



CANADIAN APARTMENT
PROPERTIES • REIT

Rising to the challenge, together.

2020 ANNUAL REPORT

“Our people
drive our solid
growth.”



Mark Kenney
President and Chief Executive Officer



Profile

As Canada's largest publicly traded provider of quality rental housing, Canadian Apartment Properties REIT ("CAPREIT") owns or has interests in approximately 67,500 residential apartment suites, townhomes and manufactured housing community sites well located across Canada, the Netherlands and Ireland.

2020 Highlights & Objectives

HIGHLIGHTS

- Record performance despite COVID-19 pandemic
- Focused asset allocation strategy generating enhanced value
- Strong accretive portfolio growth across all platforms
- Revenues up 13.0% due to portfolio growth and increased rents
- Investment properties up \$1.9 billion compared to last year
- Solid organic growth with same property NOI up 3.9%
- NFFO up 14.7% on revenue growth and increased NOI, while NFFO per unit is up 6.3%
- Increased contribution from investments in Ireland and the Netherlands
- Strong and flexible balance sheet with record liquidity position
- Deliver sustainable initiatives that drive our operational, social and governance performance

OBJECTIVES

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

For more than 23 years, Canadian Apartment Properties REIT has delivered strong and accretive growth for its Unitholders. 2020 was yet another record year as we achieved solid increases in the majority of our key performance benchmarks.

For the Year Ended December 31,	2020	2019 ⁽⁴⁾
Portfolio Performance		
Overall portfolio occupancy ⁽¹⁾	97.5%	98.2%
Overall portfolio net Average Monthly Rents ⁽¹⁾	\$ 1,121	\$ 1,084
Operating revenues (000s)	\$ 882,643	\$ 780,780
NOI (000s)	\$ 578,171	\$ 508,150
NOI margin	65.5%	65.1%
Financial Performance		
FFO per Unit – basic ⁽²⁾	\$ 2.258	\$ 2.111
NFFO per Unit – basic ⁽²⁾	\$ 2.273	\$ 2.139
Cash distributions per Unit	\$ 1.380	\$ 1.372
FFO payout ratio ⁽²⁾	61.4%	65.5%
NFFO payout ratio ⁽²⁾	61.0%	64.6%
Liquidity and Leverage		
Total debt to gross book value ⁽¹⁾	35.54%	34.70%
Total debt to gross historical cost ⁽¹⁾	50.11%	48.08%
Weighted average mortgage interest rate ⁽¹⁾	2.56%	2.85%
Weighted average mortgage term (years) ⁽¹⁾	5.76	5.13
Debt service coverage (times) ⁽³⁾	2.01	1.87
Interest coverage (times) ⁽³⁾	3.95	3.69
Available liquidity – Acquisition and Operating Facility (000s) ⁽¹⁾	\$ 627,997	\$ 146,170
Available cash and cash equivalents (000s) ⁽¹⁾	\$ 121,722	\$ 477,328

⁽¹⁾ As at December 31.

⁽²⁾ 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 in the Management's Discussion and Analysis.

⁽³⁾ Based on the trailing four quarters.

⁽⁴⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

“We are empowered to
make a difference.”



Marta Montenegro
Customer Care Coordinator

Strong & Diversified Portfolio

57,743

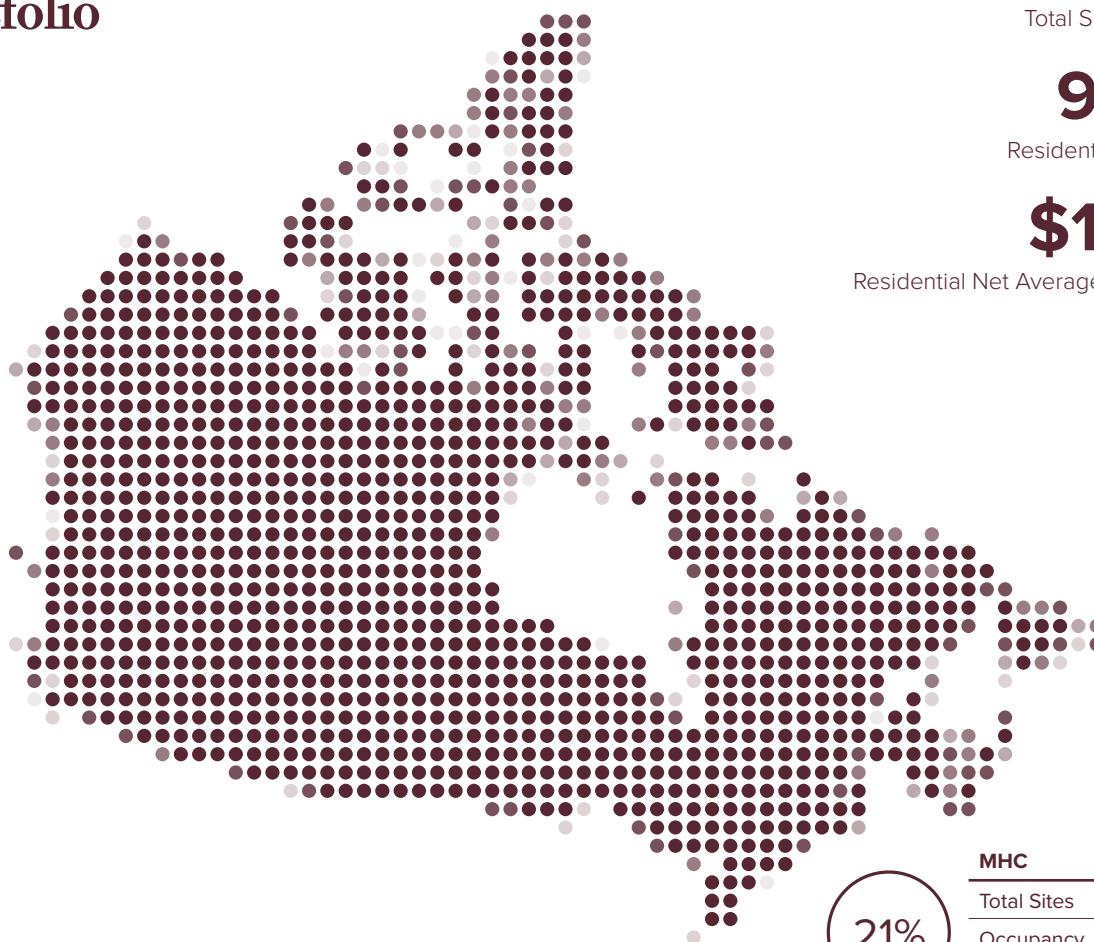
Total Suites and Sites

97.8%

Residential Occupancy

\$1,282

Residential Net Average Monthly Rent



Canada

In Canada, our growth is focused on expanding our portfolio of value-add properties where we can make acquisitions at less than 50% of replacement cost. We have proven our ability to invest in these assets to increase their value, and the stability of their cash flows is driven by continuing high occupancies and affordable rental rates.

MHC

Total Sites	11,856
Occupancy	95.8%
Net Avg Rent	\$390

21%

Québec

Total Suites	10,288
Occupancy	97.0%
Net Avg Rent	\$1,016

18%

British Columbia

Total Suites	5,248
Occupancy	99.1%
Net Avg Rent	\$1,413

9%

Saskatchewan

Total Suites	234
Occupancy	94.4%
Net Avg Rent	\$984

0%

Nova Scotia

Total Suites	3,288
Occupancy	95.1%
Net Avg Rent	\$1,197

6%

Alberta

Total Suites	2,319
Occupancy	93.7%
Net Avg Rent	\$1,061

4%

Ontario

Total Suites	23,873
Occupancy	98.7%
Net Avg Rent	\$1,418

41%

Prince Edward Island

Total Suites	637
Occupancy	99.2%
Net Avg Rent	\$1,100

1%

6,047

Total Suites

98.3%

Occupancy

€882

Net Average Monthly Rent

Netherlands

Revenues at European Residential REIT ("ERES") rose 67.7% in 2020 on portfolio growth and increased average monthly rents and occupancies, driving a 62.5% increase in FFO to €31.2 million or €0.14 per Unit. CAPREIT's ownership interest in ERES provides strong and growing property management fee and distribution income, and the opportunity to generate enhanced value by leveraging the country's only professional management platform in a high-value and growing residential rental market.

**3,688**

Total Suites Managed

98.4%

Occupancy

€1,624

Net Average Monthly Rent

Ireland

In 2020, CAPREIT generated fees of \$9.6 million and received \$8.5 million in dividends, which is an increase of 19.3% and 18.1% from 2019.





With the onset of the COVID-19 pandemic, we implemented new and innovative programs to maintain our growth while fostering strong relationships with our residents and our people. Our record performance in 2020 is proof that we are **rising to the challenge, together.**

From top left:

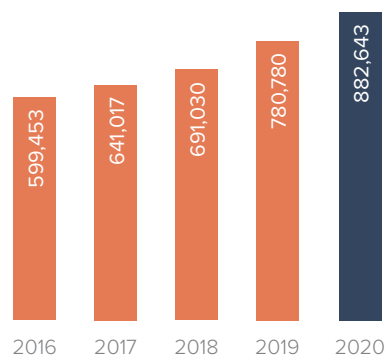
- Mark Kenney, President and Chief Executive Officer
- Jodi Lieberman, Chief Human Resources Officer
- Corinne Pruzanski, General Counsel and Corporate Secretary
- Scott Cryer, Chief Financial Officer

Report to Unitholders

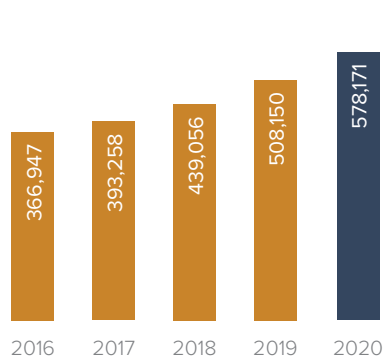
With the outbreak of the COVID-19 pandemic in March, CAPREIT faced significant and unprecedented challenges in how to manage our business and ensure the well-being and safety of our residents and employees. As we look back, we are so proud of the commitment and resilience shown by our teams as we met our goals of preserving capital, maintaining a strong and flexible financial position, and mitigating risk. Most importantly, despite the numerous challenges presented by the pandemic, we generated another record year of growth and strong financial performance in 2020, a testament to the experience and dedication of the CAPREIT team.

KEY METRICS

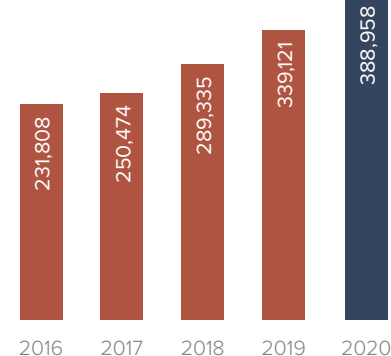
Operating Revenue
(000s)



NOI
(000s)



NFFO
(000s)



Another Solid Year

Operating revenues for the year ended December 31, 2020 rose 13.0% to \$882.6 million, driven by our portfolio growth, continuing near-full occupancies and a solid increase in average monthly rents. With this revenue growth, combined with our proven and successful property management programs, Net Operating Income (NOI) rose a very strong 13.8% to \$578.2 million for the year. We also generated another year of solid organic growth as NOI for our stabilized property portfolio increased 3.9%.

Normalized Funds from Operations (NFFO), our key performance benchmark, increased 14.7% in 2020 to \$389.0 million, resulting in another year of accretive growth as NFFO per Unit rose 6.3% to \$2.273 per unit despite the 7.9% increase in the weighted average number of Units outstanding. Our payout ratio of distributions declared to NFFO remained very conservative at 61.0%.

Importantly, we met our goal of maintaining a strong and flexible financial position. Total debt to gross book value was a conservative 35.5% at year-end, well within our guidelines and providing the resources and flexibility to maintain our track record of growth. Our mortgage portfolio remained well balanced with a weighted

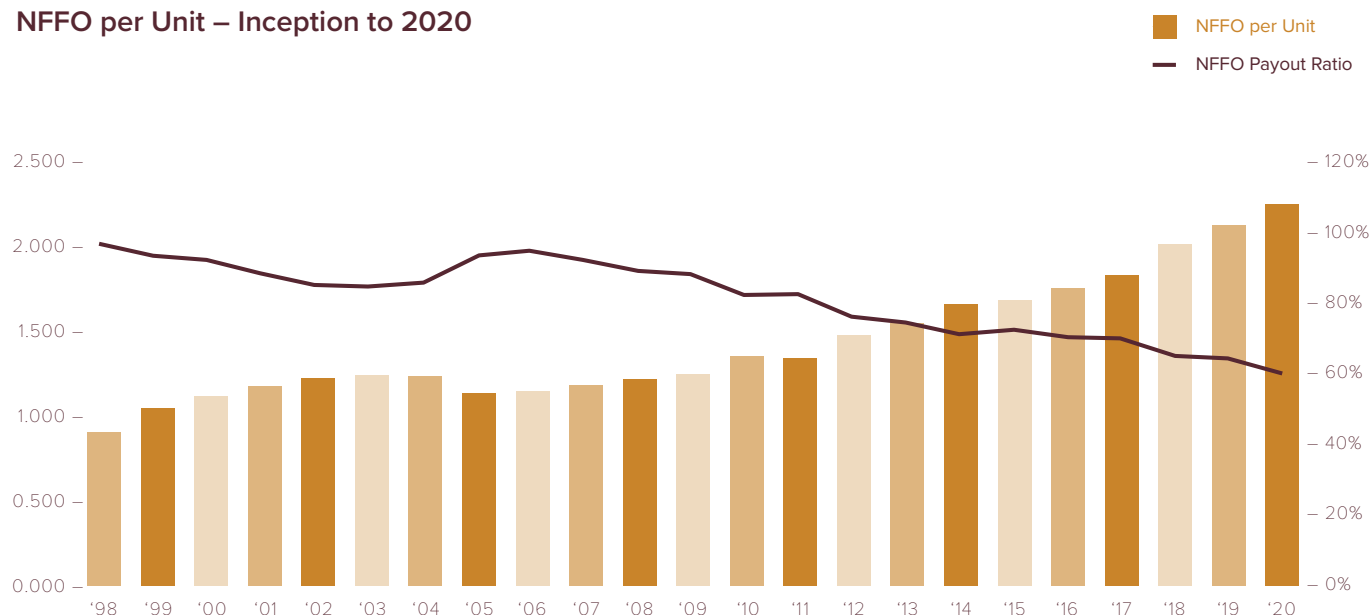
average term to maturity of 5.8 years, adding to the stability of our long-term cash flows. We also continued to capitalize on low interest rates, reducing our weighted average interest rate to 2.6% at December 31, 2020.

Our liquidity position is the strongest in our more than 23-year history. Including cash, available capacity on our credit lines, the ability to up-finance our existing mortgages, and potential financing on our portfolio of \$977 million in unencumbered assets, including our recent operating lease buyouts, we have total liquidity available of over \$1.9 billion. Clearly, we do not intend to access all of these capital resources at one time, but even if we did, our leverage ratio would remain a very conservative 42%.

...our liquidity position is the strongest in our more than 23-year history.

Our solid performance through the pandemic is further proof that CAPREIT can generate strong and growing returns for Unitholders, in both good and bad economic times. Our results are also a testament to the exceptional contribution made by our people. It is their expertise that will get us through these challenging times as we emerge stronger than ever.

NFFO per Unit – Inception to 2020



“We strive to
reach new levels
of innovation.”



Marc Kaddissi
Senior Manager, Technical Services & Sustainability

“Welcoming diversity
and fostering
inclusion is our
commitment.”



Saleema Kassam
Legal Counsel

Portfolio Growth and Diversification Continues

During 2020, we acquired 3,262 residential suites and Manufactured Housing Community (“MHC”) sites well located in our target markets for a total purchase price of \$820.2 million. Our total portfolio grew to 63,790 suites and sites with a fair value of \$15.0 billion at year-end, maintaining our position as Canada’s largest multi-family residential REIT.

In late 2019 and through 2020, we were pleased to have completed the buyout of 12 of our 15 operating leases in the Greater Toronto Area for a total cost of \$173.3 million. We acted on these buyouts earlier than scheduled, resulting in a 31% discount to the agreed upon price for the properties. The transition to fee simple ownership for these properties adds material new financing capacity, meaningful net asset value accretion, and unlocks the potential for future new development opportunities.

Our Asset Allocation Strategy is Working

Looking ahead, we will continue to deliver on our proven asset allocation strategy in three targeted areas.

Our primary focus targets further growth in the Canadian apartment business, expanding our portfolio of primarily

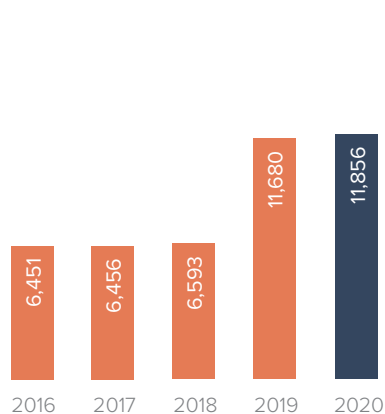
value-add properties in the mid-tier segment that we are purchasing at well under 50% of replacement cost. We have proven our ability to invest in these assets to increase their value, and the stability of their cash flows is driven by continuing high stable occupancies and affordable rental rates. On average, we are renting our apartments at approximately \$1.60 per square foot, much less than the \$3.00 to \$5.00 per square feet found in the rental condominium and new apartment construction markets.

Our second area of growth is the Canadian MHC business. Revenues are highly stable, and with residents owning their own homes, capital requirements and maintenance needs are significantly reduced. MHC properties also provide another level of diversification by increasing our presence in rural and smaller markets. We are also investigating opportunities to further increase revenues in this business.

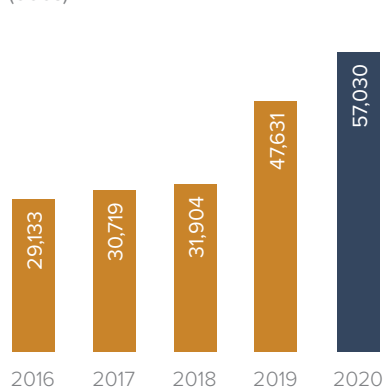
Our third focus is on Europe, where we are generating significant and growing dividend, distribution and fee income from our investments. Dividends and distributions¹ in 2020 from ERES and IRES totalled \$32.9 million, while our property management fee income rose 5.2% to \$22.1 million for the year. As the only professionally managed operating platform in Europe, the opportunities for further growth and enhanced value are significant. However, we will target our exposure to the European market at approximately 15%. Investors can always increase their own position in Units of these two quality REITs.

MHC KEY METRICS

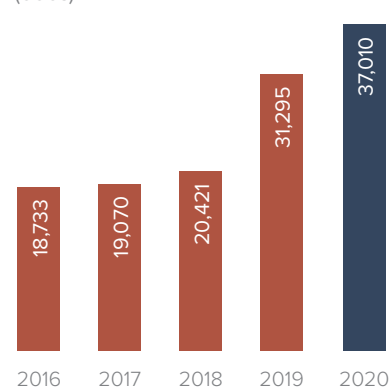
Total Sites



Operating Revenue (000s)



NOI (000s)



Rising to the challenge, together.

With the onset of the pandemic in March, we implemented a number of programs aimed at strengthening relationships with our residents and understanding the issues they faced. In our “Compassionate Care” program, we made approximately 3,500 calls per month, reaching out to our residents to check on their well-being and discuss any rent issues they were experiencing. To help them, our rent payment programs assisted many through these challenging times, and at year-end approved payment plans represented approximately 0.5% of our resident base. We also temporarily, voluntarily suspended any rent increases beginning in April 2020, before any legislative restrictions were introduced.

We have made considerable investments in technology solutions to make our business processes more efficient and scalable. During the pandemic, these new solutions

proved invaluable. We accelerated the launch of our “Resident Portals” during the year, enabling residents to transact with us virtually. A key feature was our Pre-Authorized Payment plan and other online methods of paying rents, enhancing convenience for our residents and improving the timing of rent collections and our ability to react to resident issues. A key focus through the pandemic has been on rent collection, and at year-end we had collected approximately 99% of rents due.

We launched our virtual property tours and online lease applications to ensure we could keep in touch with prospective new residents. Since March, we have signed on average 2,700 leases each quarter remotely, ensuring the safety of our residents and staff and efficiently filling vacant suites. With these and other programs, we were pleased that occupancies remained strong and stable during the pandemic, ending the year at 97.5%.



A Commitment to Diversity

One reason for our strong performance during the pandemic, and over the past many years, is our commitment to diversity. Our success in building a diverse and inclusive workforce helps us to better interact with and support the communities in which we live and work, enabling us to deliver innovative approaches and solutions both within and outside the organization.

Our employee base includes an almost equal gender split between men and women, and since 2017 women have represented about half of our annual recruitment. We celebrate the more than 55 languages spoken at CAPREIT, a reflection of the diverse makeup of the Canadian population and our resident communities. Our workforce is also highly multi-generational, ensuring we represent the interests of all age groups.

We are very proud to be working with social housing agencies and programs, leasing suites to them where we can and where most needed. Almost 2,100 apartments in our portfolio have been leased by these agencies for people in need.

More information about our commitment to diversity, our environmental performance, governance and other important topics can be found in our 2020 ESG Report.



From top:

- Jonathan Cheong, Financial Reporting Manager
- Annemari Fernando, HR Lead Business Partner
- Georgeta Morar, Senior Director, Operations

The best place to live, work and invest.



Looking ahead, we are confident that our long-term focus on making CAPREIT the best place to live, work and invest will take us through this challenging time as we emerge stronger than ever.

We remain committed to building strong relationships with our residents, providing them with a safe and affordable place to live. Our teams continue to capitalize on their experience and our efficient and well-tuned operating platform to deliver the best possible operating results. And from an investment perspective, we believe the apartment industry remains a very defensive sector, one that has proven its ability to generate solid returns in both good times and bad.

We remain very optimistic about our future. We have a highly conservative balance sheet with low leverage, strong liquidity with numerous sources of capital, and as we execute on our proven asset allocation strategy we are confident we will see further growth and strong operating performance in the years ahead.

In closing, we thank everyone at CAPREIT for their ongoing commitment and effort over the past year, and our residents for their continued support. 2020 was an unprecedented year, but together we rose to the challenge, proving once again our ability to generate strong, stable and increasing value for our Unitholders over the long term.

Mark Kenney

President and Chief
Executive Officer

Michael Stein

Chairman



Financial Reporting

Scott Cryer
Chief Financial Officer

Financial Reporting Table of Contents

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Management's Discussion and Analysis

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 year ended December 31, 2020, dated February 24, 2021, should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2020.

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, rental rates, productivity, projected costs, capital investments, development and development opportunities, 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 and the ongoing health crisis related to the novel coronavirus ("COVID-19") pandemic and its direct or indirect impacts on the business of CAPREIT. These impacts may include the ability to enforce leases, perform capital expenditure work, increase rents and apply for above guideline increases, and obtain mortgage financings; 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 the difference between in-place and market-based rents will be reduced upon such turnovers and renewals; 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: public health crises, disease outbreaks, 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 Trust 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 2020 Annual Report in the Risks and Uncertainties section in Section VI of this MD&A. 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 condensed 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 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 Canada's largest publicly-traded provider of quality rental housing. CAPREIT currently owns or has interests in, and manages, approximately 67,500 residential apartment suites, townhomes and manufactured housing community sites well-located across Canada, in the Netherlands and Ireland.

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 April 1, 2020. As at December 31, 2020, CAPREIT had 1,029 employees (1,026 employees as at December 31, 2019).

Objectives and Business Strategy

CAPREIT's objectives are to:

- Provide holders of Trust Units ("Unitholders") with long-term, stable and predictable monthly cash distributions;
- Grow NFFO, sustainable distributions and Trust Unit value through the active management of its properties, accretive acquisitions, developments and 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 and satisfaction of residents.

To meet its objectives, CAPREIT has established the following strategies:

Customer Service – CAPREIT recognizes that it is in a "people business" and strives to be recognized as the landlord of choice in all of its chosen markets by providing its residents with safe, secure and comfortable homes. It takes a hands-on approach to managing its properties, stressing open and frequent communications to ensure residents' needs are met efficiently and effectively, thereby maintaining a high occupancy level. Numerous initiatives, such as newsletters, special events, resident committees and other initiatives, are aimed at building a true sense of community at its properties. CAPREIT's strong sales and marketing team continues to execute innovative and highly effective strategies to help attract and retain residents and adapt to changing conditions in specific markets. In addition, CAPREIT's lease administration system improves control of rent-setting by suite, increasing resident service and enhancing the overall profile of its resident base. These initiatives are further enhanced by CAPREIT's strong information technology platform.

Cost Management – While ensuring the needs of its residents are met, CAPREIT also carefully monitors operating costs to ensure it is delivering services to residents both efficiently and cost-effectively. CAPREIT strives to capture potential economies of scale and cost synergies generated by the growth in its property portfolio. CAPREIT's enterprise-wide procurement system streamlines and centralizes purchasing controls and procedures and is realizing reduced costs through national master sourcing contracts, improved pricing and enhanced operating efficiencies.

Capital Investments – CAPREIT strives to acquire both newer properties or value-add properties at prices below their current replacement cost, and is committed to improving its operating performance by investing in appropriate capital investments in order to maintain the productive capacity of its property portfolio and sustain the portfolio's rental income-generating potential over its useful life. CAPREIT continues to invest in innovative technology solutions that enhance productivity as well as environment-friendly and energy-saving initiatives that improve net operating income. CAPREIT completes a review of its portfolio and revises its long-term capital investment plan on an annual basis, which allows management to ensure capital investments extend the useful economic life of CAPREIT's properties, enhance life safety, maximize earnings and improve the long-term cash flow potential of its portfolio.

Portfolio Growth – CAPREIT aims to grow and modernize its portfolio over the long term through accretive acquisitions of newer or value-add properties that meet its strategic criteria and, where possible, enhance geographic diversification and reduce the average age of the portfolio while capturing economies of scale and cost synergies, thereby increasing net operating income. As a component of this growth strategy, CAPREIT will monitor its portfolio and, from time to time, identify certain non-core, older properties for divestiture. The funds from these divestitures will primarily be used to acquire additional, more modern strategic assets better suited to CAPREIT's portfolio composition and property management objectives or to pay down existing debt. Management believes the continued realization and reinvestment of capital is a fundamental component of its growth strategy, and demonstrates the success of CAPREIT's capital investment programs and its ability to maximize and manage the earnings and cash flow potential of its property portfolio. Furthermore, management continues to seek development opportunities within its portfolio to ensure existing assets are put toward their most accretive use and to further modernize the overall portfolio. In addition, management investigates opportunities to enter into joint venture relationships that could potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT.

Financial Management – CAPREIT takes a conservative approach and strives to manage its exposure to interest rate volatility by proactively managing its mortgage debt portfolio to fix and, where possible, reduce average interest rates, effectively manage the average term to maturity and stagger maturity dates. In addition, CAPREIT strives to maintain a conservative overall liquidity position and achieve a balance in its overall capital resource requirements between debt and equity.

Environmental, Social and Governance ("ESG") Strategy Integration – CAPREIT remains committed to embedding its multi-year ESG road map into its corporate growth strategy. Supported by CAPREIT's Board of Trustees, all levels of the organization remain accountable in the delivery of a resilient and adaptive multi-year ESG performance that keeps it a responsible steward of the environment, attracts and retains the best people in the business, builds strong relationships with its residents and the communities in which they live, adopts best practice programs in corporate governance, and maintains open and transparent communication with its investors. CAPREIT focuses on several ESG-specific deliverables. Building the in-house ESG subject matter expertise by onboarding our ESG Strategy Integration team in early 2019, CAPREIT established the necessary foundation to empower its people to be advocates and enablers of ESG transparency and performance, develop and monitor cross-functional policies, carry ongoing stakeholder engagements, establish frameworks, platforms and practices to deliver investment-grade data, identify and monitor its progress and build standardized and comprehensive ESG disclosures. For a detailed discussion, refer to the 2020 ESG Report contained in CAPREIT's 2020 Annual Report.

SECTION II: KEY HIGHLIGHTS

Summary of Year End 2020 Results of Operations

Key Transactions and Events

- During the year, CAPREIT completed the buyout of 10 of the 13 remaining operating leases in the Greater Toronto Area for a total purchase price of \$158.6 million
- On June 22, 2020, CAPREIT was included in the S&P/TSX 60 Composite index, a prestigious stock market index of 60 large companies listed on the Toronto Stock Exchange in 10 industry sectors
- CAPREIT continues to invest in accretive opportunities, with total acquisitions for the year ended December 31, 2020 amounting to \$690 million comprising 2,847 suites and sites located in Canada, and \$130 million comprising 415 suites located in the Netherlands
- Total dispositions for the year ended December 31, 2020 of \$57 million of two Canadian properties comprising of 194 suites and one commercial property owned by ERES

Strong Operating Results

- CAPREIT has maintained a very high level of rent collection, with over 99% of rents collected year to date
- On turnovers, monthly residential rents for the year ended December 31, 2020 increased by 7.9% on 18.7% of the Canadian portfolio, compared to an increase of 13.5% on 19.0% of the Canadian portfolio for the year ended December 31, 2019
- On renewals, monthly residential rents for the year ended December 31, 2020 increased by 1.3% on 86.5% of the Canadian portfolio, compared to 2.1% on 85.9% of the Canadian portfolio for the year ended December 31, 2019. The reduced increases are primarily due to rent freezes enacted in April 2020 as a result of the COVID-19 pandemic
- Net Average Monthly Rent ("Net AMR") for the stabilized portfolio as at December 31, 2020 increased by 3.1% compared to December 31, 2019 where it increased by 4.1%, while occupancies slightly decreased to 97.5%
- Year-over-year NOI increased by 3.9% for the stabilized portfolio for the year ended December 31, 2020, compared to a year-over-year NOI increase of 4.9% for the stabilized portfolio for the year ended December 31, 2019
- NOI margin for the total portfolio increased to 65.5% for the year ended December 31, 2020 from 65.1% for the year ended December 31, 2019
- NFFO per unit was up 6.3% for the year ended December 31, 2020 compared to last year despite an increase of 7.9% in weighted average number of units outstanding

Strong and Flexible Balance Sheet

- CAPREIT's financial position remains strong, with \$121.7 million of cash and cash equivalents and \$628.0 million of available liquidity on CAPREIT's Acquisition and Operating Facility
- Management expects to raise between \$850 million and \$900 million in total mortgage renewals and refinancings for 2021, excluding financings on acquisitions
- CAPREIT closed mortgage refinancing of \$1,148.6 million for the year ended December 31, 2020, with top-ups of \$783.4 million, a weighted average term to maturity of 10.2 years and a weighted average interest rate of 1.83%
- For the year ended December 31, 2020 the fair value of investment properties increased by \$1,904.2 million, primarily as a result of (i) capitalization rate compression based on recent market activity, (ii) increases in stabilized NOI, (iii) new acquisitions, (iv) the buyout of operating leases, (v) progress on the development pipeline, and (vi) foreign exchange gains on the European properties. Excluding the impact of net acquisitions and operating lease buyouts, the fair value of the Canadian portfolio increased by \$749.9 million, or 6.7% for the year ended December 31, 2020

Acquisitions and Dispositions

The tables below summarize property acquisitions and dispositions for the year ended December 31, 2020. The table below does not include \$158.6 million relating to CAPREIT's operating lease buyouts.

Canadian Acquisitions Completed During the Year Ended December 31, 2020

(\$ 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 10, 2020	1,503	Halifax, NS	\$ 394,734	\$ 108,744	\$ 76,174	1.84	4.66
March 4, 2020	112	Montreal, QC	44,331	—	33,427	2.06	10.00
March 16, 2020	109	Edmonton, AB	28,392	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
August 13, 2020	88	Halifax, NS	23,033	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
September 21, 2020	301	London & Sarnia, ON	51,097	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
October 1, 2020	169	Espanola, Wingham & Midland, ON	9,909	3,911	—	4.77	7.94
November 26, 2020	147	Maple Ridge, BC	29,272	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
November 30, 2020	380	Ottawa, ON	97,482	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 2, 2020	38	Halifax, NS	12,149	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
Total	2,847		\$ 690,399	\$ 112,655	\$ 109,601		
2019 Acquisition financing					\$ 103,480 ⁽⁴⁾	1.91 ⁽⁴⁾	8.09 ⁽⁴⁾

The Netherlands Acquisitions Completed During the Year Ended December 31, 2020

(\$ Thousands)	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate (%) ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
September 1, 2020	120	The Netherlands	\$ 32,233	\$ —	\$ 17,526	0.97	4.00
October 1, 2020	113	The Netherlands	42,353	—	22,831	0.97	4.00
December 1, 2020	84	The Netherlands	35,667	—	19,375	0.97	4.00
December 29, 2020	98	The Netherlands	19,840	—	10,792	0.97	4.00
Total	415		\$ 130,093	\$ —	\$ 70,524		
2019 Acquisition financing					\$ 97,808 ⁽⁴⁾	1.58 ⁽⁴⁾	6.11 ⁽⁴⁾

⁽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 cash and cash equivalents invested in short-term investments.

⁽⁴⁾ Subsequent acquisition financing of \$201.3 million relates to properties acquired in 2019.

Dispositions Completed During the Year Ended December 31, 2020

(\$ Thousands)	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
January 31, 2020 ⁽¹⁾	—	Germany	\$ 25,585	\$ 15,419	\$ 10,166
March 30, 2020	6	Charlottetown, PEI	675	675	—
July 15, 2020	188	Calgary, AB	30,500	19,335	11,165
Total	194		\$ 56,760	\$ 35,429	\$ 21,331

⁽¹⁾ This is a commercial property held by ERES consisting of 58,513 square feet.

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. These KPIs may be impacted by and should be read in conjunction with the risks and uncertainties discussed under The COVID-19 Pandemic.

Occupancy – Through a focused, hands-on approach, CAPREIT strives to achieve occupancies at or greater than market conditions in each of the geographic regions where it operates. Management believes annual occupancies can be maintained at between 97% to 99% over the long term.

Net 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. Management believes same property Net AMR will continue to gradually increase, providing the basis for sustainable year-over-year increases in revenue.

Net Operating Income – 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 62% to 66% of operating revenues over the long term.

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 60% and 70%. 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 of 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 agreements. CAPREIT's credit agreements consist of a revolving 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 Credit Facility (collectively, the "Credit Facilities"), as described under Liquidity and Financial Condition in Section V.

The COVID-19 Pandemic

The COVID-19 pandemic has given rise to uncertainty throughout the global economy, which may have various direct or indirect impacts on the global real estate market. CAPREIT continues to monitor this evolving situation with a focus on protecting the health and safety of its employees and tenants and implementing appropriate cautionary measures to address potential risks to its business. CAPREIT has implemented a number of support measures to help ease the burden on its various tenants impacted by the pandemic, including a temporary moratorium on evictions and a freeze on rental increases in Canada. CAPREIT is also reviewing and implementing flexible temporary payment plans on a case-by-case basis.

