Canadian Apartment Properties Real Estate Investment Trust

This is a people business.

At CAP REIT we have assembled one of the best property management teams in the industry, because providing our tenants with attractive, comfortable and secure communities is our top priority.

Annual Report 1998

Profile of CAP REIT

Canadian Apartment Properties Real Estate Investment Trust (CAP REIT) is Canada's only investment trust owning a freehold interest in multi-unit residential properties, including apartment buildings and townhouses located in major urban centres across the country.

CAP REIT's Objectives

1. To provide Unitholders with long-term, stable and predictable monthly cash distributions.
2. To grow distributable income and Unit value through the active management of the properties, accretive acquisitions and strong financial management.

CAP REIT's Goals

1. To grow distributions per Unit by a minimum of 5% per year.
2. To increase the size of the property portfolio by a minimum of 2,000 suites per year.
3. To grow the portfolio to 20,000 suites within five years.

Contents

Financial and Operating Highlights

FINANCIAL PERFORMANCE

YEAR ENDING DECEMBER 31	1998	1997[1]	CHANGE
Operating Revenues	**$ 42,540,000**	$ 19,224,000	121%
Net Income	**8,631,000**	3,746,000	130%
Distributable Income	**$ 10,111,000**	$ 3,827,000	164%
Distributable Income per Unit/Instalment Receipt	**$ 0.91**	$ 0.44	107%
Distributions per Unit/Instalment Receipt	**$ 0.87**	$ 0.44	98%
Tax Deferral	**100%**	100%	

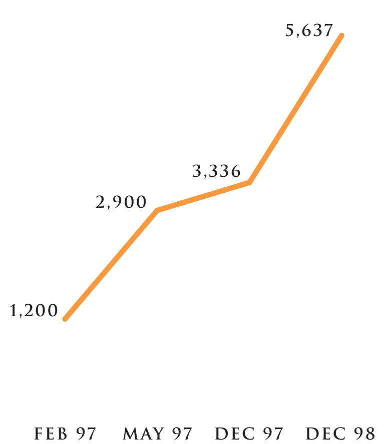
1. From initial public offering dated May 21, 1997

OPERATIONAL PERFORMANCE

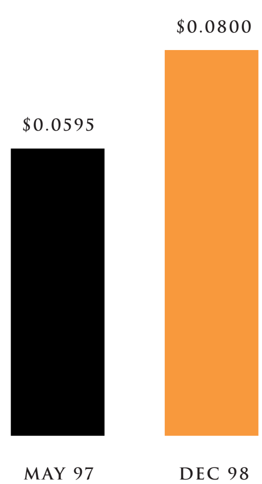
Properties	**$ 294,629,000**	$ 195,656,000	51%
Rental Suites	**5,637**	3,336	69%
Occupancy Rate	**99.5%[2]**	99.1%[2]	0.4%

2. As at April 1, 1999 and 1998

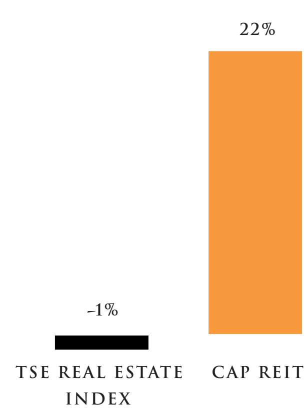
NUMBER OF SUITES



RISING DISTRIBUTIONS



TOTAL RETURN
SINCE MAY 1997 IPO



Report to Unitholders

We were very pleased with CAP REIT's financial performance in the first full year of operations since the completion of our initial public offering on May 21, 1997. By capitalizing on the continuing strong fundamentals of the multi-unit residential rental market in 1998, we produced improved results compared to the prior year, met our internal targets for portfolio and cash flow growth, and exceeded the forecast published in our prospectus dated March 25, 1998. In fact, CAP REIT has consistently exceeded its forecast performance since becoming a publicly held investment trust. We are very proud of this accomplishment.

Meeting our Targets

1998 was a year of strong growth as we expanded our portfolio and instituted a number of cost efficiencies in keeping with our strategic goals of enhancing Unit value while growing cash distributions. For the twelve months ended December 31, 1998, operating revenues grew to $42.5 million, producing net income of $8.6 million.

More importantly, distributable income rose 164% to $10.1 million compared to the prior year, resulting in distributable income per Unit of $0.91. Translating this performance to a fully paid basis for the entire year, the distributable income per Unit would have been $0.96 compared to the $0.93 we forecast in March 1998. Since our initial public offering, monthly distributions have grown almost 35%.

For the past two years, 100% of our distributions have been on a tax-deferred basis, providing a significant after-tax return for our Unitholders. This 100% tax deferral is the highest among all Canadian REITs, and we expect to maintain a high deferral rate in the future.

The dramatic increase in our operating revenues and distributable income in 1998 resulted from the execution of our strategy of combining accretive acquisitions with active property and financial management. We will continue to build value and distributable income through the execution of this strategy.

Growing the Portfolio Creates Value

In 1998 CAP REIT's portfolio increased by 2,301 rental suites at an average cost per suite of $44,000, well below replacement cost and less than the average price in our markets. We expanded our geographic coverage by moving into the Saskatoon, Regina, Hamilton and Montreal markets, while maintaining a suitable balance between the luxury, mid-tier and affordable segments. At year-end, CAP REIT's portfolio consisted of 33 apartment complexes and 117 townhouses, comprising a total of 5,637 rental suites.

Subsequent to year-end, we acquired 183 stacked townhouses in Brampton, Ontario and expect to close a 50% co-ownership interest in 612 apartment suites located in Ottawa, a new market for CAP REIT, bringing the total portfolio under management to 6,432 suites.

Looking ahead, our goal is to grow the portfolio by a minimum of 2,000 suites per year, with a longer-term target of achieving ownership of 20,000 suites within five years. We met our targets in 1998 and fully expect to do so again in 1999. We continue to maintain strong ties within the real estate community, and are broadening our referral network through lawyers, accountants, lenders and others to ensure that CAP REIT is contacted first when a property becomes available. We are targeting both individual property opportunities as well as portfolio acquisitions, and are closely examining other Canadian cities in which to expand.

Finally, we have recently begun a new value-creation initiative known as "intensification". At a number of our properties we can increase the total rental suites through creative modifications or additions to an existing building. These projects are very accretive, as we are able to add rental suites at below acquisition cost and without any incremental land costs. For example, at our prestige Tower Hill property in Toronto, we are adding four suites that will add approximately \$90,000 – \$100,000 in incremental net operating income per year at a cost of less than \$1,000,000.

Managing Risk Ensures Stability

While growth is important, one of CAP REIT's overriding objectives is to provide Unitholders with long-term, stable and predictable monthly cash distributions. One way that we can ensure that this objective is met is through the active management of risk.

