



CAPREIT

**FINANCIAL REVIEW
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2019**

November 13, 2019

Report to Unitholders

Our growth and strong operating results continued in the third quarter and first nine months of 2019. As of September 30, 2019 we had purchased 8,413 apartment suites and MHC sites this year for total acquisition costs of just over \$1.0 billion, strengthening our presence in our target markets, further diversifying our revenue base, and becoming the third largest participant in the MHC business in Canada. Our property management programs continue to generate high stable occupancies and steady increases in average monthly rents. In addition, with the majority of our recent acquisitions being recently constructed and newer properties, we are enhancing the average age, quality and overall value of our asset base.

For the nine months ended September 30, 2019, total operating revenues increased 11.8% compared to the same period last year, driven by the contribution from acquisitions completed over the last twelve months combined with stable and sustainable high occupancies and increasing monthly rents. A 15.5% increase in ancillary revenues, including parking, laundry and antenna income also contributed to our strong performance. Occupancies for the stabilized residential suite portfolio remained very strong at 98.9%, while net average monthly rents rose 4.8%. Our annualized net rental revenue run-rate, based on the average monthly rents in place and our share of residential suites and sites as at September 30, 2019, increased to \$782.2 million, up 18.1% from last year.

Our NOI margin strengthened to 65.2% for the nine months ended September 30, 2019 compared to 64.3% last year. In addition, our property management programs continue to positively impact our performance as stabilized NOI increased by 4.7% for the nine months ended September 30, 2019, another period of strong and sustainable organic growth. Overall NOI rose 13.5% for the nine months ended September 30, 2019 compared to the same period last year.

Normalized Funds from Operations ("NFFO"), the key measure of our performance, increased by 14.1% for the first nine months of 2019 due primarily to the contribution from acquisitions and higher NOI for properties owned prior to December 31, 2017. Our growth was also accretive as basic NFFO per Unit rose 3.4% for the nine

months ended September 30, 2019 despite the 7.1% increase in the weighted average number of Units outstanding compared to last year due to our successful equity offerings over the last twelve months. Our NFFO payout ratio remained strong at 65.1% through the first nine months of 2019.

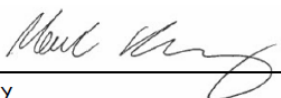
Our balance sheet and financial position remained strong at September 30, 2019 with debt service ratios well within our guidelines and conservative coverage ratios. Our weighted average mortgage interest rate stood at a low 2.93%, and we continue to focus on extending our debt maturities. Importantly, we have investment properties with a fair value of \$669 million as at September 30, 2019 that are not encumbered by mortgages, providing further flexibility and the financial resources to continue building value for our Unitholders.

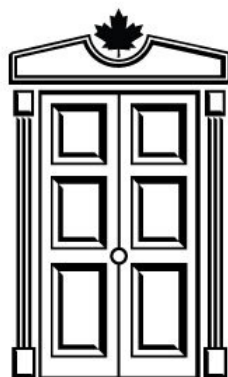
We remain pleased with the continuing contribution from our ownership interest in Irish Residential Properties REIT plc ("IRES") in Ireland. Our asset and property management fees from IRES were up 9% through the first nine months of 2019, and we have received \$7.2 million in dividends for the first nine months of 2019.

By September 30, 2019 we had sold all of our Netherlands properties to European Residential REIT ("ERES"), Canada's first Europe-focused multi-residential REIT. We continue to provide asset and property management services to ERES for fees and remain fully aligned with all Unitholders in the new REIT through our 73.6% ownership interest.

The development program continues to be a key component of CAPREIT's growth strategy, with a combination of three approaches being taken to add new units the portfolio: (i) Forward purchases of newly constructed properties (ii) Intensification and (iii) Redevelopment. CAPREIT also identified the opportunity to add over 10,000 new units, primarily in the GTA and British Columbia. We look forward to keeping you informed about this new aspect to our growth programs.

Looking ahead, we are confident 2019 will be another record year for CAPREIT with continuing strong growth and financial performance in the years ahead.


Mark Kenney
President and Chief Executive Officer



CAPREIT

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

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019

NOVEMBER 13, 2019

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SECTION I: OVERVIEW AND DISCLAIMER

BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("MD&A") of Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") results of operations and financial condition for the three and nine months ended September 30, 2019 and 2018 is dated November 13, 2019, should be read in conjunction with CAPREIT's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2019 and audited consolidated annual financial statements for the year ended December 31, 2018 contained in CAPREIT's 2018 Annual Report.

FORWARD-LOOKING DISCLAIMER

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to CAPREIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, occupancy rates, productivity, projected costs, capital investments, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities and financial outlook, including those relating to acquisition and capital investment strategies and the real estate industry generally, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. In addition, certain specific assumptions were made in preparing forward-looking information, including: that the Canadian, Irish, Dutch, German and Belgian economies will generally experience growth, which, however, may be adversely impacted by the global economy; that inflation will remain low; that interest rates will remain low in the medium term; that Canada Mortgage and Housing Corporation ("CMHC") mortgage insurance will continue to be available and that a sufficient number of lenders will participate in the CMHC-insured mortgage program to ensure competitive rates; that the Canadian capital markets will continue to provide CAPREIT with access to equity and/or debt at reasonable rates; that vacancy rates for CAPREIT properties will be consistent with historical norms; that rental rates on renewals will grow at levels similar to the rate of inflation; that rental rates on turnovers will grow; that CAPREIT will effectively manage price pressures relating to its energy usage; and, with respect to CAPREIT's financial outlook regarding capital investments, assumptions respecting projected costs of construction and materials, availability of trades, the cost and availability of financing, CAPREIT's investment priorities, the properties in which investments will be made, the composition of the property portfolio and the projected return on investment in respect of specific capital investments. Although the forward-looking statements contained in this MD&A are based on assumptions, Management believes they are reasonable as of the date hereof; however, there can be no assurance actual results will be consistent with these forward-looking statements, and they may prove to be incorrect. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond CAPREIT's control, that may cause CAPREIT's or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: reporting investment properties at fair value, real property ownership, investment restrictions, operating risk, energy costs, environmental matters, catastrophic events, insurance, capital investments, indebtedness, taxation-related risks, government regulations, controls over financial reporting, other legal and regulatory risks, the nature of units of CAPREIT ("Trust Units"), unitholder liability, liquidity and price fluctuation of Units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, risks related to acquisitions, cyber security risk and foreign operation and currency risks. There can be no assurance that the expectations of CAPREIT's Management will prove to be correct. For a detailed discussion of risk factors, refer to CAPREIT's MD&A contained in CAPREIT's 2018 Annual Report in the Risks and Uncertainties section. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

NON-IFRS FINANCIAL MEASURES

CAPREIT prepares and releases unaudited consolidated interim financial statements and audited consolidated annual financial statements in accordance with International Financial Reporting Standards (“IFRS”). In this MD&A, earnings releases and investor conference calls, CAPREIT discloses financial measures not recognized under IFRS which do not have standard meanings prescribed by IFRS. These include stabilized net rental income (“Stabilized NOI”), Funds From Operations (“FFO”), Normalized Funds From Operations (“NFFO”), Adjusted Cash Flow from Operations (“ACFO”), FFO and NFFO per Unit amounts and FFO, NFFO and ACFO payout ratios, and Adjusted Cash Generated from Operating Activities (collectively, the “Non-IFRS Measures”). Since these measures are not recognized under IFRS, they may not be comparable to similar measures reported by other issuers. CAPREIT presents Non-IFRS measures because Management believes Non-IFRS measures are relevant measures of the ability of CAPREIT to earn revenue and to evaluate its performance and cash flows. A reconciliation of these Non-IFRS measures to the comparable IFRS measures, along with further definitions and discussion, is provided in Section IV under Non-IFRS Financial Measures. The Non-IFRS measures should not be construed as alternatives to net income (loss) or cash flows from operating activities determined in accordance with IFRS as indicators of CAPREIT’s performance or the sustainability of our distributions.

OVERVIEW

CAPREIT is an unincorporated open-ended publicly-traded real estate investment trust and one of Canada’s largest residential landlords, managing 63,478 suites and sites across Canada, the Netherlands and Ireland as at September 30, 2019. CAPREIT owns and operates a portfolio of multi-unit residential rental properties, including apartments, townhomes and manufactured home communities (“MHC”), principally located in and near major urban centres across Canada and the Netherlands. As at September 30, 2019, CAPREIT owned interests in 59,844 suites and sites across Canada and the Netherlands, comprised of 48,167 residential suites and 11,677 sites in 72 MHC. CAPREIT’s concentration on the residential real estate market is aimed at solid year-over-year income growth in a portfolio with stable occupancy. In addition, CAPREIT mitigates risk through demographic diversification by operating properties across the affordable, mid-tier and luxury sectors as well as through geographic diversification.

CAPREIT was established under the laws of the Province of Ontario by a declaration of trust (the “DOT”) dated February 3, 1997, as most recently amended and restated on May 24, 2017. As at September 30, 2019, CAPREIT had 1,031 employees (897 employees as at December 31, 2018).

OBJECTIVES AND BUSINESS STRATEGY

CAPREIT’s objectives are to:

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

To meet its objectives, CAPREIT has established business strategies focused on: customer service, cost management, capital investments, portfolio growth, and financial management.

For a comprehensive description of CAPREIT’s business strategies, refer to CAPREIT’s MD&A for the year ended December 31, 2018 contained in CAPREIT’s 2018 Annual Report.

BUSINESS COMBINATIONS, ACQUISITIONS AND DISPOSITIONS

European Residential Real Estate Investment Trust

The ERES Acquisition

On March 29, 2019, CAPREIT NL Holding B.V. (“Holding BV”) completed the reverse acquisition (the “Acquisition”) of European Commercial Real Estate Investment Trust (“ECREIT”), and the ongoing entity adopted the name European Residential Real Estate Investment Trust (“ERES”), creating Canada’s first Europe-focused multi-residential REIT. Pursuant to the Acquisition, CAPREIT, the sole shareholder of Holding BV, exchanged all its shares of Holding BV for Class B Limited Partnership units (“Class B LP Units”) of ERES Limited Partnership (“ERES LP”). The purchase price for the initial properties of approximately \$633.5 million was satisfied with \$326.5 million through the issuance of 81.6 million Class B LP Units of ERES LP, a subsidiary of ERES, plus approximately \$307.0 million in assumed mortgages. CAPREIT determined that ECREIT meets the definition of a business and the Acquisition has been accounted for as a business combination.

Pipeline Transactions

Pursuant to the terms of the pipeline agreement dated March 29, 2019 (the “Pipeline Agreement”), on May 31, 2019, wholly-owned subsidiaries of CAPREIT sold to ERES 26 properties representing an aggregate of 1,257 residential suites, ancillary commercial space and parking facilities, located in 24 cities and towns across the Netherlands. The sale price of the portfolio was at the original acquisition cost of \$350.3 million adjusted for working capital, satisfied through the transfer of \$146.5 million in mortgages plus \$203.8 million satisfied through the receipt of 50.6 million Class B LP Units of ERES LP.

On June 28, 2019, wholly-owned subsidiaries of CAPREIT sold to ERES 21 properties representing an aggregate of 511 residential suites located in 6 locations across the Netherlands at the original acquisition cost of \$145.9 million adjusted for working capital, and earned an underwriting fee of \$1.6 million. ERES paid \$122.1 million in cash, \$23.8 million through the issuance of 8.3 million Class B LP Units of ERES LP and \$1.6 million was payable as of September 30, 2019. The \$1.6 million was paid by cash subsequent to quarter-end.

On September 30, 2019, wholly-owned subsidiaries of CAPREIT sold to ERES 18 properties representing an aggregate of 942 residential suites located in 7 locations across the Netherlands at the original acquisition cost of \$246.2 million, and earned an underwriting fee of \$2.4 million. ERES paid \$101.4 million in cash, \$5.0 million through the issuance of 1.1 million Class B LP Units of ERES LP, and a promissory note of \$142.2 million was payable as of September 30, 2019. The promissory note of \$142.2 million was paid by cash subsequent to quarter-end.

As at September 30, 2019, all of the Netherlands properties are held through ERES and their results are consolidated with CAPREIT’s results.

Ownership

The Class B LP Units are exchangeable to ERES units on a one-to-one basis. Upon exchange and together with CAPREIT’s holding of ERES units, CAPREIT will own approximately 73.6% of the issued and outstanding ERES units, with the remaining 26.4% held by non-controlling unitholders (“ERES external unitholders”).

Acquisitions and Dispositions

The tables below summarize property acquisitions for the nine months ended September 30, 2019 and the property acquisitions and dispositions for the year ended 2018. There were no property dispositions for the nine months ended September 30, 2019.

Acquisitions Completed During the Nine Months Ended September 30, 2019

(\$ Thousands)	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
February 26, 2019	511	The Netherlands	\$ 153,424	\$ -	\$ 89,586	0.97%	4.00
March 14, 2019	1,104	Various ⁽⁴⁾	66,866	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
April 15, 2019	191	Langley, BC	70,000	-	44,222	2.90%	15.00
May 27, 2019	181	Various ⁽⁵⁾	11,317	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
May 28, 2019	3,898	Various ⁽⁶⁾	204,955	74,345	-	3.38%	2.39
June 7, 2019	72	Victoria, BC	26,558	-	18,368	2.44%	10.00
June 20, 2019	98	Langley, BC	39,045	-	22,839	2.92%	15.00
July 31, 2019 ⁽⁷⁾	506	Toronto, Ontario	55,667	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
August 1, 2019	942	The Netherlands	246,602	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
August 30, 2019	553	London, Ontario	70,301	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
August 30, 2019	42	Charlottetown, PEI	7,430	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
September 30, 2019	315	The Netherlands	95,076	-	77,639	1.45%	7.00
Total	8,413		\$ 1,047,241	\$ 74,345	\$ 252,654		
Acquisition Financing					\$ 73,719 ⁽⁸⁾	3.00%⁽⁸⁾	10.00 ⁽⁸⁾

(1) Weighted average stated interest rate on mortgage funding.

(2) Weighted average term to maturity on mortgage funding.

(3) The acquisition was funded from CAPREIT's Acquisition and Operating Facility (see Liquidity and Financial Condition section).

(4) The acquisition comprised of 13 properties consisting of 407 sites in Ontario, 615 sites in Alberta and 82 sites in British Columbia.

(5) The acquisition comprised of 3 properties consisting of 56 sites in Ontario and 125 sites in British Columbia.

(6) The acquisition comprised of 24 properties consisting of 800 sites in Ontario, 1,050 sites in Alberta, 1,211 sites in New Brunswick, 128 sites in Nova Scotia, 280 sites in Prince Edward Island and 429 sites in Quebec.

(7) In 2015 CAPREIT entered into an agreement to acquire one-third undivided interest in the residential component of a property upon completion. On July 31, 2019, CAPREIT acquired a 19.8% interest in the property, with an additional 5.3% interest acquired on each August 31, 2019 and September 30, 2019. As at September 30, 2019, CAPREIT's interest stood at 30.3%.

(8) Subsequent acquisition financing of \$73.7 million with a weighted average interest rate of 3.00% and a weighted average term to maturity of 10.0 years relates to a property acquired in 2018.

Acquisitions Completed During the Year Ended December 31, 2018

(\$ Thousands)	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
April 24, 2018	134	Swift Current, SK	\$ 5,744	\$ - ⁽³⁾	\$ -	- ⁽³⁾	- ⁽³⁾
April 30, 2018	2	Burlington, ON	2,404	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
August 7, 2018	90	Langley, BC	34,310	21,088	-	2.56%	8.83
August 15, 2018	3	New Westminster, BC	2,536	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
September 27, 2018	269	Vancouver, BC	103,169	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
November 13, 2018	11	New Westminster, BC	3,373	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
December 3, 2018	881	The Netherlands	253,410	-	104,796 ⁽⁴⁾	1.98% ⁽⁴⁾	7.00 ⁽⁴⁾
December 5, 2018	376	The Netherlands	93,396	-	46,456 ⁽⁵⁾	1.98% ⁽⁵⁾	7.00 ⁽⁵⁾
December 5, 2018	25	New Westminster, BC	6,368	1,827	-	2.49%	6.17
Total	1,791		\$ 504,710	\$ 22,915	\$ 151,252		
Acquisition Financing					\$ 26,766 ⁽⁶⁾	3.49%⁽⁶⁾	10.0 ⁽⁶⁾

(1) Weighted average stated interest rate on mortgage funding.

(2) Weighted average term to maturity on mortgage funding.

(3) The acquisition was funded from CAPREIT's Acquisition and Operating Facility (see Liquidity and Financial Condition section).

(4) The acquisition, comprised of 881 suites, was financed by a new non-amortizing mortgage of €67.6 million (\$104.8 million) with a term to maturity of 7.0 years with an interest rate of 1.98% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(5) The acquisition, comprised of 376 suites, was financed by a new non-amortizing mortgage of €29.9 million (\$46.5 million) with a term to maturity of 7.0 years with an interest rate of 1.98% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(6) Subsequent acquisition financing of \$26.8 million with a weighted average interest rate of 3.49% and a weighted average term to maturity of 10.0 years relates to properties acquired in 2016 and 2017.

Dispositions Completed During the Year Ended December 31, 2018

(\$ Thousands)	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
August 15, 2018	102	Saskatoon, SK	\$ 10,195	\$ 2,425	\$ 7,476
September 6, 2018	162	Vancouver, BC	70,000	49,900	19,948
October 11, 2018	419	Longueuil, QC	35,831	15,168	20,564
December 12, 2018	217	Québec City, QC	24,900	14,404	10,224
Total	900		\$ 140,926	\$ 81,897	\$ 58,212

SECTION II: KEY HIGHLIGHTS

SUMMARY OF Q3 - 2019 RESULTS OF OPERATIONS

Key Transactions

- On September 30, 2019, ERES acquired a portfolio of multi-residential properties from CAPREIT. For details, see Section I – European Residential Real Estate Investment Trust. As at September 30, 2019, all of the Netherlands properties are held through ERES
- On September 24, 2019, ERES completed an offering of ERES units for a price of \$4.15 per unit for aggregate proceeds of \$166.8 million. The net proceeds after underwriters' commission and other closing costs totalling \$9.2 million was \$157.6 million. CAPREIT purchased 4,820,000 of ERES units amounting to \$20.0 million
- Total acquisitions for the three and nine months ended September 30, 2019 of 2,358 suites and sites and 8,413 suites and sites for a total of \$475.1 million and \$1.0 billion respectively, of which 2,710 suites were subsequently sold to ERES

Strong Operating Results Supported by Strong Market Fundamentals

- Growth in revenue and net operating income ("NOI") from stabilized properties driven by higher monthly rents compared to last year
- On turnovers, monthly residential rents for the three and nine months ended September 30, 2019 increased by 13.0% on 6.9% and 13.6% on 14.8% of the Canadian portfolio, compared to an increase of 11.5% on 7.2% and 10.7% on 16.8% of the Canadian portfolio for the three and nine months ended September 30, 2018
- On renewals, monthly residential rents for the three and nine months ended September 30, 2019 increased by 2.0% on 29.0% and 2.1% on 67.5% of the Canadian portfolio, compared to an increase of 2.2% on 28.5% and 2.2% on 66.1% of the Canadian portfolio for the three and nine months ended September 30, 2018
- Net Average Monthly Rent ("Net AMR") for the stabilized portfolio as at September 30, 2019 increased by 4.8% compared to September 30, 2018, while occupancies increased to 98.9%
- Net AMR increased due to the strong rents on turnovers in British Columbia and Ontario and above guideline increases in Ontario
- NOI increased by 3.7% and 4.7% for the stabilized portfolio for the three and nine months ended September 30, 2019 compared to last year
- NOI for the total portfolio increased by 16.3% and 13.5% for the three and nine months ended September 30, 2019 compared to last year primarily due to contributions from acquisitions, and increased same property monthly rents
- NOI margin for the total portfolio increased to 66.8% and 65.2% for the three and nine months ended September 30, 2019

Continued Fair Value Increases in Investment Properties

- For the three and nine months ended September 30, 2019, the fair value of investment properties increased by \$263.6 million and \$473.6 million, primarily as a result of increases in NOI attributable to the growth in rents driven by the rental increases on turnovers, as current rents are significantly below market rents, especially in major regions such as the GTA, other Ontario and British Columbia

Strong and Flexible Balance Sheet

- CAPREIT's financial position continues to strengthen, with reduced leverage ratios
- Debt to Gross Book Value ("GBV") reduced to 36.74% as at September 30, 2019 from 39.37% at December 31, 2018, due to increases in fair value of investment properties and proceeds of the equity raise that was used to repay debt
- Debt Service Coverage ("DSC") ratio increased to 1.79 compared to 1.75 as at December 31, 2018
- Liquidity available on our Credit Facilities is \$44.7 million as at September 30, 2019. In addition, there is \$50.7 million of borrowing capacity under the Bridge Facility and \$72.2 million available under the ERES unsecured credit facility
- Closed mortgage refinancing for \$61.1 million and \$245.2 million for the three and nine months ended September 30, 2019, with top-ups of \$42.4 million, a weighted average term to maturity of 7.9 years and a weighted average interest rate of 2.79%
- CAPREIT's mortgage weighted average term to maturity and the weighted average interest rate as at September 30, 2019 are approximately 5.2 years and 2.93%. CAPREIT continues to fix long-term mortgages to defend against the risk of rising interest rate

Delivering Unitholder Value

- NFFO up 14.9% and 14.1% for the three and nine months ended September 30, 2019
- NFFO per Unit was up by 3.3% and 3.4% for the three and nine months ended September 30, 2019

KEY PERFORMANCE INDICATORS

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

Occupancy – Through a focused, hands-on approach, CAPREIT strives to achieve occupancies at or greater than market conditions in each of the geographic regions it operates in. Management believes annual occupancies can be maintained between 97% to 99% over the long term, and same property Net AMR will continue to gradually increase; thus, providing the basis for sustainable year-over-year increases in revenue.

Net AMR (previously defined as "AMR") – Through its active property management strategies, lease administration system and proactive capital investment programs, CAPREIT strives to achieve the highest possible Net AMR in accordance with local market conditions.

Net Operating Income ("NOI") – NOI is a widely used operating performance indicator in the real estate industry, and is presented in the consolidated statements of income and comprehensive income as net rental income. Management has chosen to refer to net rental income as NOI in all instances in its MD&A. As a measure of its operating performance, CAPREIT currently expects to achieve an annual NOI margin in the range of 60% to 64% of operating revenues.

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

Payout Ratio – CAPREIT anticipates a long-term annual NFFO payout ratio of between 65% and 75%. This ratio is not meant to be a measure of the sustainability of CAPREIT's distributions. Although CAPREIT intends to continue to sustain and grow distributions, the actual amount of distributions in respect to the CAPREIT Units will depend upon numerous factors including, but not limited to, the amount of debt refinancings, tenant inducements, capital expenditures and other factors that may be beyond the control of CAPREIT.

Portfolio Growth – Management's objective is to pursue acquisitions and development opportunities to accretively increase NFFO and continue to further diversify the portfolio by geography and demographic sector. In addition, Management investigates opportunities to add new suites and sites and to enter into joint venture relationships, which could potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT.

Leverage Ratios and Terms – CAPREIT takes a proactive approach with its mortgage portfolio, striving to manage interest expense volatility risk by fixing the lowest possible average interest rates for long-term mortgages, while mitigating refinancing risk by prudently managing the portfolio's average term to maturity and staggering the maturity dates. For this purpose, CAPREIT strives to ensure its overall leverage ratios and interest and debt service coverage ratios are maintained at a sustainable level. CAPREIT focuses on maintaining capital adequacy by complying with investment and debt restrictions in its DOT, Large Borrower Agreement with CMHC ("LBA") and the financial covenants in its credit agreement. These are all comprised of an acquisition and operating facility which includes Euro LIBOR and US LIBOR borrowings ("Acquisition and Operating Facility"), a non-revolving term credit facility, and the ERES unsecured credit facility (collectively, the "Credit Facilities"), as described under Liquidity and Financial Condition in Section V.

PERFORMANCE MEASURES

The following table presents an overview of certain IFRS and non-IFRS financial measures of CAPREIT for the periods ended September 30, 2019 and 2018. Management believes these measures are useful in assessing CAPREIT's performance in relation to its objectives and business strategy. Effective March 2019, monthly cash distributions declared to Unitholders increased to \$0.1150 per unit (\$1.38 annually) compared to \$0.1108 per unit (\$1.33 annually) effective May 2018 and \$0.1067 per unit (\$1.28 annually) effective March 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Portfolio Performance				
Overall portfolio occupancy ⁽¹⁾			98.2%	98.8%
Overall portfolio net Average Monthly Rents ⁽¹⁾			\$ 1,069	\$ 1,079
Operating revenues (000s)	\$ 198,760	\$ 172,298	\$ 571,006	\$ 510,918
NOI (000s) ⁽²⁾	\$ 132,844	\$ 114,228	\$ 372,446	\$ 328,252
NOI margin ⁽²⁾	66.8%	66.3%	65.2%	64.3%
Financial Performance				
FFO per Unit – basic ⁽³⁾	\$ 0.554	\$ 0.535	\$ 1.572	\$ 1.525
NFFO per Unit – basic ⁽³⁾	\$ 0.558	\$ 0.540	\$ 1.591	\$ 1.539
Cash distributions per Unit	\$ 0.345	\$ 0.333	\$ 1.027	\$ 0.977
FFO payout ratio ⁽³⁾	62.5%	62.9%	65.8%	65.2%
NFFO payout ratio ⁽³⁾	62.0%	62.3%	65.1%	64.6%
Liquidity and Leverage				
Total debt to gross book value ⁽¹⁾			36.74%	40.48%
Total debt to gross historical cost ⁽¹⁾			50.33%	53.15%
Weighted average mortgage interest rate ⁽¹⁾			2.93%	3.08%
Weighted average mortgage term (years) ⁽¹⁾			5.18	5.22
Debt service coverage (times) ⁽⁴⁾			1.79	1.73
Interest coverage (times) ⁽⁴⁾			3.52	3.40
Available liquidity – acquisition and operating facility (000s) ⁽¹⁾⁽⁵⁾			\$ 44,741	\$ 123,218

(1) As at September 30.

(2) 2018 comparative balances have been adjusted to conform with the current period due to the adoption of IFRS 16, which is effective January 1, 2019. For details, see NOI in Section III.

(3) These measures are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see Section I - Non-IFRS Financial Measures). For a reconciliation to IFRS, see Section IV - Non-IFRS Financial Measures.

(4) Based on the trailing four quarters.

(5) In addition, there is \$50.7 million of borrowing capacity under the Bridge Facility and \$72.2 million available under the ERES unsecured credit facility.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
OTHER MEASURES				
Weighted average number of Units - basic (000s)	160,328	144,431	156,956	142,224
Number of residential suites and sites acquired	2,358	362	8,413	498
Number of suites disposed	–	264	–	264
Closing price of Trust Units ⁽¹⁾			\$ 54.47	\$ 47.69
Market capitalization (millions) ⁽¹⁾			\$ 8,774	\$ 6,973

(1) As at September 30.

SECTION III: OPERATIONAL AND FINANCIAL RESULTS

NET AND OCCUPIED AVERAGE MONTHLY RENTS AND OCCUPANCY

Net AMR is defined as actual residential rents, excluding vacant units, divided by the total number of suites or sites in the property, and does not include revenues from parking, laundry or other sources.

Occupied AMR is defined as actual residential rents, excluding vacant units, divided by the total number of occupied suites or sites in the property, and does not include revenues from parking, laundry or other sources.

Total Portfolio: Net AMR, Occupied AMR and Occupancy by Geography

As at September 30,	Net AMR			Occupied AMR			Occupancy %	
	2019 AMR (\$)	2018 AMR (\$)	AMR % Change	2019 AMR (\$)	2018 AMR (\$)	AMR % Change	2019	2018
Residential Suites								
Ontario								
Greater Toronto Area	1,431	1,368	4.6	1,446	1,373	5.3	98.9	99.6
Ottawa	1,309	1,245	5.1	1,311	1,248	5.0	99.9	99.8
London / Kitchener / Waterloo	1,009	987	2.2	1,022	1,001	2.1	98.7	98.6
Other Ontario	1,338	1,271	5.3	1,344	1,278	5.2	99.6	99.4
	1,357	1,307	3.8	1,370	1,313	4.3	99.0	99.5
Québec								
Greater Montréal Region	968	922	5.0	976	933	4.6	99.2	98.8
Québec City	1,067	1,021	4.5	1,085	1,041	4.2	98.3	98.1
	993	947	4.9	1,003	961	4.4	99.0	98.6
British Columbia								
Greater Vancouver Region	1,425	1,267	12.5	1,445	1,318	9.6	98.6	96.1
Victoria	1,288	1,199	7.4	1,296	1,203	7.7	99.4	99.7
	1,383	1,245	11.1	1,399	1,280	9.3	98.8	97.3
Alberta								
Edmonton	1,197	1,164	2.8	1,214	1,170	3.8	98.6	99.5
Calgary	1,103	1,063	3.8	1,115	1,077	3.5	98.9	98.7
	1,120	1,082	3.5	1,133	1,095	3.5	98.8	98.8
Nova Scotia								
Halifax	1,175	1,122	4.7	1,194	1,134	5.3	98.4	99.0
Saskatchewan								
Regina	1,035	1,054	(1.8)	1,067	1,072	(0.5)	97.0	98.3
	1,035	1,054	(1.8)	1,067	1,072	(0.5)	97.0	98.3
Prince Edward Island								
Charlottetown	1,067	1,028	3.8	1,076	1,036	3.9	99.1	99.3
Europe								
The Netherlands ^{(1),(2)}	1,195	1,238	(3.5)	1,230	1,271	(3.2)	97.1	97.5
Total residential suites	1,241	1,184	4.8	1,256	1,198	4.8	98.8	98.9
MHC Sites								
Ontario	485	534	(9.2)	486	535	(9.2)	99.7	99.9
Québec	260	-	-	260	-	-	100.0	-
British Columbia	473	453	4.4	474	453	4.6	99.8	100.0
Alberta	448	429	4.4	486	438	11.0	92.4	98.1
Nova Scotia	249	-	-	249	-	-	100.0	-
Saskatchewan	424	399	6.3	425	399	6.5	99.7	100.0
Prince Edward Island	165	149	10.7	165	149	10.7	100.0	99.8
New Brunswick	272	270	0.7	297	287	3.5	91.6	94.0
Total MHC sites	381	394	(3.3)	397	403	(1.5)	96.1	97.7
Total suites and sites	1,069	1,079	(0.9)	1,088	1,093	(0.5)	98.2	98.8

(1) Includes foreign exchange impact and service charge income. The amounts in Euros for the total portfolio for Net AMR are €828 and €824 as at September 30, 2019 and September 30, 2018, respectively, and for Occupied AMR are €852 and €846 as at September 30, 2019 and September 30, 2018, respectively.

(2) Includes all residential properties owned by ERES.