The long-term impacts of the COVID-19 pandemic on financial forecasts, including the KPIs discussed above, are subject to a degree of uncertainty and remain subject to further review and consideration given the uncertainty associated with the full impact of the COVID-19 pandemic.

CAPREIT's financial position and liquidity remain strong, providing it with the financial resources and flexibility to manage through these challenging times. CAPREIT did not see a substantial impact from the COVID-19 pandemic on the majority of its operational results for the year ended December 31, 2020; however, this may not be indicative of CAPREIT's future performance.

Rent Collection

CAPREIT has maintained a very high level of rent collection, with over 99% of rents collected year to date. CAPREIT is closely monitoring its tenant receivables, and residents approved for the deferred rent payment program are approximately 0.5% of total residents.

Update on Rental Revenue

As a result of the COVID-19 pandemic, as well as related legislative changes restricting rent increases, CAPREIT has temporarily suspended the issuance and collection of any further rental increases in Canada during this period of crisis, commencing with April 2020 rental payments. To the extent that such restrictions have been relaxed, CAPREIT has started to increase rents as appropriate.

Due to the current economic uncertainty, there is a greater risk that CAPREIT's estimated net rental revenue run-rate may vary from actual rental revenue, and that such variation may be significant.

There are expected delays in the settlement of above guideline increase ("AGI") applications, and when settled, these increases will be excluded from the government-imposed rent freeze. CAPREIT has started imposing these increases where appropriate.

The real estate market has been affected by various measures taken by Canadian federal and provincial governments with regard to the prevention of further spread of COVID-19 and to help individuals and businesses affected by the crisis. Some of the legislative initiatives announced include:

- In March 2020, Alberta and British Columbia announced rent increase freezes during the state of emergency. The freeze in Alberta expired in June 2020. British Columbia has extended the state of emergency for rent increases until July 10, 2021, except for approved above guideline increases.
- The province of Ontario has passed legislation to freeze rent increases until December 31, 2021, except for approved above guideline increases.
- The province of Nova Scotia has capped residential rent increases at 2% retroactively from September 1, 2020, until February 1, 2022, and has capped land-lease community rent increases at 1.9% for 2021.
- In each of the Canadian provinces where CAPREIT holds properties, eviction freeze orders for non-payment of rent were announced, which limit new evictions and suspend existing evictions. As of December 31, 2020, the eviction ban has expired in all provinces where it was instated. Landlords may now pursue evictions for non-payment of rent. As of January 12, 2021, Ontario has reinstated enforcement freezes of eviction orders. Landlords may pursue evictions, however enforcement of eviction orders will be postponed, except under special circumstances.
- In February 2021, the Dutch government has announced rent increase freezes for 2021 on regulated suites which are subject to rent control.
- Rental tribunal hearings were rescheduled, suspended or stopped in most provinces at the onset of the health emergency. At this time, most rental tribunal hearings have reopened or have converted to online or telephone hearings.
- British Columbia and Prince Edward Island announced they were providing temporary rental assistance to tenants, ranging from \$250–\$500 per month. This has now ended in both provinces as of December 31, 2020.

- The federal government previously introduced the Canada Emergency Response Benefit ("CERB") in response to the COVID-19 pandemic. The benefit period for this program has ended on October 3, 2020. Going forward, support has transitioned from CERB to the Employment Insurance program ("EI") to provide support to Canadians. Additionally, the federal government announced new recovery benefits including benefits for those not eligible for EI, called the Canada Recovery Benefit ("CRB"). These programs are expected to remain available until September 25, 2021.
- The federal government, in partnership with provincial governments, has announced the Canada Emergency Commercial Rent Assistance ("CECRA") program to provide relief for small businesses impacted by the COVID-19 pandemic. This program is now closed to new applicants as of December 31, 2020. The federal government has announced the new Canada Emergency Rent Subsidy ("CERS") to provide similar relief as well as mortgage support until June 2021.
- Assistance programs, such as wage subsidies, government loans, and tax deferrals have also been enacted by the Dutch government.

Residential lease renewals generally occur on July 1 in the Netherlands. The weighted average rental increase for the Dutch portfolio was 2.3%, below management's intended increase for 2020. This reflects the uncertain environment and the risk of potential stresses that may have affected some tenants due to the COVID-19 pandemic, as well as related governmental or similar measures limiting economic activity to essential services and imposing physical distancing restrictions.

The above list is not exhaustive and reflects only certain legislation enacted by government. As the situation continues to evolve, the legislation enacted by government may be subject to change.

Valuation

Due to the COVID-19 pandemic and its ongoing impact on the economy, and specifically its unknown future impact on the real estate market, there is heightened uncertainty surrounding the valuation of investment properties. Consequently, there is a need to apply a higher degree of judgment as it pertains to the forward-looking assumptions that underlie CAPREIT's valuation methodologies. In addition, less weight can be ascribed to pre-pandemic market evidence to inform opinions of value compared to recent market activity applicable to the current state of the economy. Given this impact on the availability of reliable market metrics, greater caution must be exercised in valuations than would normally be the case, as the fair values are subject to change and such changes could be significant.

There was a \$1,904.2 million increase in fair value for the year ended December 31, 2020, resulting from capitalization rate compression based on recent market activity, increases in stabilized NOI, new acquisitions, buyout of operating leases, progress on the development pipeline, and foreign exchange gains on the European properties. Excluding the impact of net acquisitions and operating lease buyouts, the fair value of the Canadian portfolio increased by \$749.9 million, or 6.7%.

Management performed additional risk-based procedures to assess valuations, subject to the unknown direct and indirect impacts of the COVID-19 pandemic on the real estate market. Specifically, in these scenarios, management considered the pandemic-related economic risks which could negatively impact property cash flows in the short term, and in turn their valuations.

Capital Expenditures

Capital investments and developments may be impacted by factors such as a lack of access to tenant suites and physical distancing restrictions. CAPREIT expects the impact to be short term and will normalize over the long term. As at December 31, 2020, CAPREIT has limited its capital investments to those that can be done safely following appropriate physical distancing measures such as non-discretionary exterior work, and those required on an emergency basis or to protect the safety of residents.

The COVID-19 pandemic may result in delays in development application processing by municipalities. Given the evolving situation, CAPREIT will continue to assess and revise, if necessary, the number of applications to be submitted.

Liquidity

Management has determined that CAPREIT is in a strong financial position despite the changes in the market and the heightened risk environment. CAPREIT's liquidity position as at December 31, 2020 remains strong with:

- \$628.0 million available on the Acquisition and Operating Facility;
- \$121.7 million of cash and cash equivalents; and
- \$976.7 million of investment properties that are not encumbered by mortgages.

In addition, management expects to raise between \$850 million and \$900 million in total mortgage renewals and refinancings for 2021, excluding financings on acquisitions. CAPREIT's mortgage program has remained stable since the outbreak of the COVID-19 pandemic, with refinancings proceeding as scheduled with favourable interest rates for longer terms, including 10-year terms. The actual refinancing amounts may vary from the forecast due to the evolving situation.

Performance Measures

The following table presents an overview of certain IFRS and non-IFRS financial measures of CAPREIT for the years ended December 31, 2020 and 2019. Management believes these measures are useful in assessing CAPREIT's performance in relation to its objectives and business strategy.

For the Year Ended December 31,	2020	2019 ⁽⁴⁾
Portfolio Performance		
Overall portfolio occupancy ⁽¹⁾	97.5%	98.2%
Overall portfolio net Average Monthly Rents ⁽¹⁾	\$ 1,121	\$ 1,084
Operating revenues (000s)	\$ 882,643	\$ 780,780
NOI (000s)	\$ 578,171	\$ 508,150
NOI margin	65.5%	65.1%
Financial Performance		
FFO per unit – basic ⁽²⁾	\$ 2.258	\$ 2.111
NFFO per unit – basic ⁽²⁾	\$ 2.273	\$ 2.139
Cash distributions per unit	\$ 1.380	\$ 1.372
FFO payout ratio ⁽²⁾	61.4%	65.5%
NFFO payout ratio ⁽²⁾	61.0%	64.6%
Liquidity and Leverage		
Total debt to gross book value ⁽¹⁾	35.54%	34.70%
Total debt to gross historical cost ⁽¹⁾	50.11%	48.08%
Weighted average mortgage interest rate ⁽¹⁾	2.56%	2.85%
Weighted average mortgage term (years) ⁽¹⁾	5.76	5.13
Debt service coverage (times) ⁽³⁾	2.01	1.87
Interest coverage (times) ⁽³⁾	3.95	3.69
Available liquidity – Acquisition and Operating Facility (000s) ⁽¹⁾	\$ 627,997	\$ 146,170
Available cash and cash equivalents (000s) ⁽¹⁾	\$ 121,722	\$ 477,328

⁽¹⁾ As at December 31.

⁽²⁾ 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.

⁽³⁾ Based on the trailing four quarters.

⁽⁴⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

For the Year Ended December 31,	2020	2019
Other Measures		
Weighted average number of units – basic (000s)	171,123	158,553
Number of residential suites and sites acquired	3,262	9,241
Number of suites disposed	194	–
Closing price of Trust Units ⁽¹⁾	\$ 49.99	\$ 53.01
Market capitalization (millions) ⁽¹⁾	\$ 8,639	\$ 9,013

⁽¹⁾ As at December 31.

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. Stabilized AMR includes all properties held as at December 31, 2019 and are not disposed of.

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

As at December 31	Net AMR			Occupied AMR			Occupancy %	
	2020 AMR (\$)	2019 AMR (\$)	% Change AMR	2020 AMR (\$)	2019 AMR (\$)	% Change AMR	2020	2019
Residential Suites								
Ontario								
Greater Toronto Area	1,499	1,451	3.3	1,523	1,464	4.0	98.4	99.1
London / Kitchener / Waterloo	1,069	1,023	4.5	1,078	1,034	4.3	99.2	99.0
Ottawa	1,363	1,325	2.9	1,372	1,327	3.4	99.4	99.9
Other Ontario	1,409	1,353	4.1	1,421	1,357	4.7	99.2	99.7
	1,418	1,375	3.1	1,437	1,387	3.6	98.7	99.2
Québec								
Greater Montréal Region	991	981	1.0	1,025	989	3.6	96.7	99.3
Québec City	1,095	1,080	1.4	1,118	1,092	2.4	97.9	98.9
	1,016	1,006	1.0	1,048	1,014	3.4	97.0	99.2
British Columbia								
Greater Vancouver Region	1,466	1,448	1.2	1,484	1,462	1.5	98.8	99.0
Victoria	1,301	1,301	—	1,306	1,309	(0.2)	99.6	99.4
	1,413	1,403	0.7	1,426	1,415	0.8	99.1	99.1
Nova Scotia								
Halifax	1,197	1,184	1.1	1,259	1,207	4.3	95.1	98.1
Alberta								
Calgary	1,056	1,096	(3.6)	1,108	1,128	(1.8)	95.3	97.2
Edmonton	1,079	1,192	(9.5)	1,223	1,217	0.5	88.2	97.9
	1,061	1,113	(4.7)	1,133	1,144	(1.0)	93.7	97.3
Prince Edward Island								
Charlottetown	1,100	1,083	1.6	1,109	1,093	1.5	99.2	99.1
Saskatchewan								
Regina	984	1,035	(4.9)	1,042	1,057	(1.4)	94.4	97.9
Total Canadian residential suites	1,282	1,260	1.7	1,311	1,273	3.0	97.8	99.0
Europe								
The Netherlands ⁽ⁱ⁾	1,375	1,231	11.7	1,399	1,267	10.4	98.3	97.2
Total residential suites	1,293	1,257	2.9	1,322	1,272	3.9	97.9	98.8
MHC Sites								
Total MHC sites	390	383	1.8	407	399	2.0	95.8	96.0
Total suites and sites	1,121	1,084	3.4	1,151	1,104	4.3	97.5	98.2

⁽ⁱ⁾ Includes foreign exchange impact and service charge income. The amounts in euros for the total portfolio for Net AMR are €882 and €844 as at December 31, 2020 and December 31, 2019, respectively, and for Occupied AMR are €896 and €869 as at December 31, 2020 and December 31, 2019, respectively.

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

As at December 31	Net AMR			Occupied AMR			Occupancy %	
	2020 AMR (\$)	2019 ⁽¹⁾ AMR (\$)	% Change AMR	2020 AMR (\$)	2019 ⁽¹⁾ AMR (\$)	% Change AMR	2020	2019
Residential Suites								
Ontario								
Greater Toronto Area	1,499	1,451	3.3	1,523	1,464	4.0	98.4	99.1
London / Kitchener / Waterloo	1,080	1,023	5.6	1,090	1,034	5.4	99.2	99.0
Ottawa	1,390	1,325	4.9	1,393	1,327	5.0	99.8	99.9
Other Ontario	1,409	1,353	4.1	1,421	1,357	4.7	99.2	99.7
	1,427	1,375	3.8	1,446	1,387	4.3	98.7	99.2
Québec								
Greater Montréal Region	981	981	–	1,015	989	2.6	96.7	99.3
Québec City	1,095	1,080	1.4	1,118	1,092	2.4	97.9	98.9
	1,009	1,006	0.3	1,041	1,014	2.7	97.0	99.2
British Columbia								
Greater Vancouver Region	1,466	1,448	1.2	1,484	1,462	1.5	98.8	99.0
Victoria	1,329	1,301	2.2	1,335	1,309	2.0	99.6	99.4
	1,424	1,403	1.5	1,438	1,415	1.6	99.0	99.1
Nova Scotia								
Halifax	1,160	1,184	(2.0)	1,248	1,207	3.4	93.0	98.1
Alberta								
Calgary	1,056	1,097	(3.7)	1,108	1,126	(1.6)	95.3	97.4
Edmonton	986	1,192	(17.3)	1,150	1,217	(5.5)	85.8	97.9
	1,042	1,116	(6.6)	1,116	1,144	(2.4)	93.4	97.5
Prince Edward Island								
Charlottetown	1,100	1,086	1.3	1,109	1,096	1.2	99.2	99.1
Saskatchewan								
Regina	984	1,035	(4.9)	1,042	1,057	(1.4)	94.4	97.9
Total Canadian residential suites	1,286	1,261	2.0	1,315	1,273	3.3	97.8	99.0
Europe								
The Netherlands ⁽²⁾	1,382	1,231	12.3	1,406	1,267	11.0	98.3	97.2
Total residential suites	1,298	1,257	3.3	1,326	1,273	4.2	97.9	98.8
MHC Sites								
Total MHC sites	391	383	2.1	408	399	2.3	95.8	96.0
Total suites and sites	1,118	1,084	3.1	1,147	1,104	3.9	97.5	98.2

⁽¹⁾ Prior year comparable Net and Occupied AMR and occupancy has been restated for properties disposed of since December 31, 2019.

⁽²⁾ Includes foreign exchange impact and service charge income. The amounts in euros for the stabilized portfolio for Net AMR are €886 and €844 as at December 31, 2020 and December 31, 2019, respectively, resulting in a Net AMR change of 5.0%. The Occupied AMR for the stabilized portfolio is €901 and €869 as at December 31, 2020 and December 31, 2019, respectively, resulting in an Occupied AMR change of 3.7%.

The rate of growth in stabilized Net AMR has been primarily due to (i) significant rental increases on turnover in the strong rental markets of the Netherlands and Ontario, slightly offset by an increase in vacancy seen in Nova Scotia, a currently weakening Alberta and Saskatchewan markets, both due to economic impacts related to the COVID-19 pandemic and (ii) increases on renewals due to AGIs achieved in Ontario. Weighted average gross rent per square foot for Canadian residential suites was approximately \$1.60 as at December 31, 2020.

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.

	2021	2020	2019
Ontario ⁽¹⁾	0.0%	2.2%	1.8%
British Columbia ⁽²⁾	1.4%	2.6%	2.5%

⁽¹⁾ Ontario has passed legislation to freeze rent at 2020 levels. The rent freeze period will end on December 31, 2021.

⁽²⁾ British Columbia announced a freeze on rent increases, which will expire on July 10, 2021. This is further discussed in Section II under The COVID-19 Pandemic.

Suite Turnovers and Lease Renewals – Total Portfolio

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 Year Ended December 31,	2020			2019		
	Change in monthly rent		Turnovers and Renewals ⁽¹⁾	Change in monthly rent		Turnovers and Renewals ⁽¹⁾
	\$	%	%	\$	%	%
Suite turnovers	106.7	7.9	18.7	167.3	13.5	19.0
Lease renewals	16.7	1.3	86.5	25.0	2.1	85.9
Weighted average of turnovers and renewals	32.7	2.5		50.8	4.2	

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

The Netherlands Portfolio⁽¹⁾

For the Year Ended December 31,	2020			2019		
	Change in monthly rent		Turnovers and Renewals ⁽²⁾	Change in monthly rent		Turnovers and Renewals ⁽²⁾
	€	%	%	€	%	%
Suite turnovers	82.4	9.3	14.2	52.6	6.4	12.6
Lease renewals	18.9	2.3	92.5	27.4	3.5	84.2
Weighted average of turnovers and renewals	27.4	3.2		30.7	3.9	

⁽¹⁾ Includes all residential properties owned by ERES.

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

Overall, suite turnovers in the Canadian residential suite portfolio (excluding co-ownerships) during the year ended December 31, 2020 resulted in monthly rent increasing by approximately \$107 or 7.9% compared to an increase of approximately \$167 or 13.5% for last year, primarily due to the strong rental markets in Ontario, Nova Scotia, and Québec. The reduced turnover increases are mainly due to the impact of the COVID-19 pandemic as discussed in Section II under The COVID-19 Pandemic.

Monthly rents on lease renewals on the Canadian residential portfolio (excluding co-ownerships) for the year ended December 31, 2020 resulted in monthly rent increasing by approximately \$17 or 1.3% compared to an increase of approximately \$25 or 2.1% for last year. The reduced renewal increases are mainly due to the impact of the COVID-19 pandemic rent freezes as discussed in Section II under The COVID-19 Pandemic.

For the Netherlands portfolio, suite turnovers in the residential suite portfolio during the year ended December 31, 2020 resulted in monthly rent increasing by approximately €82 or 9.3% compared to an increase of approximately €53 or 6.4% last year. The rent renewal increases that began on July 1, 2020 represent 92.5% of the Dutch residential suites, with a weighted average rental increase of 2.3%.

Management estimates the weighted average Canadian residential market rents are approximately 20% higher than average occupied Canadian residential AMR of \$1,311. This is an indicator of CAPREIT's mark-to-market potential on turnover, as well as its ability to sustain current revenue levels. However, the actual change in monthly rent on turnover will vary depending on the age of tenancy.

Above Guideline Increases

Management continues to pursue applications in Ontario for AGIs to raise monthly rents on lease renewals where it believes increases above the annual guideline are supported by market conditions. 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, 2020 – December 31, 2020	January 1, 2019 – December 31, 2019
Applications Settled:		
Number of suites and sites	970	1,565
Weighted average total increase approved ^{(1),(2)}	2.13%	1.70%
Weighted average total increase applied for ^{(1),(3)}	2.31%	2.27%
Applications Outstanding:		
Number of suites and sites	8,138	4,409
Term weighted average total increase applied for ^{(1),(4)}	1.88%	1.89%

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

⁽²⁾ For applications settled during the year ended December 31, 2020, the weighted average total increase approved is to apply over a weighted average of 1.81 years (2.10 years for the year ended December 31, 2019).

⁽³⁾ For applications settled during the year ended December 31, 2020, the weighted average total increase applied for was to apply over a weighted average of 1.81 years (1.78 years for the year ended December 31, 2019).

⁽⁴⁾ For applications outstanding as at December 31, 2020, the weighted average total increase applied for was to apply over a weighted average of 1.26 years (1.28 years for the year ended December 31, 2019).

Tenant Inducements, Vacancy Loss and Expected Credit Loss Expense

(\$ Thousands)				
For the Year Ended December 31,	2020	%⁽¹⁾	2019	%⁽¹⁾
New tenant inducements incurred – residential	\$ 2,659		\$ 1,089	
New tenant inducements incurred – commercial	–		149	
Total new tenant inducements incurred	\$ 2,659		\$ 1,238	
Tenant inducements amortized	\$ 1,984	0.2	\$ 1,707	0.2
Vacancy loss incurred	20,417	2.3	13,416	1.7
Total amortization and loss	\$ 22,401	2.5	\$ 15,123	1.9
Additional bad debt allowance recognized as an expense	\$ 5,219	0.6	\$ 2,896	0.4

⁽¹⁾ As a percentage of total operating revenues.

The increase in residential tenant inducements, vacancy loss, and expected credit loss/bad debt expense ("bad debt") was due to circumstances caused by the COVID-19 pandemic, as discussed in Section II under The COVID-19 Pandemic.

Results of Operations

Total Operating Revenues by Geography

For the Year Ended December 31,	2020		2019 ⁽³⁾	
(\$ Thousands)	Revenue	(%)	Revenue	(%)
Residential Suites				
Ontario				
Greater Toronto Area	\$ 291,131	33.0	\$ 279,809	35.8
London / Kitchener / Waterloo	39,507	4.4	32,680	4.2
Ottawa	27,912	3.2	26,116	3.3
Other Ontario	30,949	3.5	29,805	3.8
	\$ 389,499	44.1	\$ 368,410	47.1
Québec				
Greater Montréal Region	\$ 105,281	11.9	\$ 98,493	12.6
Québec City	36,450	4.1	35,687	4.6
	\$ 141,731	16.0	\$ 134,180	17.2
British Columbia				
Greater Vancouver Region	\$ 66,781	7.5	\$ 61,240	7.8
Victoria	26,113	3.0	24,925	3.2
	\$ 92,894	10.5	\$ 86,165	11.0
Nova Scotia				
Halifax	\$ 46,564	5.3	\$ 24,253	3.1
Alberta				
Calgary	\$ 28,943	3.3	\$ 29,408	3.8
Edmonton	7,783	0.9	7,155	0.9
	\$ 36,726	4.2	\$ 36,563	4.7
Prince Edward Island				
Charlottetown	\$ 8,389	1.0	\$ 7,237	0.9
Saskatchewan				
Regina	\$ 2,842	0.3	\$ 2,896	0.4
Total Canadian residential suites	\$ 718,645	81.4	\$ 659,704	84.4
Europe				
The Netherlands ⁽¹⁾	\$ 95,838	10.9	\$ 64,516	8.3
Other Europe ⁽²⁾	11,130	1.3	8,929	1.1
	\$ 106,968	12.2	\$ 73,445	9.4
Total residential suites	\$ 825,613	93.6	\$ 733,149	93.8
MHC Sites				
Total MHC sites	\$ 57,030	6.4	\$ 47,631	6.2
Total residential suites and MHC sites	\$ 882,643	100.0	\$ 780,780	100.0

⁽¹⁾ In € thousands, €62,592 and €43,603 for years ended December 31, 2020 and December 31, 2019, respectively.

⁽²⁾ Comprised of ERES revenues for the commercial properties located in Germany and Belgium. In € thousands, €7,288 for the year ended December 31, 2020 and €6,051 for the period from March 29, 2019 to December 31, 2019.

⁽³⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

Estimated Net Rental Revenue Run-Rate

The table below shows the estimated net rental revenue run-rate (net of average historical vacancy loss and tenant inducements) based on Net AMRs in place for CAPREIT's share of residential suites and sites and commercial leases as at December 31, 2020 and 2019. Increases or decreases in net rental revenue run-rate are primarily due to acquisitions or dispositions, respectively, within the last 12 months.

(\$ Thousands) As at December 31,	2020	2019 ⁽³⁾
Residential rent roll ^{(1),(2)}	\$ 836,035	\$ 768,921
Commercial rent roll ^{(1),(2)}	32,614	41,941
Annualized net rental revenue run-rate	\$ 868,649	\$ 810,862

⁽¹⁾ Based on the rent roll as at December 31, net of vacancy loss and tenant inducements for the 12 months ended on such date.

⁽²⁾ Includes the rent roll for all properties owned as at December 31.

⁽³⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

Net rental revenue net of dispositions for the 12 months ended December 31, 2020 was \$831.5 million (2019 – \$749.0 million).

NOI

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 realty taxes, utilities, R&M costs, on-site wages and salaries, insurance costs and bad debts; and (ii) an appropriate allocation of overhead costs. It may not, however, be comparable to similar measures presented by other real estate investment trusts or companies.

Stabilized properties for the year ended December 31, 2020 are defined as all properties owned by CAPREIT continuously since December 31, 2018, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during 2020 and 2019. As at December 31, 2020, stabilized suites and sites represented 78.6% of CAPREIT's total portfolio excluding co-ownerships.

(\$ Thousands) For the Year Ended December 31,	Total NOI			Stabilized NOI		
	2020	2019 ⁽⁴⁾	% ⁽¹⁾	2020	2019 ⁽⁴⁾	% ⁽¹⁾
Operating Revenues						
Net rental revenues	\$ 837,384	\$ 739,422	13.2	\$ 716,621	\$ 693,801	3.3
Other ⁽²⁾	45,259	41,358	9.4	39,381	39,941	(1.4)
Total operating revenues	\$ 882,643	\$ 780,780	13.0	\$ 756,002	\$ 733,742	3.0
Operating Expenses						
Realty taxes	(81,596)	(73,546)	10.9	(72,970)	(70,788)	3.1
Utilities	(65,459)	(59,197)	10.6	(57,875)	(57,113)	1.3
Other ⁽³⁾	(157,417)	(139,887)	12.5	(132,509)	(131,612)	0.7
Total operating expenses	\$ (304,472)	\$ (272,630)	11.7	\$ (263,354)	\$ (259,513)	1.5
NOI	\$ 578,171	\$ 508,150	13.8	\$ 492,648	\$ 474,229	3.9
NOI margin	65.5%	65.1%		65.2%	64.6%	

⁽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, legal costs and bad debt.

⁽⁴⁾ Bad debt, previously offset against revenues, has now been reclassified under other expenses in net operating income to conform with current period presentation.

Operating Revenues

For the year ended December 31, 2020, total operating revenues for the total and stabilized portfolio increased compared to last year, due to increases in monthly rents on renewals and turnovers throughout the year and full year impact in 2020 from last year's rental increases, slightly offset by increases in tenant inducements mainly in the Greater Toronto Area. Contributions from acquisitions further contributed to higher operating revenues for the total portfolio.

Operating Expenses

Realty Taxes

For the year ended December 31, 2020, the stabilized portfolio's realty tax increased compared to last year, primarily because of increased property assessment values in Ontario, British Columbia, Alberta 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.

(\$ Thousands) For the Year Ended December 31,	Total Utilities			Stabilized Utilities		
	2020	2019	% ⁽¹⁾	2020	2019	% ⁽¹⁾
Electricity	\$ 23,322	\$ 21,452	8.7	\$ 20,163	\$ 20,880	(3.4)
Natural gas	15,857	15,388	3.0	14,488	15,113	(4.1)
Water	26,280	22,357	17.5	23,224	21,120	10.0
Total	\$ 65,459	\$ 59,197	10.6	\$ 57,875	\$ 57,113	1.3

⁽¹⁾ Represents the year-over-year percentage change.

The table below breaks down the factors causing the above changes in the stabilized portfolio. Refer to the Operational Efficiency and Resilience section of the 2020 ESG Report for details on our conservation efforts.

For the Year Ended December 31, 2020	Increase (decrease) due to consumption	Increase (decrease) due to rate	Explanation
Electricity	(4.2)%	0.8%	Warmer winter and cooler summer reduced consumption
Natural gas	(7.1)%	3.0%	Warmer winter reduced consumption, partially offset by increased rates
Water	4.0%	6.0%	Higher usage during the COVID-19 pandemic, coupled with increased rates
Total	(4.6)%	5.9%	

As at December 31, 2020, tenants who pay their hydro charges directly represented 70% of the total 17,788 sub-metered suites in Ontario, Alberta, and Halifax.

A summary of CAPREIT's fixed natural gas contracts can be found in note 29 to CAPREIT's consolidated annual financial statements for the year ended December 31, 2020.

Other Operating Expenses

The stabilized operating expenses for the year ended December 31, 2020 increased compared to last year, primarily due to higher bad debt, insurance costs and advertising costs, partially offset by lower R&M costs and on-site costs. The increased bad debt was driven by the economic instability caused by the COVID-19 pandemic leading to some commercial tenants and residential tenants forgoing rent payments. The increased insurance costs were driven by higher replacement cost valuations, and overall increases in insurance rates. The increased advertising costs were also due to the COVID-19 pandemic in an effort to increase occupancies in some weakened markets.

NOI by Region

For the Year Ended December 31,	2020			2019 ⁽⁴⁾			Increase (Decrease)
(\$ Thousands)	NOI	NOI % ⁽¹⁾	NOI Margin (%)	NOI	NOI % ⁽¹⁾	NOI Margin (%)	NOI Change (%)
Residential Suites							
Ontario							
Greater Toronto Area	\$ 189,667	32.8	65.1	\$ 182,661	36.0	65.3	3.8
London / Kitchener / Waterloo	26,048	4.5	65.9	21,247	4.2	65.0	22.6
Ottawa	18,350	3.2	65.7	16,988	3.3	65.0	8.0
Other Ontario	19,311	3.3	62.4	18,738	3.7	62.9	3.1
	\$ 253,376	43.8	65.1	\$ 239,634	47.2	65.0	5.7
Québec							
Greater Montréal Region	\$ 64,613	11.2	61.4	\$ 57,483	11.3	58.4	12.4
Québec City	22,465	3.9	61.6	20,994	4.1	58.8	7.0
	\$ 87,078	15.1	61.4	\$ 78,477	15.4	58.5	11.0
British Columbia							
Greater Vancouver Region	\$ 47,081	8.1	70.5	\$ 42,242	8.3	69.0	11.5
Victoria	18,790	3.2	72.0	18,437	3.6	74.0	1.9
	\$ 65,871	11.3	70.9	\$ 60,679	11.9	70.4	8.6
Nova Scotia							
Halifax	\$ 27,014	4.7	58.0	\$ 14,733	2.9	60.7	83.4
Alberta							
Calgary	\$ 16,060	2.8	55.5	\$ 17,141	3.4	58.3	(6.3)
Edmonton	4,503	0.8	57.9	4,728	0.9	66.1	(4.8)
	\$ 20,563	3.6	56.0	\$ 21,869	4.3	59.8	(6.0)
Prince Edward Island							
Charlottetown	\$ 4,321	0.7	51.5	\$ 3,655	0.7	50.5	18.2
Saskatchewan							
Regina	\$ 1,467	0.3	51.6	\$ 1,600	0.3	55.2	(8.3)
Total Canadian residential suites	\$ 459,690	79.5	64.0	\$ 420,647	82.7	63.8	9.3
Europe							
The Netherlands ⁽²⁾	\$ 72,578	12.6	75.7	\$ 49,100	9.7	76.1	47.8
Other Europe ⁽³⁾	8,893	1.5	79.9	7,108	1.4	79.6	25.1
	\$ 81,471	14.1	76.2	\$ 56,208	11.1	76.5	44.9
Total residential suites	\$ 541,161	93.6	65.5	\$ 476,855	93.8	65.0	13.5
MHC Sites							
Total MHC sites	\$ 37,010	6.4	64.9	\$ 31,295	6.2	65.7	18.3
Total suites and sites	\$ 578,171	100.0	65.5	\$ 508,150	100.0	65.1	13.8

⁽¹⁾ Represents percentage of the portfolio by NOI.

⁽²⁾ In € thousands, €47,413 and €33,076 for the years ended December 31, 2020 and December 31, 2019, respectively.

⁽³⁾ Comprised of ERES's NOI for the commercial properties located in Germany and Belgium. In € thousands, €5,827 for the year ended December 31, 2020 and €4,818 from March 29, 2019 onwards for the year ended December 31, 2019.

⁽⁴⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

Stabilized NOI by Region

For the Year Ended December 31,	2020		2019 ⁽⁹⁾		Increase (Decrease)		
(\$ Thousands)	Stabilized NOI	NOI Margin (%)	Stabilized NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
Ontario							
Greater Toronto Area	\$ 188,425	65.4	\$ 182,579	65.4	3.2	3.3	3.2
London / Kitchener / Waterloo	21,634	67.1	20,058	65.4	5.2	0.1	7.9
Ottawa	17,993	65.7	16,988	65.0	4.9	3.1	5.9
Other Ontario	19,311	62.4	18,738	62.9	3.8	5.2	3.1
	\$ 247,363	65.3	\$ 238,363	65.2	3.6	3.2	3.8 ⁽¹⁾
Québec							
Greater Montréal Region	\$ 61,751	61.1	\$ 57,322	58.3	2.8	(4.0)	7.7
Québec City	22,456	61.6	20,994	58.8	2.1	(4.8)	7.0
	\$ 84,207	61.2	\$ 78,316	58.5	2.6	(4.2)	7.5 ⁽²⁾
British Columbia							
Greater Vancouver Region	\$ 42,159	70.7	\$ 40,019	69.3	3.2	(1.5)	5.3
Victoria	17,633	71.8	17,723	73.6	2.0	9.1	(0.5)
	\$ 59,792	71.0	\$ 57,742	70.6	2.9	1.3	3.6 ⁽³⁾
Nova Scotia							
Halifax	\$ 14,947	60.2	\$ 14,733	60.7	2.4	3.9	1.5 ⁽⁴⁾
Alberta							
Calgary	\$ 14,419	54.9	\$ 15,341	57.3	(1.8)	3.7	(6.0)
Edmonton	3,792	58.9	4,728	66.1	(10.0)	9.0	(19.8)
	\$ 18,211	55.7	\$ 20,069	59.1	(3.6)	4.7	(9.3) ⁽⁵⁾
Prince Edward Island							
Charlottetown	\$ 3,386	49.7	\$ 3,351	49.6	0.9	0.8	1.0
Saskatchewan							
Regina	\$ 1,467	51.6	\$ 1,600	55.2	(1.9)	6.1	(8.3)
Total Canadian residential suites	\$ 429,373	64.3	\$ 414,174	63.8	2.8	1.3	3.7 ⁽⁶⁾
Europe							
The Netherlands	\$ 40,881	75.9	\$ 38,331	75.3	5.8	3.1	6.7 ⁽⁷⁾
Total residential suites	\$ 470,254	65.2	\$ 452,505	64.6	3.0	1.4	3.9
MHC Sites							
Total MHC sites	\$ 22,394	64.9	\$ 21,724	64.8	2.9	2.6	3.1 ⁽⁸⁾
Total suites and sites	\$ 492,648	65.2	\$ 474,229	64.6	3.0	1.5	3.9
Stabilized suites and sites	50,118		50,118				

⁽¹⁾ Higher expenses: higher utilities cost, bad debt and realty taxes partially offset by lower R&M costs.

⁽²⁾ Lower expenses: lower R&M costs and utilities partially offset by higher realty taxes.

