cash flows provided by operating activities is close to distributions declared and significantly higher than previous year primarily due to cash generated from the sale of non-core properties. CAP REIT expects its annualized cash flow provided by operating activities will be sufficient to fund its distributions to Unitholders.

(ii) Difference between net income (loss) and distributions declared

Management does not use net income (loss) calculated in accordance with GAAP as the basis for establishing the level of current period Unitholders' distributions, as net income (loss) includes, among other items, non-cash expenses for depreciation and amortization related to income properties and sundry assets and provision for future income taxes. Management believes it is appropriate to exclude the impact of future income taxes as CAP REIT intends to qualify for the REIT Exception prior to 2011 (see Taxation of Income Trusts). Also, CAP REIT's portfolio of income properties continues to increase in value over time as management continues to invest significant capital resources to improve the productive capacity of the portfolio, so as to sustain and grow its future rental income stream. Therefore, it is appropriate for CAP REIT to exclude depreciation related to income properties.

FUNDS FROM OPERATIONS

Funds From Operations ("FFO") is a measure of the operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. FFO is not a measure defined by GAAP. FFO as presented is in accordance with the recommendations of the Real Property Association of Canada ("REALpac"). It may not, however, be comparable to similar measures presented by other trusts or companies in similar or different industries. Management considers FFO to be an important measure of CAP REIT's operating performance.

A reconciliation of net income (loss) to FFO is as follows:

Nine Months Ended September 30, ($ Thousands, except where noted)		**2008**		**2007**
Net Income (Loss)	$	22,744	$	(59,326)
Add:				
Recovery of Provision for Future Income Taxes		243		59,608
Reorganization Costs (2)		1,599		-
Depreciation		53,424		51,861
Amortization of Tenant Improvements		213		153
Amortization of Intangibles		616		1,009
Less:				
Gain on Disposal		17,046		-
FFO	$	61,793	$	53,305
FFO – Continuing Operations	$	61,684	$	50,727
FFO – Discontinued Operations	$	109	$	2,578
FFO Per Unit – Basic (1)	$	0.945	$	0.897
FFO Per Unit – Diluted (1)	$	0.942	$	0.891

(1) 2008 excludes gain on disposal of properties of $0.261 Per Unit.
(2) See Reorganization Costs on page 10.

FFO increased for the nine-month period ended September 30, 2008 compared to last year by 15.9% primarily due to acquisitions completed during the past 12 months, enhanced overall occupancies, higher average monthly rents resulting from management's sales and marketing programs, and the contribution from the land lease communities. FFO for the third quarter of 2008 increased 12.8% compared to the same period last year. FFO per Unit also increased 5.4% for the nine months ended September 30, 2008, in line with the 5.6% increase in NOI for its stabilized portfolio, to $0.945 per Unit from $0.897 per Unit for the same period last year.

Comparing cash distributions to FFO, the FFO payout ratio was approximately 88.2% in the first nine months of 2008 compared to 92.3% for the comparable period in 2007. The payout ratio for the three months ended September 30, 2008 and September 30, 2007 was 77.6% and 79.6%, respectively. The effective FFO payout ratio, which excludes from distributions cash reinvested through the DRIP, was 64.6% and 72.5% for the three and nine months ended September 30, 2008, respectively from 65.5% and 74.9% for the same respective periods last year.

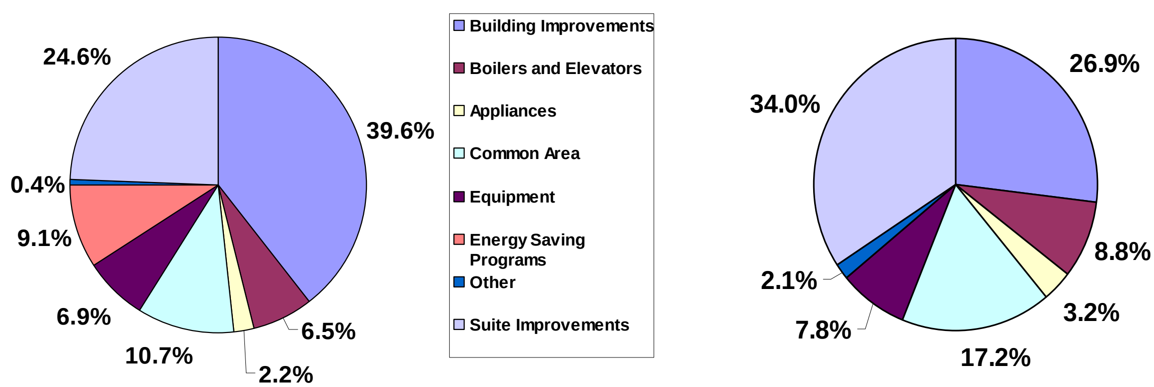
CAPITAL INVESTMENTS

CAP REIT believes it acquires property at values significantly below current replacement costs and is committed to improving its operating performance by investing annually in capital expenditures in order to replace and improve its property portfolio so as to sustain and grow the portfolio's future rental income generating potential over its useful life.

In accordance with GAAP, CAP REIT capitalizes all capital expenditures related to the acquisition and improvement of its properties. During the first nine months of 2008, CAP REIT incurred capital expenditures of $34.7 million as compared to $35.6 million in the first nine months of 2007. Capital expenditures were lower in the first nine months of 2008 than in the same period last year due to the timing of certain capital investment programs and lower suite improvement costs. Management is increasingly focusing its capital investments toward energy saving programs that improve overall NOI as well as the completion of value-enhancing projects, which improve the long-term productive capacity of its property portfolio. As occupancies continue to tighten, management believes investments in suite improvements will continue to decrease.

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

<u>Nine months ended September 30, 2008</u> **<u>Nine months ended September 30, 2007</u>**



Management expects total spending on capital investments for the total portfolio will be in the $50 million range in 2008.

PRODUCTIVE CAPACITY

CAP REIT has two types of capital expenditures: *maintenance capital expenditures*, and *stabilizing and value-enhancing capital expenditures*.

Maintenance capital expenditures vary with market conditions and are partially related to suite turnover. These expenditures are funded from operating cash flows. Based on historical experience, CAP REIT estimates its overall maintenance capital expenditures on an annualized basis at $450 per suite (range of approximately $400 to $500 per suite), which maintain the earning capacity of its rental portfolio.

Stabilizing and value-enhancing capital expenditures are focused on increasing the productivity of the property portfolio. These expenditures are primarily related to acquisitions completed over the last few years, are estimated at the time of acquisition, and are included in the acquisition analysis to ensure the transaction is accretive to the Unitholders. These expenditures enhance operating effectiveness and profitability and reduce costs to improve NOI. In addition, they improve the economic life and value of the properties, and are mainly non-recurring and long-term in nature. The timing of these expenditures varies and are funded over a period of several years from its credit facilities, mortgage advances or refinancing, and equity.

The breakdown of capital expenditures by category based on management's estimate is as follows:

Nine Months Ended September 30,	2008		2007	
($ Thousands)	Total	Per Suite[(1)]	Total	Per Suite[(1)]
Maintenance capital expenditures[(2)]	$ 8,735	$ 338	$ 8,345	$ 338
Stabilizing and value-enhancing capital expenditures	25,943	1,002	27,285	1,103
Total[(3)]	$ 34,678	$ 1,340	$ 35,630	$ 1,441

(1) Based on the weighted average number of suites owned during the period.
(2) Based on an estimated annualized per suite cost of $450.
(3) Excludes capital expenditures for head office assets, assets held-for-sale, land lease sites, tenant improvements and signage.

CAPITAL STRUCTURE

CAP REIT defines capital as the aggregate of Unitholders' equity and debt. CAP REIT's objectives when managing capital are to safeguard its ability to continue to fund its distributions to Unitholders, to meet its repayment obligations under its mortgages and credit facilities, and to ensure sufficient funds are available to meet capital commitments. Capital adequacy is monitored against investment and debt restrictions contained in the Declaration of Trust and debt covenants.

CAP REIT's Declaration of Trust permits the maximum amount of total debt to 70% of the gross book value of CAP REIT's total assets. Gross book value is defined as the book value of the assets of CAP REIT plus accumulated depreciation and amortization, and does not include any fair value adjustment to reflect the significant appreciation in value of the portfolio.

CAP REIT's credit agreement ("Credit Agreement") has covenants that provide for the maintenance of an interest coverage ratio of 1.50 times and a debt coverage ratio of 1.20 times calculated on a rolling four quarter basis. Interest coverage is defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by interest expense. Debt coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by principal and interest payments.

The total capital managed by CAP REIT is summarized below:

	September 30, 2008	December 31, 2007
Mortgages payable	$ 1,463,932	$ 1,395,321
Bank indebtedness	110,031	103,066
Unitholders' Equity	539,821	584,281
Total Capital	$ 2,113,784	$ 2,082,668
Total Debt to Gross Book Value	61.64%	61.55%

For the four quarters ended September 30,	2008	2007
Interest coverage ratio	2.04	1.95
Debt coverage ratio	1.31	1.26

CAP REIT is in compliance with all its investment and debt restrictions.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity

Management ensures there is adequate overall liquidity by maintaining sufficient amounts of cash and available credit facilities to fund ongoing operational and capital expenditure commitments, distributions to

Unitholders and provide for future growth in our business. CAP REIT finances these commitments through: (i) cash flow from operating activities; (ii) mortgage debt secured by its income properties; (iii) secured short-term debt financing with two Canadian chartered banks; and (iv) equity.

CAP REIT expects to generate sufficient cash flow from its operating activities to be able to fund its current level of distributions. Management is of the opinion that funds reinvested from its DRIP and the retained portion of its annual DI will be sufficient to fund its ongoing maintenance capital expenditures. Notwithstanding general deterioration in credit markets, Management believes that because of the continuing availability of insured financing by Canada Mortgage and Housing Corporation ("CMHC"); CAP REIT is well positioned to meet its mortgage renewals and refinancing goals in 2009. Combined with the available borrowing capacity under its credit facilities and net proceeds of equity issues, it will be sufficient to fund mortgage principal repayments and its ongoing stabilizing and value-enhancing capital expenditures. The key liquidity metrics are summarized as follows

As at September 30, ($ Thousands, except where noted)	**2008**	**2007**
Mortgage Debt to Gross Book Value (%)	57.33	58.11
Total Debt to Gross Book Value (%)	61.64	65.31
Total Debt to Total Capitalization (%)	59.44	58.39
Debt Coverage Ratio(1)	1.33	1.26
Debt Coverage Ratio(2)	1.31	1.26
Interest Coverage Ratio(1)	2.09	1.95
Interest Coverage Ratio(2)	2.04	1.95
Weighted Average Mortgage Interest Rate (%)(3)	5.33	5.37
Weighted Average Mortgage Term to Maturity (years)	5.2	5.8
Acquisition and Operating Line Availability	$ 127,580	$ 64,909

(1) For the nine months ended September 30.
(2) For the four quarters ended September 30.
(3) Effective weighted average interest rate including deferred financing costs and fair value adjustments.

At September 30, 2008, the overall leverage represented by the ratio of total debt to gross book value declined to 61.64% from 65.31% at September 30, 2007. The maximum ratio allowable under CAP REIT's Declaration of Trust is 70%. Management believes that, based on the fair market value of CAP REIT's portfolio, the leverage would be substantially lower.

With a total market capitalization of approximately $1.1 billion as at September 30, 2008, CAP REIT's total debt is approximately 59.44% of total market capitalization at September 30, 2008 compared to 58.39% at September 30, 2007.

In addition, CAP REIT's coverage ratios, represented by debt and interest coverage tests, have continued to gradually improve during 2008, demonstrating the success of management's prudent operating and financing strategies.

Mortgages Payable

CAP REIT takes a long-term, 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 and interest rates to reduce risk while taking advantage of low interest rate environments.