Net AMR for the total portfolio as at September 30, 2019 decreased by approximately 0.9% as a result of the significant expansion of CAPREIT's presence in the Canadian MHC business this year. The number of MHC sites has increased by 77% from 6,592 sites on September 30, 2018 to 11,677 sites on September 30, 2019.

Stabilized Portfolio: Net AMR, Occupied AMR and Occupancy by Geography

As at September 30,	Net AMR			Occupied AMR			Occupancy %	
	2019 AMR (\$)	2018 ⁽¹⁾ AMR (\$)	AMR % Change	2019 AMR (\$)	2018 ⁽¹⁾ AMR (\$)	AMR % Change	2019	2018
Residential Suites								
Ontario								
Greater Toronto Area	1,436	1,368	5.0	1,442	1,373	5.0	99.6	99.6
Ottawa	1,309	1,245	5.1	1,311	1,248	5.0	99.9	99.8
London / Kitchener / Waterloo	1,036	987	5.0	1,051	1,001	5.0	98.5	98.6
Other Ontario	1,338	1,271	5.3	1,344	1,278	5.2	99.6	99.4
	1,373	1,307	5.0	1,380	1,313	5.1	99.5	99.5
Québec								
Greater Montréal Region	968	934	3.6	976	944	3.4	99.2	98.9
Québec City	1,067	1,042	2.4	1,085	1,062	2.2	98.3	98.1
	993	961	3.3	1,003	974	3.0	99.0	98.7
British Columbia								
Greater Vancouver Region	1,401	1,267	10.6	1,413	1,318	7.2	99.1	96.1
Victoria	1,266	1,199	5.6	1,274	1,203	5.9	99.4	99.7
	1,358	1,245	9.1	1,369	1,280	7.0	99.2	97.3
Alberta								
Edmonton	1,197	1,164	2.8	1,214	1,170	3.8	98.6	99.5
Calgary	1,103	1,063	3.8	1,115	1,077	3.5	98.9	98.7
	1,120	1,082	3.5	1,133	1,095	3.5	98.8	98.8
Nova Scotia								
Halifax	1,175	1,122	4.7	1,194	1,134	5.3	98.4	99.0
Saskatchewan								
Regina	1,035	1,054	(1.8)	1,067	1,072	(0.5)	97.0	98.3
Prince Edward Island								
Charlottetown	1,050	1,028	2.1	1,060	1,036	2.3	99.1	99.3
Europe								
The Netherlands ^{(2),(3)}	1,246	1,238	0.6	1,275	1,271	0.3	97.7	97.5
Total residential suites	1,248	1,191	4.8	1,259	1,204	4.6	99.2	98.9
MHC Sites								
Ontario	547	534	2.4	548	535	2.4	99.7	99.9
British Columbia	462	453	2.0	463	453	2.2	99.6	100.0
Alberta	446	429	4.0	449	438	2.5	99.3	98.1
Saskatchewan	424	399	6.3	425	399	6.5	99.7	100.0
Prince Edward Island	156	149	4.7	156	149	4.7	100.0	99.8
New Brunswick	285	270	5.6	307	287	7.0	92.8	94.0
Total MHC sites	410	394	4.1	421	403	4.5	97.3	97.7
Total suites and sites	1,137	1,085	4.8	1,149	1,098	4.6	98.9	98.8

(1) Prior period comparable Net and Occupied AMR and occupancy have been restated for properties disposed of since September 30, 2018.

(2) Includes foreign exchange impact and service charge income. The amounts in Euros for the stabilized portfolio for Net AMR are €863 and €824 as at September 30, 2019 and September 30, 2018, respectively, resulting in a Net AMR change of 4.7%. The Occupied AMR for the stabilized portfolio is €883 and €846 as at September 30, 2019 and September 30, 2018, respectively, resulting in an Occupied AMR change of 4.4%.

(3) Includes all residential properties owned by ERES.

Overall Net AMR for the stabilized residential suite portfolio as at September 30, 2019 increased by approximately 4.8% (including the Netherlands) and 5.0% (excluding the Netherlands) compared to the same period last year, while occupancies increased to 99.2%.

The rate of growth in Net AMR has been primarily due to (i) significant rental increases on turnover in the strong rental markets of British Columbia, Ontario and strong contributions from certain regions and (ii) increases due to above guideline increases (“AGI”) achieved in Ontario.

Annual Rental Guidelines as per Rental Board

The chart below presents the annual rental guideline increases in provinces under rent control legislation which impacts lease renewals.

	2020	2019	2018
Ontario	2.2%	1.8%	1.8%
British Columbia	2.6%	2.5% ⁽¹⁾	4.0%

(1) On September 26, 2018, British Columbia announced that effective January 1, 2019, the annual allowable rent increase will be 2.5% instead of the previously announced 4.5%.

Suite Turnovers and Lease Renewals

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

Canadian Portfolio

For the Three Months Ended September 30,

	2019			2018		
	Change in monthly rent		Turnovers and Renewals ⁽¹⁾	Change in monthly rent		Turnovers and Renewals ⁽¹⁾
	\$	%		\$	%	
Suite turnovers	157.3	13.0	6.9	128.6	11.5	7.2
Lease renewals	23.9	2.0	29.0	25.5	2.2	28.5
Weighted average of turnovers and renewals	49.5	4.1		46.2	4.1	

Canadian Portfolio

For the Nine Months Ended September 30,

	2019			2018		
	Change in monthly rent		Turnovers and Renewals ⁽¹⁾	Change in monthly rent		Turnovers and Renewals ⁽¹⁾
	\$	%		\$	%	
Suite turnovers	166.7	13.6	14.8	121.8	10.7	16.8
Lease renewals	24.9	2.1	67.5	25.6	2.2	66.1
Weighted average of turnovers and renewals	50.3	4.1		45.1	3.9	

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

The Netherlands Portfolio⁽¹⁾**For the Three Months Ended September 30,**

	2019			2018		
	Change in monthly rent		Turnovers and Renewals ⁽²⁾	Change in monthly rent		Turnovers and Renewals ⁽²⁾
	€	%	%	€	%	%
Suite turnovers	58.3	7.2	3.4	54.7	7.0	3.5
Lease renewals	27.4	3.5	91.7	24.7	3.3	87.1
Weighted average of turnovers and renewals	28.5	3.6		25.9	3.4	

The Netherlands Portfolio⁽¹⁾**For the Nine Months Ended September 30,**

	2019			2018		
	Change in monthly rent		Turnovers & Renewals ⁽²⁾	Change in monthly rent		Turnovers & Renewals ⁽²⁾
	€	%	%	€	%	%
Suite turnovers	56.1	6.9	9.1	93.7	12.2	7.9
Lease renewals	27.4	3.5	91.7	24.7	3.3	87.1
Weighted average of turnovers and renewals	30.0	3.8		30.5	4.0	

(1) Includes all residential properties owned by ERES.

(2) Percentage of suites turned over or renewed during the period based on the total weighted number of Netherlands' residential suites held during the period.

Overall, suite turnovers in the Canadian residential suite portfolio (excluding co-ownerships) during the three and nine months ended September 30, 2019 resulted in monthly rent increasing by approximately \$157 or 13.0% and \$167 or 13.6%, respectively, compared to an increase of approximately \$129 or 11.5% and \$122 or 10.7% for the same periods last year, primarily due to the strong rental markets of British Columbia and Ontario.

Monthly rents on lease renewals on the Canadian residential suite portfolio (excluding co-ownerships) for the three and nine months ended September 30, 2019, resulted in monthly rent increasing by approximately \$24 or 2.0% and \$25 or 2.1% respectively, compared to an increase of approximately \$26 or 2.2% for both of the same periods last year.

For the Netherlands portfolio, suite turnovers in the residential suite portfolio during the three and nine months ended September 30, 2019 resulted in monthly rent increasing by approximately €58 or 7.2% and €56 or 6.9% respectively, compared to an increase of approximately €55 or 7.0% and €94 or 12.2% respectively for the same periods last year.

Netherlands' lease renewals occur only once a year in July. For the three and nine months ended September 30, 2019, monthly rents on lease renewals in the Netherlands resulted in monthly rents increasing by approximately €27 or 3.5%, compared to an increase of approximately €25 or 3.3% for the same periods last year.

Above Guideline Increases

Management continues to pursue applications in Ontario for AGIs where it believes increases above the annual guideline are supported by market conditions to raise monthly rents on lease renewals. The maximum allowable annual increase is up to 3% above the annual rental guideline, with the exception of applications based on an increase in the cost of municipal taxes and charges.

The following table summarizes the status of cumulative AGI applications settled and outstanding.

	January 1, 2019 - September 30, 2019	January 1, 2018 - December 31, 2018
Applications Settled:		
Number of suites and sites	1,565	5,309
Weighted average total increase approved ^{(1), (2)}	1.70%	1.99%
Weighted average total increase applied for ^{(1), (3)}	2.27%	2.35%
Applications Outstanding:		
Number of suites and sites	3,496	2,252
Term weighted average total increase applied for ^{(1), (4)}	1.96%	2.50%

(1) Weighted by number of impacted suites and sites filed.

(2) For applications settled during the nine months ended September 30, 2019, the weighted average total increase approved is to apply over 2.10 years (1.68 years for the year ended December 31, 2018).

(3) For applications settled during the nine months ended September 30, 2019, the weighted average total increase applied for was to apply over 1.78 years (1.64 years for the year ended December 31, 2018).

(4) For applications outstanding as at September 30, 2019, the weighted average total increase applied for was to apply over 1.30 years (1.96 years as at the year ended December 31, 2018).

Tenant Inducements, Vacancy Loss, and Bad Debt Expense

The table below shows the new tenant inducements incurred during the periods ended September 30, 2019 and 2018 as well as the amortization of tenant inducements, loss from vacancies, and bad debt expense included in net rental revenue for the same years.

(\$ Thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	% ⁽¹⁾	2018	% ⁽¹⁾	2019	% ⁽¹⁾	2018	% ⁽¹⁾
New tenant inducements incurred - residential	\$ 406		\$ 377		\$ 843		\$ 1,033	
New tenant inducements incurred - commercial	\$ -		\$ 115		\$ 149		\$ 1,036	
Total new tenant inducements incurred	\$ 406		\$ 492		\$ 992		\$ 2,069	
Tenant inducements amortized	\$ 408	0.2	\$ 465	0.3	\$ 1,318	0.2	\$ 1,424	0.3
Vacancy loss incurred	3,816	1.9	2,406	1.4	9,846	1.7	7,735	1.5
Total amortization and loss	\$ 4,224	2.1	\$ 2,871	1.7	\$ 11,164	1.9	\$ 9,159	1.8
Bad debt expense	\$ 657	0.3	\$ 687	0.4	\$ 1,592	0.3	\$ 1,798	0.4

(1) As a percentage of total operating revenues.

RESULTS OF OPERATIONS**Total Operating Revenues by Geography****For the Three Months Ended September 30,**

	2019	2019 Revenue (%)	2018	2018 Revenue (%)
(\$ Thousands)				
Residential Suites				
Ontario				
Greater Toronto Area	\$ 70,130	35.3	\$ 66,933	38.9
Ottawa	6,562	3.3	6,182	3.6
London / Kitchener / Waterloo	8,180	4.1	7,277	4.2
Other Ontario	7,502	3.7	7,117	4.1
	\$ 92,374	46.4	\$ 87,509	50.8
Québec				
Greater Montréal Region	\$ 24,553	12.4	\$ 24,486	14.2
Québec City	8,875	4.5	9,158	5.3
	\$ 33,428	16.9	\$ 33,644	19.5
British Columbia				
Greater Vancouver Region	\$ 15,834	8.0	\$ 12,701	7.3
Victoria	6,438	3.2	5,690	3.3
	\$ 22,272	11.2	\$ 18,391	10.6
Alberta				
Edmonton	\$ 1,799	0.9	\$ 1,738	1.0
Calgary	7,357	3.7	7,188	4.2
	\$ 9,156	4.6	\$ 8,926	5.2
Nova Scotia				
Halifax	\$ 5,987	3.0	\$ 5,707	3.3
Saskatchewan				
Saskatoon ⁽¹⁾	\$ -	-	\$ 128	0.1
Regina	727	0.4	738	0.4
	\$ 727	0.4	\$ 866	0.5
Prince Edward Island				
Charlottetown	\$ 1,757	0.9	\$ 1,664	1.0
Europe				
The Netherlands ⁽²⁾	\$ 16,319	8.2	\$ 7,544	4.4
Other Europe ⁽³⁾	2,899	1.4	-	-
	\$ 19,218	9.6	\$ 7,544	4.4
Total residential suites	\$ 184,919	93.0	\$ 164,251	95.3
MHC Sites				
Ontario	\$ 5,870	3.0	\$ 4,406	2.6
Québec	321	0.2	-	-
British Columbia	783	0.4	370	0.2
Alberta	2,849	1.4	575	0.3
Nova Scotia	100	0.1	-	-
Saskatchewan	477	0.2	455	0.3
Prince Edward Island	381	0.2	225	0.1
New Brunswick	3,060	1.5	2,016	1.2
Total MHC sites	\$ 13,841	7.0	\$ 8,047	4.7
Total residential suites and MHC sites	\$ 198,760	100.0	\$ 172,298	100.0

(1) The Saskatoon property was disposed of on August 15, 2018.

(2) In € Thousands, €11,081 and €4,962 for the three months ended September 30, 2019 and September 30, 2018 respectively.

(3) Comprised of ERES's revenues for two commercial properties located in Germany and one in Belgium. In € thousands, €1,982 for the three months ended September 30, 2019.

Total Operating Revenues by Geography**For the Nine Months Ended September 30,**

	2019	2019 Revenue (%)	2018	2018 Revenue (%)
(\$ Thousands)				
Residential Suites				
Ontario				
Greater Toronto Area	\$ 207,633	36.3	\$ 198,470	38.9
Ottawa	19,443	3.4	18,516	3.6
London / Kitchener / Waterloo	23,347	4.1	21,521	4.2
Other Ontario	22,232	3.9	20,968	4.1
	\$ 272,655	47.7	\$ 259,475	50.8
Québec				
Greater Montréal Region	\$ 72,858	12.7	\$ 72,759	14.2
Québec City	26,623	4.7	27,155	5.3
	\$ 99,481	17.4	\$ 99,914	19.5
British Columbia				
Greater Vancouver Region	\$ 44,778	7.9	\$ 37,280	7.3
Victoria	18,386	3.2	16,853	3.3
	\$ 63,164	11.1	\$ 54,133	10.6
Alberta				
Edmonton	\$ 5,315	0.9	\$ 5,097	1.0
Calgary	21,677	3.8	21,381	4.2
	\$ 26,992	4.7	\$ 26,478	5.2
Nova Scotia				
Halifax	\$ 17,856	3.1	\$ 16,950	3.3
Saskatchewan				
Saskatoon ⁽¹⁾	\$ -	-	\$ 725	0.2
Regina	2,142	0.4	2,194	0.4
	\$ 2,142	0.4	\$ 2,919	0.6
Prince Edward Island				
Charlottetown	\$ 5,157	0.9	\$ 4,972	1.0
Europe				
The Netherlands ⁽²⁾	\$ 44,185	7.7	\$ 22,339	4.4
Other Europe ⁽³⁾	5,895	1.0	-	-
	\$ 50,080	8.8	\$ 22,339	4.4
Total residential suites	\$ 537,527	94.1	\$ 487,180	95.4
MHC Sites				
Ontario	\$ 15,588	2.7	\$ 13,135	2.6
Québec	446	0.1	-	-
British Columbia	1,935	0.3	1,096	0.2
Alberta	5,518	1.0	1,661	0.3
Nova Scotia	135	0.0	-	-
Saskatchewan	1,422	0.3	1,167	0.2
Prince Edward Island	896	0.2	671	0.1
New Brunswick	7,539	1.3	6,008	1.2
Total MHC sites	\$ 33,479	5.9	\$ 23,738	4.6
Total residential suites and MHC sites	\$ 571,006	100.0	\$ 510,918	100.0

(1) The Saskatoon property was disposed of on August 15, 2018.

(2) In € Thousands, €29,588 and €14,520 for the nine months ended September 30, 2019 and September 30, 2018 respectively.

(3) Comprised of ERES's revenues from March 29, 2019 onwards for two commercial properties located in Germany and one in Belgium. In € thousands, €3,975 for the nine months ended September 30, 2019.

Estimated Net Rental Revenue Run-Rate

The table below shows the estimated net rental revenue run-rate (net of average historical vacancy loss, tenant inducements and bad debt) based on Net AMRs in place for CAPREIT's share of residential suites and sites and commercial leases as at September 30, 2019 and 2018.

As at September 30, (\$ Thousands)	2019	2018
Residential rent roll ^{(1),(2)}	\$ 744,113	\$ 639,269
Commercial rent roll ^{(1),(2)}	38,130	22,971
Annualized net rental revenue run-rate	\$ 782,243	\$ 662,240

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

(2) Includes rent roll for all properties owned as at September 30.

The estimated annualized net rental revenue run-rate improved by 18.1% to \$782.2 million compared to \$662.2 million primarily as a result of the extensive MHC portfolio growth, substantial acquisitions in the Netherlands and significant growth in the commercial rent roll primarily as a result of the ERES commercial income. Net rental revenue net of dispositions for the 12 months ended September 30, 2019 was \$715.6 million (2018 – \$636.6 million).

NOI

Stabilized properties for the three and nine months ended September 30, 2019 are defined as all properties owned by CAPREIT continuously since December 31, 2017, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during 2019 and 2018. As at September 30, 2019, stabilized suites and sites represented 83.3% of CAPREIT's total portfolio excluding co-ownerships.

For the Three Months Ended September 30, (\$ Thousands)	Total NOI			Stabilized NOI		
	2019	2018	% ⁽¹⁾	2019	2018	% ⁽¹⁾
Operating Revenues						
Net rental revenues	\$ 188,790	\$ 163,510	15.5	\$ 167,955	\$ 160,576	4.6
Other ⁽²⁾	9,970	8,788	13.5	9,256	9,038	2.4
Total operating revenues	\$ 198,760	\$ 172,298	15.4	\$ 177,211	\$ 169,614	4.5
Operating Expenses						
Realty taxes	(18,853)	(17,539)	7.5	(17,836)	(17,294)	3.1
Utilities	(11,579)	(10,774)	7.5	(10,829)	(10,642)	1.8
Other ^{(3),(4)}	(35,484)	(29,757)	19.2	(31,760)	(29,085)	9.2
Total operating expenses	\$ (65,916)	\$ (58,070)	13.5	\$ (60,425)	\$ (57,021)	6.0
NOI	\$ 132,844	\$ 114,228	16.3	\$ 116,786	\$ 112,593	3.7
NOI margin	66.8%	66.3%		65.9%	66.4%	

For the Nine Months Ended September 30, (\$ Thousands)	Total NOI			Stabilized NOI		
	2019	2018	% ⁽¹⁾	2019	2018	% ⁽¹⁾
Operating Revenues						
Net rental revenues	\$ 540,828	\$ 484,785	11.6	\$ 498,116	\$ 476,701	4.5
Other ⁽²⁾	30,178	26,133	15.5	28,606	26,198	9.2
Total operating revenues	\$ 571,006	\$ 510,918	11.8	\$ 526,722	\$ 502,899	4.7
Operating Expenses						
Realty taxes	(55,065)	(52,015)	5.9	(53,001)	(51,272)	3.4
Utilities	(42,502)	(41,673)	2.0	(41,005)	(41,001)	0.0
Other ^{(3),(4)}	(100,993)	(88,978)	13.5	(94,068)	(87,081)	8.0
Total operating expenses	\$ (198,560)	\$ (182,666)	8.7	\$ (188,074)	\$ (179,354)	4.9
NOI	\$ 372,446	\$ 328,252	13.5	\$ 338,648	\$ 323,545	4.7
NOI margin	65.2%	64.3%		64.3%	64.3%	

(1) Represents the year over year percentage change.

(2) Comprises ancillary income such as parking, laundry and antenna revenue.

(3) Comprises R&M, wages, general and administrative, insurance, advertising and legal costs.

(4) 2018 comparative balances have been adjusted to conform with the current period presentation for land and air rights leases. Prior to IFRS 16 which is effective January 1, 2019, land and air rights lease expenses were deducted as an "operating expense" to calculate NOI. Post IFRS 16 being effective, leases are capitalized as an asset with a corresponding lease liability and the fixed land and air rights lease payments are not deducted as an operating expense through NOI. In 2019 the fixed land and air rights lease payments are deducted as interest expense and principal repayment. Therefore, 2018 NOI comparatives have been restated to conform with the current period presentation for land leases, and will not agree to the 2018 Net Rental Income presented in the financial statements. For the three months ended September 30, 2018 Total and Stabilized NOI has increased by \$378 thousand by adding back the fixed land and air rights lease expense, increasing the Total NOI margin from 66.1% to 66.3% and increasing the Stabilized NOI margin from 66.2% to 66.4%. For the nine months ended September 30, 2018 Total and Stabilized NOI has increased by \$1,132 thousand by adding back the fixed land and air rights lease expense, increasing the Total NOI margin from 64.0% to 64.3% and increasing the Stabilized NOI margin from 64.1% to 64.3%.

Operating Revenues

For the three and nine months ended September 30, 2019, total operating revenues for the total and stabilized portfolios increased compared to the same periods last year, due to increases in monthly rents and continuing high occupancies. Contributions from acquisitions further contributed to higher operating revenues for the total portfolio.

Operating Expenses

Realty Taxes

For the three and nine months ended September 30, 2019, the stabilized portfolio's realty tax increased compared to the same period last year, primarily because of increased property assessment values in Alberta, British Columbia, Ontario and Québec.

Utilities

CAPREIT's utility costs can be highly variable from year to year depending on energy consumption and rates. The table below provides CAPREIT's utility costs by type.

For the Three Months Ended September 30, (\$ Thousands)	Total Utilities			Stabilized Utilities		
	2019	2018	% ⁽¹⁾	2019	2018	% ⁽¹⁾
Electricity	\$ 4,193	\$ 4,136	1.4	\$ 4,033	\$ 4,069	(0.9)
Natural gas	1,487	1,444	3.0	1,443	1,412	2.2
Water	5,899	5,194	13.6	5,353	5,161	3.7
Total	\$ 11,579	\$ 10,774	7.5	\$ 10,829	\$ 10,642	1.8

For the Nine Months Ended September 30, (\$ Thousands)	Total Utilities			Stabilized Utilities		
	2019	2018	% ⁽¹⁾	2019	2018	% ⁽¹⁾
Electricity	\$ 15,410	\$ 15,521	(0.7)	\$ 15,096	\$ 15,322	(1.5)
Natural gas	10,598	11,226	(5.6)	10,500	10,856	(3.3)
Water	16,494	14,926	10.5	15,409	14,823	4.0
Total	\$ 42,502	\$ 41,673	2.0	\$ 41,005	\$ 41,001	0.0

(1) Represents the year over year percentage change.

As at September 30, 2019, tenants who pay their hydro charges directly represented 69% of the total 17,144 sub-metered suites in Ontario, Alberta and Halifax.

For the stabilized portfolio, natural gas costs increased for the three months ended September 30, 2019 compared to the same period last year due to higher consumption and the introduction of the Ontario carbon tax, offset by lower rates as a result of hedging. For the nine months ended September 30, 2019, natural gas costs for the stabilized portfolio decreased primarily due to improved rates in Ontario achieved as a result of hedging the supply rates, partially offset by higher consumption.

Water costs for the stabilized portfolio increased for the three months and nine ended September 30, 2019, compared to the same period last year due to increased water rates in 2019.

The table below provides information on CAPREIT's fixed natural gas contracts for the fiscal years remaining 2019, 2020, 2021 and 2022:

	Actual ⁽²⁾ 2018	Pro Forma 2019	Estimated 2020	Estimated 2021	Estimated 2022
Gas Commodity					
Fixed weighted average cost per GJ ⁽¹⁾	2.82	\$ 2.50	\$ 2.26	\$ 1.69	\$ 1.85
Total of CAPREIT's actual/estimated requirements	69.1%	80.9%	73.3%	64.4%	16.7%
Transport					
Fixed weighted average cost per GJ ⁽¹⁾	1.20	\$ 1.14	\$ 1.19	\$ 1.41	\$ 1.30
Total of CAPREIT's actual/estimated requirements	80.6%	81.3%	73.3%	64.4%	16.7%

(1) Fixed weighted average cost per gigajoule ("GJ") excludes other administrative costs.

(2) Based on actual fixed hedged gas commodity and transport costs per GJ. Also shown above is the actual percentage of utilized hedge contracts against actual total requirements.

Other Operating Expenses

The stabilized other operating expenses for the three and nine months ended September 30, 2019 increased primarily due to higher R&M costs and rising insurance costs driven by higher replacement cost valuations, and overall increases in insurance rates.

NOI Margin

For the three and nine months ended September 30, 2019, NOI margin for the total portfolio increased to 66.8% and 65.2% respectively.

NOI BY REGION

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

The following tables show each regions' NOI and NOI margin for the periods ended September 30, 2019 and 2018.

NOI by Geography

For the Three Months Ended September 30,

For the Three Months Ended September 30,		2019			2018			NOI Change (%)	
		NOI	NOI % ⁽¹⁾	NOI Margin (%)	NOI ⁽²⁾	NOI % ⁽¹⁾	NOI Margin (%)		
(\$ Thousands)									
Residential Suites									
Ontario									
Greater Toronto Area ⁽²⁾	\$	46,224	34.8	65.9	\$	44,394	38.9	66.3	4.1
Ottawa		4,270	3.3	65.1		3,961	3.5	64.1	7.8
London / Kitchener / Waterloo		5,347	4.0	65.4		4,853	4.2	66.7	10.2
Other Ontario		4,960	3.7	66.1		4,615	4.0	64.8	7.5
	\$	60,801	45.8	65.8	\$	57,823	50.6	66.1	5.2
Québec									
Greater Montréal Region	\$	15,272	11.5	62.2	\$	15,390	13.5	62.9	(0.8)
Québec City		5,412	4.1	61.0		5,638	4.9	61.6	(4.0)
	\$	20,684	15.6	61.9	\$	21,028	18.4	62.5	(1.6)
British Columbia									
Greater Vancouver Region ⁽²⁾	\$	11,112	8.4	70.2	\$	9,166	8.0	72.2	21.2
Victoria		4,854	3.6	75.4		4,243	3.7	74.6	14.4
	\$	15,966	12.0	71.7	\$	13,409	11.7	72.9	19.1
Alberta									
Edmonton	\$	1,210	0.9	67.3	\$	1,233	1.1	70.9	(1.9)
Calgary ⁽²⁾		4,769	3.6	64.8		4,413	3.9	61.4	8.1
	\$	5,979	4.5	65.3	\$	5,646	5.0	63.3	5.9
Nova Scotia									
Halifax	\$	3,820	2.9	63.8	\$	3,778	3.3	66.2	1.1
Saskatchewan									
Saskatoon ⁽³⁾	\$	-	-	-	\$	(8)	(0.0)	(6.3)	-
Regina		434	0.3	59.7		451	0.4	61.1	(3.8)
	\$	434	0.3	59.7	\$	443	0.4	51.2	(3.8)
Prince Edward Island									
Charlottetown	\$	974	0.7	55.4	\$	931	0.8	56.0	4.6
Europe									
The Netherlands ⁽⁴⁾	\$	12,524	9.4	76.7	\$	5,957	5.2	79.0	110.2
Other Europe ⁽⁵⁾		2,289	1.7	79.0		-	-	-	-
	\$	14,813	11.1	77.1	\$	5,957	5.2	79.0	148.7
Total residential suites	\$	123,471	92.9	66.8	\$	109,015	95.4	66.4	13.3
MHC Sites									
Ontario	\$	4,178	3.2	71.2	\$	2,965	2.6	67.3	40.9
Québec		230	0.2	71.7		-	-	-	-
British Columbia		608	0.5	77.7		301	0.3	81.4	102.0
Alberta		2,010	1.5	70.6		385	0.3	67.0	422.1
Nova Scotia		53	0.0	53.0		-	-	-	-
Saskatchewan		300	0.2	62.9		281	0.3	61.8	6.8
Prince Edward Island		213	0.2	55.9		136	0.1	60.4	56.6
New Brunswick		1,781	1.3	58.2		1,145	1.0	56.8	55.6
Total MHC sites	\$	9,373	7.1	67.7	\$	5,213	4.6	64.8	79.8
Total suites and sites	\$	132,844	100.0	66.8	\$	114,228	100.0	66.3	16.3

(1) Represents percentage of the portfolio by NOI.

(2) 2018 comparative balances have been adjusted to conform with the current period presentation for land and air rights leases. For further details, refer to the NOI section under the Results of Operations section.

(3) The Saskatoon property was disposed of on August 15, 2018.

(4) In € Thousands, €8,503 and €3,917 for the three months ended September 30, 2019 and September 30, 2018, respectively.

(5) Comprised of ERES's NOI for two commercial properties located in Germany and one in Belgium. In € thousands, €1,567 for the three months ended September 30, 2019.

NOI by Geography**For the Nine Months Ended September 30,**

(\$ Thousands)	2019			2018			NOI Change (%)
	NOI	NOI % ⁽¹⁾	NOI Margin (%)	NOI ⁽²⁾	NOI % ⁽¹⁾	NOI Margin (%)	
Residential Suites							
Ontario							
Greater Toronto Area ⁽²⁾	\$ 135,327	36.3	65.2	\$ 128,412	39.1	64.7	5.4
Ottawa	12,499	3.4	64.3	11,871	3.6	64.1	5.3
London / Kitchener / Waterloo	15,261	4.1	65.4	13,710	4.2	63.7	11.3
Other Ontario	14,272	3.8	64.2	13,130	4.0	62.6	8.7
	\$ 177,359	47.6	65.1	\$ 167,123	50.9	64.4	6.1
Québec							
Greater Montréal Region	\$ 42,791	11.5	58.7	\$ 42,567	13.0	58.5	0.5
Québec City	15,675	4.2	58.9	15,902	4.8	58.6	(1.4)
	\$ 58,466	15.7	58.8	\$ 58,469	17.8	58.5	(0.0)
British Columbia							
Greater Vancouver Region ⁽²⁾	\$ 31,207	8.4	69.7	\$ 26,944	8.2	72.3	15.8
Victoria	13,647	3.7	74.2	12,412	3.8	73.7	10.0
	\$ 44,854	12.1	71.0	\$ 39,356	12.0	72.7	14.0
Alberta							
Edmonton	\$ 3,489	0.9	65.6	\$ 3,472	1.1	68.1	0.5
Calgary ⁽²⁾	12,589	3.4	58.1	12,917	3.9	60.4	(2.5)
	\$ 16,078	4.3	59.6	\$ 16,389	5.0	61.9	(1.9)
Nova Scotia							
Halifax	\$ 10,883	2.9	61.0	\$ 10,689	3.3	63.1	1.8
Saskatchewan							
Saskatoon ⁽³⁾	\$ -	-	-	\$ 269	0.1	37.1	-
Regina	1,202	0.3	56.1	1,323	0.4	60.3	(9.1)
	\$ 1,202	0.3	56.1	\$ 1,592	0.5	54.5	(24.5)
Prince Edward Island							
Charlottetown	\$ 2,587	0.7	50.2	\$ 2,527	0.8	50.8	2.4
Europe							
The Netherlands ⁽⁴⁾	\$ 34,220	9.2	77.5	\$ 16,848	5.1	75.4	103.1
Other Europe ⁽⁵⁾	4,715	1.3	80.0	-	-	-	-
	\$ 38,935	10.5	77.8	\$ 16,848	5.1	75.4	131.1
Total residential suites	\$ 350,364	94.1	65.2	\$ 312,993	95.4	64.3	11.9
MHC Sites							
Ontario	\$ 10,782	2.9	69.2	\$ 8,978	2.7	68.4	20.1
Québec	334	0.1	74.9	-	-	-	-
British Columbia	1,481	0.4	76.5	864	0.3	78.8	71.4
Alberta	3,924	1.1	71.1	1,057	0.3	63.6	271.2
Nova Scotia	78	0.0	57.8	-	-	-	-
Saskatchewan	923	0.2	64.9	737	0.2	63.2	25.2
Prince Edward Island	433	0.1	48.3	317	0.1	47.2	36.6
New Brunswick	4,127	1.1	54.7	3,306	1.0	55.0	24.8
Total MHC sites	\$ 22,082	5.9	66.0	\$ 15,259	4.6	64.3	44.7
Total suites and sites	\$ 372,446	100.0	65.2	\$ 328,252	100.0	64.3	13.5

(1) Represents percentage of the portfolio by NOI.