⁽³⁾ Higher expenses: higher bad debt and realty taxes.

⁽⁴⁾ Higher expenses: higher advertising costs and bad debt partially offset by lower wages.

⁽⁵⁾ Higher expenses: higher realty taxes and advertising costs partially offset by lower bad debt.

⁽⁶⁾ Higher expenses: higher R&M costs and utilities.

⁽⁷⁾ In € thousands, NOI of €26,580 and €25,801 for the years ended December 31, 2020 and December 31, 2019, respectively. NOI increased by €779 and 3.0%. Higher expenses: higher R&M and on-site costs partially offset by lower service charges.

⁽⁸⁾ Higher expenses: higher wages and insurance costs partially offset by lower on-site costs.

⁽⁹⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

The following table reconciles stabilized NOI and NOI from net acquisitions to total NOI for the years ended December 31, 2020 and December 31, 2019:

(\$ Thousands) For the Year Ended December 31,	2020	NOI Margin (%)	2019 ⁽²⁾	NOI Margin (%)
Stabilized NOI	\$ 492,648	65.2	\$ 474,229	64.6
Net acquisitions NOI ⁽¹⁾	85,523	69.5	33,921	85.2
Total NOI	\$ 578,171	65.5	\$ 508,150	65.1

⁽¹⁾ Represents the NOI of acquisitions and dispositions completed during 2020 and 2019.

⁽²⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

Net Income and Other Comprehensive Income

(\$ Thousands) For the Year Ended December 31,	2020	2019
NOI	\$ 578,171	\$ 508,150
(Less) plus:		
Trust expenses	(43,268)	(46,244)
Transaction costs	—	(8,527)
Unit-based compensation expense	(5,160)	(14,838)
Fair value adjustments of investment properties	595,859	892,156
Realized loss on disposition of investment properties	(1,387)	—
Amortization of property, plant and equipment	(7,668)	(6,290)
Fair value adjustments of Exchangeable LP Units	(1,230)	—
Gain (loss) on non-controlling interest	24,478	(47,058)
Fair value adjustments of investments	(3,979)	6,522
Loss on derivative financial instruments	(52,672)	(3,684)
Interest on Exchangeable LP Units	(441)	—
Interest on mortgages payable and other financing costs	(151,722)	(123,899)
Interest on bank indebtedness and other financing costs	(7,955)	(9,279)
Interest on leases	(4,507)	(2,038)
Gain on foreign currency translation	5,982	37,933
Other income	29,990	34,904
Net income before income taxes	\$ 954,491	\$ 1,217,808
Current and deferred income tax expense	(28,563)	(22,361)
Net income	\$ 925,928	\$ 1,195,447
Other comprehensive income (loss), including items that may be reclassified subsequently to net income		
Amortization of losses from AOCI (AOCL) to interest and other financing costs	\$ 2,570	\$ 3,810
Gain (loss) on foreign currency translation	86,987	(52,166)
Other comprehensive income (loss)	89,557	(48,356)
Comprehensive income	\$ 1,015,485	\$ 1,147,091

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 include costs related to the generation of asset management and services fees to ERES and asset and property management fees to Irish Residential Properties REIT plc ("IRES"). The table below shows trust expenses net of external fees income:

(\$ Thousands)		
For the Year Ended December 31,	2020	2019
Trust expenses attributable to CAPREIT (excluding ERES)	\$ 35,370	\$ 37,525
Trust expenses attributable to ERES	7,898	8,719
Trust Expenses	43,268	46,244
Less: Asset management and services fees income from ERES attributed to ERES non-controlling unitholders ⁽¹⁾	(2,546)	(706)
Less: Acquisition and underwriting fees from ERES attributed to ERES non-controlling unitholders ⁽¹⁾	(430)	(1,226)
Less: Asset and property management fees income from IRES	(9,592)	(8,038)
Net Trust Expenses	30,700	36,274
Net Trust Expenses as % of Operating Revenue	3.5%	4.6%

⁽¹⁾ These fees are eliminated upon consolidation.

Trust expenses decreased for the year ended December 31, 2020 to \$43.3 million compared to \$46.2 million last year primarily as a result of lower office and travel expenses due to the COVID-19 pandemic and lower legal expenses, which were partially offset by higher salaries and benefits paid. For the year ended December 31, 2020, trust expenses included non-routine items of approximately \$0.8 million related to ERES acquisition research costs on transactions that were not completed, restructuring costs, and one-time TSX listing and legal fees. For the year ended December 31, 2019, trust expenses included non-routine items of approximately \$0.8 million related to legal, consulting, accounting and tax costs incurred in connection with initial ERES structuring and \$0.6 million related to other non-routine consulting and legal costs. For 2021, net trust expenses as a percentage of operating revenue are expected to return to normal levels similar to 2019. However, given the uncertainty around the COVID-19 pandemic, actual results may vary.

Transaction Costs

Transaction costs are related to the one-time business combination fees associated with the reverse acquisition in 2019 (the "Acquisition") of European Commercial Real Estate Investment Trust ("ECREIT"), consisting of legal, audit, tax, consulting and financial advisory fees.

Unit-based Compensation Expense

Unit-based compensation expense (recovery) has 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)		
For the Year Ended December 31,	2020	2019
Remeasurement of unit-based compensation liabilities	\$ (2,170)	\$ 8,286
Amortization of fair value on grant date of unit-based compensation	7,330	6,552
Total	\$ 5,160	\$ 14,838

Realized loss on disposition of investment properties

For the year ended December 31, 2020, a loss of \$1.4 million (December 31, 2019 – \$nil) was recognized in connection with property dispositions during the year. The loss represents the difference between the net proceeds after transaction costs from the disposition of each property compared to the fair value of the respective properties at the date of disposition.

Loss on Derivative Financial Instruments

The loss on derivative financial instruments is due to changes in the fair value of derivatives for which hedge accounting is not applied. The loss on derivative financial instruments for the year ended December 31, 2020 primarily relates to CAPREIT's cross-currency interest rate swaps and is a result of the strengthening of the euro in comparison to the US dollar. CAPREIT uses derivative financial instruments to minimize its exposure to fluctuations in interest rates and foreign exchange rates. These derivative financial instruments allow CAPREIT to take advantage of the low EURIBOR rates, resulting in significant interest savings, and to convert its borrowings to euro-denominated liabilities to hedge against a majority of its euro-denominated assets.

Gain (Loss) on Non-Controlling Interest

For the year ended December 31, 2020, CAPREIT recorded a gain of \$24.5 million on ERES units held by non-controlling unitholders. This includes distributions to ERES non-controlling unitholders of \$12.5 million. The remaining balance is the mark-to-market gain or loss due to fluctuations in the ERES unit price.

Gain on Foreign Currency Translation

CAPREIT is exposed to gain/loss on foreign currency translation due to its holdings of assets and liabilities through its investment in IRES, its ERES subsidiary, and foreign-denominated cash and borrowings held by CAPREIT. The following table summarizes the gain or loss recorded in other comprehensive income (loss) and net income on this exposure and its associated derivative instruments.

As of December 31,	2020			
(\$ Thousands)		Other Comprehensive Gain (Loss)	Net Income Gain (Loss)	Total Foreign Exchange Gain (Loss)
	Balance	Year Ended	Year Ended	Year Ended
Total Foreign Assets ⁽¹⁾	€ 1,677,856	\$ 159,233	\$ 533	\$ 159,766
Total Foreign Liabilities ⁽²⁾	761,266	(72,246)	5,449	(66,797)
Net Equity ⁽³⁾	916,590	86,987	5,982	92,969
Cross-Currency Swap	442,358	–	(54,661)	(54,661)
Net Foreign Exchange Exposure and Gain (Loss)	€ 474,232	\$ 86,987	\$ (48,679)	\$ 38,308
Net Foreign Exchange Exposure – Excluding Non-controlling Interest ⁽³⁾	€ 223,402			

As of December 31,	2019			
(\$ Thousands)		Other Comprehensive Gain (Loss)	Net Income Gain (Loss)	Total Foreign Exchange Gain (Loss)
	Balance	Year Ended	Year Ended	Year Ended
Total Foreign Assets ⁽¹⁾	€ 1,543,055	\$ (87,380)	\$ 6,289	\$ (81,091)
Total Foreign Liabilities ⁽²⁾	634,284	35,214	31,644	66,858
Net Equity ⁽³⁾	908,771	(52,166)	37,933	(14,233)
Cross-Currency Swap	442,358	–	442	442
Net Foreign Exchange Exposure and Gain (Loss)	€ 466,413	\$ (52,166)	\$ 38,375	\$ (13,791)
Net Foreign Exchange Exposure – Excluding Non-controlling Interest ⁽³⁾	€ 234,884			

⁽¹⁾ Foreign assets are comprised of CAPREIT's euro cash, ERES assets, and CAPREIT 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 assets and CAPREIT's investment in IRES are recorded in foreign currency translation under other comprehensive income (loss).

⁽²⁾ Foreign liabilities are comprised of ERES liabilities and CAPREIT's LIBOR borrowings: (a) foreign exchange gains or losses related to loans secured by ERES are recorded in foreign currency translation under other comprehensive income (loss); (b) gains or losses on CAPREIT's euro LIBOR borrowings are recorded in foreign currency translation under net income.

⁽³⁾ As at December 31, 2020, net equity includes €737,734 (December 31, 2019 – €701,974) relating to ERES in which CAPREIT has a 66% (December 31, 2019 – 66%) interest. Taking into consideration the non-controlling interest of ERES, net foreign exchange exposure is €223,402 (December 31, 2019 – €234,884).

Other Income

Other income primarily consists of income received from investments (see note 8 of the accompanying audited consolidated annual financial statements), net profit from investment in associate and asset management and property management fees.

(\$ Thousands)		
For the Year Ended December 31,	2020	2019
Investment income	\$ 1,226	\$ 1,674
Net profit from investment in associate ⁽¹⁾	17,173	23,440
Asset and property management fees ⁽²⁾	9,592	8,038
Other ⁽³⁾	1,999	1,752
Total	\$ 29,990	\$ 34,904

⁽¹⁾ CAPREIT's share of IRES's investment property fair value change, earnings and foreign exchange effects thereon. For the year ended December 31, 2020 and 2019, CAPREIT's share of IRES's investment property fair value gain is \$6.1 million and \$15.2 million respectively.

⁽²⁾ Other income includes asset and property management fees from IRES, which CAPREIT has an 18.8% ownership in as at December 31, 2020 (December 31, 2019 – 18.3%), and excludes asset and property management fees and service fees from ERES, in which CAPREIT has a 66.0% ownership as at December 31, 2020 (December 31, 2019 – 66.0%).

(\$ Thousands)		
For the Year Ended December 31,	2020	2019
Total fee income generated	\$ 22,068	\$ 20,980
Asset and property management fees, acquisition fees, underwriting fees and service fees from ERES eliminated on consolidation	12,476	12,942
Asset and property management fees from IRES recognized in other income	\$ 9,592	\$ 8,038

⁽³⁾ The non-recurring increase is mainly due to the interest earned on cash and cash equivalents held.

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:

(\$ Thousands)	Weighted Average Number of Units		Outstanding Number of Units	
For the Year Ended December 31,	2020	2019	2020	% ⁽¹⁾
Trust Units	170,685	158,333	171,752	99.4
Exchangeable LP Units ⁽²⁾	278	–	333	0.2
Units under the DUP	160	220	175	0.1
Basic number of units	171,123	158,553	172,260	99.7
Plus:				
Unit rights under the RUR Plan ⁽³⁾	571	562	563	0.3
Diluted number of units	171,694	159,115	172,823	100.0

⁽¹⁾ Represents percentage of total diluted units.

⁽²⁾ See note 16 to the accompanying audited consolidated annual financial statements for details on Exchangeable LP Units.

⁽³⁾ See notes 14 and 15 to the accompanying audited consolidated annual financial statements for the year ended December 31, 2020 for details of CAPREIT's unit-based compensation plans.

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

(\$ Thousands)		
For the Year Ended December 31,	2020	2019
Distributions declared on Trust Units	\$ 235,649	\$ 218,136
Distributions declared on Exchangeable Units	441	—
Distributions declared on awards outstanding under unit-based compensation plans ⁽ⁱ⁾	1,013	1,070
Total distributions declared	237,103	219,206
Less:		
Distributions on Trust Units reinvested	(68,108)	(67,393)
Distributions on unit awards reinvested ⁽ⁱ⁾	(1,013)	(1,070)
Net distributions paid	\$ 167,982	\$ 150,743
Percentage of distributions reinvested	29.2%	31.2%

⁽ⁱ⁾ Comprises non-cash distributions related to the DUP and the RUR Plan (see notes 14 and 15 to CAPREIT's accompanying audited consolidated annual financial statements for the year ended December 31, 2020 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. Exchangeable LP Units are not eligible for the DRIP.

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 fair value through profit or loss ("FVTPL") marketable securities in its calculation of FFO, (ii) the adjustment for amortization of certain other assets consistent with prior years, (iii) the deduction of the impact attributable to the non-controlling interest of ERES, (iv) the one-time write-off of prepaid CMHC premiums on expired mortgages and (v) the adjustment for non-recurring mortgage prepayment penalties. 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.

A reconciliation of net income to FFO is as follows:

(\$ Thousands, except per Unit amounts) For the Year Ended December 31,	2020	2019
Net income	\$ 925,928	\$ 1,195,447
Adjustments:		
Fair value adjustments of investment properties	(595,859)	(892,156)
Realized loss on disposition of investment properties	1,387	—
Remeasurement of Exchangeable LP Units	1,230	—
Remeasurement of investments	3,979	(6,522)
Remeasurement of unit-based compensation liabilities	(2,170)	8,286
Interest on Exchangeable Units	441	—
Deferred income taxes ⁽¹⁾	26,368	23,129
(Gain) on foreign currency translation	(5,982)	(37,933)
FFO adjustment for income from investment in associate	(6,141)	(15,201)
Loss on derivative financial instruments	52,672	3,684
Fair value mark-to-market adjustment on ERES units held by non-controlling unitholders	(37,020)	43,120
Distributions on ERES units held by non-controlling unitholders	12,542	3,938
Net FFO impact attributable to ERES units held by non-controlling unitholders ⁽²⁾	(16,275)	(4,706)
Amortization of property, plant and equipment	7,668	6,290
Lease principal repayment	(1,157)	(1,275)
Prepaid CMHC Premiums write-offs ⁽⁴⁾	14,348	—
Net mortgage prepayment costs ⁽⁵⁾	4,429	—
Transaction costs ⁽³⁾	—	8,527
FFO	\$ 386,388	\$ 334,628
FFO per unit – basic	\$ 2.258	\$ 2.111
FFO per unit – diluted	\$ 2.250	\$ 2.103
Total distributions declared	\$ 237,103	\$ 219,206
FFO payout ratio	61.4%	65.5%
Net distributions paid	\$ 167,982	\$ 150,743
Excess FFO over net distributions paid	\$ 218,406	\$ 183,885
FFO effective payout ratio	43.5%	45.0%

⁽¹⁾ The adjustment for year ended December 31, 2020 consists of \$25.2 million of deferred income tax expenses as well as \$1.2 million of current income taxes on the disposition of a German investment property. The adjustment for the year ended December 31, 2019 consists of \$5.1 million of deferred income tax expense and \$18.1 million of income taxes triggered on the deemed disposition of investment properties associated with the reorganization of the legal structure of the Netherlands subsidiaries.

⁽²⁾ This calculation is based on the weighted average ownership held by ERES non-controlling unitholders.

⁽³⁾ Costs include legal, audit, tax, consulting, and financial advisory fees related to the Acquisition.

⁽⁴⁾ Consists of \$9.4 million of expensed prepaid CMHC premiums relating to mortgages refinanced in prior years and \$5.0 million of expensed CMHC premiums relating to mortgages refinanced during the year ended December 31, 2020. For further details, please refer to the Liquidity and Financial Condition section found in Section V of the MD&A.

⁽⁵⁾ Consists of non-recurring mortgage prepayment costs related to mortgages of the recently bought out operating leasehold properties. These costs were incurred in order to accelerate refinancing and take advantage of the favourable interest rate environment. For further details, please refer to the Liquidity and Financial Condition section found in Section V of the MD&A.

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, mainly non-recurring, items including amortization of losses on certain hedging instruments previously settled and paid, and mortgage prepayment penalties, 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 than FFO to prior years' 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 the sustainability of distributions.

A reconciliation of FFO to NFFO is as follows:

(\$ Thousands, except per Unit amounts) For the Year Ended December 31,			
	2020	2019	% ⁽¹⁾
FFO	\$ 386,388	\$ 334,628	15.5
Adjustments:			
Amortization of losses from AOCL (AOCL) to interest and other financing costs	2,570	2,556	0.5
Net mortgage prepayment cost	—	347	(100.0)
Other employee costs ⁽²⁾	—	751	(100.0)
Acquisition research costs ⁽³⁾	—	839	(100.0)
NFFO	\$ 388,958	\$ 339,121	14.7
NFFO per unit – basic	\$ 2.273	\$ 2.139	6.3
NFFO per unit – diluted	\$ 2.265	\$ 2.131	6.3
Total distributions declared	\$ 237,103	\$ 219,206	8.2
NFFO payout ratio	61.0%	64.6%	
Net distributions paid	\$ 167,982	\$ 150,743	11.4
Excess NFFO over net distributions paid	\$ 220,976	\$ 188,378	17.3
Effective NFFO payout ratio	43.2%	44.5%	

⁽¹⁾ Represents the year-over-year percentage change.

⁽²⁾ Expenses included in unit-based compensation expenses relate to accelerated vesting of previously-granted RUR units.

⁽³⁾ Expenses included in trust expenses relate to transactions that were not completed.

NFFO for the year ended December 31, 2020 increased by 14.7% compared to last year, primarily due to the contribution from acquisitions and higher NOI for properties owned prior to December 31, 2018. Asset and property management fees, acquisition fees, underwriting fees and service fees received from ERES increased FFO and consequently NFFO by \$4.2 million for the year ended December 31, 2020 compared to \$1.1 million last year. These fees represent the amount of fees attributed to the ERES units held by non-controlling unitholders based on the weighted average ownership throughout the year.

For the year ended December 31, 2020, basic NFFO per unit increased by 6.3% compared to last year, despite an approximate 7.9% increase in the weighted average number of units outstanding resulting from the January, April and December 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 total distributions declared to NFFO, the NFFO payout ratio for the year ended December 31, 2020 improved to 61.0% compared to 64.6% last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, improved for the year ended December 31, 2020 to 43.2% from 44.5% 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 when 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 to ACFO:

(\$ Thousands, except per unit amounts) For the Year Ended December 31,	2020	2019 ⁽⁹⁾
Cash generated from operating activities	\$ 481,356	\$ 458,564
Adjustments:		
Working capital adjustment ⁽¹⁾	18,116	8,485
Interest expense included in cash flow from financing activities ⁽²⁾	(130,398)	(119,609)
Non-discretionary property capital investments ⁽³⁾	(70,545)	(65,532)
Capitalized leasing costs ⁽⁴⁾	(3,909)	(1,518)
Amortization of other financing costs ⁽⁵⁾	(23,725)	(8,601)
Transactions costs ⁽⁶⁾	–	8,527
Investment income	11,670	10,039
Net ACFO impact attributed to ERES units held by non-controlling unitholders ⁽⁷⁾	(13,346)	(4,179)
Lease principal and interest repayments	(5,664)	(3,402)
Tax on disposition ⁽⁸⁾	1,155	–
ACFO	\$ 264,710	\$ 282,774
Total distributions declared	\$ 237,103	\$ 219,206
Excess ACFO over distributions declared	\$ 27,607	\$ 63,568
ACFO payout ratio	89.6%	77.5%

⁽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 current income tax payment of \$18.1 million relating to current income tax expense triggered on the Acquisition was added back for the year ended December 31, 2020. The one-time special distribution to the pre-existing unitholders of ECREIT was added back for the year ended December 31, 2019.

⁽²⁾ Excludes interest with respect to leases, distributions to ERES non-controlling unitholders, and holders of Exchangeable LP Units.

⁽³⁾ Non-discretionary property capital investments for the years ended December 31, 2020 and 2019 are based on the actual annual 2020 and annual 2019, respectively. For a reconciliation of actual non-discretionary property capital investments incurred during the period to forecast, see the table on the next page.

⁽⁴⁾ Comprises tenant inducements and direct leasing costs.

⁽⁵⁾ Includes amortization of deferred financing costs, CMHC premiums, deferred loan costs and fair value adjustments. The adjustment in 2020 includes \$9.4 million of expensed prepaid CMHC premiums relating to mortgages refinanced in prior years and \$5.0 million of expensed CMHC premiums relating to mortgages refinanced during the year ended December 31, 2020.

⁽⁶⁾ Relates to expensed transaction costs associated with the Acquisition.

⁽⁷⁾ This calculation is based on the weighted average ownership held by ERES non-controlling unitholders.

⁽⁸⁾ Represents \$1.2 million of income tax expense on the disposition of a German investment property for the year ended December 31, 2020.

⁽⁹⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

For the year ended December 31, 2020, CAPREIT's ACFO was in excess of distributions declared by \$27.6 million. 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:

Non-Discretionary Property Capital Actuals to Forecast Reconciliation

(\$ Thousands) For the Year Ended December 31,			
		2020	2019
Actual	\$	70,545	\$ 65,532
Forecast		67,801	67,245
Difference	\$	2,744	\$ (1,713)

For the year ended December 31, 2020, CAPREIT's actual non-discretionary property capital investments of \$70.5 million were higher than the forecast by approximately \$2.7 million, mainly due to warmer than expected weather conditions in the fourth quarter of 2020 which enabled the completion of additional non-discretionary capital work.

CAPREIT's capital investments programs are affected by seasonal cycles, and professional judgment is used by management to determine the timing of property capital investments. Therefore, actual and forecasted capital investments may differ during the applicable periods. Management continues to monitor the rollout of the capital expenditure plan in an effort to continuously improve the accuracy of its capital expenditure budgets.

Significant non-discretionary property capital investments 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 judgment 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 judgment 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 judgment, 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, including items such as roof, structural, balcony, sidewalks, windows, brick, electrical, MHC infrastructure investments, and life and safety. Management uses its professional judgment 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 the 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 actual 2020, 2019 and 2018 Non-Discretionary Property Capital Investments per suite and site:

(\$ Thousands)	2020 Actual	2019 Actual	2018 Actual
Non-discretionary property capital investments	\$ 70,545	\$ 65,532	\$ 51,252
Weighted average number of suites and sites	60,929	55,175	49,595
Non-discretionary property capital investments per suite and site	\$ 1,158	\$ 1,188	\$ 1,033

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, except per Unit amounts) For the Year Ended December 31,		
	2020	2019 ⁽¹⁾
Cash generated from operating activities	\$ 481,356	\$ 458,564
Adjustments:		
Interest expense included in cash flow from financing activities ⁽²⁾	(130,398)	(119,609)
Adjusted Cash Generated from Operating Activities	\$ 350,958	\$ 338,955
Total distributions declared	\$ 237,103	\$ 219,206
Excess	\$ 113,855	\$ 119,749

⁽¹⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

⁽²⁾ Excludes interest with respect to leases, distributions to ERES non-controlling unitholders, and holders of Exchangeable LP Units.

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, except per Unit amounts) For the Year Ended December 31,		
	2020	2019 ⁽¹⁾
Net income	\$ 925,928	\$ 1,195,447
Adjusted Cash Generated from Operating Activities	\$ 350,958	\$ 338,955
Total distributions declared	\$ 237,103	\$ 219,206
Net distributions paid	\$ 167,982	\$ 150,743
Excess of net income over total distributions declared	\$ 688,825	\$ 976,241
Excess of net income over net distributions paid	\$ 757,946	\$ 1,044,704
Excess of Adjusted Cash Generated from Operating Activities over total distributions declared	\$ 113,855	\$ 119,749
Excess of Adjusted Cash Generated from Operating Activities over net distributions declared	\$ 182,976	\$ 188,212

⁽¹⁾ Certain 2019 comparative figures have been adjusted to conform with current period 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 year ended December 31, 2020, CAPREIT's Adjusted Cash Generated from Operating Activities exceeded distributions declared by \$113.9 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 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 cost and improve its operating performance by investing annually. This ensures sustainable growth to maximize the portfolio's future rental income-generating potential.

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 and development) is summarized by category below.

Property Capital Investments by Category

(\$ Thousands) Year Ended December 31, 2020		Actual Total Portfolio	% of Actual
Non-discretionary property capital investments:			
Building improvements	\$	64,447	27.9
MHC infrastructural		5,495	2.4
Life and safety		603	0.3
		70,545	30.6
Discretionary property capital investments:			
Suite improvements		68,092	29.4
Common area		51,196	22.2
Energy-saving initiatives		18,574	8.0
Equipment		13,855	6.0
Elevators and risers		6,489	2.8
Others		1,459	0.6
MHC common area		918	0.4
		160,583	69.4
Total	\$	231,128	100.0

(\$ Thousands) Year Ended December 31, 2019		Actual Total Portfolio	% of Actual
Non-discretionary property capital investments:			
Building improvements	\$	61,869	28.0
MHC infrastructural		2,605	1.2
Life and safety		1,058	0.5
		65,532	29.7
Discretionary property capital investments:			
Suite improvements		68,907	31.1
Common area		45,517	20.6
Energy-saving initiatives		15,132	6.8
Equipment		14,752	6.7
Elevators and risers		8,505	3.8
Others		1,900	0.9
MHC common area		980	0.4
		155,693	70.3
Total	\$	221,225	100.0

The table below includes estimated 2021 capital expenditures for buildings expected to be completed in 2021. The following budgeted capital expenditures may vary from actuals as the planned expenditures may be accelerated or adjusted as necessary.

2021 Capital Expenditure Budget

(\$ Thousands)	Budget Total Portfolio	% of Budget	% of Investment Properties Value
Non-discretionary property capital investments:			
Building improvements	64,823	24.1	0.4
MHC infrastructural	8,420	3.1	0.1
Life and safety	5,364	2.0	0.0
	78,607	29.2	0.5
Discretionary property capital investments:			
Suite improvements	70,042	26.0	0.5
Common area	63,897	23.8	0.4
Energy-saving initiatives	30,126	11.2	0.2
Equipment	10,499	3.9	0.1
Elevators and risers	12,675	4.7	0.1
Others	1,248	0.5	0.0
MHC common area	1,973	0.7	0.0
	190,460	70.8	1.3
Total	269,067	100.0	1.8

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 for the Canadian portfolio and quarterly for the European portfolio. For the Canadian portfolio, CAPREIT utilizes market assumptions for rent changes, capitalization rates and discount rates provided by the external appraisal firms to determine the fair value of the investment properties on a quarterly basis for interim reporting purposes. Capitalization rates employed by the appraisers are based on recently closed transactions for similar properties 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.

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

(\$ Thousands)	2020	2019
For the Year Ended December 31,		
Balance, beginning of the year	\$ 13,096,426	\$ 10,511,307
Add:		
Properties acquired through business combination ⁽¹⁾	—	135,533
Acquisitions ⁽²⁾	825,681	1,384,908
Property capital investments ⁽³⁾	242,063	236,659
Capitalized leasing costs ⁽⁴⁾	659	27
Operating lease buyout	158,565	14,746
Fair value adjustments	595,859	892,156
Gain (loss) on foreign currency translation	138,098	(78,910)
Less:		
Dispositions	(56,760)	—
Balance, end of the year	\$ 15,000,591	\$ 13,096,426

⁽¹⁾ Represents the fair value of the properties acquired as part of the Acquisition.

⁽²⁾ Includes additional transaction costs on acquisitions.

⁽³⁾ See Section V – Property Capital Investments, Conversions, Infill, and Redevelopment included within the Development Summary.

⁽⁴⁾ Comprised of tenant inducements, straight-line rent and direct leasing costs.

For the year ended December 31, 2020, CAPREIT completed early buyouts of 10 existing operating leases at a net purchase price of \$158.6 million. The operating lease buyouts resulted in the conversion from operating leasehold interests, with options to purchase, to traditional fee simple property interests or land leasehold interest, resulting in a fair value gain of \$48.8 million. These operating lease buyouts coincide with CAPREIT's strategic initiative of simplifying the company's ownership structure, increasing net asset value, and strengthening overall liquidity and flexibility.

Included in the fair value adjustment for the year ended December 31, 2020 is \$37.8 million fair value gain on the 100 Wellesley Street East and the 141 Davisville Avenue properties in Toronto, Ontario as a result of the progress made on its development application and approval process. For further details, please refer to Section V under the Development section.

A summary of the fair values of CAPREIT's investment properties and changes, along with key market assumptions, is presented below. For the year ended December 31, 2020, there was a \$1,904.2 million increase in fair value primarily due to capitalization rate compression, increases in stabilized NOI, new acquisitions, the buyout of 10 operating leases, progress on the development pipeline, and foreign exchange gain on the European properties. Excluding the impact of net acquisitions and operating lease buyouts, the fair value of the Canadian portfolio increased by \$749.9 million, or 6.7%.

Investment Properties by Geography

	Dec 2019	Fair Value Change Due To					Dec 2020	Dec 2020	Dec 2019
(\$ Millions)	Fair Value	Net Acquisitions	CAPEX ⁽¹⁾	Fair Value Adjustments	Foreign Exchange Translation	Fair Value	Cap Rates ⁽²⁾	Cap Rates ⁽²⁾	
Greater Toronto Area	\$ 4,811	\$ 159	\$ 89	\$ 391	\$ —	\$ 5,450	3.43%	3.63%	
Other Ontario	1,351	148	31	126	—	1,656	4.00%	4.27%	
Québec	1,843	44	36	120	—	2,043	4.18%	4.45%	
British Columbia	1,591	29	23	(24)	—	1,619	3.80%	3.83%	
Nova Scotia	328	431	16	(30)	—	745	4.43%	4.71%	
Alberta	488	(2)	10	(69)	—	427	4.37%	4.47%	
Prince Edward Island	90	(1)	1	5	—	95	5.47%	5.65%	
Saskatchewan	32	—	2	(6)	—	28	5.51%	5.53%	
Subtotal	10,534	808	208	513	—	12,063	3.80%	4.01%	
Europe	1,962	110	16	74	138	2,300	3.87%	3.88%	
MHC	600	10	19	9	—	638	5.96%	6.30%	
Total	\$ 13,096	\$ 928	\$ 243	\$ 596	\$ 138	\$ 15,001	3.91%	4.11%	

For the Year Ended December 31, 2020		Components of Fair Value Adjustments			Total
(\$ Millions)		Cap Rates ⁽²⁾	Normalized NOI ⁽³⁾	CAPEX ⁽¹⁾	
Greater Toronto Area	\$	325	\$ 155	\$ (89)	\$ 391
Other Ontario		88	69	(31)	126
Québec		108	48	(36)	120
British Columbia		15	(16)	(23)	(24)
Nova Scotia		(29)	15	(16)	(30)
Alberta		8	(67)	(10)	(69)
Prince Edward Island		6	—	(1)	5
Saskatchewan		(3)	(1)	(2)	(6)
Subtotal		518	203	(208)	513
Europe		10	80	(16)	74
MHC		29	(1)	(19)	9
Total	\$	557	\$ 282	\$ (243)	\$ 596

⁽¹⁾ Represents property capital investments and capitalized leasing costs during the year ended December 31, 2020.

⁽²⁾ Weighted average capitalization rates excluding implied capitalization rates on operating and land leasehold interests. See note 6 to the accompanying audited consolidated annual financial statements for further valuation assumption details, including discount rates as at December 31, 2020 for operating and land leasehold interests. Capitalization rates for Europe represent the implied capitalization rates for these properties.

⁽³⁾ Represents normalized net operating income for valuation purposes.

The table below summarizes the impact of changes in both the capitalization rate and normalized NOI on CAPREIT's fair value of investment properties. It should be noted that the sensitivity analysis below utilizes the direct capitalization method, where the impact of any short-term changes in NOI on fair value will be overstated. Currently, management believes that any impact to NOI resulting from the COVID-19 pandemic would be short-term in nature. Using a discounted cash flow model, the impact would be much smaller than that shown below.

As at December 31, 2020 (\$ Millions)	Change in NOI					
		(2.00)%	(1.00)%	–%	+1.00%	+2.00%
Change in Capitalization Rate ⁽ⁱ⁾	(0.50)%	\$ 1,904	\$ 2,075	\$ 2,247	\$ 2,419	\$ 2,590
	(0.25)%	723	883	1,043	1,202	1,362
	– %	(298)	(149)	–	149	298
	+0.25 %	(1,192)	(1,052)	(912)	(772)	(632)
	+0.50 %	(1,981)	(1,849)	(1,717)	(1,585)	(1,453)

⁽ⁱ⁾ For operating leasehold interests, land leasehold interests and European properties, CAPREIT applies discount rates to determine the fair value of these properties. However, for the purposes of the sensitivity analysis above, CAPREIT has utilized the implied capitalization rates for operating leasehold interests, land leasehold interests and the European properties to determine the impact on fair value of the total portfolio.

Development

Development Progress

The development program remains a component of CAPREIT's growth strategy by allowing for the potential to unlock 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 income producing properties ("IPPs") and (iii) full or partial redevelopment.

Development Pipeline

Over the long term, CAPREIT has intensification and redevelopment potential in excess of 10,000 units, subject to market conditions, cost of construction, and other factors. Shown below are the number of sites and proposed net new units by major market targeted for planning approval submission in the next 12 months:

Major Market	Pre-Application (# of sites)	Active Application (# of sites)	Zoning Entitlement (# of sites)	Construction (# of sites)	Potential Growth (Estimated # of net new units) ⁽⁴⁾
British Columbia	— ⁽¹⁾	—	—	—	—
Greater Toronto Area (GTA)	3 ⁽¹⁾	—	2 ⁽²⁾	—	3,582
Québec	1	1	—	—	501
Prince Edward Island	—	—	1 ⁽³⁾	—	58
Total	4	1	3	—	4,141

⁽¹⁾ A redevelopment site in British Columbia and a redevelopment site in the GTA were suspended indefinitely due to market conditions.

⁽²⁾ 100 Wellesley Street East and 141 Davisville Avenue, Toronto, Ontario were approved in May 2020 and December 2020, respectively, by the Local Planning Appeal Tribunal. For 100 Wellesley Street East, Zoning By-Law Amendment permits 128 net new units in a 10-storey infill building with an additional storey of amenity. For 141 Davisville Avenue, Zoning By-law Amendment permits 120 net new units in a 14-storey infill building. CAPREIT recorded a fair value gain of \$37.8 million in relation to the development progress on these two properties.

⁽³⁾ The existing zoning on a property currently allows for 58 additional units to be built. CAPREIT is currently assessing market conditions in order to proceed with building permit submission.

⁽⁴⁾ CAPREIT regularly re-evaluates its assets for highest and best use where the value may be realized through development or sale of a property.