As at September 30, ($ Thousands)		2008	2007
Balance, Beginning of Period		$ 1,455,181	$ 1,275,211
Add:	New Borrowings	42,389	155,495
	Assumed	20,777	-
	Refinanced	74,962	97,863
Less:	Mortgage Repayments	(33,981)	(31,807)
	Mortgages Repaid on Disposals	(59,830)	-
	Mortgages Matured	(35,455)	(24,480)
	Deferred Financing Costs and Fair Value Adjustments,net	(111)	(5,859)
Balance, End of Period		$ 1,463,932	$ 1,466,423
Represented By:			
Mortgages Payable	- Continuing Operations	$ 1,463,932	$ 1,406,113
	- Held-for-sale	-	60,310

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

- CAP REIT obtains lower interest rate spreads for mortgage financing.
- It reduces CAP REIT's overall renewal risk for mortgage refinancings as the mortgage insurance premium is transferable between approved lenders and is effective for the full amortization period of the underlying mortgages ranging between 25 to 30 years.

During the first nine months of 2008, total financings of $117.4 million were completed, including $42.4 million for the new acquisitions, at an average interest rate of 4.90%. Existing mortgages aggregating to approximately $75.0 million were also refinanced at interest rates below the overall portfolio weighted average interest rate.

Subsequent to September 30, 2008, refinancings of approximately $23.7 million are in various stages of completion and are expected to be finalized before the year-end. Despite tightening credit markets, CAP REIT is on track to complete its refinancing program of between $90 and $100 million in 2008, in line with the previous year.

During the third quarter of 2005, CAP REIT entered into interest rate forward contracts to hedge its exposure to rising interest rates for refinancing of mortgages maturing in 2009. These contracts, aggregating to $145.7 million, assume mortgage renewals will match the terms of the interest rate forward contracts, are for terms ranging from five to 13 years and extend the mortgages to terms between 2014 and 2022.

To ensure CAP REIT is not overly exposed to interest rate volatility risk, management has also been successful in staggering the maturity dates of its mortgage portfolio. During the remaining three months of 2008 and the twelve months of 2009, total debt repayments (including maturing mortgages) will be approximately 1.8% and 16.0%, respectively, of the total mortgage portfolio.

To reduce its interest cost and cost of capital, management will continue to leverage its balance sheet strength and the stability of its property portfolio to reduce borrowings on its credit facilities.

As at September 30, 2008, CAP REIT's overall portfolio weighted average interest rate and term to maturity was 5.33% and 5.2 years, respectively, and approximately 95.1% of its mortgages are CMHC insured.

The breakdown of future principal repayments, including mortgage maturities and weighted average interest rates as at September 30, 2008 is as follows:

Year ($ Thousands, except where noted)	Principal Repayments	Mortgage Maturities	Total Debt	% of Total Debt	Weighted Avg. Interest Rate (%)(1)
2008	$ 12,053	$ 14,742	$ 26,795	1.8	4.50
2009	44,468	189,884	234,352	16.0	5.30
2010	40,334	143,261	183,595	12.5	5.00
2011	35,418	193,489	228,907	15.6	5.42
2012	27,231	206,074	233,305	15.9	5.29
2013	24,915	130,439	155,354	10.6	5.22
2014	20,535	77,253	97,788	6.7	5.47
2015	17,759	25,946	43,705	3.0	5.02
2016	15,231	22,026	37,257	2.5	6.35
2017	11,661	80,933	92,594	6.3	4.81
2018 – 2022	43,356	62,481	105,837	7.2	5.84
2023 onwards	14,166	14,251	28,417	1.9	5.67
	$ 307,127	$ 1,160,779	$ 1,467,906	100.0	5.33 (2)
Deferred financing costs and fair value adjustments			(3,974)		
			$ 1,463,932		

(1) Rates for maturing mortgages only.
(2) Effective weighted average interest rate including deferred financing costs and fair value adjustments.

Portfolio weighted average term to maturity – 5.2 years.

Bank Indebtedness and Credit Facilities

Bank indebtedness includes borrowings on CAP REIT's Acquisition and Operating Facilities and CAPLP's Land Lease Facility. On April 1, 2008, CAP REIT transferred the beneficial interest in all of its properties along with related debt obligations to CAPLP. The Acquisition and Operating Facilities and the Land Lease Facility were restructured into one Credit Agreement. On June 30, 2008, the Credit Agreement was renewed as described in note 8 to the consolidated financial statements. As at September 30, 2008, $59.7 million was outstanding on the Acquisition Facility and $46.1 million on the Operating Facility. The availability on the Acquisition and Operating Facilities as at September 30, 2008 was $127.6 million. During the first nine months of 2008, $63.0 million was repaid on the Acquisition Facility from non-core property dispositions. The Land Lease Facility was established by CAPLP to fund operating, development and acquisition costs for the Bowmanville and Grand Bend land lease properties. As at September 30, 2008, $4.2 million was outstanding on this Facility.

Unitholders' Equity

During the second quarter, CAP REIT implemented the Deferred Unit Plan ("DUP") for the benefit of the non-executive trustees as approved by the Unitholders on May 21, 2008. This plan gives the non-executive trustees the right to receive a percentage of their annual retainer in the form of deferred Units (see note 12(i) to the consolidated financial statements). For the nine months ended September 30, 2008, total compensation costs of $0.4 million (2007 - $nil) were expensed in relation to awards under the DUP.

On November 7, 2007, CAP REIT issued 5,350,000 Units at $18.65 on a bought-deal basis for aggregate gross proceeds of approximately $99.8 million. The net proceeds of approximately $95.0 million were used to repay borrowings on the Acquisition and Operating Facilities.

On July 10, 2007, CAPLP acquired two land lease properties for consideration including the issuance to the vendor of 411,311 exchangeable limited partnership units ("CAPLP Units") at a weighted average price of $19.45 for an aggregate amount of $8.0 million. The CAPLP Units are entitled to distributions equivalent to distributions on CAP REIT Units, must be exchanged solely for CAP REIT Units on a one-for-one basis, and are exchangeable at any time at the option of the holder.

Since its Initial Public Offering in May 1997, the total market value of CAP REIT's equity as at September 30, 2008 has risen to $1.1 billion. As at September 30, 2008, trustees, officers and executives had approximately 5.5% of CAP REIT's issued and outstanding Units.

Normal Course Issuer Bid

On June 20, 2008, CAP REIT announced that the TSX had approved its normal course issuer bid ("NCIB") to acquire up to 6,309,967 Units, representing 10% of the public float, at market prices over the twelve-month period ending June 24, 2009. Purchases will be made at market prices through the facilities of the TSX. Any tendered Units taken up and paid for by CAP REIT will be cancelled. CAP REIT believes the ongoing purchase of its outstanding Units is an appropriate use of its resources at this time and will afford liquidity to anyone who desires to sell their Units. As at September 30, 2008, 132,500 Units had been acquired under this NCIB at market prices aggregating $2.2 million.

On June 21, 2007, CAP REIT announced that the TSX had approved its NCIB to acquire over the ensuing 12 months, June 25, 2007 to June 24, 2008, up to 5,759,361 Units, representing 10% of the public float. During this bid period, CAP REIT acquired 617,300 Units for cancellation at market prices aggregating $9.6 million. For the nine-month period ended September 30, 2008, CAP REIT acquired 433,700 Units under this NCIB for cancellation at market prices aggregating $6.3 million.

For the nine-month period ended September 30, 2008, CAP REIT acquired a total of 566,200 Units under its NCIBs for cancellation at market prices aggregating $8.5 million. Subsequent to September 30, 2008, CAP REIT has acquired a further 86,500 Units for cancellation at market prices aggregating to $1.2 million,

SECTION IV

QUARTERLY RESULTS

($ Thousands except, per Unit amounts)		Q3 08	Q2 08	Q1 08	Q4 07	Q3 07 (1)	Q2 07(1)	Q1 07(1)	Q4 06(1)
Operating Revenues		$ 80,721	$ 78,977	$ 78,104	$ 77,900	$ 74,223	$ 71,495	$ 70,360	$ 69,412
NOI		$ 46,364	$ 44,581	$ 38,421	$ 40,989	$ 42,075	$ 39,688	$ 32,823	$ 35,502
Income (Loss) from Continuing Operations Before Income Taxes and Other		$ 5,076	$ 4,104	$ (1,749)	$ 386	$ 2,236	$ 1,844	$ (3,935)	$ (278)
(Loss) Income from Discontinued Operations (2)		$ -	$ (59)	$ 17,214	$ 925	$ 4,640	$ (4,396)	$ (107)	$ 69
Provision for (Recovery of) Future Income Taxes (3)		$ 33	$ 313	$ (103)	$ (7,819)	$ 3,236	$ 56,372	-	-
Net Income (Loss) (2)		$ 4,994	$ 3,387	$ 14,363	$ 9,130	$ 3,640	$ (58,924)	$ (4,042)	$ (209)
DI (4)(6)(7)		$ 23,730	$ 22,582	$ 16,617	$ 18,972	$ 21,297	$ 19,898	$ 12,962	$ 16,378
FFO (5)(6)(7)		$ 23,469	$ 22,164	$ 16,160	$ 18,990	$ 20,800	$ 19,964	$ 12,541	$ 16,399
Net Income (Loss) Per Unit (2)	- Basic (2)	$ 0.076	$ 0.052	$ 0.220	$ 0.145	$ 0.061	$ (0.993)	$ (0.068)	$ (0.004)
DI Per Unit (7)	- Basic	$ 0.362	$ 0.346	$ 0.255	$ 0.300	$ 0.356	$ 0.335	$ 0.219	$ 0.278
FFO Per Unit (7)	- Basic	$ 0.358	$ 0.339	$ 0.248	$ 0.301	$ 0.348	$ 0.336	$ 0.212	$ 0.278
Weighted Avg. Units (000s)	- Basic	65,496	65,334	65,243	63,174	59,799	59,353	59,183	59,014

(1) Reclassified for discontinued operations.

(2) Q1 and Q2 2008 include a gain (loss) on disposal of properties.

(3) See notes 2(r) and 9 to the consolidated financial statements.

(4) See page 12 for reconciliation of Cash Provided By Operating Activities to DI.

(5) See page 14 for reconciliation of Net Income (Loss) to FFO.

(6) 2006 has been adjusted to include amortization of tenant improvements.

(7) Q1 and Q2 2008 exclude a gain (loss) on disposal of properties.

CAP REIT has steadily increased its revenues over the past two years as a result of new acquisitions and stable average monthly rents and occupancies.

The weighted average number of Units increased in the fourth quarters of 2007 and 2006 due to the equity offerings completed on November 7, 2007 and August 22, 2006, respectively. As a result, per Unit amounts were affected.

Results in the first and second quarters of 2007 were negatively impacted due to the roll out of the lease administration system, which resulted in higher payroll and site operating expenses during the stabilization period.

Fundamentals in the residential rental industry gradually began to improve through 2007 and into 2008. However, the resulting increases in occupancies and average monthly rents were partially offset by increased operating costs, increased payroll, rental incentives and advertising costs targeted at specific properties to enhance their performance.

The fourth and first quarters of each year tend to generate weaker performance due to increased energy consumption during the winter months.

SECTION V

ACCOUNTING POLICIES

Changes in Accounting Policies and New Accounting Standards

As required by The Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2008, CAP REIT adopted CICA Handbook Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments – Presentation.

Section 1535 requires disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital.

Sections 3862 and 3863 replace existing Section 3861, Financial Instruments – Disclosure and Presentation. These new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Disclosures required as a result of adopting these sections can be found in notes 19 and 20 to the consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("ACSB") confirmed that Canadian public entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. We are currently in the process of evaluating the potential impact of IFRS to our consolidated financial statements, and developing a convergence plan to transition financial statement reporting, presentation and disclosure to meet the requirements of the new standards. Additional disclosures on CAP REIT's convergence plan will be provided in our 2008 Annual Report.

Critical Accounting Estimates

Certain accounting policies require management to make estimates or assumptions that in some cases relate to matters that are inherently uncertain. CAP REIT's consolidated financial statements and notes for the period ended September 30, 2008 have been prepared using the same methods of estimation that were used for the consolidated financial statements for the year ended December 31, 2007.

