ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
ANNOUNCES SECOND-QUARTER RESULTS

Toronto, August 6, 2003 -- Allied Properties REIT (TSX:AP.UN) today announced results for the second quarter of fiscal 2003 ended June 30, 2003. Distributable income for the second quarter was $1.9 million ($0.313 per unit), 10.5% ahead of forecast. This brought distributable income for the 132-day period ending June 30, 2003, to $2.8 million ($0.457 per unit), 9.4% ahead of the pro-rated forecast.

“The stability of our asset class is evident in our second-quarter results. Distributable income for the quarter exceeded expectations by nearly three cents per unit, allowing the REIT to achieve its forecast level of distributions to mid-year at an 86.7% pay-out ratio rather than the 90% pay-out ratio initially contemplated, ” said Michael Emory, President and Chief Executive Officer, Allied Properties REIT. “Leasing activity remains strong,” added Emory. “The REIT is slightly ahead of target for 2003 renewals and has leased 14,783 square feet of space since it commenced operations, increasing its leased area from 96.9% to 97.8%”.

Financial Highlights

The REIT’s second quarter financial results are summarized below:

(In thousands except for per unit amounts)	April 1 to June 30, 2003	Prospectus Forecast	Variance
Revenue from rental properties	$4,989	$5,218	$(229)
Rental property operating cost	1,579	2,005	426
Net rental income	3,410	3,213	197
Financing expense	1,060	1,205	145
Depreciation and amortization	234	222	(12)
Income from operations	2,116	1,786	330
Trust expenses	339	285	(54)
Net income	1,777	1,501	276
Amortization on rental properties	224	219	5
Amortization on mortgage premium	(100)	-	(100)
Distributable Income[1]	$1,901	$1,720	$181
Net income per unit	$0.293	$0.248	$0.045
Distributable Income per unit	$0.313	$0.285	$0.028

[1] Distributable Income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the REIT’s Declaration of Trust.

Recoverable operating expenses were below forecast with corresponding reductions in operating recoveries and rental revenue. Otherwise rental revenue exceeded forecast due to new leasing activity, better than expected lease renewals and better than expected incidental revenue.

Net income for the quarter was $1.8 million. This figure exceeded the forecast by $276,000 as a result of higher than expected net rental income and lower financing costs, which were offset partially by higher amortization and higher trust expenses.

The REIT's financial results from commencement of operations on February 19, 2003, to June 30, 2003, are summarized below:

(In thousands except for per unit amounts)	**February 19 to June 30, 2003**	**Prospectus Forecast[1]**	**Variance to Prospectus Forecast**	**Pro-rated Forecast[2]**	**Variance to Pro-rated Forecast**
Revenue from rental properties	$7,347	$10,474	$(3,127)	$7,558	$(211)
Rental property operating cost	2,417	3,973	1,556	2,862	445
Net rental income	4,930	6,501	(1,571)	4,696	234
Financing expense	1,525	2,416	891	1,746	221
Depreciation and amortization	336	442	106	320	(16)
Income from operations	3,069	3,643	(574)	2,630	439
Trust expenses	472	570	98	414	(58)
Net income	2,597	3,073	476	2,216	381
Amortization on rental properties	323	438	(115)	317	6
Amortization on mortgage premium	(148)	-	(148)	-	(148)
Distributable Income[3]	$2,772	$3,511	$(739)	$2,533	$239
Net income per unit	$0.429	$0.508	$(0.079)	$0.366	$0.063
Distributable Income per unit	$0.457	$0.581	$(0.124)	$0.420	$0.037

1 The forecast in the Prospectus assumed the completion of the IPO and the acquisition of the initial properties by the REIT on January 1, 2003.
2 The forecast included in the Prospectus pro-rated for the 132-day period of operations of the REIT from February 19, 2003 to June 30, 2003. These figures have been prepared by management and are unaudited.
3 Distributable Income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the REIT's Declaration of Trust.

Net income for the period was $2.6 million. This figure exceeded the pro-rated forecast by $381,000 as a result of higher than expected net rental income and lower financing costs, which were offset partially by higher amortization and higher trust expenses.

