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So, what's a

COMMON SENSE, B3

REPORT ON REITS

COMMON SENSE

Five 'common sense' reasons REITs offer diversification and a level of stability, without sacrificing growth potential. REITs provide exposure to real estate – real assets with tangible value and reliable income streams – in a highly liquid, marketable security. REITs are distinct. B2

Who should invest in REITs? Income investors, investors seeking tax benefits, growth investors, RRSP, RRIF, RESP, DPSP, leverage investors. B2

The asset mix decision Experts agree, the single most important factor to building wealth for individual investors is the mix of assets that are maintained over the long term. Proper diversification among different investments will optimize returns and reduce volatility over time. B3

So, what's a REIT?

A REIT (pronounced "reet" and short for Real Estate Investment Trust) is a publicly traded organization that invests predominantly in income-producing real estate assets. REIT units are an equity investment, providing investors with attractive yields. B3

Structured for stability The Declaration of Trust sets out a maximum debt capacity for the REIT. Investors benefit from professional management of the portfolio and the underlying properties - often a hybrid of asset management. B4

STABILITY

Mark Twain was right, sort of... Real estate is one of the oldest, most proven investment opportunities. However, in today's real estate, successful investors realize a need for constant improvement. B4

THE RIGHT CHOICE

Which REIT is right for you? Hotels, nursing and retirement homes, office buildings, residential, retail or industrial. B6

Tax advantages are significant As a REIT distributes virtually all of its distributable income to unitholders, it is not subject to tax itself; rather, the income is taxed in the hands of its unitholders. This flow-through structure is a key advantage for Trusts over other forms of real estate investment. B7

Your portfolio is missing something! – REIT all about it!

BY CIPPREC, TORONTO

Who should invest

in REITs?

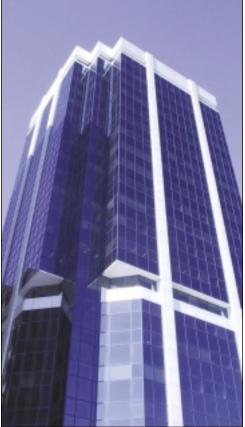
THE RIGHT CHOICE, B2

Your investment portfolio may have stocks, bonds and cash investments, but what about real estate? For most people, real estate investing is limited to home ownership, with little thought of ever owning an office tower, a shopping mall or an industrial warehouse. But thanks to real estate investment trusts (REITs - pronounced "reet"), individuals can participate in the ownership of commercial properties and reap the benefits of stability, growth and diversification that institutional investors have enjoyed for decades.

With investment choices becoming more complex, and financial markets more and more volatile, the simple solution for all investors is to be well diversified. REITs provide access to an asset class that can perform independent of your other investments, which means better balance for your portfolio.

In addition, Canadian REITs offer unique benefits to their unitholders that other equity investments do not. Typically, **REITs provide investors with** monthly or quarterly cash distributions at attractive yields with tax deferral benefits. **REITs also offer capital gains** potential as the portfolio grows and individual properties benefit from synergies and professional management. With the critical mass to diversify over a number of real estate properties, a REIT can expose its investors to the entire real estate market, reducing the risks that come with owning just one property in one location. Many REITs now specialize by sector (retail, industrial, hotels, nursing homes, apartment buildings, etc.), while others provide general exposure to the real estate market as a whole.

For information on individual Canadian REITs, see the back cover of this brochure.



1801 Hollis St., Halifax, Nova Scotia

REITs: Structured for stability



The Fairmont Empress, Victoria, British Columbia

BY CIPPREC, TORONTO

Real estate investment trusts must adhere to stringent leverage and financial reporting criteria. These regulations lead to steady cash distributions, conservative portfolio management, and transparent communication with REIT investors. Of course, Canadian REITs are not solely structured for stability . . . first and foremost, REITs are structured to succeed. For more information on the stability of a REIT investment, see B4.

Five 'common sense' reasons to add a REIT to your investment portfolio:

- 1. REITs offer diversification and a level of stability, without sacrificing growth potential.
- 2. REITs provide exposure to real estate real assets with tangible value and reliable income streams in a highly liquid, marketable security.
- **3.** REITs are distinct in their combination of relatively steady income, capital gains potential, tax benefits and professional, active management.
- 4. Typically, REITs provide more attractive yields than other income investments.
- 5. As a Trust, REITs are subject to more stringent regulations in areas such as leverage and financial reporting, providing investors with an added layer of security.