(2) 2018 comparative balances have been adjusted to conform with the current period presentation for land and air rights leases. For further details, refer to the NOI section under the Results of Operations section.

(3) The Saskatoon property was disposed of on August 15, 2018.

(4) In € Thousands, €22,916 and €10,960 for the nine months ended September 30, 2019 and September 30, 2018, respectively.

(5) Comprised of ERES's NOI from March 29, 2019 onwards for the two commercial properties located in Germany and one in Belgium. In € Thousands, €3,181 for the nine months ended September 30, 2019.

The significant improvement in the NOI contribution in 2019 was primarily the result of higher operating revenues due to contributions from acquisitions and increased same property monthly rents. CAPREIT remains focused on continuing to further improve NOI and NOI margin through a combination of accretive and value-enhancing acquisitions, successful sales and marketing strategies to further improve revenues, and investments in capital programs to further reduce costs and enhance the quality and value of its portfolio. For a comprehensive analysis of stabilized NOI growth or decline compared to the same period last year by region, refer to the Stabilized NOI by Region section.

STABILIZED NOI BY REGION

For the Three Months Ended September 30.	2019		2018		Increase (Decrease)		
(\$ Thousands)	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
Ontario							
Greater Toronto Area ⁽¹⁾	\$ 46,260	66.1	\$ 44,394	66.3	4.6	5.2	4.2
Ottawa	4,270	65.1	3,961	64.1	6.2	3.2	7.8
London / Kitchener / Waterloo	5,003	65.4	4,853	66.7	5.2	9.5	3.1
Other Ontario	4,960	66.1	4,615	64.9	5.4	1.7	7.5
	\$ 60,493	66.0	\$ 57,823	66.1	4.8	5.1	4.6 ⁽²⁾
Québec							
Greater Montréal Region	\$ 15,272	62.2	\$ 14,859	63.0	4.1	6.3	2.8
Québec City	5,412	61.0	5,340	61.8	2.7	4.8	1.4
	\$ 20,684	61.9	\$ 20,199	62.7	3.7	5.9	2.4 ⁽³⁾
British Columbia							
Greater Vancouver Region ⁽¹⁾	\$ 8,572	69.9	\$ 8,447	72.1	4.7	13.1	1.5
Victoria	4,548	75.1	4,243	74.6	6.5	4.5	7.2
	\$ 13,120	71.6	\$ 12,690	72.9	5.3	10.5	3.4 ⁽⁴⁾
Alberta							
Edmonton	\$ 1,210	67.3	\$ 1,233	70.9	3.5	16.6	(1.9)
Calgary ⁽¹⁾	4,769	64.8	4,413	61.4	2.4	(6.7)	8.1
	\$ 5,979	65.3	\$ 5,646	63.3	2.6	(3.1)	5.9 ⁽⁵⁾
Nova Scotia							
Halifax	\$ 3,820	63.8	\$ 3,778	66.2	4.9	12.3	1.1 ⁽⁶⁾
Saskatchewan							
Regina	\$ 434	59.9	\$ 451	61.2	(1.6)	1.8	(3.8)
Prince Edward Island							
Charlottetown	\$ 926	54.4	\$ 931	55.9	2.2	5.6	(0.5)
Europe							
The Netherlands ⁽⁷⁾	\$ 5,795	73.9	\$ 5,957	79.0	4.0	29.4	(2.7)
Total residential suites	\$ 111,251	65.9	\$ 107,475	66.5	4.4	6.2	3.5
MHC Sites							
Ontario	\$ 3,154	69.6	\$ 2,965	67.3	2.8	(4.5)	6.4 ⁽⁸⁾
British Columbia	409	85.0	300	81.1	30.0	2.9	36.3 ⁽⁹⁾
Alberta	428	68.7	385	66.8	8.2	2.1	11.2 ⁽¹⁰⁾
Saskatchewan	198	61.9	188	61.8	5.3	5.2	5.3
Prince Edward Island	136	59.1	136	60.4	2.2	5.6	-
New Brunswick	1,210	57.6	1,144	56.8	4.3	2.3	5.8
Total MHC sites	\$ 5,535	66.8	\$ 5,118	64.8	4.9	(1.0)	8.2
Total suites and sites	\$ 116,786	65.9	\$ 112,593	66.4	4.4	5.8	3.7
Stabilized suites and sites	48,586		48,586				

(1) 2018 comparative balances have been adjusted to conform with the current period presentation for land and air rights leases. For further details, refer to the NOI section under the Results of Operations section.

(2) Higher expenses: higher insurance costs, R&M costs, realty taxes and utility costs.

(3) Higher expenses: higher insurance costs, legal costs and realty taxes.

(4) Higher expenses: higher realty taxes and wages, partially offset by lower R&M costs.

(5) Lower expenses: lower utility costs and wages, partially offset by higher realty taxes.

(6) Higher expenses: higher insurance costs, R&M costs and wages.

(7) In € Thousands, €3,932 and €3,917 for the three months ended September 30, 2019 and September 30, 2018, respectively. Higher expenses: higher advertising costs and R&M costs.

(8) Lower expenses: lower insurance costs, realty taxes and R&M costs, partially offset by higher utility costs.

(9) Higher revenue: include home sales. Excluding home sales, revenue increased by 4.0%. Higher expenses: higher realty taxes partially offset by lower wages.

(10) Higher revenue: increased home rental revenues due to 16 rental homes purchased in mid-2018 on an existing site making a full impact during the quarter.

For the Nine Months Ended September 30,	2019		2018		Increase (Decrease)		
(\$ Thousands)	Stabilized NOI	NOI Margin (%)	Stabilized NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
Ontario							
Greater Toronto Area ⁽¹⁾	\$ 135,363	65.2	\$ 128,412	64.7	4.5	2.9	5.4
Ottawa	12,499	64.3	11,871	64.1	5.0	4.5	5.3
London / Kitchener / Waterloo	14,917	65.4	13,710	63.7	6.1	1.2	8.8
Other Ontario	14,272	64.2	13,130	62.6	6.0	1.6	8.7
	\$ 177,051	65.1	\$ 167,123	64.4	4.8	2.8	5.9 ⁽²⁾
Québec							
Greater Montréal Region	\$ 42,791	58.7	\$ 41,237	58.9	4.0	4.3	3.8
Québec City	15,675	58.9	15,040	58.8	4.0	3.8	4.2
	\$ 58,466	58.8	\$ 56,277	58.8	4.0	4.1	3.9 ⁽³⁾
British Columbia							
Greater Vancouver Region ⁽¹⁾	\$ 25,185	69.3	\$ 24,870	72.1	5.4	15.9	1.3
Victoria	13,255	74.0	12,412	73.7	6.3	4.9	6.8
	\$ 38,440	70.8	\$ 37,282	72.6	5.7	12.4	3.1 ⁽⁴⁾
Alberta							
Edmonton	\$ 3,489	65.6	\$ 3,472	68.1	4.3	12.4	0.5
Calgary ⁽¹⁾	12,589	58.1	12,917	60.4	1.4	7.4	(2.5)
	\$ 16,078	59.6	\$ 16,389	61.9	1.9	8.2	(1.9) ⁽⁵⁾
Nova Scotia							
Halifax	\$ 10,883	61.0	\$ 10,689	63.1	5.4	11.4	1.8 ⁽⁶⁾
Saskatchewan							
Regina	\$ 1,202	56.2	\$ 1,323	60.3	(2.5)	7.7	(9.2) ⁽⁷⁾
Prince Edward Island							
Charlottetown	\$ 2,539	49.8	\$ 2,527	50.8	2.6	4.8	0.5
Europe							
The Netherlands ⁽⁸⁾	\$ 18,243	74.7	\$ 16,848	75.4	9.3	12.5	8.3
Total residential suites	\$ 322,902	64.3	\$ 308,458	64.3	4.8	4.9	4.7
MHC Sites							
Ontario	\$ 9,142	68.2	\$ 8,978	68.4	2.1	2.7	1.8
British Columbia	1,153	81.2	864	78.8	29.6	15.1	33.5 ⁽⁹⁾
Alberta	1,210	66.7	1,057	63.6	9.3	0.2	14.5 ⁽¹⁰⁾
Saskatchewan	616	64.9	565	62.4	4.8	(2.4)	9.0 ⁽¹¹⁾
Prince Edward Island	316	45.9	317	47.2	2.5	5.1	(0.3)
New Brunswick	3,309	53.3	3,306	55.0	3.4	7.5	0.1 ⁽¹²⁾
Total MHC sites	\$ 15,746	64.3	\$ 15,087	64.3	4.3	4.3	4.4
Total suites and sites	\$ 338,648	64.3	\$ 323,545	64.3	4.7	4.9	4.7
Stabilized suites and sites	48,586		48,586				

(1) 2018 comparative balances have been adjusted to conform with the current period presentation for land and air rights leases. For further details, refer to the NOI section under the Results of Operations section.

(2) Higher expenses: higher insurance costs, realty taxes and R&M costs, partially offset by lower utility costs and wages.

(3) Higher expenses: higher insurance costs, realty taxes and R&M costs, partially offset by lower advertising costs and wages.

(4) Higher expenses: higher realty taxes, utility costs and wages.

(5) Higher expenses: higher realty taxes, R&M costs and utility costs, partially offset by lower wages.

(6) Higher expenses: realty taxes and R&M costs, partially offset by lower advertising costs.

(7) Higher expenses: higher advertising costs and R&M costs.

(8) In € Thousands, €12,214 and €10,960 for the nine months ended September 30, 2019 and September 30, 2018, respectively. NOI increased by 11.4% due to increases in rents on turnover as well as lower R&M costs.

(9) Higher revenues: include home sales. Excluding home sales, revenues increased by 3.4%. Higher expenses: higher wages partially offset by lower R&M costs.

(10) Higher revenues: increased home rental revenues due to 16 rental homes purchased in mid-2018 on an existing site making a full impact in 2019.

(11) Lower expenses: lower R&M costs, partially offset by higher utility costs.

(12) Higher expenses: realty taxes, R&M costs and wages.

For the three and nine months ended September 30, 2019, stabilized NOI increased by 3.7% and 4.7% respectively compared to the same periods last year. Furthermore, the NOI margin for the three and nine months ended September 30, 2019 decreased to 65.9% and remained strong to 64.3%, respectively, from 66.4% and 64.3% for the same periods last year.

The following table reconciles stabilized NOI and NOI from net acquisitions to total NOI for the three and nine months ended September 30, 2019 and September 30, 2018.

(\$ Thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	NOI Margin (%)	2018	NOI Margin (%)	2019	NOI Margin (%)	2018	NOI Margin (%)
Stabilized NOI	\$ 116,786	65.9	\$ 112,593	66.4	\$ 338,648	64.3	\$ 323,545	64.3
Net acquisitions NOI ⁽¹⁾	16,058	74.3	1,635	61.3	33,798	76.4	4,707	58.8
Total NOI	\$ 132,844	66.8	\$ 114,228	66.3	\$ 372,446	65.2	\$ 328,252	64.3

(1) Represents the NOI of acquisitions and dispositions completed during 2019 and 2018.

NET INCOME AND OTHER COMPREHENSIVE INCOME

	Three Months Ended September 30,		Nine Months Ended September 30,	
(\$ Thousands)	2019	2018	2019	2018
NOI	\$ 132,844	\$ 113,850	\$ 372,446	\$ 327,120
(Less) plus:				
Trust expenses	(10,752)	(8,658)	(32,068)	(26,682)
Transaction costs	-	-	(8,527)	-
Unit-based compensation expenses	(5,876)	(10,853)	(13,416)	(27,070)
Fair value adjustments of investment properties	263,640	50,468	473,576	280,076
Realized loss on disposition of investment properties	-	(577)	-	(577)
Amortization of property, plant and equipment	(1,593)	(1,278)	(4,550)	(3,674)
Fair value adjustments of Exchangeable Units	-	(272)	-	(896)
Loss on non-controlling interest	(33,248)	-	(39,947)	-
Fair value adjustments of investments ⁽¹⁾	2,696	2,500	8,892	4,152
Gain on derivative financial instruments	11,096	2,597	7,307	10,517
Interest on Exchangeable Units	-	(20)	-	(101)
Interest on mortgages payable and other financing costs	(31,305)	(28,709)	(91,510)	(86,084)
Interest on bank indebtedness and other financing costs	(3,501)	(4,982)	(7,343)	(10,427)
Interest on leases ⁽²⁾	(412)	-	(1,245)	-
Gain (loss) on foreign currency translation	11,668	5,928	35,260	(6,478)
Other income	4,971	4,141	20,017	28,086
Net Income Before Income Taxes	\$ 340,228	\$ 124,135	\$ 718,892	\$ 487,962
Current and deferred income tax expense	(9,887)	(4,541)	(15,712)	(6,558)
Net Income	\$ 330,341	\$ 119,594	\$ 703,180	\$ 481,404
Other Comprehensive Income, Including Items That May Be Reclassified Subsequently to Net Income				
Amortization of losses from AOCL to interest and other financing costs	\$ 1,725	\$ 643	\$ 3,173	\$ 2,016
Loss on foreign currency translation	(30,086)	(10,089)	(65,760)	(3,241)
Other Comprehensive Loss	(28,361)	(9,446)	(62,587)	(1,225)
Comprehensive Income	\$ 301,980	\$ 110,148	\$ 640,593	\$ 480,179

(1) Effective January 1, 2018, CAPREIT adopted IFRS 9 Financial Instruments. Under this standard, this investment has been designated as Fair Value through Profit and Loss ("FVTPL") whereas previously it was designated as available-for-sale. Under the guidance in this new standard, any mark-to-market gains or losses are recorded in the statement of income and comprehensive income whereas previously they were recorded through Other Comprehensive Income ("OCI"). The cumulative mark to market gains/losses have also been reclassified from accumulated OCI to retained earnings on adoption of this standard.

(2) Upon adoption of IFRS 16, effective January 1, 2019, CAPREIT's land and air rights leases were required to be capitalized with a corresponding lease liability. This has led to the recording of lease interest on these lease liabilities. For further details, please refer to note 2, of CAPREIT's financial statements.

Trust Expenses

Trust expenses include costs directly attributable to head office, such as salaries, trustee fees, professional fees for legal and advisory services, trustees' and officers' insurance premiums, providing third party property and asset management services, and other general and administrative expenses net of amounts allocated to property operating expenses for properties owned by CAPREIT. Trust expenses increased for the nine months ended September 30, 2019 to \$32.1 million from \$26.7 million for the same period last year primarily due to higher salaries, legal fees, and public company costs associated with ERES. Trust expenses for the nine months ended September 30, 2019 includes non-routine items of approximately \$0.5 million related to legal, consulting, accounting and tax costs incurred in connection with initial ERES structuring expenses. For the same period last year, trust expenses included \$1.3 million related to non-executive reorganization severances, consulting, legal and general expenses.

Transaction Costs

Transaction costs are related to the one-time business combination fees related to legal, audit, tax, consulting and financial advisory fees.

Fair Value Adjustments of Investment Properties

CAPREIT recognizes its investment properties at fair value at each reporting period, with any unrealized gain or loss upon remeasurement recognized in the consolidated statements of income for the period. A description of the key components of the change in the fair value of investment properties is included in the Investment Properties in Section V.

Loss on Non-Controlling Interest

For the three and nine months ended September 30, 2019, CAPREIT recorded a loss on the non-controlling interest portion of ERES units held by ERES external unitholders of \$33.2 million and \$39.9 million, which includes a mark-to-market loss of \$32.4 million and \$38.3 million and distributions to ERES external unitholders of \$849 thousand and \$1.6 million. The mark-to-market loss arises from the increase in ERES's unit price on a quarter and year to date basis to a September 30, 2019 unit price of \$4.67.

Unit-based Compensation Expenses

Unit-based compensation benefits are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and to provide additional incentives by increasing the participants' interest, as owners, in CAPREIT. Unit-based compensation expenses include costs attributable to these incentive plans, namely the Restricted Unit Rights Plan ("RUR Plan"), Unit Option Plan ("UOP"), Deferred Unit Plan ("DUP"), Long-Term Incentive Plan ("LTIP") and Senior Executive Long-Term Incentive Plan ("SELTIP") and the ERES unit options ("ERES UOP") (see notes 11 and 12 of the condensed consolidated interim financial statements). On April 4, 2014, the LTIP, SELTIP and UOP were terminated by the trustees of CAPREIT. In 2018, the UOP, LTIP and SELTIP were all settled and no further awards remain outstanding.

The Unit-based compensation expenses have been separated into two components: (i) the amortization of the fair value at grant date of the award over its vesting period, and (ii) the remeasurement of awards outstanding at period end at fair value.

(\$ Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Remeasurement of Unit-based compensation liabilities	\$ 4,437	\$ 9,459	\$ 8,396	\$ 23,177
Amortization of fair value on grant date of Unit-based compensation	1,439	1,394	5,020	3,893
Total	\$ 5,876	\$ 10,853	\$ 13,416	\$ 27,070

CAPREIT's remeasurement of Unit-based compensation liabilities for the three and nine months ended September 30, 2019 decreased to an expense of \$4.4 million and \$8.4 million, compared to a remeasurement expense of \$9.5 million and \$23.2 million in the prior year primarily due to the fact that all outstanding LTIP and SELTIP units were settled in 2018. CAPREIT's amortization of fair value on grant date of Unit-based compensation expense for three and nine months ended September 30, 2019 increased to \$1.4 million and \$5.0 million, compared to \$1.4 million and \$3.9 million in the prior year primarily due to ERES unit options amortization, and accelerated RUR amortization expense relating to the former President and CEO in the first quarter.

Interest on Mortgages Payable and Other Financing Costs

Information on the interest on mortgages payable and other financing costs is included in note 20 to the accompanying unaudited condensed consolidated interim financial statements and included in Liquidity and Financial Condition in Section V of this report.

Interest on Bank Indebtedness

Interest on bank indebtedness relates to borrowings under the Credit Facilities (see Liquidity and Financial Condition discussion in Section V).

Other Income

Other income primarily consists of income received from investments (see note 7 to the accompanying unaudited condensed consolidated interim financial statements), income from investment in associate, and asset management and property management fees.

(\$ Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Investment income	\$ 340	\$ 348	\$ 1,069	\$ 1,033
Net profit from equity-accounted investment in IRES ⁽¹⁾	2,215	1,911	11,867	20,774
IRES asset and property management fees ⁽²⁾	2,104	1,869	5,817	5,339
Other	312	13	1,264	940
Total	\$ 4,971	\$ 4,141	\$ 20,017	\$ 28,086

(1) CAPREIT's share of IRES' investment property fair value change, earnings and foreign exchange effects thereon. For the three months ended September 30, 2019 and 2018, CAPREIT's share of IRES' investment property fair value gain is nil. For the nine months ended September 30, 2019 and 2018, CAPREIT's share of IRES' investment property fair value gain is \$6.0 million and \$15.5 million respectively.

(2) Based on investment management agreement with IRES, which owns properties in Ireland.

Other income excludes \$2.8 million and \$4.4 million of asset management fees and property management fees for three and nine months ended September 30, 2019 from ERES which was eliminated on a consolidated basis. For more details, see note 23 to the accompanying unaudited condensed consolidated interim financial statements.

Amortization

These costs represent the amortization of right of use assets as per IFRS 16 and head office property, plant and equipment on a straight-line basis over its estimated useful lives ranging primarily between three and five years.

Income Taxes

CAPREIT has foreign subsidiaries in a number of countries with varying statutory rates of taxation. During the three and nine months ended September 30, 2019, income tax expenses increased to \$9.9 million and \$15.7 million from \$4.5 million and \$6.6 million, respectively. The increase in income tax expense is primarily due to an increase in fair value adjustments of investment properties in the Netherlands. As a result of the Acquisition, capital gains were triggered on the reorganization of the legal structure of the Netherlands subsidiaries. Therefore, \$18.1 million previously included in deferred tax liability was reclassified to current tax liability.

(\$ Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Current income tax expense triggered on Acquisition	\$ -	\$ -	\$ 18,050	\$ -
Current income tax expense (recovery) not related to the Acquisition	429	-	(599)	-
Current income tax expense (net)	\$ 429	\$ -	\$ 17,451	\$ -

(\$ Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Deferred income tax recovery triggered on Acquisition	\$ -	\$ -	\$ (18,050)	\$ -
Deferred income tax expense (recovery) not related to the Acquisition	9,458	4,541	16,311	6,558
Deferred income tax expense (recovery) (net)	\$ 9,458	\$ 4,541	\$ (1,739)	\$ 6,558

Unrealized and Realized Loss on Derivative Financial Instruments

(\$ Thousands)

September 30,

		Balance	Date ⁽⁷⁾	End Date ⁽⁷⁾	Credit Facility Rate	All-in Swap Rate	Net Income (unrealized gain/(loss))			
							Three Months Ended		Nine Months Ended	
							2019	2018	2019	2018
Interest Swap ⁽¹⁾	\$	65,000	9/28/12	6/30/22	BA + 1.40%	3.60%	\$ 157	\$ 620	\$ (1,007)	\$ 1,176
Euro LIBOR ⁽²⁾	\$	65,000	9/28/19	6/28/21	BA + 1.40%	0.97%	(13)	-	(13)	-
US LIBOR ⁽³⁾	US\$	186,436	6/30/17	6/28/19	US LIBOR +1.65%	1.20%	-	1,977	1,038	9,341
US LIBOR ⁽⁴⁾	US\$	186,190	6/28/19	6/28/21	US LIBOR +1.65%	1.08%	10,384	-	9,712	-
FX Swap ⁽⁵⁾	€	97,000	9/27/19	10/15/19	N/A	N/A	2,016	-	(518)	-
ERES	€	7,500	3/29/19	12/31/23	EURIBOR + 0.95%	0.60%	-	-	11	-
ERES	€	25,500	3/29/19	1/13/25	EURIBOR + 1.38%	0.49%	(284)	-	(752)	-
ERES FX ⁽⁶⁾	€	108,610	9/19/19	9/24/19	N/A	N/A	(1,164)	-	(1,164)	-
Total							\$ 11,096	\$ 2,597	\$ 7,307	\$ 10,517

(1) Settled as of September 26, 2019.

(2) Canadian based loan of \$65,000 hedged into euros of €44,818 effective September 2019.

(3) US based loan of USD \$186,436 hedged into euros of €163,540 effective July 2017.

(4) US based loan of USD \$186,190 hedged into euros of €163,540 effective June 28, 2019.

(5) CAD to Euro swap. The net income impact represents the cumulative gain (loss) on each renewal of the swaps during the three and nine months ended September 2019.

(6) ERES entered into forward foreign exchange contracts to hedge the movement in the Canadian and Euro exchange rates for their September 2019 equity raise proceeds.

(7) The start and end dates represent the term of the swap.

Gain (Loss) on Foreign Currency Translation

CAPREIT is exposed to gain/loss in foreign exchange due to its holdings of assets and liabilities through its investment in IRES and its ERES subsidiary. The following table summarizes the gain or loss recorded in other comprehensive income and net income on this exposure and its associated hedged instruments:

As of September 30,
(\$ Thousands)

	2019						
	Other Comprehensive Gain/(Loss)			Net Income Gain/(Loss)		Total Foreign Exchange Exposure Gain/(Loss)	
	Balance (€)	Three Months Ended (\$)	Nine Months Ended (\$)	Three Months Ended (\$)	Nine Months Ended (\$)	Three Months Ended (\$)	Nine Months Ended (\$)
Total foreign assets ⁽¹⁾	€ 1,341,722	\$ (49,022)	\$ (107,364)	\$ 5,944	\$ 5,245	\$ (43,078)	\$ (102,119)
Total foreign liabilities ⁽²⁾	699,951	18,936	41,604	5,724	30,015	24,660	71,619
Net equity	641,771	(30,086)	(65,760)	11,668	35,260	(18,418)	(30,500)
FX Swap	97,000	-	-	2,016	(518)	2,016	(518)
Cross currency swap	208,358	-	-	10,528	9,730	10,528	9,730
Net gain/(loss) Exposure	€ 336,413	\$ (30,086)	\$ (65,760)	\$ 24,212	\$ 44,472	\$ (5,874)	\$ (21,288)

	2018						
	Other Comprehensive Gain/(Loss)			Net Income Gain/(Loss)		Total Foreign Exchange Exposure Gain/(Loss)	
	Balance (€)	Three Months Ended (\$)	Nine Months Ended (\$)	Three Months Ended (\$)	Nine Months Ended (\$)	Three Months Ended (\$)	Nine Months Ended (\$)
Total foreign assets ⁽¹⁾	€ 525,671	\$ (17,013)	\$ (3,893)	\$ -	\$ -	\$ (17,013)	\$ (3,893)
Total foreign liabilities ⁽²⁾	432,950	6,924	652	5,928	(6,478)	12,852	(5,826)
Net equity	92,721	(10,089)	(3,241)	5,928	(6,478)	(4,161)	(9,719)
Cross currency swap	-	-	-	1,977	9,341	1,977	9,341
Net gain/(loss) Exposure	€ 92,721	\$ (10,089)	\$ (3,241)	\$ 7,905	\$ 2,863	\$ (2,184)	\$ (378)

(1) Foreign assets are comprised of CAPREIT's Euro cash, ERES's assets, and investment in IRES. Foreign exchange gains or losses related to CAPREIT's Euro cash are recorded in foreign currency translation under Net Income. Foreign exchange gains or losses related to ERES's assets and investment in IRES are recorded in foreign currency translation under OCI.

(2) Foreign liabilities are comprised of third-party loans secured by the Netherlands properties and Euro LIBOR borrowings and US LIBOR borrowings: (a) Foreign exchange gains or losses related to loans secured by the Netherlands properties are recorded in foreign currency translation under OCI; (b) gain or losses on Euro LIBOR and US LIBOR borrowings are recorded as foreign currency under Net Income. The mark-to-market on the cross-currency swap is recorded as gain or loss on derivative financial instruments in Net Income.

SECTION IV: UNIT CALCULATIONS, NON IFRS FINANCIAL MEASURES**PER UNIT CALCULATIONS**

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

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

	Weighted Average Number of Units				Outstanding Number of Units
	Three Months Ended September 30,		Nine Months Ended September 30,		As at September 30,
(Thousands)	2019	2018	2019	2018	2019
Trust Units	160,153	144,101	156,711	141,854	160,372
Exchangeable Units ⁽¹⁾	-	56	-	103	-
Units under the DUP ⁽²⁾	175	274	245	267	146
Basic number of Units	160,328	144,431	156,956	142,224	160,518
Plus:					
Dilutive Units under the LTIP ^{(2), (3)}	-	398	-	385	-
Dilutive Units under the SELTIP ^{(2), (3)}	-	412	-	389	-
Unit Rights under the RUR Plan ⁽²⁾	567	590	567	576	568
Dilutive unexercised options under the UOP ^{(2), (4)}	-	-	-	59	- ⁽⁵⁾
Diluted number of Units	160,895	145,831	157,523	143,633	161,086

- (1) See note 11 to the accompanying unaudited condensed consolidated interim financial statements for details of Exchangeable Units.
- (2) See notes 11 and 12 to the audited consolidated annual financial statements for the year ended December 31, 2018 contained in CAPREIT's 2018 Annual Report for details of CAPREIT's Unit-based compensation plans.
- (3) Calculated using the treasury method after taking into account the respective subscriptions receivable (see note 12 to the accompanying unaudited condensed consolidated interim financial statements).
- (4) Calculated using the treasury method after taking into account the exercise prices.
- (5) There are nil unexercised options outstanding under the UOP.

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

(\$ Thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Distributions declared on Trust Units	\$ 55,283	\$ 47,934	\$ 161,657	\$ 139,525
Distributions declared on Exchangeable Units	-	20	-	101
Distributions declared on awards outstanding under Unit-based compensation plans ⁽¹⁾	252	629	830	1,827
Total distributions declared	55,535	48,583	162,487	141,453
Less:				
Distributions on Trust Units reinvested	(17,845)	(13,553)	(50,942)	(38,669)
Distributions on Unit awards reinvested ⁽¹⁾	(252)	(629)	(830)	(1,827)
Net distributions paid	\$ 37,438	\$ 34,401	\$ 110,715	\$ 100,957
Percentage of distributions reinvested	32.6%	29.2%	31.9%	28.6%

- (1) Comprises of non-cash distributions related to the DUP and the RUR plan (see notes 11 and 12 to CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2018 contained in CAPREIT's 2018 Annual Report for a discussion of these plans).

Under CAPREIT's DRIP, a participant may purchase additional Units with the cash distributions paid on the eligible Units, registered in the participant's name or held in a participant's account maintained pursuant to the DRIP. Each participant has the right to receive an additional amount equal to 5% of their monthly distributions reinvested pursuant to the DRIP, which will automatically be paid on each distribution date in the form of additional Units. The price at which Units will be purchased with cash distributions will be the weighted average trading price for CAPREIT's Trust Units on the Toronto Stock Exchange ("TSX") for the five trading days immediately preceding the relevant distribution date. Reinvestments pursuant to the DRIP will increase the total number of Units outstanding over time, which may result in upward pressure on the total amount of net distributions paid if those participants do not elect to join the DRIP or choose cash distributions.

The average participation rate in the DRIP and other plans under which distributions are reinvested for the three months ended September 30, 2019 increased to 32.6% from 29.2% for the same period last year. For the nine months ended September 30, 2019, the average participation rate in the DRIP increased to 31.9% from 28.6% for the same period last year. The DRIP participation rate is subject to factors beyond Management's control and varies amongst investors.