Leasing Activity

During the quarter, the REIT leased 5,542 square feet to a new tenant at 425-439 King Street West for a term of 10 years commencing August 1, 2003. This brings the total amount of space leased since commencement of operations to 14,783 square feet and the leased area in the REIT's portfolio to 97.8%. Additional progress was made in the second quarter on 2003 renewals, bringing the renewal rate thus far in 2003 to 77.7%, slightly ahead of forecast.

Financing Activity

Two of the mortgage loans assumed by the REIT on the acquisition of its initial properties matured in the second quarter. The REIT successfully upward refinanced the larger mortgage loan in an amount sufficient to repay and discharge the smaller mortgage loan as it came due, achieving additional flexibility for future financing. The refinanced mortgage loan has a term of 15 years, bears interest at 6.88% and has an amortization period of 20 years.

The REIT's debt to gross book value at the end of the second quarter was 52.2%. This is substantially below the 60% threshold mandated by the REIT's Declaration of Trust, affording the REIT significantly greater acquisition capacity than initially anticipated.

Additional Financial Information

The financial statements are attached to this press release. The financial statements with accompanying notes and MD&A will be filed on SEDAR.

Outlook

The outlook for the REIT's portfolio remains strong, with the essential elements of the Class I value proposition—location, lower overall occupancy costs and appealing internal and external environments—affording the REIT ongoing competitive advantages in attracting and retaining tenants.

Conference Call and Webcast

Management will hold a conference call and live audio webcast on Thursday, August 7, 2003, at 10 a.m. (ET) to discuss the REIT's results. The call may be accessed by dialing 1-800-814-4853 or 416-640-4127. The webcast is accessible at www.cdn-news.com or at www.alliedpropertiesreit.com and will be archived for 120 days.

Allied Properties REIT is the leading owner of Class I ("brick-and-beam") office properties in downtown Toronto. With 820,000 square feet of space concentrated strategically to the east and west of Toronto's downtown core, the REIT's portfolio of 14 buildings accommodates a diversified base of business tenants. The objectives of the REIT are to provide stable cash distributions to its unitholders and to maximize unitholder value through the effective management and accretive growth of its portfolio. In addition to competitive advantages within its target market, the REIT has access to a substantial pipeline of development properties currently at various stages of development or redevelopment.

Forward Looking Statements

All statements in this press release that do not directly and exclusively relate to historical facts constitute forward-looking statements. These statements represent Allied Properties REIT's intentions, plans, expectations, and beliefs, and are subject to risks, uncertainties and other factors, of which many are beyond the control of the REIT. These factors could cause actual results to differ materially from such forward-looking statements. Allied Properties REIT disclaims any intention or obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise.

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FOR FURTHER INFORMATION, PLEASE CONTACT:

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ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST

Interim Financial Statements
Unaudited

From the Commencement of Operations on February 19, 2003 to June 30, 2003

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
BALANCE SHEET
Unaudited
(in thousands)
At June 30, 2003

ASSETS	
Rental properties (Note 4)	**$ 126,531**
Deferred expenses (Note 5)	**203**
Other assets (Note 6)	**1,101**
	$ 127,835
LIABILITIES	
Mortgages payable (Note 7)	**$ 66,249**
Bank indebtedness (Note 7)	**1,432**
Accounts payable and accrued liabilities (Note 8)	**3,046**
Distributions payable	**557**
	71,284
UNITHOLDERS' EQUITY (Note 9)	**56,551**
	$ 127,835

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Trustees

"Gordon Cunningham"

Gordon Cunningham
Trustee

"Michael R. Emory"

Michael R. Emory
Trustee

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
STATEMENT OF UNITHOLDERS' EQUITY
Unaudited
(in thousands)

	Three Months Ended June 30, 2003	From February 19, 2003 to June 30, 2003
Balance, beginning of period	$ 56,120	$ -
Net earnings	1,777	2,597
Distributions to unitholders	(1,670)	(2,402)
Units issued	324	60,763
Issue costs	-	(4,407)
Balance, end of period	$ 56,551	$ 56,551
Units issued and outstanding (Note 9)	6,080,303	6,080,303

The accompanying notes are an integral part of these financial statements.