The more significant estimates relate to future income taxes where management is required to estimate future tax assets and liabilities. The provision for future income taxes represents management's estimate of the future income tax implications of the transactions and events during the period. A future income tax asset or liability is determined for each temporary difference expected as at January 1, 2011, and is based on future tax rates substantively enacted at the balance sheet date that will apply in the periods that the temporary differences are expected to reverse and management's assumptions regarding the expected timing of the reversal of such temporary differences.

CONTROLS AND PROCEDURES

CAP REIT maintains appropriate information systems, procedures and controls to ensure information disclosed externally is complete, reliable and timely. Pursuant to the requirements of National Instrument 52-109 of the Canadian Securities Administrators, the Chief Executive Officer and the Chief Financial Officer have satisfied themselves that as at September 30, 2008, the design of disclosure controls and procedures and the design of internal controls over financial reporting are appropriate.

SECTION VI

RISKS AND UNCERTAINTIES

CAP REIT has been structured and operates in adherence to the stringent investment restrictions and operating policies as set out in its Declaration of Trust. These policies cover such matters as the type and location of properties that CAP REIT can acquire, the maximum leverage allowed, environmental matters and investment restrictions. A discussion of these risks and uncertainties can be found in CAP REIT's 2007 Annual Report and other securities filings at www.sedar.com. There have been no substantive changes requiring update.

Commitments

CAP REIT has entered into commitments for fixed price natural gas, hydro and land lease agreements as outlined in note 21 to the consolidated financial statements.

Taxation of Income Trusts

Prior to June 12, 2007, no provision for income taxes was recorded in the consolidated financial statements. On June 12, 2007, amendments to the *Income Tax Act* (Canada) ("Tax Act") were substantively enacted (as a result of tax legislation included in Bill C-52, the *Budget Implementation Act, 2007*, which modifies the tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships ("SIFTs"). 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 combined federal/provincial tax rate similar to that of a corporation. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be taxed as a dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. Subject to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 (the "Normal Growth Guidelines"), the SIFT Rules will not apply until the 2011 taxation year to trusts or partnerships that would have been SIFTs on October 31, 2006 if the "SIFT trust" and "SIFT partnership" definitions in the Tax Act had been in force as of that date.

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 order to qualify for the REIT Exception in respect of a taxation year: (i) the REIT must, at no time in that taxation year, hold non-portfolio property other than "qualified REIT properties" (as defined in the Tax Act); (ii) not less than 95% of the REIT'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 REIT'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 situated in Canada; and (iv) the REIT must, throughout the taxation year, hold real or immovable properties situated in Canada, cash and certain government-guaranteed debt with a total fair market value that is not less than 75% of the REIT's equity value.

In common with a number of other REITS, CAP REIT did not meet the technical REIT Exception as at October 31, 2006, June 12, 2007 or at September 30, 2008, and accordingly, future income taxes in the amount of $52.0 million have been recorded as at September 30, 2008 based on the temporary differences that are expected to reverse on or after January 1, 2011. The change in the future income tax liability has been recorded as a provision in the consolidated statement of operations and comprehensive (loss) income for the nine months ended September 30, 2008 in the amount of $0.2 million. If CAP REIT should meet the REIT Exception in the future, the future income tax liability will be reversed and recorded as a recovery through the consolidated statement of operations and comprehensive income (loss) at that time. Management is of the opinion that the nature of the items, which causes CAP REIT not to be able to fully comply with some of the technical provisions as currently drafted, is subject to differing interpretations, which may be clarified in future amendments or may involve some restructuring of certain CAP REIT assets or activities, so as to ensure that CAP REIT qualifies for the REIT Exception by 2011. CAP REIT is not currently taxable and accordingly, no current income taxes have been recorded as at September 30, 2008 and for the period then ended. (See also Future Income Taxes and note 9 to the consolidated financial statements.)

RELATED PARTY TRANSACTIONS

For the nine months ended September 30, 2008, CAP REIT paid construction management fees of $1.1 million (based on 4.5% of construction costs up to $20.0 million and 3.0% thereafter) in consideration for construction management services provided by a company owned by two trustees and officers of CAP REIT in connection with the capital improvement programs for the properties.

For the nine months ended September 30, 2008, CAP REIT paid rent for head office space in the amount of $0.5 million to a company in which one of the trustees and officers has an 18% beneficial interest. The lease for the head office space expires October 31, 2009 and provides for yearly minimum rental payments of $0.3 million.

For the nine months ended September 30, 2008, CAP REIT paid consulting fees of $0.06 million to a company controlled by a trustee and officer.

CAP REIT has entered into an agreement with a company to supply suite utility meters. This company is managed by a trustee and officer of CAP REIT. For the nine months ended September 30, 2008, $0.5 million has been capitalized to income properties.

CONTINGENCIES

CAP REIT is contingently liable under guarantees provided to certain of CAP REIT's lenders in the event of defaults, and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of CAP REIT.

SUBSEQUENT EVENT

Subsequent to September 30, 2008, pursuant to the NCIB, CAP REIT has acquired 86,500 Units at a market value of $1.2 million.

SECTION VII

FUTURE OUTLOOK

Notwithstanding the recent events in the global credit markets and the deteriorating economic fundamentals in Canada, management believes market conditions in the multi-unit residential rental market are continuing to demonstrate positive trends due to a number of factors:

- The cost gap between owning and renting a home in Canada has increased to historic highs over the last two years. As a result of the relatively high cost of home ownership compared to renting, and consumer sentiment turning more negative toward home ownership due to the slowing economy and reduced expectations of home price gains, demand is increasing for high quality rental accommodation.
- Housing starts are gradually slowing in Canada after three years of significant increases, In addition, mortgage requirements for home purchases have tightened significantly, resulting in reduced availability for home purchase financing. Management believes these factors will also drive increased demand for apartment and townhouse rentals.
- The growing seniors' population in Canada is increasingly viewing rental accommodation as an affordable choice and is driving increased demand for apartments and townhouses across the country.
- New immigration policies in Canada propose a 40% increase in the number of new Canadians, another traditionally strong market for rental accommodation.
- The segment of the Canadian population aged 20 to 34 is expected to grow over the coming decade. This will also become a key driver for apartment demand as this so-called "echo boom" generation has the highest propensity to rent accommodation.

As a result of the positive trends being experienced in the majority of the markets in which it operates, CAP REIT expects to see continued increases in overall average monthly rents on lease renewals and turnovers. Management also believes operating revenues will increase as it implements programs to enhance revenues from parking, commercial leases, laundry, cable and other income sources. In addition, numerous successful cost control initiatives have proven highly effective which, combined with rising revenues, should lead to stable growth in net operating income going forward.

CAP REIT believes the strong defensive characteristics of its property portfolio due to diversification by both geography and property type, will serve to mitigate any negative impact the slowing Canadian economy might have on the residential rental industry. Management is confident that its strong presence in Ontario, currently representing approximately 70% of total NOI, will benefit Unitholders over the long term as the province's economy is not as exposed to the more volatile resource sectors in other regions of the country. Ontario remains the heartland of the Canadian economy and, with a broad economic base, is not tied to any single cyclical industry. CAP REIT also has a dominant presence in the Greater Toronto Area, the financial engine of the Canadian economy. The proposed increases in immigration to Canada will also increase demand in CAP REIT's key markets.

Looking ahead, CAP REIT has defined a number of strategies to capitalize on these improving market fundamentals and achieve its objectives of providing Unitholders with stable and predictable monthly cash distributions while growing Distributable Income 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, CAP REIT's hands-on management style, focus on resident communications and capital improvement 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 energy initiatives including energy-efficient heating boilers and lighting systems, sub-metering individual suites and energy purchasing programs to reduce or stabilize costs.

Third, management will continue to direct its efforts on its program to upgrade properties in a number of specific properties across the portfolio to stabilize and enhance rental revenues.

Fourth, CAP REIT will continue to prudently increase the size of the portfolio over the long term in specific high-growth markets through accretive acquisitions that meet its strategic criteria and enhance CAP REIT's geographic diversification. From time to time, CAP REIT will also identify certain non-core assets for sale that do not meet with its current portfolio composition or operating strategies. Management believes the realization and reinvestment of capital is a fundamental component of its growth strategy and demonstrates the success of its investment programs. The proceeds from these dispositions will assist in funding the acquisition of properties more aligned with CAP REIT's goals.

Fifth, CAP REIT 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 of its mortgage portfolio to ensure it is not exposed in any one year to a refinancing risk. Notwithstanding the recent rise in interest rate spreads in Canada, and increased times to complete financings and refinancings, management believes that because of the continuing availability of lower cost financing guaranteed by CMHC, CAP REIT is well positioned to meet its financing and refinancing objectives at reasonable costs.

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

CANADIAN APARTMENT PROPERTIES
REAL ESTATE INVESTMENT TRUST

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTER ENDED
SEPTEMBER 30, 2008

(Unaudited)

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets
(Unaudited - $ thousands)

	September 30, 2008	December 31, 2007
Assets		
Income properties *(note 4)*		
Cost	$ 2,472,296	$ 2,333,570
Less: accumulated depreciation	(293,896)	(240,258)
Net book value	2,178,400	2,093,312
Sundry assets *(note 5)*	57,874	60,522
Intangible assets *(note 6)*	1,495	1,796
Assets held for sale *(note 16)*	-	106,426
	$ 2,237,769	$ 2,262,056
Liabilities and Unitholders' Equity		
Liabilities		
Mortgages payable *(note 7)*	$ 1,463,932	$ 1,395,321
Bank indebtedness *(note 8)*	110,031	103,066
Accounts payable and other liabilities	46,356	41,476
Security deposits	19,119	18,257
Distributions payable	6,077	6,032
Intangible liabilities *(note 6)*	401	540
Future income taxes *(note 9)*	52,032	51,789
Liabilities related to assets held for sale *(note 16)*	-	61,294
	1,697,948	1,677,775
Unitholders' Equity	539,821	584,281
	$ 2,237,769	$ 2,262,056

See accompanying notes to consolidated financial statements.

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Operations and Comprehensive (Loss) Income
(Unaudited - $ thousands, except Unit and per Unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Operating Revenues				
Revenue from income properties	$ 80,721	$ 74,223	$ 237,802	$ 216,078
Operating Expenses				
Realty taxes	10,590	9,969	31,394	28,977
Property operating costs	23,767	22,179	77,042	72,515
Total expenses	34,357	32,148	108,436	101,492
Income Before the Undernoted	46,364	42,075	129,366	114,586
Depreciation *(note 13)*	18,170	17,316	53,424	49,475
Amortization *(note 14)*	750	698	2,245	2,038
Trust expenses	2,717	2,687	8,975	8,206
	21,637	20,701	64,644	59,719
Income Before Interest Expense	24,727	21,374	64,722	54,867
Mortgage interest	18,987	17,651	55,765	51,077
Interest on bank indebtedness	1,133	1,940	2,935	4,318
Other income	(469)	(453)	(1,409)	(673)
	19,651	19,138	57,291	54,722
Income From Continuing Operations Before Other Costs and Income Taxes	5,076	2,236	7,431	145
Reorganization Costs *(note 15)*	(49)	-	(1,599)	-
Provision for Future Income Taxes *(note 9)*	(33)	(3,236)	(243)	(59,608)
Income (Loss) From Continuing Operations	4,994	(1,000)	5,589	(59,463)
Income From Discontinued Operations *(note 16)*	-	4,640	17,155	137
Net Income (Loss)	$ 4,994	$ 3,640	$ 22,744	$ (59,326)
Other Comprehensive (Loss) Income				
(Loss) gain on derivative instruments designated as cash flow hedges	$ (2,689)	$ (3,397)	$ (6,748)	$ 1,123
Loss on amounts designated as cash flow hedges in prior years and transferred to mortgage interest expense	(91)	(62)	(220)	(215)
Change in fair value of investments	(4,822)	(756)	(10,726)	(3,947)
	$ (7,602)	$ (4,215)	$ (17,694)	$ (3,039)
Comprehensive (Loss) Income	$ (2,608)	$ (575)	$ 5,050	$ (62,365)
Basic Income (Loss) Per Unit				
Continuing operations	$ 0.076	$ (0.017)	$ 0.086	$ (1.000)
Discontinued operations	$ -	$ 0.078	$ 0.262	$ 0.002
Basic Net Income (Loss) Per Unit	$ 0.076	$ 0.061	$ 0.348	$ (0.998)
Diluted Income (Loss) Per Unit				
Continuing operations	$ 0.076	$ (0.017)	$ 0.086	$ (1.000)
Discontinued operations	$ -	$ 0.077	$ 0.261	$ 0.002
Diluted Net Income (Loss) Per Unit	$ 0.076	$ 0.060	$ 0.347	$ (0.998)

See accompanying notes to consolidated financial statements.

