ALLIED

Allied Announces Third-Quarter Results with Continuing Growth in NAV per Unit and Intensification Potential

TORONTO, NOVEMBER 1, 2016

Allied Properties Real Estate Investment Trust ("Allied") (TSX:AP.UN) today announced results for its third quarter ended September 30, 2016. "In many respects, 2016 has been a better year than expected," said Michael Emory, President & CEO. "Our operating environment has remained supportive, and our rental and development portfolios have met expectations for the most part. Our acquisition activities materially exceeded expectations, and our debt metrics remain rock solid despite our extraordinary level of investment this year."

FINANCIAL RESULTS

The financial results are summarized below:

	AS AT SEPTEMBER 30,			
(In thousands except for per unit and % amounts)	2016	2015	CHANGE	% CHANGE
Investment properties	**$4,738,848**	$4,140,059	$598,789	14.5%
Unencumbered investment properties	**$2,031,285**	$1,575,085	$456,200	29.0%
Cost of PUD as a % of GBV	**3.1%**	3.9%	(0.8)%	—
NAV per unit	**34.09**	32.83	1.26	3.8%
Total debt as a % of total assets	**37.6%**	35.3%	2.3%	—
Annualized Adjusted EBITDA	**$228,821**	$218,617	$10,204	4.7%
Net debt as a multiple of annualized Adjusted EBITDA	**8.0x**	7.1x	0.9x	—
Interest-coverage ratio including capitalized interest	**2.9x**	3.1x	(0.2)x	—

(In thousands except for per unit and % amounts)	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016	2015	CHANGE	% CHANGE
Adjusted EBITDA	**$58,201**	$55,751	$2,450	4.4%
Net income excluding gain (loss) on disposal and IFRS value adjustments	**$35,130**	$36,328	$(1,198)	(3.3%)
Net income	**$53,961**	$85,889	$(31,928)	(37.2%)
Same asset NOI - rental portfolio	**$52,118**	$52,311	$(193)	(0.4%)
Same asset NOI - total portfolio	**$54,441**	$53,212	$1,229	2.3%
Funds from operations ("FFO")	**$42,720**	$42,915	$(195)	(0.5%)
FFO per unit (diluted)	**0.52**	0.55	(0.03)	(5.5%)
FFO pay-out ratio	**72.6%**	66.3%	6.3%	—
One-time extraordinary item	**$1,135**	$—	$1,135	—
Normalized FFO	**$43,855**	$42,915	$940	2.2%
Normalized FFO per unit (diluted)	**0.54**	0.55	(0.01)	(1.8%)
Normalized FFO pay-out ratio	**70.7%**	66.3%	4.4%	—
Normalized Adjusted FFO ("Normalized AFFO")	**$35,864**	$35,763	$101	0.3%
Normalized AFFO per unit (diluted)	**0.44**	0.46	(0.02)	(4.3%)
Normalized AFFO pay-out ratio	**86.4%**	79.6%	6.8%	—

(In thousands except for per unit and % amounts)	FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016	2015	CHANGE	% CHANGE
Adjusted EBITDA	**$171,616**	$163,963	$7,653	4.7%
Net income excluding gain (loss) on disposal and IFRS value adjustments	**$105,005**	$107,782	$(2,777)	(2.6%)
Net income	**$160,574**	$209,202	$(48,628)	(23.2%)
Same asset NOI - rental portfolio	**$146,598**	$145,763	$835	0.6%
Same asset NOI - total portfolio	**$160,175**	$155,435	$4,740	3.0%
FFO	**$127,248**	$124,292	$2,956	2.4%
FFO per unit (diluted)	**1.60**	1.60	$—	—
FFO pay-out ratio	**70.6%**	68.3%	2.3%	—
One-time extraordinary item	**$1,135**	$—	$1,135	—
Normalized FFO	**$128,383**	$124,292	$4,091	3.3%
Normalized FFO per unit (diluted)	**1.61**	1.60	$0.01	0.6%
Normalized FFO pay-out ratio	**70.0%**	68.3%	1.7%	—
Normalized AFFO	**$106,806**	$105,327	$1,479	1.4%
Normalized AFFO per unit (diluted)	**1.34**	1.36	$(0.02)	(1.5%)
Normalized AFFO pay-out ratio	**84.2%**	80.5%	3.7%	—

Allied reported a fair value gain of $18.5 million in the third quarter. It reported a larger fair value gain in the comparable quarter last year, which accounts for most of the difference in net income quarter-over-quarter.

As a result of an unfavourable decision of the Supreme Court of Canada, Allied reversed heritage-grant revenue of $1.1 million recorded following a favourable decision of the Alberta Court of Appeal in 2014 with respect to Allied's entitlement. This was a one-time extraordinary item. In addition to the normal presentation, Allied's financial performance measures have been presented on a normalized basis as though the reversal did not occur.