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
STATEMENT OF EARNINGS
Unaudited
(in thousands, except per unit amounts)

	Three Months Ended June 30, 2003	From February 19, 2003 to June 30, 2003
Rental revenue	$ 4,989	$ 7,347
Operating costs	1,579	2,417
Amortization of buildings	224	323
Amortization of deferred charges	10	13
Operating income from rental properties	3,176	4,594
Financing expense	1,060	1,525
Trust expenses	339	472
Net earnings	$ 1,777	$ 2,597
Net earnings per unit		
Basic and diluted	$ 0.293	$ 0.429
Weighted average number of units		
Basic and diluted	6,066,839	6,059,835

The accompanying notes are an integral part of these financial statements.

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
STATEMENT OF CASH FLOWS
Unaudited
(in thousands, except per unit amounts)

	Three Months Ended June 30, 2003	From February 19, 2003 to June 30, 2003
CASH PROVIDED BY (USED IN):		
Operating activities		
Net earnings	$ 1,777	$ 2,597
Items not affecting cash		
Amortization, rental properties	224	323
Amortization, deferred charges	10	13
Amortization, premium on assumed mortgages payable	(100)	(148)
Funds from operations	1,911	2,785
Change in other non-cash operating items	(1,747)	(835)
Cash from operating activities	164	1,950
Investing activities		
Net assets acquired (Note 2)	-	(46,538)
Capital expenditures, rental properties	(122)	(141)
Deferred leasing costs	(73)	(73)
Cash used in investing activities	(195)	(46,752)
Financing Activities		
Repayment of mortgages payable	(412)	(559)
Deferred financing costs	(33)	(143)
Distributions	(1,521)	(1,521)
Proceeds of initial public offering of units (net of issue cost)	-	45,593
Cash flow provided by financing activities	(1,966)	43,370
Decrease in cash and cash equivalents	(1,997)	-
Cash and cash equivalents, beginning of period	565	-
Cash and cash equivalents, end of period	$(1,432)	$ (1,432)
Other cash flow information		
Interest paid	$ 1,192	$ 1,576

The accompanying notes are an integral part of these financial statements.

ALLIED PROPERTIES REAL ESTATE INVESTMENT TRUST
NOTES TO INTERIM FINANCIAL STATEMENTS
Unaudited
(In thousands of dollars except per unit amounts)
June 30, 2003

1. THE TRUST

Allied Properties Real Estate Investment Trust (the "REIT") is an unincorporated closed-end real estate investment trust created pursuant to the Declaration of Trust dated October 25, 2002, subsequently amended and restated on February 6, 2003. The REIT is governed by the laws of the Province of Ontario and began operations on February 19, 2003. The units of the Trust are traded on the Toronto Stock Exchange.

These *interim unaudited* financial statements present the financial position of the REIT as at June 30, 2003 and the results of operations and cash flow for the 132-day period from February 19, 2003 to June 30, 2003 and for the quarter ended June 30, 2003.

2. ACQUISITIONS

On February 19, 2003 the Trust acquired seven rental properties and acquired seven additional rental properties on February 20, 2003.

(a) The Offering

On February 20, 2003, the REIT issued 5 million voting units at $10 per unit pursuant to an initial public offering (the "Offering"), resulting in gross proceeds of $50,000. Costs relating to the Offering, including underwriters' fees, were $4,407.

Net assets acquired were as follows (using the purchase method of accounting):

Rental properties	$125,424
Acquisition costs, including land transfer taxes	1,289
Amounts receivable	1,034
Secured debt	(66,956)
Accounts payable and accrued liabilities	(3,814)
	$56,977

Consideration paid for the net assets acquired consisted of the following:

Cash	$46,538
1,043,902 units issued to vendors	10,439
	$56,977

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The REIT's financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are also in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies, of which the REIT is a member.

(b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances with banks and short term deposits with original maturities of three months or less.

(d) Rental properties

Rental properties include land, buildings, improvements and acquisition costs that are capitalized as part of the cost of rental properties.

Rental properties are stated at the lower of cost less accumulated amortization and net recoverable amounts. The net recoverable amount represents the undiscounted estimated future cash flow expected to be received from the ongoing use of the properties together with the residual value of the properties.

Amortization on buildings is recorded on the 5% sinking fund method to fully amortize the cost of the buildings over 40 years.