While we are aggressively pursuing growth through acquisition, at the same time we are managing portfolio risk by adhering to strict acquisition criteria with respect to asset quality, location, geography and property segment diversification, as well as by excellence in property management.

Geographic diversification is an important facet of limiting risk. In assessing a new market, we carefully research both macro- and microeconomic factors, including such items as immigration and demographic trends, economic growth and employment levels, the existing supply of rental housing, price levels and vacancy rates, to name a few. Once we are convinced a market provides an acceptable level of risk, only then will we invest in that market.

Our exposure to changing financial markets and interest rates is managed by staggering the maturities of our mortgages and taking advantage of current lower long-term interest rates. One of our goals in 1999 is to extend the average term of our mortgage portfolio to ensure that as much as 35% to 40% remains in the 10- to 20-year maturity range in order to capitalize on today's low interest rate environment.

WE ARE VERY PROUD OF OUR PEOPLE BECAUSE THEY ARE DIRECTLY RESPONSIBLE FOR BUILDING TENANT LOYALTY AND MAINTAINING CAP REIT AS THE "LANDLORD OF CHOICE" IN OUR MARKETS.

WE HAVE DEVELOPED A NUMBER OF INNOVATIVE PROGRAMS DESIGNED TO ENHANCE OUR RESIDENTS' COMFORT, SECURITY AND PEACE OF MIND. THESE INITIATIVES KEEP VACANCIES LOW, REDUCE COSTS AND IMPROVE REVENUES.

Strong Tenant Relations Enhance Returns

To meet our strategic objective of growing distributable income and Unit value, CAP REIT has developed one of the most efficient and cost-effective property management services in the industry, delivered by our experienced, qualified and dedicated team.

The theme of this year's annual report encapsulates our most important objective. This is a "people business", and by building brand loyalty with our tenants, CAP REIT will maintain its status as "Landlord of Choice" in our markets. Our corporate culture is directly focused on building strong tenant relations. Preventative maintenance and repair programs, while keeping costs down, also build pride of tenancy among our residents. Communication is key to ensuring our residents' needs are met and their concerns answered quickly and efficiently. We are consistently upgrading the talents of our team through in-house training programs, and have developed and instituted state-of-the-art marketing and rental campaigns to keep our buildings fully occupied.

We have also developed a number of innovative programs and initiatives designed to enhance our residents' comfort, security and peace of mind. Whenever a new family moves into a building or a new property is acquired, we send out a welcome letter that includes our representatives' names and phone numbers to ensure any concerns are answered quickly and effectively. A regular newsletter, *The Communicator*, is mailed to all tenants. In addition to highlighting programs and services, it provides tips on fire safety and home security, and also includes a feature on an "employee of the month" to build pride in our team and recognition of their value as members of their apartment communities.

We hold regular Christmas, Halloween and other special-event parties and get-togethers to enhance the sense of community in all of our buildings. Residents' committees have been established at a number of properties to look after safety and security, and sports facilities and playgrounds have been built to provide our residents' children with activities close to home. All of these initiatives are aimed at ensuring that tenants are proud to live in a CAP REIT property.

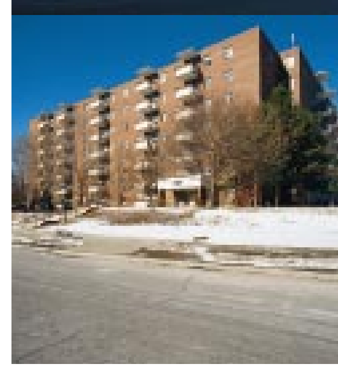
As a result of this focus on tenant relations, we are proud to state that occupancy in our portfolio averaged 99% through 1998, and we anticipate that vacancies will remain low. In addition, happy tenants pay their rent on time, and through 1998 bad debt expense was less than 1% of total operating revenues. Satisfied residents will prefer to remain in a CAP REIT building, keeping apartment refurbishment and tenant inducement costs low. And, as the quality of life in their buildings is enhanced, tenants will be willing to pay higher rents.

Operating Efficiencies Grow Cash Flow

While it is critical to ensure that our tenants take pride in their residences, it is equally important to manage our costs to ensure distributable cash flow continues to grow. We constantly examine all cost areas to seek savings through economies of scale and internal control and management systems. In 1998 we initiated a number of programs aimed at enhancing returns for our Unitholders.

High-efficiency heating boilers were installed, which are already lowering costs and improving environmental performance. We retrofitted numerous public area lighting systems to further reduce costs and energy usage. We installed new toilets to lower water consumption. We negotiated master contracts, at significant cost savings, to cover all our properties for the supply of such services as natural gas, elevator maintenance, landscaping and pest control. Finally, we upgraded all fire and safety systems to ensure our tenants can enjoy their homes with complete peace of mind.

These programs, however, accomplish much more than reducing costs. More important, the quality of life and the comfort of our tenants is enhanced as the buildings in which they live are improved, maintained and upgraded, both inside and out. Almost $6.3 million was invested in capital improvement programs in 1998, and we are budgeting a further $6.7 million in 1999. These ongoing investments ensure that our assets will increase in value, and secure our ability to build returns through growth in cash flow.



Successful Financing

Subsequent to year-end, we successfully raised $30 million through the sale of 3.05 million trust Units. These funds were primarily used to repay the indebtedness incurred under our acquisition facility, providing us with the ability to continue our portfolio expansion. The fact that we were able to raise these funds during a difficult time for the real estate capital markets is testament to the investment community's recognition of our ability to meet our stated goals and targets. In short, we are doing what we said we would do.

An Exciting Future

Looking ahead, we are confident that our growth and our ability to produce steady, predictable returns for our Unitholders will continue. The fundamentals of the residential rental market remain very strong, and our ability to capitalize on these healthy industry trends has been clearly demonstrated. Through the execution of our focused growth strategy, combined with our risk management programs, CAP REIT looks forward to an exciting future.

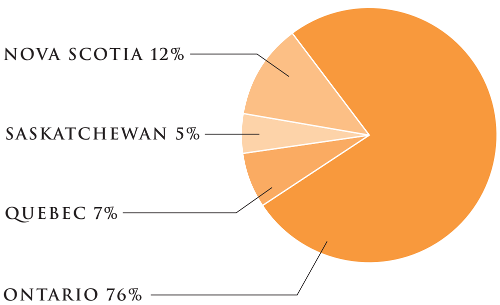
In closing, we want to recognize and thank all the members of the CAP REIT team. It was their effort and dedication that produced the excellent financial performance in 1998, and will support our success in the future.