Place de Ville I, Ottawa, Ontario

Who should invest in REITs?

Income investors

REIT units offer attractive yields and a relatively steady income stream making them a suitable portfolio component for most income investors, though income investors should be aware that REITs are an equity investment with fluctuating unit prices.

Investors seeking tax benefits

REITs offer three major tax benefits: 1) pre-tax income flows through to investors, 2) investors get favourable tax treatment on the income, and 3) a component of the tax obligation is deferred until the units are sold.

Growth investors

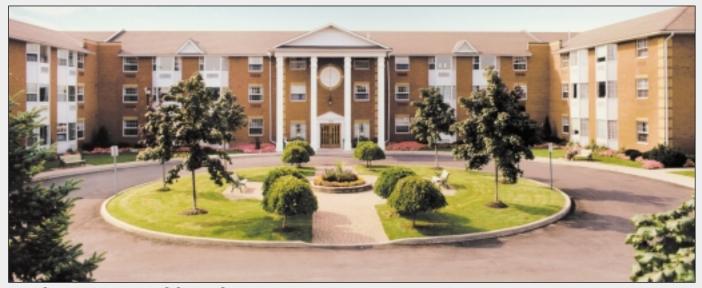
While the first two priorities are stability and income distribution, Canadian REITs have proven to be solid growth investments by bringing financial strength, industry acumen and innovation to previously untapped opportunities. With most REITs, investors have the option to re-invest distributions through a distribution reinvestment plan (DRP) to compound the growth potential of the investment.

RRSP, RRIF, RESP, DPSP

REITs are 100% eligible as Canadian content for registered portfolios.

Leverage investors

Interest on investment loans is tax deductible and distributions can be used toward loan repayment.



Canadian REITs are a solid growth investment.

Lundy Manor, Niagara Falls, Ontario

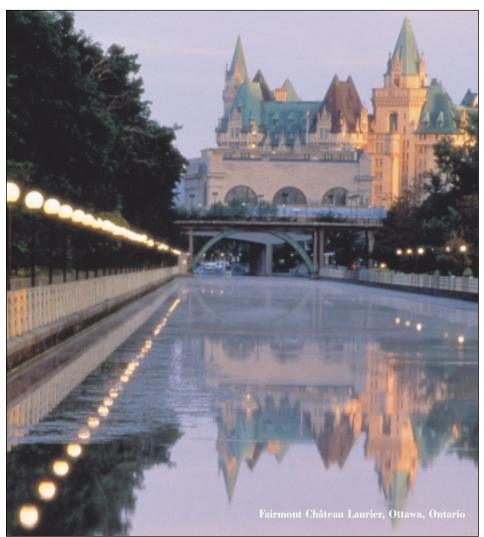
canadian reits in the news The asset mix decision

Experts agree, the single most important factor to building wealth for individual investors is the mix of assets that are maintained over the long term. Proper diversification among different investments will optimize returns and reduce volatility over time.

Because real estate is a distinct asset class with limited correlation to most other investments, it is a key contributor to this optimum asset mix. However, most individual investors do not have the capital or the management skills to achieve direct ownership of a shopping mall, hotel, retirement home, office building, apartment complex or industrial property. REITs expose investors to real estate in a highly liquid, marketable security that provides steady, tax-advantaged income, plus the potential for capital appreciation should the properties increase in value.

What can a REIT do for you?

The simple answer is that it can do just about everything a mutual fund, individual stock or bond can do, but because real estate has limited correlation to most other stocks and bonds, REITs provide one more layer of diversification – contributing to effective wealth creation for individual investors.



Proper diversification among different investments will optimize returns.





Which Canadian REIT is right for you?

REITs B6

800-806 Clark Boulevard, Brampton, Ontario

So, what's a REIT?

A REIT (pronounced "reet" and short for Real Estate Investment Trust) is a publicly traded organization that invests predominantly in income-producing real estate assets. REIT units are an equity investment, providing investors with attractive yields, plus the potential for capital appreciation.

The concept was introduced in the United States in 1960 to provide individual investors with the opportunity to participate in different sectors of the real estate market. Income earned by a REIT flows through to its unitholders without being taxed at the REIT level, giving regular investors similar flow-through income to that enjoyed by direct owners of commercial property.

Just like a mutual fund, REIT investors benefit from enhanced buying power, diversification, liquidity and professional management. REITs are required to distribute virtually all distributable income to unitholders monthly or quarterly – usually with a tax-deferred component. Assets of a REIT do not deplete in the same way that, say, an oil and gas royalty trust might; so, as long as there are incomeproducing buildings and properties, REITs are a viable investment structure.