(e) Distribution Reinvestment Plan (DRIP)

The REIT has instituted the DRIP whereby Canadian unitholders may elect to have their distributions automatically reinvested in additional units. Unitholders who so elect will receive a further distribution of units equal in value to 5% of each distribution that was reinvested. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP.

(f) Revenue recognition

Rental revenue includes rents from tenants under leases, property tax and operating cost recoveries, parking income and incidental income. All rental revenue is recognized in accordance with each lease.

(g) Unit-based compensation plan

The REIT has adopted section 3870 of the CICA Handbook with respect to the accounting and disclosure of unit-based compensation, which recommends that awards to employees and directors be valued using a fair-value method of accounting. Under section 3870, reporting entities that elect a method other than the fair-value method of accounting are required to disclose pro-forma net income and earnings per unit information, using a pricing model such as the Black-Scholes model as if the fair value method had been used.

The REIT has a unit based compensation plan, which is described in Note 9. No compensation expense is recognized for this plan when unit options are granted. Any consideration paid on exercise of unit options is credited to unitholders' equity.

(h) Per unit calculations

Basic net income per unit are calculated by dividing net income by the weighted average number of units outstanding for the period. The calculations of net income per unit on a diluted basis consider the potential exercise of outstanding unit purchase options, if dilutive, and are calculated using the treasury stock method. For the period ended June 30, 2003 and for the quarter ended June 30, 2003, the exercise of options would be anti-dilutive.

4. Rental Properties

	Cost	Accumulated Amortization	Net Carrying Amount June 30, 2003
Land	$ 19,586	$ -	$ 19,586
Building, improvements and other costs	107,266	(321)	106,945
	$ 126,852	$ (321)	$ 126,531

5. Deferred expenses

Deferred expenses consist of costs incurred by the REIT, net of amortization of $13, with respect to obtaining a $5,000 acquisition credit facility (the "Acquisition Credit Facility") and leasing costs. Amortization is recorded on a straight-line basis over the term of the Acquisition Credit Facility ending February 28, 2006 and over the term of the respective leases to which the costs relate.

6. Other Assets

Other assets of $1,101 consist of accounts receivable of $167, prepaid expenses of $187, and escrow accounts held by mortgagees of $747.

7. Mortgages Payable and Bank Indebtedness

Substantially all of the REIT's assets have been pledged as security under the mortgages and other security agreements. Interest rates on the mortgages payable are between 5.95% and 8.10% with a weighted average of 7.09%.

Mortgages payables at June 30, 2003 are due as follows:

	Principal Repayments	Balance due at Maturity	Total
Six month period ended December 31, 2003	$ 817	$ -	$ 817
Year ended December 31, 2004	1,677	3,682	5,359
Year ended December 31, 2005	1,703	1,850	3,553
Year ended December 31, 2006	1,594	9,931	11,525
Year ended December 31, 2007	1,464	4,975	6,439
Thereafter	6,789	30,954	37,743
	$14,044	$51,392	$65,436
Premium on assumed mortgages (net of amortization)			813
			$66,249

The REIT has a $5,000 revolving credit facility (the "Operating Credit Facility") with a Canadian chartered bank, which matures February 28, 2004. The Operating Credit Facility is secured by first mortgage charges on two rental properties and by second and third mortgage charges on three other rental properties. Interest is at bank prime rate plus 0.5%. At June 30, 203 the amount outstanding (net of cash and bank account deposits) was $1,432.

8. Accounts payable and accrued liabilities

Payables and tenant deposits of $3,046 consist of:

General operating payables and tenant deposits	$2,471
Accrued interest on mortgages payable	352
Deferred revenue with respect to Bridge Covenants (Note 16)	223
	$3,046

9. Unitholders' Equity

The REIT is authorized to issue an unlimited number of trust units, each of which represents a unitholder's proportionate undivided beneficial interest in the REIT. No unitholder has or is deemed to have any right of ownership in any of the assets of the REIT.