NON-IFRS FINANCIAL MEASURES

Funds From Operations

FFO is a measure of operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. FFO as presented is in accordance with the recommendations of the Real Property Association of Canada ("REALpac"), with the exception of (i) the adjustment for unrealized gains or losses on FVTPL marketable securities in its calculation of FFO, (ii) the adjustment for amortization of certain other assets consistent with prior years and (iii) the deduction of the impact attributable to the non-controlling interest of ERES. It may not, however, be comparable to similar measures presented by other real estate investment trusts or companies in similar or different industries. Management considers FFO to be an important measure of CAPREIT's operating performance.

Effective January 1, 2019, IFRS 16, the new standard on leases supersedes IAS 17, Leases and related interpretations. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model where most leases are capitalized. This results in an increase in assets and liabilities, and an increase in interest expense to record the use of the asset. CAPREIT currently leases four land leases and one air rights lease, prior to IFRS 16, land and air rights lease expenses were deducted as an "operating expense" to calculate NOI. Post IFRS 16 being effective, fixed land and air rights lease payments over the term of the respective leases are present valued and capitalized to investment property with a corresponding lease liability and not deducted as an operating expense through Net Rental Income. For CAPREIT's office leases, previously they were deducted within CAPREIT's trust expenses. These payments have now been capitalized, and interest expense is now flowing through the consolidated statements of income and comprehensive income with the principal lease liability being repaid over the term. For leases capitalized as investment properties, there is an interest expense component calculated on the lease liability recorded in the consolidated statements of income and comprehensive income with the principal lease liability being repaid over the term. CAPREIT has deducted the lease principal repayments from the FFO in accordance with the amended FFO Whitepaper.

CAPREIT adopted the new standard IFRS 9, Financial Instruments ("IFRS 9") on the required effective date of January 1, 2018. One impact of adopting this new standard is that the unrealized gains or losses on marketable securities classified as FVTPL are now included in net income, whereas they were recorded in other comprehensive income ("OCI") in 2017 and prior years consolidated financial statements. Based on the FFO definition currently set forth by REALpac, which was amended in April 2014 and restated in February 2019, the unrealized gains or losses on FVTPL marketable securities should be included in FFO. However, CAPREIT believes that including such unrealized gains or losses in FFO does not represent the recurring operating performance of CAPREIT. As a result of the adoption of IFRS 9, effective January 1, 2018, CAPREIT's method of calculating FFO is in compliance with REALpac's definition of FFO with the exception of (i) the adjustment for unrealized gains or losses on FVTPL marketable securities in its calculation of FFO, (ii) the adjustment for amortization of certain other assets consistent with prior years, and (iii) the deduction of the impact attributable to the non-controlling interest of ERES.

A reconciliation of net income to FFO is as follows:

(\$ Thousands, except per Unit amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 330,341	\$ 119,594	\$ 703,180	\$ 481,404
Adjustments:				
Unrealized gain on remeasurement of Investment properties	(263,640)	(50,468)	(473,576)	(280,076)
Realized loss on disposition of investment properties	-	577	-	577
Remeasurement of Exchangeable Units	-	272	-	896
Remeasurement of investments ⁽¹⁾	(2,696)	(2,500)	(8,892)	(4,152)
Remeasurement of Unit-based compensation liabilities	4,437	9,459	8,396	23,177
Interest on Exchangeable Units	-	20	-	101
Deferred income taxes ⁽²⁾	9,458	4,541	16,311	6,558
(Gain) loss on foreign currency translation	(11,668)	(5,928)	(35,260)	6,478
FFO Adjustment for Income from Equity-Accounted Investments ⁽³⁾	-	-	(6,027)	(15,504)
Gain on derivative financial instruments	(11,096)	(2,597)	(7,307)	(10,517)
Net FFO impact attributable to non-controlling interest	-	3,042	-	4,225
Fair value mark-to-market loss on ERES units held by external unitholders	32,399	-	38,343	-
Distribution to ERES external unitholders	849	-	1,604	-
Net FFO impact attributable to ERES external unitholders ⁽⁴⁾	(865)	-	(2,071)	-
Amortization of property, plant and equipment	1,593	1,278	4,550	3,674
Lease principal repayment ⁽⁵⁾	(252)	-	(1,013)	-
Transaction costs ⁽⁶⁾	-	-	8,527	-
FFO	\$ 88,860	\$ 77,290	\$ 246,765	\$ 216,841
FFO per Unit – basic	\$ 0.554	\$ 0.535	\$ 1.572	\$ 1.525
FFO per Unit – diluted	\$ 0.552	\$ 0.530	\$ 1.567	\$ 1.510
Total distributions declared	\$ 55,535	\$ 48,583	\$ 162,487	\$ 141,453
FFO payout ratio	62.5%	62.9%	65.8%	65.2%
Net distributions paid	\$ 37,438	\$ 34,401	\$ 110,715	\$ 100,957
Excess FFO over net distributions paid	\$ 51,422	\$ 42,889	\$ 136,050	\$ 115,884
FFO effective payout ratio	42.1%	44.5%	44.9%	46.6%

(1) Effective January 1, 2018, CAPREIT adopted IFRS 9 Financial Instruments. Under this standard, this investment has been designated as FVTPL whereas previously it was designated as available-for-sale. Under the guidance in this new standard, any mark-to-market gains or losses are recorded in the statement of income and comprehensive income whereas previously they were recorded through OCI. The cumulative mark to market gains/losses have also been reclassified from accumulated OCI to retained earnings on adoption of this standard.

(2) Included in the deferred tax expense for the September 30, 2019 is \$18.1 million of current income taxes on the deemed disposition of investment properties associated with the reorganization of the legal structure of the Netherlands subsidiaries, offset by deferred income tax recovery.

(3) Relates to unrealized gain on remeasurement of investment properties.

(4) This calculation is based on the weighted-average non-controlling interest held by ERES external unitholders.

(5) Upon adoption of IFRS 16, there is no impact on FFO. Currently, lease principal repayments deducted from FFO, which were previously expensed prior to adoption and deducted from FFO.

(6) Costs include legal, audit, tax, consulting, and financial advisory fees related to the business combination.

Normalized Funds From Operations

Management considers NFFO to be the key measure of CAPREIT's operating performance. NFFO is calculated by excluding from FFO the effects of certain non-recurring items, including amortization of losses on certain hedging instruments previously settled and paid, mortgage prepayment penalties, offset by write-off of fair value adjustment on assumed mortgages that were refinanced early, accelerated vesting of previously-granted RUR units, and large acquisition research costs relating to transactions that were not completed. As it is an operating performance metric, no adjustment is made to NFFO for capital expenditures. NFFO facilitates better comparability to prior year's performance and provides a better indicator of CAPREIT's long-term operating performance. For further information on CAPREIT's total property capital investments, please refer to the Property Capital Investments in Section V. See discussions under the Net Income and Other Comprehensive Income in Section III for additional information on hedging instruments currently in place. NFFO is not a measure of sustainability of distributions.

A reconciliation of FFO to NFFO is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(\$ Thousands, except per Unit amounts)	2019	2018	2019	2018
FFO	\$ 88,860	\$ 77,290	\$ 246,765	\$ 218,841
Adjustments:				
Amortization of losses from AOCL to interest and other financing costs	653	643	1,919	2,016
Net Mortgage Prepayment Cost	-	-	345	-
Other employee costs ⁽¹⁾	-	-	751	-
NFFO	\$ 89,513	\$ 77,933	\$ 249,780	\$ 218,857
NFFO per Unit – basic	\$ 0.558	\$ 0.540	\$ 1.591	\$ 1.539
NFFO per Unit – diluted	\$ 0.556	\$ 0.534	\$ 1.586	\$ 1.524
Total distributions declared	\$ 55,535	\$ 48,583	\$ 162,487	\$ 141,453
NFFO payout ratio	62.0%	62.3%	65.1%	64.6%
Net distributions paid	\$ 37,438	\$ 34,401	\$ 110,715	\$ 100,957
Excess NFFO over net distributions paid	\$ 52,075	\$ 43,532	\$ 139,065	\$ 117,900
Effective NFFO payout ratio	41.8%	44.1%	44.3%	46.1%

(1) Expenses included in Unit-based compensation expenses relate to accelerated vesting of previously-granted RUR units.

NFFO for the three and nine months ended September 30, 2019 increased by 14.9% and 14.1%, compared to the same periods last year. This increase was primarily due to the contribution from acquisitions, and higher NOI for properties owned prior to December 31, 2017. Asset management fees and property management fees received from ERES increased FFO and consequently NFFO by \$194 thousand and \$358 thousand for the three and nine months ended September 30, 2019, representing the amount of fees attributed to the ERES external unitholders.

For the three months ended September 30, 2019, basic NFFO per Unit increased by 3.3% compared to the same period last year. For the nine months ended September 30, 2019, basic NFFO per Unit increased by 3.4% compared to the same period last year despite an approximate 7.1% increase in the weighted average number of Units outstanding resulting from the January and April 2019 equity offerings (see Liquidity and Financial Condition in Section V). Management expects per Unit FFO and NFFO and related payout ratios to strengthen further in the medium term as a result of NOI contributions from recent acquisitions.

Comparing distributions declared to NFFO, the NFFO payout ratio for the three months ended September 30, 2019 improved to 62.0% compared to 62.3% for the same period last year. For the nine months ended September 30, 2019, NFFO payout ratio increased to 65.1% compared to 64.6% for the same period last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, for the three and nine months ended September 30, 2019, was 41.8% and 44.3%, respectively, compared to 44.1% and 46.1% for the same periods last year.

Adjusted Cash Flows From Operations and Distributions Declared

As a measure of economic cash flows, CAPREIT calculates ACFO using guidelines from the white paper published by REALpac, “White Paper on Adjusted Cashflow From Operations (ACFO) for IFRS”, dated February 2017 and updated as of February 2019.

There may be periods where actual distributions declared exceed ACFO due to weaker performance in certain periods from seasonal fluctuations, regional market volatility or from year to year based on the timing of property capital investments and the impact of acquisitions. Excess distributions (shortfalls) are funded by the Acquisition and Operating Facility.

ACFO is a measure of economic cash flow based on the operating cash flows generated by the business adjusted to deduct items such as interest expense, non-discretionary capital expenditures as described below, capitalized leasing costs, tenant improvements and amortization of other financing costs, partially offset by investment income. ACFO as calculated by CAPREIT is in accordance with the corresponding definition recommended by REALpac, with the exception of (i) the adjustment for investment income and (ii) the deduction of the non-controlling interest of ERES. It may not, however, be comparable to similar measures presented by other real estate investment trusts or companies in similar or different industries.

The following table reconciles cash generated from operating activities (per the consolidated financial statements) to ACFO:

	Three Months Ended September 30		Nine Months Ended September 30		Actual Annual
(\$ Thousands, except per Unit amounts)	2019	2018 ⁽⁷⁾	2019	2018 ⁽⁷⁾	2018 ⁽⁷⁾
Cash generated from operating activities	\$ 120,895	\$ 114,943	\$ 303,396	\$ 289,116	428,977
Adjustments:					
Working Capital Adjustment ⁽¹⁾	-	-	8,485	-	-
Interest expense included in cash flow from financing activities	(33,508)	(28,280)	(91,569)	(85,595)	(114,271)
Non-discretionary property capital investments ⁽²⁾	(17,503)	(14,004)	(49,399)	(41,983)	(51,252)
Capitalized leasing costs ⁽³⁾	(1,429)	(570)	(1,282)	(2,455)	(1,046)
Amortization of other financing costs ⁽⁴⁾	(2,415)	(1,610)	(6,179)	(4,720)	(6,464)
Non-controlling interest	-	(75)	-	(144)	(216)
Transaction costs ⁽⁵⁾	-	-	8,527	-	-
Investment income	4,289	400	8,944	3,962	7,442
Net ACFO impact attributed to ERES external unitholders	(786)	-	(1,673)	-	-
Lease principal & interest repayments ⁽⁶⁾	(662)	-	(2,256)	-	-
ACFO	\$ 68,881	\$ 70,804	\$ 176,994	\$ 158,181	263,170
Total distributions declared	\$ 55,535	\$ 48,583	\$ 162,487	\$ 141,453	190,124
Excess ACFO over distributions declared	\$ 13,346	\$ 22,221	\$ 14,507	\$ 16,728	73,046
ACFO payout ratio	80.6%	68.6%	91.8%	89.4%	72.2%

- (1) On a quarterly basis, a review of working capital is performed to determine whether changes in prepaids, receivables, deposits, accounts payable and other liabilities, security deposits and other non-cash operating assets and liabilities were attributed to items which were not indicative of sustainable cash flows available for distribution in line with the ACFO guidance provided by REALpac. As a result, the one-time special distribution to the pre-existing unitholders of ECREIT was added back.
- (2) Prior periods have been restated as non-discretionary property capital investments are calculated based on the 2019 annual forecast as disclosed in Section V. Non-discretionary property capital investments for the three months ended September 30, 2019 and 2018 has been calculated as follows: Non-Discretionary Property Capital Investments per suite and site is based on the annual 2019 and 2018 forecasts respectively, divided by four for the quarter, and multiplied by the weighted average number of residential suites and sites during the period. The forecasted Non-Discretionary Property Capital Investments per suite and site for 2019 and 2018 on an annual basis is \$1,221 and \$1,130 respectively. The weighted average number of residential suites and sites for the nine months ended September 30, 2019 and 2018 is 53,948 and 49,538, respectively. For a reconciliation of actual non-discretionary property capital investments incurred during the period to forecast, see the table on the next page.
- (3) Comprises tenant inducements and direct leasing costs.
- (4) Includes amortization of deferred financing costs, CMHC premiums, deferred loan costs and fair value adjustments.
- (5) Expensed transaction costs associated with the Acquisition are added back as per the REALpac whitepaper for ACFO dated February, 2019.
- (6) Upon adoption of IFRS 16, effective January 1, 2019, CAPREIT's leases were required to be capitalized with a corresponding lease liability. This has led to the recording of lease interest on these lease liabilities, and lease repayments. This deduction is allowed under the amended REALpac whitepaper for ACFO dated February, 2019.
- (7) Certain 2018 comparative balances have been restated to conform with current year presentation.

For the three and nine months ended September 30, 2019, CAPREIT's ACFO exceeded distributions declared by \$13.3 million and \$14.5 million respectively. As per OSC Staff Notice 51-724, if distributions are in excess of ACFO, then it represents a return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated from CAPREIT's continuing operations during the period.

The table below reconciles actual non-discretionary capital investments incurred to the forecasted amount used in the above ACFO calculation:

Non-Discretionary Property Capital Actuals to Forecast Reconciliation

(\$ Thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Actual	\$ 22,881	\$ 18,572	\$ 44,073	\$ 31,232
Forecast ⁽¹⁾	17,503	14,004	49,399	41,983
Difference	\$ 5,378	\$ 4,568	\$ (5,326)	\$ (10,751)

(1) Annual forecasted Non-Discretionary Property Capital Investments per suite and site multiplied by the weighted average number of residential suites and sites during the period, applied equally for each quarter.

For the three months ended September 30, 2019, CAPREIT's actual non-discretionary capital investments of \$22.9 million was higher than the forecast by approximately \$5.4 million as warmer weather conditions gives rise to higher capital expenditures. For the nine months ended September 30, 2019, CAPREIT's actual non-discretionary capital investments of \$44.1 million was lower than the forecast by approximately \$5.3 million, mainly related to the timing of certain structural and roof projects.

CAPREIT's capital investments programs are affected by seasonal cycles, and professional judgement is used by management to determine timing of property capital investments. Therefore, actual and forecasted capital investments may differ during the applicable periods.

Significant non-discretionary property capital investment programs are usually completed within three to five years. Actual completion of such projects may differ from the forecasted timelines as they are longer term in nature and professional judgement is applied to forecast completion dates.

Discretionary and Non-Discretionary Property Capital Investments

Management does not differentiate between maintenance and value-enhancing property capital investments. Maintenance property capital investments are generally not clearly identifiable, nor do they have a common definition and would require significant judgement to classify property capital investments as maintenance or value-enhancing capital investments. In addition, there is no generally accepted definition of maintenance capital investments in the Canadian real estate industry. Management has decided to classify property capital investments into two categories: discretionary and non-discretionary. Management is of the view that this classification, while still requiring a degree of professional judgement, provides a better measure of economic cash flows.

Non-Discretionary Property Capital Investments are those investments Management believes are essential for the safety of residents and to ensure the structural integrity of the properties. These investments may enhance the property's operating effectiveness, including its profitability, through increases in revenues or reductions in costs over the long term. Included in non-discretionary capital expenditures are items such as building improvements, which include items such as roof, structural, balcony, sidewalks, windows, brick, electrical, MHC infrastructure investments, and life and safety. Management uses its professional judgement to include other capital expenditure categories that could impact the safety of residents. These Non-Discretionary Property Capital Investments are in addition to regular R&M costs, which have been in the range of \$750 to \$1,100 per residential suite annually over the last five years and are expensed to NOI.

Discretionary Property Capital Investments are capital expenditures made to the property that are not essential to operation of the business in the short term. These investments may enhance the property's operating effectiveness, including its profitability, through increases in revenues or reductions in costs over the long term. Included in discretionary capital expenditures are items such as suite and common area improvements, energy-saving initiatives, equipment, boilers, elevators and risers.

The following table presents the forecasted 2019, and actual 2018 and 2017 Non-Discretionary Property Capital Investments per suite and site:

(\$ Thousands)	2019 Forecast	2018 Actual	2017 Actual
Non-discretionary property capital investments ⁽¹⁾	\$ 67,245	\$ 51,252	\$ 38,724
Discretionary property capital investments ⁽¹⁾⁽²⁾	149,971	142,202	112,643
Total property capital investments ⁽²⁾	\$ 217,216	\$ 193,454	\$ 151,367
Non-discretionary property capital investments	\$ 67,245	\$ 51,252	\$ 38,724
Weighted average number of suites and sites	55,078	49,595	48,307
Non-discretionary property capital investments per suite and site	\$ 1,221	\$ 1,033	\$ 802

(1) See Property Capital Investments section for further details.

(2) Excludes property capital investments relating to development and intensification.

ADJUSTED CASH GENERATED FROM OPERATING ACTIVITIES

As required by National Policy 41-201, “Income Trusts and Other Indirect Offerings”, the following table quantifies cash generated from operating activities net of interest expense included in cash flow from financing activities.

(\$ Thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Cash generated from operating activities	\$ 120,895	\$ 114,943	\$ 303,396	\$ 289,116
Adjustments:				
Interest expense included in cash flow from financing activities	(33,508)	(28,280)	(91,569)	(85,595)
Adjusted cash generated from operating activities	\$ 87,387	\$ 86,663	\$ 211,827	\$ 203,521
Total distributions declared	\$ 55,535	\$ 48,583	\$ 162,487	\$ 141,453
Excess	\$ 31,852	\$ 38,080	\$ 49,340	\$ 62,068

(1) 2018 comparative balances have been restated to conform with current year presentation.

The following table outlines the differences between adjusted cash generated from operating activities and total distributions declared, as well as the differences between net income and total distributions, in accordance with the guidelines.

(\$ Thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018 ⁽¹⁾	2019	2018 ⁽¹⁾
Net income	\$ 330,341	\$ 119,594	\$ 703,180	\$ 481,404
Adjusted cash generated from operating activities	\$ 87,387	\$ 86,663	\$ 211,827	\$ 203,521
Total distributions declared	\$ 55,535	\$ 48,583	\$ 162,487	\$ 141,453
Net distributions paid	\$ 37,438	\$ 34,401	\$ 110,715	\$ 100,957
Excess of net income over total distributions declared	\$ 274,806	\$ 71,011	\$ 540,693	\$ 339,951
Excess of net income over net distributions paid	\$ 292,903	\$ 85,193	\$ 592,465	\$ 380,447
Excess of adjusted cash generated from operating activities over total distributions declared	\$ 31,852	\$ 38,080	\$ 49,340	\$ 62,068
Excess of adjusted cash generated from operating activities over net distributions declared	\$ 49,949	\$ 52,262	\$ 101,112	\$ 102,564

(1) 2018 comparative balances have been restated to conform with current year presentation.

CAPREIT does not use net income as a basis for distributions as it includes fair value change in investment properties, remeasurement of Unit-based compensation liabilities and fair value change in derivative financial instruments, which are not reflective of CAPREIT's ability to make distributions. Amounts retained in excess of the declared distributions are used for mortgage principal repayments, tenant inducements and capital expenditure requirements.

For the nine months ended September 30, 2019, CAPREIT's Adjusted Cash Generated from Operating Activities exceeded distributions declared by \$49.3 million compared to the prior year, when Adjusted Cash Generated from Operating Activities exceeded distributions declared by \$62.1 million. As per OSC Staff Notice 51-724, if distributions are in excess of Adjusted Cash Generated from Operating Activities, then it represents a return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated from CAPREIT's continuing operations during the period.

Management believes, should it occur, there is adequate overall liquidity to fund excess distributions over Adjusted Cash Generated from Operating Activities on an annual basis through: (i) mortgage debt secured by its investment properties; and (ii) the Acquisition and Operating Facility.

SECTION V: CAPITAL INVESTMENT, INVESTMENT PROPERTY, CAPITAL STRUCTURE, FINANCIAL CONDITION**PROPERTY CAPITAL INVESTMENTS**

CAPREIT capitalizes all capital investments related to the improvement of its properties. These investments have the objective of growing future NOI, increasing property value over the long term, ensuring life safety and safeguarding of assets.

An important component of CAPREIT's property capital investment strategy is to acquire properties significantly below current replacement costs and improve its operating performance by investing annually. This ensures sustainable growth to maximize the portfolio's future rental income-generating potential.

For the nine months ended September 30, 2019, CAPREIT made property capital investments (excluding head office assets) of \$154.7 million, compared to \$118.3 million for the same period last year. Energy-saving initiatives and suite and common area improvement costs generally tend to increase NOI more quickly compared to other capital investment categories.

A breakdown of property capital investments (excluding head office assets) is summarized by category below:

Property Capital Investments by Category

Nine Months Ended September 30, 2019 (\$ Thousands)	Actual Total Portfolio	% of Actual	2019 Annual Forecast Total Portfolio
Non-discretionary property capital investments:			
Building improvements	42,457	27.5	63,180
MHC infrastructural	1,106	0.7	2,099
Life and safety	510	0.3	1,966
	44,073	28.5	67,245
Discretionary property capital investments:			
Suite improvements	50,131	32.4	62,467
Common area	31,971	20.7	45,671
Energy-saving initiatives	10,484	6.8	16,220
Equipment	9,453	6.1	12,360
Elevators and risers	6,843	4.4	10,828
Others	1,334	0.9	1,688
MHC common area	379	0.2	737
	110,595	71.5	149,971
Total	154,668	100.0	217,216
Nine Months Ended September 30, 2018 (\$ Thousands)	Actual Total Portfolio	% of Actual	2018 Annual Actual Total Portfolio
Non-discretionary property capital investments:			
Building improvements	28,929	24.5	47,612
MHC infrastructural	758	0.6	1,653
Life and safety	1,545	1.3	1,987
	31,232	26.4	51,252
Discretionary property capital investments:			
Suite improvements	37,749	32.0	53,863
Common area	24,965	21.1	44,342
Energy-saving initiatives	12,122	10.2	20,140
Equipment	6,722	5.7	13,243
Elevators and risers	4,432	3.7	9,056
Others	735	0.6	1,031
MHC common area	335	0.3	527
	87,060	73.6	142,202
Total	118,292	100.0	193,454

CAPREIT's capital investments programs are affected by seasonal cycles, and professional judgement used by management to determine the timing of property capital investments. Therefore actual and forecasted capital investments may differ during the applicable periods.

Management expects CAPREIT to complete property capital investments (excluding development and conversion) of approximately \$212 million to \$222 million in 2019.

Set out in the next table is Management's current estimate, established through consultation with an independent engineering firm, of CAPREIT's investments in building improvements, including investments in MHC sites, for 2019 through 2022 for properties owned as of September 30, 2019.

Future Investments in Building Improvements

(\$ Thousands)	Building Improvements Estimated Range
2019	\$57,000 - \$70,000
2020	\$39,000 - \$48,000
2021	\$27,000 - \$33,000
2022	\$15,000 - \$19,000

Management believes CAPREIT has sufficient liquidity (see Liquidity and Financial Condition in Section V) to execute the above property capital investment strategy.

INVESTMENT PROPERTIES

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

The fair value of investment properties is established by qualified, independent appraisers annually. Each quarter, CAPREIT utilizes internal market assumptions for rent increases and capitalization and discount rates provided by the independent appraisers to determine the fair value of the investment properties for interim reporting purposes. Capitalization rates employed by the appraisers are based on recently closed transactions, generally within the last three months, and other current market indicators for similar properties. To the extent that the externally provided capitalization rates or results of operations change from one reporting period to the next, the fair value of the investment properties would increase or decrease accordingly.

For a discussion of risk factors associated with the valuation of investment properties, refer to Risks and Uncertainties in Section VI. For a detailed description of valuation methods and key assumptions used for investment properties, see note 6 to the accompanying audited consolidated annual financial statements for the year ended December 31, 2018 contained in CAPREIT's 2018 Annual Report.

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

As at September 30, (\$ Thousands)		2019	2018
Balance, Beginning of the Period		\$ 10,473,544	\$ 8,886,556
Add:	Properties acquired through business combination ⁽¹⁾	135,533	-
	Acquisitions	1,047,241	148,163
	Property capital investments ⁽²⁾	167,925	121,520
	Foreign currency translation	(96,047)	(2,140)
	Gain on remeasurement at fair value	473,576	280,076
	Capitalized leasing costs ⁽³⁾	53	993
	Right of use assets ⁽⁴⁾	37,763	-
Less:	Dispositions	-	(79,618)
	Realized Loss on Dispositions	-	(577)
Investment properties at fair value, End of the Period		\$ 12,239,588	\$ 9,354,973

(1) Represents the fair value of the properties acquired as part of the business combination. For details, please refer to note 4 of the accompanying unaudited condensed consolidated interim financial statements.

(2) See Section V - Property Capital Investments, and Conversions included within the Development Summary.

(3) Comprised of tenant inducements, straight-line rent and direct leasing costs.

(4) Land and air rights leases previously expensed are now recognized as Right of Use Assets and included in the fair value of investment properties. Due to the reduction in fair value from principal repayments, the amortization of land and air rights lease principal payments are deducted from the Right of Use Assets as per IFRS 16.

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

Investment Properties by Geography

As at,	Dec 2018	Change Due to Change in					Sep 2019	Sep 2019	Dec 2018
(\$ Millions)	Fair Value	Rates ⁽¹⁾⁽³⁾	Normalized NOI ⁽²⁾⁽³⁾	Forex Translation	Net Acquisition	Business Combination	Fair Value	Rates ⁽¹⁾	Rates ⁽¹⁾
Greater Toronto	\$ 4,153	\$ 109	\$ 158	\$ -	\$ 99	\$ -	\$ 4,519	3.68%	3.78%
Other Ontario	1,170	30	50	-	69	-	1,319	4.28%	4.36%
Québec	1,583	62	43	-	-	-	1,688	4.45%	4.63%
British Columbia	1,367	7	45	-	135	-	1,554	3.78%	3.77%
Alberta	448	2	13	-	-	-	463	4.44%	4.46%
Nova Scotia	274	-	14	-	-	-	288	5.25%	5.25%
Saskatchewan	32	-	-	-	-	-	32	5.63%	5.70%
Prince Edward	66	3	-	-	7	-	76	5.52%	5.78%
Subtotal	9,093	- 213	323	-	310	-	9,939	4.04%	4.13%
MHC Sites	340	2	9	-	250	-	601	6.21%	6.11%
Europe	1,041	(5)	89	(96)	497	136	1,662	4.02%	3.80%
Total⁽⁴⁾	\$ 10,474	\$ 210	\$ 421	\$ (96)	\$ 1,057	\$ 136	\$ 12,202	4.15%	4.17%

(1) Weighted average capitalization rates excluding implied capitalization rates on Operating and Land Leasehold Interests. See note 6 to the accompanying unaudited condensed consolidated interim financial statements for further valuation assumption details, including discount rates as at September 30, 2019 for Operating and Land Leasehold Interests.

(2) Represents normalized net operating income for valuation purposes.

(3) Fair Value changes due to changes in Rates and Normalized NOI exclude properties acquired and disposed of during the nine months ended September 30, 2019.

(4) Excludes right of use assets and land and air rights lease principal repayments.

For the periods ended September 30, 2019 and 2018, the unrealized gain on remeasurement of investment properties is primarily the result of increases in net operating income attributable to the growth in rents driven by the rental increases on turnovers, as current rents are significantly below market rents, especially in major regions such as the GTA, other Ontario and British Columbia. The unrealized gain on remeasurement of investment properties is offset by certain capital investments not having an immediate effect on stabilized net operating income and thus not reflected in the fair value of the investment properties at the measurement date.

As at September 30, 2019, a 25 basis point change in capitalization rates would have the following approximate effect on the fair value of investment properties:

As at September 30, 2019

(\$ Millions)	Change (basis points) ⁽¹⁾	Estimated (Decrease) Increase
Weighted average capitalization rate	+25	\$ (695)
Weighted average capitalization rate	-25	\$ 787

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

DEVELOPMENT

Development is a key component in CAPREIT's growth and value creation strategy. CAPREIT categorizes the projects within its development program as follows:

Conversion - Projects within existing income producing properties ("IPP") which typically involve increasing the density and/or rentable square footage of the property through means of retrofit resulting in increase in NOI.

Infill - Projects on underutilized, often vacant owned land that are being constructed or developed from the ground-up for future use as IPPs where an existing NOI and asset is to remain resulting in increase in NOI.

Redevelopment - Existing IPPs, or components thereof, that are being repositioned through partial and/or full redevelopment, which typically increases NOI and unit count by adding to the rentable area of the properties.

Development Progress

The development program remains a key component of CAPREIT's growth strategy by unlocking value within the portfolio's existing assets through intensification and redevelopment to deliver strong net asset value growth to its unitholders. CAPREIT's development strategy encompasses a combination of three different approaches to add new units to the portfolio: (i) forward purchase of newly constructed properties, (ii) intensification through means of conversion and infill of existing IPPs and (iii) redevelopment. Through a highest and best use assessment, CAPREIT identified the opportunity to build well in excess of 10,000 new units focused in the major markets, primarily in the GTA and British Columbia.

During the quarter, CAPREIT has made significant progress in advancing its development program by completing detailed site feasibility assessments and working through the pre-application requirements on a number of properties expressed in the table below. The intent is to establish a strong and steady pipeline of planning approval submissions across the country that will support adding new units on an annual basis to the portfolio going forward.