MICHAEL STEIN
Executive Chairman

THOMAS SCHWARTZ
President and Chief Executive Officer

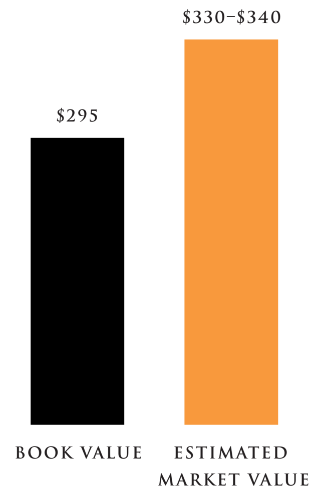
CAP REIT's Portfolio

STRONG ONTARIO FOCUS



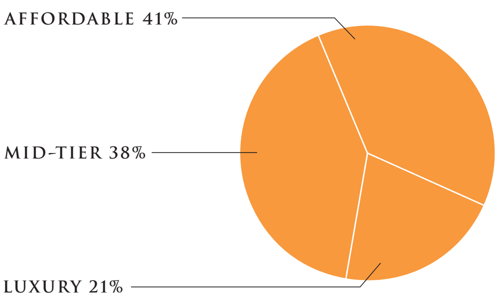
CREATING VALUE

DECEMBER 31, 1998
($ MILLIONS)



CAP REIT's freehold ownership of its portfolio offers participation in property value increases. As a result of rising property values and declining capitalization rates, the appraised value of CAP REIT's portfolio is significantly higher than its book value.

WELL-BALANCED PORTFOLIO



CAP REIT's balanced portfolio ensures Unitholders are not exposed to any one demographic group or apartment category. With properties in the Greater Toronto Area (GTA) and other southern Ontario centres, as well as Montreal, Halifax, Saskatoon and Regina, exposure to any one region is also reduced. With the majority of its properties located in Toronto, CAP REIT stands to benefit from the relaxation of rent controls in Ontario.

	GTA	HAMILTON & OAKVILLE	HALIFAX	MONTREAL	REGINA & SASKATOON	TOTAL
Total Suites	3,749	311	649	687	241	5,637
Book Value ($ 000s)	221,493	16,477	37,750	10,608	8,301	294,629
Book Value (%)	75.18	5.59	12.81	3.60	2.82	100.00
Occupancy (%)*	99.9	98.4	98.2	98.5	100.0	99.5
Average Monthly Rent*	$ 844	$ 676	$ 789	$ 423	$ 492	

*As at April 1, 1999

	Year Built	Total Suites	April 1, 1999 Occupancy	April 1, 1998 Occupancy	April 1, 1999 Average Monthly Rent[1]	April 1, 1998 Average Monthly Rent[1]
AFFORDABLE						
10 & 30 Tuxedo Court Scarborough, Ontario	1968	424	99.8%	99.1%	$ 803	$ 772
4000 & 4010 Lawrence Avenue East Scarborough, Ontario	1967	361	99.2%	97.0%	791	786
370 McCowan Road Scarborough, Ontario	1965	207	99.5%	99.0%	813	809
1050 Markham Road Scarborough, Ontario	1967	294	100.0%	99.3%	805	779
135, 139, 143 & 147 8th Street Etobicoke, Ontario and **148 and 170 Islington Avenue** Etobicoke, Ontario	1950	274	100.0%	98.9%	615	607
4 Rannock Street Toronto, Ontario	1958	25	100.0%	N/A	731	N/A
3420 & 3425 Morningstar Drive Mississauga, Ontario	1972	245	100.0%	N/A	762	N/A
1757 & 1759 Victoria Park Avenue Scarborough, Ontario	1963	200	100.0%	N/A	753	N/A
195 Wellington Street South Hamilton, Ontario	1958	143	96.5%	N/A	450	N/A
2010 22nd Street West Saskatoon, Saskatchewan	1978	31	100.0%	N/A	385	N/A
MID-TIER						
5 King's Cross Road Brampton, Ontario	1976	213	100.0%	99.5%	839	813
3 Knightsbridge Road Brampton, Ontario	1977	309	100.0%	100.0%	862	832
11 Knightsbridge Road Brampton, Ontario	1977	180	100.0%	100.0%	845	817
11–111, 115–159 and **76–128 Balmoral Drive** Brampton, Ontario	1964–67	101	100.0%	99.0%	1,006	961
75 Eastdale Avenue Toronto, Ontario	1974	231	100.0%	99.1%	784	753
61–69 Eastdale Avenue **2–12 & 16–24 Goodwood Park Crescent** Toronto, Ontario	1974	16	100.0%	100.0%	1,119	1,044
75 & 77 Huron Heights Drive Newmarket, Ontario	1978	110	100.0%	100.0%	833	820
1175 Dundas Street West Mississauga, Ontario	1972	104	100.0%	100.0%	725	692
75 Stewart Street Oakville, Ontario	1970	91	100.0%	100.0%	775	745
1 & 3 Biggin Court Toronto, Ontario	1958	100	100.0%	N/A	679	N/A
Salaberry Portfolio Montreal, Quebec	1965–67	250[2]	99.1%	N/A	366	N/A
Choisy Portfolio Montreal, Quebec	1964	437[2]	99.3%	N/A	458	N/A
615 Confederation Drive Saskatoon, Saskatchewan	1978	102	100.0%	N/A	478	N/A
4902 Queen Street Regina, Saskatchewan	1977	108	100.0%	N/A	536	N/A
LUXURY						
355 St. Clair Avenue West Toronto, Ontario	1969	164	100.0%	99.4%	1,798	1,725
1333 South Park Street Halifax, Nova Scotia	1965	400	98.0%	99.3%	902	905
297 Queens Avenue Oakville, Ontario	1972	77	100.0%	100.0%	978	947
44 Stubbs Drive North York, Ontario	1970	82	100.0%	100.0%	1,209	1,138
1030 South Park Street Halifax, Nova Scotia	1972	249	98.4%	97.6%	607	646
320–342 Avenue Road Toronto, Ontario	1935	109	100.0%	N/A	752	N/A
SUMMARY						
Properties as at April 1, 1998		3,887	99.6%	99.1%	853	834
Properties acquired since April 1, 1998		1,750	99.4%	N/A	590	N/A
Total properties as at April 1, 1999		5,637	99.5%	N/A	783	N/A

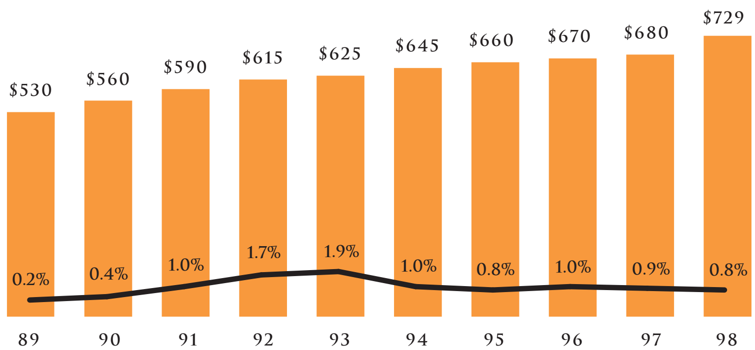
Notes
1. Based on gross residential rent less vacancies divided by the total number of suites; excludes revenue from parking, laundry, antennae and other.
2. CAP REIT's share of suites for Salaberry and Choisy is 136 and 225 respectively.