The number of units issued and outstanding is as follows:

	Units
Units issued on February 19, 2003 pursuant to the acquisition of properties	100
Units issued on February 20, 2003 pursuant to the Offering	5,000,000
Units issued on February 20, 2003 to vendors of properties as partial satisfaction for the acquisition of properties	1,043,902
Redemption of units on February 20, 2003	(100)
Units issued under the Dividend Reinvestment Plan	36,404
Units outstanding, June 30, 2003	6,080,306

10. Unit Option Plan

The REIT adopted a Unit Option Plan providing for the issuance, from time to time, at the discretion of the trustees, of options to purchase Units for cash. Participation in the Unit Option Plan is restricted to the trustees and the officers of the REIT. The Unit Option Plan complies with the requirements of the Toronto Stock Exchange. The exercise price of any option granted will not be less than the closing market price of the units on the day preceding the date of grant. The options may have a maximum term of ten years from the date of grant. The maximum number of Units reserved for issuance pursuant to the Unit Option Plan is 604,390 units.

On February 20, 2003, 345,000 options were granted to trustees and officers with an exercise price of $10.00 and expiring on February 19, 2008. 115,000 options vested on February 20, 2003 and 115,000 options vests on each of February 20, 2004 and February 20, 2005.

A summary of the status of the Unit Option Plan as at June 30, 2003 and changes during the period ended June 30, 2003 are as follows:

Options	Units	Weighted Average Exercise Price
Granted and outstanding as at June 30, 2003	345,000	$10.00
Options exercisable, June 30, 2003	115,000	$10.00

The weighted average fair value of options granted during the period ended June 30, 2003 amounted to $0.155 per option. The fair value of each option granted was determined using the Black-Scholes option pricing model and the following average assumptions:

Risk-free interest rate	4.18%
Expected average life of option	4 years
Expected volatility in the market price of units	14%
Expected distribution yield	11%

If the Unit Option Plan had been accounted for based on fair value method, there would be no material affect on pro-forma net income for the quarter and the period ended June 30, 2003 and pro-forma net income per unit would have remained as reported.

11. Distributable Income

The REIT is governed by a Declaration of Trust which defines distributable income as net income determined in accordance with Canadian generally accepted accounting principles, subject to certain adjustments, including adding back depreciation and amortization (excluding amortization of the net premium or discount arising on the assumption of long-term debt from vendors of properties at a rate of interest other than market rates, tenant inducements, leasing commission and other leasing costs) and any gains or losses on the disposition of any asset shall be excluded, and to reflect any other adjustments determined by the Trustees in their discretion**.**

Distributable income, a non-GAAP measure, has been calculated as follows:

	For the Three Months Ended June 30, 2003	For the 132-Day Period Ended June 30, 2003
Net earnings	$ 1,777	$ 2,597
Amortization, building	224	323
Amortization, premium on assumed mortgages	(100)	(148)
Distributable income	1,901	2,772
Retention of distributable income	231	371
Distributions to unitholders	$ 1,670	$ 2,401
Distributable income per unit	$0.313	$0.457
Retention of distributable income per unit	0.038	0.061
Distributions to unitholders per unit	$0.275	$0.396

12. Income taxes

The REIT is taxed as a “Mutual Fund Trust” for income tax purposes. The REIT is required by its Declaration of Trust to distribute or designate all of its taxable income to unitholders and to deduct such distributions or designation for income tax purposes. Accordingly, no provision for income taxes has been made. Income tax obligations relating to distributions of the REIT are the obligations of the unitholders.

13. Financial instruments

The fair value of the REIT’s financial assets and liabilities, approximate their recorded values as at June 30, 2003.

In the normal course of its business, the REIT is exposed to a number of financial risks that can affect its operating performance. These risks and the actions taken to manage them are noted below. The REIT does not have foreign exchange risks as it holds only Canadian dollar denominated assets and liabilities.

(a) Interest Rate Risk

97% of the REIT’s outstanding debt at June 30, 2003 is at fixed interest rates and is not exposed to changes in interest rates. However, as fixed rate debt matures and as the REIT utilizes additional floating rate debt under the revolving credit facilities, the REIT will be exposed to changes in interest rates. As part of its risk management program, The REIT endeavors to maintain an appropriate mix of fixed rate and floating rate debt and to stagger the maturities of its debt.

(b) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT’s credit risk is limited to the recorded amount of tenant receivables.

The REIT does not acquire, hold or issue derivative financial instruments for hedging or trading purposes.

14. Segmented disclosure

Substantially all of the REIT’s assets are in, and its revenue is derived from, the downtown Toronto office market.