Development Summary

(\$ Thousands)	2020 Actual Total Portfolio ⁽³⁾	2019 Actual Total Portfolio ⁽³⁾	2021 Annual Forecast Total Portfolio
Conversion ⁽¹⁾	\$ 10,936	\$ 14,579	\$ 20,298
Infill ⁽²⁾	3,289	693	17,749
Redevelopment ⁽²⁾	1,174	162	2,874
Total for development	\$ 15,399	\$ 15,434	\$ 40,921

⁽¹⁾ Actual for 2020 and 2019 includes costs from 2525 Cavendish Boulevard, Montréal, Québec.

⁽²⁾ Infill and Redevelopment costs relate primarily to pre-approval costs such as application, consultant fees, and levies.

⁽³⁾ Includes costs related to planning, rezoning, architectural surveys, application fees and building permits.

Actual costs may vary from forecast as expectations of processing time for development applications become better defined. The regulatory and application processing is subject to factors beyond management's control and varies between projects.

Capital Structure

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 December 31, 2020, 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:

(\$ Thousands) As at		December 31, 2020	December 31, 2019
Mortgages payable		\$ 5,401,202	\$ 4,228,805
Bank indebtedness		118,553	623,893
Unitholders' equity		9,273,702	8,403,895
Exchangeable LP Units		16,632	—
Total capital		\$ 14,810,089	\$ 13,256,593

	Threshold	December 31, 2020	December 31, 2019
Total debt to gross book value ⁽¹⁾	Maximum 70.00%	35.54%	34.70%
Mortgage debt to gross book value		34.78%	30.24%
Total debt to gross historical cost ⁽²⁾		50.11%	48.08%
Total debt to total capitalization ⁽³⁾		38.98%	35.00%
Tangible net worth ⁽¹⁾	Minimum \$2,400,000	\$ 9,307,613	\$ 8,421,096

For the four quarters ended		December 31, 2020	December 31, 2019
Debt service coverage ratio (times) ⁽¹⁾	Minimum 1.20	2.01	1.87
Interest coverage ratio (times) ⁽¹⁾	Minimum 1.50	3.95	3.69

⁽¹⁾ See note 21 to the accompanying audited consolidated annual financial statements for details.

⁽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 as defined in the Performance Measures table in Section II of the MD&A, plus total debt.

Liquidity and Financial Condition

Liquidity and Capital Resources

Management believes there is adequate overall liquidity to fund property capital investment commitments to provide for future growth in the business. CAPREIT finances these commitments through: (i) ACFO on an annual basis; (ii) the Acquisition and Operating Facility; (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 an annual basis to fund the current level of distributions.
- ii) CAPREIT's liquidity position as at December 31, 2020 remains strong with \$628.0 million available on the Acquisition and Operating Facility, and has \$121.7 million of cash and cash equivalents.

CAPREIT's Acquisition and Operating Facility bears an interest rate of 1.10%, after factoring the cross-currency interest rate swaps, as discussed in note 20 of the accompanying audited consolidated annual financial statements, and has \$73.3 million of cash and cash equivalents invested in short-term investments generating interest revenue at a weighted average interest rate of 0.85% per annum.

(\$ Thousands) As at December 31, 2020		Acquisition and Operating Facility
Facility		\$ 740,000⁽¹⁾
Less: USD LIBOR borrowings		(104,810)^{(2),(3)}
Letters of credit		(7,193)
Available borrowing capacity		\$ 627,997
Weighted average interest rate including interest rate swaps		1.10%

⁽¹⁾ In addition, there is a \$78,040 (€50,000) ERES Credit Facility and a \$78,040 (€50,000) ERES Bridge Facility. As of December 31, 2020, \$13,743 (€8,805) was drawn on the ERES Credit Facility and no amounts were drawn on the ERES Bridge Facility.

⁽²⁾ CAPREIT has net USD LIBOR borrowings of USD \$82,320 that bear interest at the USD LIBOR rate plus a margin of 1.65% per annum.

⁽³⁾ CAPREIT entered into a cross-currency interest rate swap to (i) hedge the USD-based loan into euros, and (ii) convert the variable interest rate on the USD-based loan of USD LIBOR plus 1.65% into a weighted average fixed interest rate of 1.05% and a remaining weighted average term of 1.00 years.

CAPREIT has investment properties with a fair value of approximately \$976.7 million as at December 31, 2020 that are not encumbered by mortgages. Of these, \$974.5 million of the investment properties are located in Canada and secure only the Acquisition and Operating Facility, while the remaining properties are located in Europe. CAPREIT intends to maintain unencumbered investment properties with an aggregate fair value in the range of \$800 million to \$900 million over the medium term. The majority of CAPREIT's MHC sites are included in this pool.

The working capital deficiency, as presented on CAPREIT's consolidated balance sheet as at December 31, 2020, is funded through the DRIP and the Credit Facilities. 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

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

(\$ Thousands) As at December 31,		2020	2019
Percentage of CMHC-insured mortgages ⁽¹⁾		98.7%	98.3%
Percentage of fixed-rate mortgages ⁽²⁾		99.3%	99.0%
Weighted average mortgage interest rate ⁽³⁾		2.56%	2.85%
Weighted average mortgage term to maturity (years) ⁽⁴⁾		5.76	5.13
Cross-currency interest rate swaps ^{(5),(6)}		\$ 675,765	\$ 644,279
Weighted average interest rate on swaps – pay		0.24%	1.06%
Weighted average interest rate on swaps – receive		1.18%	3.37%
Weighted average remaining term to maturity on swaps (years)		3.29	1.30

⁽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, fair value adjustments and prepaid CMHC premiums on an effective interest rate basis. Including the amortization of the realized component of the loss on settlement of \$32.5 million included in accumulated other comprehensive income (loss), the effective portfolio weighted average interest rate as at December 31, 2020 would be 2.61% (December 31, 2019 – 2.91%).

⁽⁴⁾ The Canadian and European properties have a weighted average mortgage term to maturity of 6.1 years (December 31, 2019 – 5.1 years) and 4.4 years (December 31, 2019 – 5.3 years), respectively.

⁽⁵⁾ Euro equivalent of €442.4 million (December 31, 2019 – €442.4 million).

⁽⁶⁾ The 2020 swap balance includes a €44.8 million swap that was entered into January 15, 2021. See note 32 of the accompanying audited consolidated annual financial statements for more details on this swap.

Based on new cross-currency interest rate swaps entered in late 2020 and early January 2021, the weighted average all-in effective interest rate on the total Canadian swapped debt (\$675.8 million) is expected to range between 0.24% and 0.80%, depending on the assumption of maturity date of debt being swapped. The swaps have been staggered between 1 to 5 years to take advantage of the low rates, with a current weighted average swap term of 3.29 years as at December 31, 2020. In 2019, the all-in effective interest rate on the Canadian swapped debt (\$644.3 million) was 1.06%, with a remaining weighted average swap term of 1.30 years as at December 31, 2019.

The following table presents refinancings, weighted average interest rates obtained, and mortgage top-ups closed or committed up to 2020:

(\$ Thousands)	Original Mortgage Amount	Original Stated Interest Rate	New Mortgage Amount	New Stated Interest Rate ⁽¹⁾⁽²⁾	Weighted Average Term on New Mortgages (Years)	Top-Up Financing Amount
The Canadian Portfolio						
First Quarter	\$ 23,708	4.80%	\$ 57,896	2.20%	10.0	\$ 34,187
Second Quarter	98,234	2.20%	165,396	1.90%	9.0	67,162
Third Quarter	29,325	3.20%	43,916	1.70%	9.8	14,591
Fourth Quarter	213,863	2.50%	881,344	1.80%	10.5	667,481
Acquisitions	—	—%	213,081	1.85%	9.0	213,081
Total and Weighted Average with Acquisitions	\$ 365,130	2.61%	\$ 1,361,633	1.84%	10.0	\$ 996,502
The ERES Portfolio						
Total and Weighted Average with Acquisitions	\$ 10,167	0.95%	\$ 168,332	1.33%	5.2	\$ 158,166
Grand Total and Weighted Average						
	\$ 375,297	2.56%	\$ 1,529,965	1.79%	9.5	\$ 1,154,668

⁽¹⁾ Weighted average.

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

Management expects to raise between \$850 million and \$900 million in total mortgage renewals and refinancings for 2021, excluding financings on acquisitions, while continuing to benefit from the low interest rate environment. As a strategy, CAPREIT leverages CMHC insurance to get access to stable financing at lower interest rates than would be available with conventional mortgage financing or other forms of debt. The premiums associated with the initial mortgage financing along with any additional premiums on future expected mortgage renewals or refinancing are analyzed to ensure the all-in cost of CMHC financing continues to be CAPREIT's cheapest form of debt.

Starting in 2020, management modified its debt strategy to have longer amortization terms on its CMHC-insured mortgages, by extending the amortization period to 30 or 35 years compared to the 25 years historically used. By executing this strategy, CAPREIT has been able to increase the total average debt outstanding over the term of such mortgages, thereby locking in more total debt at current attractive long-term interest rates. Management believes this strategy will also allow CAPREIT to continue to reduce its overall cost of CMHC premiums by reducing the need to undertake full refinances in the future. As a result of this change in strategy, management reviewed the estimated useful life of existing CMHC premiums and determined that CMHC premiums will now be amortized over the amortization period of the underlying mortgages and written off at the time of refinancing of the mortgage at which time new premiums on the full loan amount will need to be paid.

For the year ended December 31, 2020, \$9.4 million of prepaid CMHC premiums relating to mortgages refinanced in prior years were expensed, and \$5.0 million of CMHC premiums were expensed relating to mortgages refinanced during the year ended December 31, 2020. This was a one-time adjustment and accordingly added back to FFO. CMHC amortization expense of existing premiums including the net write-offs of CMHC premiums on refinancings in 2021 is expected to be approximately \$9.0 million, which will not be added back to FFO. CMHC amortization expense for the next three years is expected to be in the range of \$9.0 million to \$12.0 million depending on refinancing activity.

As part of its operating lease buyout strategy, CAPREIT early terminated mortgages on four of the 13 buyout properties. This provided CAPREIT with significant additional financing capacity due to the increase in fair value of these properties, the current low leverage on these properties, as well as the elimination of lending restrictions applicable to the operating lease structure. CAPREIT obtained incremental mortgage financing of \$210.9 million on these properties at a weighted average interest rate of 2.24% and a weighted average term of 14.2 years. The significant interest savings expected from these refinancings is only slightly offset by prepayment penalties incurred of \$4.3 million.

As at December 31, 2020
(\$ 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)}
2021	\$ 444,232	\$ 109,064	\$ 553,296	\$ 78,153
2022	419,442	15,603	435,045	68,794
2023	477,844	204,595	682,439	76,342
2024	428,713	103,271	531,984	49,565
2025	676,410	31,145	707,555	83,613
2026 onwards	2,179,893	(463,678)	1,716,215	182,605
Total	\$ 4,626,534	\$ –	\$ 4,626,534	\$ 539,072

⁽¹⁾ Mortgage balance due upon maturity.

⁽²⁾ NOI for the 12 months ended December 31, 2020.

⁽³⁾ Projected NOI included for acquisitions since December 31, 2019.

The breakdown of CAPREIT's Canadian dollar-denominated future principal repayments, including mortgage maturities, and effective weighted average interest rates as at December 31, 2020 is as follows:

As at December 31, 2020
(\$ Thousands)

Period	Principal Amortization	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) ^{(1),(2)}
2021	\$ 142,464	\$ 444,232	\$ 586,696 ⁽³⁾	13.3	3.25
2022	132,783	341,536	474,319	10.7	3.16
2023	115,922	320,734	436,656	9.9	3.33
2024	102,405	305,265	407,670	9.2	3.14
2025	94,451	322,083	416,534	9.4	2.85
2026	74,037	298,212	372,249	8.4	2.84
2027	57,347	234,900	292,247	6.6	2.67
2028	49,028	190,181	239,209	5.4	2.85
2029	37,101	284,556	321,657	7.3	2.80
2030	23,551	290,875	314,426	7.1	2.15
2031–2035	42,516	512,328	554,845	12.7	2.25
	\$ 871,605	\$ 3,544,902	\$ 4,416,508	100.0%	2.80% ⁽²⁾
Deferred financing costs, fair value adjustments, prepaid CMHC premiums, net			(105,999)		
Total			\$ 4,310,509		
Weighted average term to maturity (years)			6.10		

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

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

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

The breakdown for ERES of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at December 31, 2020 is as follows:

As at December 31, 2020
(\$ Thousands)

Period	Principal Amortization	Mortgage Maturities	Mortgage Balance (\$)	Mortgage Balance (€)	% of Total Mortgage Balance	Interest Rate (%) ⁽¹⁾⁽²⁾
2021	\$ 3,375	\$ —	\$ 3,375	€ 2,182	0.3	—
2022	3,418	77,906	81,324	52,104 ⁽³⁾	7.4	1.43
2023	3,431	157,110	160,541	102,858 ⁽³⁾	14.7	1.49
2024	2,772	123,448	126,220	80,869 ⁽³⁾	11.5	1.70
2025	444	354,327	354,771	227,301 ⁽³⁾	32.4	1.87
2026	—	299,698	299,698	192,184 ⁽³⁾	27.4	1.47
2027	—	69,143	69,143	44,300 ⁽³⁾	6.3	1.74
	\$ 13,440	\$ 1,081,632	\$ 1,095,072	€ 701,798	100.0%	1.61% ⁽²⁾
Deferred financing costs, fair value adjustments, net			(4,379)			
Total			\$ 1,090,693			
Weighted average term to maturity (years)			4.40			

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

⁽²⁾ Effective weighted average interest rate includes deferred financing costs and fair value adjustments.

⁽³⁾ Included in mortgages payable are non-amortizing mortgages from ERES.

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

Unitholders' Equity represents the issued and outstanding Trust Units, and excludes the Exchangeable LP Units and any units issued in connection with unit-based incentive plans.

Equity offerings and over-allotments for the years ended December 31, 2020 and December 31, 2019:

	Price per Unit	Units Issued
December 2019 (the "December 2019 Equity Offering")	\$ 53.60	9,119,500
April 2019 (the "April 2019 Equity Offering")	\$ 49.00	7,043,750
January 2019 (the "January 2019 Equity Offering")	\$ 45.50	6,325,000

Market capitalization and units outstanding:

As at December 31, 2020	
Market capitalization (\$ Thousands)	\$ 8,639,408
Total number of units outstanding	172,822,734
Trust Units	171,751,839
Deferred units	174,805
RUR Plan units	563,387
Exchangeable LP Units	332,703
Ownership by trustees, officers and other senior management	0.7%

Unitholder Taxation

Portions of the distributions received by taxable Canadian Unitholders are characterized as other income, capital gain income, or return of capital. While return of capital is not immediately taxable, it reduces the tax cost of Units, and thus will increase future gain for Unitholders on the sale of the Units. The deferral rate is the portion of distributions treated as return of capital. Management expects that for the year ended December 31, 2020, the deferral rate will be in the range of 55%-60% (December 31, 2019 – 71%).

For the year ended December 31, 2020, Unitholders may expect to be allocated capital gain as a result of CAPREIT's disposal of some properties (which did not occur in 2019). The capital gain will decrease the deferral for Unitholders compared to a year when no dispositions occurred.

As CAPREIT expands its presence in Europe, the deferral rate may decrease. Also, Unitholders may expect the deferral rate to decrease gradually as depreciation claimed to offset taxable income diminishes over time. However, an increase in CAPREIT's payout ratio will increase the deferral rate.

SECTION VI: COMPLIANCE AND GOVERNANCE DISCLOSURES, RISKS AND UNCERTAINTIES

Selected Consolidated Quarterly Information

	Q4 20	Q3 20	Q2 20	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19
Overall portfolio net AMR	\$ 1,121	\$ 1,113	\$ 1,104	\$ 1,105	\$ 1,084	\$ 1,069	\$ 1,050	\$ 1,093
Operating revenues (000s) ^{(1),(3)}	\$ 225,238	\$ 221,420	\$ 219,925	\$ 216,060	\$ 208,183	\$ 199,417	\$ 191,285	\$ 181,896
NOI (000s) ^{(1),(2)}	\$ 148,646	\$ 148,234	\$ 143,233	\$ 138,058	\$ 135,704	\$ 132,844	\$ 125,767	\$ 113,835
NOI Margin ^{(1),(3)}	66.0%	66.9%	65.1%	63.9%	65.2%	66.6%	65.7%	62.6%
Net Income (000s)	\$ 484,958	\$ 300,075	\$ 61,262	\$ 79,633	\$ 492,267	\$ 330,341	\$ 167,329	\$ 205,510
FFO (000s) ^{(1),(2)}	\$ 99,311	\$ 100,342	\$ 94,056	\$ 92,513	\$ 87,863	\$ 88,860	\$ 84,091	\$ 73,814
NFFO (000s) ^{(1),(2)}	\$ 99,985	\$ 101,114	\$ 94,712	\$ 93,147	\$ 89,341	\$ 89,513	\$ 85,062	\$ 75,205
Total debt to gross book value	35.54%	35.70%	36.02%	35.86%	34.70%	36.43%	36.02%	37.35%
FFO per unit ⁽¹⁾ – basic	\$ 0.577	\$ 0.585	\$ 0.551	\$ 0.544	\$ 0.538	\$ 0.554	\$ 0.531	\$ 0.485
NFFO per unit ⁽¹⁾ – basic	\$ 0.581	\$ 0.589	\$ 0.555	\$ 0.547	\$ 0.547	\$ 0.558	\$ 0.538	\$ 0.484
Weighted average number of units (000s) – basic	172,054	171,628	170,588	170,206	163,295	160,328	158,237	152,212
Weighted average number of units (000s) – diluted	172,616	172,188	171,175	170,780	163,840	160,895	158,806	152,778

⁽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.

⁽³⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

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 its annual distributions and the annual 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.

Fourth Quarter

Operating revenues in the fourth quarter of 2020 increased by 8.2% over the same quarter in 2019, and NOI increased by a significant 9.5%, driven by acquisitions and higher operating revenues. Net income in the fourth quarter of 2020 decreased over the same period last year to \$485.0 million, mainly due to lower fair value adjustments of investment properties of \$398.4 million compared to \$418.6 million for the same period last year. Loan interest and mortgage interest increased by \$13.3 million, offset by higher NOI of \$148.6 million. Higher NFFO for the fourth quarter of 2020 was primarily due to a 3.2% increase in stabilized property NOI and the NOI contribution from acquisitions completed over the prior 12 months.

The following table shows the NOI and the NOI margin attained for each regional market for the periods ended December 31, 2020 and 2019.

NOI by Geography

For the Three Months Ended December 31,	2020			2019 ⁽⁴⁾			Increase (Decrease)
(\$ Thousands)	NOI	NOI % ⁽¹⁾	NOI Margin (%)	NOI	NOI % ⁽¹⁾	NOI Margin (%)	NOI Change (%)
Residential Suites							
Ontario							
Greater Toronto Area	\$ 47,669	32.0	64.9	\$ 47,334	35.0	65.9	0.7
London / Kitchener / Waterloo	7,101	4.8	66.1	5,986	4.4	64.3	18.6
Ottawa	4,995	3.4	66.7	4,489	3.3	67.4	11.3
Other Ontario	5,021	3.4	63.8	4,466	3.3	59.0	12.4
	\$ 64,786	43.6	65.1	\$ 62,275	46.0	65.3	4.0
Québec							
Greater Montréal Region	\$ 16,289	11.0	61.7	\$ 14,692	10.8	57.9	10.9
Québec City	5,737	3.9	61.9	5,319	3.9	58.9	7.9
	\$ 22,026	14.9	61.7	\$ 20,011	14.7	58.1	10.1
British Columbia							
Greater Vancouver Region	\$ 12,457	8.4	74.6	\$ 11,035	8.1	67.6	12.9
Victoria	4,653	3.1	71.4	4,790	3.5	73.4	(2.9)
	\$ 17,110	11.5	73.7	\$ 15,825	11.6	69.2	8.1
Nova Scotia							
Halifax	\$ 7,007	4.7	55.9	\$ 3,850	2.8	61.7	82.0
Alberta							
Calgary	\$ 3,857	2.6	56.3	\$ 4,552	3.4	60.8	(15.3)
Edmonton	1,104	0.7	55.7	1,239	0.9	67.7	(10.9)
	\$ 4,961	3.3	56.2	\$ 5,791	4.3	62.2	(14.3)
Prince Edward Island							
Charlottetown	\$ 1,137	0.8	53.7	\$ 1,068	0.8	51.3	6.5
Saskatchewan							
Regina	\$ 318	0.2	45.8	\$ 398	0.3	55.0	(20.1)
Total Canadian residential suites	\$ 117,345	79.0	64.3	\$ 109,218	80.5	63.9	7.4
Europe							
The Netherlands ⁽²⁾	\$ 19,370	13.0	76.8	\$ 14,880	11.0	73.8	30.2
Other Europe ⁽³⁾	\$ 2,208	1.5	79.9	\$ 2,393	1.7	78.9	(7.7)
	\$ 21,578	14.5	77.1	\$ 17,273	12.7	74.5	24.9
Total residential suites	\$ 138,923	93.5	66.0	\$ 126,491	93.2	65.1	9.8
MHC sites							
Total MHC sites	\$ 9,723	6.5	66.5	\$ 9,213	6.8	65.8	5.5
Total suites and sites	\$ 148,646	100.0	66.0	\$ 135,704	100.0	65.2	9.5

⁽¹⁾ Represents percentage of the portfolio by NOI.

⁽²⁾ In € thousands, €12,464 and €10,226 for the three months ended December 31, 2020 and December 31, 2019, respectively.

⁽³⁾ Comprised of ERES's NOI for the commercial properties located in Germany and Belgium. In € thousands, €1,421 for the three months ended December 31, 2020 and €1,571 for the three months ended December 31, 2019.

⁽⁴⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

The stabilized portfolio performance for the three months ended December 31, 2020 compared to December 31, 2019, is summarized as follows:

Three Months Ended December 31,	2020		2019 ⁽¹⁾		Increase (Decrease)		
(\$ Thousands)	Stabilized NOI	NOI Margin (%)	Stabilized NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
Ontario							
Greater Toronto Area	\$ 47,151	65.0	\$ 47,231	66.2	1.8	5.7	(0.2)
Ottawa	4,638	66.4	4,489	67.4	4.8	7.9	3.3
London / Kitchener / Waterloo	5,586	67.8	5,142	65.8	5.5	(0.6)	8.6
Other Ontario	5,021	63.8	4,466	59.0	4.0	(8.0)	12.4
	\$ 62,396	65.2	\$ 61,328	65.7	2.5	4.0	1.7 ⁽²⁾
Québec							
Greater Montréal Region	\$ 15,408	61.0	\$ 14,524	57.7	0.4	(7.3)	6.1
Québec City	5,727	61.8	5,327	58.9	2.5	(4.7)	7.5
	\$ 21,135	61.2	\$ 19,851	58.0	1.0	(6.6)	6.5 ⁽³⁾
British Columbia							
Greater Vancouver Region	\$ 11,146	75.2	\$ 9,761	66.4	0.8	(25.6)	14.2
Victoria	4,361	71.2	4,468	72.7	(0.3)	5.1	(2.4)
	\$ 15,507	74.0	\$ 14,229	68.3	0.5	(17.8)	9.0 ⁽⁴⁾
Alberta							
Edmonton	\$ 852	56.5	\$ 1,239	67.7	(17.6)	11.2	(31.2)
Calgary	3,643	55.9	4,063	60.0	(3.8)	6.0	(10.3)
	\$ 4,495	56.0	\$ 5,302	61.6	(6.7)	6.9	(15.2) ⁽⁵⁾
Nova Scotia							
Halifax	\$ 3,564	58.1	\$ 3,850	61.7	(1.6)	7.7	(7.4) ⁽⁶⁾
Saskatchewan							
Regina	\$ 318	45.8	\$ 398	55.0	(4.1)	15.3	(20.1) ⁽⁷⁾
Prince Edward Island							
Charlottetown	\$ 907	52.4	\$ 822	48.4	1.9	(5.9)	10.3 ⁽⁸⁾
Europe							
The Netherlands	\$ 10,446	76.2	\$ 9,380	73.2	7.0	(5.0)	11.4 ⁽⁹⁾
Total residential suites	\$ 118,768	65.5	\$ 115,160	64.5	1.7	(1.0)	3.1
MHC sites							
Total MHC sites	\$ 5,930	67.7	\$ 5,670	66.8	3.2	0.4	4.6 ⁽¹⁰⁾
Total suites and sites	\$ 124,698	65.6	\$ 120,830	64.6	1.7	(0.9)	3.2
Stabilized suites and sites	50,118		50,118				

⁽¹⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

⁽²⁾ Higher expenses: higher realty taxes and utilities costs, partially offset by lower wages.

⁽³⁾ Lower expenses: lower on-site costs, utilities and R&M costs, partially offset by higher advertising costs and realty taxes.

⁽⁴⁾ Lower expenses: lower R&M costs and the timing of land lease expenses in the prior year, partially offset by higher bad debt and realty tax costs.

⁽⁵⁾ Higher expenses: higher realty tax costs, partially offset by lower bad debt and on-site costs.

⁽⁶⁾ Higher expenses: higher advertising costs, partially offset by lower wages

⁽⁷⁾ Higher expenses: higher R&M and utilities costs, partially offset by lower bad debt.

⁽⁸⁾ Lower expenses: lower R&M and utilities costs.

⁽⁹⁾ In € Thousands, €6,673 and €6,411 for the three months ended December 31, 2020 and December 31, 2019, respectively.

⁽¹⁰⁾ Higher expenses: higher R&M costs and wages, partially offset by lower realty taxes.

Selected Consolidated Financial Information

The following table presents a summary of selected financial information for the fiscal years indicated below:

(\$ Thousands, except per Unit amounts) Year Ended December 31,	2020	2019 ⁽¹⁾	2018 ⁽¹⁾
Income Statement			
Operating revenues	\$ 882,643	\$ 780,780	\$ 691,030
Net income	\$ 925,928	\$ 1,195,447	\$ 1,217,671
Distributions			
Distributions declared	\$ 235,649	\$ 218,136	\$ 187,848
Distributions per unit	\$ 1.380	\$ 1.372	\$ 1.313
Balance Sheet			
Investment properties	\$ 15,000,591	\$ 13,096,426	\$ 10,473,544
Total assets	\$ 15,499,131	\$ 13,938,182	\$ 10,767,567
Mortgages payable	\$ 5,401,202	\$ 4,228,805	\$ 3,653,637
Bank indebtedness	\$ 118,553	\$ 623,893	\$ 567,365

⁽¹⁾ Certain 2018 and 2019 comparative figures have been adjusted to conform with current period presentation.

Accounting Policies and Critical Accounting Estimates, Assumptions and Judgments

Summary of Significant Accounting Policies

A summary of significant accounting policies can be found in note 2 to CAPREIT's consolidated annual financial statements for the year ended December 31, 2020.

Critical Accounting Estimates, Assumptions, and Judgments

A summary of accounting estimates, assumptions and judgments can be found in note 3 to CAPREIT's consolidated annual financial statements for the year ended December 31, 2020.

Controls and Procedures

Disclosure Controls and Procedures

CAPREIT's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures designed to ensure information is accumulated and communicated to management, including the executive officers, to allow timely decisions regarding required disclosure.

As at December 31, 2020, CAPREIT's executive officers, with the assistance of management, evaluated the effectiveness of the disclosure controls and procedures in accordance with the rules adopted by the Canadian Securities Administrators under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, and based on that evaluation concluded that the design and operation of the disclosure controls and procedures were effective as at December 31, 2020.

Management has designed an adequate and appropriate control framework for the fair value assessment processes to ensure values reported accurately reflect market conditions. For the fair value assessment process of investment properties and unit-based compensation, these controls include a comprehensive review of the assumptions and estimates, including those used by the independent appraisers or third parties on an annual basis, as well as multiple levels of reviews of such key assumptions and data within CAPREIT by management, with final approval by the Board of Trustees, on an interim and annual basis.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. As at December 31, 2020, CAPREIT's executive officers, with the assistance of management, assessed the effectiveness of the internal controls over financial reporting using the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013 and, based on that assessment, determined that the internal controls over financial reporting were designed and operating effectively as at December 31, 2020.

CAPREIT did not make any changes to the design of internal controls over financial reporting in 2020 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Risks and Uncertainties

There are certain risks inherent in an investment in the Trust Units and the activities of CAPREIT. The following is a description of the principal risks in CAPREIT's business, defined as either those that could have a significant impact on CAPREIT if they were to occur or those that are significant to CAPREIT's day-to-day operations. Investors should carefully consider these risks before investing in CAPREIT Trust Units.

COVID-19 and Other Public Health Crises

Public health crises, including the ongoing health crisis related to the COVID-19 pandemic, or relating to any other virus, flu, epidemic, pandemic or any other similar disease or illness (each a "Health Crisis") could adversely impact CAPREIT, including through: a general or acute decline in economic activity in the countries and regions in which CAPREIT's properties and investments are located; increased unemployment, reduced immigration, closure of colleges and universities, household consolidation, supply shortages, mobility restrictions and other quarantine measures; increased government regulation, inability to access governmental programs or processes on a timely basis, efficacy of governmental relief efforts; and the quarantine or contamination of one or more of CAPREIT's properties. Contagion in a property or market in which CAPREIT operates could negatively impact its occupancy, reputation or attractiveness of that market. Furthermore, increased government regulation relating to a Health Crisis could result in legislation or regulations that may restrict CAPREIT's ability to enforce material provisions under its leases, including in respect of the collection of rent or other payment obligations, among other potential adverse impacts. All of these occurrences may have a material adverse effect on the business, cash flows, financial condition and results of operations of CAPREIT, including, but not limited to: the ability to implement rent increases; rent collection and receivables; vacancy levels; mortgage renewals and refinancings; submission and processing of various applications and approvals; deferral of certain capital expenditures and R&M expenditures; valuation of investment properties; and CAPREIT's ability to meet its debt covenant restrictions.

The current public health crisis has also resulted in general economic slowdown and extreme volatility in financial markets. In addition to impacting CAPREIT's Trust Unit price, this may create difficulty in raising capital in debt and equity markets, which could in turn adversely impact CAPREIT's strategy. While various governments and central banks have announced or implemented a range of measures targeted to alleviate these impacts and encourage economic growth, the impact of these measures remains uncertain, particularly in the short term. In the medium to long term, government debt accumulated as a result of relief measures may lead to tax increases for consumers and businesses. The duration and impact of the COVID-19 pandemic on CAPREIT remains unknown at this time. As such, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of CAPREIT.

Related to Reporting Investment Property at Fair Value

CAPREIT holds investment property to earn rental income, for capital appreciation or both. All investment property is measured using the fair value model, whereby changes in fair value are recognized for each reporting period in the consolidated statements of income and comprehensive income. Management values each investment property based on the most probable price for which such property could be sold in an open, competitive market as of a specified date. Such valuation takes into account all requisite conditions to a fair sale, such as the buyer and seller each acting prudently and knowledgeably, and the assumption that such price is not affected by undue stimulus. Each investment property has been valued on a highest and best use basis.

An appraisal is an estimate of market value, and caution should be used in evaluating data with respect to appraisals. It is a measure of value based on information gathered in the investigation, appraisal techniques employed and reasoning both quantitative and qualitative, leading to an opinion of value. Market assumptions applied for appraisals and valuation purposes do not necessarily reflect CAPREIT's specific history or experience, and the conditions for realizing the fair values through a sale may change or may not be realized. In addition, there is an inherent risk related to the reliance on and use of a limited number of appraisers, as this approach may not adequately capture the range of fair values that market participants would assign to the investment properties. CAPREIT mitigates this risk by undertaking a detailed review of the assumptions utilized by the appraiser in its valuation, which includes a comparison of such assumptions to the corresponding benchmarks derived from management's own observations of market transactions and a secondary appraiser. Downturns in the real estate market could negatively affect CAPREIT's operating revenues and cash flows; such a downturn could also significantly impact the fair values of CAPREIT's investment properties, as well as certain of its financial ratios and covenants.

Related to Ownership and Operation of Real Property

Real Property Ownership

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

Investment Restrictions

CAPREIT has been structured and operates in adherence to the stringent investment restrictions and operating policies set out in its DOT and as applicable under tax laws relating to real estate investment trusts (also see Taxation-Related Risks in this section). These policies cover such matters as the type and location of properties that CAPREIT can acquire, the maximum leverage allowed and environmental matters. In addition, pursuant to the DOT, CAPREIT's overall leverage is limited to 70% of its reported gross book value. Fluctuations in the capitalization rates of CAPREIT's properties could impact these fair values and CAPREIT's debt covenant compliance.

Operating Risk

CAPREIT is subject to general business risks and to risks inherent in the multi-residential rental property industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economic rents (including anticipated increases in rent), controlling bad debt exposure, rent control regulations, increases in labour costs and other operating costs, including property taxes and the costs of utilities, as well as possible future changes in labour relations, competition from other landlords or the oversupply of rental accommodations, the imposition of increased taxes or new taxes and capital investment requirements.

In general, economic conditions will also affect the performance of the portfolio. The portfolio is currently weighted with 43.9% of the overall portfolio (by number of suites and sites) in Ontario (25.3% in the GTA), making CAPREIT's performance particularly sensitive to economic conditions in and changes affecting Ontario and, in particular, the GTA.

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

Energy Costs

As a significant part of CAPREIT's operating expenses is attributable to energy and energy-related charges and fees, fluctuations in the price of energy and any related charges and fees (including transportation costs and commodity taxes) can have a material impact on the performance of CAPREIT, its ability to pay distributions and the value of its units. The impact of such fluctuations could be exacerbated if such energy costs cannot be hedged.

From time to time, CAPREIT may enter into agreements to pay fixed prices on all or certain of its energy requirements (principally natural gas and electricity in certain markets) to offset the risk of rising expenditures resulting from the increase in the prices of these energy commodities; however, if the prices of these energy commodities decline beyond the levels set in these agreements, CAPREIT will not benefit from such declines in energy prices and will be required to pay the higher price for such energy supplies in accordance with these agreements.

Environmental Matters

Environmental and ecological legislation and policies have become increasingly important, and generally more restrictive, in recent years. Under various laws CAPREIT could be liable for the costs of monitoring or removal or remediation of certain hazardous or toxic substances released on its properties, or disposed of by or on behalf of CAPREIT at other locations. The failure to monitor, remove or remediate any such substances, if any, may adversely affect CAPREIT's ability to sell its real estate, or to borrow using such real estate as collateral, and could potentially result in regulatory enforcement proceedings and/or private claims against CAPREIT.

Although CAPREIT is not aware of any material non-compliance with environmental laws at any of its properties nor is it aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties, or any material pending or threatened claims relating to environmental conditions at its properties, no assurance can be given that environmental laws will not result in significant liability to CAPREIT in the future or otherwise adversely affect CAPREIT's business, financial condition or results of operations.