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Unitholders' Equity
For the Nine Months Ended September 30, 2008 and 2007
(Unaudited - $ thousands)

	Note	Cumulative Capital	Cumulative Net Income	Cumulative Distributions	Accumulated Other Comprehensive Loss	Total
Unitholders' Equity, January 1, 2008		$ 872,118	$ 85,630	$ (364,113)	$ (9,354)	$ 584,281
Net income		-	22,744	-	-	22,744
Distributions declared and paid		-	-	(48,439)	-	(48,439)
Distributions payable		-	-	(6,077)	-	(6,077)
Units Issue costs	*12 (a)*	(128)	-	-	-	(128)
Distribution Reinvestment Plan	*12 (c)*	10,170	-	-	-	10,170
Unit Option Plan	*12 (d)*	241	-	-	-	241
Employee Unit Purchase Plan	*12 (f)*	146	-	-	-	146
Long-Term Incentive Plan	*12 (g)*	1,125	-	590	-	1,715
Senior Executive Long-Term Incentive Plan	*12 (h)*	517	-	493	-	1,010
Deferred Unit Plan	*12 (i)*	352	-	-	-	352
Units cancelled	*12 (j)*	(8,500)	-	-	-	(8,500)
Other comprehensive loss	*12 (b)*	-	-	-	(17,694)	(17,694)
Unitholders' Equity, September 30, 2008		$ 876,041	$ 108,374	$ (417,546)	$ (27,048)	$ 539,821

	Note	Cumulative Capital	Cumulative Net Income	Cumulative Distributions	Accumulated Other Comprehensive Loss	Total
Unitholders' Equity, January 1, 2007		$ 757,143	$ 135,659	$ (298,319)	$ -	$ 594,483
Adjustment to opening Unitholders' equity to comply with the new accounting standards	*2(g) and (h),12(b)*	-	167	-	(4,816)	(4,649)
Unitholders' equity January 1, 2007 (restated)		757,143	135,826	(298,319)	(4,816)	589,834
Net loss		-	(59,326)	-	-	(59,326)
Distributions declared and paid		-	-	(43,668)	-	(43,668)
Distributions payable		-	-	(5,534)	-	(5,534)
Distribution Reinvestment Plan	*12 (c)*	9,305	-	-	-	9,305
Unit Option Plan	*12 (d)*	344	-	-	-	344
Employee Unit Purchase Plan	*12 (f)*	145	-	-	-	145
Long-Term Incentive Plan	*12 (g)*	1,418	-	648	-	2,066
Senior Executive Long-Term Incentive Plan	*12 (h)*	475	-	45	-	520
Units cancelled	*12 (j)*	(2,887)	-	-	-	(2,887)
Exchangeable Units of Limited Partnership	*12*	8,000	-	-	-	8,000
Other comprehensive income	*12 (b)*	-	-	-	(3,039)	(3,039)
Unitholders' Equity, September 30, 2007		$ 773,943	$ 76,500	$ (346,828)	$ (7,855)	$ 495,760

See accompanying notes to consolidated financial statements.

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(Unaudited - $ thousands)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash Provided By (Used In):				
Operating Activities				
Net income (loss)	$ 4,994	$ 3,640	$ 22,744	$ (59,326)
Items not affecting cash:				
Gain on disposal	-	-	(17,046)	-
Provision for (Recovery of) future income taxes	33	(1,392)	243	59,608
Depreciation *(note 13)*	18,170	18,146	53,424	51,861
Amortization *(note 14)*	750	717	2,245	2,108
Amortization of above and below market leases	(143)	5	(357)	(2)
Fair value adjustment of utility contracts *(note 2(g))*	125	19	44	(176)
Straight-line rent adjustment	(42)	11	(100)	(54)
Compensation component of the LTIP , SELTIP and DUP awards granted	303	486	1,236	906
	24,190	21,632	62,433	54,925
Changes in non-cash operating assets and liabilities *(note 17(a))*	(2,152)	(93)	(6,058)	(13,678)
Cash Provided By Operating Activities	22,038	21,539	56,375	41,247
Financing Activities				
Mortgage financings	77,364	117,308	117,351	253,358
Mortgage principal repayments	(11,538)	(10,931)	(33,981)	(31,807)
Mortgages repaid on maturity	(15,104)	(1,149)	(35,455)	(24,480)
Mortgage financing costs	(792)	(669)	(1,032)	(1,985)
Bank indebtedness,net	11,811	71,347	6,965	88,841
Proceeds on issuance of Units	151	50	259	489
Net cash distributions to Unitholders *(note 17(b))*	(14,976)	(13,572)	(44,301)	(39,762)
Cancellation of Units	(2,169)	(2,293)	(8,500)	(2,887)
Amounts received under the LTIP and SELTIP	535	685	1,841	1,680
Cash Provided By Financing Activities	45,282	160,776	3,147	243,447
Investing Activities				
Acquisition of income properties *(note 17(e))*	(47,903)	(165,126)	(81,230)	(226,443)
Capital improvements *(note 17(d))*	(19,194)	(14,407)	(40,364)	(35,203)
Disposition of income properties *(note 17(f))*	-	-	62,993	-
Investments	-	(2,697)	(378)	(29,187)
Change in restricted cash	(223)	(85)	(543)	6,139
Cash Used In Investing Activities	(67,320)	(182,315)	(59,522)	(284,694)
Changes in Cash and Cash Equivalents,				
During the Period	-	-	-	-
Cash and Cash Equivalents, Beginning of Period	-	-	-	-
Cash and Cash Equivalents, End of Period	$ -	$ -	$ -	$ -

See accompanying notes to consolidated financial statements.

1. Organization of the Trust

Canadian Apartment Properties Real Estate Investment Trust ("CAP REIT") became an open-end real estate investment trust on January 8, 2008. CAP REIT commenced active operations on February 4, 1997 when it acquired an initial portfolio of properties and became a reporting issuer on May 21, 1997 pursuant to an initial public offering prospectus dated May 12, 1997. All of CAP REIT's assets are in, and the revenues derived from, the Canadian real estate industry.

2. Significant Accounting Policies

a) Basis of presentation

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") consistent with those disclosed in CAP REIT's consolidated financial statements for the year ended December 31, 2007, except as described in note 2(t).

CAP REIT's results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in utility costs and other factors. CAP REIT has historically experienced higher utility expenses in the first and last quarter as a result of the winter months, which create variations in the quarterly results.

b) Principles of consolidation

The consolidated financial statements include the accounts of CAP REIT and all of its subsidiaries. All inter-entity transactions and accounts have been eliminated.

c) Income properties

Income properties are recorded at cost less accumulated depreciation, net of any impairment loss. Cost of the properties includes all amounts related to the acquisition and improvement of the properties. Costs associated with upgrading the existing facilities, other than ordinary repairs and maintenance, are capitalized.

Depreciation on buildings is recorded on a straight-line basis so as to fully depreciate the cost of the buildings over their estimated useful lives, not exceeding 40 years. Capital improvements are depreciated on a straight-line basis over their estimated useful lives ranging from three to 40 years.

Depreciation on leasehold interest – buildings and improvements is recorded on a straight-line basis over the term of the leases ranging from 29 to 40 years.

Leasehold interest – options to purchase, are evaluated for impairment annually or more frequently when events have occurred that would suggest an impairment. Impairment would be recognized when the estimated fair value of the option is lower than the carrying value. Should a decision be made to not exercise an option, the value ascribed would be expensed at that date. Otherwise, on acquisition of title, the carrying value would form part of the purchase price of the income properties. No depreciation is recorded on these assets.

Tenant improvements – amounts incurred for lease obligations are characterized as either tenant improvements owned by CAP REIT, or tenant inducements. When the obligations are determined to be tenant improvements the costs are accounted for as property improvements. Tenant improvements are amortized over the asset's useful life.

Equipment is amortized on a straight-line basis over its estimated useful life ranging from three to 25 years.

d) Prepaid CMHC premiums

Fees paid to Canada Mortgage and Housing Corporation ("CMHC") for mortgage insurance premiums are amortized over the shorter of the original or remaining amortization period of the underlying mortgage loans (typically 25 to 30 years) and are included in amortization expense. Unamortized amounts are expensed when the underlying mortgage loan has been discharged or fully repaid.

e) Tenant inducements

Tenant inducements such as free rent or move-in allowances, which are provided upon signing a lease with a term of one year or more, are initially deferred and included in sundry assets, and amortized over the respective term of the lease and included in the determination of revenues from income properties. In the event that a tenant vacates its leased space prior to the contractual term of the lease, any unamortized balance will result in a reduction of revenues at that time.

f) Intangible assets and liabilities acquired on acquisitions

For property acquisitions initiated after September 12, 2003, a portion of the purchase price is allocated to intangible amounts for the fair value of tenant in-place leases, above and below market leases and tenant relationships. These intangible amounts are amortized over the respective terms of the leases or relationships and are included in amortization expense except for the amounts related to above and below market leases, which are amortized to revenues from income properties in respect of tenant leases and property operating expenses in respect of land leases. In the event that a tenant vacates its leased space prior to the contractual term of the lease, any unamortized balance will be expensed at that time. For acquisitions initiated prior to September 12, 2003, the allocation of the purchase price was to land and buildings based on their respective fair values.

g) Financial instruments

Financial assets and financial liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and CAP REIT's designation of such instruments. The standards require that all financial assets and financial liabilities be classified as *held-for-trading, held-to-maturity, available-for-sale, loans and receivables or other liabilities.*

Classification of financial instruments

The following summarizes the accounting model CAP REIT has elected to apply to each of its significant categories of financial instruments:

Cash and cash equivalents	Held-for-trading
Restricted cash	Held-for-trading
Other receivables	Loans and receivables
Investments	Available-for-sale
Mortgages payable	Other liabilities
Bank indebtedness	Other liabilities
Accounts payable and other liabilities	Other liabilities
Security deposits	Other liabilities
Distributions payable	Other liabilities

Held-for-trading

Financial assets that are acquired with the intention of generating profits in the near term are accounted for at fair value. Interest earned or accrued is included in revenue from income properties.

Loans and receivables

Loans and receivables are accounted for at amortized cost.

Available-for-sale

Investments are accounted for as *available-for-sale*. The assets are measured at fair value at each balance sheet date and the differences between the fair value of the asset and its cost basis is included in Other Comprehensive Income. Differences accumulated in Accumulated Other Comprehensive Income are transferred to net income when the asset is removed from the balance sheet or an impairment loss on the asset has to be recognized. Income on *available-for-sale* investments is recognized as earned and included in other income.

Other liabilities

Other liabilities are recorded at amortized cost and include all liabilities other than derivatives or liabilities, which are designated to be accounted for at fair value.

Deferred financing costs, which were previously classified as deferred assets and amortized on a straight-line basis over the term of the related debt, are now netted against the carrying value of mortgages payable and amortized using the effective interest method. This change resulted in an adjustment to Opening Unitholders' Equity in January 1, 2007 of $167.

Transaction costs

Transaction costs related to *held-for-trading* financial assets are expensed as incurred. Transaction costs related to loans and receivables and other liabilities are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest method. Transaction costs relating to *available-for-sale* financial assets are included in the cost of the asset on initial recognition.

Determination of fair value

The fair value of a financial instrument on initial recognition is generally the transaction price, which is the fair value of the consideration given or received.

Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities.

Derivatives

Derivatives are carried at fair value and where they have a positive value are included in sundry assets and where they have a negative value are included in accounts payable and other liabilities.