15. Commitments and Contingencies

The REIT has entered into commitments for building renovations, leasing commissions and tenant inducements with respect to leasing activities. The commitments as at June 30, 2003 were $137.

16. Related Party Transactions

(a) Property Management Agreement

Pursuant to the Property Management Agreement entered into by the REIT, Allied Canadian Corporation (“Allied Properties”) has been appointed as the property manager for the rental properties owned by the REIT. For its services as property manager, it is paid an annual fee equal to 4% of the gross revenues, is entitled to recover the cost incurred by it in substituting on-site managers at rental properties, the costs of its maintenance staff to perform regular maintenance at the rental properties and its out-of pocket expenses related to services provided. Amounts paid and included in operating cost for the 132-day period ended June 30, 2003 and the quarter ended June 30, 2003 were $494 and $334 respectively.

Pursuant to the Property Management Agreement, Allied Properties is entitled to a leasing fee. The fee is payable upon tenants having executed and delivered signed leases. Amounts paid and included in deferred expenses during the 132-day period ended June 30, 2003 and the quarter ended June 30, 2003 was $11.

Pursuant to the Property Management Agreement, Allied Properties is entitled to a project management fee based on customary market fees for project management services in connection with renovations, construction and reconstruction work on the rental properties. Amounts paid and included in rental properties during the 132-day period ended June 30, 2003 and the quarter ended June 30, 2003 was $5.

Pursuant to the Property Management Agreement, Allied Properties is to provide the REIT a fully equiped office and support staff and is entitled to recover its cost from the REIT. Amounts paid and included in trust expenses for the 132-day period ended June 30, 2003 and the quarter ended June 30, 2003 were $23 and $16 respectively.

These transactions are in the normal course of operations and were measured at the exchange amount agreed upon by the parties.

(b) Rental revenues

Rental revenues included amounts received from related parties for the period ended June 30, 2003:

Related Party	**Nature of Revenue**	**Three Months Ended June 30, 2003**	**For the Period Ended June 30, 2003**
Vendors of properties	Bridge Covenants	$246	$372
TechSpace Canada Inc.	Lease	202	295
Vendors of properties	Head Lease	84	121
		$532	$788

TechSpace Canada Inc. is a subsidiary of Allied Properties.

Bridge Covenants:

Certain vendors of the rental properties provided bridge covenants (collectively the “Bridge Covenants”) to the REIT in respect of certain office space leased to third party, non related tenants. These Bridge Covenants provide the REIT with an income stream to coincide with rent-free periods that the vendors provided to the tenants, prior to the REIT acquiring the rental properties. The vendors have prepaid the obligations under the Bridge Covenants and the unamortized balance of the prepayment is recorded as deferred revenue. The vendors providing the bridge covenants are under common control of certain trustees of the REIT.

Head Lease:

Certain vendors entered in to a lease for 16,686 square feet of office space for a five year term, expiring on February 19, 2008, (the “Head Lease”). The obligations of the vendors under the Head Lease are secured by cash of $1,545,516, which is held in an escrow account by Allied Properties. These vendors are under common control of certain trustees of the REIT.

MANAGEMENT'S DISCUSSION AND ANALYSIS
(All dollar references other than per unit amounts are in thousands).

Management's discussion and analysis of financial condition and results of operations should be read in conjunction with the unaudited interim financial statements of Allied Properties Real Estate Investment Trust (the "REIT") prepared as at June 30, 2003 and for the 132-day period from the commencement of operations of the REIT on February 19, 2003 to June 30, 2003 and for the quarter ended June 30, 2003.

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The objectives of the REIT are to provide stable cash distributions to unitholders and to maximize unitholder value through the effective management and the accretive growth of the REIT's portfolio.

Financial Results

The REIT's second quarter financial results are summarized below:

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Distributable Income per unit	$0.313	$0.285	$0.028

[1] Distributable income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration of Trust.

Net rental income for the quarter ended June 30, 2003 of $3,410 was $197 better than forecasted due to new leasing activity, better than expected lease renewals and better than expected incidental revenues.

Recoverable operating expenses were lower than forecast resulting in corresponding reductions of operating recoveries and therefore rental revenues. Otherwise, rental revenue would have exceeded forecast.