Environmental laws and regulations can change rapidly and CAPREIT may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on CAPREIT's business, financial condition or results of operations.

CAPREIT has formal policies and procedures to review and monitor environmental exposure. CAPREIT has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Refer to our 2020 ESG report for more details on our supporting policies and programs.

Catastrophic Events

CAPREIT's properties may be impacted by acts of nature, such as climate-related events. Depending on their severity, these events could cause threats to the safety of CAPREIT's tenants and significant damage to CAPREIT's properties and interruptions to CAPREIT's normal operations. CAPREIT may be required to incur significant unanticipated costs to manage the impact of these events. Management of the impact of a catastrophic event would also result in time and effort being diverted from CAPREIT's day-to-day operations. There is also a possibility that CAPREIT's ability to generate revenues from impacted properties could be significantly impaired. The increased costs, time, effort and potential revenue loss could be more significant if multiple properties or operating regions are impacted by catastrophic events within a relatively short time frame.

Climate Change

Climate change presents a multi-faceted risk for CAPREIT considering its investment in and management of real estate assets in multiple geographical territories.

Increases in the frequency and magnitude of climate-related risks such as floods, fires, windstorms and ice storms in certain locales can lead to increased capital expenditure, repairs and maintenance and interruptions to the operation. Ongoing operating costs such as energy costs can potentially be impacted by more extreme weather, and anticipation of more frequent and severe weather events may have an adverse effect on insurance premiums. Investment properties in areas that are more prone to weather-related events may be subject to adverse effects on valuations.

Lenders, investors, credit rating agencies and regulators are increasingly viewing climate change as an important issue that requires greater consideration. A lack of investment strategy, and operational management plan concerning climate change may have an adverse effect on CAPREIT's ability to raise funds via debt and/or equity, as well as related investment returns and sentiment.

CAPREIT is evaluating the potential impact of climate change related considerations with a view to developing a climate risk and resiliency strategy in order to address any material risks. In the event that material risks are identified, such strategy will support CAPREIT's investment and development decisions and the management of its standing investments. Additionally, CAPREIT maintains a strong insurance program that considers the impacts of weather-related events by providing coverage for property damage and business interruption.

Insurance

It is CAPREIT's policy to maintain a comprehensive insurance program to cover general liabilities such as fire, flood, injury or death, rental loss and environmental insurance, with limits and deductibles as deemed appropriate based on the nature of the risk, historical experience and industry standards. However, there are some types of losses, including those of a catastrophic nature, that are generally uninsurable or not economically feasible to insure, or which may be subject to insurance coverage limitations, such as large deductibles, co-payments or limitations in policy language. There can be no assurance that insurance coverage will continue to be available on commercially acceptable terms.

Capital Investments

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

Related to Financing

Indebtedness

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

CAPREIT currently has access to the government-backed mortgage insurance program through the National Housing Act, which is administered by CMHC. CAPREIT entered into the LBA with CMHC during the third quarter of 2010. There can be no guarantee that the provisions of the mortgage insurance program will not be changed in the future so as to make the costs of obtaining mortgage insurance prohibitive or restrict access to the insurance program. To the extent that any financing requiring CMHC consent or approval is not obtained or that such consent or approval is only available on unfavourable terms, CAPREIT may be required to finance a conventional mortgage, which may be less favourable to CAPREIT than a CMHC-insured mortgage.

CAPREIT's Acquisition and Operating Facility matures on June 30, 2022. CAPREIT's Acquisition and Operating Facility is at a floating interest rate and, accordingly, changes in short-term borrowing rates will affect CAPREIT's costs of borrowing. CAPREIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing or cost-effective financing. As at the date hereof, it is difficult to forecast the future state of the commercial loan market. If, because of CAPREIT's level of indebtedness, level of cash flows, lenders' perceptions of CAPREIT's creditworthiness or other reasons, management is unable to renew, replace or extend the Credit Facilities on acceptable terms, or to arrange for alternative financing, CAPREIT may be required to take measures to conserve cash until the markets stabilize or alternative credit arrangements or other funding can be arranged, if such financing is available on acceptable terms, or at all. Such measures could include deferring property capital investments, dispositions of one or more properties on unfavourable terms, reducing or eliminating future cash distributions or other discretionary uses of cash, or other more severe actions. Also, disruptions in the credit markets and uncertainty in the economy could adversely affect the banks that currently provide the Credit Facilities, could cause the banks or a bank to elect not to participate in any new Credit Facilities sought, or could cause other banks that are not currently participants in the Credit Facilities to be unwilling or unable to participate in any such new facility.

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

Related to Taxes and Regulations

Rent Control Regulations

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

In the Netherlands, rental properties where rent is greater than the government prescribed rent control threshold are subject to rent control, which includes a limit on the amount of starting rent that can be charged, as well as the amount of annual rent increases.

The availability of affordable housing and related housing policy and regulation is continuing to increase in prominence as a topic of concern at the various levels of government. Accordingly, through different approaches, governments may enact policy or amend legislation in a manner that may have a material adverse effect on the ability of CAPREIT to grow or maintain the historical level of cash flow from its properties. In addition, laws and regulations providing for compliance with various housing matters involving tenant evictions, work orders, health and safety issues or fire and maintenance standards, etc., may become more stringent in the future. Compliance with increased regulatory oversight of these matters may lead to increased operating costs and have an adverse effect on revenues.

Taxation-Related Risks

CAPREIT currently qualifies as a mutual fund trust for Canadian income tax purposes. It is the current policy of CAPREIT to distribute all of its taxable income to Unitholders and it is therefore generally not subject to tax on such amount. In order to maintain its current mutual fund trust status, CAPREIT is required to comply with specific restrictions regarding its activities and the investments held by it. If CAPREIT were to cease to qualify as a "mutual fund trust", the consequences could be adverse.

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

A REIT is defined under the SIFT Rules as a trust that is resident in Canada throughout the taxation year and that satisfies all of the following criteria:

- i. At each time in the taxation year, the total fair market value at that time of all non-portfolio properties that are qualified REIT properties held by the trust is at least 90% of the total fair market value at that time of all non-portfolio properties held by the trust;
- ii. Not less than 90% of the trust's gross REIT revenue for the taxation year is from one or more of the following: rent from real or immovable properties, interest, dispositions of real or immovable properties that are capital properties, dividends, royalties, and dispositions of eligible resale properties;
- iii. Not less than 75% of the trust's gross REIT revenue for the taxation year is from one or more of the following: rent from real or immovable properties, interest from mortgages, or hypothecs, on real or immovable properties, and dispositions of real or immovable properties that are capital properties;
- iv. At each time in the taxation year, an amount that is equal to 75% or more of the equity value of the trust at that time is the amount that is the total fair market value of all properties held by the trust, each of which is a real or immovable property that is a capital property, an eligible resale property, an indebtedness of a Canadian corporation represented by a bankers' acceptance, a property described by either paragraph (a) or (b) of the definition “qualified investment” in section 204, or a deposit with a credit union; and
- v. Investments in the trust are, at any time in the taxation year, listed or traded on a stock exchange or other public market.

For this purpose, “real or immovable property” includes a security of any trust, corporation or partnership that itself satisfies the above criteria in (i)-(iv) above, but does not include any depreciable property of a prescribed class for which the rate of capital cost allowance exceeds 5%.

Excluded from the definition of a SIFT is a partnership, such as CAPLP and CAPLP2, that is not publicly traded and of which the equity (and equity-like debt) is wholly owned by any combination of a SIFT, a REIT or a taxable Canadian corporation. If CAPREIT does not qualify for the REIT Exception at any point in time in a given future year, the SIFT Rules will apply to CAPREIT for that taxation year. To the extent that CAPREIT does not qualify for the REIT Exception, CAPREIT will consider alternative measures, including restructuring, assuming that these measures are in the best interests of its Unitholders, in order to qualify for the REIT Exception in the following year. No assurances can be given that CAPREIT will continue to qualify for the REIT Exception. If applicable, the SIFT Rules may have a material adverse effect on Unitholders' returns.

CAPREIT has foreign subsidiaries in a number of countries with varying statutory rates of taxation. Judgment 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 carried on by the foreign subsidiaries are considered to be taxable in those countries.

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

CAPREIT has foreign subsidiaries that are subject to the tax laws of foreign jurisdictions. Distributions from those foreign subsidiaries may be subject to withholding tax, which may increase the overall taxes payable by CAPREIT and its subsidiaries, and reduce the amount of cash available for distribution to Unitholders. For Canadian income tax purposes, any such foreign withholding tax incurred by CAPREIT will generally be allocated to CAPREIT Unitholders and such Unitholders may be entitled to claim a foreign tax credit in respect of such taxes.

In addition, there is a risk that the tax laws and treaties of the foreign jurisdictions may change in the future. Any such changes could adversely affect the taxes payable, including withholding taxes, the effective tax rate in the jurisdictions in which the foreign subsidiaries operate and the portion of distributions which would be income for Canadian income tax purposes. Any such changes may have a material adverse effect on Unitholders' returns.

Controls over Financial Reporting

CAPREIT maintains information systems, procedures and controls over financial reporting. As a result of the inherent limitations in all control systems, there cannot be complete assurance that the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. These inherent limitations include, without limitation, the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances, and the impact of isolated errors.

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

Other Legal and Regulatory Risks

CAPREIT is subject to a wide variety of laws and regulations across all jurisdictions, and faces risks associated with legal and regulatory changes and litigation. If CAPREIT or its advisors fail to monitor and become aware of changes in applicable laws and regulations or if CAPREIT fails to comply with these changes in an appropriate and timely manner, it could result in fines and penalties, litigation or other significant costs, as well as significant time and effort to remediate any violations. Additionally, such violations could result in reputational damage to CAPREIT both from an operating and an investment perspective.

Related to CAPREIT's Securities, Organization and Structure

Nature of CAPREIT Trust Units

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

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

Unitholder Liability

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

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

Liquidity and Price Fluctuation of Trust Units

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

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

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

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

Dilution

Subject to applicable laws, CAPREIT is authorized to issue an unlimited number of Trust Units and 25,840,600 Preferred Units for the consideration, and on the terms and conditions, that the Board of Trustees determines, without Unitholders' approval. Unitholders have no pre-emptive right in connection with any further issuance. The Board of Trustees has the discretion to issue additional units in other circumstances pursuant to CAPREIT's various incentive plans. Any issuance of additional units may have a dilutive effect on the holders of units. Furthermore, timing differences may occur between the issuance of additional units and the time such proceeds may be used to invest in new properties. Depending on the duration of such timing difference, this may be dilutive.

Distributions

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

Distribution Reinvestment Plan ("DRIP") Participation

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

Risk Related to CAPREIT's Investment in ERES

CAPREIT currently beneficially owns, controls or exercises direction 142,040,821 ERES Class B LP Units and 10,197,000 ERES units, representing approximately 66.0% of the issued and outstanding units of ERES, on a fully diluted basis. For further details, please see the Related Party section in Section VI of the MD&A. The trading price of ERES units may be volatile, and subject to fluctuations due to market conditions and other factors, which are often unrelated to operating results and beyond CAPREIT's control. Fluctuations in the market price and valuations of CAPREIT's holdings in ERES may affect the price of the Trust Units.

Potential Conflicts of Interest

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

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

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

Dependence on Key Personnel

The success of CAPREIT depends to a significant extent on the efforts and abilities of its executive officers and other members of management, as well as its ability to attract and retain qualified personnel to manage existing operations and future growth.

The loss of an executive officer or other key employee could lead to material disruption to the business.

Related to the Real Estate Industry

General Economic Conditions

All real property investments are subject to elements of risk. The real value of real property and any improvements thereto depend on the credit and financial stability of residents and the vacancy rates of such properties. The properties generate revenue through rental payments made by residents. CAPREIT is affected by changes in general economic conditions (such as the availability and cost of mortgage funds and the impact of the COVID-19

pandemic), local real estate markets (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available rental premises, including new developments, and various other factors. If a significant number of residents are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be leased on economically favourable lease terms, cash available for distribution may be adversely affected.

The global economy may face increasing uncertainty due to trade protectionism, disputes and political events around the world, which could potentially impact Canadian trade and lead to impact on the Canadian economy at large. This could have an impact on employment in the markets in which CAPREIT operates and in turn have an adverse effect on CAPREIT.

Competition for Residents

The real estate business is competitive. Numerous other developers, managers and owners of properties compete with CAPREIT in seeking residents. Competition for residents also comes from opportunities for individual home ownership, including condominiums, which can be particularly attractive when home mortgage loans are available at relatively low interest rates. The existence of competing developers, managers and owners and competition for CAPREIT's residents could have an adverse effect on CAPREIT's ability to lease suites in its properties and on the rents charged, and may increase leasing and marketing costs and refurbishing costs necessary to lease and re-lease suites, all of which could adversely affect CAPREIT's revenues and, consequently, its ability to meet its obligations and pay distributions. For example, increased condominium construction in the GTA could impact the rental market and affect residential rental fundamentals. In addition, any increase in the supply of available rental accommodation in the markets in which CAPREIT operates or may operate could have an adverse effect on CAPREIT.

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

Competition for Real Property Investments

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

Acquisitions

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

Privacy and Cyber Security Risk

CAPREIT may be vulnerable to privacy and cyber security incidents given its reliance on processing personal and business confidential information using information technology systems. Given the increased work from home policies as a result of the COVID-19 pandemic, CAPREIT's reliance on using information technology systems is further elevated during this time period. Third-party vendors, such as cloud host providers and software and application providers and consultants, may also expose CAPREIT to cyber security or privacy incidents.

As technology continues to become more sophisticated and complex, governments are responding with stricter legislation, requiring higher levels of data protection. In Canada, CAPREIT is subject to federal and provincial privacy, anti-spam, and data protection laws. In Europe, CAPREIT and its Irish and Dutch affiliates are required to comply with the EU General Data Protection Regulation (GDPR). Under GDPR, CAPREIT and its affiliates are classified as either data processors, sub-processors or controllers, based on their function with regards to processing of EU personal data. Controllers and (sub)processors may share liability, to varying degrees, in the event of a breach. Non-compliance with either of the Canadian or European laws would also expose CAPREIT and/or its affiliates to the risks above.

A cyber security and/or privacy incident can lead to: (a) unauthorized access to or disclosure of business confidential and personal information, belonging to CAPREIT and its tenants, employees or vendors, (b) identity theft, fraudulent activities and direct losses to stakeholders, including tenants and employees, (c) destruction or corruption of data affecting timeliness or accuracy of financial reporting, (d) lost revenues, (e) disruption to operations, including delays in processing rental applications and rent payments and the time, (f) attention required by management to investigate and respond to a cyber security incident, (g) remediation costs, including to restore or recover lost data, (h) litigation, fines and liabilities, including third-party liabilities, for failure to comply with applicable privacy and data protection laws or contractual obligations, (i) regulatory investigations, (j) increased insurance premiums and (k) reputational damage to CAPREIT.

Foreign Operation and Currency Risks

The Irish, Dutch, Belgian and German real estate markets differ from the Canadian environment and CAPREIT's experience and expertise in managing Canadian properties may not apply perfectly to a foreign operation. Additionally, these foreign markets may differ from Canadian markets with respect to laws and regulations, economic conditions, and market norms. Operating success in these foreign markets will depend on CAPREIT's ability to recognize these differences and adapt its business model accordingly. CAPREIT's growth in foreign jurisdictions also requires management oversight and resources that may have been otherwise focused on its Canadian properties. Additionally, it is possible that CAPREIT's subsidiaries and involvement in foreign operations will expose CAPREIT to foreign currency risk, as CAPREIT's functional and presentation currency is the Canadian dollar, while the functional currency of CAPREIT's foreign operations and its investment in IRES and ERES is the euro.

Related Party Transactions

On March 29, 2019, CAPREIT NL Holding B.V. ("Holding BV") completed the Acquisition of ECREIT, and the ongoing entity adopted the name European Residential Real Estate Investment Trust, creating Canada's first Europe-focused multi-residential real estate investment trust ("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 ("ERES 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 ERES Class B LP Units, 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. In addition, pursuant to the terms of the pipeline agreement dated March 29, 2019, there were a number of transactions occurring in 2019 resulting in further ownership of ERES Class B LP Units. For further information, please see CAPREIT's 2019 Annual Report. ERES Class B LP Units are exchangeable for ERES units on a one-to-one basis. As at December 31, 2020, CAPREIT has a controlling interest of 66.0% effective ownership in ERES.

As at December 31, 2020, CAPREIT has an 18.8% share ownership in IRES and has determined it has significant influence over IRES. A summary of related party transactions can be found in note 28 to CAPREIT's consolidated annual financial statements for the year ended December 31, 2020.

Commitments and Contingencies

A summary of commitments and contingencies can be found in notes 29 and 30 to CAPREIT's consolidated annual financial statements for the year ended December 31, 2020.

Subsequent Events

A summary of subsequent events can be found in note 32 to CAPREIT's consolidated annual financial statements for the year ended December 31, 2020.

Future Outlook

CAPREIT believes the multi-unit residential rental business will continue to strengthen in the majority of the markets in which it operates over the long term. With strong market fundamentals, and through its proven property and asset management programs, CAPREIT 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, which may be temporarily impacted by the COVID-19 pandemic. CAPREIT also anticipates operating revenues will benefit from programs that enhance ancillary revenues, including fees for parking, commercial leases, laundry, cable, telecommunications and other income sources. In addition, numerous successful cost management initiatives are proving effective, leading to stable and growing same property NOI over the long term.

CAPREIT believes the strong defensive characteristics of its property portfolio, due to diversification by geography in Canada and the Netherlands, and by property type, including its strong presence in the Canadian MHC business, will serve to mitigate the negative impact of any future unfavourable economic conditions that certain regions may experience (please refer to "COVID-19 and Other Public Health Crises" above).

CAPREIT continues to evaluate opportunities to expand and diversify its property portfolio through accretive acquisitions at below replacement cost where management believes it can enhance returns on investment by increasing and stabilizing occupancy, growing Net AMRs, reducing operating costs, and enhancing property values through its capital investment and property improvement programs. CAPREIT is also targeting modernizing and reducing the average age of its property portfolio by acquiring newer, recently constructed properties. Newer properties require less repair and maintenance or capital improvement costs. 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:

- CAPREIT 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 has focused on ensuring it maintains strong relations with its residents while its capital investment and property improvement programs are aimed at enhancing the lives of its residents and ensuring properties and amenities meet their needs.
- CAPREIT continues to invest in and adopt the latest technologies and solutions to enhance the REIT's risk management, market research and operating efficiency, while reducing costs and strengthening relationships with its residents.
- CAPREIT's building infrastructure improvement programs are designed to upgrade and reposition properties through 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 the portfolio's useful life over the long term.

From time to time, CAPREIT may identify certain non-core assets for sale that do not conform to its current portfolio composition or operating strategies, or where CAPREIT believes their value has been maximized. CAPREIT believes the realization and reinvestment of capital from such non-core property dispositions are fundamental components of its growth strategy and demonstrate the success of its investment programs.

CAPREIT will prudently investigate the opportunity to develop new multi-unit rental residential properties on land it owns, as well as add new rental suites in certain properties where the opportunity exists. Such investments are highly accretive as no land costs are incurred and serve to further modernize and reduce the average age of its portfolio. CAPREIT believes its current portfolio provides the opportunity to add new rental suites over time through its development and intensification initiatives, primarily in Vancouver and Toronto where demand remains strong and monthly rents support profitable investment.

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 refinancing risk. CAPREIT believes that, with the continuing availability of lower cost CMHC-insured financing, CAPREIT is well positioned to meet its financing and refinancing objectives at reasonable costs. Effective July 1, 2020, CMHC has revised its requirements for the eligibility of multi-unit CMHC-insured financing and limited it to financing for the purpose of property purchase, construction, capital repairs or improvements, or securing permanent financing. Due to CAPREIT's well-defined use of proceeds, the rule changes are not expected to have a material impact.

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

Through numerous ESG programs, CAPREIT ensures it remains a responsible steward of the environment, attracts and retains the best people in its business, builds strong relationships with its residents and the communities in which they live, adopts best practice programs in governance, and maintains open and transparent communication with its investors. In support of CAPREIT's ESG integration, CAPREIT initiated its inaugural Global Real Estate Sustainability Benchmark ("GRESB") submission in 2020, the results of which will underpin the development of our strategy going forward. Further details on the progress of CAPREIT's ESG performance are disclosed in its 2020 ESG Report.

As discussed in context in various sections of this MD&A, management continues to monitor the potential impact to CAPREIT of the COVID-19 pandemic and assess and implement, as applicable, various measures designed to help ensure the health and safety of our communities and to mitigate the potential areas of risk to our business.

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.

Fee Simple Interests – Apartments and Townhomes – The majority of CAPREIT's investment in its property portfolio is in the form of fee simple interests, representing freehold ownership of the properties subject only to typical encumbrances, such as mortgages.

Operating Leasehold Interests – CAPREIT owns leasehold interests in three properties located in the Greater Toronto Area as at December 31, 2020, compared to 13 properties as at December 31, 2019. The leases mature between 2033 and 2037. While separate lease arrangements exist for each property, the general structure is common across all leases: each lease is for a 35-year term and the rent for the entire lease term was fully paid at the time the leasehold interest was acquired. Each lease also provides CAPREIT with a purchase option exercisable between the 26th and 35th year of the lease term.

Land Leasehold Interests – CAPREIT owns ground leasehold interests in three land parcels in Alberta and one land parcel in British Columbia, as well as an air leasehold interest in the space occupied by an apartment in the Greater Toronto Area. CAPREIT acquired a residential building on each of the four land parcels and pays ground rent on an annual basis for its use of the land. One lease matures in 2045, two mature in 2068, one matures in 2070, and another matures in 2072. CAPREIT does not have the unilateral right to acquire the land or extend the lease term at the maturity of the respective leases (see Portfolio of Land Leasehold Interests for additional information).

Fee Simple Interests – MHC Land Lease Sites – CAPREIT has fee simple interests in 75 MHCs, whereby CAPREIT owns the sites, which it rents to residents.

Portfolio by Type of Property Interest

As at December 31,	2020	%	2019	%
Fee simple interests – apartments and townhomes	50,219	78.7	44,408	73.2
Operating leasehold interests	339	0.5	3,574	5.9
Land leasehold interests	1,376	2.2	1,051	1.7
Total residential suites	51,934	81.4	49,033	80.8
Fee simple interests – MHC land lease sites	11,856	18.6	11,680	19.2
Total suites and sites	63,790	100.0	60,713	100.0

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 December 31,	2020	%	2019	%
Residential Suites				
Ontario				
Greater Toronto Area	16,160	25.3	16,155	26.6
London / Kitchener / Waterloo	3,261	5.1	2,960	5.0
Ottawa	2,750	4.3	2,377	3.9
Other Ontario	1,702	2.6	1,702	2.8
	23,873	37.3	23,194	38.3
Québec				
Greater Montréal Region	7,771	12.2	7,655	12.6
Québec City	2,517	3.9	2,517	4.1
	10,288	16.1	10,172	16.7
British Columbia				
Greater Vancouver Region	3,551	5.6	3,551	5.8
Victoria	1,697	2.7	1,550	2.6
	5,248	8.3	5,101	8.4
Nova Scotia				
Halifax	3,288	5.1	1,659	2.7
Alberta				
Calgary	1,775	2.8	1,963	3.2
Edmonton	544	0.9	435	0.7
	2,319	3.7	2,398	3.9
Prince Edward Island				
Charlottetown	637	1.0	643	1.1
Saskatchewan				
Regina	234	0.4	234	0.4
Total Canadian residential suites	45,887	71.9	43,401	71.5
Europe				
The Netherlands	6,047	9.5	5,632	9.3
Total residential suites	51,934	81.4	49,033	80.8
MHC Sites				
Total MHC sites	11,856	18.6	11,680	19.2
Total suites and sites	63,790	100.0	60,713	100.0

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.

Portfolio of Operating Leasehold Interests

CAPREIT has the option to acquire fee simple interests in three of the properties, which are exercisable between the 26th and 35th years of the respective leases. In 2020, CAPREIT completed the early buyout of 10 operating leases and converted the properties into nine fee simple and one land leasehold interest. For further details, please see Section V – Investment Properties for further details.

The purchase options are independently exercisable, enabling CAPREIT to acquire additional interests in any or all of the properties. The option prices vary by property and by the year in which the option is to be exercised. The aggregate range of option prices would be approximately \$48 million to \$56 million if each of the options were exercised in the 26th and 35th years, respectively, of the lease terms. If CAPREIT elected to exercise any option prior to the maturity of the lease term, CAPREIT would be entitled to receive a pro rata amount of the prepaid lease amount based on the remaining lease term. In addition, under certain circumstances, the option price may be reduced by the unamortized portion of capital expenditures incurred during the final 10 years of the lease term.

The mortgages on each of these three properties are scheduled to be fully repaid by their respective option exercise dates, which management expects will enable CAPREIT to utilize the equity in these properties to fully finance the option exercise prices.

Operating Leasehold Interests Portfolio by Lease Maturity

(\$ Thousands)

As at December 31, 2020

Year of Lease Maturity	Properties	Suites	%	Option Exercise Prices		Prepaid Lease Amount ⁽¹⁾
				26th Year	35th Year	
2033	1	65	19.2	\$ 5,662	\$ 6,766	\$ 3,800
2034	1	75	22.1	11,400	13,650	7,775
2037	1	199	58.7	30,600	36,000	21,000
Total Operating Leasehold Interests portfolio	3	339	100.0	\$ 47,662	\$ 56,416	\$ 32,575

⁽¹⁾ As at the acquisition dates of these leasehold interests by a CAPREIT predecessor.

Portfolio of Land Leasehold Interests

In the absence of any new arrangements negotiated between CAPREIT and the landowners of the five investment properties on which CAPREIT has Land Leasehold Interests, CAPREIT's interests in one property matures in 2045, in two properties in 2068, one property in 2070 and another property in 2072. Generally, each lease provides for annual ground rent or air rights rent and additional rent calculated from the properties' operating results. All rental payments associated with Land Leasehold Interests are included in other operating expenses (see Results of Operations).

Land Leasehold Interests Portfolio by Lease Maturity

(\$ Thousands)

Year Ended December 31,

Year of Lease Maturity	Suites	%	Annual Rent	
			2020	2019
2045	471	34.2	\$ 2,947	\$ 2,291
2068	306	22.2	1,370	1,275
2070	272	19.8	1,157	1,169
2072	327	23.8	\$ 648	\$ 614
Total Land Leasehold Interests portfolio	1,376	100.0	\$ 6,122	\$ 5,349

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and information included in this Annual Report have been prepared by the management of CAPREIT in accordance with International Financial Reporting Standards, and include amounts based on management's informed judgments and estimates. Management is responsible for the integrity and objectivity of these consolidated financial statements. The financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements in all material respects.

To assist management in the discharge of these responsibilities, management has established the necessary internal controls, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. These internal controls are designed to ensure that CAPREIT's financial records are reliable for preparing financial statements; other financial information and transactions are properly authorized and recorded; and assets are safeguarded.

As at December 31, 2020, CAPREIT's President and Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, of the design and operating effectiveness of CAPREIT's internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that evaluation, determined that CAPREIT's internal controls over financial reporting were appropriately designed and operating effectively.

PricewaterhouseCoopers LLP, the independent auditor appointed by the Unitholders, have examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the consolidated financial statements. Their report as auditor is set forth below.

The consolidated financial statements have been further reviewed and approved by the Board of Trustees on the recommendation of the Audit Committee. This committee meets regularly with management and the auditor, who have full and free access to the Audit Committee.

February 24, 2021



Mark Kenney
President and Chief
Executive Officer



Scott Cryer
Chief Financial Officer



Independent auditor's report

To the Unitholders of Canadian Apartment Properties Real Estate Investment Trust

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Canadian Apartment Properties Real Estate Investment Trust and its subsidiaries (together, the Trust) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Trust's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2020 and 2019;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties: Canadian fee simple interests and MHC land lease sites and European residential interests.</p> <p><i>Refer to note 2 – Summary of Significant Accounting Policies, note 3 – Critical Accounting Estimates, Assumptions and Judgments and note 6 – Investment Properties to the consolidated financial statements.</i></p> <p>The Trust's investment properties are measured at fair value as at the consolidated balance sheet dates. Total investment properties as at December 31, 2020 have a fair value of \$15,001 million and include Canadian fee simple interests and MHC land lease sites and European residential interests with a combined fair value of \$14,458 million. Fair value is determined in accordance with recognized valuation techniques. The techniques used comprise both the Direct Income Capitalization (DC) and the Discounted Cash Flow (DCF) methods. Management is responsible for determining the fair value of the Trust's investment properties, using independent external valuations prepared by qualified external appraisers. Critical judgments are made by management in respect of the fair values of investment properties.</p> <p>For the Canadian fee simple interests and MHC land lease sites, the Trust utilizes the DC method. Under the DC method, capitalization rates are applied to a future stabilized net operating income (NOI) reflecting market-based NOI assumptions. For the European residential interests, the Trust utilizes a DCF method and a DC method (the</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <p>For a sample of Canadian fee simple interests and MHC land lease sites, tested how management determined the fair value, which included the following:</p> <ul style="list-style-type: none">• Evaluated the appropriateness of the DC method used.• Tested the underlying data used in the DC method.• Evaluated the reasonableness of the following critical assumptions:<ul style="list-style-type: none">– Capitalization rates, by comparing to current industry data or comparable market transactions, as applicable; and– Future stabilized NOI, by:<ul style="list-style-type: none">○ Comparing stabilized property revenue to budgets and actual performance,○ Comparing stabilized property expenses to actual performance, market data and budgets, where applicable.○ Considering whether the assumptions are aligned with evidence obtained in other areas of our audit.• Professionals with specialized skill and knowledge in the field of real estate valuations further assisted us in evaluating the reasonableness of the capitalization rates and future stabilized NOI.



Key audit matter

valuation methods). The most critical assumptions used in the DCF method include the stabilized cash flows, the discount rate applied over the term of the cash flows and the terminal capitalization rate. The most critical assumptions used in the DC method include the future stabilized NOI and the capitalization rates. Stabilized cash flows and future stabilized NOI incorporate various assumptions including property revenue and property operating expenses.

We considered this a key audit matter due to the critical judgments made by management when determining the fair values of the investment properties related to the Canadian fee simple interests and MHC land lease sites and European residential interests, and the high degree of complexity in assessing audit evidence related to the significant assumptions made by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of real estate valuations.

How our audit addressed the key audit matter

For the European residential interests, valued using the DC Method, tested how management determined the fair value, which included the following:

- Evaluated the appropriateness of the valuation method used.
- For a sample of properties, tested the underlying data, and evaluated critical assumptions, such as property revenue, and property operating expenses, used in the valuation method.

Professionals with specialized skill and knowledge in the field of real estate valuations assisted us in evaluating the valuation methods of the European residential interests by:

- Evaluating the reasonableness of the fair value of the European residential interests by developing an independent point estimate of the fair value using a DC method. This involved the use of available market data to independently develop assumptions related to capitalization rates and stabilized NOI, which incorporated various assumptions including property revenue and property operating expenses; and
- Comparing the independent point estimate to management's estimate to evaluate the reasonableness of management's estimate.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Lee-Anne Kovacs.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 24, 2021

Consolidated Balance Sheets

(CA\$ thousands)

As at	Note	December 31, 2020	December 31, 2019
Non-current assets			
Investment properties	6	\$ 15,000,591	\$ 13,096,426
Investment in associate	7	257,210	224,812
Derivative asset	20	778	3,984
Other non-current assets	8	73,810	76,872
Total non-current assets		15,332,389	13,402,094
Current assets			
Derivative assets	20	55	—
Other current assets	8	44,965	58,760
Cash and cash equivalents		121,722	477,328
Total current assets		166,742	536,088
Total assets		\$ 15,499,131	\$ 13,938,182
Non-current liabilities			
Mortgages payable	12	\$ 4,811,131	\$ 3,792,358
Bank indebtedness	13	104,810	623,893
Unit-based compensation financial liabilities	14,15	14,123	14,391
ERES units held by non-controlling unitholders	11	328,535	364,928
Derivative liability	20	8,023	3,361
Deferred income tax liability	22	59,964	32,312
Lease liabilities		36,565	37,775
Total non-current liabilities		5,363,151	4,869,018
Current liabilities			
Mortgages payable	12	590,071	436,447
Bank indebtedness	13	13,743	—
Unit-based compensation financial liabilities	14,15	19,624	18,658
Derivative liability	20	15,366	3,734
Accounts payable and accrued liabilities	10	131,888	116,544
Other current liabilities	9	13,985	30,778
Security deposits		41,218	39,575
Exchangeable LP Units	16	16,632	—
Distributions payable		19,751	19,533
Total current liabilities		862,278	665,269
Total liabilities		\$ 6,225,429	\$ 5,534,287
Unitholders' equity			
Unit capital		\$ 4,103,912	\$ 4,013,941
Accumulated other comprehensive income (loss)	23	70,047	(19,510)
Retained earnings		5,099,743	4,409,464
Total unitholders' equity		\$ 9,273,702	\$ 8,403,895
Total liabilities and unitholders' equity		\$ 15,499,131	\$ 13,938,182

See accompanying notes to the consolidated annual financial statements.

Consolidated Statements of Income and Comprehensive Income

(CA\$ thousands)

For the Year Ended December 31,	Note	2020	2019
Operating revenues			
Revenue from investment properties	27	\$ 882,643	\$ 780,780
Operating expenses			
Realty taxes		(81,596)	(73,546)
Property operating costs		(222,876)	(199,084)
Total operating expenses		(304,472)	(272,630)
Net rental income		578,171	508,150
Trust expenses		(43,268)	(46,244)
Transaction costs		–	(8,527)
Unit-based compensation expense	15	(5,160)	(14,838)
Fair value adjustments of investment properties	6	595,859	892,156
Realized loss on disposition of investment properties	5	(1,387)	–
Amortization of property, plant and equipment		(7,668)	(6,290)
Fair value adjustments of Exchangeable LP Units	16	(1,230)	–
Gain (loss) on non-controlling interest	11	24,478	(47,058)
Fair value adjustments of investments		(3,979)	6,522
Loss on derivative financial instruments	20	(52,672)	(3,684)
Interest and other financing costs	24	(164,625)	(135,216)
Gain on foreign currency translation		5,982	37,933
Other income	27	29,990	34,904
Net income before income taxes		954,491	1,217,808
Current and deferred income tax expense	22	(28,563)	(22,361)
Net income		\$ 925,928	\$ 1,195,447
Other comprehensive income (loss), including items that may be reclassified subsequently to net income			
Amortization of losses from AOCI (AOCL) to interest and other financing costs	23	\$ 2,570	\$ 3,810
Gain (loss) on foreign currency translation	23	86,987	(52,166)
Other comprehensive income (loss)		\$ 89,557	\$ (48,356)
Comprehensive income		\$ 1,015,485	\$ 1,147,091

See accompanying notes to the consolidated annual financial statements.