The Market

The multi-family rental residential real estate market is perfectly suited for an investment trust structure due to its reduced risk exposure and consistent ability to produce stable and predictable cash flow. Revenues are derived from a large and diverse group of tenants, ensuring that income remains unaffected by the loss of any one resident. Compared to commercial leases, residential terms are typically one year in length, allowing for more frequent and predictable rent increases.

AVERAGE RENT VS. VACANCY (%)

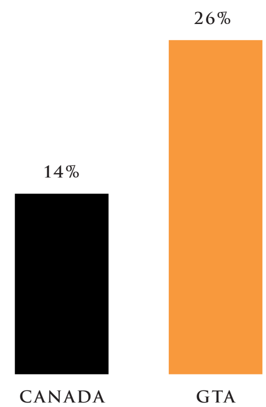
DOWNTOWN TORONTO – ONE BEDROOM APARTMENT



Over the past ten years, rental rates for apartment suites have increased steadily with consistently low vacancy rates, resulting in a highly stable and growing income stream.

DEMAND EXCEEDS SUPPLY

RAPID POPULATION GROWTH 1986–96

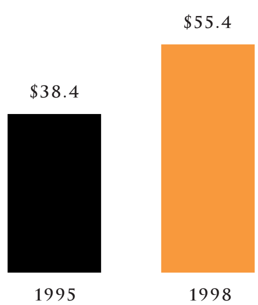


Population growth in CAP REIT's key Toronto market has significantly outpaced Canada as a whole. This increase in demand for rental accommodation, combined with minimal new private- or public-sector supply, has resulted in occupancy rates in CAP REIT's portfolio exceeding 99%.

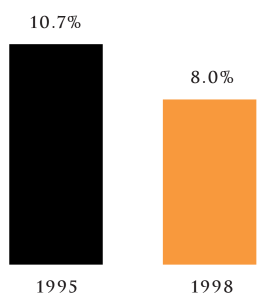
CAPITAL GAINS POTENTIAL

TORONTO APARTMENT MARKET

AVERAGE PRICE PER SUITE ($ 000s)



CAPITALIZATION RATE



The average purchase price per apartment suite has increased more than 44% in Toronto over the past three years, while capitalization rates have declined. As a result, the appraised value of CAP REIT's property portfolio is significantly higher than book value.

Growth Strategy

CAP REIT will capitalize on these strong industry fundamentals through a focused growth strategy:

1. Accretive acquisitions of well-located properties grow cash flows and Unit value
2. Conservative leverage reduces risk and enhances returns
3. Costs are reduced through operating efficiencies and economies of scale
4. Capital improvements, repairs and maintenance build tenant loyalty and reduce costs
5. Innovative "intensification" strategy maximizes returns by creating new suites in existing properties

Report on Governance

GENERAL

The members of the Board of Trustees of CAP REIT (the "Trust") strongly believe that sound corporate governance is essential to produce maximum benefits to those individuals and institutions who have invested in Units issued by the Trust. During 1998, the second year since going public in 1997, the Trustees of CAP REIT devoted considerable time and effort to further development and refining of its corporate governance policies and practices, which meet the guidelines issued by the Toronto Stock Exchange in 1994 (the "TSE Guidelines").

THE BOARD OF TRUSTEES

The Trustees have assumed responsibility for the stewardship of the Trust, and have been granted the necessary powers to carry out their responsibilities.

The TSE Guidelines recommend that a majority of the Trustees be "unrelated". The TSE Guidelines define an "unrelated" Trustee as one who is independent of management and is free of any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Trustee's ability to act in the best interests of the Trust, other than relationships arising from the holding of Units.

At the annual meeting of Unitholders held on June 24, 1998, Unitholders approved an increase in the size of the Board from seven to nine Trustees, and one Independent (i.e., unrelated) Trustee and one Non-Independent (i.e., related) Trustee were added. The Trustees have determined that five of the nine Trustees are Independent, namely Messrs. Harris, Heron, McEwen, Ryan and Swartzman. In accordance with the provisions of the Declaration of Trust, four Non-Independent Trustees have been appointed, three by the Advisor and one by Gentra (pursuant to its strategic alliance with the Trust).

General management, accounting and administration services are provided by the Advisor, and property management services are provided by the Property Manager, both under contracts. Certain of the senior officers of the Advisor and the Property Manager are Trustees and officers of the Trust and attend most Board and Committee meetings. The Declaration of Trust provides that all major decisions such as those related to the acquisition and disposition of properties and major changes to the Advisory and Property Management Agreements (including renewals, changes in fee structure, granting of options, etc.) must be approved by a majority of the Independent Trustees. From time to time, when appropriate, the Independent Trustees meet in camera without the Advisor, the Property Manager or the other Non-Independent Trustees being present.

The Advisor has developed a strategic plan, approved by the Board and reviewed annually. In addition, the Advisor and Property Manager prepare an annual budget and business plan for approval by the Trustees.

During the year, the Board of Trustees held six meetings.

COMMITTEES OF THE TRUSTEES

To assist the Board of Trustees in fulfilling its governance responsibilities, the Trustees have formed three Committees: an Audit Committee, a Compensation and Governance Committee, and an Investment Committee.

Audit Committee

The Audit Committee has four members. Three are Independent Trustees and one is a Non-Independent Trustee who is a chartered accountant. The Chairman of the Audit Committee is Stanley Swartzman, an Independent Trustee.

The Audit Committee is responsible for the review of the financial statements, accounting policies and reporting procedures of the Trust. In addition, during the year the Committee is responsible for ensuring, on an annual basis, that the Trust's principal risks are identified, that adequate systems are in place to manage these risks, and that such systems are effective.

The Committee reviews the Trust's quarterly and annual financial statements and other required financial documents, monitors the Trust's internal controls, reviews all payments to the Advisor and Property Manager and recommends them for approval by the Board of Trustees, reviews the Trust's insurance coverage to ensure its adequacy and approves the scope and planning of the external audit. The Audit Committee has unrestricted access to the senior management of the Advisor and the Property Manager and to the Trust's external auditor, who regularly attends the Audit Committee meetings.

The Audit Committee met five times during the year.