Net income for the quarter ended June 30, 2003 of $1,777 exceeded the forecast by $276, as a result of better than expected net rental income ($197 over forecast), lower financing costs ($145 less than forecast). These favourable variances were partially offset by higher amortization ($12 higher than forecast) and higher trust expenses ($54 higher than forecast).

The REIT's financial results for the 132-day period from the commencement of operations on February 19, 2003 to June 30, 2003 are summarized below:

(In thousands except for per unit amounts)	February 19 to June 30, 2003	Prospectus Forecast[1]	Variance to Prospectus Forecast	Pro-rated Forecast[2]	Variance to Pro-rated Forecast
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Trust expenses	472	570	98	414	(58)
Net income	2,597	3,073	476	2,216	381
Amortization on rental properties	323	438	(115)	317	6
Amortization on mortgage premium	(148)	-	(148)	-	(148)
Distributable Income[3]	$2,772	$3,511	$(739)	$2,533	$239
Net income per unit	$0.429	$0.508	$(0.079)	$0.366	$0.063
Distributable Income per unit	$0.457	$0.581	$(0.124)	$0.420	$0.037

[1] The forecast in the Prospectus assumed the completion of the IPO and the acquisition of the initial properties by the REIT on January 1, 2003.
[2] The forecast included in the Prospectus pro-rated for the period of operations of the REIT from February 19, 2003 to June 30, 2003. These figures have been prepared by management and are unaudited.
[3] Distributable income, which is not defined within Canadian generally accepted accounting principles, has been calculated in accordance with the terms of the Declaration of Trust.

Results for the 132-day period ended June 30, 2003 do not compare to the six-month forecast included in the Prospectus, as the REIT commenced operations on February 19, 2003. On a pro-rated basis, actual results compared favourably to the forecast.

The net rental income for the 132-day period ended June 30, 2003 of $4,930, was $234 better than pro-rated forecast due to new leasing activity, better than expected lease renewals and better than expected incidental revenues.

Recoverable operating expenses were lower than pro-rated forecast resulting in corresponding reductions of operating recoveries and therefore rental revenues. Otherwise, rental revenue would have been better than expected.

Net income for the 132-day period ended June 30, 2003 of $2,597 exceeded the pro-rated forecast by $381, as a result of better than expected net rental income ($234 over pro-rated forecast), lower financing costs ($221 less than pro-rated forecast). These favourable variances were partially offset by higher amortization ($16 higher than pro-rated forecast) and higher trust expenses ($58 higher than pro-rated forecast).

Distributable Income

Distributions for the quarter ended June 30, 2003 were $1,670 which corresponds to a pay-out ratio of 87.9%, compared to the expected pay-out ratio of 90%. Distributable income for the quarter was $0.313 per unit, compared to the pro-rated forecast of $0.285 per unit.

Distributions for the 132 day period ended June 30, 2003 were $2,402, which corresponds to a pay-out ratio of 86.7%, compared to the expected pay-out ratio of 90%. Distributable income for the 132-day period was $0.457 per unit, compared to the pro-rated forecast of $0.420 per unit.

Subsequent to June 30, 2003 the REIT declared a distribution of $0.09166 per unit to unitholders of record as of July 31, 2003, payable on August 15, 2003.

Distribution Reinvestment Plan

The REIT implemented a Distribution Reinvestment Plan (the "DRIP") in March, 2003. The DRIP provides unitholders with the option of reinvesting their total monthly cash distributions in additional units of the REIT without incurring brokerage commissions or other transaction cost. As an incentive to participate, the DRIP entitles unitholders to receive additional units equal in value to 5% of the monthly cash distribution otherwise payable to them. The DRIP is administered by the REIT's transfer agent, CIBC Mellon Trust Company.

Leasing Activity

During the quarter ended June 30, 2003, the REIT leased 5,542 square feet to a new tenant at 425-439 King Street West for a term of 10 years commencing August 1, 2003. This brings the total amount of space leased since commencement of operations to 14,783 square feet and the leased area in the REIT's portfolio to 97.8%. Additional progress was made in the second quarter on 2003 renewals, bringing the renewal rate thus far in 2003 to 77.7%, slightly ahead of forecast.