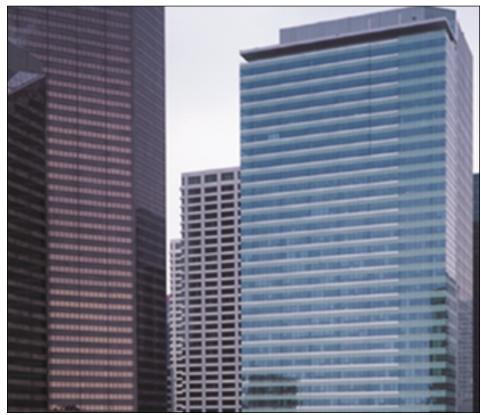
"Buy land, they're not making it anymore."

Mark Twain

CONSERVATIVE LEVERAGE • PROFESSIONAL MANAGEMENT REGULATORY REQUIREMENTS • BOARD OF TRUSTEES • STEADY DISTRIBUTIONS

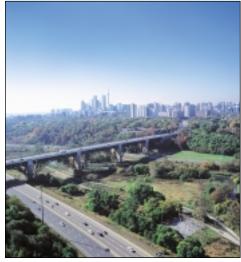
REITs: Structured for stability

- **Conservative leverage** the Declaration of Trust sets out a maximum debt capacity for the REIT.
- **Professional management** investors benefit from professional management of the portfolio and the underlying properties – often a hybrid of asset management acumen and industryspecific operational expertise.
- Regulatory requirements similar to any public company, REITs are required to comply with securities legislation and the rules of the applicable stock exchanges including those of continuous disclosure, insider trading and the sale of units.
- Board of Trustees in keeping with the principles of good corporate governance, the Board of Trustees (including independent or unrelated Trustees), governs the operations of the REIT, approving key decisions such as change in management, acquisitions and dispositions, the assumption or granting of mortgages and the granting of options under an option plan.
- Steady distributions REITs are required to distribute virtually all distributable income to unitholders. Monthly or quarterly distributions are intended to be steady and increasing over time as the REIT and its profitability grow. Yields are typically more attractive than on debt investments.



Trans Canada Pipelines Building, Calgary, Alberta

Real estate is one of the oldest, most proven investment opportunities.



View of Toronto skyline from 33 Eastmount Avenue, Toronto, Ontario

Mark Twain was right, sort of...

The renowned author once advised, "Buy land, they're not making it anymore." It's true – real estate is one of the oldest, most proven investment opportunities. However, in today's real estate market, successful investors realize a need for constant improvement . . . improvement of infrastructure, and in some cases, of products and services in the underlying businesses they own. The best real estate investments are those that benefit from both the intrinsic increase in value of the property or land and professional management seeking internal growth opportunities and greater cost efficiencies.

CANADIAN REITS · B5

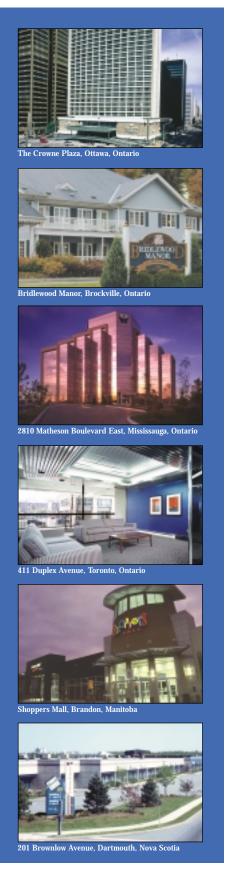


Investing in REITs is an excellent way to diversify a portfolio and establish a steady income stream – without sacrificing growth potential. Real estate offers competitive investment performance relative to stock and bond market indices. And, by investing in real estate through a REIT, you get the following additional growth drivers:

- A REIT has critical mass and has the potential to bring synergies to individual properties, creating value that otherwise would not exist
- A REIT has professional managers mandated to pursue steadily increasing distributions and capital appreciation over the long term
- In Canada, most management have a meaningful ownership stake in their REIT
- As a marketable security, a REIT provides liquidity far beyond direct investment in real estate



Which Canadian REIT is right for you?



Hotels – Canada's popularity as both a vacation destination and global business hub continues to grow each year, fueling the hospitality industry. Canadian REITs are consolidating a fragmented hotel market where new supply is generally cost prohibitive.