Compensation and Governance Committee

The Compensation and Governance Committee was created to assist the Board of Trustees in fulfilling its responsibility in matters relating to compensation and corporate governance. Specifically, the Committee is responsible for administration of the Trust's Agreements with the Advisor and the Property Manager, for advising on the Trust's compensation programs (including grants of options under the Trust's Unit Option Plan) and for developing and monitoring the Trust's policies and practices for corporate governance. In carrying out these responsibilities, the Committee annually reviews the mandate of the Board of Trustees and its Committees, monitors on an ongoing basis the performance of the Advisor and the Property Manager, makes an annual assessment of the effectiveness of the Board of Trustees and the individual Trustees, and carries out an annual review of the Trust's operational structure and communications policy.

The Compensation and Governance Committee has five members, all of whom are Independent Trustees. The Chairman of this Committee is Reginald Ryan. During the year the Committee met four times.

Investment Committee

Pursuant to the Declaration of Trust, the Board of Trustees established an Investment Committee consisting of six members, four of whom are Independent Trustees. The Board may delegate to the Investment Committee authority to recommend to the Trustees whether to approve or reject proposed transactions, including acquisitions and dispositions of assets of the Trust, all borrowings and the assumption or granting of any mortgage or other security interest in real property. However, the Trustees may consider and approve any matter which the Investment Committee has the authority to consider or approve, provided that approval by a majority of the Independent Trustees is obtained.

Given the relatively small size of the Board of Trustees, the merits of providing all Trustees with an opportunity to participate fully in the matters which may be delegated to the Investment Committee and the need to deal expeditiously with such matters, the practice established in 1997 of having the full Board of Trustees assume these responsibilities was continued in 1998.

Management's Discussion and Analysis

Management's discussion of the financial results of CAP REIT should be read in conjunction with its audited financial statements for the years ended December 31, 1998 and 1997. A comparison of CAP REIT's financial results for the year ended December 31, 1998 with the period May 21 to December 31, 1997 since its initial public offering ("IPO") shows a period of tremendous growth in operations, properties and distributions.

RESULTS OF OPERATIONS AND COMPARISON TO FORECAST

	DECEMBER 31, 1998 ACTUAL	DECEMBER 31, 1998 FORECAST*	MAY 21 TO DECEMBER 31, 1997 ACTUAL
Revenue from income properties	$ 42,540	$ 40,290	$ 19,224
Operating expenses	20,844	19,607	9,407
Mortgage interest	8,705	8,373	4,100
Income before the undernoted items	12,991	12,310	5,717
Depreciation and amortization	2,246	2,014	1,109
Income from properties	10,745	10,296	4,608
Trust expenses	2,112	2,034	928
Other			
Loan interest expense	(885)	(869)	(1,010)
Interest income and other income	883	1,159	1,076
Net income	8,631	8,552	3,746
Add			
Depreciation and amortization	2,077	1,843	1,041
Instalment receipt interest income	(597)	(597)	(960)
Distributable income (000s)	$ 10,111	$ 9,798	$ 3,827
Distributable income per Unit	$ 0.96	$ 0.93	$ N/A
Distributable income per instalment receipt	N/A	N/A	0.44

*Pursuant to the prospectus dated March 25, 1998

Net income increased by 130% from $3.7 million in 1997 to $8.6 million in 1998, and distributable income increased by 164% from $3.8 million in 1997 to $10.1 million in 1998. Operating revenues rose by 121% from $19.2 million in 1997 to $42.5 million in 1998.

The 1998 results exceeded CAP REIT's forecast (the "forecast") published in CAP REIT's prospectus dated March 25, 1998. Operating revenues increased by 5.6%, net income by 0.9% and distributable income by 3.2% as compared to the forecast, as a result of our strategy of combining accretive acquisitions with active property and financial management. Distributable income per Unit of $0.91 in 1998, which translates to $0.96 on a fully paid basis, was higher than the $0.93 per Unit forecast, and rose by 107% from distributable income per instalment receipt of $0.44 in 1997. As a result of management's focus on cost efficiencies, operating costs as a percentage of revenue continued to be in line with CAP REIT's forecast.

Mortgage interest expense as a percentage of gross revenues remained below both the forecast and 1997 results. Total depreciation and amortization of deferred financing costs were higher due to the acquisition of new properties during the year. Trust expenses as a percentage of operating revenues continued to be below 5% as in the previous year. Interest expense on the REIT loan, which was repaid on May 21, 1998, was $0.6 million in 1998 as compared to $1.0 million in 1997. Interest expense on CAP REIT's acquisition facility aggregated to $0.3 million in 1998 as compared to $0.02 million in 1997. This acquisition facility was repaid in full subsequent to the 1998 year-end.

PROPERTIES

During 1998, the book value of CAP REIT's properties grew by 51%, from $195.7 million to $294.6 million, due to the acquisition of 15 properties containing 2,301 suites. The total number of rental suites under management increased by 69%, from 3,336 suites at the end of 1997 to 5,637 suites at the end of 1998.

On average, CAP REIT acquired these properties at an initial capitalization rate of 9.1%. Overall, the average acquisition price per suite was $44,000, while the eight properties containing 1,139 suites located in the Greater Toronto Area were acquired at an average cost of $56,000 per suite. Of the 2,301 suites purchased in 1998, 1,400 were acquired in the last quarter and, as a result, the full impact on operating cash flow will be reflected in the 1999 results.

During 1998, CAP REIT incurred $6.3 million of capital expenditures compared to $6.0 million for 1997. Various capital improvement items identified in the engineering reports conducted for each property at the time of acquisition and in our preventative maintenance programs were completed on time and in accordance with the established budgets. A number of these programs had a positive impact on operating costs, such as the installation of new water-saving equipment and the upgrading of boilers. These programs keep occupancy high, build strong tenant loyalty, enable us to increase rents on turnover and enhance the long-term value of CAP REIT's properties.

DISTRIBUTIONS

CAP REIT, in accordance with the terms of its Declaration of Trust, distributes not less than 85% of its annual distributable income. Monthly distributions are based on the Trustees' estimate of yearly distributable income, subject to adjustments from time to time throughout the year. Monthly distributions have increased steadily from $0.061 in December 1997 to $0.08 since July 1998, and since CAP REIT's IPO on May 21, 1997 monthly distributions have grown by almost 35%. The total and per Unit amounts of distributable income and distributions to Unitholders since the IPO are as follows:

	1998 ($ MILLIONS)	1998 ($ PER UNIT)	1997* ($ MILLIONS)	1997* ($ PER UNIT)
Distributable income	10.1	0.91	3.8	0.44
Cash distributions	9.8	0.87	3.8	0.44
Amount retained	0.3	0.04	0.0	0.00

*From IPO dated May 21, 1997 on instalment basis

For 1997 and 1998, 100% of distributions were a tax-deferred return of capital. This 100% tax deferral of distributions provides a significant after-tax return for taxable Unitholders.