Normalized FFO per unit for the third quarter came in below internal forecast, primarily because of (i) weaker than expected same-asset NOI in Allied's rental portfolios in Montréal, Vancouver and Edmonton and (ii) dilution from Allied's most recently completed equity offering. Although same-asset NOI in Montréal was up 2%, occupancy gains there were slower than initially forecast. Management fully expects to achieve continued occupancy gains in Montréal and has made progress in that regard. While same-asset NOI held up in Calgary, which is encouraging under the circumstances, it was temporarily negative in Vancouver and Edmonton because of turnover vacancy. All of the affected office and retail space has now been re-leased and will be partially occupied through the fourth quarter and fully occupied next year.

On August 19, 2016, Allied completed a $230 million equity offering for the purpose of (i) funding strategic Toronto acquisitions with a low current yield and significant value-creation potential and (ii) repaying debt, including first mortgages in the aggregate principal amount of $38 million that come due in the fourth quarter of 2016 and on January 1, 2017. This was dilutive to FFO per unit in the third quarter by approximately two cents, something Management considers understandable given the significant augmentation of the value-creation potential inherent in Allied's Toronto and Montréal portfolios and the improvement in Allied's debt metrics.

LEASING

Allied's leasing activity to date reflects the depth and breadth of demand for urban office space in its target markets across the country. Excluding transfers from the development portfolio, leased area at the end of the third quarter was 92.0%, up 70 basis points from the beginning of the year. Allied's Montréal portfolio was up by 370 basis points, whereas its Toronto portfolio was up by 40 basis points. Allied's Vancouver portfolio was flat, finishing the quarter as the year started with leased area of 98.6%, despite turnover vacancy in the intervening period. Allied's Calgary portfolio was down by 40 basis points, which is encouraging under the circumstances.

Demand from TAMI tenants for office space in Montréal remains strong. 5445-5455 de Gaspé was 79.4% leased at the end of the third quarter, Le Nordelec 88.9% leased and 6300 Avenue du Parc 61.8% leased. Demand for office space in downtown Toronto is exceptionally strong. Net-effective rental rates in the retail and office components of Allied's Class I portfolio have risen to record levels this year.

Subsequent to quarter-end, Allied entered into a conditional lease arrangement for the remaining 33,000 square feet of tech space at 905 King West in Toronto and the remaining 10,000 square feet of tech space at 151 Front West in Toronto (formerly restaurant space). The term of the lease will be 20 years commencing January 1, 2018, with fixturing commencing on December 1, 2016. On finalization, which is expected to occur in early November, the only tech space available in Allied's portfolio will be located at 250 Front West in Toronto.

DEVELOPMENT

Allied scheduled three developments for completion this year, all of which have now been transferred to the rental portfolio. The first two developments, 485 King West in Toronto and The Breithaupt Block, Phase II, in Kitchener, were transferred at the end of the second quarter. The third and largest development, 250 Front West, was transferred at the end of the third quarter with occupied area of 38% and leased area of 54%. Allied expects to increase the leased area at 250 Front West to 68% by the end of the year. If achieved, this will put Allied slightly ahead of the target implicit in its outlook for 2016.

Allied has two developments scheduled for completion next year, 180 John in Toronto and 189 Joseph in Kitchener. Both are fully leased, and construction is on schedule. Allied has pre-leased and initiated the construction of TELUS Sky in Calgary and King Portland Centre in Toronto, which are scheduled for completion in 2018 and 2019, respectively. Allied is actively pre-leasing the office component of Adelaide & Duncan, The Well and Union Centre and expects to initiate at least one of these Toronto projects late this year or early next.

ACQUISITIONS, INTENSIFICATION POTENTIAL AND DISPOSITIONS

Allied has completed $366 million of acquisitions thus far in 2016, improving its balance-sheet metrics in the process. Its debt to total assets ratio declined to 37.6% and debt to EBITDA declined to 8.0x at the end of the third quarter, with its interest coverage ratio coming in at just under 3:1 for the quarter. Allied's pool of unencumbered properties grew to just over $2 billion, up 29% from the same time last year.

$230 million of the acquisitions completed to date were accretive to Allied's annual FFO per unit. While having a low current yield, the remaining $136 million boosted the intensification potential inherent in Allied's Toronto and Montréal portfolios. Allied began tracking the intensification potential inherent in its Toronto portfolio in the fourth quarter of 2007 (see Allied's MD&A dated March 7, 2008, for the quarter and year ended December 31, 2007). At the time, Allied's 46 buildings in Toronto comprised 2.4 million square feet of GLA and were situated on 780,000 square feet (17.8 acres) of underutilized land immediately east and west of the Downtown Core. With the significant additions this year, Allied's 75 buildings in Toronto now comprise 4.7 million square feet of GLA and are situated on 1.9 million square feet (44 acres) of underutilized land immediately east and west of the Downtown Core. With achievable rezoning, the underlying land in the Toronto portfolio could permit up to 11 million square feet of GLA, 6.3 million square feet more than currently in place. For the most part, the value of this buildable area is not reflected in Allied's IFRS values.