Development Pipeline

Number of sites and proposed net new units by major market planned for submission in 2019 and 2020:

Major Market	Pre-Application (# of sites) ⁽²⁾	Active Application (# of sites)	Construction (# of sites)	Potential Growth (Estimated # of net new units) ⁽²⁾
British Columbia	5	-	-	700
Alberta	3	-	-	400
Greater Toronto Area	5	2	-	3,800
Quebec	2	-	1 ⁽¹⁾	252 ⁽¹⁾
Prince Edward Island	1	-	-	58
Total	16	2	1	5,210 ⁽¹⁾

(1) Includes 2525 Cavendish which has delivered 48 new units as of September 30, 2019 with the 4 remaining units completed in October 2019.

(2) In excess of 10,000 new units identified, over 5,000 of these units are in the pre-application stage.

Active Applications

Two infill development projects located in high priority Toronto sites are currently already in motion with rezoning applications submitted to the City: 141 Davisville and 100 Wellesley.

141 Davisville – The application was submitted in November of 2017 and continues to be diligently processed with the City of Toronto staff departments. The proposed application under review includes 146 new units in a proposed 16 storey infill building with modern indoor and outdoor amenities and a number of improvements to the existing building and site.

100 Wellesley – The application was submitted in July 2017 and continues to be diligently processed with the City of Toronto staff departments. The proposed application under review includes 120 new units in a 10-storey infill building and 8 standalone townhouse units located in the downtown core of Toronto with modern indoor and outdoor amenities and a number of improvements to the existing building and site.

Construction

2525 Cavendish – A Building Permit was approved to permit 52 new residential rental units within the existing building in vacant commercial space. Construction on 48 of the units were completed as of September 30, 2019 with the 4 remaining units completed in October 2019. The total estimated project cost is \$7.5 million with a total spend to date of \$6.7 million as at September 30, 2019.

The table below presents the actual and forecasted conversion and development costs estimated for 2019, which include costs related to planning, rezoning, architectural surveys, application fees and building permits. The following forecasted conversion and development costs may vary from actuals as expectations of processing time for development applications become better defined.

Development Summary

Nine Months Ended September 30, 2019 (\$ Thousands)	Actual Total Portfolio	2019 Annual Forecast Total Portfolio
Conversion	13,257	17,787
Development ⁽¹⁾	900	2,499
Total for development	14,157	20,286

Nine Months Ended September 30, 2018 (\$ Thousands)	Actual Total Portfolio	2018 Annual Actual Total Portfolio
Conversion	3,228	4,656
Development ⁽¹⁾	757	1,735
Total for development	3,985	6,391

(1) Development costs relate primarily to pre-approval costs such as application, consultant fees, and levies.

Total development costs forecasted for 2019 were lower than the amount previously forecasted in the prior quarter due to Management's revised expectations of processing time for development applications. The regulatory and application processing is subject to factors beyond Management's control and varies between projects.

CAPITAL STRUCTURE

CAPREIT defines capital as the aggregate of Unitholders' equity, debt financing, Unit-based compensation liabilities and Exchangeable Units. CAPREIT's objectives when managing capital are to safeguard its ability to continue to fund distributions to Unitholders, retain a portion to meet repayment obligations under its mortgages and credit facilities, and ensure sufficient funds are available to meet capital commitments. Management aims to maintain an optimal degree of leverage relative to the GBV of CAPREIT's assets depending on a number of factors at any given time, which include expected cash flow requirements, impact on near-term and long-term financial performance, current and expected state of the credit markets and any risks, among other considerations. GBV is defined as the gross book value of CAPREIT's assets as per CAPREIT's financial statements, determined on a fair value basis for investment properties, plus accumulated amortization on property, plant and equipment, CMHC fees and deferred loan costs. Capital adequacy is monitored against investment and debt restrictions contained in CAPREIT's DOT and the Credit Facilities agreement.

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

In addition, CAPREIT must comply with all investment and debt restrictions and financial covenants under the agreement with CMHC. Refer to Liquidity and Financial Condition in Section V of this report for further details.

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

As at September 30, 2019 CAPREIT is in compliance with all the investment and debt restrictions and financial covenants contained in the DOT, the LBA and the Credit Facilities. The total capital managed by CAPREIT and the results of compliance with the key covenants and liquidity metrics are summarized below:

As at		September 30, 2019	December 31, 2018
(\$ Thousands)			
Mortgages payable		\$ 4,107,922	\$ 3,728,333
Bank indebtedness		588,381	567,365
Unit-based compensation liabilities		33,407	32,805
Unitholders' equity		7,465,506	6,316,700
Total capital		\$ 12,195,216	\$ 10,645,203
Threshold			
Total debt to gross book value ⁽¹⁾	Maximum 70.00%	36.74%	39.37%
Mortgage debt to gross book value		32.13%	34.17%
Total debt to gross historical cost ⁽²⁾		50.33%	54.54%
Total debt to total capitalization ⁽³⁾		34.86%	39.82%
Tangible net worth ⁽¹⁾	Minimum \$2,100,000	\$ 7,482,849	\$ 6,349,505
For the four quarters ended		September 30, 2019	December 31, 2018
Debt service coverage ratio (times) ⁽¹⁾	Minimum 1.20	1.79	1.75
Interest coverage ratio (times) ⁽¹⁾	Minimum 1.50	3.52	3.44

(1) See note 17 to the accompanying unaudited condensed consolidated interim financial statements.

(2) Based on the historical cost of investment properties, calculated as CAPREIT's assets, as disclosed under IFRS, plus accumulated amortization on property, plant and equipment, CMHC fees and deferred loan costs, minus fair value adjustment on investment properties.

(3) Based on market capitalization in the Performance Measures table of the MD&A, plus total debt.

CAPREIT's subsidiary, ERES, is subject to various debt covenants. ERES must have a maximum debt to gross book value of 65%, a minimum tangible net worth of €300,850, a minimum debt service coverage ratio of 1.35, and a minimum interest coverage ratio of 1.50. For the period ended September 30, 2019, ERES is in compliance with its debt covenants.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

Management believes there is adequate overall liquidity to fund R&M expenditures and property capital investment commitments to provide for future growth in the business. CAPREIT finances these commitments through: (i) ACFO on annual basis; (ii) secured short-term debt financing with three Canadian chartered banks; (iii) mortgage debt secured by its investment properties; and (iv) equity and funds reinvested from its DRIP. Management's assessment of CAPREIT's liquidity position continues to be stable for the foreseeable future based on its evaluation of capital resources as summarized below:

- i) CAPREIT's business continues to be stable and is expected to generate sufficient ACFO on annual basis to fund the current level of distributions.
- ii) CAPREIT's liquidity position as at September 30, 2019 remains strong at \$44.7 million. In addition, CAPREIT has borrowing capacity of \$50.7 million under the Bridge Facility and \$72.2 million under the ERES unsecured credit facility. Subsequent to the third quarter, ERES repaid a \$142.2 million promissory note to CAPREIT with proceeds from mortgage financing. CAPREIT used the proceeds to partially pay the Acquisition and Operating Facility.

Investment properties with a fair value of \$11.6 billion have been pledged as security as at September 30, 2019. In addition, CAPREIT has investment properties with a fair value of approximately \$668.6 million as at September 30, 2019 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. CAPREIT intends to maintain unencumbered investment properties with an aggregate fair value in the range of \$450 million to \$500 million over the long term. This range mainly represents a pool of MHC sites and includes the closing of the recent MHC Portfolio acquisition.

The working capital deficiency, as presented on CAPREIT's consolidated balance sheets as at September 30, 2019 is paid through the Credit Facilities as well as the ongoing refinancing of mortgages payable. Management does a liquidity forecast on a monthly basis which includes refinancings, property capital investments, potential acquisitions and potential dispositions to monitor the available capacity.

Mortgages Payable

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

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

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

In order to maintain and enhance its CMHC-insured financing program, and consistent with CMHC's risk management practices involving large borrowers, CAPREIT has entered into the LBA. Other than improving the efficiency and consistency of such processes such as underwriting, the LBA has not materially affected the manner in which CAPREIT conducts its business or its approach to mortgage financing.

As at September 30,	2019	2018
Percentage of CMHC-insured mortgages ⁽¹⁾	98.3%	97.3%
Percentage of fixed-rate mortgages ⁽²⁾	98.9%	100.0%
Weighted average mortgage interest rate ⁽³⁾	2.93%	3.08%
Weighted average mortgage term to maturity (years)	5.18	5.22

(1) Excludes the mortgages on the MHC sites and European financings.

(2) Taking into consideration interest rate swaps where hedge accounting is not being applied, 100% of mortgages are subject to fixed rates.

(3) Weighted average mortgage interest rate includes deferred financing costs and fair value adjustments on an effective interest rate basis. Including the amortization of the realized component of the loss on settlement of \$32.5 million included in AOCL, the effective portfolio weighted average interest rate as at September 30, 2019 would be 3.01% (September 30, 2018 - 3.16%).

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

As at September 30, (\$ Thousands)	2019	2018
Balance, Beginning of Period	\$ 3,728,333	\$ 3,581,501
Add: New borrowings on acquisitions	326,373	5,274
Mortgages assumed ⁽¹⁾	147,814	21,088
Refinanced	245,183	158,132
Gain on foreign currency translation	(41,605)	(652)
Less: Mortgage principal amortization	(93,908)	(87,172)
Mortgages matured	(202,804)	(98,662)
Mortgages Repaid on Dispositions of Investment Properties	-	(27,425)
Change in deferred financing costs, fair value adjustments, net	(1,464)	1,930
Balance, End of Period	\$ 4,107,922	\$ 3,554,014

(1) Includes the mortgages on the properties assumed as part of the business combination. For detail, please refer to Note 4 of the financial statements.

The following table presents refinancings, weighted average interests rates obtained, and mortgage top-ups closed or committed up to November 13, 2019, as well as those expected for the remainder of 2019.

	Original Mortgage Amount	Original Stated Interest Rate	New Mortgage Amount	New ⁽¹⁾ Stated ⁽²⁾ Interest Rate	Weighted Average Term on New Mortgages	Top-Up Financing Amount
(\$ Thousands)						
First Quarter	\$ 5,955	4.62%	\$ 11,071	2.76%	10.4	\$ 5,116
Second Quarter	97,767	3.55%	173,036	2.86%	7.1	75,269
Third Quarter	99,082	3.37%	61,076	2.57%	10.0	(38,006) ⁽³⁾
Total and weighted average	\$ 202,804	3.49%	\$ 245,183	2.79%	7.9	\$ 42,379
Canadian Acquisitions	-	-	159,148	2.90%	12.1	-
The Netherlands Acquisitions	-	-	167,225	1.19%	5.4	-
Total and weighted average with acquisitions	\$ 202,804	3.49%	571,556	2.35%	8.4	\$ 42,379

Subsequent to September 30, 2019:

Committed or completed	-	-	-	-	-	-
Acquisitions	-	-	142,214	1.35%	7.0	142,214
Expected for the remainder of 2019	121,056	3.70%	164,043	-	-	42,987
Grand total and weighted average	\$ 323,860	3.57%	\$ 877,813	2.15%	8.4	\$ 553,953

(1) Weighted average.

(2) Excludes CMHC, other financing costs and impact of hedging.

(3) \$26.0 million in top up is offset by \$64.0 million in mortgage discharges.

For purposes of estimating top-up financing potential, the following table provides annualized NOI for those properties with mortgages maturing over the next five years and beyond. A property's full NOI is included in the first year in which a mortgage matures. The balance of mortgages remaining on the same property but maturing in other years is also shown. Management expects to raise between \$365 million and \$415 million in total mortgage renewals and refinancings for 2019 excluding financings on acquisitions.

As at September 30, 2019

(\$ Thousands)

Year of Maturity	Mortgage Maturities ⁽¹⁾	Mortgages on the Same Properties Maturing in Other Years⁽¹⁾	Total Mortgages	NOI of Properties with Maturing Mortgage(s) ^{(2),(3)}
2019	\$ 85,169	\$ 60,669	\$ 145,838	\$ 18,229
2020	252,829	50,205	303,034	42,016
2021	356,157	35,570	391,727	64,322
2022	418,170	15,603	433,773	71,457
2023	481,363	66,173	547,536	87,425
2024 Onward	1,817,553	(228,220)	1,589,333	206,565
Total	\$ 3,411,241	\$ -	\$ 3,411,241	\$ 490,014

(1) Mortgage balance due upon maturity.

(2) NOI for the 12 months ended September 30, 2019.

(3) Projected NOI included for acquisitions since September 30, 2018.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at September 30, 2019 is as follows:

As at September 30, 2019 (\$ Thousands)						% of Total
Period	Principal Amortization	Mortgage Maturities	Mortgage Balance	Mortgage Balance	Interest Rate (%)^{(1),(2)}	
2019	\$ 32,244	\$ 85,169	\$ 117,413 ⁽⁴⁾	2.9	2.87	
2020	126,986	252,829	379,815 ⁽⁴⁾	9.2	2.77	
2021	115,633	356,157	471,790 ^{(3),(4)}	11.5	3.81	
2022	106,084	418,170	524,254 ⁽⁴⁾	12.7	2.87	
2023	87,662	481,363	569,025 ⁽⁴⁾	13.8	2.79	
2024	71,410	266,581	337,991 ⁽⁴⁾	8.2	3.57	
2025	61,415	657,310	718,725 ⁽⁴⁾	17.5	2.47	
2026	40,361	375,851	416,212 ⁽⁴⁾	10.1	2.59	
2027	24,332	135,238	159,570	3.9	3.09	
2028	18,451	121,444	139,895	3.4	3.22	
2029-2034	22,535	261,129	283,664	6.8	2.96	
	\$ 707,113	\$ 3,411,241	\$ 4,118,354	100.0	2.93 ⁽²⁾	
Deferred Financing Costs, Fair Value Adjustments, Net			(10,432)			
Total			\$ 4,107,922			

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

(2) Effective weighted average interest rate includes deferred financing costs and fair value adjustments, but excludes CMHC premiums.

(3) Included in mortgages payable is a \$65.0 million non-amortizing credit facility on two of the MHC sites.

(4) Included in mortgages payable are mortgages related to ERES, as detailed below:

As at September 30, 2019

Period	Mortgage Balance		Interest Rate (%)	Term
	€ Thousands	\$ Thousands		
2019	€ 305	\$ 440		
2020	1,224	1,767		
2021	1,232	1,778		
2022	51,153	73,855		
2023	108,095	156,067		
2024	16,031	23,145		
2025	232,139	335,227		
2026	53,772	77,639		
Total	€ 463,951	\$ 669,918	1.67	5.12

To ensure CAPREIT is not overly exposed to interest rate volatility risk, Management has been successful in staggering the maturity dates within its mortgage portfolio or entering into long-term financing arrangements.

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

Unitholders' Equity and Units Awarded under Unit-based Compensation Plans

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

Equity offerings and over-allotments for the periods ending September 30, 2019:

(\$ Thousands, except per Unit amounts)						
Period	Price Per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued	
April 2019						
Bought-deal	\$ 49.00	\$ 300,125	\$ 13,807	\$ 286,318	6,125,000	
Over-allotment	\$ 49.00	45,019	950	44,069	918,750	
Total		\$ 345,144	\$ 14,757	\$ 330,387	7,043,750	
January 2019						
Bought-deal	\$ 45.50	\$ 250,250	\$ 11,512	\$ 238,739	5,500,000	
Over-allotment	\$ 45.50	37,538	900	36,638	825,000	
Total		\$ 287,788	\$ 12,412	\$ 275,377	6,325,000	

Market capitalization and units outstanding:

As at September 30, 2019

Market capitalization (\$ thousands)	\$ 8,774,399
Number of Units outstanding	161,086,816
Deferred Units	146,305
RUR Plan Units	568,487
Ownership by trustees, officers and senior managers	0.8%

SECTION VI: COMPLIANCE AND GOVERNANCE DISCLOSURES, RISKS AND UNCERTAINTIES

SELECTED CONSOLIDATED QUARTERLY INFORMATION

	Q3 19	Q2 19	Q1 19	Q4 18	Q3 18	Q2 18	Q1 18	Q4 17
Overall portfolio net AMR	\$ 1,069	\$ 1,050	\$ 1,093	\$ 1,103	\$ 1,079	\$ 1,061	\$ 1,054	\$ 1,044
Operating revenues (000s) ⁽¹⁾	\$ 198,760	\$ 190,735	\$ 181,511	\$ 177,667	\$ 172,298	\$ 170,601	\$ 168,019	\$ 164,432
NOI (000s) ^{(1),(2)}	\$ 132,844	\$ 125,767	\$ 113,835	\$ 111,936	\$ 113,850	\$ 110,861	\$ 102,402	\$ 100,300
NOI margin ⁽¹⁾	66.8%	65.9%	62.7%	63.0%	66.1%	65.0%	60.9%	61.0%
Net income (000s)	\$ 330,341	\$ 167,329	\$ 205,510	\$ 736,267	\$ 119,594	\$ 261,611	\$ 100,198	\$ 376,960
FFO (000s) ^{(1),(2)}	\$ 88,860	\$ 84,091	\$ 73,814	\$ 68,376	\$ 77,290	\$ 76,161	\$ 63,386	\$ 61,000
NFFO (000s) ^{(1),(2)}	\$ 89,513	\$ 85,062	\$ 75,205	\$ 71,414	\$ 77,933	\$ 76,821	\$ 64,095	\$ 61,893
Total debt to gross book value	36.74%	36.34%	37.67%	39.37%	40.48%	40.53%	41.48%	43.57%
FFO per Unit ⁽¹⁾ - basic	\$ 0.554	\$ 0.531	\$ 0.485	\$ 0.471	\$ 0.535	\$ 0.530	\$ 0.457	\$ 0.446
NFFO per Unit ⁽¹⁾ - basic	\$ 0.558	\$ 0.538	\$ 0.484	\$ 0.492	\$ 0.540	\$ 0.535	\$ 0.463	\$ 0.452
Weighted average number of Units (000s)								
- Basic	160,328	158,237	152,212	145,199	144,431	143,621	138,554	136,824
- Diluted	160,895	158,806	152,778	145,784	145,831	144,981	140,022	138,684

(1) Includes the results of investment properties owned as at the period end.

(2) Non-IFRS financial measures are reconciled with IFRS reported amounts in the respective quarterly SEDAR filings.

CAPREIT's operations are affected by seasonal cycles, and operating performance in one quarter may not be indicative of operating performance in any other quarter of the year. The fourth and first quarters of each year typically tend to generate weaker performance due to increased energy consumption in the winter months. There may be periods where actual distributions declared may exceed cash generated from (utilized in) operating activities after interest paid, primarily due to weaker performance in certain periods from seasonal fluctuations. These seasonal or short-term fluctuations are funded, if necessary, with our Acquisition and Operating Facility. CAPREIT determines distributions and the distribution rate by, among other considerations, its assessment of ACFO (a non-IFRS measure). As such, CAPREIT believes the cash distributions are not an economic return of capital, but a distribution of adjusted cash flow from operating activities.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

New Accounting Standards and Future Accounting Changes

A summary of significant accounting policies, can be found in note 2 to CAPREIT's condensed consolidated interim financial statements for the nine months ended September 30, 2019.

Critical Accounting Estimates, Assumptions, and Judgements

A summary of accounting estimates, assumptions and judgements can be found in note 3 to CAPREIT's condensed consolidated interim financial statements for the nine months ended September 30, 2019.

Business Combinations

A summary of business combinations can be found in note 4 to CAPREIT's condensed consolidated interim financial statements for the nine months ended September 30, 2019.

CONTROLS AND PROCEDURES

CAPREIT maintains appropriate information systems, procedures and controls to provide reasonable assurance that information disclosed externally is complete, reliable and timely. Pursuant to the Canadian Securities Administrators requirements under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, CAPREIT's Chief Executive Officer and the Chief Financial Officer have satisfied themselves that as at September 30, 2019, the design of disclosure controls and procedures and the design of internal controls over financial reporting continue to be appropriate.

CAPREIT did not make any significant changes to the design of internal controls over financial reporting in the nine months ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

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

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and the activities of CAPREIT, which investors should carefully consider before investing in Units. Risks and uncertainties are disclosed in CAPREIT's MD&A for the year ended December 31, 2018 in the Risks and Uncertainties section contained in CAPREIT's 2018 Annual Report and in CAPREIT's latest Annual Information Form.

RELATED PARTY TRANSACTIONS

A summary of related party transactions can be found in note 23 to CAPREIT's condensed consolidated interim financial statements for the nine months ended September 30, 2019.

COMMITMENTS AND CONTINGENCIES

A summary of commitments and contingencies can be found in notes 24 and 25 to CAPREIT's condensed consolidated interim financial statements for the nine months ended September 30, 2019.

SUBSEQUENT EVENTS

A summary of subsequent events can be found in note 27 to CAPREIT's condensed consolidated interim financial statements for the nine months ended September 30, 2019.

FUTURE OUTLOOK

Management believes the multi-unit residential rental business will continue to improve in the majority of the markets in which CAPREIT operates. As a result, Management expects to generate modest annual increases in same-property Net AMR while stabilizing average occupancies in the range of 97% to 99% on an annual basis. Management also anticipates operating revenues will benefit from programs over the long term to enhance ancillary revenues from parking, commercial leases, laundry, cable, telecommunications and other income sources. In addition, numerous successful cost management initiatives have proven effective, which should lead to stable NOI over this period.

CAPREIT believes the strong defensive characteristics of its property portfolio, due to diversification by both geography and demographic sector, will serve to mitigate the negative impact of any future unfavourable economic conditions that certain regions may experience. CAPREIT intends to continue to seek opportunities to further diversify its property portfolio. While CAPREIT's strategy is to remain principally focused on its core Canadian markets, CAPREIT continues to consider select opportunities in other geographic markets.

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

First, Management maintains a focus on maximizing occupancy and Net AMR in accordance with local conditions in each of its markets. Since its inception in May 1997, CAPREIT's hands-on management style focuses on resident communications and capital investment programs aimed at increasing the long-term value of its properties.

Second, Management continues to invest and adopt the latest technologies to enhance CAPREIT's risk management, market research and operating efficiency, reduce costs, strengthen relationships with residents and, most importantly, do more with less. Going forward, CAPREIT will be launching innovative technologies aimed at enhancing resident experience. Potential new tenants will be able to review and process their leases online, while existing residents can access and reserve specific CAPREIT services for their homes. These new resident portals will enable a lease tracking and request management system and a centralized building management system that further strengthen the efficiency of CAPREIT's operating platform.

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

Fourth, CAPREIT continues to prudently focus on accretive acquisitions that meet its strategic criteria and enhance CAPREIT's geographic diversification. From time to time, CAPREIT may also identify certain non-core assets for sale that do not conform to its current portfolio composition or operating strategies, or where Management believes their value has been maximized. Management believes the realization and reinvestment of capital are fundamental components of its growth strategy and demonstrate the success of its investment programs. In addition, Management has recently entered into and continues to prudently investigate the opportunity to enter into joint venture relationships with other real estate entities to potentially develop new multi-unit rental residential properties. Management has also recently assessed the viability of development and validated the potential to build in excess of 10,000 new rental suites, primarily in Vancouver and Toronto, where demand remains strong and monthly rents support profitable investment.

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

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

SECTION VII: SUPPLEMENTAL INFORMATION

PROPERTY PORTFOLIO

Types of Property Interests

CAPREIT's investments in its property portfolio reflect different forms of property interests, including: Fee Simple Interests – Apartments and Townhomes, Operating Leasehold Interests, Land Leasehold Interests and Fee Simple Interests – MHC Sites.

For a comprehensive description of the different forms of property interests listed above, refer to CAPREIT's MD&A for the year ended December 31, 2018 contained in CAPREIT's 2018 Annual Report.

Portfolio Diversification

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

Portfolio by Geography
As at September 30,

	2019	%	2018	%
Residential Suites				
Ontario				
Greater Toronto Area	16,155	27.0	15,657	30.8
Ottawa	2,377	4.0	2,377	4.7
London / Kitchener / Waterloo	2,960	5.0	2,407	4.7
Other Ontario	1,702	2.8	1,702	3.3
	23,194	38.8	22,143	43.5
Québec				
Greater Montréal Region	7,493	12.5	7,901	15.4
Québec City	2,517	4.2	2,734	5.4
	10,010	16.7	10,635	20.8
British Columbia				
Greater Vancouver Region	3,506	5.9	3,181	6.3
Victoria	1,550	2.6	1,478	2.9
	5,056	8.5	4,659	9.2
Alberta				
Edmonton	435	0.7	435	0.9
Calgary	1,884	3.1	1,884	3.7
	2,319	3.8	2,319	4.6
Nova Scotia				
Halifax	1,659	2.8	1,659	3.3
Saskatchewan				
Saskatoon	-	-	-	-
Regina	234	0.4	234	0.5
	234	0.4	234	0.5
Prince Edward Island				
Charlottetown	579	1.0	537	1.1
Europe				
The Netherlands ⁽¹⁾	5,116	8.5	2,091	4.1
Total residential suites	48,167	80.5	44,277	87.1
MHC Sites				
Ontario	3,962	6.6	2,703	5.3
Québec	429	0.7	-	-
British Columbia	483	0.8	272	0.5
Alberta	2,081	3.5	417	0.8
Nova Scotia	127	0.2	-	-
Saskatchewan	376	0.6	380	0.7
Prince Edward Island	772	1.3	504	1.0
New Brunswick	3,447	5.8	2,316	4.6
Total MHC sites	11,677	19.5	6,592	12.9
Total suites and sites	59,844	100.0	50,869	100.0

(1) Includes all residential properties owned by ERES.

While maintaining a strong and strategic presence in Ontario's vibrant residential market, CAPREIT continues to focus on diversifying its geographic portfolio outside of Ontario by increasing its presence in other markets with strong fundamentals. CAPREIT continues to look for investment opportunities that meet its investment criteria and that, where possible, will further its diversification strategy. The geographic diversification of its portfolio also enables CAPREIT to mitigate the risks arising from potential downturns in any specific markets.



CAPREIT

**CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
SEPTEMBER 30, 2019
(UNAUDITED)**

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CONSOLIDATED BALANCE SHEETS

(CA\$ Thousands)

As at		September 30, 2019	December 31, 2018
	Note		
Non-Current Assets			
Investment properties	6	\$ 12,239,588	\$ 10,473,544
Other non-current assets	7	381,629	307,375
		12,621,217	10,780,919
Current Assets			
Other current assets	7	51,779	35,631
Cash and cash equivalents		34,111	25,713
		85,890	61,344
		\$ 12,707,107	\$ 10,842,263
Non-Current Liabilities			
Mortgages payable	9	\$ 3,836,493	\$ 3,324,381
Bank indebtedness	10	588,381	567,365
Unit-based compensation financial liabilities	11, 12	14,703	13,336
Other non-current liabilities	8	249,800	926
Deferred income tax liability	18	25,139	26,428
Lease liability	2	39,253	-
		4,753,769	3,932,436
Current Liabilities			
Mortgages payable	9	271,429	403,952
Unit-based compensation financial liabilities	11, 12	18,704	19,469
Accounts payable and accrued liabilities		114,567	108,427
Other current liabilities	8	26,300	9,875
Security deposits		38,392	35,261
Distributions payable		18,440	16,143
		487,832	593,127
		\$ 5,241,601	\$ 4,525,563
Unitholders' Equity			
Unit capital		\$ 3,525,571	\$ 2,855,701
Accumulated Other Comprehensive (Loss) Income ("AOCL")	19	(33,741)	28,846
Retained earnings		3,973,676	3,432,153
		\$ 7,465,506	\$ 6,316,700
		\$ 12,707,107	\$ 10,842,263

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(CA\$ Thousands)

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note	2019	2018	2019	2018
Operating Revenues					
Revenue from investment properties	22	\$ 198,760	\$ 172,298	\$ 571,006	\$ 510,918
Operating Expenses					
Realty taxes		(18,853)	(17,539)	(55,065)	(52,015)
Property operating costs		(47,063)	(40,909)	(143,495)	(131,783)
		(65,916)	(58,448)	(198,560)	(183,798)
Net Rental Income		132,844	113,850	372,446	327,120
Trust expenses		(10,752)	(8,658)	(32,068)	(26,682)
Transaction costs	4	-	-	(8,527)	-
Unit-based compensation expenses	12	(5,876)	(10,853)	(13,416)	(27,070)
Fair value adjustments of investment properties	6	263,640	50,468	473,576	280,076
Realized loss on disposition of investment properties	5	-	(577)	-	(577)
Amortization of property, plant and equipment		(1,593)	(1,278)	(4,550)	(3,674)
Fair value adjustments of Exchangeable Units	11	-	(272)	-	(896)
Loss on non-controlling interest	8	(33,248)	-	(39,947)	-
Fair value adjustments of investments		2,696	2,500	8,892	4,152
Gain on derivative financial instruments	16	11,096	2,597	7,307	10,517
Interest and other financing costs	20	(35,218)	(33,711)	(100,098)	(96,612)
Gain (loss) on foreign currency translation		11,668	5,928	35,260	(6,478)
Other income	22	4,971	4,141	20,017	28,086
Net Income Before Income Taxes		340,228	124,135	718,892	487,962
Current and deferred income tax expense	18	(9,887)	(4,541)	(15,712)	(6,558)
Net Income		330,341	119,594	\$ 703,180	\$ 481,404
Other Comprehensive Income, including items that may be reclassified subsequently to Net Income					
Amortization of losses from AOCL to interest and other financing costs	19	\$ 1,725	\$ 643	\$ 3,173	\$ 2,016
Loss on foreign currency translation		(30,086)	(10,089)	(65,760)	(3,241)
Other Comprehensive Loss		\$ (28,361)	\$ (9,446)	\$ (62,587)	\$ (1,225)
Comprehensive Income		\$ 301,980	\$ 110,148	\$ 640,593	\$ 480,179

See accompanying notes to consolidated financial statements.