Prior to January 1, 2007, CAP REIT entered into fixed price supply contracts for the physical delivery of gas and hydro. As these contracts provide for physical delivery or net settlement in cash, they are treated as derivatives measured at fair value with changes therein recognized in the consolidated statement of operations in property operating costs, except for those contracts that are designated for its own use. At September 30, 2008, the change in fair value for those contracts not designated for its own use was an unrealized loss of $44 (September 30, 2007 - unrealized gain of $176).

Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free standing derivative; and the combined instrument or contract is not measured at fair value. These embedded derivatives are measured at fair value with changes therein recognized in the consolidated statement of operations.

CAP REIT selected January 1, 2003, as the transition date for embedded derivatives and as such, only contracts or financial instruments entered into or modified on that transition date were examined for embedded derivatives. As at September 30, 2008 and 2007, CAP REIT did not have any outstanding contracts or financial instruments with embedded derivatives that required bifurcation.

h) Hedges

Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

Prior to January 1, 2008, CAP REIT entered into interest rate forward contracts to hedge its exposure to rising interest rates for mortgages maturing in 2009. As these hedging relationships continue to qualify for hedge accounting as cash flow hedges under the new standard, the losses at January 1, 2007 of $5,638 were recorded in Accumulated Other Comprehensive Loss (“AOCL”). The changes resulting from mark-to-market valuations until maturity of the contracts will be reflected in other comprehensive income (loss).

i) Comprehensive income

Comprehensive income (loss) includes net income and other comprehensive income (loss). Other comprehensive income (loss) includes changes in the fair value of investments and the effective portion of cash flow hedges less any amounts reclassified to mortgage interest expense in the period. The components of comprehensive income (loss) are disclosed in the consolidated statement of operations and comprehensive income (loss).

j) Accumulated Other Comprehensive Loss (“AOCL”)

AOCL is included in the consolidated balance sheet as a separate component of Unitholders’ Equity and includes the unrealized gains and losses in changes in the fair market value of cash flow hedges and investments.

k) Impairment of long-lived assets

CAP REIT reviews its long-lived assets for impairment if events or circumstances indicate that the carrying value of the asset may be impaired. A recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from the asset's operations and projected disposition to determine if the carrying value is recoverable. If the analysis indicates that the carrying value is not recoverable, the asset is written down to its estimated fair value and an impairment loss is recognized.

l) Revenue recognition

CAP REIT recognizes rental revenue using the straight-line method whereby the total amount of rental revenue to be received from all leases is accounted for on a straight-line basis over the term of the related leases. The difference between the rental revenue recognized and the amounts contractually due under the lease agreements are accrued as rent receivable.

Other income includes interest, dividends and other. Interest and dividend income is recognized as earned.

m) Discontinued operations

CAP REIT allocates interest on its credit facilities to discontinued operations based on the ratio of net assets to be sold to the sum of total net assets.

n) Stock-based compensation

CAP REIT accounts for its Long-Term Incentive Plan ("LTIP") and Senior Executive Long-Term Incentive Plan ("SELTIP") using the fair value based method under which compensation expense is recognized at the time of grant for the estimated fair value of the participant's rights, as they vest. The Units are treated as options for accounting purposes and are included in the calculation of diluted net income (loss) per Unit.

Deferred Units granted under the Deferred Unit Plan ("DUP") are recognized in compensation expense based on the closing market price of CAP REIT's Units on the date of grant (see note 12(i)). The Deferred Units are considered to be outstanding Units from the date of grant for basic and diluted earnings per Unit calculations.

o) Co-ownerships

CAP REIT carries out certain of its activities under co-ownerships and records its proportionate share of assets, liabilities, income and expenses of all co-ownerships in which it participates. In general, CAP REIT has recourse against all the assets of the co-ownerships in the event that CAP REIT is called upon to pay liabilities in excess of its proportionate share.

p) Use of significant estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

q) Cash flow statements

Cash and cash equivalents consist of cash on hand and balances with banks, and investments in money market instruments, with an original term to maturity of 90 days or less at acquisition. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the consolidated cash flow statements and are disclosed separately.

r) Income taxes

CAP REIT is taxed as a Mutual Fund Trust for income tax purposes. Pursuant to its Declaration of Trust, CAP REIT is required to distribute its income for income tax purposes each year to its Unitholders to such an extent that it will not be liable for income tax under Part I of the *Income Tax Act* (Canada) ("Tax Act"). Accordingly, no provision for current income taxes payable is required.

CAP REIT uses the liability method of accounting for future income taxes. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes. Future income taxes are measured at the tax rates expected to apply in the future when temporary differences reverse. Changes to future income taxes related to changes in tax rates are recognized in income in the period when the tax rate change is substantively enacted.

s) Comparative figures

Certain comparative figures have been reclassified to conform to the current period's consolidated financial statement presentation.

t) Changes in accounting policies

The Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards that are effective for CAP REIT's fiscal year commencing January 1, 2008: Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1535, Capital Disclosures.

Sections 3862 and 3863 replace the existing Section 3861, Financial Instruments – Disclosure and Presentation. These new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Section 1535 includes required disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital.

Disclosures required as a result of adopting these sections can be found in notes 19 and 20.

u) Future accounting changes

The CICA has issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. CAP REIT is in the process of evaluating the impact of this standard on its consolidated financial statements. Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards will be effective for CAP REIT's 2009 fiscal year.

3. Recent Property Acquisitions

CAP REIT completed the following acquisitions, which have contributed to operating results effective from their respective acquisition dates:

For the nine months ended September 30, 2008:

- On September 1, 2008, CAPLP acquired an additional 11 land lease sites (nine near Bowmanville, Ontario and two in Grand Bend, Ontario) for total acquisition costs of $675, which were funded from the Land Lease Facility (note 8(b)).
- On August 29, 2008, CAP REIT acquired a 137-suite apartment building in Victoria, British Columbia. The total acquisition costs of $14,338 were satisfied by new CMHC-insured financing of $10,182 for a five-year term at 4.35%, with the balance from the Acquisition Facility.
- On July 31, 2008, CAP REIT acquired a 50% interest in a portfolio of eight high-quality properties in Toronto, Ontario totalling 784 suites. The total acquisition costs for the 50% interest of $47,902 were satisfied by the assumption of $15,010 of existing mortgages maturing between 2011 and 2019, at an average interest rate of 4.75%, new CMHC-insured mortgages of $14,658 for five-year terms at an average interest rate of 4.55%, with the balance funded from the Acquisition Facility.
- On April 30, 2008, CAP REIT completed the acquisition of an apartment property located in Richmond, British Columbia consisting of 174 suites. The total acquisition costs of $24,164 were satisfied by the assumption of an existing first mortgage of $5,767 for an eight-year term at 4.6% and a new CMHC insured mortgage of $6,767 for a five-year term at an interest rate of 4.45% and the balance from the Acquisition Facility.
- On April 8, 2008, CAPLP acquired nine land lease sites (six sites near Bowmanville, Ontario and three sites in Grand Bend, Ontario) for total acquisition costs of $639, which were funded from the Land Lease Facility (note 8(b)).
- On January 10, 2008, CAP REIT completed the acquisition of two adjoining apartment properties located in Toronto, Ontario consisting of 143 suites. The total acquisition costs of $14,289 were satisfied by a new CMHC insured mortgage of $10,782 for a five-year term at an interest rate of 4.69% and the balance from the Acquisition Facility.

(Unaudited - $ thousands, except Unit and per Unit amounts)

For the year ended December 31, 2007:

- On November 1, 2007, CAPLP acquired 25 land lease sites (18 sites near Bowmanville, Ontario and seven sites in Grand Bend, Ontario) for total acquisition costs of $1,247, which were funded from the Land Lease Facility (note 8b)).
- On September 26, 2007, CAP REIT completed the acquisition of eight apartment buildings consisting of 748 suites located in Coquitlam, New Westminster and Victoria, British Columbia as well as Calgary, Alberta. The total acquisition costs of $96,381 were satisfied by $61,159 in new mortgage financing at a weighted average interest rate of 4.73% for a five-year term and the balance from the Acquisition Facility.
- On July 10, 2007, CAPLP completed the acquisition of two land lease communities in Ontario located near Bowmanville and in Grand Bend totalling 1,233 sites. The total acquisition costs of $76,745 were satisfied by $55,000 in new mortgage financing at a floating interest rate, the issuance to the vendor of $8,000 in new CAPREIT Limited Partnership Units ("CAPLP Units") and the balance from the Acquisition Facility. The CAPLP Units were issued at a weighted average price of $19.45 per Unit and are exchangeable into CAP REIT Trust Units on a one-for-one basis. CAP REIT has entered into a five-year fixed interest rate swap contract for $55,000 at an effective interest rate of 5.71% maturing on July 9, 2012 for which hedge accounting has been applied.
- On February 1, 2007, CAP REIT completed the acquisition of 17 apartment buildings in Quebec City, Quebec, totalling 607 suites. The total acquisition costs of $61,317 were satisfied by $39,336 in mortgage financing at an effective interest rate of 4.87% for a ten-year term and the balance from the Acquisition Facility.

The assets acquired and liabilities assumed in these transactions were allocated as follows:

	September 30, 2008	**December 31, 2007**
The consideration paid consists of		
- New mortgages payable	$ 42,389	$ 155,495
- Assumed mortgages payable	20,777	-
- Bank indebtedness	38,841	72,100
- New CAPLP Units	-	8,000
- Other liabilities	-	16
	$ 102,007	$ 235,611
The allocation of consideration paid is as follows:		
Income properties:		
- Land	$ 30,300	$ 107,971
- Buildings and improvements	70,923	125,452
- Equipment	330	1,374
	101,553	234,797
Intangible assets		
- Value of tenant in-place leases	700	1,222
- Value of above market leases	9	26
	709	1,248
Intangible liabilities		
- Value of below market leases	(255)	(434)
	$ 102,007	$ 235,611

The allocation of the purchase prices to fair values of assets acquired and liabilities assumed for property acquisitions completed during the current period have not been finalized and may be subject to adjustment.

(Unaudited - $ thousands, except Unit and per Unit amounts)

4. Income Properties

	Cost	Accumulated Depreciation	September 30, 2008 Net Book Value
Freehold			
- Land	$ 358,250	$ -	$ 358,250
- Buildings and improvements	1,603,649	(214,540)	1,389,109
	1,961,899	(214,540)	1,747,359
Leasehold interest			
- Buildings and improvements	458,533	(68,622)	389,911
- Options to purchase	10,830	-	10,830
	469,363	(68,622)	400,741
Equipment	41,034	(10,734)	30,300
	$ 2,472,296	$ (293,896)	$ 2,178,400

	Cost	Accumulated Depreciation	December 31, 2007 Net Book Value
Freehold			
- Land	$ 327,932	$ -	$ 327,932
- Buildings and improvements	1,504,773	(175,898)	1,328,875
	1,832,705	(175,898)	1,656,807
Leasehold interest			
- Buildings and improvements	454,705	(56,052)	398,653
- Options to purchase	10,830	-	10,830
	465,535	(56,052)	409,483
Equipment	35,330	(8,308)	27,022
	$ 2,333,570	$ (240,258)	$ 2,093,312

Leasehold interest – buildings and improvements, represent buildings and improvements relating to three properties under long-term land leases and fifteen properties under long-term operating leases. There are no future obligations with respect to the long-term operating leases as all rents were prepaid.

Leasehold interest – options to purchase, represent the fair value assigned at the date of acquisition of the fixed price options to acquire the leasehold properties under long-term operating leases at their lease expiry dates. Options are exercisable by CAP REIT after the expiration of the 25th year of the respective leasehold term ranging from 2023 to 2027.

(Unaudited - $ thousands, except Unit and per Unit amounts)

5. Sundry Assets

	September 30, 2008	December 31, 2007
Prepaid CMHC premiums – net of amortization of $4,625 (2007–$3,857)	$ 19,252	$ 18,122
Prepaid expenses	7,016	1,578
Tenant inducements	253	324
Other receivables	4,762	4,571
Restricted cash	3,031	2,488
Deposits on purchases *(a)*	1,519	1,751
Deposits	703	961
Investments	19,490	29,838
Leasehold improvements – net of accumulated amortization of $424 (2007 – $367)	774	715
Other assets – net of accumulated amortization of $598 (2007 – $365)	1,074	174
Total	$ 57,874	$ 60,522

a) Under the terms of the Development Agreements entered into concurrently with the acquisition of land lease sites on July 10, 2007, CAPLP is required to fund servicing costs on the lands in the land lease communities for future developments. These funded amounts will be deducted from the final purchase price when the land lease sites are acquired by CAPLP. The Agreements are for a ten-year term and can be extended for an additional ten years.