Financing and Trust Expenses

Financing expense consists of interest on mortgages payable, less the amortization of the premium on the mortgages payable that were assumed on acquisition of the initial properties.

Financing expense of $1,060 for the quarter ended June 30, 2003 was $145 lower than the forecast of $1,205. The lower financing costs resulted from lower debt utilization ($45 less than forecast) and the amortization of the premium on the mortgages payable ($100 less than forecast).

Financing expense of $1,525 for the 132-day period ended June 30, 2003 was $221 lower than the pro-rated forecast of $1,746. The lower financing costs resulted from lower debt utilization ($73 less than pro-rated forecast) and the amortization of the premium on the mortgages payable ($148 less than pro-rated forecast).

Subject to any significant negative change to variable interest and before taking into account increased financing costs due to acquisitions in the year, management expects financing expense will be lower than that reflected in the prospectus forecast for the balance of 2003.

Trust expenses for the quarter ended June 30, 2003 of $339 were $54 higher than with the forecast. Expenditures relating to the development of the REIT's website were expensed in the quarter ended June 30, 2003.

Liquidity and Capital Resources

The REIT finances its operations through three sources of capital: (i) mortgage debt secured by the REIT's properties, (ii) secured short-term financing through its $5,000 revolving credit facility (the "Operating Credit Facility") with a Canadian chartered bank and (iii) equity. As at June 30, 2003 the REIT had mortgage debt of $65,436, unitholders' equity of $56,551, and bank indebtedness of $1,432 under the Operating Credit Facility.

The debt to gross book value was 52.2%, substantially below the 60% threshold as mandated by REIT's Declaration of Trust.

During the quarter ended June 30, 2003, the REIT increased mortgage financing on one of its rental properties that matured in June, 2003 in an amount that was sufficient to repay and discharge another mortgage loan on another rental property. This has provided the REIT additional flexibility for future financing, if required. The renewed mortgage loan has a term of 15 years, bear interest at 6.88% and has an amortization period of 20 years.

The REIT plans to fund anticipated capital expenditures and leasing costs using cash flow from operations retained by the REIT and through available borrowing capacity under the Operating Credit Facility. As at June 30, 2003, the REIT had borrowing capacity under the Operating Credit Facility of $3,568.

The REIT also has a $5,000 acquisition credit facility with a Canadian chartered bank, (the "Acquisition Credit Facility").

Capital Expenditures

The REIT's portfolio requires ongoing investments for general capital improvements, tenant installation costs related to new and renewal leasing. These include providing tenants build-out allowances and paying leasing commissions. For the quarter and the 132-day period ended June 30, 2003, expenditures for capital improvements were $122 and $141, respectively, all of which related to space leased to new tenants. Expenditures for leasing costs were $73 for the period, all of which were incurred in the quarter ended June 30, 2003.

Mortgages Payable

Generally accepted accounting principals require that the mortgages payable assumed on acquisition of properties be recorded at fair value. The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using market rates for debt of similar terms and credit risks. Based on these assumptions, the fair value of mortgages payable at the time of acquisition, and therefore the amount at which they were recorded at that time, was $66,956. (The face value (legal liability) of the mortgages payable at the time of acquisition was $65,994).

Accounts Payable

Payables and accrued liabilities of $3,046 included general operating payables and tenant deposits of $2,471 and accrued interest on mortgages payable of $352 and $223 of deferred revenue.

Risk and Uncertainties

There are certain risk factors inherent in the investment and ownership of real estate. Such investments are capital intensive and success depends on maintaining occupancy levels and rental income flows to generate acceptable returns. These success factors are dependent on general economic conditions and local real estate markets, demand for leased premises and competition from other available properties.

The REIT's portfolio is focused on a particular asset class in the largest metropolitan real estate market in Canada. This concentration enables Management to capitalize on certain economies of scale and competitive advantages that would not otherwise be available, and contributes to mitigating the risk associated with the real estate ownership.

The REIT is also subject to risk associated with debt financing. The availability of debt to re-finance existing and maturing loans and the cost of servicing such debt will influence the success of the REIT. In order to minimize risk associated with debt financing, the REIT will attempt to re-finance maturing loans with long term fixed rate debt and to stagger the maturities over time.