(CA\$ Thousands)

	Note	Unit Capital	Retained Earnings	Accumulated Comprehensive Loss	Other	Total
Unitholders' Equity, January 1, 2019		\$ 2,855,701	\$ 3,432,153	\$ 28,846	\$	6,316,700
Unit Capital						
New Units issued	13	605,764	-	-		605,764
Distribution Reinvestment Plan	13	49,778	-	-		49,778
Deferred Unit Plan	12,13	7,900	-	-		7,900
RUR Plan	12,13	4,903	-	-		4,903
Employee Unit Purchase Plan	12	1,525	-	-		1,525
		669,870	-	-		669,870
Retained Earnings and Other Comprehensive Loss						
Net income		-	703,180	-		703,180
Other comprehensive loss		-	-	(62,587)		(62,587)
		-	703,180	(62,587)		640,593
Distributions on Trust Units						
Distributions declared and paid	14	-	(143,217)	-		(143,217)
Distributions payable	14	-	(18,440)	-		(18,440)
		-	(161,657)	-		(161,657)
Unitholders' Equity, September 30, 2019		\$ 3,525,571	\$ 3,973,676	\$ (33,741)	\$	7,465,506

					Accumulated Other Comprehensive Loss	
	Note	Unit Capital	Retained Earnings			Total
Unitholders' Equity, January 1, 2018		\$ 2,523,419	\$ 2,393,472	\$	6,515	\$ 4,923,406
Change in accounting standard		-	8,858		(8,858)	-
Restated Unitholders' Equity, January 1,		2,523,419	2,402,330		(2,343)	4,923,406
Unit Capital						
New Units issued	13	168,206	-		-	168,206
Distribution Reinvestment Plan	13	38,437	-		-	38,437
Unit Option Plan	12,13	48,772	-		-	48,772
Deferred Unit Plan	12,13	273	-		-	273
RUR Plan	12,13	1,901	-		-	1,901
Employee Unit Purchase Plan	12	1,375	-		-	1,375
		258,964	-		-	258,964
Retained Earnings and Other Comprehensive Loss						
Net income		-	481,404		-	481,404
Other comprehensive income		-	-		(1,225)	(1,225)
		-	481,404		(1,225)	480,179
Distributions on Trust Units						
Distributions declared and paid	14	-	(123,422)		-	(123,422)
Distributions payable	14	-	(16,103)		-	(16,103)
		-	(139,525)		-	(139,525)
Unitholders' Equity, September 30, 2018		\$ 2,782,383	\$ 2,744,209	\$	(3,568)	\$ 5,523,024

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(CA\$ Thousands)

		Three Months Ended		Nine Months Ended	
		September 30,		September 30,	
	Note	2019	2018	2019	2018
Cash Provided By (Used In):					
Operating Activities					
Net income		\$ 330,341	\$ 119,594	\$ 703,180	\$ 481,404
Items related to operating activities not affecting cash:					
Fair value adjustments - investment properties		(263,640)	(50,468)	(473,576)	(280,076)
Fair value adjustments - Exchangeable Units		-	272	-	896
Fair value adjustments - investments	6	(2,696)	(2,500)	(8,892)	(4,152)
Loss on non-controlling interest	8	32,399	577	38,343	577
Gain on derivative financial instruments	16	(11,096)	(2,597)	(7,307)	(10,517)
Amortization	7, 19, 20	5,718	3,531	13,902	10,410
Unit-based compensation expenses		5,876	10,853	13,416	27,070
Straight-line rent adjustment		(63)	(36)	(72)	(65)
Deferred income tax expense	18	9,458	4,527	(1,739)	6,544
Net profit from equity-accounted investments	22	(2,215)	(1,912)	(11,867)	(20,775)
Unrealized foreign currency (gain) loss		(16,211)	(5,163)	(37,653)	6,844
		87,871	76,678	227,735	218,160
Net income items related to financing and investing activities	21	33,404	30,997	91,177	88,807
Changes in non-cash operating assets and liabilities	21	(380)	7,268	(15,516)	(17,851)
Cash Provided by Operating Activities		120,895	114,943	303,396	289,116
Investing Activities					
Acquisition of investment properties	21	(474,358)	(131,326)	(971,811)	(142,697)
Capital investments	21	(66,355)	(49,891)	(163,265)	(119,762)
Acquisition of investments	23	(20,125)	-	(40,668)	(25,443)
Disposition of investment properties	21	-	52,325	-	52,325
Change in restricted cash		(400)	133	(990)	(421)
Investment income received		4,289	400	8,944	3,962
Cash acquired on business combination	4	-	-	9,069	-
Cash Used in Investing Activities		(556,949)	(128,359)	(1,158,721)	(232,036)
Financing Activities					
Mortgage financings		205,776	139,672	571,556	163,405
Mortgage principal repayments		(31,826)	(29,220)	(93,908)	(87,172)
Mortgages repaid on maturity		(99,082)	(75,316)	(202,804)	(98,661)
Lease payments		(662)	-	(2,256)	-
Financing costs		(1,812)	(565)	(4,502)	(1,001)
CMHC premiums on mortgages payable		(3,606)	(2,351)	(8,388)	(2,438)
Interest paid	21	(33,508)	(28,280)	(91,569)	(85,595)
Bank indebtedness		301,080	44,624	56,276	(42,901)
Proceeds on issuance of ERES units, net of cost	8	137,583	-	137,583	-
Proceeds on issuance of Units	21	531	410	607,047	199,249
Net cash distributions to Unitholders	21	(37,516)	(34,296)	(109,584)	(99,699)
Cash Provided by (Used) Financing Activities		436,958	14,678	859,451	(54,813)
Changes in Cash and Cash Equivalents During the Period					
		904	1,262	4,126	2,267
Effect of exchange rate changes on cash		5,953	(765)	4,272	(366)
Cash and Cash Equivalents, Beginning of the Period		27,254	25,190	25,713	23,786
Cash and Cash Equivalents, End of the Period		\$ 34,111	\$ 25,687	\$ 34,111	\$ 25,687

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(CA \$ Thousands, except Unit and per Unit amounts)

1. Organization of the Trust

Canadian Apartment Properties Real Estate Investment Trust ("CAPREIT") owns and manages interests in multi-unit residential rental properties, including apartments, townhomes and manufactured home communities ("MHC"), principally located in and near major urban centres across Canada. CAPREIT's net assets and operating results are substantially derived from income-producing real estate located in Canada, where it is also domiciled, and in Europe.

CAPREIT converted from a closed-end real estate investment trust to an open-ended mutual fund trust on January 8, 2008, and is governed under the laws of the Province of Ontario by a Declaration of Trust ("DOT") dated February 3, 1997, as most recently amended and restated on May 24, 2017. CAPREIT 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.

CAPREIT Limited Partnership ("CAPLP") is a wholly-owned consolidated subsidiary of CAPREIT established under the laws of the Province of Manitoba pursuant to a limited partnership agreement dated June 26, 2007, and as amended on April 1, 2008, owns directly or indirectly the beneficial interest of all its properties along with the related mortgages and all the corporate debt obligations of CAPREIT.

CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited, entered into an external investment management agreement to perform property and asset management services for Irish Residential Properties REIT plc ("IRES"), an Irish residential REIT listed on the Irish Stock Exchange. As at September 30, 2019, CAPREIT holds 95.5 million (December 31, 2018 – 78.0 million) ordinary shares, representing 18.3% (December 31, 2018 – 18.0%) of the issued share capital of IRES. Refer to note 23 for further details.

On March 29, 2019, CAPREIT NL Holding B.V. ("Holding BV") which indirectly owned the beneficial interest in a portfolio of 2,091 residential suites in the Netherlands, completed the reverse acquisition (the "Acquisition") of European Commercial Real Estate Investment Trust ("ECREIT"), and the ongoing entity adopted the name European Residential Real Estate Investment Trust ("ERES"). Pursuant to the Acquisition, CAPREIT, the sole shareholder of Holding BV, exchanged all its shares of Holding BV for 81.6 million Class B Limited Partnership units ("Class B LP Units") of ERES Limited Partnership ("ERES LP"). CAPREIT determined that ECREIT meets the definition of a business and the Acquisition has been accounted for as a business combination. Refer to Note 4 for additional details. Subsequent to the Acquisition, CAPREIT received an additional 142.0 million of Class B LP Units of ERES LP and 4.8 million units of ERES ("ERES units"). Refer to Note 23 for additional details.

Upon exchange of the ERES LP Class B LP Units and together with its holding of ERES units, CAPREIT will hold a 73.6% ownership of ERES, with the remaining 26.4% held by non-controlling unitholders ("ERES external unitholders").

CAPREIT is listed on the Toronto Stock Exchange ("TSX") under the symbol "CAR.UN" and its registered address is 11 Church Street, Suite 401, Toronto, Ontario, Canada M5E 1W1.

2. Summary of Significant Accounting Policies

Basis of presentation

These condensed consolidated interim financial statements, which have been approved by CAPREIT's Board of Trustees on November 13, 2019, have been prepared in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed.

The condensed consolidated interim financial statements are prepared on a going concern basis and are presented in Canadian dollars, which is also CAPREIT's functional currency. CAPREIT's results for the nine months ended September 30, 2019 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. CAPREIT has historically experienced higher utility expenses in the first and last quarters as a result of the winter months, which create variations in the quarterly results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(CA \$ Thousands, except Unit and per Unit amounts)

Certain prior year figures in 2018 have been restated to conform with current year presentation.

Current Accounting Policies Changes

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2018, other than as described below. The following accounting policies have been applied to the accounting for the business combination completed during the quarter.

IFRS 3, Business Combinations ("IFRS 3")

The purchase method of accounting is used for acquisitions meeting the definition of a business combination. A business combination is an acquisition where an integrated set of activities is acquired in addition to the property. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred to the acquirer and the liabilities incurred by the acquirer. For each business combination, CAPREIT elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Any transaction costs incurred with respect to the business combination are expensed in the period incurred.

IFRS 10, Consolidated Financial Statements ("IFRS 10")

On consolidation of subsidiaries, CAPREIT eliminates in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group. IAS 12 Income Taxes applies to temporary differences that arise from the elimination of profits and losses resulting in intragroup transactions.

Goodwill

Goodwill is not amortized but tested for impairment annually, or more frequently if there are indicators of impairment. Goodwill is allocated to the group of cash-generating units ("CGU") that are expected to benefit from the synergies of the combination, at the lowest level at which goodwill is monitored for internal management purposes, and not larger than an operating segment (a goodwill CGU). CAPREIT evaluates whether goodwill may be impaired by determining whether the recoverable amount is less than the carrying amount for the goodwill CGU.

ERES Units

ERES units are redeemable at the option of the holder and therefore are considered puttable instruments that meet the definition of a financial liability under IAS 32, "Financial Instruments – Presentation" ("IAS 32"). Although IAS 32 allows ERES to classify these units as equity in its own balance sheet, this exception is not available to CAPREIT, and therefore the non-controlling interest that these ERES units represent is classified as a liability in the consolidated balance sheet and is measured at fair value, with changes in the fair value recorded in the consolidated statement of income and comprehensive income.

Reportable Operating Segments

Reportable operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. CAPREIT has determined that its chief operating decision-maker is the President and Chief Executive Officer.

Adjustments recognized on adoption of New Standard, IFRS 16

CAPREIT has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2019. These changes were made in accordance with the applicable transitional provision.

IFRS 16, Leases ("IFRS 16")

CAPREIT has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4 as permitted under the specific transitional provisions in the standard. Any adjustments resulting from the new standard have been recognized in the opening balance sheet on January 1, 2019.

From a lessor point of view, there was no material impact upon adoption.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(CA \$ Thousands, except Unit and per Unit amounts)

From a lessee point of view, leases impacted by the adoption of IFRS 16 encompass CAPREIT's four land lease parcels in Alberta and British Columbia, an air rights lease and leased office space. Until the 2019 financial year these leases were classified as operating leases with payments expensed as operating expense in the statement of income and comprehensive income over the period of the lease. From January 1, 2019 these leases are recorded as a right-of-use asset with a corresponding lease liability derived by discounting the future payments of each lease by the rate implicit in the lease, where determinable, or CAPREIT's incremental borrowing rate. These right of use assets related to land and air rights leases meet the definition of investment property under IAS 40; therefore, the fair value model is applied to those assets. Interest expense on the lease liability and fair value gain (loss) on the right of use asset is recorded through CAPREIT's consolidated statements of income and comprehensive income.

These land and air rights lease payments are calculated based upon a specified minimum payment, and at several intervals throughout the lease, are recalculated based upon land values on a specified date. CAPREIT measures lease liabilities at the present value of lease payments to be made over the lease term. The lease liability is determined based on future fixed and in-substance fixed payments, less any variable payments. Variable payments are calculated as a percentage of revenues, net operating income, etc. and are recognized as an expense in the period on which the event or condition that triggers the payment occurs.

Right of use assets, not meeting the definition of investment property, are measured at cost less any accumulated amortization.

For other leases of low value or short-term leases less than 12 months. CAPREIT has applied the practical expedient specified in IFRS 16 allowing CAPREIT to continue to expense the lease payments in the period in which they are incurred.

On adoption of IFRS 16, CAPREIT recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These leases include CAPREIT's land and air rights leases and leased office spaces. These liabilities were measured at the present value of the remaining lease payments, discounted using the weighted average borrowing rate as of January 1, 2019 of 5.4%.

The right-of-use assets for property leases were initially measured at cost, which is equal to the initial lease liability recorded. The recognised right-of-use assets relate to the following types of assets:

Right-of-use Assets	January 1, 2019
Land and Air Leasehold Interests (included under Investment Property)	\$ 29,843
Office Leases (included under Other Assets)	2,503
Total right-of-use assets	\$ 32,346

The total lease liabilities that have been recorded on the balance sheet are as follows.

Lease Liabilities	January 1, 2019
Land and Air Leasehold Interest Liabilities	\$ 29,843
Office Lease Liabilities	2,503
Total lease liabilities	\$ 32,346

Practical expedients applied

In applying IFRS 16 for the first time, CAPREIT has used the following practical expedient permitted by the standard:

- relied on its assessment of whether leases are onerous immediately before the date of initial application
- excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- applied short term leases exemptions to leases with lease terms that ends with 12 months at the date of initial application

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(CA \$ Thousands, except Unit and per Unit amounts)

Future Accounting Changes

CAPREIT has assessed the new or amended IFRS issued by the International Accounting Standards Board ("IASB") and are expected to apply to CAPREIT for annual reporting periods beginning after December 31, 2018:

IFRS 3

The IASB published an amendment to the requirements of IFRS 3 in relation to whether a transaction meets the definition of a business combination. The amendment clarifies the definition of a business and provides additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after January 1, 2020 with earlier application permitted. There will be no impact on transition as the amendments are effective for business combinations for which the acquisition date is on or after the transition date.

3. Critical Accounting Estimates, Assumptions and Judgments

The preparation of condensed consolidated interim financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying CAPREIT's accounting policies. The critical accounting estimates and judgements have been set out in detail in note 3 of CAPREIT's audited consolidated financial statements for the year ended December 31, 2018.

The estimates or judgement deemed to be most significant, due to subjectivity and the potential risk of causing a material adjustment within the next financial year to the carrying amounts of assets and liabilities, are noted below:

- i) Valuation of investment properties
- ii) Valuation of financial instruments
- iii) Unit-based compensation
- iv) Investment in Irish Residential Properties REIT plc ("IRES")
- v) Classification of interest paid in the Consolidated Statements of Cash Flows
- vi) Business Combination

Business Combination

Accounting for business combinations under IFRS 3 applies when it is determined that a business has been acquired. IFRS 3 defines a business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors.

A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. CAPREIT applies judgment in determining whether property acquisitions qualify as a business combination in accordance with IFRS 3 or as an asset acquisition.

When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, CAPREIT applies judgment when considering the following:

1. whether the investment property or properties are capable of producing outputs;

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(CA \$ Thousands, except Unit and per Unit amounts)

2. whether the market participant could produce outputs if missing elements exist;
3. whether employees were assumed in the acquisition; and
4. whether an operating platform has been acquired.

When CAPREIT acquires properties or a portfolio of properties and does not take on or assume employees or does not acquire an operating platform, it classifies the acquisition as an asset acquisition.

When CAPREIT determines the acquisition is a business combination, CAPREIT considers the following when determining the acquirer for accounting purposes:

1. whether the former owners of the entity being acquired own the majority of the units, and control the majority of votes, in the combined entity; and
2. whether management of the combined entity is drawn predominantly from the entity whose units are acquired.

4. Business Combinations and Recent Investment Property Acquisitions

Business Combinations

On March 29, 2019, Holding BV completed the Acquisition of ECREIT, and the ongoing entity adopted the name ERES. Holding BV indirectly owned the beneficial interest in a portfolio of 2,091 residential suites in the Netherlands as of the time of acquisition, through its Netherland subsidiaries. Pursuant to the Acquisition, CAPREIT, the sole shareholder of Holding BV, exchanged all of its shares of Holding BV for Class B LP Units of ERES LP. The transaction resulted in CAPREIT owning approximately 81.6 million Class B LP Units of ERES LP as at March 29, 2019, which are exchangeable on a one-to-one basis to ERES units. As at March 29, 2019, upon exchange, CAPREIT would hold an 82.8% ownership of ERES, with the remaining 17.2% held by ERES external unitholders. CAPREIT determined that ECREIT meets the definition of a business and the Acquisition has been accounted for as a business combination under IFRS as Holding BV acquired existing property leases with tenants, a third-party asset management agreement that was in place before the acquisition, key management personnel of ECREIT and key strategic processes relevant to the operation of the investment properties.

In addition, CAPREIT determined that it met the definition of control as defined under IFRS 10, Consolidated Financial Statements ("IFRS 10") with respect to its investment in ERES. In making this determination it considered (i) its 82.8% voting interest of ERES (ii) its ability to appoint three out of the six current ERES Board Members (iii) its ability to appoint the CEO and CFO via the asset management agreement. As a result of the above, CAPREIT has power over ERES and the ability to affect the amount of returns earned.

CAPREIT's consolidation of ERES on March 29, 2019, was recorded as follows:

- i) The financial position and results of operations of ERES are consolidated with CAPREIT in its consolidated financial statements.
- ii) The ERES units held by ERES external unitholders are presented as a liability on CAPREIT's statements since these ERES units are redeemable at any time, in whole or in part, on demand by the external unitholders. These ERES units represent 17.2% of issued and outstanding combined ERES units and Class B LP Units.

This transaction represents a reverse take-over under IFRS 3 "Business Combinations", and Holding BV has been identified as the accounting acquirer. Transaction costs of \$8,527 were expensed and included as part of transaction expenses in the consolidated interim statements of income and comprehensive income.

The following table summarizes the provisional purchase price allocation in respect of consideration paid, the fair value of assets acquired and liabilities assumed and the goodwill at the acquisition date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(CA \$ Thousands, except Unit and per Unit amounts)

	Units	\$
Fair value of ERES units held by ERES external unitholders	16,969,764	67,878
Distribution Payable		8,485
Total consideration transferred		76,363
Recognized amounts of identifiable assets acquired and liabilities assumed		
Investment Properties		135,533
Cash and Cash Equivalents		9,069
Other Current Assets		2,141
Derivative financial assets		659
Mortgages Payable		(73,469)
Accounts Payable and Other Liabilities		(11,080)
Unit-based compensation financial liabilities		(487)
Current and Deferred Income Tax Liabilities		(698)
Derivative financial liabilities		(1,997)
Total Identifiable Assets and Liabilities		59,671
Goodwill		16,692
Total		76,363

The total consideration transferred for the Acquisition was comprised of 16,969,764 ERES units and a distribution payable of \$8,485 to fund a one-time special distribution of \$0.50 per unit to pre-existing unitholders of ECREIT.

The fair value of the ERES units was based on \$4.00, which is the closing unit price of \$4.50 on the closing date of the Acquisition, adjusted for the special distribution of \$0.50 per unit.

For the nine months ended September 30, 2019, \$5,947 of operating revenues and \$5,268 of net income of ECREIT, the acquiree, is included in the consolidated interim statements of income and comprehensive income. It is estimated that if the Acquisition had taken place on January 1, 2019, the operating revenues and net income of CAPREIT for the nine months ended September 30, 2019 would have been approximately \$573,885 and \$703,427, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2019

(CA \$ Thousands, except Unit and per Unit amounts)

Recent Investment Property Acquisitions

CAPREIT completed the following investment property acquisitions since January 1, 2018, which have contributed to the operating results effective from their respective acquisition dates:

For the Nine Months Ended September 30, 2019

(\$ Thousands)	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
February 26, 2019	511	The Netherlands	\$ 153,424	\$ -	\$ 89,586	0.97%	4.00
March 14, 2019	1,104	Various ⁽⁴⁾	66,866	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
April 15, 2019	191	Langley, BC	70,000	-	44,222	2.90%	15.00
May 27, 2019	181	Various ⁽⁵⁾	11,317	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
May 28, 2019	3,898	Various ⁽⁶⁾	204,955	74,345	-	3.38%	2.39
June 7, 2019	72	Victoria, BC	26,558	-	18,368	2.44%	10.00
June 20, 2019	98	Langley, BC	39,045	-	22,839	2.92%	15.00
July 31, 2019 ⁽⁷⁾	506	Toronto, Ontario	55,667	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
August 1, 2019	942	The Netherlands	246,602	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
August 30, 2019	553	London, Ontario	70,301	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
August 30, 2019	42	Charlottetown, PEI	7,430	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
September 30, 2019	315	The Netherlands	95,076	-	77,639	1.45%	7.00
Total	8,413		\$ 1,047,241	\$ 74,345	\$ 252,654		

(1) Weighted average stated interest rate on mortgage funding.

(2) Weighted average term to maturity on mortgage funding.

(3) The acquisition was funded from CAPREIT's Acquisition and Operating Facility.

(4) The acquisition comprised of 13 properties consisting of 407 sites in Ontario, 615 sites in Alberta, and 82 sites in British Columbia.

(5) The acquisition comprised of 3 properties consisting of 56 sites in Ontario and 125 sites in British Columbia.

(6) The acquisition comprised of 24 properties consisting of 800 sites in Ontario, 1,050 sites in Alberta, 1,211 sites in New Brunswick, 128 sites in Nova Scotia, 280 sites in Prince Edward Island, and 429 sites in Quebec. The balance of the purchase was funded from CAPREIT's Acquisition and Operating Facility.

(7) In 2015 CAPREIT entered into an agreement to acquire one-third undivided interest in the residential component of a property upon completion. On July 31, 2019, CAPREIT acquired a 19.8% interest in the property, with an additional 5.3% interest acquired on each August 31, 2019 and September 30, 2019. As at September 30, 2019, CAPREIT's interest stood at 30.3%.

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(CA \$ Thousands, except Unit and per Unit amounts)

For the Year Ended December 31, 2018

(\$ Thousands)	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
April 24, 2018	134	Swift Current, SK	\$ 5,744	\$ - ⁽³⁾	\$ -	- ⁽³⁾	- ⁽³⁾
April 30, 2018	2	Burlington, ON	2,404	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
August 7, 2018	90	Langley, BC	34,310	21,088	-	2.56%	8.83
August 15, 2018	3	New Westminster, BC	2,536	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
September 27, 2018	269	Vancouver, BC	103,169	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
November 13, 2018	11	New Westminster, BC	3,373	- ⁽³⁾	-	- ⁽³⁾	- ⁽³⁾
December 3, 2018	881	The Netherlands	253,410	-	104,796 ⁽⁴⁾	1.98% ⁽⁴⁾	7.00 ⁽⁴⁾
December 5, 2018	376	The Netherlands	93,396	-	46,456 ⁽⁵⁾	1.98% ⁽⁵⁾	7.00 ⁽⁵⁾
December 5, 2018	25	New Westminster, BC	6,368	1,827	-	2.49%	6.17
Total	1,791		\$ 504,710	\$ 22,915	\$ 151,252		

(1) Weighted average stated interest rate on mortgage funding.

(2) Weighted average term to maturity on mortgage funding.

(3) The acquisition was funded from CAPREIT's Acquisition and Operating Facility.

(4) The acquisition, comprised of 881 suites, was financed by a new non-amortizing mortgage of €67,554 (\$104,796) with a term to maturity of 7.0 years with an interest rate of 1.98% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(5) The acquisition, comprised of 376 suites, was financed by a new non-amortizing mortgage of €29,946 (\$46,456) with a term to maturity of 7.0 years with an interest rate of 1.98% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

The total purchase consideration, including mortgages payable and bank indebtedness, is allocated to investment properties and other assets acquired based on the relative fair value of each at the time of purchase.

5. Dispositions

There were no property dispositions for the nine months ended September 30, 2019.

The tables below summarize the dispositions completed since January 1, 2018.

Dispositions Completed During the Year Ended December 31, 2018

Disposition Date	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
August 15, 2018	102	Saskatoon, SK	\$ 10,195	\$ 2,425	\$ 7,476
September 6, 2018	162	Vancouver, BC	70,000	49,900	19,948
October 11, 2018	419	Longueuil, QC	35,831	15,168	20,564
December 12, 2018	217	Québec City, QC	24,900	14,404	10,224
Total	900		\$ 140,926	\$ 81,897	\$ 58,212

6. Investment Properties

Valuation basis

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

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The fair value of all investment properties is established by qualified, independent appraisers annually. Each quarter, CAPREIT utilizes internal market assumptions for rent increases and capitalization and discount rates provided by the independent appraisers to determine the fair value of the investment properties for interim reporting purposes. Capitalization rates employed by the appraisers are based on recently closed transactions, generally within the last three months, and other current market indicators for similar properties. To the extent that the externally provided capitalization rates or results of operations change from one reporting period to the next, the fair value of the investment properties would increase or decrease accordingly.

Investment properties have been valued using the same valuation methods and key assumptions as those described in note 6 of CAPREIT's audited consolidated financial statements for the year ended December 31, 2018 contained in CAPREIT's 2018 Annual Report.

A summary of the market assumptions and ranges for each type of property interest along with their fair values are presented below as at September 30, 2019 and December 31, 2018:

As at September 30, 2019

Type of Interest	Fair Value	WA NOI / Cash Flow ⁽¹⁾	Rate Type	Max	Min	Weighted Average
Fee simple interests	\$ 10,505,814	3,428	Capitalization rate	8.53%	2.90%	4.03%
MHC sites	602,890	1,861	Capitalization rate	8.61%	4.52%	6.21%
Operating leasehold interests ^{(2), (3), (4)}	920,073	4,305	Discount rate ⁽⁵⁾	6.00%	5.50%	5.57%
Land leasehold interests ⁽²⁾	173,520	3,317	Discount rate	7.00%	6.50%	6.80%
Total Investment Properties excluding Right of Use Assets	\$ 12,202,297					
Add: Right of use assets, net of fair value change ⁽⁶⁾	37,291					
Total Investment Properties	\$ 12,239,588					

As at December 31, 2018

Type of Interest	Fair Value	WA NOI / Cash Flow ⁽¹⁾	Rate Type	Max	Min	Weighted Average
Fee simple interests	\$ 9,078,457	3,236	Capitalization rate	7.19%	2.91%	4.10%
MHC sites	341,890	2,629	Capitalization rate	7.31%	5.11%	6.11%
Operating leasehold interests ^{(2), (3), (4)}	873,067	4,133	Discount rate ⁽⁵⁾	6.00%	5.50%	5.57%
Land leasehold interests ⁽²⁾	180,130	3,623	Discount rate	7.00%	6.50%	6.81%
Total investment properties	\$ 10,473,544					

(1) Weighted average ("WA") net operating income ("NOI") or cash flow by property fair value.

(2) The fair values of Operating Leasehold Interests subject to a contractual air rights lease and Land Leasehold Interests subject to land leases reflect the estimated air rights or land lease payments over the term of the leases.

(3) The fair values of Operating Leasehold Interests include the fair values of the options to purchase the related freehold interests of \$349,043 as at September 30, 2019 (December 31, 2018 - \$325,817).

(4) The weighted average remaining lease term on Operating Leasehold Interests is 14.1 years as at September 30, 2019 (December 31, 2018 - 14.8 years) based on the assumption that the early purchase option is not exercised. If the purchase option is exercised at the earliest allowable date, the weighted average remaining lease term on Operating Leasehold interests is 4.1 years as at September 30, 2019 (December 31, 2018 - 4.8 years).

(5) Represents the discount rate used to determine the fair value of Operating Leasehold Interests using the Discounted Cash Flow ("DCF") method. A weighted average stabilized net operating income growth of 2.9% has been assumed as at September 30, 2019 and December 31, 2018.

(6) Under IFRS 16, effective January 1, 2019, land and air rights leases previously expensed are now recognized as Right of Use Assets and included in the fair value of investment properties. Please refer to Note 2 for further details.

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Reconciliation of carrying amounts of investment properties by type

		Fee Simple and MHC Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
For the Nine Months Ended September 30, 2019					
Balance, Beginning of the Period	\$	9,420,347	\$ 873,067	\$ 180,130	\$ 10,473,544
Additions:					
Properties acquired through business combination ⁽¹⁾		135,533	-	-	135,533
Acquisitions		1,047,241	-	-	1,047,241
Property capital investments		149,084	12,850	5,991	167,925
Capitalized leasing costs ⁽²⁾		132	24	(103)	53
Right of use assets ⁽³⁾		-	3,000	34,763	37,763
Foreign currency translation		(96,047)	-	-	(96,047)
Fair value adjustments		452,414	34,125	(12,963)	473,576
Balance of Investment Properties, End of the Period	\$	11,108,704	\$ 923,066	\$ 207,818	\$ 12,239,588

(1) Represents the fair value of the properties acquired as part of the business combination. For details, please refer to Note 4.

(2) Comprises tenant inducements, straight-line rent and direct leasing costs.

(3) Adoption of IFRS 16. For details, please refer to note 2.

		Fee Simple and MHC Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
For the Nine Months Ended September 30, 2018					
Balance, Beginning of the Period	\$	7,961,816	\$ 738,990	\$ 185,750	\$ 8,886,556
Additions:					
Acquisitions		148,163	-	-	148,163
Property capital investments		107,035	11,239	3,246	121,520
Capitalized leasing costs ⁽¹⁾		229	31	733	993
Foreign currency translation		(2,140)	-	-	(2,140)
Dispositions		(79,618)	-	-	(79,618)
Realized loss on dispositions of investment properties		(577)	-	-	(577)
Fair value adjustments		251,455	28,840	(219)	280,076
Balance of Investment Properties, End of the Period	\$	8,386,363	\$ 779,100	\$ 189,510	\$ 9,354,973

(1) Comprises tenant inducements, straight-line rent and direct leasing costs.

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7. Other Assets

As at	Note	September 30, 2019	December 31, 2018
Other Non-Current Assets			
Property, plant and equipment ⁽¹⁾		\$ 49,887	\$ 46,151
Accumulated amortization of property, plant and equipment		(34,812)	(30,757)
Net property, plant and equipment		15,075	15,394
Right of use asset, net of amortization ⁽⁷⁾		1,962	-
Prepaid CMHC premiums, net ⁽²⁾		79,996	74,695
Deferred loan costs, net ⁽³⁾		1,051	1,182
Fair value through profit or loss Investment ⁽⁵⁾		43,547	34,655
Investment in associate ⁽⁴⁾		211,209	181,449
Derivative asset	16	10,930	-
Deferred tax asset		1,795	-
Goodwill ⁽⁶⁾		16,064	-
Total		\$ 381,629	\$ 307,375
Other Current Assets			
Prepaid expenses		\$ 17,996	\$ 6,702
Other receivables		14,924	9,887
Restricted cash		8,998	8,141
Deposits		9,861	10,901
Total		\$ 51,779	\$ 35,631

(1) Consists of head office and regional offices' leasehold improvements, corporate and information technology systems.

(2) Represents prepaid CMHC premiums on mortgages payable net of accumulated amortization of \$30,482 (December 31, 2018 - \$27,395).

(3) Represents deferred loan costs related to the revolving credit facilities and ERES unsecured credit facility net of accumulated amortization of \$11,403 (December 31, 2018 - \$10,091).