Nursing and retirement homes – The aging population has created a steadily increasing demand for nursing and retirement facilities that will continue exponentially over the next 40 years.

Office buildings – Low vacancy rates and limited new supply are attractive characteristics for ownership of Canadian office buildings. This sector also tends to have a high quality of tenancy enhancing the stability of the income stream and limiting turnover costs.

Residential – Properties such as apartment buildings are an extremely stable investment as tenant demand is high in both good times and bad. Growth in this sector is being driven by the recent relaxation of rent controls in certain Canadian markets and a growing trend among one-time homeowners choosing to rent for flexibility and location.

Retail – Unenclosed supermarket-anchored retail properties, dominant enclosed shopping centres, and new format retail centres are meeting consumer demand for both convenience and a retail entertainment experience. Canadian REITs in this sector have the innovation and capital required to meet the demands of this ever-evolving industry.

Industrial - Industrial is the largest real estate asset class in Canada, offering a highly stable tenant base and low costs in terms of maintenance, capital improvements and tenant inducements.

Diversified - Investors can also choose a single REIT that diversifies in some or all of the above categories.

The tax advantages are significant

As a REIT distributes virtually all of its distributable income to unitholders, it is not subject to tax itself; rather, the income is taxed in the hands of its unitholders. This flow-through structure is a key advantage for REITs over other forms of real estate investment.

For the unitholder, distributions are made up of a combination of income (taxed in the year it is received) and usually a return of capital (where tax is deferred until the year of disposition and at the lower capital gains tax rate.) For example: An investor purchases REIT units at \$10.00 per unit in YEAR ONE, receives per unit distributions of \$1.00 per year (60% of which is tax deferred), and sells the units for \$12.00 per unit in YEAR THREE.

	Distribution per unit	Income per unit	Adjusted Cost Base per unit
YEAR ONE	\$1.00	\$0.40	\$10.00 - \$0.60 = \$9.40
YEAR TWO	\$1.00	\$0.40	\$9.40 - \$0.60 = \$8.80
YEAR THREE	\$1.00	\$0.40	\$8.80 - \$0.60 = \$8.20
DISPOSITION			\$12.00 - \$8.20 = \$3.80 (capital gain)

Over the three years, the investor receives income totaling \$3.00 per unit, but pays income tax on just \$1.20. The rest of the income is considered a return of capital and is therefore applied to reduce the cost base of the investment. In doing so, the majority of the tax obligation is deferred until the units are sold – and is taxed at the more favourable capital gains tax rate.

INVESTING

So, how do I add a REIT to my investment portfolio?

Investing in a REIT is much like purchasing a mutual fund or individual common stock. Daily unit prices are listed in all major business media under "Trust Units" and you can purchase REIT units from any broker/dealer licensed to sell equities in Canada. Please speak with your financial advisor to determine an appropriate allocation – and select the REIT that's right for you.



Sheraton Fredericton Hotel, Fredericton, New Brunswick

To learn more about Canadian REIT investing, go to **www.canadianreits.com** to download your free copy of the "*The Canadian REIT Guide*", a comprehensive review of the benefits, structures and history of REITs in Canada. Or contact CIPPREC at **(416) 642-2700** or go to **www.cipprec.ca**



Canadian Institute of Public and Private Real Estate Companies L'Institut Canadien des Compagnies Immobilières Publiques et Privées

CIPPREC Member REITs

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Phone: (416) 861-8282 E-mail: IR@capreit.net Fax.: (416) 861-9209 Web: www.capreit.net

Canadian Hotel Income Properties REIT (CHIP REIT) (TSX: HOT.UN)

Phone: (604) 646-2447 Fax: (604) 646-2404 E-mail: kgrayston@chipreit.com or dnewstead@chipreit.com Web: www.chipreit.com

Canadian REIT (TSX: REF.UN)

Phone: (416) 628-7771 E-mail: info@creit.ca

Fax: (416) 628-7777 Web: www.creit.ca

H&R REIT (TSX: HR.UN) Phone: (416) 635-7520 E-mail: info@hr-reit.com

Fax: (416) 398-0040 Web: www.hr-reit.com

InnVest REIT (TSX: INN.UN)

Phone: (905) 206-7100 Toll Free: 1 (877) 209-3429 Web: www.innvestreit.com

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Legacy Hotels REIT (TSX: LGY.UN)

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O&Y REIT (TSX: OYR.UN)

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