Consolidated Statements of Unitholders' Equity

(CA\$ thousands)

	Note	Unit capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Unitholders' equity, January 1, 2020		\$ 4,013,941	\$ 4,409,464	\$ (19,510)	\$ 8,403,895
Unit capital					
Distribution Reinvestment Plan	17	68,108	—	—	68,108
Settlement of Exchangeable LP Units	16	15,321	—	—	15,321
RUR Plan	15,17	3,882	—	—	3,882
Employee Unit Purchase Plan	15	2,660	—	—	2,660
Total unit capital		89,971	—	—	89,971
Retained earnings and other comprehensive income					
Net income		—	925,928	—	925,928
Other comprehensive income		—	—	89,557	89,557
Total retained earnings and other comprehensive income		—	925,928	89,557	1,015,485
Distributions on Trust Units					
Distributions declared and paid	18	—	(215,898)	—	(215,898)
Distributions payable	18	—	(19,751)	—	(19,751)
Total distributions on Trust Units		—	(235,649)	—	(235,649)
Unitholders' equity, December 31, 2020		\$ 4,103,912	\$ 5,099,743	\$ 70,047	\$ 9,273,702

	Note	Unit capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Unitholders' equity, January 1, 2019		\$ 2,855,701	\$ 3,432,153	\$ 28,846	\$ 6,316,700
Unit capital					
New Trust Units issued	17	1,074,315	—	—	1,074,315
Distribution Reinvestment Plan	17	67,393	—	—	67,393
Deferred Unit Plan	15,17	7,900	—	—	7,900
RUR Plan	15,17	6,586	—	—	6,586
Employee Unit Purchase Plan	15	2,046	—	—	2,046
Total unit capital		1,158,240	—	—	1,158,240
Retained earnings and other comprehensive loss					
Net income		—	1,195,447	—	1,195,447
Other comprehensive loss		—	—	(48,356)	(48,356)
Total retained earnings and other comprehensive loss		—	1,195,447	(48,356)	1,147,091
Distributions on Trust Units					
Distributions declared and paid	18	—	(198,603)	—	(198,603)
Distributions payable	18	—	(19,533)	—	(19,533)
Total distributions on Trust Units		—	(218,136)	—	(218,136)
Unitholders' equity, December 31, 2019		\$ 4,013,941	\$ 4,409,464	\$ (19,510)	\$ 8,403,895

Consolidated Statements of Cash Flows

(CA\$ thousands)

For the Year Ended December 31,	Note	2020	2019
Cash provided by (used in):			
Operating activities			
Net income		\$ 925,928	\$ 1,195,447
Items related to operating activities not affecting cash:			
Fair value adjustments – investment properties		(595,859)	(892,156)
Fair value adjustments – Exchangeable LP Units		1,230	–
Fair value adjustments – investments		3,979	(6,522)
Mark-to-market (gain) loss on ERES units	11	(37,020)	43,120
Loss on disposition of investment properties	5	1,387	–
Loss on derivative financial instruments	20	52,672	3,684
Amortization	8,23,24	33,963	18,709
Unit-based compensation expense	15	5,160	14,838
Straight-line rent adjustment		(180)	(132)
Deferred income tax expense	22	25,213	5,079
Net profit from investment in associate	27	(17,173)	(23,440)
Unrealized foreign currency gain		(5,982)	(37,933)
Total items related to operating activities not affecting cash		393,318	320,694
Net income items related to financing and investing activities	26	143,078	124,989
Changes in non-cash operating assets and liabilities	26	(55,040)	12,881
Cash provided by operating activities		481,356	458,564
Investing activities			
Acquisition of investment properties	26	(685,398)	(1,327,400)
Capital investments	26	(244,857)	(242,357)
Operating lease buyout	6,25	(127,819)	(14,746)
Acquisition of investments	28	(8,020)	(40,668)
Disposition of investment properties	26	33,312	–
Change in restricted cash		(258)	(935)
Investment income received		11,670	10,039
Cash acquired on business combination		–	9,069
Cash used in investing activities		(1,021,370)	(1,606,998)
Financing activities			
Mortgage financings	26	1,529,964	828,507
Mortgage principal repayments	26	(136,087)	(125,902)
Mortgages repaid on maturity	26	(353,966)	(232,336)
Lease payments		(5,664)	(3,402)
Financing costs		(7,025)	(6,561)
CMHC premiums on mortgages payable		(34,994)	(9,852)
Interest paid on mortgages and bank indebtedness	26	(130,398)	(119,609)
Bank indebtedness	26	(498,783)	87,000
Proceeds on issuance of ERES units, net of issuance costs	11	–	250,746
Proceeds on issuance of Trust Units, net of issuance costs	26	2,476	1,076,107
Net cash distributions	26	(180,071)	(150,456)
Cash provided by financing activities		185,452	1,594,242
Changes in cash and cash equivalents during the year		(354,562)	445,808
Effect of exchange rate changes on cash		(1,044)	5,807
Cash and cash equivalents, beginning of the year		477,328	25,713
Cash and cash equivalents, end of the year		\$ 121,722	\$ 477,328

See accompanying notes to the consolidated annual financial statements.

Notes to Consolidated Financial Statements

December 31, 2020

(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-ended mutual fund 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 April 1, 2020. CAPREIT commenced active operations on February 4, 1997 when it acquired an initial portfolio of properties. CAPREIT became a reporting issuer on May 21, 1997 pursuant to an initial public offering prospectus of its units (“Trust Units”) dated May 12, 1997.

CAPREIT Limited Partnership (“CAPLP”), a subsidiary of CAPREIT established under the laws of the Province of Manitoba pursuant to a limited partnership agreement dated June 26, 2007, and as most recently amended and restated on June 22, 2020, owns directly or indirectly the beneficial interest of all its properties along with the related mortgages and all the debt obligations of CAPREIT.

As at December 31, 2020, CAPREIT directly and indirectly holds a 66.0% (December 31, 2019 – 66.0%) ownership of European Residential Real Estate Investment Trust (“ERES”), which operates primarily in the Netherlands, with the remaining 34.0% (December 31, 2019 – 34.0%) held by non-controlling unitholders. CAPREIT owns units of ERES (“ERES units”) and Class B Limited Partnership units (“ERES Class B LP Units”) of ERES Limited Partnership (“ERES LP”). ERES Class B LP Units are exchangeable, on a one-for-one basis, for ERES units at the option of the holder, and have economic and voting rights through special voting units of ERES that are equivalent, in all material respects, to ERES units.

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

a) Statement of Compliance

CAPREIT has prepared these consolidated annual financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of consolidated annual financial statements. These policies have been consistently applied to all years presented, unless stated otherwise.

These consolidated annual financial statements were approved by CAPREIT’s Board of Trustees on February 24, 2021.

b) Basis of Presentation

These consolidated annual financial statements have been prepared on a going concern basis, presented in Canadian dollars, which is also CAPREIT’s functional currency, and have been prepared on a historical cost basis except for:

- i) investment properties and certain financial instruments, which are stated at fair value;
- ii) certain unit-based compensation accounts, which are stated at fair value;
- iii) ERES units held by non-controlling unitholders, which are stated at fair value; and
- iv) Class B limited partnership units of CAPLP (“Exchangeable LP Units”), which are stated at fair value.

In these consolidated annual financial statements, all values are rounded to the nearest thousand (\$000), except unit or per unit amounts or when otherwise noted.

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

c) Principles of Consolidation

i) Subsidiaries

These consolidated annual financial statements comprise the assets and liabilities of all subsidiaries and the results of all subsidiaries for the financial period. CAPREIT and its subsidiaries are collectively referred to as “CAPREIT” in these consolidated annual financial statements. Subsidiaries are all entities over which CAPREIT has control. CAPREIT controls an entity when CAPREIT is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date control commences and deconsolidated from the date control ceases. Where CAPREIT consolidates a subsidiary in which it does not have 100% ownership and where the non-controlling interest contains an option or a redemption feature, the non-controlling interest is classified as a financial liability.

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. International Accounting Standard (“IAS”) 12, Income Taxes (“IAS 12”), applies to temporary differences that arise from the elimination of profits and losses resulting in intragroup transactions.

ii) Joint Arrangements

CAPREIT has joint arrangements in and joint control of a number of properties. CAPREIT has assessed the nature of its joint arrangements and determined them to be joint operations. For joint operations, CAPREIT recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions in the consolidated balance sheets and consolidated statements of income and comprehensive income. In general, CAPREIT has recourse against all of the assets of the joint operations in the event that CAPREIT is called on to pay liabilities in excess of its proportionate share.

All balances and effects of transactions between joint operations and CAPREIT have been eliminated to the extent of CAPREIT’s interest in the joint operations.

iii) Investment in Associates

An associate is an entity over which the investor has significant influence, but not control. Generally, CAPREIT is considered to exert significant influence when it directly or indirectly holds 20% or more of the voting power of the investee. However, determining significant influence is a matter of judgment and specific circumstances; therefore, holding less than 20% of an entity does not necessarily preclude an entity from having significant influence as the entity may exert significant influence through representation on the Board of Trustees, direction of management or through contractual agreements.

The financial results of CAPREIT’s associates are included in CAPREIT’s consolidated financial statements using the equity method, whereby the investment is carried on the consolidated balance sheets at cost, adjusted for CAPREIT’s proportionate share of post-acquisition changes in CAPREIT’s share of the net assets of the associate. CAPREIT’s share of profits and losses is recognized in other income in the consolidated statements of income and comprehensive income. IFRS provides an exception to recognizing the share of the net assets of the associate if the reporting periods of the entity and the investee are not aligned, provided the information used in preparing the financial statements is not more than three months old. The standard further requires adjustments to this information for any significant transactions or events which may have occurred between the entity’s reporting date and its investee’s most recent reporting date. CAPREIT has applied this guidance in accounting for its investment in IRES.

At each reporting date, CAPREIT evaluates whether there is objective evidence that its interest in an associate is impaired. The entire carrying amount of the associate is compared to the recoverable amount, which is the higher of value in use or fair value less costs to sell.

d) Investment Properties

CAPREIT considers its income properties to be investment properties under IAS 40, Investment Property (“IAS 40”), and has chosen the fair value model to account for investment properties in its consolidated annual financial statements. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm’s-length transaction at the date of valuation.

CAPREIT’s investment properties have been valued on a highest and best use basis and do not include any portfolio premium that may be associated with economies of scale from owning a large portfolio or the consolidation value from having compiled a large portfolio of properties over a long period of time, often through individual property acquisitions.

Investment properties comprise investment interests held in land and buildings (including integral equipment) held for the purpose of producing rental income, capital appreciation or both. CAPREIT’s investments in its property portfolio reflect different forms of property interests, including: (i) Fee Simple Interests – Apartments and Townhomes, (ii) Operating Leasehold Interests, (iii) Land Leasehold Interests and (iv) Fee Simple Interests – Manufactured Home Communities Land Lease Sites. These four forms of property interests meet the definition of investment property and are classified and accounted for as such. All investment properties are recorded at cost, including transaction costs, at their respective acquisition dates and are subsequently stated at fair value at each consolidated balance sheet date, with any gain or loss arising from a change in fair value recognized within net income in the consolidated statements of income and comprehensive income for the period. For Operating Leasehold Interests, all of which are held under prepaid operating leases, CAPREIT measures all such interests at fair value, including the fair value of options to purchase, and these are accounted for and presented as investment properties.

The fair value of all of CAPREIT’s investment properties is determined annually by qualified external appraisers. Management regularly undertakes a review of its investment property valuation between external appraisal dates to assess the continuing validity of the underlying assumptions, such as cash flows, capitalization rates and discount rates. These assumptions are tested against market information obtained from an independent appraisal firm. Where increases or decreases are warranted, the carrying values of CAPREIT’s investment properties are adjusted. See notes 3 and 6 for a detailed discussion of the significant assumptions, estimates and valuation methods used.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

e) Property Acquisitions

At the time of acquisition of a property or a portfolio of investment properties, CAPREIT evaluates whether the acquisition is a business combination or an asset acquisition. IFRS 3, Business Combinations (“IFRS 3”), is only applicable if it is considered that a business has been acquired. A business, according to IFRS 3, is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

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 determining whether an integrated set of activities is acquired in addition to the property or portfolio of properties. Activities can include whether employees were assumed in the acquisition or an operating platform was acquired. Under IFRS 3, CAPREIT has the option 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. The optional concentration test will be applied on a case-by-case basis.

The acquisition method of accounting is used for acquisitions meeting the definition of a business combination. 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 measures the non-controlling interest in the acquiree at fair value if the acquiree is a real estate investment trust ("REIT") or at the proportionate share of the acquiree's identifiable net assets if the acquiree is a corporation. Any transaction costs incurred with respect to the business combination are expensed in the period incurred.

When an acquisition does not represent a business as defined under IFRS 3, CAPREIT classifies these properties or portfolio of properties as an asset acquisition. Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at their fair values at the acquisition date. Acquisition-related transaction costs are capitalized to the property.

f) Presentation of Non-current Assets Classified as Held-for-Sale

Investment properties are reclassified to assets held-for-sale when criteria set out in IFRS 5, Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5"), are met. CAPREIT presents non-current assets classified as held-for-sale and their associated liabilities separately from other assets and liabilities on the consolidated balance sheets and in the notes beginning from the period in which they were first classified as "for sale" and the sale is highly probable. The sale of one or a group of investment properties by CAPREIT will generally be presented as non-current assets held-for-sale and not discontinued operations. If a group of assets held-for-sale is considered to meet the definition of a discontinued operation, then income or expense recognized in the consolidated statements of income and comprehensive income relating to that group of assets is presented separately from continuing operations. A discontinued operation is a component of operations that represents a separate major line of business or geographic area of operations that has been disposed of or is held-for-sale, or is a subsidiary acquired exclusively with a view to resale.

g) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and mainly comprise head office and regional offices leasehold improvements, corporate assets and information technology systems, and are presented within other non-current assets on the consolidated balance sheets. These items are amortized on a straight-line basis over their estimated useful lives, ranging from three to five years or, in the case of leasehold improvements, are amortized over the shorter of the lease term and their estimated useful lives ranging from 10 to 15 years.

h) Tenant Inducements

Incentives such as cash, rent-free periods and move-in allowances may be provided to lessees to enter into a lease. These incentives are capitalized and amortized on a straight-line basis over the term of the lease as a reduction of rental revenue. The carrying amounts of the tenant inducements are included in the fair value of investment properties.

i) Financial Instruments

Determination of Fair Value

Financial assets and financial liabilities

Under IFRS 9, Financial Instruments ("IFRS 9"), financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on the purpose for which the financial instruments were acquired or issued, their characteristics and CAPREIT's designation of such instruments. The standards require that all financial assets and financial liabilities be classified as *fair value through profit or loss ("FVTPL")*, *amortized cost* or *fair value through other comprehensive income ("FVOCI")*. Amortized cost is determined using the effective interest method.

At each reporting date, financial assets measured at amortized cost are assessed for impairment under an expected credit loss ("ECL") approach. CAPREIT applies the simplified approach, which uses lifetime ECLs, for other receivables, which consist primarily of tenant receivables. CAPREIT monitors its collection rate on a monthly basis and ensures that all past due amounts are provided for.

Classification of financial instruments

The following summarizes the type and measurement CAPREIT has applied to each of its significant categories of financial instruments:

Type	Measurement base
Financial assets	
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Other receivables	Amortized cost
Investments	Fair value through profit or loss
Derivative financial assets	Fair value through profit or loss ⁽ⁱ⁾
Financial liabilities	
Mortgages payable	Amortized cost
Bank indebtedness	Amortized cost
Accounts payable and accrued liabilities, and other liabilities	Amortized cost
Security deposits	Amortized cost
Exchangeable LP Units	Fair value through profit or loss
ERES units held by non-controlling unitholders	Fair value through profit or loss
Derivative financial liabilities	Fair value through profit or loss ⁽ⁱ⁾

⁽ⁱ⁾ CAPREIT has previously designated some of its interest rate swap agreements and forward interest rate contracts as cash flow hedges. For CAPREIT's accounting policy on hedging, see j) Hedging Relationships below. Derivatives not designated as a hedging relationship are measured at fair value with changes recognized directly through the consolidated statements of income and comprehensive income within net income.

Cash and cash equivalents and restricted cash

Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less. Restricted cash does not meet the definition of cash and cash equivalents and is included in other current assets on the consolidated balance sheets. Interest earned or accrued on these financial assets is included in other income.

Other receivables

Such receivables arise when CAPREIT provides services to a third party, such as a tenant, and are included in current assets, except for those with maturities more than 12 months after the consolidated balance sheet date, which are classified as non-current assets. Other receivables are included in other assets on the consolidated balance sheets and are accounted for at amortized cost.

Investments

Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented within net income in the consolidated statements of income and comprehensive income in the period in which they arise. Financial assets at FVTPL are classified as current, except for the portion expected to be realized or paid more than 12 months after the consolidated balance sheet date, which is classified as non-current.

Financial liabilities

Such financial liabilities are recorded initially at fair value and subsequently at amortized cost and include all liabilities other than derivatives or liabilities which are accounted for at fair value.

Transaction costs

Transaction costs related to financial assets classified as FVTPL are expensed as incurred. Transaction costs related to financial assets and financial liabilities, measured at amortized cost, are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest method.

Derivatives

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. For CAPREIT's accounting policy on hedging, see j) Hedging Relationships below.

Derivatives not designated as hedging relationships are measured at fair value with changes recognized directly through the consolidated statements of income and comprehensive income within net income.

j) Hedging Relationships

CAPREIT has previously designated some of its interest rate swap agreements and forward interest rate contracts as cash flow hedges. At the inception of a transaction, CAPREIT documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. CAPREIT also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income (loss). The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of income and comprehensive income under net income. Should a hedging relationship become ineffective and/or hedge accounting become no longer appropriate, previously unrealized gains and losses remain within accumulated other comprehensive income (loss) ("AOCI (AOCL)") and are amortized to the relevant item in the consolidated statements of income and comprehensive income in the same periods during which the hedged items affect earnings, while future changes in the fair value of the hedging derivatives are recognized within net income in the consolidated statements of income and comprehensive income.

k) Leases

IFRS 16, Leases ("IFRS 16") sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor.

From a lessee point of view, leases impacted by IFRS 16 encompass CAPREIT's four land lease parcels in Alberta and British Columbia, an air rights lease and leased office space. These leases are recorded as right-of-use assets with corresponding lease liabilities derived by discounting the future payments of each lease by the rate implicit in the lease, where determinable, or the incremental borrowing rate specific to the lease. 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 liabilities and fair value gain (loss) on the right-of-use assets 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. These lease liabilities are determined based on future fixed and in-substance fixed payments, and excludes 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 in 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 and are included within other assets. Such right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

For other leases of low-value assets or short-term leases that end within 12 months of the commencement date and which have no renewal or purchase option, CAPREIT has elected to apply the recognition exemptions specified in IFRS 16, allowing CAPREIT to continue to expense the lease payments in the period in which they are incurred.

l) Mortgages Payable and Bank Indebtedness

Mortgages payable are recognized at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs and discounts directly related to the mortgage are recognized within interest and other financing costs in the consolidated statements of income and comprehensive income

over the expected term of the mortgage. Mortgage maturities and repayments due more than 12 months after the consolidated balance sheet date are classified as non-current. Bank indebtedness is recognized at amortized cost and the amortization of related financing costs is recognized within interest and other financing costs in the consolidated statements of income and comprehensive income over the contractual term of the debt.

m) Prepaid CMHC Premiums

Fees and insurance premiums paid to Canada Mortgage and Housing Corporation ("CMHC") are netted against mortgages payable. They are amortized over the amortization period of the underlying mortgage loans when incurred (initial amortization period is typically 25 to 35 years) and amortization expenses are included in interest and other financing costs in the consolidated statements of income and comprehensive income. If CAPREIT fully refinances an existing mortgage, any unamortized prepaid CMHC premiums and fees associated with the existing mortgages on that property will be written off through interest and other financing costs in the period in which full refinancing occurs. Any premium credits received upon refinancing will be capitalized and amortized over the new amortization period. Similarly, if CAPREIT discharges an existing mortgage, any unamortized prepaid CMHC premiums and fees associated with that mortgage will be written off through interest and other financing costs in the period in which the discharge occurs. If CAPREIT renews a mortgage, CAPREIT will continue to amortize the existing prepaid CMHC premiums and fees associated with the existing mortgage over the remaining amortization period.

n) Exchangeable LP Units

Issued and outstanding Exchangeable LP Units are exchangeable on demand for Trust Units. As the Trust Units are redeemable at the holder's option, the Exchangeable LP Units are classified as current liabilities. The distributions on the Exchangeable LP Units are recognized in the consolidated statements of income and comprehensive income as interest expense under IFRS and the interest payable at the reporting date is reported under other current liabilities on the consolidated balance sheets. These Exchangeable LP Units are remeasured at each reporting date at fair value, as they are considered to be puttable instruments under IAS 32, Financial Instruments: Presentation ("IAS 32"), with changes in the fair value recognized as fair value adjustments of Exchangeable LP Units within net income in the consolidated statements of income and comprehensive income.

o) Comprehensive Income

Comprehensive income includes net income and other comprehensive income (loss). Other comprehensive income (loss) includes gain (loss) on foreign currency translation relating to foreign operations and the effective portion of cash flow hedges, less any amounts reclassified to interest and other financing costs and associated income taxes.

p) Accumulated Other Comprehensive Income (Loss)

AOCI (AOCL) is included on the consolidated balance sheets as Unitholders' equity and includes gains and losses from foreign currency translation relating to foreign operations and the unrealized gains and losses of changes in the fair value of cash flow hedges and derivatives. The components of AOCI (AOCL) are disclosed in note 23.

q) Revenue Recognition

Under IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), revenue is recognized using a uniform, five-step model. The five steps are as follows:

1. Identify the contract(s) with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognize revenue as the performance obligations are satisfied

External asset and property management fees are considered non-lease components and are within the scope of IFRS 15. They are recognized when services under the agreement are performed, and spread over the course of the year, as management services represent a series of services that are substantially the same and have the same pattern of transfer.

Common area maintenance recoveries are considered non-lease components and are within the scope of IFRS 15. They are recognized over time, as they represent a series of services that are substantially the same and have the same pattern of transfer to commercial tenants.

Revenue from investment properties is within the scope of IFRS 16 and is recognized using the straight-line method, whereby the total amount of revenue from investment properties to be received from all leases is accounted for on a straight-line basis over the term of the related leases. The difference between the revenue from investment properties recognized and the amounts contractually due under the lease agreements is accrued as rent receivable, which is included as a component of other current assets on the consolidated balance sheets.

r) Borrowing Costs and Interest on Mortgages Payable

Interest and other financing costs include mortgage interest, which is expensed at the effective interest rate, and transaction costs incurred in connection with the revolving credit facilities, which are capitalized and presented as other non-current assets and amortized over the term of the facility to which they relate.

s) Unit-based Compensation and Incentive Plans

Unit-based compensation benefits are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and provide additional incentives by increasing the participants' interest, as owners, in CAPREIT. Unit-based compensation liabilities are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet date, including amounts where CAPREIT has the unconditional right to defer settlement of vested awards.

CAPREIT accounts for its unit-based compensation plans using the fair value-based method, under which compensation expense is recognized over the vesting period. The key drivers of the recognition and measurement of compensation expense are summarized as follows:

Incentive Plan ⁽¹⁾	Type	Vesting Period	Type of Amortization	Distributions Applied To	Mark-to-Market Until
DUP	Rights	Grant date	Immediate	Additional units	Settled
RUR Plan	Rights	3 years ⁽²⁾	Straight-line	Additional units	Settled
ERES UOP	Options	3 years ⁽³⁾	Graded	N/A	Exercised

⁽¹⁾ For definitions of these plans refer to notes 14 and 15.

⁽²⁾ Vesting fully on the third grant anniversary date

⁽³⁾ Vesting one-third on each grant anniversary date

t) Consolidated Statements of Cash Flows

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

IFRS permits the classification of interest paid as operating cash flows because they enter into the determination of profit or loss, or alternatively as financing cash flows because they are costs of obtaining financial resources. CAPREIT has applied its judgment and concluded that debt financing, which is used to provide leveraged returns to holders of Trust Units ("Unitholders"), is an integral part of its capital structure and not directly associated with its principal revenue-producing activities. Therefore, interest paid is classified as a financing activity in CAPREIT's consolidated statements of cash flows.

u) Income Taxes

CAPREIT is taxed as a Mutual Fund Trust for income tax purposes and intends, at the discretion of the Board of Trustees, to distribute its income for income tax purposes each year to Unitholders to such an extent that it would not be liable for income tax under Part I of the Income Tax Act (Canada) ("Tax Act"). Accordingly, no provision for current income taxes payable is required, with the exception of income earned by subsidiaries that reside in foreign jurisdictions, as discussed below. For a comprehensive discussion of CAPREIT's liability for tax purposes, see note 22.

CAPREIT and its subsidiaries satisfied certain conditions available to REITs (the “REIT Exception”) under amendments to the Tax Act intended to permit a corporate income tax rate of nil as long as the specified conditions continue to be met.

CAPREIT has foreign subsidiaries in a number of countries with varying statutory rates of taxation. Judgment 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 carried on by the foreign subsidiaries are considered to be taxable in those countries.

Deferred income tax relating to foreign subsidiaries is recognized, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the consolidated balance sheet date, and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

v) Earnings per Unit

As a result of the redemption feature of CAPREIT’s Trust Units, these Trust Units are considered financial liabilities under IAS 33, Earnings per Share (“IAS 33”), and they may not be considered equity for the purposes of calculating net income on a per unit basis. Consequently, CAPREIT has elected not to report an Earnings per Unit calculation, as permitted under IFRS.

w) Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of CAPREIT and the presentation currency for the consolidated financial statements.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated into the functional currency using the prevailing rate of exchange at the consolidated balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statements of income and comprehensive income. Non-monetary items that are measured at their historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign exchange gains and losses are presented in the consolidated statements of income and comprehensive income.

In determining the functional currency of CAPREIT’s foreign subsidiaries, CAPREIT considers factors such as (i) the currency that mainly influences sale prices for goods and services and the country whose competitive forces and regulations mainly determine the sale prices of those goods and services and (ii) the currency that mainly influences labour, material and other costs of providing goods and services. The functional currency for CAPREIT’s Irish and Dutch subsidiaries is the euro.

The results and financial position of all the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- ii. income and expenses for each statement of income and comprehensive income are translated at average exchange rates; and
- iii. all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are recorded in other comprehensive income (loss). When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statements of income and comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

x) ERES Units Held by Non-Controlling Unitholders

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. Although IAS 32 allows ERES to classify these units as equity on 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 on the consolidated balance sheet and is measured at fair value, with changes in the fair value recorded as fair value adjustment on non-controlling interest in the consolidated statement of income and comprehensive income.

y) IFRIC 21, Levies

This is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"). IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

z) 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. Impairment losses relating to goodwill cannot be reversed in future periods.

aa) 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 ("CEO").

ab) Impact of Accounting Standards Effective January 1, 2020 on CAPREIT's Current Year Consolidated Financial Statements

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 was no impact on transition as the amendment is effective for business combinations for which the acquisition date is on or after the transition date. Therefore, no adjustment was required for acquisitions that were completed prior to January 1, 2020. The amendment was applied during the year ended December 31, 2020.

Interest Rate Benchmark Reform (Phase 1)

The IASB published 'Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)' as a first reaction to the potential effects of the IBOR reform. The amendments made to IFRS 9, IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39") and IFRS 7, Financial Instruments: Disclosures ("IFRS 7") provide certain reliefs in relation to the interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. The amendments are effective for annual periods beginning on or after January 1, 2020. CAPREIT has assessed the impact and concluded that there is no material impact to CAPREIT as the amendments affect entities with hedging relationships directly affected by the interest rate benchmark reform and which apply the hedge accounting requirements of IFRS 9 or IAS 39.

ac) Future Accounting Changes**Interest Rate Benchmark Reform (Phase 2)**

The IASB published 'Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' in relation to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting. The IASB introduces a practical expedient for modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis, which are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16. Under the amendments, hedge accounting is not discontinued solely because of the IBOR reform, but hedging relationships must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements. The amendments are effective for annual periods beginning on or after January 1, 2021, and are applied retrospectively, with earlier application permitted. The amendments have not been early adopted by CAPREIT, and are not expected to have a material impact on CAPREIT in the current or future reporting periods and on foreseeable future transactions.

IAS 1, Presentation of Financial Statements ("IAS 1")

The IASB issued 'Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)' in January 2020, affecting the presentation of liabilities in the statement of financial position. The narrow-scope amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments must be applied retrospectively in accordance with the normal requirements of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"). The amendments are effective for annual periods beginning on or after January 1, 2023 (in accordance with 'Classification of Liabilities as Current or Non-Current – Deferral of Effective Date (Amendment to IAS 1)' issued by the IASB in July 2020), with earlier application permitted. The amendments have not been early adopted by CAPREIT. CAPREIT is currently assessing any potential impact of this amendment.

3. Critical Accounting Estimates, Assumptions and Judgments

The preparation of consolidated annual financial statements in accordance with IFRS requires the use of estimates, assumptions and judgments that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the consolidated annual financial statements and accompanying notes. Areas of such estimation include, but are not limited to: valuation of investment properties, remeasurement at fair value of financial instruments, valuation of accounts receivable, valuation of the investment in Irish Residential REIT plc ("IRES"), capitalization of costs, accounting accruals, the amortization of certain assets, accounting for deferred income taxes and determining whether an acquisition is a business combination or an asset acquisition. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated annual financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions and conditions.

The estimates or judgments deemed to be more significant, due to subjectivity and the potential risk of causing a significant adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

i) Valuation of Investment Properties

Investment properties are measured at fair value as at the consolidated balance sheet dates. Any changes in fair value are included within net income in the consolidated statements of income and comprehensive income. Fair value is determined in accordance with recognized valuation techniques. The techniques used comprise both the Direct Income Capitalization ("DC") and the Discounted Cash Flow ("DCF") methods, and include estimating, among other things (all considered Level 3 inputs), future stabilized net operating income, capitalization rates, reversionary capitalization rates, discount rates and other future cash flows applicable to investment properties. Fair values for investment properties are classified as Level 3 in the fair value hierarchy, as disclosed in note 19.

The valuation of investment properties is subject to significant judgments, estimates and assumptions about market conditions in effect as at the consolidated balance sheet date. See note 6 for a detailed discussion of valuation methods and the significant assumptions and estimates used.

ii) Valuation of Financial Instruments

The fair value of derivative assets and liabilities is based on assumptions that involve significant estimates. The basis of valuation for CAPREIT's derivatives is set out in note 19. The fair values of derivatives reported may differ significantly from the amounts they are ultimately settled for if there is volatility between the valuation date and settlement date.

iii) Investment in IRES

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 judgment when considering the extent of its ownership interest in IRES, the level of its involvement, responsibilities and remuneration as IRES's investment manager, and the control exerted over IRES by its independent board of directors. Management reassesses this conclusion when its ownership interest or the terms of the investment management agreement change.

iv) 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 goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

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;
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.

As outlined in note 2, CAPREIT has the option 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 under IFRS 3. 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. The optional concentration test will be applied on a case-by-case basis.

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.

v) Valuation of Goodwill

The acquisition method of accounting is used for acquisitions meeting the definition of a business combination. 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. Goodwill arising on acquisition is recognized as an asset and is initially measured at cost as the excess of the total consideration transferred over the net fair value of the identifiable assets acquired and liabilities assumed. Goodwill is initially recognized at cost and is subsequently measured at cost less any accumulated impairment losses. Refer to note 2(z) for details on the goodwill impairment test.

In addition to the discussion of these critical accounting estimates and judgments as set out above, the significant global uncertainty resulting from the novel coronavirus ("COVID-19") pandemic has the following impact:

i) Valuation of Investment Properties

The availability of reliable market metrics to inform opinions of value is reduced, and therefore a higher degree of judgment must be applied. Consequently, fair values are subject to significant change. Refer to note 6 for further information.

ii) Valuation of Financial Instruments

The fair value of CAPREIT's derivatives as reported may differ significantly from the amounts they are ultimately settled for due to volatility between the valuation date and settlement date. In response to the developing COVID-19 pandemic, there is increased volatility in the financial markets. CAPREIT is subject to these market fluctuations, impacting interest rates upon which the fair values of CAPREIT's interest rate swaps are derived, and expects to continue to experience significant volatility in interest rates as the situation evolves. As a result, there is uncertainty in the future expected interest rates (forward curves) upon which are based the expected variable cash receipts, thereby impacting the fair values of CAPREIT's interest rate swaps.

iii) Investment in IRES

In response to the developing COVID-19 pandemic, there is increased volatility in the financial markets. IRES is subject to these market fluctuations, impacting its share price, which may continue to experience significant volatility as the situation evolves. CAPREIT has determined that the deficiency of the market capitalization of IRES over the carrying amount of the investment as at December 31, 2020 is an indicator of impairment. As such, an impairment assessment was performed. The recoverable amount was determined using a value in use approach using inputs classified as Level 3 in the fair value hierarchy. Based on this analysis, an impairment of \$nil was recorded for the year ended December 31, 2020. Refer to note 7 for further information.

iv) Valuation of Goodwill

CAPREIT recognized goodwill pursuant to the reverse acquisition (the “Acquisition”) of European Commercial Real Estate Investment Trust (“ECREIT”) on March 29, 2019, which was tested for impairment in the fourth quarter of the year ended December 31, 2019, resulting in an impairment of \$nil being recorded. Due to the COVID-19 pandemic, there is an increased risk that goodwill may be impaired as a result of the economic uncertainty and the financial market response. CAPREIT has determined that the decline in the market capitalization of ERES as at December 31, 2020 is an indicator of impairment and as such, an impairment assessment was performed. An impairment of \$nil has been recorded for the year ended December 31, 2020.

4. Recent Investment Property Acquisitions

CAPREIT completed the following investment property acquisitions since January 1, 2019, which have contributed to the operating results effective from their respective acquisition dates. The below tables do not include \$158,565 and \$14,746 relating to CAPREIT’s operating lease buyouts in the years ended December 31, 2020 and December 31, 2019, respectively.

Acquisitions Completed During the Year Ended December 31, 2020

Acquisition Date	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate (%) ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
February 10, 2020	1,503	Halifax, NS	\$ 394,734	\$ 108,744	\$ 76,174	1.84	4.66
March 4, 2020	112	Montreal, QC	44,331	—	33,427	2.06	10.00
March 16, 2020	109	Edmonton, AB	28,392	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
August 13, 2020	88	Halifax, NS	23,033	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
September 1, 2020	120	The Netherlands	32,233	—	17,526	0.97	4.00
September 21, 2020	301	London & Sarnia, ON	51,097	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
October 1, 2020	169	Espanola, Wingham & Midland, ON	9,909	3,911	—	4.77	7.94
October 1, 2020	113	The Netherlands	42,353	—	22,831	0.97	4.00
November 26, 2020	147	Maple Ridge, BC	29,272	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
November 30, 2020	380	Ottawa, ON	97,482	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 1, 2020	84	The Netherlands	35,667	—	19,375	0.97	4.00
December 2, 2020	38	Halifax, NS	12,149	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 29, 2020	98	The Netherlands	19,840	—	10,792	0.97	4.00
Total	3,262		\$ 820,492	\$ 112,655	\$ 180,125		

⁽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 cash and cash equivalents invested in short-term investments.