Allied entered the Montréal market in April of 2005. With the significant additions this year, Allied's 17 buildings in Montréal now comprise 4.3 million square feet of GLA. As they're much larger buildings on average than those comprising the Toronto portfolio, the 1.4 million square feet (32 acres) of land on which they sit (immediately south, east and north east of the Downtown Core) is more fully utilized than the land in the Toronto portfolio. Nevertheless, the underlying land in the Montréal portfolio could permit up to 5.4 million square feet of GLA, 1.1 million square feet more than currently in place. For the most part, the value of this buildable area is not reflected in Allied's IFRS values.

Allied's Toronto portfolio will be the focal point of its ongoing intensification activity in the near-term and longer-term. Allied's Montréal portfolio also has significant intensification potential. While Allied will begin to realize that potential at 425 Viger West in the next few years, Montréal will remain more the focal point of Allied's upgrade activity in the near-and longer-term while Toronto will remain the focal point of Allied's intensification activity.

Allied remains committed to selling its small number of non-core assets. It has now exited the Victoria market and reduced its exposure to the Winnipeg market with the sale of a property under development, 138 Portage. Allied has five remaining properties in Winnipeg representing approximately 0.6% of its total NOI, six properties in Québec City representing approximately 0.8% and two properties in Edmonton representing approximately 2.0%. These 13 properties had appraised value of $161 million at the end of the third quarter and were encumbered by mortgages in the aggregate principal amount of $65 million. Prior to exiting the Québec City market, Allied will strive to boost occupancy from the current level of 65%, something it expects to achieve by the end of 2017. In the meantime, Allied will evaluate the Winnipeg and Edmonton markets in the context of its overall business strategy.

OUTLOOK

Allied expects to return to same asset NOI growth this year, albeit more slowly than initially forecast, enabling it to deliver FFO and AFFO per unit growth in the low single-digit range and NAV per unit growth in the mid single-digit range. Allied expects the acquisitions made this year to make a significant contribution to annual NOI growth next year, along with scheduled rent increases, occupancy gains and development completions.

Allied's confidence is predicated on the continued intensification of the urban core of Canada's major cities and the continued desire on the part of office users to locate in distinctive urban office environments, both of which are considered to be secular trends. Allied's confidence is underpinned by ongoing leasing success and recent acquisition success in its target markets. It is also underpinned by the depth and strength of the Allied team and the team's ability to execute Allied's strategy at all levels.

CAUTIONARY STATEMENTS

FFO, Normalized FFO, Normalized AFFO, NAV, EBITDA, Adjusted EBITDA, total debt and net debt are not financial measures defined by International Financial Reporting Standards ("IFRS"). Please see Allied's MD&A for a description of these measures and their reconciliation to financial measures defined by IFRS, as presented in Allied's unaudited condensed consolidated financial statements for the quarter ended September 30, 2016. These statements, together with accompanying notes and MD&A, have been filed with SEDAR, *www.sedar.com*, and are also available on Allied's web-site, *www.alliedreit.com*.

NOI is not a measure recognized under IFRS and does not have any standardized meaning prescribed by IFRS. NOI is presented in this press release because Management of Allied believes that this non-IFRS measure is an important financial performance indicator. NOI, as computed by Allied, may differ from similar computations as reported by other similar organizations and, accordingly, may not be comparable to NOI reported by such organizations.

This press release may contain forward-looking statements with respect to Allied, its operations, strategy, financial performance and condition. These statements generally can be identified by use of forward looking words such as "may", "will", "expect", "estimate", "anticipate", "intends", "believe" or "continue" or the negative thereof or similar variations. Allied's actual results and performance discussed herein could differ materially from those expressed or implied by such statements. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Important factors that could cause actual results to differ materially from expectations include, among other things, general economic and market factors, competition, changes in government regulations and the factors described under "Risk Factors" in Allied's Annual Information Form which is available at *www.sedar.com*. The cautionary statements qualify all forward-looking statements attributable to Allied and persons acting on its behalf. Unless otherwise stated, all forward-looking statements speak only as of the date of this press release, and Allied has no obligation to update such statements.

ABOUT ALLIED

Allied is a leading owner, manager and developer of urban office environments that enrich experience and enhance profitability for business tenants operating in Canada's major cities. Its objectives are to provide stable and growing cash distributions to unitholders and to maximize unitholder value through effective management and accretive portfolio growth.

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