Effective January 1, 2007, amounts reclassified from deferred financing costs include $15,477 for prepaid CMHC premiums and $148 net for other financing costs related to bank indebtedness now included in other assets.

6. Intangible Assets and Liabilities

	Cost	Accumulated Amortization	September 30, 2008 Net Book Value
Intangible assets			
Value of tenant in-place leases	$ 14,893	$ (13,620)	$ 1,273
Value of tenant relationships	1,456	(1,261)	195
Value of above market leases	1,234	(1,207)	27
	$ 17,583	$ (16,088)	$ 1,495
Intangible liabilities			
Value of below market leases	$ 1,906	$ (1,505)	$ 401

	Cost	Accumulated Amortization	December 31, 2007 Net Book Value
Intangible assets			
Value of tenant in-place leases	$ 14,193	$ (12,867)	$ 1,326
Value of tenant relationships	1,456	(1,041)	415
Value of above market leases	1,225	(1,170)	55
	$ 16,874	$ (15,078)	$ 1,796
Intangible liabilities			
Value of below market leases	$ 1,651	$ (1,111)	$ 540

(Unaudited - $ thousands, except Unit and per Unit amounts)

7. Mortgages Payable

Mortgages payable bear interest at a weighted average effective rate at September 30, 2008 of 5.33% (December 31, 2007 – 5.37%), and mature between 2008 and 2027. All mortgages payable, with the exception of $16,205, are financed at fixed interest rates. The income properties have been pledged as security. Future principal repayments ending December 31 for the years indicated are as follows:

	Principal Amount	% of Total Principal
Three months remaining in 2008	$ 26,795	1.8
2009	234,352	16.0
2010	183,595	12.5
2011	228,907	15.6
2012	233,305	15.9
Subsequent to 2012	560,952	38.2
	1,467,906	100.0
Deferred financing costs and fair value adjustments	(3,974)	
	$ 1,463,932	

Effective January 1, 2007, other deferred financing costs of $4,056 were reclassified as mortgages payable. As at September 30, 2008, fair value adjustments of $1,155 and ($5,129) of unamortized deferred financing costs are netted in mortgages payable.

8. Bank Indebtedness

On April 1, 2008, CAP REIT transferred the beneficial interest in all of its properties along with related debt obligations to CAPREIT Limited Partnership (“CAPLP”). The Acquisition and Operating Facilities and the Land Lease Facility were restructured into one credit agreement (the “Credit Agreement”). On June 30, 2008, the Credit Agreement was renewed as summarized below.

a) Acquisition and Operating Facilities

The maximum amount available under the Acquisition Facility is $200,000 comprising one facility of $140,000 for a three-year term and another facility of $60,000 for a one-year term. The maximum amount available under the Operating Facility is $50,000. The Acquisition Facilities mature on June 30, 2011 and June 30, 2009, respectively, while the Operating Facility matures on June 30, 2009. Floating charge debentures on income properties have been provided as security. At September 30, 2008, the weighted average floating interest rate for amounts drawn under these credit facilities is 4.69% (December 31, 2007 – 6.00%).

As at September 30, the following balances are outstanding:

	September 30, 2008	December 31, 2007
Operating Facility	$ 46,073	$ 39,919
Acquisition Facility	59,740	59,975
	$ 105,813	$ 99,894

In addition, at September 30, 2008, CAP REIT has letters of credit outstanding in the amount of $3,256 (December 31, 2007 - $3,301), which affect the maximum amount available under the facilities.

b) Land Lease Facility

The Land Lease Facility was established by CAPLP (notes 3 and 5) to fund operating, development and acquisition costs. The maximum amount of the facility is $10,000 for a one-year term and matures on June 30, 2009. Floating charge debentures on the land lease properties have been provided as security. At September 30, 2008, the borrowings outstanding for this facility were $4,218 (December 31, 2007- $3,172). In addition, CAPLP has letters of credit outstanding in the amount of $134 (December 31, 2007 - $170), which affect the maximum available under the facility. At September 30, 2008, the weighted average floating interest rate for amounts drawn under this facility is 4.18% (December 31, 2007 – 5.22%).

(Unaudited - $ thousands, except Unit and per Unit amounts)

9. Future Income Taxes

Prior to June 12, 2007, no provision for income taxes was recorded in the consolidated financial statements. On June 12, 2007, amendments to the Tax Act were substantively enacted (as a result of tax legislation included in Bill C-52, the *Budget Implementation Act, 2007*), which modify the tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships ("SIFTs"). 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 combined federal/provincial tax rate similar to that of a corporation. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be taxed as a dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. Subject to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 (the "Normal Growth Guidelines"), the SIFT Rules will not apply until the 2011 taxation year to trusts or partnerships that would have been SIFTs on October 31, 2006 if the "SIFT trust" and "SIFT partnership" definitions in the Tax Act had been in force as of that date.

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. As CAP REIT did not meet the REIT Exception as at October 31, 2006, June 12, 2007 or as at September 30, 2008, a future income tax liability in the amount of $52,032 has been recorded at September 30, 2008 (December 31, 2007 - $51,789) based on the temporary differences that are expected to reverse on or after January 1, 2011. The change in the future income tax liability has been recorded as a provision to the consolidated statement of operations and comprehensive (loss) income in the amount of $243 for the nine-month period ended September 30, 2008 (September 30, 2007 - $59,608). If CAP REIT should meet the REIT Exception in the future, the future income tax liability will be reversed and recorded as a recovery through the consolidated statement of operations and comprehensive income (loss) at that time. CAP REIT is not currently taxable and accordingly no current income taxes have been recorded as at September 30, 2008 and for the period then ended. CAP REIT has not exceeded the Normal Growth Guidelines.

A reconciliation of income tax expense for the period follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Consolidated Statements of Operations	**2008**	**2007**	**2008**	**2007**
Current income taxes at Canadian statutory tax rate	$ -	$ -	$ -	$ -
(Recovery of) provision for future income taxes for changes in substantively enacted tax rates	33	(1,392)	243	59,608
Future income taxes	$ 33	$ (1,392)	$ 243	$ 59,608

10. Distributions

CAP REIT calculates Distributable Income ("DI") as defined in its Declaration of Trust and pays out monthly, on or about the 15th day of each month in each calendar year.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Distributions declared *(note 17(b))*	$ 18,219	$ 16,564	$ 54,516	$ 49,202
Distributions Per Unit	$ 0.270	$ 0.270	$ 0.810	$ 0.810

11. Per Unit Calculations

Basic per Unit calculations are based on the weighted average number of Units and CAPLP Units (collectively "Units") outstanding for the period, including Deferred Units allocated under the DUP (note 12(i)), but excluding Units issued under the LTIP and SELTIP. The calculation of per Unit information on a diluted basis considers the potential exercise of outstanding Unit options to the extent each Unit option is dilutive and takes into consideration the effect of any dilutive LTIP and SELTIP Units. The following table provides a reconciliation between the outstanding weighted average number of Units and the number of diluted Units:

(Unaudited - $ thousands, except Unit and per Unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Weighted average number of Units	65,496,178	59,799,331	65,358,179	59,447,221
Effect of dilutive Unit options, LTIP and SELTIP Units	298,706	388,593	250,448	412,064
Weighted average number of diluted Units	65,794,884	60,187,924	65,608,627	59,859,285

12. Unitholders' Equity

Authorized – Unlimited, voting Units

The number of issued and outstanding Units comprises the following:

	Trust Units	CAPLP Units	Total
Units outstanding, January 1, 2008	66,606,085	411,311	67,017,396
Issued during the period:			
Distribution Reinvestment Plan	666,586	-	666,586
Unit Option Plan	19,000	-	19,000
Employee Unit Purchase Plan	8,895	-	8,895
Long-Term Incentive Plan ("LTIP")	370,000	-	370,000
Deferred Unit Plan ("DUP")	20,795	-	20,795
Units cancelled	(566,200)	-	(566,200)
Units outstanding, September 30, 2008	67,125,161	411,311	67,536,472

	Trust Units	CAPLP Units	Total
Units outstanding, January 1, 2007	59,987,260	-	59,987,260
Issued during the period:			
Exchangeable Limited Partnership Units	-	411,311	411,311
Distribution Reinvestment Plan	503,777	-	503,777
Unit Option Plan	25,500	-	25,500
Employee Unit Purchase Plan	7,475	-	7,475
LTIP, net of 672,084 Units transferred to SELTIP	(105,084)	-	(105,084)
Senior Executive Long-Term Incentive Plan ("SELTIP")	817,914		817,914
Units cancelled	(157,500)	-	(157,500)
Units outstanding, September 30, 2007	61,079,342	411,311	61,490,653

The maximum number of Units issuable under all of CAP REIT's Unit incentive plans, namely the Unit Option Plan, the Employee Unit Purchase Plan, the Unit Purchase Plan, the LTIP, the SELTIP and the DUP is 6,000,000 Units. The maximum available for future issuance under all Unit incentive plans as at September 30, 2008 is 1,417,120 Units (December 31, 2007 - 1,816,810 Units).

(Unaudited - $ thousands, except Unit and per Unit amounts)

a) New Units Issued

On November 7, 2007, CAP REIT issued 5,350,000 Units at $18.65 per Unit for aggregate gross proceeds of $99,778. The net proceeds after Underwriters' fees and issue costs were $95,006. This includes $128 of issue costs incurred during the nine months ended September 30, 2008.

CAPLP acquired two land lease properties on July 10, 2007 for consideration including the issuance to the vendor of 411,311 exchangeable limited partnership units ("CAPLP Units") at a weighted average price of $19.45. CAP REIT GP Inc. is the general partner of the Limited Partnership. The CAPLP Units are entitled to distributions equivalent to distributions on CAP REIT Units, must be exchanged solely for CAP REIT Units on a one-for-one basis, and are exchangeable at any time at the option of the holder.

b) Accumulated Other Comprehensive Loss ("AOCL")

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Balance, beginning of period	$ (19,446)	$ (3,640)	$ (9,354)	$ -
Transition adjustment on adoption of accounting policies	-	-	-	(4,816)
Other comprehensive loss	(7,602)	(4,215)	(17,694)	(3,039)
Balance, end of period	$ (27,048)	$ (7,855)	$ (27,048)	$ (7,855)

AOCL represents gains and losses on derivative instruments and investments. A gain of $822 on cash flow hedges was accrued in prior years and previously included in accounts payable and other liabilities.

c) Distribution Reinvestment Plan ("DRIP")

The terms of the Distribution Reinvestment Plan grant participants the right to receive an additional amount equal to 5% of their monthly distributions paid in the form of additional Units. The total consideration for Units issued represents the amount of cash distributions forgone.

d) Unit Option Plan

Under the terms of the Unit Option Plan, Units are granted to Trustees, officers and employees based on a performance incentive for improved service and enhancing profitability and vest on grant. There were no options granted for the nine months ended September 30, 2008 and 2007.

A summary of Unit option activity for the nine months ended September 30, 2008 and 2007 is presented below. All options are exercisable as at September 30, 2008.

	September 30, 2008 Number of Units	September 30, 2008 Weighted Avg. Exercise Price	September 30, 2007 Number of Units	September 30, 2007 Weighted Avg. Exercise Price
Options outstanding, beginning of period	419,600	$ 13.35	471,000	$ 13.35
Options exercised	(19,000)	12.68	(25,500)	13.48
Options outstanding, end of period	400,600	$ 13.39	445,500	$ 13.34

The following Unit Option Plan grants are outstanding:

Exercise Price	Expiry Date	September 30, 2008 Number of Units	September 30, 2007 Number of Units
$ 11.85	December 17, 2010	66,100	86,500
$ 14.10	November 14, 2011	151,000	166,500
$ 13.73	April 4, 2012	40,000	40,000
$ 13.25	November 17, 2012	143,500	152,500
		400,600	445,500

(Unaudited - $ thousands, except Unit and per Unit amounts)

e) Unit Purchase Plan

Under contracts with certain executives, in addition to base cash compensation, incentive compensation may be declared by the Compensation and Governance Committee of the Board of Trustees, subject to the attainment of specified performance objectives. The executive officers are eligible to participate in the Unit Purchase Plan and can elect to either receive incentive compensation in cash or alternatively, participate in the Unit Purchase Plan.