Acquisitions Completed During the Year Ended December 31, 2019

Acquisition Date	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	63,790	— ⁽³⁾	—	— ⁽³⁾	— ⁽³⁾
August 1, 2019	942	The Netherlands	246,602	—	143,367	1.28	7.00
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
October 15, 2019	64	Summerside, PEI	11,844	— ⁽³⁾	—	— ⁽³⁾	— ⁽³⁾
October 31, 2019	294	The Netherlands	98,295	—	58,220	1.55	7.00
November 21, 2019	121	Montreal, QC	33,990	— ⁽³⁾	—	— ⁽³⁾	— ⁽³⁾
December 12, 2019	79	Calgary, AB	19,578	— ⁽³⁾	—	— ⁽³⁾	— ⁽³⁾
December 16, 2019	222	The Netherlands	152,362	— ⁽⁸⁾	—	— ⁽⁸⁾	— ⁽⁸⁾
December 19, 2019	48	New Westminster, BC	13,475	— ⁽³⁾	—	— ⁽³⁾	— ⁽³⁾
Total	9,241		\$ 1,384,908	\$ 74,345	\$ 454,241		

⁽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 13 properties consisting of 407 sites in Ontario, 615 sites in Alberta and 82 sites in British Columbia.

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

⁽⁶⁾ The acquisition comprised 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 Québec. 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 of August 31, 2019 and September 30, 2019, and a final interest of 3% acquired on October 31, 2019. As at December 31, 2019, CAPREIT's interest stood at 33.3%.

⁽⁸⁾ The acquisition was primarily funded from the ERES Credit Facility with the balance funded 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

The table below summarizes the dispositions completed during the year ended December 31, 2020.

Dispositions Completed During the Year Ended December 31, 2020

Disposition Date	Suite Count	Region(s)	Sale Price	Cash Proceeds	Discharged Mortgage
January 31, 2020 ⁽¹⁾	—	Germany	\$ 25,585	\$ 15,419	\$ 10,166
March 30, 2020	6	Charlottetown, PEI	675	675	—
July 15, 2020	188	Calgary, AB	30,500	19,335	11,165
Total	194		\$ 56,760	\$ 35,429	\$ 21,331

⁽¹⁾ This is a commercial property held by ERES consisting of 58,513 square feet.

There were no property dispositions during the year ended December 31, 2019.

For the years ended December 31, 2020 and 2019, a loss of \$1,387 and \$nil, respectively, was recognized in connection with property dispositions. The loss represents the difference between the net proceeds after transaction costs from the dispositions and the fair value of the respective properties at the date of disposition.

6. Investment Properties

Reconciliation of Carrying Amounts of Investment Properties by Type

	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
For the Year Ended December 31, 2020				
Balance of investment properties, beginning of the year	\$ 11,934,504	\$ 965,869	\$ 196,053	\$ 13,096,426
Additions:				
Acquisitions ⁽¹⁾	825,681	—	—	825,681
Property capital investments	231,822	5,304	4,937	242,063
Capitalized leasing costs ⁽²⁾	1,248	(4)	(585)	659
Operating lease buyout ⁽³⁾	—	158,565	—	158,565
Dispositions	(56,760)	—	—	(56,760)
Transfer between investment property types ⁽³⁾	945,507	(1,023,879)	78,372	—
Fair value adjustments	604,662	8,920	(17,723)	595,859
Gain on foreign currency translation	138,098	—	—	138,098
Balance of investment properties, end of the year	\$ 14,624,762	\$ 114,775	\$ 261,054	\$ 15,000,591

⁽¹⁾ Includes additional transaction costs on acquisitions.

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

⁽³⁾ During the year ended December 31, 2020, CAPREIT purchased the freehold interest on 10 of its operating leasehold properties and converted the ownership into nine fee simple and one land leasehold interest.

	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
For the Year Ended December 31, 2019				
Balance of investment properties, beginning of the year	\$ 9,420,347	\$ 876,067	\$ 214,893	\$ 10,511,307
Additions:				
Properties acquired through business combination ⁽¹⁾	135,533	—	—	135,533
Acquisitions	1,384,908	—	—	1,384,908
Property capital investments	211,660	17,356	7,643	236,659
Capitalized leasing costs ⁽²⁾	154	27	(154)	27
Operating lease buyout ⁽³⁾	—	14,746	—	14,746
Transfer between investment property types ⁽³⁾	103,610	(103,610)	—	—
Fair value adjustments	757,202	161,283	(26,329)	892,156
Loss on foreign currency translation	(78,910)	—	—	(78,910)
Balance of investment properties, end of the year	\$ 11,934,504	\$ 965,869	\$ 196,053	\$ 13,096,426

⁽¹⁾ Represents the fair value of the properties acquired as part of the Acquisition. For details, please refer to the audited consolidated annual financial statements for the year ended December 31, 2019.

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

⁽³⁾ During the year ended December 31, 2019, CAPREIT purchased the freehold interest on two of its operating leasehold properties and converted the ownership into fee simple.

Valuation Basis

Investment properties are carried at fair value, which is the amount for which the individual properties could be sold between willing parties in an arm's-length transaction, based on current prices in an active market for similar properties in the same location, considering the highest and best use of the asset, with any gain or loss arising from a change in fair value recognized in the consolidated statements of income and comprehensive income for the period. Valuations do not take into account any potential portfolio premium.

The fair values of all of CAPREIT's investment properties are determined by qualified external appraisers annually for the Canadian portfolio and quarterly for the European portfolio. The qualified external appraisers hold recognized relevant professional qualifications and have recent experience in the location and category of the respective property. For the Canadian portfolio, CAPREIT utilizes market assumptions for rent changes, capitalization rates and discount rates provided by external appraisal firms to determine the fair value of the investment properties on a quarterly basis for interim reporting purposes. Capitalization rates used by the appraisers are based on recently closed transactions for similar properties and other current market indicators for similar properties. To the extent that the stabilized forecasted cash flows of an investment property change significantly in a quarter, the fair value of the investment property would be reassessed by the external appraisers and the fair value adjusted accordingly.

Due to the COVID-19 pandemic and its ongoing impact on the economy, and specifically its unknown future impact on the real estate market, there is heightened uncertainty surrounding the valuation of the investment properties. Consequently, there is a need to apply a higher degree of judgment as it pertains to the forward-looking assumptions that underlie CAPREIT's valuation methodologies. In addition, less weight can be ascribed to previous market evidence, for comparative purposes, to inform opinions of value. Given this impact on the availability of reliable market metrics, fair values are subject to significant change. The fair values of CAPREIT's investment properties as at December 31, 2020 are therefore subject to significant change.

Fair values for investment properties are classified as Level 3 in the fair value hierarchy, as disclosed in note 19. Discussion of the valuation process, the valuation methodology (as mentioned below), key inputs and results is held between CAPREIT and the qualified external appraisers at least once every quarter, in line with CAPREIT's quarterly reporting dates.

To determine fair value, CAPREIT first considers whether it can use current prices in an active market for a similar property in the same location and condition. CAPREIT has concluded there is insufficient market evidence on which to base investment property valuation using this approach, and has therefore determined to use either the DC or the DCF methods to arrive at the fair value of the investment properties. Investment properties have been valued using the following methods and key assumptions:

a) Fee Simple and MHC Land Lease Sites

For its Canadian portfolio, CAPREIT utilizes the DC method. Under this method, capitalization rates are applied to a stabilized net operating income ("NOI") representing market-based NOI assumptions (property revenue less property operating expenses adjusted for market-based assumptions such as long-term vacancy rates, management fees, repairs and maintenance costs, and general and administration costs). The most significant assumption is the capitalization rate for each specific property. The capitalization rate is based on the actual location, size and quality of the property, taking into account any available market data at the valuation date. Generally, an increase in stabilized NOI will result in an increase to the fair value of an investment property. An increase in the capitalization rate will result in a decrease to the fair value of an investment property. The capitalization rate magnifies the effect of a change in stabilized NOI, with a lower capitalization rate causing more change in fair value than would a higher capitalization rate.

For its European portfolio, CAPREIT utilizes the DCF method as the primary valuation method and corroborates the valuations using the DC method. Under the DCF method, discount rates are applied to the forecasted cash flows reflecting market-based NOI assumptions as described above. The most significant assumptions are the stabilized cash flows, the discount rate applied over the term of the cash flows and the capitalization rate used to determine the terminal value of the investment properties. Generally, an increase in forecasted cash flows will result in an increase to the fair value of an investment property. The discount rate is generally the weighted average cost of capital that is appropriate to the cash flow risk for the investment property. An increase in the discount rate will result in a decrease to the fair value of an investment property. The terminal capitalization rate is generally determined with reference to recent transactions for similar investment properties. An increase in the terminal capitalization rate will result in a decrease to the fair value of an investment property.

b) Operating Leasehold Interests

CAPREIT utilizes the DCF method. Under this method, discount rates are applied to the forecasted cash flows reflecting market-based leasing assumptions for a specific property as well as assumptions about renewal and new leasing activity. The most significant assumption is the discount rate applied over the initial term of the lease. The discount rate is generally the weighted average cost of capital that is appropriate to the cash flow risk for the investment property. Generally, an increase in forecasted cash flows will result in an increase to the fair value of an investment property. An increase in the discount rate will result in a decrease to the fair value of an investment property.

c) Options to Purchase the Related Operating Leasehold Interests

CAPREIT utilizes the DC method at the reversion date (earlier of option exercise date and early buyout date) to estimate the future value, which is then discounted to a present value. Under this method, the stabilized income is adjusted to a projected NOI as at the end of the operating lease term and the capitalization rate is adjusted to a “reversionary capitalization rate” reflecting the incremental risk associated with future uncertainty. The value of the option is then determined based on the difference between the estimated fair value of the property at such date and the option buyout price, discounted back to its present value using a risk-adjusted discount rate (the “option discount rate”).

d) Land Leasehold Interests

CAPREIT’s land leasehold interests consist of four investment properties with ground leases and one investment property with an air rights lease with various expiry dates (subject to revisions at periodic intervals) between March 31, 2045 and December 31, 2072. One lease matures in 2045, two mature in 2068, one matures in 2070 and another matures in 2072. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations. CAPREIT utilizes the DCF method for properties that are subject to land or air rights leases. Under this method, discount rates are applied to the forecasted cash flows reflecting market-based leasing assumptions for that specific property as well as assumptions about renewal and new leasing activity. The most significant assumption is the discount rate applied over the term of the lease. Forecasted cash flows are reduced for contractual land lease payments and the discount rates reflect uncertainty regarding the renegotiation of land lease payments during and at the end of the term of the leases.

A summary of the market assumptions and ranges for each type of property interest, along with their fair values, is presented below as at December 31, 2020 and December 31, 2019:

As at December 31, 2020						
Type of Interest	Fair Value	WA NOI / Cash Flow ⁽¹⁾	Rate Type	Max	Min	Weighted Average
Fee simple interests ⁽⁶⁾	\$ 13,986,832	\$ 3,768	Capitalization rate	7.71%	2.25%	3.82%
MHC sites	637,930	1,881	Capitalization rate	8.14%	4.68%	5.96%
Operating leasehold interests ^{(3),(4)}	114,775	2,487	Discount rate ⁽⁵⁾	5.50%	5.25%	5.32%
Land leasehold interests ⁽²⁾	224,440	3,122	Discount rate ⁽⁵⁾	7.50%	5.50%	6.47%
Total Investment Properties excluding right-of-use assets	\$ 14,963,977					
Add: Right-of-use assets, net of fair value change	36,614					
Total Investment Properties	\$ 15,000,591					

As at December 31, 2019						
Type of Interest	Fair Value	WA NOI / Cash Flow ⁽¹⁾	Rate Type	Max	Min	Weighted Average
Fee simple interests ⁽⁶⁾	\$ 11,332,684	\$ 3,579	Capitalization rate	7.00%	2.15%	3.99%
MHC sites	601,820	1,872	Capitalization rate	9.57%	5.00%	6.30%
Operating leasehold interests ^{(2),(3),(4)}	962,879	4,637	Discount rate ⁽⁵⁾	6.00%	5.50%	5.58%
Land leasehold interests ⁽²⁾	161,920	3,547	Discount rate ⁽⁵⁾	8.00%	6.50%	7.27%
Total Investment Properties excluding right-of-use assets	\$ 13,059,303					
Add: Right-of-use assets, net of fair value change	37,123					
Total Investment Properties	\$ 13,096,426					

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

⁽²⁾ The fair values of 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 \$42,235 as at December 31, 2020 (December 31, 2019 – \$470,169). The decrease during the year ended December 31, 2020 is due to the early buyout of 10 operating leases with an option fair value of \$443,800.

⁽⁴⁾ For the three operating leasehold interests remaining as at December 31, 2020 (December 31, 2019 – 13), the contractual weighted average remaining lease term on operating leasehold interests is 14.9 years (December 31, 2019 – 16.4 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 the four operating leasehold interests is 4.9 years as at December 31, 2020 (December 31, 2019 – 6.4 years).

⁽⁵⁾ Represents the discount rate used to determine the fair value of operating leasehold and land leasehold interests using the Discounted Cash Flow ("DCF") method. A weighted average stabilized net operating income growth for operating leasehold interests of 3.0% and 3.1% has been assumed as at December 31, 2020 and December 31, 2019, respectively.

⁽⁶⁾ The fee simple interests include \$2,299,435 (December 31, 2019 – \$1,962,949) of CAPREIT's European portfolio with an implied capitalization rate of 3.87% (December 31, 2019 – 3.88%), which were valued using the DCF method at a weighted average discount rate of 5.75% and a terminal capitalization rate of 4.92% (December 31, 2019 – 5.80% and 5.14%, respectively).

The table below summarizes the impact of changes in both the capitalization rate and stabilized NOI on the fair value of CAPREIT's investment properties:

As at December 31, 2020						
Change in Capitalization Rate ⁽¹⁾	Change in NOI					
		(2.00)%	(1.00)%	–%	+1.00%	+2.00%
	(0.50)%	\$ 1,903,713	\$ 2,075,401	\$ 2,247,089	\$ 2,418,777	\$ 2,590,466
	(0.25)%	723,419	883,064	1,042,708	1,202,353	1,361,997
	–%	(298,384)	(149,166)	–	149,270	298,488
	+0.25%	(1,192,172)	(1,052,075)	(911,977)	(771,879)	(631,782)
	+0.50%	(1,980,965)	(1,848,916)	(1,716,868)	(1,584,819)	(1,452,770)

⁽¹⁾ For operating leasehold interests, land leasehold interests and European properties, 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, land leasehold interests and European properties to determine the impact on fair value of the total portfolio.

7. Investment in Associate

CAPREIT's subsidiary, IRES Fund Management Limited, entered into an external investment management agreement to perform property and asset management services for IRES, an Irish residential REIT listed on the Euronext Dublin exchange. 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 judgment when considering the extent of its ownership interest in IRES, the level of its involvement, responsibilities and remuneration as IRES's investment manager, and the control and influence exerted over IRES by its independent board of directors and CEO. As at December 31, 2020, 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 28 for further details.

The table below discloses further details about CAPREIT's investment in IRES:

As at	December 31, 2020	December 31, 2019
Carrying value of investment in associate	\$ 257,210	\$ 224,812
Share ownership (%)	18.8%	18.3%
Number of IRES shares	98,910,000	95,510,000
IRES share price (€)	1.50	1.59
Fair value of investment in associate based on quoted market price ⁽¹⁾	\$ 231,568	\$ 221,459

⁽¹⁾ CAPREIT has determined that the deficiency of the market capitalization of IRES over the carrying amount of the investment as at December 31, 2020 is an indicator of impairment. An impairment analysis was performed and an impairment of \$nil was recorded for the year ended December 31, 2020, as described in note 3 (December 31, 2019 – \$nil).

8. Other Assets

As at	Note	December 31, 2020	December 31, 2019
Other non-current assets			
Property, plant and equipment ⁽¹⁾		\$ 59,850	\$ 51,306
Accumulated amortization of property, plant and equipment		(43,330)	(36,366)
Net property, plant and equipment		16,520	14,940
Right-of-use asset, net of amortization ⁽²⁾		1,141	1,777
Deferred loan costs, net ⁽³⁾		451	1,320
Fair value through profit or loss investment		37,198	41,177
Deferred tax asset	22	2,032	1,810
Goodwill ⁽⁴⁾		16,468	15,848
Total		\$ 73,810	\$ 76,872
Other current assets			
Prepaid expenses		\$ 9,969	\$ 8,032
Other receivables		15,411	13,973
Restricted cash		9,355	8,959
Deposits		10,230	27,796
Total		\$ 44,965	\$ 58,760

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

⁽²⁾ Amortization during the year ended December 31, 2020 is \$636 (year ended December 31, 2019 – \$726).

⁽³⁾ Represents deferred loan costs related to the revolving credit facilities net of accumulated amortization of \$12,994 (December 31, 2019 – \$11,690).

⁽⁴⁾ Goodwill arising from the Acquisition was fully allocated to the Europe segment, as described in note 31, given that it is expected to benefit from the synergies of that acquisition.

9. Other Current Liabilities

As at	Note	December 31, 2020	December 31, 2019
Current tax liability ⁽¹⁾	22	\$ 2,362	\$ 17,646
Mortgage interest payable		10,446	12,011
Current lease liabilities		1,177	1,121
Total		\$ 13,985	\$ 30,778

⁽¹⁾ The current tax liability as at December 31, 2019, which was paid in August 2020, is primarily a result of reorganization of legal structures of the Dutch subsidiaries in connection with the Acquisition.

10. Accounts Payable and Accrued Liabilities

As at	December 31, 2020	December 31, 2019
Accounts payable	\$ 58,378	\$ 47,096
Accrued liabilities	51,843	51,824
Deferred revenue	14,399	11,920
Distributions payable to ERES non-controlling unitholders	920	832
Other	6,348	4,872
Total	\$ 131,888	\$ 116,544

11. ERES Units Held by Non-Controlling Unitholders

The ERES units held by non-controlling unitholders are classified as equity on ERES's balance sheets but are classified as a liability on CAPREIT's consolidated balance sheets. ERES units are redeemable at any time, in whole or in part, by the unitholder. Upon receipt of the redemption notice by ERES, all rights to and under the units tendered for redemption shall be surrendered, and the holder shall be entitled to receive a price per unit equal to the lesser of (i) 90% of the weighted average market price of the ERES units on the principal exchange or market on which the ERES units are listed or quoted for trading during the 10 consecutive trading days ending on the date (the "Redemption Date") on which the units were surrendered for redemption of ERES units; and (ii) 100% of the closing market price on the principal exchange or market on which the ERES units are listed or quoted for trading on the Redemption Date.

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 at a cost of \$20,003.

On December 18, 2019, ERES completed an offering of 30,915,400 ERES units for a price of \$4.65 per unit for aggregate proceeds of \$143,757. The net proceeds after underwriters' commission and other closing costs totalling \$5,591 was \$138,166. CAPREIT purchased 5,377,000 ERES units at a cost of \$25,003.

As at December 31, 2020, CAPREIT valued the ERES units held by non-controlling unitholders at \$328,535 (December 31, 2019 – \$364,928) and classified the units as a liability on the consolidated balance sheets. The mark-to-market (gain) loss arises from the decrease (increase) in ERES's unit price.

For the Year Ended December 31,	2020	2019
Mark-to-market (gain) loss on ERES units	\$ (37,020)	\$ 43,120
Distributions to ERES non-controlling unitholders	12,542	3,938
(Gain) loss on non-controlling interest	\$ (24,478)	\$ 47,058

12. Mortgages Payable

As at December 31, 2020, mortgages payable bear interest at a weighted average effective rate of 2.61% (December 31, 2019 – 2.91%) and mature between 2021 and 2035. The effective interest rate as at December 31, 2020 includes 0.05% (December 31, 2019 – 0.06%) for the amortization of the realized component of the loss on settlement of derivative financial instruments of \$32,494 included in accumulated other comprehensive income (loss) (December 31, 2019 – \$32,494). As at December 31, 2020, 99.3% of CAPREIT's mortgages payable are financed at fixed interest rates (December 31, 2019 – 99.0%). Investment properties at fair value of \$14,023,910 have been pledged as security as at December 31, 2020 (December 31, 2019 – \$12,155,617). CAPREIT has investment properties with a fair value of \$976,681 as at December 31, 2020 that are not encumbered by mortgages (December 31, 2019 – \$940,809). Of these, \$974,480 of the investment properties are located in Canada (December 31, 2019 – \$785,835) and secure only CAPREIT's acquisition and operating facility ("Acquisition and Operating Facility"), while the remaining properties are located in Europe. As at December 31, 2020, unamortized deferred financing costs of \$15,453, unamortized fair value loss of \$1,330 and unamortized prepaid CMHC premiums of \$96,255 are netted against mortgages payable (December 31, 2019 – \$12,788, \$1,191 and \$79,767, respectively).

Future principal repayments as at December 31, 2020 for the years indicated are as follows:

As at December 31, 2020	Principal Amount	% of Total Principal
2021	\$ 590,071 ⁽¹⁾	10.7
2022	555,643 ⁽²⁾	10.1
2023	597,197 ⁽²⁾	10.8
2024	533,890 ⁽²⁾	9.7
2025	771,305 ⁽²⁾	14.0
2026–2035	2,463,474 ⁽²⁾	44.7
	5,511,580	100.0
Deferred financing costs, fair value adjustments, and prepaid CMHC premiums	(110,378)	
Total Portfolio	\$ 5,401,202	

As at	December 31, 2020	December 31, 2019
Represented by:		
Mortgages payable – non-current ⁽²⁾	\$ 4,811,131	\$ 3,792,358
Mortgages payable – current ⁽¹⁾	590,071	436,447
	\$ 5,401,202	\$ 4,228,805

⁽¹⁾ Included in mortgages payable as at December 31, 2020 is a \$65,000 fully drawn, non-amortizing credit facility on two of the MHC sites. The non-amortizing credit facility was prepaid on January 15, 2021 as described in note 32.

⁽²⁾ Included in mortgages payable as at December 31, 2020 are non-amortizing mortgages from ERES.

Prepaid CMHC premiums previously classified as other non-current assets are now presented as a reduction to mortgages payable. The comparative period has been reclassified to conform with current year presentation. The impact of this reclassification on the mortgages payable balance as at January 1, 2019 is a decrease of \$74,695, resulting in an adjusted balance of \$3,653,638 and a corresponding reduction in the prepaid CMHC premium asset.

13. Bank Indebtedness

Effective June 30, 2020, CAPREIT amended its credit agreement to change the "conversion date" from June 30, 2020 to June 30, 2021 for when the revolving Acquisition and Operating Facility converts to a one-year non-revolving term facility. Prior to the conversion date, CAPREIT can request a one-year extension. The lenders have discretion on whether to grant the extension.

Effective November 15, 2019, CAPREIT amended its credit agreement to, among other things: (i) increase its Acquisition and Operating Facility by \$100,000 to \$740,000, (ii) increase its Acquisition and Operating Facility by \$200,000 for four months via a bridge facility maturing on March 15, 2020 ("Bridge Facility"), as well as (iii) amend the tangible net worth requirement to \$2,400,000. The Bridge Facility cannot be drawn once repaid. On March 15, 2020, the Bridge Facility expired.

CAPREIT's credit facilities include the \$740,000 Acquisition and Operating Facility, which can be borrowed in US dollars ("USD"), euro or Canadian dollars, 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) and was repaid on January 15, 2021 as described in note 32. 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, bankers' acceptances, and USD and euro LIBOR 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 working capital deficiencies.

On July 8, 2019, ERES entered into a new revolving credit facility ("ERES Credit Facility") for up to \$78,040 (€50,000) with two Canadian chartered banks. The ERES Credit Facility will expire on July 8, 2021.

On December 12, 2019, ERES entered into a one-year revolving bridge credit facility ("ERES Bridge Facility") for up to \$78,040 (€50,000) with the same two Canadian chartered banks. The ERES Bridge Facility will expire on July 8, 2021. As of December 31, 2020, no amounts were drawn on the ERES Bridge Facility (December 31, 2019 – €nil).

As at December 31, 2020	Acquisition and Operating Facility	ERES Credit Facility	Consolidated Total
Facility	\$ 740,000	\$ 78,040 ⁽⁴⁾	\$ 818,040
Less: USD LIBOR borrowings	(104,810) ⁽²⁾	(13,743)	(118,553)
Letters of credit	(7,193)	–	(7,193)
Available borrowing capacity	\$ 627,997	\$ 64,297	\$ 692,294
Weighted average interest rate including interest rate swaps	1.10% ⁽⁵⁾	0.65% ⁽⁶⁾	1.05%

As at December 31, 2019	Acquisition and Operating Facility	ERES Credit Facility	Consolidated Total
Facility	\$ 740,000 ⁽¹⁾	\$ 72,915 ⁽⁴⁾	\$ 812,915
Less: USD LIBOR borrowings	(579,821) ⁽²⁾	(37,226)	(617,047)
Euro LIBOR borrowings	(6,846) ⁽³⁾	–	(6,846)
Letters of credit	(7,163)	–	(7,163)
Available borrowing capacity	\$ 146,170	\$ 35,689	\$ 181,859
Weighted average interest rate including interest rate swaps	1.08% ⁽⁵⁾	1.15% ⁽⁶⁾	1.08%

⁽¹⁾ In addition to the above facility, there was a \$200,000 Bridge Facility in place. There were no amounts drawn on this Bridge Facility as of December 31, 2019. The Bridge Facility expired on March 15, 2020.

⁽²⁾ CAPREIT has net USD LIBOR borrowings of USD \$82,320 (December 31, 2019 – USD \$446,428) that bear interest at the USD LIBOR rate plus a margin of 1.65% per annum.

⁽³⁾ CAPREIT has net euro LIBOR borrowings of €nil (December 31, 2019 – €4,694) that bear interest at the euro LIBOR rate plus a margin of 1.65% per annum, subject to a floor of 0%.

⁽⁴⁾ In addition to the above ERES Credit Facility, there is a \$78,040 (€50,000) ERES Bridge Facility. No amounts are drawn on the ERES Bridge Facility as of December 31, 2020. The ERES Bridge Facility will expire on July 8, 2021.

⁽⁵⁾ Excluding the impact of cross-currency interest rate swaps, the weighted average interest rate on the Acquisition and Operating Facility is 1.78% (December 31, 2019 – 3.44%). For details of the swaps, refer to note 20. The Acquisition and Operating Facility matures on June 30, 2022 and the USD LIBOR borrowings are thus classified as non-current bank indebtedness on the consolidated balance sheets as at December 31, 2020.

⁽⁶⁾ The ERES Credit Facility bears interest at the LIBOR rate plus a margin of 1.65% per annum. Excluding the impact of cross-currency interest rate swaps, the weighted average interest rate on the ERES Credit Facility is 1.79% (December 31, 2019 – 3.57%). For details of the swaps, refer to note 20. The ERES Credit Facility matures on July 8, 2021 and the USD LIBOR borrowings are thus classified as current bank indebtedness on the consolidated balance sheets as at December 31, 2020.

14. Unit-based Compensation Financial Liabilities

Units are issuable pursuant to CAPREIT's unit-based compensation plans, namely the Employee Unit Purchase Plan ("EUPP"), the Deferred Unit Plan ("DUP") and the Restricted Unit Rights Plan ("RUR Plan"). As at December 31, 2020, the maximum number of units issuable under CAPREIT's unit-based incentive plans (excluding ERES) is 9,500,000 units (December 31, 2019 – 9,500,000 units). The maximum number of units available for future issuance under these unit-based incentive plan agreements as at December 31, 2020 is 550,279 units (December 31, 2019 – 729,783 units).

ERES units are issuable pursuant to ERES's unit options plan ("ERES UOP"). The maximum number of unit options that may be reserved under the ERES UOP is 10% of the outstanding ERES units (including ERES Class B LP Units). As at December 31, 2020, the maximum number of outstanding unit options issuable under the ERES UOP is 18,861,857 unit options (December 31, 2019 – 18,785,785 unit options).

The unit rights and unit options issued or outstanding under CAPREIT's incentive plans and the ERES UOP as at December 31, 2020 and 2019 are as follows:

Year Ended December 31, 2020 (Number of units)	ERES UOP	DUP	RUR	Total CAPREIT ⁽¹⁾
Unit rights and unit options outstanding as at January 1, 2020	4,256,014	150,996	542,087	693,083
Issued, cancelled or granted during the year				
Issued or granted	–	19,263	87,985	107,248
Exercised or settled	–	–	(80,408)	(80,408)
Cancelled or forfeited	(56,320)	–	(2,393)	(2,393)
Distributions reinvested	–	4,546	16,116	20,662
Unit rights and unit options outstanding as at December 31, 2020	4,199,694	174,805	563,387	738,192

Year Ended December 31, 2019 (Number of units)	ERES UOP	DUP	RUR	Total CAPREIT ⁽¹⁾
Unit rights and unit options outstanding as at January 1, 2019	–	286,696	578,120	864,816
Issued, cancelled or granted during the year				
Assumed	1,143,014	–	–	–
Issued or granted	3,220,000	17,267	83,124	100,391
Exercised or settled	(13,666)	(159,080)	(130,353)	(289,433)
Cancelled or forfeited	(93,334)	(1)	(3,952)	(3,953)
Distributions reinvested	–	6,114	15,148	21,262
Unit rights and unit options outstanding as at December 31, 2019	4,256,014	150,996	542,087	693,083

⁽¹⁾ Total CAPREIT excluding ERES UOP.

The table below summarizes the change in the total unit-based compensation financial liabilities for the years ended December 31, 2020 and 2019, including the settlement of such liabilities through the issuance of Trust Units and ERES units.

For the Year Ended	December 31, 2020	December 31, 2019
Total unit-based compensation financial liabilities, beginning of the year	\$ 33,049	\$ 32,805
Unit-based compensation expense	4,705	14,497
ERES UOP assumed as part of the Acquisition	–	487
Settlement of unit-based compensation awards for Trust Units and ERES units	(4,043)	(14,740)
Loss on foreign currency translation	36	–
Total unit-based compensation financial liabilities, end of the year	\$ 33,747	\$ 33,049

Unit-based compensation financial liabilities are as follows:

As at	December 31, 2020	December 31, 2019
Non-current		
RUR	\$ 13,887	\$ 14,080
ERES UOP	236	311
	\$ 14,123	\$ 14,391
Current		
DUP	\$ 8,738	\$ 8,005
RUR	9,345	9,662
ERES UOP	1,541	991
	\$ 19,624	\$ 18,658
Total unit-based compensation financial liabilities	\$ 33,747	\$ 33,049

Units or Unit-based Compensation Financial Liabilities Held by Trustees, Officers and Other Senior Management

As at December 31, 2020, 0.7% (December 31, 2019 – 0.7%) of all Trust Units outstanding and unit-based compensation financial liabilities were held by trustees, officers and other senior management of CAPREIT.

15. Unit-based Compensation Expense

These costs represent unit-based compensation expense, which include fair value remeasurements at each reporting date recognized over the respective vesting periods for each plan for the years ended December 31, 2020 and 2019, as follows:

For the Year Ended December 31,	2020	2019
DUP	\$ 733	\$ 3,209
RUR Plan	3,331	10,412
EUPP	455	341
ERES UOP	641	876
Unit-based compensation expense	\$ 5,160	\$ 14,838

a) DUP

The DUP gives the non-executive trustees the right to receive a percentage of their annual retainer in the form of deferred units (“Deferred Units”). Each trustee who elects to participate may be paid 25%, 50%, 75% or 100% (the “Elected Percentage”) of their annual retainer payable in respect of a calendar year (the “Elected Amount”), subject to an annual maximum Elected Percentage established by the Human Resources and Compensation Committee, in the form of Deferred Units, in lieu of cash. CAPREIT will match the Elected Amount in the form of Deferred Units having a value equal to the volume-weighted average price of all Trust Units traded on the TSX for the five trading days immediately preceding the date on which Board compensation is payable. The maximum Elected Percentage in respect of 2020 is 100.0% (2019 – 100.0%) of a trustee’s annual Board compensation of \$85 for 2020 and 2019.

The Deferred Units earn notional distributions based on the same distributions paid on the Trust Units, and such notional distributions are used to acquire additional Deferred Units (“Distribution Units”). The Deferred Units and additional Distribution Units are credited to each trustee’s Deferred Unit account and are not issued to the trustee until the trustee elects to withdraw such units. Each trustee may elect to withdraw up to 20% of the Deferred Units credited to their Deferred Unit account only once in a five-year period. The fair value of the Distribution Units represents the closing price of the Trust Units on the TSX on the distribution date.

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

For the Year Ended	December 31, 2020			December 31, 2019		
	Weighted Average Issue Price	Fair Value per Unit	Number of Units	Weighted Average Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the year	\$ 30.09	\$ 53.01	150,996	\$ 26.31	\$ 44.30	286,696
Granted during the year	46.69	–	19,263	51.54	–	17,267
Additional unit distributions	49.38	–	4,546	49.79	–	6,114
Settled or cancelled during the year	–	–	–	26.37	–	(159,081)
Outstanding, end of the year	\$ 32.42	\$ 49.99	174,805	\$ 30.09	\$ 53.01	150,996

The fair value of DUPs represents the closing price of the Trust Units on the TSX on the last trading day on which the Trust Units traded as of the reporting date.

b) RUR Plan

In 2010, CAPREIT adopted the RUR Plan as the primary plan through which long-term incentive compensation will be awarded. The RUR Plan was approved by the Unitholders on May 19, 2010. The Human Resources and Compensation Committee of the Board of Trustees may award RURs, subject to the attainment of specified performance objectives, to certain officers and key employees (collectively, the “Participants”). The purpose of the RUR Plan is to provide its Participants with additional incentive and to further align the interests of its Participants with Unitholders through the use of RURs which, on vesting, are exercisable for Trust Units. RUR Plan units will be issued from treasury on vesting. The RURs vest in their entirety on the third anniversary of the grant date. The RURs earn notional distributions in respect of each distribution paid on RURs commencing from the grant date, and such notional distributions are used to calculate additional RURs (“Distribution RURs”), which are accrued for the benefit of the Participants. The Distribution RURs are credited to the Participants only when the underlying RURs on which the Distribution RURs are earned become vested. The fair value of the Distribution RURs is based on the five-business-day weighted average closing price of the Trust Units on the TSX prior to the distribution date.