CAPITAL STRUCTURE AND LIQUIDITY

Liquidity

On May 21, 1998, CAP REIT received the final instalment of $4 per Unit due on its outstanding Units, and from the proceeds repaid the balance of $32.9 million outstanding under the REIT loan as at December 31, 1997.

During 1998, CAP REIT arranged increases to its acquisition and operating facilities, from $16 million to $35 million and from $2.5 million to $5 million, respectively. This increase in the acquisition facility enables CAP REIT to acquire approximately $88 million of new properties without the need for additional equity financing. As at December 31, 1998, borrowings on the acquisition facility were $20.6 million ($1.45 million was repaid in January 1999) compared to $6.2 million as at December 31, 1997 (repaid on closing of CAP REIT's public offering of Units on April 8, 1998).

Cash on hand at year-end of $5.2 million, combined with CAP REIT's ability to refinance existing properties and its working capital lines, are sufficient to fund the capital expenditure program and mortgage principal payments during 1999.

Unitholders' Equity

CAP REIT finances a significant portion of its growth through the issuance of new equity. On April 8, 1998, CAP REIT raised gross proceeds of $35 million through the issuance of 3.3 million Units at $10.60 per Unit with an initial instalment of $6.60 per Unit and a final instalment of $4.00 per Unit, payable on or before May 21, 1998.

At its annual meeting held on June 24, 1998, Unitholders approved an amendment to CAP REIT's Unit Option Plan increasing the number of Units issuable pursuant to options granted thereunder from 749,606 Units to 1,202,507. During the year, 225,000 Units were granted and 15,000 Units were issued under the Unit Option Plan, bringing the total number of options outstanding as at December 31, 1998 to 957,500 Units.

Debt

The mortgages payable on income properties increased from $116.7 million to $169.5 million during 1998. During the year, CAP REIT repaid $2.3 million through mortgage principal repayments, and raised new mortgage financing of $55.1 million pursuant to the acquisition of new properties and from draws of mortgage holdbacks upon completion of capital improvements on existing properties. As at December 31, 1998, the total debt-to-assets ratio (after excluding the REIT loan and borrowings under the acquisition and operating facilities) was 58.09% and (after including borrowings under the acquisition and operating facilities) 64.79%, compared to 59.94% and 63.0%, respectively, for the year ended December 31, 1997.

As at December 31, 1998, the weighted average interest rate and term to maturity of its mortgages were 6.2% and 3.8 years, compared to 6.4% and 4.8 years, respectively, as at December 31, 1997. Interest coverage as at December 31, 1998 was 2.49 times, compared to 2.39 times for the period May 21 to December 31, 1997. In order to take advantage of the current low interest rate environment and limit the potential exposure from future interest rate risk, CAP REIT is taking steps to extend the average term of the mortgage portfolio in 1999 to ensure that as much as 35% to 40% of the total portfolio is in the 10- to 20-year maturity range.

RISKS AND UNCERTAINTIES

Operating Risk

The principal operating risks affecting the performance of CAP REIT's properties are the potential for declining rental revenues due to rent controls, the need to maintain acceptable occupancy levels and the ability to maintain stable or increasing rental rates. As a result of management's focus on building tenant loyalty and becoming the "Landlord of Choice" through dedicated tenant service, overall occupancy in the portfolio throughout 1998 remained stable at more than 99%, with average rent renewal increases in the range of 2% to 5%. In addition, CAP REIT continues to maintain a balance between the luxury, mid-tier and affordable property segments in each geographic market. During 1998, CAP REIT expanded into the Quebec and Saskatchewan markets, while continuing to maintain a strong Ontario focus in order to realize the potential benefits from relaxed provincial rent controls.

Environmental Risks

In order to mitigate any potential environmental risks, CAP REIT carries out a comprehensive Phase I environmental audit prior to completing the acquisition of any property, combined with ongoing environmental assessment programs to ensure continued compliance with all laws and regulations governing environmental and other related matters.

YEAR 2000 ISSUE

CAP REIT has substantially completed its assessment of both the internal and third-party risks associated with the Year 2000 Issue as they may affect CAP REIT and its operations. CAP REIT is in the process of resolving any issues dealing with its computer systems and computerized operating equipment likely to be impacted by the Year 2000 Issue. CAP REIT anticipates completing this process by the fall of 1999. In addition, CAP REIT is working closely with relevant third parties to ascertain that appropriate modifications to their computer systems are proceeding satisfactorily. Overall, the cost incurred to date and budgeted for completion of this process is not material.

RECENT EVENTS

Issue of New Units

In March 1999, CAP REIT completed the issuance of 3.05 million new Units on a bought deal basis to a syndicate of underwriters at a price of $9.85 per Unit and received gross proceeds of approximately $30 million. From the net proceeds of the new issue, $19.1 million was used to repay the acquisition facility, $5 million was set aside for capital improvements and intensification, and $4.2 million will be used for future property acquisitions and working capital. As a result of this new issue, the total number of Units outstanding is 15,090,334 as at April 1, 1999.

New Acquisition

In May 1999, CAP REIT completed the acquisition of 183 stacked townhouses on Clark Boulevard in Brampton, Ontario, and expects to close a 50% co-ownership interest in a portfolio of properties comprising 612 suites in the Ottawa area, bringing CAP REIT's total portfolio under management to 6,432 suites.

FUTURE OUTLOOK

CAP REIT has developed a focused growth strategy to capitalize on the strong fundamentals present in the residential rental real estate market. Looking ahead, CAP REIT remains committed to meeting its objectives of providing Unitholders with long-term, stable and predictable monthly cash distributions, and growth in distributable income and Unit value, through further accretive property acquisitions and active property and financial management.

Management's Responsibility for Financial Statements

The accompanying financial statements and information included in this Annual Report have been prepared by the management of Canadian Apartment Communities Inc., CAP REIT's advisor (the "Advisor"), which is responsible for the day-to-day operations of CAP REIT in accordance with generally accepted accounting principles, and include amounts based on management's informed judgments and estimates. The management of the Advisor is responsible for the integrity and objectivity of these financial statements. To fulfill this responsibility, CAP REIT maintains an appropriate system of internal controls, policies and procedures to reasonably ensure that its reporting practices and accounting and administrative procedures provide reliable and accurate financial information, and that assets are adequately safeguarded. The financial information presented elsewhere in this Annual Report is consistent with that in the financial statements in all material respects.