(4) CAPREIT has determined that its investment in IRES should be accounted for using the equity method of accounting given the significant influence it has over IRES. In making the determination that CAPREIT does not control IRES, CAPREIT used judgement when considering the extent of its ownership interest in IRES, the level of its involvement, responsibilities and remuneration as IRES' investment manager, and the control and influence exerted over IRES by its independent Board of Directors and CEO. As at September 30, 2019, CAPREIT concluded that it continues to exert significant influence over IRES. CAPREIT will continue to reassess this conclusion should its ownership interest or the terms of the asset management agreement change. Refer to note 23 for further details.

The table below discloses CAPREIT's ownership in IRES and IRES' share price:

As at	September 30, 2019	December 31, 2018
IRES Investment		
Share ownership (%)	18.3%	18.0%
Number of IRES shares	95,510,000	78,010,000
IRES share price (€)	1.72	1.35

(5) See note 2 to the audited consolidated annual financial statements for the year ended December 31, 2018 contained in CAPREIT's 2018 Annual Report for details on change of accounting treatment due to IFRS 9 adoption.

(6) Resulted from the business combination of ERES which occurred on March 29, 2019. Refer to note 4 for further details.

(7) Adoption of IFRS 16 for Office Leases, see note 2 for further details. Amortization during the three and nine months ended September 30, 2019 is \$178 and \$534, respectively.

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8. Other Liabilities

As at	Note	September 30, 2019	December 31, 2018
Other Non-Current Liabilities			
Derivative liability	16	\$ 3,323	\$ 926
ERES units held by ERES external unitholders ⁽¹⁾	4, 23	246,477	-
Total		\$ 249,800	\$ 926
Other Current Liabilities			
Current tax liability ⁽²⁾	18	\$ 17,134	\$ -
Foreign exchange swap	16	518	-
Mortgage interest payable		8,648	9,875
Total		\$ 26,300	\$ 9,875

(1) The non-controlling interest related to the CAPREIT's investment in ERES has been classified as a financial liability as a result of the units being redeemable at any point by an ERES external unitholder. On September 24, 2019, ERES completed an offering of 40,185,000 ERES units for a price of \$4.15 per unit for aggregate proceeds of \$166,768. The net proceeds after underwriters' commission and other closing costs totalling \$9,182, was \$157,586. CAPREIT purchased 4,820,000 ERES units amounting to \$20,003.

For the three and nine months ended September 30, 2019, CAPREIT recorded a loss on the non-controlling interest portion of ERES units held by ERES external unitholders of \$33,248 and \$39,947, which includes a mark-to-market loss of \$32,399 and \$38,343 and distribution to ERES external unitholders of \$849 and \$1,604. The mark-to-market loss arises from the increase in ERES's unit price on a quarter and year to date basis to a September 30, 2019 unit price of \$4.67.

(2) The current tax liability is primarily a result of reorganization of legal structures of the Netherlands subsidiaries in connection with the Acquisition.

9. Mortgages Payable

As at September 30, 2019, mortgages payable bear interest at a weighted average effective rate of 3.01% (December 31, 2018 – 3.13%) and mature between 2019 and 2034. The effective interest rate as at September 30, 2019 includes 0.08% (December 31, 2018 – 0.08%) for the amortization of the realized component of the loss on settlement of derivative financial instruments of \$32,494 included in AOCL. As at September 30, 2019, 98.9% of CAPREIT's mortgages payable are financed at fixed interest rates. Investment properties at fair value of \$11,570,988 have been pledged as security as at September 30, 2019. CAPREIT has investment properties with a fair value of \$668,600 as at September 30, 2019 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. As at September 30, 2019, unamortized deferred financing costs of \$11,760 and unamortized fair value loss of \$1,328 are netted against mortgages payable.

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Future principal repayments for the periods ending are indicated as follows:

As at September 30, 2019	Principal Amount	% of Total Principal
2019	\$ 117,413	2.9
2020	379,815	9.2
2021	471,790 ⁽¹⁾	11.5
2022	524,254	12.7
2023	569,025	13.8
Subsequent to 2023	2,056,057	49.9
	4,118,354	100.0
Deferred financing costs and fair value adjustments	(10,432)	
Total Portfolio	\$ 4,107,922	

As at	September 30, 2019	December 31, 2018
Represented by:		
Mortgages Payable - non-current ⁽¹⁾	\$ 3,836,493	\$ 3,324,381
Mortgages Payable - current	271,429	403,952
	\$ 4,107,922	\$ 3,728,333

(1) Included in mortgages payable as at September 30, 2019 is a \$65,000 fully drawn, non-amortizing credit facility on two of the MHC sites.

10. Bank Indebtedness

Effective June 28, 2019, CAPREIT amended its credit agreement to amend the “conversion date” for when the revolving facility converts to a two-year non-revolving term facility to June 30, 2020, and to remove the sublimit on the aggregate amount of EURO LIBOR borrowings. CAPREIT also increased its Acquisition and Operating Facility by \$100,000 for three months via a Bridge Facility effective June 28, 2019. On September 24, 2019, CAPREIT extended the Bridge Facility maturity date to November 30, 2019. The Bridge Facility cannot be drawn once repaid.

Effective November 26, 2018, CAPREIT amended its credit agreement to, among other things: (i) increase its Acquisition and Operating Credit Facility by \$100,000 to \$640,000, (ii) amend the aggregate amount of Euro Libor borrowings at any time to a maximum of €200,000, and (iii) amend the tangible net worth requirement to \$2,100,000. CAPREIT also increased its Acquisition and Operating Facility by \$200,000 for three months via a Bridge Facility. The Bridge Facility cannot be drawn once repaid.

CAPREIT's Credit Facilities include the \$640,000 Acquisition and Operating Facility which can be borrowed in USD, Euro, or CAD, and the existing \$65,000 five-year non-revolving term credit facility (collectively, the “Credit Facilities”). The \$65,000 five-year non-revolving term credit facility bears interest at the bankers' acceptance rate plus 1.4% per annum (included in mortgages payable). The Acquisition and Operating Facility matures on June 30, 2022 and the margins are renegotiated annually. The interest rate on the Acquisition and Operating Facility is determined by interest rates on prime advances and bankers' acceptances utilized during the year. The Credit Facilities are subject to compliance with the various provisions of the Credit Facilities. The Credit Facilities are used to fund operations, acquisitions, capital improvements, letters of credit and other uses.

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As at September 30, 2019	Acquisition and Operating Facility
Facility ⁽¹⁾⁽²⁾	\$ 640,000
Less: USD LIBOR borrowings ⁽³⁾	(247,644)
Euro LIBOR borrowings ⁽⁴⁾	(340,737)
Bank indebtedness	-
Letters of credit	(6,878)
Available borrowing capacity	\$ 44,741
Weighted average floating interest rate	1.41%

As at December 31, 2018	Acquisition and Operating Facility
Facility ⁽⁵⁾	\$ 640,000
Less: USD LIBOR borrowings	(255,105)
Euro LIBOR borrowings	(312,260)
Bank indebtedness	-
Letters of credit	(6,310)
Available borrowing capacity	\$ 66,325
Weighted average floating interest rate	1.45%

(1) In addition to the above Facility, there is a \$72,190 (€50,000) ERES unsecured credit facility at a floating interest rate based on CDOR, EURIBOR, or LIBOR. The ERES unsecured credit facility matures on July 8, 2021 and may be extended for an additional one year period upon satisfaction of certain conditions. Amounts drawn in the quarter were fully repaid as of September 30, 2019.

(2) In addition to the above Facility, there is a \$100,000 Bridge Facility in place effective June 28, 2019. Amounts drawn on the Bridge Facility in the quarter were repaid as of September 30, 2019. Any principal amount under the Bridge Facility that is repaid may not be re-borrowed. The Bridge Facility availability as of September 30, 2019 is \$50,686. The Bridge Facility will expire November 30, 2019.

(3) CAPREIT has US LIBOR borrowings of USD \$187,000 that bears interest at the US LIBOR rate plus a margin of 1.65% per annum.

(4) CAPREIT has euro LIBOR borrowings of €236,000 that bears interest at the euro LIBOR rate plus a margin of 1.65% per annum, subject to a floor of 0%.

(5) The Facility, in addition had a \$200,000 Bridge Facility in place for three months, effective November 26, 2018. The drawn bridge amount could not be redrawn once repaid. The drawn bridge amount was repaid in Q4 2018 and the bridge expired in February 2019. The Bridge Facility availability as of December 31, 2018 was \$53,146.

11. Unit-based Compensation Financial Liabilities and Exchangeable Units

Units are issuable pursuant to CAPREIT's Unit-based compensation plans, namely the Unit Option Plan ("UOP"), the Employee Unit Purchase Plan ("EUPP"), the Deferred Unit Plan ("DUP") and the Restricted Unit Rights Plan ("RUR Plan"), each of which is more fully described in note 12. As at September 30, 2019, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 9,500,000 Units (December 31, 2018 – 9,500,000). The maximum number of Units available for future issuance under all Unit incentive plans as at September 30, 2019 is 747,560 Units (December 31, 2018 – 887,823 Units).

On April 4, 2014, the Long-Term Incentive Plan ("LTIP"), the Senior Executive Long-Term Incentive Plan ("SELTIP") and the Unit Purchase Plan ("UPP") were terminated by the trustees of CAPREIT, although awards previously granted under the LTIP and SELTIP remained outstanding under the original terms of such plans. As at September 30, 2019, no further awards remained outstanding under the LTIP and SELTIP.

Included within the Unit-based compensation financial liabilities are ERES unit options assumed as part of the Acquisition. ERES unit options are issuable pursuant to ERES's unit-based compensation plan (the "ERES Plan"). Under the terms of the ERES Plan, ERES's board of trustees may from time to time, in its discretion, grant options to purchase ERES units to trustees, officers, employees and technical consultants of the ERES and its affiliates. ERES unit options vest

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in one-third instalments annually on the anniversary of the grant date and expire ten years from the date the options were granted. The ERES unit options can only purchase ERES units and cannot be converted CAPREIT units.

The Units, Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans, the ERES Plan and Exchangeable Units as at September 30, 2019 and 2018 are as follows:

Nine Months Ended September 30, 2019	ERES UOP	UOP	DUP	RUR	SELTIP/ LTIP	Exch. Units⁽²⁾	Total CAPREIT⁽³⁾
(Number of Units)							
Units, Unit rights and Unit options outstanding as at January 1, 2019	-	-	286,696	578,120	-	-	864,816
Issued, cancelled or granted during the period:							
Assumed	1,143,014						
Issued or granted	500,000	-	13,501	83,124	-	-	96,625
Exercised or settled	(13,666)	-	(159,080)	(100,487)	-	-	(259,567)
Cancelled or forfeited	(38,001)	-	(1)	(3,952)	-	-	(3,953)
Distributions reinvested	-	-	5,189	11,682	-	-	16,871
Units, Unit Rights and Unit Options outstanding as at September 30, 2019	1,591,347	-	146,305	568,487	-	-	714,792

Nine Months Ended September 30, 2018	ERES UOP	UOP	DUP	RUR	SELTIP/ LTIP⁽¹⁾	Exch. Units⁽²⁾	Total CAPREIT⁽³⁾
(Number of Units)							
Units, Unit rights and Unit options outstanding as at January 1, 2018	-	1,263,962	260,159	521,980	1,025,398	130,655	3,202,154
Issued, cancelled or granted during the period:							
Issued or granted	-	-	17,899	111,146	-	-	129,045
Exercised or settled	-	(1,263,962)	(5,924)	(53,333)	-	(80,655)	(1,403,874)
Cancelled	-	-	-	(2,373)	-	-	(2,373)
Distributions reinvested	-	-	6,558	13,986	-	-	20,544
Units, Unit Rights and Unit Options outstanding as at September 30, 2018	-	-	278,692	591,406	1,025,398	50,000	1,945,496

(1) The distributions payable on SELTIP and LTIP Units do not increase the number of Units outstanding on these plans but are incorporated into the fair value of the plans.

(2) Exchangeable Units are entitled to distributions equivalent to distributions on Trust Units, must be exchanged solely for Trust Units on a one-for-one basis, and are exchangeable at any time at the option of the holder. An equivalent number of Special Voting Units were issued at the same time as the Exchangeable Units. The holders of these Units have no entitlement to any share of or interest in the distributions or net assets of CAPREIT. Through Special Voting Units, holders of Exchangeable Units are entitled to an equivalent number of votes at all meetings of Unitholders or in respect of any written resolution of Unitholders equal to the number of Exchangeable Units held. All Exchangeable Units have been exercised as at September 30, 2019.

(3) Total CAPREIT excludes ERES UOP.

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The table below summarizes the change in the total Unit-based compensation financial liabilities for the periods ended September 30, 2019 and 2018, including the settlement of such liabilities through the issuance of Trust and ERES Units.

As at	September 30, 2019	December 31, 2018
Total Unit-based compensation financial liabilities, beginning of the period	\$ 32,805	\$ 64,560
Unit-based compensation expenses	13,162	34,373
ERES UOP assumed as part of the Acquisition	487	-
Settlement of Unit-based compensation awards for Trust and ERES Units ⁽¹⁾	(13,047)	(66,128)
Total Unit-based compensation financial liabilities, end of the period	\$ 33,407	\$ 32,805

(1) Refer to note 21(g) for further details.

The Unit-based compensation financial liabilities comprise:

As at	September 30, 2019	December 31, 2018
Current		
DUP	\$ 7,970	\$ 12,695
RUR	10,017	6,774
ERES UOP	717	-
	18,704	19,469
Non-Current		
RUR	14,360	13,336
ERES UOP	343	-
Total Unit-based compensation financial liabilities, end of the period	\$ 33,407	\$ 32,805

Units or Unit-based compensation financial liabilities held by trustees, officers and other senior management

As at September 30, 2019, 0.8% (September 30, 2018 – 1.0%) of all Trust Units outstanding were held by trustees, officers and other senior management of CAPREIT.

12. Unit-based Compensation Expenses

These costs represent Unit-based compensation expenses, which include fair value remeasurements at each reporting date recognized over the respective vesting periods for each plan for the periods ended September 30, 2019 and 2018, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
ERES UOP	\$ 341	\$ -	\$ 624	\$ 4,201
LTIP	-	2,507	-	5,241
SELTIP	-	2,936	-	5,724
DUP	1,309	1,863	3,174	3,855
RUR Plan	4,133	3,467	9,364	7,820
EUPP	93	80	254	229
Unit-based compensation expenses	\$ 5,876	\$ 10,853	\$ 13,416	\$ 27,070

This Unit-based compensation note disclosure should be read in conjunction with CAPREIT's note 12 to the audited consolidated financial statements for the year ended December 31, 2018 contained in CAPREIT's 2018 Annual Report, which provides a detailed description for each of the Unit-based compensation plans.

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a) DUP

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

	September 30, 2019			September 30, 2018		
	Weighted Avg Issue Price	Fair Value per Unit	Number of Units	Weighted Avg Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the period	\$ 26.31	\$ 44.30	286,696	\$ 24.34	\$ 37.32	260,159
Granted during the period	51.13	-	13,501	42.27	-	17,898
Additional Unit distributions	48.98	-	5,189	40.49	-	6,557
Settled or cancelled during the period	26.37	-	(159,081)	28.65	-	(5,924)
Outstanding, end of the period	\$ 29.34	\$ 54.47	146,305	\$ 25.78	\$ 47.69	278,690

The fair value of DUPs represents the closing price of the Units on the TSX on the last trading day on which the Units traded prior to the reporting date, representing the fair value of the redemption price.

b) RUR Plan

The details of the RURs granted under the RUR Plan (including the Distribution RURs) are as follows:

	September 30, 2019			September 30, 2018		
	Weighted Avg Issue Price	Fair Value per Unit	Number of Units	Weighted Avg Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the period	\$ 29.23	\$ 44.30	578,119	\$ 27.11	\$ 37.32	521,980
Granted during the period	47.84	-	83,124	36.35	-	111,146
Additional Unit distributions	49.28	-	11,682	40.00	-	13,985
Settled or cancelled during the period	28.34	-	(104,438)	26.46	-	(55,707)
Outstanding, end of the period	\$ 32.52	\$ 54.47	568,487	\$ 29.22	\$ 47.69	591,404

The fair value of RURs represents the closing price of the Units on the TSX on the last trading day on which the Units traded prior to the reporting date, representing the fair value of the redemption price.

c) EUPP

The EUPP grants all employees the right to receive an additional amount equal to 20% of the Units they acquire, paid in the form of additional Units. This additional amount is expensed as compensation on issuance of the Units.

13. Unitholders' Equity

All Trust Units outstanding are fully paid, have no par value and are voting Trust Units. The authorized capital of CAPREIT consists of an unlimited number of Units, an unlimited number of Special Voting Units and 25,840,600 Preferred Units. As at September 30, 2019, no Preferred Units or Special Voting Units were issued and outstanding. Trust Units represent a Unitholder's proportionate undivided beneficial interest in CAPREIT. No Trust Unit has any preference or priority over another. No Unitholder has or is deemed to have any right of ownership in any of the assets of CAPREIT. Each Unit confers the right to one vote at any meeting of Unitholders and to participate pro rata in any distributions by CAPREIT and, in the event of termination of CAPREIT, in the net assets of CAPREIT remaining after satisfaction of all liabilities. Units will be issued in registered form and are transferable. Issued and outstanding Units may be subdivided or consolidated from time to time by the trustees without Unitholder approval. No certificates for fractional Units will be issued and fractional Units will not entitle the holders thereof to vote.

By virtue of CAPREIT being an open-ended mutual fund trust, Unitholders of Trust Units are entitled to redeem their Units at any time at prices determined and payable in accordance with the conditions specified in the DOT. As a result,

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under IFRS, Trust Units are defined as financial liabilities; however, for the purposes of financial statement classification and presentation, the Trust Units may be presented as equity instruments as they meet the puttable instrument exemption under IAS 32, Financial Instruments: Presentation. For the purposes of presenting earnings on a per Unit basis as well as for Unit-based compensation plans, CAPREIT's Trust Units are not treated as equity instruments.

The number of issued and outstanding Trust Units (excluding Units, Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans) is as follows:

For the Nine Months Ended September 30,	Ref	2019	2018
Units outstanding, beginning of the period		145,653,982	136,911,892
Issued or granted during the period in connection with the following:			
New Units issued	(a)	13,368,750	4,910,500
Exchangeable Units	(b)	-	80,655
Distribution Reinvestment Plan ("DRIP")	(c)	1,059,005	1,009,070
EUPP	(d)	30,720	34,040
DUP	(e)	159,080	5,924
RUR Plan	(f)	100,487	53,333
UOP	(g)	-	1,263,962
Units outstanding, end of the period		160,372,024	144,269,376

a) New Units Issued in 2019

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
April 2019 (the "April 2019 Equity Offering")					
Bought-deal (April 23, 2019)	\$ 49.00	\$ 300,125	\$ 13,807	\$ 286,318	6,125,000
Over-allotment (April 23, 2019)	\$ 49.00	45,019	950	44,069	918,750
Total		\$ 345,144	\$ 14,757	\$ 330,387	7,043,750

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
January 2019 (the "January 2019 Equity Offering")					
Bought-deal (January 4, 2019)	\$ 45.50	\$ 250,250	\$ 11,512	\$ 238,739	5,500,000
Over-allotment (January 11, 2019)	\$ 45.50	37,538	900	36,638	825,000
Total		\$ 287,788	\$ 12,412	\$ 275,377	6,325,000

b) Exchangeable Units

During the first nine months of 2018, pursuant to the terms of the Exchangeable Units, 80,655 Exchangeable Units were exchanged for 80,655 Trust Units.

c) Distribution Reinvestment Plan ("DRIP")

The terms of the DRIP 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 reinvested in additional Units.

d) Employee Unit Purchase Plan ("EUPP")

The EUPP grants all employees the right to receive an additional amount equal to 20% of the Units they acquire, paid in the form of additional Units.

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e) Deferred Unit Plan ("DUP")

During the first nine months of 2019, 159,081 DUP Units were settled, out of which 159,080 DUP Units were settled for an equivalent number of Trust Units and the remaining DUP Unit was settled in cash. During the first nine months of 2018, in accordance with the DUP, one trustee exercised 5,924 Deferred Units and were settled for an equivalent number of Trust Units.

f) Restricted Unit Rights Plan ("RUR Plan")

During the first nine months of 2019, 104,439 RUR Units were settled, out of which 100,487 RUR Units were settled for an equivalent number of Trust Units and the remaining RUR Units were settled in cash. During the first nine months of 2018, 53,333 RUR Units were settled for an equivalent number of Trust Units.

g) Unit Option Plan ("UOP Plan")

During the first nine months of 2018, 1,263,962 options were exercised and an equivalent number of Trust Units were issued.

14. Distributions on Trust Units

CAPREIT paid distributions to its Unitholders in accordance with its DOT. Distributions declared by its Board of Trustees were paid monthly, on or about the 15th day of each month. Effective March 2019, monthly cash distributions declared to Unitholders increased to \$0.1150 (\$1.38 annually) compared to \$0.1108 (\$1.33 annually) effective May 2018.

For the Nine Months Ended September 30,	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Distributions declared on Trust Units	\$ 55,283	\$ 47,934	\$ 161,657	\$ 139,525
Distributions per Unit	\$ 0.345	\$ 0.333	\$ 1.027	\$ 0.977

15. Financial Instruments, Investment Properties and Risk Management

a) Fair value of financial instruments

At September 30, 2019, the fair value of CAPREIT's mortgages payable is estimated to be \$4,134,000 (December 31, 2018 - \$3,646,000) due to changes in interest rates since the dates the individual mortgages were financed and the impact of the passage of time on the primarily fixed rate nature of CAPREIT's mortgages. The fair value of the mortgages payable is based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions.

CAPREIT's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement, and considers factors specific to the asset or liability.

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	Level 1 Quoted prices in active markets for identical assets and liabilities	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Total
Recurring Measurements				
Assets				
Investment properties				
Fee simple and MHC sites	\$ -	\$ -	\$ 11,108,704 ⁽¹⁾	\$ 11,108,704
Operating leasehold interests	-	-	923,066 ⁽¹⁾	923,066
Land leasehold interests	-	-	207,818 ⁽¹⁾	207,818
Investments	43,547 ⁽²⁾	-	-	43,547
Interest rate swap	-	1,218 ⁽⁴⁾	-	1,218
Cross-currency swap	-	9,712 ⁽³⁾	-	9,712
Liabilities				
Derivative financial instruments -				
Interest rate hedge	-	(13) ⁽³⁾	-	(13)
Interest rate swap	-	(3,310) ⁽⁴⁾	-	(3,310)
FX Swap	-	(518) ⁽⁵⁾	-	(518)
ERES units held by ERES external unitholders	(246,481)	-	-	(246,481)
Total	\$ (202,934)	\$ 7,089	\$ 12,239,588	\$ 12,043,743

(1) Fair values for investment properties are calculated using the direct income capitalization and discounted cash flow methods, which results in these measurements being classified as Level 3 in the fair value hierarchy. See note 6 for detailed information on the valuation methodologies and fair value reconciliation.

(2) CAPREIT's investments (excluding CAPREIT's equity accounted investment in IRES) are accounted for as FVTPL and are measured at fair value based on the quoted market price in an active market of the asset.

(3) The valuation of the interest rate swap and cross-currency swap instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. The fair value is determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. If the total mark-to-market value is positive, CAPREIT will consider a current value adjustment to reflect the credit risk of the counterparty, and if the total mark-to-market value is negative, CAPREIT will consider a current value adjustment to reflect CAPREIT's own credit risk in the fair value measurement of the interest rate swap agreements.

(4) Related to ERES interest rate swap.

(5) CAD to Euro swap.

Although CAPREIT has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by CAPREIT itself. As at September 30, 2019, CAPREIT has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall valuation of the derivative. As a result, CAPREIT has determined that the derivative valuations in their entirety should be classified as Level 2 of the fair value hierarchy.

b) Risk management

The main risks arising from CAPREIT's financial instruments are interest rate, liquidity, credit and foreign currency risks. CAPREIT's approach to managing these risks is summarized as follows:

Interest rate risk

CAPREIT 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 CAPREIT's bank indebtedness is subject to floating interest rates. CAPREIT is also subject to the risks associated with changes in interest rates or different financing terms from the hedging derivative assumptions, which may result in the hedging relationship being ineffective, causing volatility in earnings.

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For the nine months ended September 30, 2019 and 2018, a 100 basis point change in interest rates would have the following effect:

	Change in interest rates (basis points)	Increase (decrease) in net income	
		2019	2018
Floating rate debt	+100	\$ (10)	\$ (528)
Floating rate debt	-100	\$ 10	\$ 528
Interest rate swap agreements	+100	\$ 1,781	\$ 2,394
Interest rate swap agreements	-100	\$ (421)	\$ (2,493)
ERES interest rate swap agreements	+100	\$ 981	\$ -
ERES interest rate swap agreements	-100	\$ (981)	\$ -
Cross-currency swap ⁽¹⁾	+100	\$ 4,128	\$ 2,527
Cross-currency swap ⁽¹⁾	-100	\$ (4,334)	\$ (2,552)

(1) Represents the parallel interest rate shift of both the LIBOR and EURIBOR forward rates.

CAPREIT's objective in managing interest rate risk is to minimize the volatility of interest expenses due to fluctuations in market interest rates. As at September 30, 2019, interest rate risk has been minimized as 98.9% (September 30, 2018 – 100.0%) of the mortgages payable are financed at fixed interest rates, with maturities staggered over a number of years. Taking into consideration interest rate swaps where hedge accounting has not been applied, 100.0% of the mortgages payable are financed at fixed interest rates.

Liquidity risk

Liquidity risk is the risk that CAPREIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 98.3% of CAPREIT's mortgages are CMHC-insured (excluding \$806,283 of mortgages on the MHC sites and the ERES properties), which reduces the risk in refinancing mortgages. CAPREIT's overall risk for mortgage refinancings is further reduced as the unamortized mortgage insurance premiums are transferable between approved lenders and are effective for the full amortization period of the underlying mortgages, ranging between 25 and 35 years. To mitigate the risk associated with the refinancing of maturing debt, CAPREIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, CAPREIT manages its overall liquidity risk by maintaining sufficient available credit facilities and unencumbered assets to fund its ongoing operational and capital commitments, distributions to Unitholders, and to provide future growth in its business. As at September 30, 2019, CAPREIT had undrawn lines of credit in the amount of \$44,741 (December 31, 2018 - \$66,325), excluding borrowing capacity under the ERES unsecured credit facility and the Bridge Facility. Including the additional borrowing capacity under the ERES unsecured credit facility and the Bridge Facility, CAPREIT had undrawn lines of credit in the amount of \$167,617 (December 31, 2018 - \$119,471).

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The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at September 30, 2019 are as follows:

		2019 ⁽²⁾	2020- 2021	2022- 2023	2024 onward
Mortgages payable	\$	117,413	\$ 851,605	\$ 1,093,279	\$ 2,056,057
Bank indebtedness		-	588,381	-	-
Mortgage interest ⁽¹⁾		28,254	199,233	141,640	148,168
Bank indebtedness interest ⁽¹⁾		2,091	12,400	-	-
Other liabilities		143,659	785	-	246,223
Lease liabilities		443	2,245	1,675	34,890
Security deposits		38,392	-	-	-
Distributions payable		18,440	-	-	-
Swap premium ⁽³⁾		58	452	426	159
	\$	348,750	\$ 1,655,101	\$ 1,237,020	\$ 2,485,497

(1) Based on current in-place interest rates for the remaining term to maturity.

(2) Estimates of the amounts as at September 30, 2019.

(3) Related to interest rate swaps on ERES commercial properties.

Credit risk

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

CAPREIT monitors its risk exposure regarding obligations with counterparties through the regular assessment of counterparties' credit positions.

CAPREIT mitigates the risk of credit loss with respect to residents by evaluating the creditworthiness of new residents, obtaining security deposits wherever permitted by legislation, and geographically diversifying its portfolio.

CAPREIT monitors its collection experience on a monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts. CAPREIT's bad debt experience has historically been less than 0.5% of revenue in the past 3 years. The maximum exposure to credit risk at the reporting date is the carrying value of the tenant receivables.

Foreign currency risk

Foreign currency risk is the financial risk exposure to unanticipated changes in the exchange rate between two currencies. CAPREIT is exposed to foreign currency risk as CAPREIT's functional and presentation currency is Canadian dollars while the functional currency of CAPREIT's fund management subsidiary in Ireland, investment in IRES, and CAPREIT's subsidiaries in the Netherlands, including ERES, is the euro.

CAPREIT manages and mitigates the exposure to foreign currency risk on its investment in IRES and subsidiaries in the Netherlands with its US LIBOR borrowings, cross currency swap, and Euro LIBOR borrowings. The gain or loss on foreign currency translation relating to CAPREIT's subsidiaries in Ireland, and the Netherlands and IRES investment is recognized in OCI. The mark-to-market on the cross-currency swap and foreign exchange translation on the US LIBOR and Euro LIBOR borrowings are recognized in the consolidated statement of income.

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16. Realized and Unrealized Gains and Losses on Derivative Financial Instruments

a) *Contracts for which hedge accounting is being applied*

- (i) In June 2011, CAPREIT entered into a hedging program, which effectively hedged interest rates on approximately \$312,000 of mortgages maturing between September 2011 and June 2013. The maturing mortgages have been refinanced for 10-year terms and as a result bear interest rates between a floor rate of 3.00% and a ceiling rate of 3.62%, before the credit spread. The change in the intrinsic value of the forward interest rate hedge has been included in OCI (see note 19). The hedging program matured in June 2013, for which hedge accounting was applied. The ineffective portion and the difference between the settled amount and the mark-to-market has been recognized in net income. All contracts have been settled.

The forward interest rate derivative liability has been summarized as follows:

As at	September 30, 2019	December 31, 2018
Derivative liability in AOCL, beginning of the period	\$ (8,270)	\$ (10,547)
Amortization from AOCL to interest and other financing costs	1,701	2,277
Derivative liability in AOCL, end of the period	\$ (6,569)	\$ (8,270)

b) *Contracts for which hedge accounting is no longer effective*

- (ii) During 2005, CAPREIT entered into interest rate forward contracts aggregating to \$145,740 (the "Interest Rate Forward Contracts") to hedge its exposure to the potential rise in interest rates for refinancings of mortgages maturing in 2009.

CAPREIT settled these Interest Rate Forward Contracts in 2009. The associated cumulative unamortized loss of \$9,908 included in AOCL at September 30, 2008 is being amortized to mortgage interest expense over the original terms of the hedged contracts. For the three and nine months ended September 30, 2019, \$68 and \$202 (September 30, 2018 - \$133 and \$222) was amortized from AOCL to mortgage interest expense.