The Unit Purchase Plan provided executives the ability to purchase CAP REIT Units with the assistance of loans to the extent of three times the amount of incentive compensation earned. No new Units were issued and no new loans to purchase Units were granted to the executives for the nine months ended September 30, 2008 and 2007.

The summary of Units previously issued under the Unit Purchase Plan is as follows:

Number of Units	September 30, 2008	September 30, 2007
Balance, beginning of period	423,725	423,725
Issued during the period	-	-
Balance, end of period	423,725	423,725

f) Employee Unit Purchase Plan

The Employee Unit Purchase Plan grants employees the right to receive an additional amount equal to 10% of the Units they acquired, paid in the form of additional Units. This additional amount is expensed as compensation upon issuance of the Units. The amount expensed for the nine months ended September 30, 2008 was $13 (September 30, 2007 - $13).

g) Long-Term Incentive Plan (“LTIP”)

The Compensation and Governance Committee of the Board of Trustees may award LTIP Units, subject to the attainment of specified performance objectives to certain officers and key employees, collectively the "Participants." The Participants can subscribe for Units of CAP REIT at a purchase price equal to the weighted average trading price of the Units for five trading days prior to issuance. The purchase price is payable in installments, with an initial installment of 5% paid when the Units are issued. The balance represented by Installment Receipts is due over a term not exceeding ten years. Participants are required to pay interest at a ten-year fixed rate based on the Trust's fixed borrowing rate for long-term mortgage financing (4.65% for awards granted in 2008, 4.88% and 4.56% for awards granted in 2007) and are required to apply cash distributions received by them on these Units toward the payment of interest and the remaining installments. Participants may pre-pay any remaining installments at their discretion. The Installment 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, CAP REIT may elect to reacquire or sell the Units in satisfaction of the outstanding amounts.

(Unaudited - $ thousands, except Unit and per Unit amounts)

The details of the Units issued under the LTIP are as shown below:

Number of Units	September 30, 2008	September 30, 2007
Balance, beginning of period	794,744	899,828
Issued during the period	380,000	567,000
Trasferred to SELTIP	-	(672,084)
Cancelled during the period	(10,000)	-
Balance, end of period	1,164,744	794,744
Value of LTIP Units granted during the period	$ 6,118	$ 11,248

The details of the LTIP Installment Receipts are as shown below:

Installment Receipts	September 30, 2008	December 31, 2007
Balance, beginning of period	$ 12,245	$ 12,824
Amounts granted, net of initial installment of $306 (2007 - $562)	5,812	10,686
Amounts transferred to SELTIP	-	(10,922)
Amounts cancelled	(197)	-
Principal repayments during the period	(296)	(343)
Balance, end of period	$ 17,564	$ 12,245

The Installment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During the period, interest payments in the amount of $590 (September 30, 2007 - $648) were credited to Unitholders' Equity in cumulative distributions.

On February 29, 2008, 380,000 Units were issued at $16.10. The fair value of the Units granted on this day under the LTIP using the Black-Scholes option pricing model was estimated to be $960. As the Units granted vest one-third on the date of grant, and one-third on each of the anniversary of the date of grant for each of the next two years, compensation cost of $320 was expensed in the consolidated statement of operations during the nine-month period ended September 30, 2008, with a corresponding amount included in Unitholders' Equity in cumulative capital.

On February 1, 2008, 10,000 Units previously issued on March 2, 2007 were cancelled. Accordingly, compensation costs of $11 previously expensed in 2007 were adjusted for in the nine months ended September 30, 2008. The compensation costs for 2008 and 2009 (remaining vesting period) will be decreased by $11 each.

On August 21, 2007, 190,000 Units were issued at $17.73. The fair value of the Units granted on this day under the LTIP using the Black-Scholes option pricing model was estimated to be $480. As the Units granted vest one-third on the date of grant, and one-third on each of the anniversary of the date of grant for each of the next two years, compensation cost of $160 was expensed in the consolidated statement of operations during the year ended December 31, 2007, with a corresponding amount included in Unitholders' Equity in cumulative capital.

On August 21, 2007, 672,084 LTIP Units with an instalment receivable balance of $10,922 were transferred to the SELTIP.

On March 2, 2007, 377,000 Units were issued at $20.90. The fair value of the Units granted on this day under the LTIP using the Black-Scholes option pricing model was estimated to be $1,260. As the Units granted vest one-third on the date of grant, and one-third on each of the anniversary of the date of grant for each of the next two years, compensation cost of $420 was expensed in the consolidated statement of operations during the year ended December 31, 2007, with a corresponding amount included in Unitholders' Equity in cumulative capital.

(Unaudited - $ thousands, except Unit and per Unit amounts)

The weighted average assumptions for the grants awarded in the respective periods were as follows:

	March 31, 2008	September 30, 2007	March 31, 2007
Risk free interest rate	3.70%	4.38%	4.06%
Expected lives (years)	10	10	10
Expected volatility	12.00%	12.00%	12.00%
Dividend yield	6.71%	6.10%	5.25%

h) *Senior Executive Long-Term Incentive Plan ("SELTIP")*

The Compensation and Governance Committee of the Board of Trustees may award SELTIP Units, subject to the attainment of specified performance objectives to the Chief Executive Officer and the Chief Financial Officer, collectively the "Participants." The Participants can subscribe for Units of CAP REIT at a purchase price equal to the weighted average trading price of the Units for five trading days prior to issuance. The purchase price is payable in installments, with an initial installment of 5% paid when the Units are issued. The balance represented by Installment Receipts is due over a term not exceeding thirty years. Participants are required to pay interest at a thirty-year fixed rate based on the Trust's fixed borrowing rate for long-term mortgage financing (4.96% for awards granted to-date) and are required to apply cash distributions received by them on these Units towards the payment of interest and the remaining installments 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 Participants. Participants may pre-pay any remaining installments at their discretion. The Installment 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, CAP REIT may elect to reacquire or sell the Units in satisfaction of the outstanding amounts.

The details of the Units issued under the SELTIP are shown below:

Number of Units	September 30, 2008	September 30, 2007
Balance, beginning of period	817,914	-
Issued during the period	-	145,830
Transferred from LTIP	-	672,084
Balance, end of period	817,914	817,914
Price per Unit, issued during the period	$ -	$ 17.73
Value of LTIP Units granted during the period	$ -	$ 2,585

The details of the SELTIP Installment Receipts are shown below:

Installment Receipts	September 30, 2008	December 31, 2007
Balance, beginning of period	$ 13,302	$ -
Amounts granted, net of initial installment $nil (2007 - $129)	-	2,456
Amounts transferred from LTIP	-	10,922
Principal repayments during the period	(168)	(76)
Balance, end of period	$ 13,134	$ 13,302

The Installment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During the period, interest payments in the amount of $493 (September 30, 2007 - $45) were credited to Unitholders' Equity in cumulative distributions.

On August 21, 2007, 145,830 Units were issued at $17.73. The fair value of the Units granted on this day under the SELTIP using the Black-Scholes option pricing model including the effects of the transfer from the LTIP was estimated to be $749. As the Units granted vest one-third on the date of grant, and one-third on each of the anniversary of the date of grant for each of the next two years, compensation cost of $353 was expensed in the consolidated statement of operations during the year ended December 31, 2007, with a corresponding amount included in Unitholders' Equity in cumulative capital and $198 will be expensed in each of the remaining vesting periods.

(Unaudited - $ thousands, except Unit and per Unit amounts)

On August 21, 2007, 672,084 LTIP Units with an installment receivable balance of $10,922 were transferred to the SELTIP.

The weighted average assumptions for the grants awarded were as follows:

	September 30, 2007
Risk free interest rate	4.46%
Expected lives (years)	30
Expected volatility	12.00%
Dividend yield	6.10%

i) Deferred Unit Plan ("DUP")

During the year, CAP REIT implemented the DUP for the benefit of the non-executive trustees as approved by the Unitholders on May 21, 2008. This plan gives the non-executive trustees 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. CAP REIT 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 2008 is 50% of a trustee's annual board compensation of $55.

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. For the nine-months ended September 30, 2008, total compensation costs of $352 (September 30, 2007 - $nil) were expensed in relation to awards under the DUP.

A summary of the DUP activity for the nine months ended September 30, 2008 is presented below:

	September 30, 2008		September 30, 2007	
	Number of Units	Weighted Average Price	Number of Units	Weighted Average Price
Outstanding, beginning of period	-	$ -	-	$ -
Granted during the period	20,795	16.90	-	-
Outstanding, end of period	20,795	$ 16.90	-	$ -

j) Units Cancelled

During the nine months ended September 30, 2008, pursuant to a normal course issuer bid, 566,200 Units (September 30, 2007 – 157,500) were acquired for cancellation at market prices aggregating $8,500 (September 30, 2007 - $2,887).

(Unaudited - $ thousands, except Unit and per Unit amounts)

13. Depreciation

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Depreciation	$ 18,170	$ 18,146	$ 53,424	$ 51,861
Depreciation included with discontinued operations *(note 16)*	-	(830)	-	(2,386)
	$ 18,170	$ 17,316	$ 53,424	$ 49,475

14. Amortization

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Amortization of other financing costs and CMHC premiums	$ 363	$ 297	$ 1,001	$ 889
Amortization of leasehold improvements	21	19	58	55
Amortization of tenant improvements	74	44	213	153
Amortization of intangible assets	292	357	973	1,011
	750	717	2,245	2,108
Amortization included in discontinued operations *(note 16)*	-	(19)	-	(70)
	$ 750	$ 698	$ 2,245	$ 2,038

15. Reorganization Costs

These costs represent amounts incurred to complete the reorganization of CAP REIT's capital structure. These costs include legal, accounting and tax consulting involved with the following:

- Setting up of CAPLP and the issuance of CAPLP Units exchangeable into CAP REIT Units.
- Conversion from closed-end to an open-end trust structure including changes to the Declaration of Trust.
- Transfer of beneficial interest in all the properties, mortgage debt and trust debt obligations from CAP REIT to CAPLP.

16. Discontinued Operations

On January 18, 2008, CAP REIT sold ten non-core properties consisting of 558 suites in Ontario and 920 suites in Quebec for a total sale price of $121,250. The purchaser assumed $57,643 of existing mortgages.

In a separate transaction on January 21, 2008, CAP REIT also sold two Quebec City apartment properties containing 152 suites for a sales price of $6,350. Mortgages of $2,187 were repaid.

The net cash proceeds of $62,993 from these sales were used to repay bank indebtedness. A gain of approximately $17,046 was recognized for the nine months ended September 30, 2008.