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

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

April 30, 1999

MICHAEL STEIN
Executive Chairman

YAZDI BHARUCHA
Chief Financial Officer and Secretary

Auditors' Report

To the Unitholders of Canadian Apartment Properties Real Estate Investment Trust

We have audited the balance sheets of Canadian Apartment Properties Real Estate Investment Trust ("CAP REIT") as at December 31, 1998 and 1997 and the statements of income and distributable income and changes in financial position for the year ended December 31, 1998 and the period February 4, 1997 to December 31, 1997. These financial statements are the responsibility of CAP REIT's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of CAP REIT as at December 31, 1998 and 1997 and the results of its operations and the changes in its financial position for the year ended December 31, 1998 and the period February 4, 1997 to December 31, 1997 in accordance with generally accepted accounting principles.

Toronto, Ontario
February 5, 1999

PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Chartered Accountants

Balance Sheets as at December 31, 1998 and 1997

	1998	1997
ASSETS		
Income properties (note 3)	**$ 294,628,858**	$ 195,655,962
Deposits and sundry assets	**3,496,366**	3,696,698
Deferred financing costs (note 4)	**1,440,804**	1,588,863
Instalment receipt receivable (note 5)	**–**	32,385,558
Cash and term deposits	**5,222,962**	3,223,949
	$ 304,788,990	$ 236,551,030
LIABILITIES AND UNITHOLDERS' EQUITY		
LIABILITIES		
Mortgages payable (note 6)	**$ 169,542,309**	$ 116,682,889
Loans payable (note 7)	**20,595,000**	39,262,680
Accounts payable and other liabilities	**5,562,962**	3,785,706
Security deposits	**3,569,422**	2,393,274
	199,269,693	162,124,549
UNITHOLDERS' EQUITY (note 8)		
Issued and outstanding:		
Units 1998 – 12,040,251 (1997 – 8,723,170)	**$ 105,519,297**	$ 74,426,481
	$ 304,788,990	$ 236,551,030

Signed on behalf of the Trustees:

MICHAEL STEIN
Trustee

THOMAS SCHWARTZ
Trustee

The notes form an integral part of the financial statements.

Statements of Income and Distributable Income

	For the year ended December 31, 1998	For the period February 4, 1997 to December 31, 1997
OPERATING REVENUES		
Revenues from income properties	**$ 42,539,588**	$ 22,776,002
OPERATING EXPENSES		
Realty taxes	**6,787,903**	3,990,049
Property operating costs	**12,566,999**	6,738,072
Mortgage interest	**8,704,551**	5,255,186
Property management fees (note 11)	**1,488,886**	797,921
Total expenses	**29,548,339**	16,781,228
INCOME BEFORE THE UNDERNOTED ITEMS	**12,991,249**	5,994,774
Depreciation	**1,943,875**	919,831
Amortization of deferred financing costs	**302,050**	290,383
	2,245,925	1,210,214
Income from properties	**10,745,324**	4,784,560
Trust expenses (note 11)	**2,111,813**	964,899
	8,633,511	3,819,661
OTHER		
Loan interest expense (note 7)	**(884,633)**	(1,010,218)
Instalment receipt interest income	**597,122**	959,661
Other interest income	**285,471**	116,315
	(2,040)	65,758
NET INCOME (note 9)	**8,631,471**	3,885,419
ADD		
Depreciation	**1,943,875**	919,831
Amortization of REIT loan deferred financing costs	**132,523**	217,477
Instalment receipt interest income	**(597,122)**	(959,661)
DISTRIBUTABLE INCOME FOR THE PERIOD (note 9)	**$ 10,110,747**	$ 4,063,066

The notes form an integral part of the financial statements.

Statements of Changes in Financial Position

	For the year ended December 31, 1998	For the period February 4, 1997 to December 31, 1997
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net income for the period	**$ 8,631,471**	$ 3,885,419
Items not affecting cash:		
Depreciation	**1,943,875**	919,831
Amortization of deferred financing costs	**302,050**	290,383
Instalment receipt interest income	**(597,122)**	(959,661)
	10,280,274	4,135,972
Changes in non-cash operating assets and liabilities	**2,999,745**	699,433
	13,280,019	4,835,405
DISTRIBUTION TO UNITHOLDERS	**(9,819,376)**	(4,049,855)
FINANCING ACTIVITIES		
Mortgages payable	**52,859,420**	116,682,889
Loans payable	**(18,667,680)**	39,262,680
Proceeds of offering of Units (net)	**32,280,721**	76,051,303
Instalment receipt receivable	**32,982,680**	(32,982,680)
	99,455,141	199,014,192
INVESTMENT ACTIVITIES		
Acquisition of income properties	**(94,644,891)**	(190,528,461)
Capital improvements	**(6,271,880)**	(6,047,332)
	(100,916,771)	(196,575,793)
INCREASE IN CASH AND TERM DEPOSITS DURING THE PERIOD	**1,999,013**	3,223,949
CASH AND TERM DEPOSITS, BEGINNING OF PERIOD	**3,223,949**	–
CASH AND TERM DEPOSITS, END OF PERIOD	**$ 5,222,962**	$ 3,233,949

The notes form an integral part of the financial statements.

Notes to Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 1998 AND THE PERIOD FEBRUARY 4, 1997 TO DECEMBER 31, 1997

1. ORGANIZATION OF THE TRUST

Canadian Apartment Properties Real Estate Investment Trust ("CAP REIT") is a closed-end real estate investment trust created for the benefit of the Unitholders. CAP REIT commenced active operations on February 4, 1997 when it acquired an initial portfolio of properties and became a reporting issuer on May 21, 1997 pursuant to an initial public offering prospectus dated May 12, 1997.

2. SIGNIFICANT ACCOUNTING POLICIES

CAP REIT's accounting policies and its standards of financial disclosure are in accordance with generally accepted accounting principles and are also substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies, the more significant of which are described below:

(a) *Income Properties*

Income properties are recorded at the lower of cost less accumulated depreciation and net recoverable amount. Cost of the properties includes all amounts related to the acquisition and improvement of the properties. Depreciation on buildings is recorded on a 5% sinking fund basis to fully amortize the cost of the buildings over 40 years.

(b) *Deferred Financing Costs*

Financing costs are deferred and amortized on a straight-line basis over the term of the related financing. CMHC loan guarantee fees are deferred and amortized on a straight-line basis over the amortization period of the mortgage.

(c) *Income Taxes*

CAP REIT intends to distribute its income for income tax purposes each year to such an extent that it will not be liable for income tax under Part I of the Income Tax Act (Canada).

(d) *Co-Ownerships*

CAP REIT carries out certain of its activities under co-ownerships and records its proportionate share of assets, liabilities, income and expenses of all co-ownerships in which it participates. In general, CAP REIT has recourse against all of the assets of the co-ownerships in the event that CAP REIT is called upon to pay liabilities in excess of its proportionate share.