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

For the Year Ended	December 31, 2020			December 31, 2019		
	Weighted Average Issue Price	Fair Value per Unit	Number of Units	Weighted Average Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the year	\$ 32.69	\$ 53.01	542,087	\$ 29.23	\$ 44.30	578,119
Granted during the year	59.00	–	87,985	47.84	–	83,124
Additional unit distributions	48.96	–	16,116	50.52	–	15,148
Settled or cancelled during the year	24.73	–	(82,801)	29.18	–	(134,304)
Outstanding, end of the year	\$ 38.71	\$ 49.99	563,387	\$ 32.69	\$ 53.01	542,087

The fair value of RURs represents the closing price of the Trust Units on the TSX on the last trading day on which the Trust Units traded as of the reporting date.

c) EUPP

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

16. Exchangeable LP Units

On June 30, 2020, Exchangeable LP Units were issued in connection with the operating lease buyouts as described in notes 6 and 26. Exchangeable LP 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. Exchangeable LP Units are not eligible for the Distribution Reinvestment Plan (“DRIP”). An equivalent number of special voting units (“Special Voting Units”) were issued at the same time as the Exchangeable LP Units. The holders of these Special Voting 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 LP 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 LP Units held. The carrying value of the Exchangeable LP Units is measured at their fair value of \$16,632 as at December 31, 2020 (December 31, 2019 – \$nil), which is based on the closing price of the Trust Units.

The number of issued and outstanding Exchangeable LP Units is as follows:

For the Year Ended December 31,	2020	2019
Exchangeable LP Units outstanding, beginning of the year	–	–
Issued or granted	632,761	–
Exchanged for Trust Units	(300,058)	–
Exchangeable LP Units outstanding, end of the year	332,703	–

17. 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 Trust Units, an unlimited number of Special Voting Units and 25,840,600 preferred units ("Preferred Units"). As at December 31, 2020, no Preferred 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 Trust 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, 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. 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, and accordingly earnings per unit has not been presented.

The number of issued and outstanding Trust Units (excluding unit rights issued or outstanding under CAPREIT's incentive plans) is as follows:

For the Year Ended December 31,		2020	2019
Trust Units outstanding, beginning of the year	Ref	169,869,197	145,653,982
Issued or granted during the period in connection with the following:			
New Trust Units issued	(a)	–	22,488,250
Exchangeable LP Units	(b)	300,058	–
DRIP	(c)	1,448,190	1,397,192
EUPP	(d)	53,986	40,340
DUP	(e)	–	159,080
RUR Plan	(f)	80,408	130,353
Trust Units outstanding, end of the year		171,751,839	169,869,197

a) New Trust Units Issued**Year Ended December 31, 2020**

There were no new Trust Units issued during the year ended December 31, 2020.

Year Ended December 31, 2019

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
December 2019 (the "December 2019 Equity Offering")					
Bought-deal (December 6, 2019)	\$ 53.60	\$ 425,048	\$ 17,612	\$ 407,436	7,930,000
Over-allotment (December 6, 2019)	\$ 53.60	\$ 63,757	\$ 2,641	\$ 61,116	1,189,500
Total		\$ 488,805	\$ 20,253	\$ 468,552	9,119,500
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
January 2019 (the "January 2019 Equity Offering")					
Bought-deal (January 4, 2019)	\$ 45.50	\$ 250,250	\$ 11,512	\$ 238,738	5,500,000
Over-allotment (January 11, 2019)	\$ 45.50	\$ 37,538	\$ 900	\$ 36,638	825,000
Total		\$ 287,788	\$ 12,412	\$ 275,376	6,325,000

b) Exchangeable LP Units

During the year ended December 31, 2020, pursuant to the terms of the Exchangeable LP Units agreement, 300,058 Exchangeable LP Units were exchanged for 300,058 Trust Units. The same number of Special Voting Units was cancelled.

c) Distribution Reinvestment Plan

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

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

e) Deferred Unit Plan

During the year ended December 31, 2020, no DUP units were settled. During the year ended December 31, 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.

f) Restricted Unit Rights Plan

During the year ended December 31, 2020, 82,801 RUR units were settled or cancelled, out of which 80,408 RUR units were settled for an equivalent number of Trust Units and the remaining RUR units were forfeited. During the year ended December 31, 2019, 134,305 RUR units were settled, out of which 130,353 RUR units were settled for an equivalent number of Trust Units and the remaining RUR units were settled in cash.

18. 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).

	2020	2019
Distributions declared on Trust Units	\$ 235,649	\$ 218,136
Distributions per unit	\$ 1.380	\$ 1.372

19. Financial Instruments, Investment Properties and Risk Management

a) Fair Value of Financial Instruments

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

As at December 31, 2020, the fair value of CAPREIT's mortgages payable is estimated to be \$5,854,000 (December 31, 2019 – \$4,196,000) 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, which are considered Level 2 inputs (as described below).

CAPREIT has classified and disclosed the fair value for each class of financial instrument based on the fair value hierarchy in accordance with IFRS 13, Fair Value Measurement ("IFRS 13"). The fair value hierarchy distinguishes between market value data obtained from independent sources and CAPREIT's own assumptions about market value. The hierarchy levels are defined below:

Level 1 – Inputs based on quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs based on factors other than quoted prices included in Level 1, which may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals; and

Level 3 – Inputs which are unobservable for the asset or liability, and typically based on CAPREIT's own assumptions as there is little, if any, related market activity.

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

The following table presents CAPREIT's estimates of assets and liabilities measured at fair value on a recurring basis based on information available to management as at December 31, 2020, and aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts CAPREIT could ultimately realize.

	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 land lease sites	\$ —	\$ —	\$ 14,624,762 ⁽¹⁾	\$ 14,624,762
Operating leasehold interests	—	—	114,775 ⁽¹⁾	114,775
Land leasehold interests	—	—	261,054 ⁽¹⁾	251,842
Investments	37,198 ⁽²⁾	—	—	37,198
Derivative financial assets	—	833 ⁽³⁾	—	833
Liabilities				
Derivative financial liabilities	—	(23,389) ⁽³⁾	—	(23,389)
ERES units held by non-controlling unitholders	(328,535)	—	—	(328,535)
Unit-based compensation financial liabilities	—	(33,747)	—	(33,747)
Exchangeable LP Units	—	(16,632)	—	(16,632)
Total	\$ (291,337)	\$ (72,935)	\$ 15,000,591	\$ 14,636,319

⁽¹⁾ Fair values for investment properties are calculated using either the direct income capitalization or the discounted cash flow methods, which result 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 credit value adjustment to reflect the credit risk of the counterparty, and if the total mark-to-market value is negative, CAPREIT will consider a credit value adjustment to reflect CAPREIT's own credit risk in the fair value measurement of the interest rate swap agreements.

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. As at December 31, 2020, 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. For assets and liabilities measured at fair value as at December 31, 2020, there were no transfers between Level 1, Level 2 and Level 3 during the period.

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 at least 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 cause volatility in earnings.

For the years ended December 31, 2020 and 2019, a 100 basis point change in interest rates would have the following effect:

	Change in interest rates (basis points)	Increase (decrease) in net income	
		December 31, 2020	December 31, 2019
Floating rate debt	+100	\$ 1	\$ 11
Floating rate debt	-100	\$ (1)	\$ (11)
Cross-currency and/or interest rate swaps ⁽¹⁾	+100	\$ 3,977	\$ 10,445
Cross-currency and/or interest rate swaps ⁽¹⁾	-100	\$ (4,058)	\$ (10,640)

⁽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 December 31, 2020, interest rate risk has been minimized, as 99.3% (December 31, 2019 – 99.0%) 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 (December 31, 2019 – 100.0%).

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 98.7% of CAPREIT's mortgages are CMHC-insured (excluding \$1,199,802 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 40 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 December 31, 2020, CAPREIT had undrawn lines of credit in the amount of \$627,997 (December 31, 2019 – \$146,170), excluding borrowing capacity under the ERES Credit Facility, the Bridge Facility and the ERES Bridge Facility.

CAPREIT has available borrowing capacity in its Credit Facilities, as described in note 13, in addition to cash on hand. As a result, management has determined that CAPREIT is in a strong financial position despite the changes in the market and the heightened risk environment resulting from the COVID-19 pandemic.

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at December 31, 2020 are as follows:

	2021 ⁽²⁾	2022–2023	2024–2025	2026 onward
Mortgages payable	\$ 590,071	\$ 1,152,840	\$ 1,305,195	\$ 2,463,474
Bank indebtedness	–	118,553	–	–
Mortgage interest	124,229	204,141	144,032	176,213
Bank indebtedness interest ⁽¹⁾	1,865	922	–	–
Other liabilities ⁽³⁾	144,696	–	–	–
Derivative financial liabilities	15,366	1,107	6,916	–
ERES units held by non-controlling unitholders	–	–	–	328,535
Lease liabilities	1,177	1,675	1,305	33,585
Security deposits	41,218	–	–	–
Distributions payable	19,751	–	–	–
	\$ 938,373	\$ 1,479,238	\$ 1,457,448	\$ 3,001,807

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

⁽²⁾ Estimates of the amounts as at December 31, 2020.

⁽³⁾ Related to accounts payable and accrued liabilities, current tax liability and mortgage interest payable.

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. 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 on foreign currency translation relating to CAPREIT's subsidiaries in Ireland, the Netherlands and IRES investment is recognized in other comprehensive income (loss). 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 statements of income and comprehensive income.

20. 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 other comprehensive income (loss) (see note 23). 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 have been recognized in net income. All contracts have been settled.

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

As at	December 31, 2020	December 31, 2019
Derivative liability in AOCI (AOCL), beginning of the year	\$ (6,005)	\$ (8,270)
Amortization from AOCI (AOCL) to interest and other financing costs	2,243	2,265
Derivative liability in AOCI (AOCL), end of the year	\$ (3,762)	\$ (6,005)

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 year ended December 31, 2020, \$271 (December 31, 2019 – \$270) was amortized from AOCI (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 a maturity date of September 2022, 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 12 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.

c) Contracts for Which Hedge Accounting Is Not Being Applied

CAPREIT has certain derivative financial instruments in place, namely interest rate swaps, cross-currency interest rate ("CCIR") swaps, foreign exchange ("FX") swaps and forward FX contracts. These derivative contracts, for which hedge accounting is not being applied, consist of the following:

Type of instrument	Notional amount	Maturity date or settlement date	Receiving leg rate	Paying leg rate	Derivative asset (liability)		(Loss) gain on derivative financial instruments	
					December 31, 2020	December 31, 2019	2020	2019
Interest Rate Swap ⁽¹⁾	\$ 65,000	September 2019	BA +1.40%	3.60%	\$ –	\$ –	\$ –	\$ (1,007)
CCIR Swap ⁽²⁾	\$ 65,000	June 2021	BA +1.40%	0.97%	(5,048)	(395)	(4,653)	(395)
CCIR Swap ⁽³⁾	US\$ 186,436	June 2019	US LIBOR +1.65%	1.20%	–	–	–	1,038
CCIR Swap ⁽⁴⁾	US\$ 186,190	December 2020	US LIBOR +1.65%	1.08%	–	3,254	(19,530)	3,254
FX Swaps ⁽⁵⁾	\$ 48,220	December 2019	N/A	N/A	–	–	–	–
CCIR Swap ⁽⁶⁾	US\$ 177,296	November 2020	US LIBOR +1.65%	1.06%	–	(3,141)	(15,009)	(3,141)
CCIR Swap ⁽⁷⁾	US\$ 82,525	December 2021	US LIBOR +1.65%	1.05%	(10,318)	(693)	(9,625)	(693)
CCIR Swap ⁽⁸⁾	\$ 247,728	November 2025	1.33%	0.22%	(3,434)	–	(3,434)	–
CCIR Swap ⁽⁹⁾	\$ 129,370	December 2022	0.75%	(0.06)%	(1,107)	–	(1,107)	–
CCIR Swap ⁽¹⁰⁾	\$ 123,888	December 2024	1.04%	0.01%	(1,303)	–	(1,303)	–
CAPREIT Total					\$ (21,210)	\$ (975)	\$ (54,661)	\$ (944)
Interest Rate Swaps ⁽¹¹⁾	€ 25,500	January 2025	EURIBOR + 1.38%	0.49%	\$ (1,401)	\$ (1,543)	\$ 83	\$ (199)
Forward FX Contracts ⁽¹²⁾	\$ 139,039	December 2019	N/A	N/A	–	–	–	(1,948)
CCIR Swaps ⁽¹³⁾	US\$ 10,800	January 2021	US LIBOR + 1.65%	EURIBOR + 1.20%	55	(593)	(1,449)	(593)
FX Swap ⁽¹⁴⁾	US\$ 33,558	July 2020	N/A	0.46%	–	–	3,355	–
ERES Total					\$ (1,346)	\$ (2,136)	\$ 1,989	\$ (2,740)
Consolidated Total					\$ (22,556)	\$ (3,111)	\$ (52,672)	\$ (3,684)

⁽¹⁾ Refer to note 20(b)(iii) above for further information.

⁽²⁾ This represents a CCIR swap to hedge a \$65,000 loan into €44,818, effective September 2019. This swap was settled in January 2021, prior to the original maturity date of June 2021. Refer to note 32 for further information.

⁽³⁾ This represents a CCIR swap to hedge a USD \$186,436 loan into €163,540, effective July 2017.

⁽⁴⁾ This represents a CCIR swap to hedge a USD \$186,190 loan into €163,540, effective June 2019. The CCIR swap was settled in December 2020, prior to the original maturity date of June 2021.

⁽⁵⁾ Starting January 2019, CAPREIT entered into a recurring monthly cross-currency swap to convert surplus Canadian dollars into euro-denominated amounts to pay down euro debt throughout 2019. The cross-currency swap was unwound as Canadian dollars were required. As at December 2019, CAPREIT exited this swap program by unwinding \$48,220 on the last swap.

⁽⁶⁾ This represents a CCIR swap to hedge a USD \$177,296 loan into €160,000, effective December 2019.

⁽⁷⁾ This represents a CCIR swap to hedge a USD \$82,525 loan into €74,000, effective December 2019.

⁽⁸⁾ This represents a CCIR swap to hedge \$247,728 of mortgages into €160,000, effective November 2020.

⁽⁹⁾ This represents a CCIR swap to hedge \$129,370 of mortgages into €83,540, effective December 2020.

⁽¹⁰⁾ This represents a CCIR swap to hedge \$123,888 of mortgages into €80,000, effective December 2020.

⁽¹¹⁾ As at December 31, 2020, the interest rate swap consists of a non-current derivative asset of \$778 (December 31, 2019 – \$730) and a non-current derivative liability of \$2,179 (December 31, 2019 – \$2,273). As part of CAPREIT's acquisition of ERES, CAPREIT assumed a €7,500 interest rate swap and a €25,500 interest rate swap. In January 2020, ERES settled the €7,500 interest rate swap. The rate of EURIBOR + 1.38% represents the interest rate on the remaining €25,500 swap.

⁽¹²⁾ ERES entered into forward exchange contracts, effective September 2019, to hedge the movement in the Canadian dollar and euro exchange rates for their 2019 equity raises. In December 2019, ERES settled the last forward exchange contract of \$139,039.

⁽¹³⁾ Starting November 2019, ERES entered into a series of CCIR swaps to hedge USD-denominated loans into euros. The CCIR swap in place as at December 31, 2020 consists of a loan of USD \$10,800 hedged into €8,800.

⁽¹⁴⁾ In April 2020, ERES entered into a three-month FX swap in connection to the excess proceeds from the mortgage financing drawn down during the second quarter of USD \$33,558 to hedge into €31,000. The USD proceeds were simultaneously invested into a three-month USD-denominated guaranteed investment certificate, earning interest at a rate of 1.30% per annum.

21. Capital Management

CAPREIT defines capital as the aggregate of Unitholders' equity, mortgages payable, bank indebtedness and Exchangeable LP 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 13) 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.

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 is as follows:

As at	December 31, 2020	December 31, 2019
Mortgages payable	\$ 5,401,202	\$ 4,228,805
Bank indebtedness	118,553	623,893
Unitholders' equity	9,273,702	8,403,895
Exchangeable LP Units	16,632	—
Total capital	\$ 14,810,089	\$ 13,256,593

The results of CAPREIT's compliance with the key covenants are summarized below:

	Threshold	December 31, 2020	December 31, 2019
Total debt to gross book value ⁽¹⁾	Maximum 70.00%	35.54%	34.70%
Tangible net worth ⁽²⁾	Minimum \$2,400,000	\$ 9,307,613	\$ 8,421,096
Debt service coverage ratio (times) ^{(3),(4)}	Minimum 1.20	2.01	1.87
Interest coverage ratio (times) ^{(3),(5)}	Minimum 1.50	3.95	3.69

⁽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 consolidated 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 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, 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 LP Units added back, and excluding goodwill. The tangible net worth requirement is \$2,400,000 (December 31, 2019 – \$2,400,000).

⁽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 repayments and interest expense.

⁽⁵⁾ As per the Credit Facilities agreement and DOT, the interest coverage ratio is defined as EBITDA less income taxes paid divided by interest expense.

CAPREIT's subsidiary, ERES, is subject to various debt covenants contained in ERES's credit facilities. ERES must have a maximum debt to gross book value of 65%, a maximum debt to market value of portfolio of 60%, a minimum tangible net worth of €372,400, a minimum debt service coverage ratio of 1.35 and a minimum interest coverage ratio of 1.50. As at December 31, 2020, ERES is in compliance with its debt covenants.

Due to the emergence of the COVID-19 pandemic, CAPREIT has been closely monitoring its investment and debt restrictions along with the financial covenants contained in CAPREIT's Credit Facilities, LBA and DOT. Management has performed stress-testing on CAPREIT's covenants prescribed above to ensure that CAPREIT continues to meet its covenant obligations in the long term.

22. Income Taxes

CAPREIT is taxed as a "mutual fund trust" as defined under the Income Tax Act (Canada) and continues to meet the prescribed conditions relating to the nature of its assets and revenues in order to qualify as a REIT eligible for the REIT exception to the specified investment flow-through ("SIFT") rules. CAPREIT 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 Unitholders, with the exception of Canadian withholding taxes for distributions to non-resident Unitholders.

CAPREIT has foreign subsidiaries in a number of countries with varying statutory rates of taxation. Judgment 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.

For the Year Ended December 31,	2020	2019
Income before income taxes	\$ 954,491	\$ 1,217,808
Income not subject to taxation ⁽¹⁾	(863,181)	(1,105,127)
Income before income taxes in foreign subsidiary entities	91,310	112,681
Tax calculated at the Dutch corporate tax rate of 25%	22,828	28,170
Increase (decrease) resulting from:		
Expenses not deductible for tax	1,209	318
Effect of different tax rates in countries in which CAPREIT operates	(95)	(2,646)
Adjustments to deferred taxes for the change in tax rates	4,547	(3,304)
Adjustment for income taxed at a lower rate	(1,893)	(523)
Unrecognized deferred tax assets	592	–
Other adjustments	1,375	346
Current and deferred income tax expense (net)	\$ 28,563	\$ 22,361

⁽¹⁾ Relates to Canadian income subject to tax at the Unitholder level.

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

For the Year Ended December 31,	2020	2019
Current income tax expense	\$ 3,350	\$ 17,282
Deferred income tax expense	25,213	5,079
Current and deferred income tax expense (net)	\$ 28,563	\$ 22,361

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

As at	December 31, 2020	December 31, 2019
Deferred tax liability related to difference in tax and book basis of investment properties	\$ (61,632)	\$ (33,000)
Deferred tax assets related to loss carryforward	3,700	2,498

Due to the reorganization of the legal structure of the Dutch 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 year ended December 31, 2019. This was paid in August 2020 as described in note 9.

As at December 31, 2020, CAPREIT has total non-capital loss carryforwards of \$16,501 (December 31, 2019 – \$12,459). Of these losses, \$11,948 (December 31, 2019 – \$8,972) are in respect of the Dutch subsidiaries which, starting on January 1, 2022, will have no expiry period but the utilization will be subject to annual limits. The remaining losses of \$4,553 (December 31, 2019 – \$3,487) are in respect of German subsidiaries and have no expiry period.

23. Accumulated Other Comprehensive Income (Loss)

For the Year Ended December 31,	2020	2019
(AOCL) AOCI balance, beginning of the year	\$ (19,510)	\$ 28,846
Other comprehensive income (loss):		
Amortization from (AOCL) AOCI to interest and other financing costs ⁽¹⁾	2,570	3,810
Gain (loss) on foreign currency translation	86,987	(52,166)
Other comprehensive income (loss)	89,557	(48,356)
AOCI (AOCL) balance, end of the year	\$ 70,047	\$ (19,510)

As at	December 31, 2020	December 31, 2019
AOCI (AOCL) comprises:		
Net cumulative loss on derivative financial instruments	\$ (380)	\$ (647)
Unamortized balance of loss on cash flow hedges previously settled	—	(61)
Net cumulative loss on forward interest rate hedge ⁽¹⁾	(3,762)	(6,004)
Cumulative gain (loss) on foreign currency translation	71,062	(15,925)
Reversal of cumulative foreign currency translation relating to IRES ownership dilution	3,127	3,127
AOCI (AOCL) balance, end of the year	\$ 70,047	\$ (19,510)

⁽¹⁾ The estimated amount of the amortization expected to be reclassified to net income from AOCI (AOCL) in the next 12 months is \$2,233.

24. Interest and Other Financing Costs

For the Year Ended December 31,	2020	2019
Interest on mortgages payable ⁽¹⁾	\$ 133,217	\$ 119,119
Amortization of CMHC premiums and fees ⁽²⁾	18,505	4,780
Interest on bank indebtedness and other deferred costs ⁽³⁾	7,955	9,279
Interest on Exchangeable LP Units	441	—
Interest on land and air rights lease liability	4,507	2,038
Total	\$ 164,625	\$ 135,216

⁽¹⁾ Includes amortization of deferred financing costs, fair value adjustments and OCI hedge interest for the year ended of \$6,471 (December 31, 2019 – \$4,711).

⁽²⁾ During the year ended December 31, 2020, CAPREIT expensed \$14,348 of prepaid CMHC premiums related to mortgages which were refinanced in current and previous years as these premiums no longer have future economic benefits.

⁽³⁾ Includes amortization of deferred loan costs of \$1,304 (December 31, 2019 – \$1,666) and OCI hedge interest of \$nil (December 31, 2019 – \$1,253).

25. Joint Arrangements

CAPREIT's share of the assets, liabilities, revenues, expenses and cash flows from joint arrangement activities is summarized as follows:

For the Year Ended December 31,	2020	2019
Assets	\$ 338,317	\$ 330,191
Liabilities	86,394	87,319
Revenues	21,397	18,313
Expenses and other adjustments	8,388	(63,713)
Net income	13,009	82,026
Cash provided by (used in):		
Operating activities	\$ 12,754	\$ 9,169
Investing activities	(4,116)	(2,653)
Financing activities	(9,498)	2,228

26. Supplemental Cash Flow Information

a) Net Income Items Related to Investing and Financing Activities

For the Year Ended December 31,	2020	2019
Dividend and interest income	\$ (3,200)	\$ (2,732)
Distributions to holders of Exchangeable LP Units	441	—
Distributions to ERES non-controlling unitholders	12,542	3,938
Interest expense on mortgages	122,138	113,926
Interest expense on bank indebtedness	6,650	7,819
Interest expense on leases	4,507	2,038
Net disbursements	\$ 143,078	\$ 124,989

b) Changes in Non-cash Operating Assets and Liabilities

For the Year Ended December 31,	2020	2019
Prepaid expenses	\$ (1,748)	\$ (1,373)
Tenant inducements, direct leasing costs and other adjustments	(479)	104
Other receivables	(614)	(1,945)
Deposits	(4,677)	10
Accounts payable and other liabilities	(32,189)	(6,325)
Security deposits	1,369	4,118
Current tax liability	(16,702)	18,292
Net (decrease) increase in non-cash operating assets and liabilities	\$ (55,040)	\$ 12,881

c) Net Cash Distributions

For the Year Ended December 31,	2020	2019
Distributions declared to Unitholders, ERES non-controlling unitholders and holders of Exchangeable LP Units	\$ (248,632)	\$ (222,074)
Add: Distributions payable to Unitholders at beginning of the year	(19,533)	(16,143)
Less: Distributions payable to Unitholders at end of the year	19,751	19,533
Less: Distributions to participants in the DRIP	68,108	67,393
Add: Distributions payable to ERES non-controlling unitholders at beginning of the year	(832)	—
Less: Distributions payable to ERES non-controlling unitholders at end of the year	920	832
Add: Distributions payable to holders of Exchangeable LP Units at beginning of the year	—	—
Less: Distributions payable to holders of Exchangeable LP Units at end of the year	38	—
Gain on foreign currency translation	109	3
Net disbursements	\$ (180,071)	\$ (150,456)

d) Capital Investments

For the Year Ended December 31,	2020	2019
Capital investments	\$ (250,607)	\$ (241,814)
Change in capital investments included in accounts payable and other liabilities	5,750	(543)
Net disbursements	\$ (244,857)	\$ (242,357)

e) Acquisition of Investment Properties

For the Year Ended December 31,	2020	2019
Acquired properties	\$ (825,681)	\$ (1,384,908)
Fair value adjustment of assumed debt	187	68
Assumed debt	112,655	74,345
Deposit on purchases	22,252	(16,905)
Change in investment properties included in accounts payable and other liabilities	5,189	—
Net disbursements	\$ (685,398)	\$ (1,327,400)

f) Operating Lease Buyout

For the Year Ended December 31,	2020	2019
Operating lease buyout	\$ (158,565)	\$ (14,746)
Issuance of Exchangeable LP Units	30,746	—
Net disbursements	\$ (127,819)	\$ (14,746)

g) Disposition of Investment Properties

For the Year Ended December 31,	2020	2019
Proceeds	\$ 56,760	\$ —
Closing costs	(1,387)	—
Working capital adjustments	(730)	—
Mortgages discharged	(21,331)	—
Net proceeds	\$ 33,312	\$ —

h) Issuance of Trust Units

For the Year Ended December 31,	2020	2019
Issuance of Trust Units	\$ 21,863	\$ 1,090,847
Conversion of Exchangeable LP Units to Trust Units	(15,344)	—
Settlement of unit-based compensation awards for Trust Units	(4,043)	(14,740)
Net proceeds	\$ 2,476	\$ 1,076,107

i) Mortgage Portfolio

For the Year Ended December 31,	2020	2019
Balance, beginning of the year	\$ 4,228,805	\$ 3,653,638
Add:		
New borrowings on acquisitions	381,412	527,960
Refinanced	1,148,552	300,547
Less:		
Mortgage principal amortization	(136,087)	(125,902)
Mortgages matured	(353,966)	(232,336)
Mortgages repaid on dispositions of investment properties	(21,331)	—
Non-cash Adjustments:		
Mortgages assumed ⁽¹⁾	112,654	147,814
Loss (gain) on foreign currency translation	60,176	(35,214)
Net change in deferred financings costs, fair value adjustment and prepaid CMHC premiums	(19,013)	(7,702)
Balance, end of the year	\$ 5,401,202	\$ 4,228,805

⁽¹⁾ Includes the mortgages on the properties acquired as part of the Acquisition.

j) Bank Indebtedness

For the Year Ended December 31,	2020	2019
Balance, beginning of the year	\$ 623,893	\$ 567,365
Net (repayments) borrowings before foreign currency translation	(498,783)	87,000
Gain on foreign currency translation	(6,557)	(30,472)
Balance, end of the year	\$ 118,553	\$ 623,893

27. Revenue and Other Income

Other income

For the Year Ended December 31,	2020	2019
Investment income	\$ 1,226	\$ 1,674
Net profit from investment in associate ⁽¹⁾	17,173	23,440
Asset and property management fees ⁽²⁾	9,592	8,038
Other	1,999	1,752
Total	\$ 29,990	\$ 34,904

⁽¹⁾ CAPREIT's share of IRES's investment property fair value change, earnings and foreign exchange effects thereon. For the years ended December 31, 2020 and 2019, CAPREIT's share of IRES's investment property fair value gain is \$6,141 and \$15,201, respectively.

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

In accordance with IFRS 15, 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 miscellaneous revenues. For the year ended December 31, 2020, miscellaneous revenues of \$18,794 were included in revenue from investment properties (year ended December 31, 2019 – \$18,159). Miscellaneous revenues consist of cable income, common area maintenance recoveries and premium service components.

28. Related Party Transactions

a) IRES Transactions

As at December 31, 2020, CAPREIT has an 18.8% share ownership in IRES and has determined that it has significant influence over IRES. Pursuant to a placing of shares completed by IRES in June 2019 and July 2019, CAPREIT's share ownership increased from 18.0% to 18.3%. Pursuant to the exercise of options assigned to CAPREIT in November 2020, CAPREIT purchased 3,400,000 shares of IRES for \$8,020, increasing CAPREIT's share ownership from 18.3% to 18.8%. The share ownership is held through a subsidiary of CAPREIT, Irish Residential Properties Fund. See note 7 for a more detailed description.

Included in other income for the year ended December 31, 2020 are asset management and property management fees of \$9,592 (year ended December 31, 2019 – \$8,038). Expenses related to the asset and property management services are included in trust expenses. The amount receivable from IRES as at December 31, 2020 is \$1,831 (December 31, 2019 – \$2,730).

The initial five-year term investment management ("IMA") contract between CAPREIT and IRES expired on November 1, 2020. The IMA has now rolled into a second five-year term under the existing terms. Since November 1, 2020, both parties have termination rights under the IMA. IRES has the right to terminate the IMA if it determines that internalization of the management of IRES, subject to relevant regulatory approval, is in IRES's best interests.

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.

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

For the Year Ended December 31,	2020	2019
Short-term employee benefits	\$ 3,862	\$ 2,692
Unit-based compensation – grant date amortization ⁽¹⁾	2,618	3,178
	6,480	5,870
Unit-based compensation – fair value remeasurement	(778)	4,411
Total	\$ 5,702	\$ 10,281

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

c) ERES Transactions

New Management Agreement

Upon closing of the Acquisition, CAPREIT 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;
- 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; and
- 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.

Property Management Agreement

Prior to closing of the Acquisition, ERES had a property management agreement with CAPREIT. Under the terms of the agreement, CAPREIT received 3.5%, effective February 2019 (2.5% previously) of EGI (effective gross income) for its services.

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

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.

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 March 29, 2021, will make up to \$258 million (€165 million) (the “Total Commitment”) available to acquire 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 reuse under the terms of the Pipeline Agreement. CAPREIT will receive an underwriting fee in the amount of 1.0% of the purchase price on any acquisitions under the Pipeline Agreement.

There were no acquisitions made pursuant to the Pipeline Agreement during the year ended December 31, 2020.

Pursuant to the terms of the Pipeline Agreement, on May 31, 2019, 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 ERES Class B LP Units.

On June 28, 2019, subsidiaries of CAPREIT sold to ERES 21 properties representing an aggregate of 511 residential suites located in six locations across Netherlands at the original acquisition cost of \$145.9 million, and earned an underwriting fee of \$1.6 million. ERES paid \$123.7 million in cash and \$33.4 million through the issuance of 8.3 million ERES Class B LP Units.

On September 30, 2019, wholly-owned subsidiaries of CAPREIT sold to ERES 18 properties representing an aggregate of 942 residential suites located in seven 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 \$243.6 million in cash and \$5.0 million through the issuance of 1.1 million ERES Class B LP Units.

The table below summarizes fees charged to ERES:

For the Year Ended December 31,	2020	2019
Asset management fees	\$ 6,896	\$ 3,543
Acquisition fees	1,266	2,826
Property management fees	3,722	2,208
Service fees	592	379
Underwriting fees	–	3,986
Total	\$ 12,476	\$ 12,942

Any fees charged by CAPREIT to ERES are eliminated upon consolidation in these consolidated annual financial statements.

29. Commitments

Natural Gas

Through the combination of fixed and variable price contracts, CAPREIT is committed as at December 31, 2020 in the aggregate amount of \$11,464 for its natural gas and transport requirements. These commitments, which range from one to four years, fix the price of natural gas and transport for a portion of CAPREIT's requirements as summarized below.

	2021	2022	2023	2024
Gas Commodity				
Fixed weighted average cost per GJ ⁽¹⁾	\$ 1.73	\$ 2.07	\$ 2.34	\$ 2.50
Total of CAPREIT's estimated requirements	70.6%	60.0%	53.4%	16.7%
Transport				
Fixed weighted average cost per GJ ⁽¹⁾	\$ 1.38	\$ 1.06	\$ 0.81	\$ 0.65
Total of CAPREIT's estimated requirements	70.6%	60.0%	53.4%	16.7%

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

Property capital investments

Commitments primarily related to capital investments in investment properties of \$21,618 were outstanding as at December 31, 2020 (December 31, 2019 – \$29,483).

30. Contingencies

CAPREIT is contingently liable under guarantees provided to certain of CAPREIT's 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.

31. Segmented Information

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. CAPREIT's chief operating decision-maker reviews operating results of the Canadian and European properties to make decisions about resources to be allocated to the segments and assess their performance.

	For the Year Ended December 31, 2020		
Selected income statement items	Canada	Europe	Consolidated Financial Statements
Revenue from investment properties	\$ 775,675	\$ 106,968	\$ 882,643
Operating expenses	(278,975)	(25,497)	(304,472)
Net rental income	\$ 496,700	\$ 81,471	\$ 578,171
Fair value adjustments of investment properties	\$ 523,144	\$ 72,715	\$ 595,859

	For the Year Ended December 31, 2019		
Selected income statement items	Canada	Europe	Consolidated Financial Statements
Revenue from investment properties	\$ 707,335	\$ 73,445	\$ 780,780
Operating expenses	(255,393)	(17,237)	(272,630)
Net rental income	\$ 451,942	\$ 56,208	\$ 508,150
Fair value adjustments of investment properties	\$ 786,981	\$ 105,175	\$ 892,156

	As at December 31, 2020		
Selected balance sheet items	Canada	Europe	Consolidated Financial Statements
Investment properties	\$ 12,701,156	\$ 2,299,435	\$ 15,000,591
Mortgages payable	4,306,405	1,094,797	5,401,202

	As at December 31, 2019		
Selected balance sheet items	Canada	Europe	Consolidated Financial Statements
Investment properties	\$ 11,133,477	\$ 1,962,949	\$ 13,096,426
Mortgages payable	3,350,154	878,651	4,228,805

32. Subsequent Events

On January 15, 2021, CAPREIT terminated its \$65,000 fully drawn, non-amortizing credit facility and its corresponding CCIR swap, prior to the original maturity date of June 28, 2021. On the same date, CAPREIT entered into a CCIR swap to (i) hedge existing mortgage payables of \$69,708 into €44,818 and (ii) convert fixed Canadian dollar-based mortgage payments with interest rate of 0.82% for fixed euro-based payments with an interest rate of -0.07%. The new swap will mature on January 15, 2024.

Unitholder Information

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Stock Exchange Listing

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