(Unaudited - $ thousands, except Unit and per Unit amounts)

The results of operations of these properties have been reclassified as discontinued operations:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Operating revenues	$ -	$ 3,476	$ 661	$ 10,546
Operating expenses	-	1,706	402	5,385
Depreciation	-	830	-	2,386
Amortization	-	19	-	70
Mortgage interest	-	745	138	2,208
Interest on bank indebtedness	-	164	12	360
Income from discontinued operations	-	12	109	137
Recovery for future income taxes	-	4,628	-	-
Gain on disposal	-	-	17,046	-
Income from discontinued operations	$ -	$ 4,640	$ 17,155	$ 137

The following are the assets and liabilities of the properties classified as held for sale:

	September 30, 2008	December 31, 2007
Assets		
Income properties	$ -	$ 105,727
Sundry assets	-	594
Intangible assets	-	105
	$ -	$ 106,426

	September 30, 2008	December 31, 2007
Liabilities		
Mortgages payable	$ -	$ 59,860
Accounts payable and other liabilities	-	1,015
Security deposits	-	419
	$ -	$ 61,294

(Unaudited - $ thousands, except Unit and per Unit amounts)

17. Supplemental Cash Flow Information

a) Changes in non-cash operating assets and liabilities

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Prepaid CMHC premiums	$ (1,393)	$ (1,192)	$ (1,897)	$ (3,660)
Prepaid expenses	(686)	(2,686)	(5,438)	(6,484)
Tenant inducements	(57)	(37)	71	28
Other receivables	(106)	402	(136)	385
Other assets	(403)	(16)	(1,133)	(282)
Deposits on purchases	323	-	232	-
Deposits	1,085	3,278	258	544
Leasehold improvements	(19)	-	(116)	4
Accounts payable and other liabilities	(1,323)	(212)	1,239	(4,704)
Security deposits	427	370	862	491
	$ (2,152)	$ (93)	$ (6,058)	$ (13,678)

b) Net cash distributions to Unitholders

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Distributions declared to Unitholders	$ 18,219	$ 16,564	$ 54,516	$ 49,202
Add: Distributions payable at beginning of period	6,069	5,463	6,032	5,399
Less: Distributions payable at end of period	(6,077)	(5,534)	(6,077)	(5,534)
Less: Distributions to Participants in the Distribution Reinvestment Plan	(3,235)	(2,921)	(10,170)	(9,305)
	$ 14,976	$ 13,572	$ 44,301	$ 39,762

c) Mortgages and loans

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Interest paid	$ 19,989	$ 20,593	$ 59,006	$ 57,906

d) Capital improvements

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Capital improvements	$ 17,374	$ 16,644	$ 37,166	$ 39,887
Change in accounts payable and other liabilities	1,820	(2,237)	3,198	(4,684)
	$ 19,194	$ 14,407	$ 40,364	$ 35,203

(Unaudited - $ thousands, except Unit and per Unit amounts)

e) Acquisition of income properties

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Acquired properties *(note 3)*	$ 62,913	$ 173,126	$ 102,007	$ 234,443
Assumed debt *(note 3)*	(15,010)	-	(20,777)	-
Issuance of CAPLP Units *(note 3)*	-	(8,000)	-	(8,000)
Net proceeds	$ 47,903	$ 165,126	$ 81,230	$ 226,443

f) Disposition of income properties

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Proceeds	$ -	$ -	$ 127,600	$ -
Closing costs	-	-	(4,777)	-
Mortgages assumed by purchasers and discharged	-	-	(59,830)	-
Net proceeds	$ -	$ -	$ 62,993	$ -

18. Related Party Transactions

a) CAP REIT has entered into construction management agreements with a company that is owned by two trustees and officers of CAP REIT to provide construction management services (based on 4.5% of construction costs up to $20,000 and 3% thereafter) to carry out the capital improvements for the properties. The total construction management fees for the nine months ended September 30, 2008 (excluding GST) amounted to $1,072 (September 30, 2007 - $990) and have been capitalized to income properties. At September 30, 2008 there were construction management fees outstanding of $98 (December 31, 2007 - $12) in accounts payable and other liabilities.

b) CAP REIT has a lease for office space with a company in which one of the trustees and officers has an 18% beneficial interest. The rent paid for the office space (which is based on fair market rents at the date the lease was entered into) for the nine months ended September 30, 2008 was $497 (September 30, 2007 - $428), including property operating costs and has been expensed as trust expenses. The lease expires on October 31, 2009. The minimum annual rental payments are as follows:

Three months remaining 2008	$ 84
2009	282

c) CAP REIT has a consulting agreement, expiring in May 2009, with a company owned by one of the trustees and officers. The total fees paid for the nine months ended September 30, 2008 (excluding GST) were $58 (September 30, 2007 - $96) and have been expensed as trust expenses. At September 30, 2008, there were consulting fees outstanding of $4 (December 31, 2007 - $17) in accounts payable and other liabilities.

d) CAP REIT has entered into an agreement with a company to supply suite utility meters. This company is managed by a trustee and officer of CAP REIT. For the nine months ended September 30, 2008, $487 (excluding GST) (September 30, 2007 - $nil) has been capitalized to income properties and $149 (December 31, 2007 - $38) is outstanding and included in accounts payable and other liabilities.

19. Financial Instruments

a) Fair value of financial instruments

The fair value of CAP REIT's financial assets and liabilities, except as noted below and elsewhere in the consolidated financial statements, approximates their carrying amount due to the short-term nature of those instruments.

At September 30, 2008 the fair value of CAP REIT's mortgages payable is estimated to be $1,418,397 (December 31, 2007 - $1,444,961) due to changes in interest rates since the dates the individual mortgages were financed. The fair value of the mortgages payable has been estimated based on current market rates for mortgages with similar terms and conditions.

b) Risk management

The main risks arising from CAP REIT's financial instruments are interest rate, liquidity and credit risks. CAP REIT's approach to managing these risks is summarized below.

Interest rate risk

CAP REIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be able to be refinanced on terms as favourable as those of the existing indebtedness. In addition, interest on CAP REIT's bank indebtedness is subject to floating interest rates. For the nine-month period ended September 30, 2008, the increase or decrease in net income for each one percentage change in interest rates on floating rate debt amounts to $495. CAP REIT has entered into interest rate forward contracts to mitigate its exposure to rising interest rates for refinancing of mortgages maturing in 2009 and 2012. For the nine-month period ended September 30, 2008, a one percentage increase in interest rates would change the other comprehensive loss of $6,747 to a comprehensive gain of $4,170. A one percentage decrease in interest rates would change the other comprehensive loss of $6,747 to other comprehensive loss of $16,584 for the nine-month period ended September 30, 2008.

CAP REIT's objective of managing interest rate risk is to minimize the volatility of earnings. As at September 30, 2008, interest rate risk has been minimized as all mortgages payable with the exception of $16,205 or 1.11% (December 31, 2007 - $nil) is financed at fixed interest rates, with maturities staggered over a number of years.

Liquidity risk

Liquidity risk is the risk that CAP REIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. CAP REIT has approximately 95.1% of its mortgages CMHC insured which reduces the risk of mortgage refinancings. CAP REIT's overall risk for mortgage refinancings is further reduced as the mortgage insurance premiums are transferrable between approved lenders and is effective for the full amortization period of the underlying mortgages ranging between 25 to 30 years. In addition, CAP REIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its on-going operational and capital commitments, distributions to Unitholders and provide future growth in its business. As at September 30, 2008, CAP REIT had undrawn lines of credit available in the amount of $127,580.

To mitigate the risk associated with the refinancing of maturing debt, CAP REIT staggers the maturity dates of its mortgage portfolio over a number of years. During the remaining three months of 2008 and the twelve months of 2009, 1.27% and 16.36%, respectively, of the mortgages payable will mature. The contractual maturities and repayment obligations of CAP REIT's mortgages payable can be found on page 19 in the Management's Discussion and Analysis dated November 10, 2008 under the heading of mortgages payable.

Credit risk

Credit risk is the risk that: (i) counterparties to contractual financial obligations will default, and (ii) the possibility that CAP REIT's residents may experience financial difficulty and be unable to meet their rental obligations.

CAP REIT monitors its risk exposure regarding obligations with counterparties through the regular assessment of counterparties' credit positions (mainly Canadian chartered banks).

CAP REIT mitigates the risk of credit loss with respect to residents by evaluating the credit worthiness of new residents, obtaining security deposits wherever permitted by legislation, by limiting its exposure to any one tenant and by geographical diversification of its portfolio.

CAP REIT monitors its collection experience on a monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts. All accounts receivable balances exceeding 30 days are written off to bad debt expense and recognized in the consolidated statement of operations and comprehensive (loss) income. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of operations and comprehensive (loss) income. Accordingly, no allowance for doubtful accounts is established.

(Unaudited - $ thousands, except Unit and per Unit amounts)

20. Capital Management

CAP REIT defines capital as the aggregate of Unitholder's equity and debt. CAP REIT's objectives when managing capital are to safeguard its ability to continue to fund its distributions to Unitholders, to meet its repayment obligations under its mortgages and credit facilities and, to ensure sufficient funds are available to meet capital commitments. Capital adequacy is monitored against investment and debt restrictions contained in the Declaration of Trust and debt covenants.

CAP REIT's Declaration of Trust permits the maximum amount of total debt to 70% of the gross book value of CAP REIT's total assets. Gross book value is defined as the book value of the assets of CAP REIT plus accumulated depreciation and amortization.

CAP REIT's Credit Agreement has covenants that provide for the maintenance of an interest coverage ratio of 1.50 times and a debt coverage ratio of 1.20 times calculated on a rolling four quarter basis. Interest coverage is defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by interest expense. Debt coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by principal and interest payments.

The total capital managed by CAP REIT is summarized below:

	September 30, 2008	December 31, 2007
Mortgages payable *(note 7)*	$ 1,463,932	$ 1,395,321
Bank indebtedness *(note 8)*	110,031	103,066
Unitholders' Equity	539,821	584,281
Total Capital	$ 2,113,784	$ 2,082,668
Total debt to gross book value	61.64%	61.55%

For the four quarters ended,	**September 30, 2008**	**September 30, 2007**
Interest coverage ratio	2.04	1.95
Debt coverage ratio	1.31	1.26

The Declaration of Trust also requires CAP REIT to distribute to its Unitholders each year an amount not less than the greater of: (i) 85% of its Distributable Income (or a lesser amount at the discretion of the trustees); or (ii) an amount calculated to ensure CAP REIT will not be subject to tax on its income and capital gains.

CAP REIT is in compliance with all its investment and debt restrictions.

21. Commitments

Natural gas and hydro

CAP REIT has entered into fixed price commitments in the aggregate amount of $20,127 for its natural gas and $1,320 for its hydro requirements. These commitments, which range from one to three years, fix the price of natural gas and hydro for a portion of CAP REIT's gas and hydro requirements. Certain of these contracts have been designated for CAP REIT's own use.

Land leases

Four of the properties have land leases with various expiry dates between September 30, 2013 and March 31, 2070. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations. Minimum annual rent for the next five years under these leases is as follows:

Three months remaining in 2008	$ 184
2009	736
2010	736
2011	736
2012	736
Thereafter	30,056

Normal course issuer bid ("NCIB")

On June 20, 2008, CAP REIT announced that the TSX had approved its notice of intention to acquire up to 6,309,967 Units at market prices over the twelve-month period ending June 24, 2009. 132,500 Units under this NCIB were acquired up to September 30, 2008 at market prices aggregating $2.2 million.

On June 21, 2007, CAP REIT announced that the TSX had approved its notice of intention to acquire up to 5,759,361 Units at market prices over the twelve-month period ended June 24, 2008 of which 617,300 were acquired to June 24, 2008.

22. Contingencies

CAP REIT is contingently liable under guarantees provided to certain of CAP REIT's lenders in the event of default, and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of CAP REIT.

23. Subsequent Event

Subsequent to September 30, 2008, pursuant to the NCIB, CAP REIT has acquired 86,500 Units at a market value of $1,176.

Unitholder Information

HEAD OFFICE

11 Church Street, Suite 401
Toronto, Ontario M5E 1W1
Tel: 416-861-9404
Fax: 416-861-9209

website: www.capreit.net

INVESTOR INFORMATION

Analysts, Unitholders and others seeking financial data should visit CAP REIT's website at www.capreit.net or contact:

Yazdi Bharucha
Chief Financial Officer and Secretary
Tel: (416) 861-5771
E-mail: ir@capreit.net

OFFICERS

Thomas Schwartz
President and Chief Executive Officer

Michael Stein
Chairman

Dino Chiesa
Vice-Chair

Yazdi Bharucha
Chief Financial Officer and Secretary

Mark Kenney
Chief Operating Officer

Maria Amaral
Vice President, Finance

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Tel: 1-800-663-9097
E-mail: caregistry@computershare.com

AUDITORS

PricewaterhouseCoopers LLP

LEGAL COUNSEL

Stikeman Elliott LLP

STOCK EXCHANGE LISTING

Units of CAP REIT are listed on the Toronto Stock Exchange under the trading symbol "CAR.UN."