- (iii) CAPREIT had a \$65,000 interest rate swap agreement fixing the bankers' acceptance rate at 2.20%, which had an maturity date of September 2021, for which hedge accounting was not being applied. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a 10-year term (see note 9 for further details). The related floating rate credit facility is for a five-year non-revolving term with an effective interest rate of 3.60%, and any principal that is repaid may not be reborrowed. The hedge became ineffective in July 2017. On September 26, 2019, the \$65,000 swap was settled for \$898. Unamortized loss on interest rate swap agreement of \$1,086 previously included as part of AOCL have been reclassified to interest and other financing costs. The mark-to-market gain (loss) of \$157 and (\$1,007) for the three and nine months ended September 30, 2019 has been recorded under gain (loss) on derivative financial instruments on the consolidated statements of income and comprehensive income.

c) *Contracts for which hedge accounting is not being applied*

- (iv) In June 2017, CAPREIT entered into a cross-currency swap to (i) hedge a US-based loan of USD \$186,436 into €163,540 effective July 2017 and (ii) convert the variable interest rate on the US-based loan of LIBOR plus 1.65% to a fixed interest rate of EURIBOR plus 1.65%, equalling 1.20%, and maturing in June 2019. The US-based loan was drawn from the Acquisition and Operating Facility in July 2017. As at June 30, 2019 the cross-currency swap matured and settled.

- (v) In June 2019, CAPREIT entered into a new cross-currency swap to (i) hedge a US-based loan of USD \$186,190 into €163,540 effective June 2019 and (ii) convert the variable interest rate on the US-based loan of LIBOR plus 1.65% to a fixed interest rate of EURIBOR plus 1.65%, equalling 1.08%, and maturing in June 2021. The gain on the derivative has been recorded under gain (loss) on derivative financial instruments in the consolidated statements of income and comprehensive income for the three and nine months

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ended September 30, 2019 of \$10,384 and \$9,712 the cumulative mark-to-market gain of \$9,712 is in other non-current assets as at September 30, 2019.

- (vi) CAPREIT entered into a cross-currency swap to convert Canadian into €97,000 dated September 27, 2019 with a maturity of October 15, 2019. The gain (loss) on the derivative of \$2,016 and (\$518) has been recorded under gain (loss) on derivative financial instruments in the consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2019 and the cumulative mark-to-market loss of \$518 is in other current liabilities as at September 30, 2019.
- (vii) As part of CAPREIT's acquisition of ERES, CAPREIT assumed the following interest rate swaps:
 - a. A €7,500 interest rate swap fixing the variable 3-month EURIBOR rate at 0.60%, which matures on December 31, 2023 and results in fixed effective interest rate of 1.82%.
 - b. A €25,500 interest rate swap fixing the variable 3-month EURIBOR rate at 0.49%, which matures on January 13, 2025, and results in a fixed effective interest rate of 1.87%.

In connection with these two interest rate swap agreements, there is an interest rate floor agreement, which stipulates that any variable rate associated with the agreement will not be below 0%. This results in a \$1,218 derivative financial asset and \$3,310 derivative financial liability as presented in the statements of financial position. During the three and nine months ended September 30, 2019 loss on derivative financial instruments of \$284 and \$741 have been recorded.

- (viii) In September 2019, CAPREIT entered a cross-currency swap to (i) hedge a \$65,000 CAD based loan into €44,818 effective September 2019 and (ii) convert the variable interest rate on the CAD-based loan of banker's acceptable plus 1.40% to a EURIBOR fixed interest rate of 0.97%, and maturing June 28, 2021 to match the maturity on the credit facility (see note 9 for further details). The loss on the derivative of (\$13) has been recorded under gain (loss) on derivative financial instruments in the consolidated statements of income and comprehensive income for the three months ended September 30, 2019 and the cumulative mark-to-market loss of \$13 is in other non-current liabilities as at September 30, 2019.
- (ix) In September 2019, ERES entered into two foreign exchange forward contracts to hedge movement in the Canadian and Euro exchange rates in connection with proceeds from its September 2019 equity offering. The contracts matured on September 24, 2019. The loss on the forward contracts of (\$1,164) have been recorded under gain (loss) on derivative financial instruments in the consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2019.

17. Capital Management

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

CAPREIT's Credit Facilities (see note 10) require compliance with certain financial covenants. In addition, borrowings must not exceed the borrowing base, calculated at a predefined percentage of the market value of the properties.

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

Under the terms of CAPREIT's large borrower agreement ("LBA") with CMHC, total indebtedness of CAPREIT is limited to the greater of (i) 60% of gross book value determined on a fair value basis or (ii) 70% of gross book value determined on a historical basis, and may only be increased above such limits with CMHC's consent.

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The LBA provides for, among other things: (i) certain financial covenants and limitations on indebtedness; (ii) the posting of a revolving letter of credit with respect to certain capital expenditures on a portfolio rather than an individual property basis; and (iii) cross-collateralization of mortgage loans for certain CMHC-insured mortgage lenders.

The total capital managed by CAPREIT and the results of its compliance with the key covenants are summarized as follows:

As at		September 30, 2019	December 31, 2018
Mortgages payable		\$ 4,107,922	\$ 3,728,333
Bank indebtedness		588,381	567,365
Unit-based compensation liabilities		33,407	32,805
Unitholders' equity		7,465,506	6,316,700
Total capital		\$ 12,195,216	\$ 10,645,203
	Threshold		
Total debt to gross book value ⁽¹⁾	Maximum 70.00%	36.74%	39.37%
Tangible net worth ⁽²⁾	Minimum \$2,100,000	\$ 7,482,849	\$ 6,349,505
Debt service coverage ratio (times) ⁽³⁾⁽⁴⁾	Minimum 1.20	1.79	1.75
Interest coverage ratio (times) ⁽³⁾⁽⁵⁾	Minimum 1.50	3.52	3.44

- (1) CAPREIT's DOT limits the maximum amount of total debt to 70% of the gross book value ("GBV") of CAPREIT's total assets. GBV is defined as the gross book value of CAPREIT's assets as per CAPREIT's financial statements, determined on a fair value basis for investment properties, plus accumulated amortization on property, plant and equipment, CMHC fees and deferred loan costs. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments. Under the terms of CAPREIT's LBA with CMHC, total indebtedness of CAPREIT is limited to the greater of (i) 60% of gross book value, determined on a fair value basis, of total assets or (ii) 70% of gross book value, determined on a historical basis, of total assets, and may only be increased above such limits with CMHC's consent.
- (2) As per the Credit Facilities agreement, the tangible net worth is generally represented by Unitholders' Equity and Unit-based rights and compensation liabilities or assets, including Exchangeable Units added back and excluding goodwill. The tangible net worth requirement is \$2,100,000 (2018- \$2,100,000).
- (3) Based on the trailing four quarters.
- (4) As per the Credit Facilities agreement and DOT, the debt service coverage ratio is defined as earnings before interest, income taxes, depreciation and amortization and other adjustments, including non-cash costs ("EBITDA"), less income taxes paid divided by the sum of principal and interest payments.
- (5) As per the Credit Facilities agreement and DOT, the interest coverage ratio is defined as EBITDA less taxes paid divided by interest payments.

CAPREIT's subsidiary, ERES, is subject to various debt covenants. ERES must have a maximum debt to gross book value of 65%, a minimum tangible net worth of €300,850, a minimum debt service coverage ratio of 1.35, and a minimum interest coverage ratio of 1.50. For the period ended September 30, 2019, ERES is in compliance with its debt covenants.

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18. Income Taxes

CAPREIT is taxed as a "mutual fund trust" as defined under the Income Tax Act (Canada) (the "Tax Act") and continues to meet the prescribed conditions relating to the nature of its assets and revenues in order to qualify as a Real Estate Investment Trust eligible for the REIT exception to the specified investment flow-through ("SIFT") rules. The Trust expects to distribute all of its taxable income to its unitholders; accordingly, no provision for Canadian income tax has been made. Income tax obligations relating to the distributions from CAPREIT are with the individual unitholder.

CAPREIT has foreign subsidiaries in a number of countries with varying statutory rates of taxation. Judgement is required in the estimation of income taxes and deferred income tax assets and liabilities in each of CAPREIT's operating jurisdictions. Income taxes may be paid where activities relating to the foreign subsidiaries are considered to be taxable in those countries.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Income before income taxes	\$ 340,228	\$ 124,135	\$ 718,892	\$ 487,962
Income not subject to taxation ⁽¹⁾	(284,496)	(105,474)	(636,741)	(461,982)
Income before income taxes in subsidiary entities	55,732	18,661	82,151	25,980
Tax calculated at the Dutch corporate tax rate of 25%	13,933	4,665	20,538	6,495
Increase (decrease) resulting from:				
Expenses not deductible for tax	101	-	319	-
Effect of different tax rates in countries in which the REIT operates	(251)	-	(370)	-
Adjustments to deferred taxes for the current and future years' change in tax rates	(2,936)	-	(3,750)	-
Adjustments for difference in tax rates for first €200 of income	(374)	(17)	(619)	(47)
Other adjustments	(586)	(107)	(406)	110
Provision for income taxes	\$ 9,887	\$ 4,541	\$ 15,712	\$ 6,558

(1) Comprises of Canadian income taxable at the unitholder level

A breakdown of current and deferred income tax expense is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
For the period ended September 30,	2019	2018	2019	2018
Current income tax expense	\$ 429	\$ -	\$ 17,451	\$ -
Deferred income tax (recovery) expense	9,458	4,541	(1,739)	6,558
Deferred and current income tax expense (net)	\$ 9,887	\$ 4,541	\$ 15,712	\$ 6,558

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Deferred income tax assets (liabilities) is primarily due to the following:

As at	September 30, 2019	December 31, 2018
Deferred tax liability related to difference in tax and book basis of investment properties	\$ (23,962)	\$ (26,428)
Deferred tax assets related to loss carryforward	618	-

Due to the reorganization of the legal structure of the Netherlands subsidiaries as a result of the Acquisition, capital gains were triggered. Therefore, \$18,050 was reclassified from deferred income tax liability to current income tax liability during the nine months ended September 30, 2019.

19. Accumulated Other Comprehensive Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
AOCL balance, beginning of period	\$ (5,380)	\$ 5,878	\$ 28,846	\$ (2,343)
Other comprehensive income:				
Amortization from AOCL to interest and other financing costs ^{(1), (2)}	1,725	643	3,173	2,016
Loss on foreign currency translation	(30,086)	(10,089)	(65,760)	(3,241)
Other comprehensive (loss) income	(28,361)	(9,446)	(62,587)	(1,225)
AOCL balance, end of period	\$ (33,741)	\$ (3,568)	\$ (33,741)	\$ (3,568)

	September 30, 2019	December 31, 2018
AOCL comprises:		
Loss on derivative financial instruments		
Cumulative realized loss ⁽¹⁾	\$ (9,908)	\$ (9,908)
Accumulated amortization to interest and other financing costs	9,193	8,991
Unamortized balance of loss on cash flow hedges previously settled	(65)	(82)
Loss on interest rate swap agreements	-	(1,253)
Loss on forward interest rate hedge ⁽²⁾	(22,884)	(22,884)
Accumulated amortization to interest and other financing costs	16,315	14,614
Cumulative unrealized (loss) gain on foreign currency translation	(29,519)	36,241
Reversal of cumulative foreign currency translation relating to IRES ownership dilution	3,127	3,127
AOCL balance, end of period	\$ (33,741)	\$ 28,846

- (1) The cumulative realized loss on derivative financial instruments aggregating to \$9,908 will be amortized to net income as mortgage interest expense over periods ending December 2017 to September 2022, being the original terms of the hedged contracts. The estimated amount of the amortization that is expected to be reclassified to net income from AOCL in the next 12 months is \$271.
- (2) The realized loss component of the \$22,884 OCI loss on forward interest rate hedges is \$22,586, which will be amortized to net income as mortgage interest expense over the original 10-year term of the hedged contracts. The estimated amount of the amortization expected to be reclassified to net income from AOCL in the next 12 months is \$2,262.

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20. Interest and Other Financing Costs

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Interest on mortgages payable ⁽¹⁾	\$ 30,244	\$ 27,726	\$ 88,423	\$ 83,163
Amortization of CMHC premiums and fees	1,061	983	3,087	2,921
Interest on bank indebtedness and amortization of other deferred costs ⁽²⁾	3,501	1,865	7,343	6,059
Interest on Exchangeable Units	-	20	-	101
Interest on land and air rights leases liability	412	-	1,245	-
Non-controlling interest costs ⁽³⁾	-	3,117	-	4,368
	\$ 35,218	\$ 33,711	\$ 100,098	\$ 96,612

(1) Includes amortization of deferred financing costs, fair value adjustments and OCI hedge interest for the three and nine months ended of \$1,265 and \$3,630 respectively (September 30, 2018 - \$1,082 and \$3,214 respectively).

(2) Includes amortization of deferred loan costs of \$1,381 (September 30, 2018 - \$600) and OCI hedge interest of \$1,253.

(3) Represents costs related to the non-controlling interest of the minority shareholders in CAPREIT's foreign subsidiaries.

21. Supplemental Cash Flow Information

a) Net income items related to investing and financing activities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Dividend and interest income	\$ (516)	\$ (400)	\$ (1,637)	\$ (1,156)
Interest paid on Exchangeable Units	-	20	-	104
Interest paid on mortgages payable	30,036	26,605	85,583	80,092
Interest paid on bank indebtedness	3,472	1,655	5,986	5,399
Interest paid on leases	412	-	1,245	-
Non cash non-controlling interest costs	-	3,117	-	4,368
Net disbursement	\$ 33,404	\$ 30,997	\$ 91,177	\$ 88,807

b) Changes in non-cash operating assets and liabilities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Prepaid expenses	\$ 926	\$ 5,007	\$ (11,362)	\$ (8,851)
Tenant inducements, direct leasing costs and other adjustments	135	4,123	19	4,528
Other receivables	(2,092)	(2,850)	(2,896)	(1,087)
Deposits	9	84	22	(853)
Accounts payable and other liabilities	(1,333)	84	(21,864)	(13,680)
Security deposits	1,546	820	3,361	2,092
Current tax liability	429	-	17,204	-
Net (disbursement) proceeds	\$ (380)	\$ 7,268	\$ (15,516)	\$ (17,851)

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c) Net cash distributions to Unitholders

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Distributions declared to Unitholders	\$ (55,283)	\$ (47,934)	\$ (161,657)	\$ (139,525)
Add: Distributions payable at beginning of period	(18,382)	(16,063)	(16,143)	(14,714)
Less: Distributions payable at end of period	18,440	16,103	18,440	16,103
Less: Distributions to participants in the DRIP	17,709	13,598	49,776	38,437
Net disbursement	\$ (37,516)	\$ (34,296)	\$ (109,584)	\$ (99,699)

d) Capital investments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Capital investments	\$ (73,505)	\$ (56,185)	\$ (171,661)	\$ (125,754)
Change in capital investments included in accounts payable and other liabilities	7,150	6,294	8,396	5,992
Net disbursement	\$ (66,355)	\$ (49,891)	\$ (163,265)	\$ (119,762)

e) Acquisition of investment properties

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Acquired properties	\$ (475,076)	\$ (140,015)	\$ (1,047,241)	\$ (148,163)
Fair value adjustment of assumed debt	-	514	67	514
Assumed debt	(1)	21,088	74,345	21,088
Deposit on purchases	719	(12,913)	1,018	(16,136)
Net disbursement	\$ (474,358)	\$ (131,326)	\$ (971,811)	\$ (142,697)

f) Disposition of investment properties

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Proceeds	\$ -	\$ 80,195	\$ -	\$ 80,195
Closing costs	-	(446)	-	(446)
Mortgages assumed by purchasers and discharged	-	(27,424)	-	(27,424)
Net proceeds	\$ -	\$ 52,325	\$ -	\$ 52,325

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g) Issuance of Trust Units

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Issuance of Trust Units	\$ 4,282	\$ 2,065	\$ 620,094	\$ 220,527
Exchange of Exchangeable Units to Trust Units	-	(1,325)	-	(3,387)
Settlement of Unit-based compensation awards for Trust Units	(3,751)	(330)	(13,047)	(17,891)
Net proceeds	\$ 531	\$ 410	\$ 607,047	\$ 199,249

h) Mortgage Portfolio

The following table summarizes the movement in mortgages payable during the period:

As at September 30, (\$ Thousands)	2019	2018
Balance, Beginning of Period	\$ 3,728,333	\$ 3,581,501
Add: New borrowings on acquisitions	326,373	5,274
Refinanced	245,183	158,132
Less: Mortgage principal amortization	(93,908)	(87,172)
Mortgages matured	(202,804)	(98,662)
Mortgages repaid on dispositions of investment properties	-	(27,425)
Non-cash Adjustments:		
Mortgages assumed ⁽¹⁾	147,814	21,088
Gain on foreign currency translation	(41,605)	(652)
Change in deferred financing costs, fair value adjustments, net	(1,464)	1,930
Balance, End of Period	\$ 4,107,922	\$ 3,554,014

(1) Includes the mortgages on the properties acquired as part of the business combination. For detail, please refer to note 4 of the financial statements.

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22. Revenues and Other Income

Other Income

(\$ Thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Investment income	\$ 340	\$ 348	\$ 1,069	\$ 1,033
Net profit from equity-accounted investment in IRES ⁽¹⁾	2,215	1,911	11,867	20,774
IRES asset and property management fees ⁽²⁾	2,104	1,869	5,817	5,339
Other	312	13	1,264	940
Total	\$ 4,971	\$ 4,141	\$ 20,017	\$ 28,086

(1) CAPREIT's share of IRES' investment property fair value change, earnings and foreign exchange effects thereon. For the three months ended September 30, 2019 and 2018, CAPREIT's share of IRES' investment property fair value gain is nil. For the nine months ended September 30, 2019 and 2018, CAPREIT's share of IRES' investment property fair value gain is \$6.0 million and \$15.5 million respectively.

(2) Based on investment management agreement with IRES, which owns properties in Ireland.

In accordance with the adoption of IFRS 15, Revenue from Contracts with Customers, Management has evaluated the lease and non-lease components of its revenue and income. Revenues under IFRS 15 consist of asset and property management fees listed above and other revenues. For the three and nine months ended September 30, 2019, other revenues of \$2,223 and \$6,253, respectively, was included in revenue from investment properties (for the three and nine months ended September 30, 2018 - \$1,847 and \$5,518, respectively).

23. Related Party Transactions

a) IRES Transactions

As at September 30, 2019, CAPREIT has an 18.3% share ownership in IRES and has determined that it has significant influence over IRES. In May and November 2018, the former CEO of CAPREIT, David Ehrlich, exercised 11,793,333 and 716,667 IRES options, respectively, and sold the shares issued to him by IRES to CAPREIT. The sale of these shares by the former CEO resulted in CAPREIT's share ownership in IRES increasing to 18.0% from 15.7% prior to May 2018. Pursuant to a placing of shares completed by IRES in June 2019 and July 2019, CAPREIT's share ownership increased to 18.3%. The share ownership is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. See note 7 for a more detailed description.

Included in other income for the nine months ended September 30, 2019 is \$5,817 (2018 – \$5,339) from asset management and property management fees. Expenses related to the asset and property management services are included in trust expenses. The amount receivable from IRES as at September 30, 2019 is \$3,182 (December 31, 2018 - \$1,237).

b) Transactions with Key Management Personnel

Key management personnel are eligible to participate in the EUPP. In addition, certain key management personnel also participate in the RUR plan and trustees currently participate in the DUP. Pursuant to employee contracts, key management personnel are entitled to termination benefits that provide for payments of up to 36 months of benefits (based on base salary, bonus and other benefits), depending on cause.

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Key management personnel and trustee compensation included in the consolidated statements of income and comprehensive income comprises:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(\$ Thousands)	2019	2018	2019	2018
Short-term employee and trustee benefits	\$ 573	\$ 828	\$ 1,798	\$ 2,524
Unit-based compensation - grant date amortization ⁽¹⁾	535	731	2,659	1,989
Unit-based compensation - fair value remeasurement	1,108	1,559	4,457	4,513
	2,380	2,522	4,753	5,261
Total	\$ 3,488	\$ 4,081	\$ 9,210	\$ 9,774

(1) 2019 figures include \$750 of accelerated vesting of previously granted RUR Units relating to the former President and CEO.

c) ERES Transactions

New Management Agreement

Upon closing of the Acquisition, CAPREIT and CanLiving (together, the “Manager”) entered into a new management agreement with ERES pursuant to which the Manager will act as the asset manager to ERES, except for the Commercial Properties (the “New Management Agreement”). The Manager will, among other things, provide strategic, advisory, asset management, project management, construction management and administrative services necessary for ERES.

The New Management Agreement provides for a broad range of asset management services for the following fees:

a) An annual asset management fee in the amount of 0.35% of the historical purchase price of ERES’s properties excluding the Commercial Properties plus HST/VAT;

b) An acquisition fee in the amount of (i) 1.0% of the purchase price paid by ERES or one or more of its subsidiaries for the purchase of a residential or commercial real property of ERES located in Europe, on the first €100,000 of such properties acquired in each fiscal year, (ii) 0.75% of the purchase price paid by ERES or one or more of its subsidiaries for the purchase of such a property, on the next €100,000 of such properties acquired in each fiscal year, and (iii) 0.50% of the purchase price paid by ERES or one or more of its subsidiaries for the purchase of such a property, on properties in excess of €200,000 acquired in each fiscal year, plus VAT; and

c) A capital expenditure fee equal to 5.0% of all hard construction costs incurred on each capital project (other than in respect of the Commercial Properties) with costs in excess of €1,000, excluding work done on behalf of tenants or any maintenance expenditures, plus VAT;

d) A financing fee equal to 0.25% of the debt and equity of all financing or refinancing transactions completed for ERES or any of its subsidiaries, which is intended to cover the actual expenses incurred by the Manager in supplying services to ERES relating to financing transactions. To the extent that the Financing Fees paid by ERES exceed the actual amount of such expenses, the Manager will reimburse ERES for the difference. To the extent that the Financing Fees charged by the Manager are less than the actual amount of such expenses, ERES will pay the difference as an additional Financing Fee amount.

During the three and nine months ended September 30, 2019, the Manager recorded asset management fees from ERES of \$996 and \$1,682, respectively (three and nine months ended September 30, 2018 - \$nil). In addition, the Manager earned acquisition fees for the three and nine months ended September 30, 2019 of \$910 and \$910.

Any asset management fees and acquisition fees charged by the Manager to ERES are eliminated upon consolidation in these consolidated financial statements.

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Property Management Agreement

Prior to closing of the Acquisition, CanLiving has an agreement with ERES related to property management. Under the terms of the agreement, CanLiving will receive 3.5% (effective February 2019, 2.5% previously) of EGI (effective gross income) for its services. CanLiving was a subsidiary of Holding BV prior to December 27, 2018, when Holding BV transferred the shares of CanLiving to CAPREIT.

Upon closing of the Acquisition, CanLiving entered into a new property management agreement with ERES pursuant to which the CanLiving will act as the property manager to ERES for residential properties and receive 3.5% of EGI for its services.

During the three and nine months ended September 30, 2019, CAPREIT recorded property management fees from ERES of \$806 and \$1,562, respectively. During the three and nine months ended September 30, 2018, CanLiving recorded property management fees from Holding BV of \$362 and \$729, respectively, which was eliminated on consolidation.

Any property management fees charged by CanLiving to ERES will be eliminated upon consolidation in these consolidated financial statements.

Services Agreement

The Manager has entered into a services agreement with ERES, pursuant to which the Manager will provide ERES with certain administrative services, including financial, information technology, internal audit and other support services as may be reasonably required from time to time. The Manager will provide these services to ERES on a cost recovery basis.

During the three and nine months ended September 30, 2019, the Manager recorded service fees from ERES of \$126 and \$254 (three and nine months ended September 30, 2018 - \$nil).

Any service fees charged by the Manager to ERES will be eliminated upon consolidation in these consolidated financial statements.

Pipeline Agreement

CAPREIT entered into a pipeline agreement with ERES (the "Pipeline Agreement") on March 29, 2019, pursuant to which CAPREIT, for a period ending on the two-year anniversary of the entering into of the Pipeline Agreement, will make up to \$238 million (€165 million) (the "Total Commitment") available to acquire Pipeline Properties that comply with ERES's investment policy and do not contravene the investment policy of CAPREIT for which ERES wishes to purchase but is unable to do so (a "Suitable Property Investment"). Once any part of the Total Commitment has been repaid by cash or units, that part of the Total Commitment will be available for re-use under the terms of the Pipeline Agreement.

Pursuant to the terms of the Pipeline Agreement, on May 31, 2019, wholly-owned subsidiaries of CAPREIT sold to ERES 26 properties representing an aggregate of 1,257 residential suites, ancillary commercial space and parking facilities, located in 24 cities and towns across the Netherlands. The sale price of the portfolio was at the original acquisition cost of \$350.3 million, satisfied through the transfer of \$146.5 million in mortgages plus \$203.8 million satisfied through the receipt of 50.6 million Class B LP Units of ERES LP.

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On June 28, 2019, wholly-owned subsidiaries of CAPREIT sold to ERES 21 properties representing an aggregate of 511 residential suites located in 6 locations across the Netherlands at the original acquisition cost of \$145.9 million, and earned an underwriting fee of \$1.6 million under the Pipeline Agreement. ERES paid \$122.1 million in cash and \$33.4 million through the issuance of 8.3 million Class B LP Units of ERES LP.

On September 30, 2019, wholly-owned subsidiaries of CAPREIT sold to ERES 18 properties representing an aggregate of 942 residential suites located in 7 locations across the Netherlands at the original acquisition cost of \$246.2 million, and earned an underwriting fee of \$2.4 million under the Pipeline Agreement. ERES paid \$99.0 million in cash, \$5.0 million through the issuance of 1.1 million Class B LP Units of ERES LP, and a promissory note of \$142.2 million was payable as of September 30, 2019. The promissory note of \$142.2 million was paid by cash subsequent to quarter-end.

24. Commitments

Natural gas

Through the combination of fixed and variable price contracts, CAPREIT is committed as at September 30, 2019, in the aggregate amount of \$10,414 for its natural gas and transport requirements. These commitments, which range from one to three years, fix the price of natural gas and transport for a portion of CAPREIT's requirements as summarized below.

	Remaining			
	2019	2020	2021	2022
Gas Commodity				
Fixed weighted average cost per GJ ⁽¹⁾	2.42 \$	2.26 \$	1.69 \$	1.85 \$
Total of CAPREIT's estimated requirements	69.4%	73.3%	64.4%	16.7%
Transport				
Fixed weighted average cost per GJ ⁽¹⁾	1.15 \$	1.19 \$	1.41 \$	1.30 \$
Total of CAPREIT's estimated requirements	70.3%	73.3%	64.4%	16.7%

(1) Fixed weighted average cost per gigajoule ("GJ") excludes other administrative costs.

Land Leasehold Interests

Four of the investment properties have ground leases with various expiry dates (subject to revisions at periodic intervals) between March 31, 2045 and March 31, 2070. One land lease matures in 2045, two mature in 2068 and another matures in 2070. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations.

Annual lease payments under these four leasehold interests have been capitalized as required by the new IFRS 16 Leases accounting standard with payments being applied to the lease liability. For additional details of minimum annual rent under these leases, see note 25 to the annual consolidated financial statements contained in CAPREIT's 2018 Annual Report. For further details regarding the accounting of these leases under IFRS 16, please see note 2.

Property capital investments

Commitments primarily related to capital investments in investment properties of \$61,333 were outstanding as at September 30, 2019 (December 31, 2018 - \$30,063).

25. Contingencies

CAPREIT is contingently liable under guarantees provided to certain of CAPREIT and CAPREIT's subsidiaries' lenders in the event of default, and with respect to litigation and claims that arise in the ordinary course of business. Matters relating to litigation and claims are generally covered by insurance, or have been provided for in Trust expenses where appropriate.

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26. Segmented Information

CAPREIT has determined upon recent acquisitions of additional European properties resource allocation, the chief operating decision-maker now reviews operating results for the European properties to make decisions about resources to be allocated to the segment and assess its performance.

CAPREIT owns and operates investment properties located in Canada, the Netherlands, Germany and Belgium. In measuring performance, CAPREIT distinguishes its operations on a geographic basis and, accordingly, has identified two reportable segments for disclosure purposes after aggregation. Segments include (i) Canada and (ii) the Netherlands and other European markets.

Selected income statement items	Three months ended September 30, 2019		
	Canada	Europe	Condensed consolidated financial statements
Revenue from investment properties	179,542	19,218	198,760
Operating expenses	(61,511)	(4,405)	(65,916)
Net Rental Income	118,031	14,813	132,844
Fair value adjustments of investment properties	216,039	47,601	263,640

Selected income statement items	Nine months ended September 30, 2019		
	Canada	Europe	Condensed consolidated financial statements
Revenue from investment properties	520,926	50,080	571,006
Operating expenses	(187,415)	(11,145)	(198,560)
Net Rental Income	333,511	38,935	372,446
Fair value adjustments of investment properties	422,036	51,540	473,576

Selected balance sheet items	September 30, 2019		
	Canada	Europe	Condensed consolidated financial statements
Investment properties	10,576,924	1,662,664	12,239,588
Mortgages payable	3,437,417	670,505	4,107,922

Selected income statement items	Three months ended September 30, 2018		
	Canada	Europe	Condensed consolidated financial statements
Revenue from investment properties	164,754	7,544	172,298
Operating expenses	(56,861)	(1,587)	(58,448)
Net Rental Income	107,893	5,957	113,850
Fair value adjustments of investment properties	32,092	18,376	50,468

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Selected income statement items	Nine months ended September 30, 2018		
	Canada	Europe	Condensed consolidated financial statements
Revenue from investment properties	488,579	22,339	510,918
Operating expenses	(178,307)	(5,491)	(183,798)
Net Rental Income	310,272	16,848	327,120
Fair value adjustments of investment properties	245,322	34,754	280,076

Selected balance sheet items	December 31, 2018		
	Canada	Europe	Condensed consolidated financial statements
Investment properties	9,432,837	1,040,707	10,473,544
Mortgages payable	3,258,641	469,692	3,728,333

27. Subsequent Events

On October 15, 2019, CAPREIT completed the acquisition of a four-storey waterfront apartment, containing 64 rental suites located in Summerside, Prince Edward Island, for an acquisition price of \$11,600. The acquisition was funded by CAPREIT's Acquisition and Operating credit facility.

On October 31, 2019, ERES acquired a portfolio from a third-party vendor comprised of 9 rental properties, totalling 294 residential suites located in five urban centres in the Netherlands. ERES paid \$98,406 (€67,300) for the portfolio, financed by a new \$57,757 (€39,500) seven-year mortgage bearing an interest rate of 1.55% and a draw on ERES's revolving credit facility of \$38,017 (€26,000), with the balance in cash.

On October 31, 2019, CAPREIT acquired the remaining 3.0% stake in 506 units of a brand-new property located in Toronto, Ontario bringing the total ownership to 33.3%. The acquisition price of \$5,515 was financed by CAPREIT's Acquisition and Operating Facility.

Unitholder Information

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Mark Kenney
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Scott Cryer
Chief Financial Officer

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Chief Human Resources Officer

Corinne Pruzanski
General Counsel and Corporate Secretary

INVESTOR INFORMATION

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

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STOCK EXCHANGE LISTING

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