(e) *Use of Significant Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. INCOME PROPERTIES

	COST	ACCUMULATED DEPRECIATION	1998 NET BOOK VALUE	1997 NET BOOK VALUE
Land	$ 40,219,151	$ –	**$ 40,219,151**	$ 26,022,355
Buildings	257,273,413	2,863,706	**254,409,707**	169,633,607
	$ 297,492,564	$ 2,863,706	**$ 294,628,858**	$ 195,655,962

4. DEFERRED FINANCING COSTS

The unamortized balance of deferred financing costs consists of:

	1998	1997
CMHC loan guarantee fees	**$ 1,045,083**	$ 1,033,628
Other financing costs	**395,721**	555,235
	$ 1,440,804	$ 1,588,863

5. INSTALMENT RECEIPT RECEIVABLE

This amount represents $4 of the issue price of Units issued pursuant to the initial public offering on May 21, 1997, discounted for imputed interest at 4.95% per annum. The amount was received on May 21, 1998.

6. MORTGAGES PAYABLE

Mortgages payable bear interest at rates ranging between 5.00% and 7.67% with a year-end weighted average rate of 6.23% (6.42% – 1997) and mature between April 1, 1999 and January 15, 2019. The income properties have been pledged as security. Future principal repayments are as follows:

YEAR ENDING DECEMBER 31	
1999	$ 26,643,084
2000	37,502,068
2001	39,332,486
2002	19,857,238
2003	10,747,585
Subsequent to 2003	35,459,848
	$ 169,542,309

Included in deposits is an amount of $115,339 obtained from a mortgagee which has been reserved to fund capital improvements on the income properties given as security. In addition, CAP REIT has committed mortgage financing available of an additional $1,677,012 to fund capital improvements.

The estimated fair value of CAP REIT's mortgages payable approximates their carrying value as at December 31, 1998.

Included in mortgage interest expense for the period February 4, 1997 to December 31, 1997 is interest of $280,081 on the Gentra Mortgage paid to Gentra Canada Investments Inc. ("Gentra"), an affiliate of a Unitholder, and $222,946 interest paid on the Partnership Loan to Canadian Apartment Properties Limited Partnership, a Unitholder. The mortgage and loan were repaid on May 21, 1997.

7. LOANS PAYABLE

Loans payable consist of:

	1998	1997
REIT Loan payable	**$ –**	$ 32,982,680
Other Loan payable	**20,595,000**	6,280,000
	$ 20,595,000	$ 39,262,680

The REIT loan payable to Gentra was secured by a pledge of the rights under the instalment receipt receivable and was repaid from the proceeds of the repayment of those receivables. Interest paid to Gentra for 1998 is $630,692 ($994,224 – 1997).

The other loan payable represents borrowings on a revolving line of credit, bears interest at 7.6% per annum (6.75% – 1997), and second charges and a floating charge debenture on income properties have been pledged as security. Loan interest expense for 1998 is $253,941 ($15,994 – 1997).

The estimated fair value of CAP REIT's loans payable approximates their carrying value as at December 31, 1998.

8. UNITHOLDERS' EQUITY

Authorized – Unlimited, voting Units

The number of issued and outstanding Units comprises the following:

	1998	1997
Units outstanding, beginning of year	**8,723,170**	–
Issued during the year:		
Public offering	**3,301,900**	8,723,170
Unit Option Plan	**15,000**	–
Distribution Reinvestment Plan	**181**	–
Units oustanding, end of year	**12,040,251**	8,723,170

The balance in Unitholders' equity comprises the following:

Unitholders' equity, beginning of year	**$ 74,426,481**	$ –
Proceeds of offering of Units	**35,000,140**	82,476,700
Distribution Reinvestment and Unit Option Plans	**151,675**	–
Offering expenses	**(2,871,094)**	(6,425,397)
Discount on instalment receipt receivable	**–**	(1,556,783)
Net income	**8,631,471**	3,885,419
Distributions to Unitholders	**(9,819,376)**	(3,953,458)
Unitholders' equity, end of year	**$ 105,519,297**	$ 74,426,481

On May 21, 1997, CAP REIT issued 477,500 Units to related parties for $20,000 and 8,245,670 Units for net proceeds of $76,031,303 pursuant to the prospectus dated May 12, 1997. The Units were issued at $10 per Unit with an initial instalment of $6 per Unit and a final instalment of $4 per Unit payable on or before May 21, 1998.

On April 8, 1998, CAP REIT issued 3,301,900 Units for net proceeds of $32,129,046. The Units were issued at $10.60 per Unit with an initial instalment of $6.60 per Unit and a final instalment of $4 per Unit payable on or before May 21, 1998.

During the year, 181 Units were issued under CAP REIT's Distribution Reinvestment Plan for a total cash consideration of $1,675.

Under the terms of the Unit Option Plan, the maximum number of Units reserved for issuance to Trustees, directors, officers and employees of CAP REIT, the Advisor, the Property Manager and related trusts and holding companies is 1,202,507 Units. During the year, 225,000 Units were granted and 15,000 Units were issued for total cash consideration of $150,000.

The following Unit option grants are outstanding at the end of the year:

EXERCISE PRICE	EXPIRY DATE	NUMBER OF UNITS 1998	NUMBER OF UNITS 1997
$10.00	May 20, 2002	**732,500**	747,500
$9.75	August 13, 2003	**15,000**	–
$9.50	December 21, 2003	**210,000**	–
		957,500	747,500

9. PER UNIT AMOUNTS

	FOR THE YEAR JANUARY 1, 1998 TO DECEMBER 31, 1998	FOR THE PERIOD MAY 21, 1997 TO DECEMBER 31, 1997
Net income per Unit or instalment receipt	**$ 0.79**	$ 0.44
Distributable income per Unit or instalment receipt	**0.91**	0.44
Cash distributions per Unit or instalment receipt	**0.87**	0.44

10. CO-OWNERSHIPS

CAP REIT's share of the assets, liabilities, revenues, expenses and cash flows from co-ownership activities which commenced in 1998 is summarized as follows:

	1998
Assets	**$ 10,354,584**
Liabilities	**6,393,851**
Revenues	**4,729**
Expenses	**1,662**
Income from properties	**3,067**
Cash generated by operating activities	**(84,522)**
Cash provided by financing activities	**6,392,648**
Cash used in investing activities	**(10,265,792)**

11. RELATED PARTY TRANSACTIONS

CAP REIT has entered into advisory and property management agreements with the Advisor, Canadian Apartment Communities Inc. ("CACI") and the Property Manager, Canadian Apartment Management Inc. ("CAMI").

(a) *Advisor's Fees*

The initial term of the advisory agreement is five years maturing on May 21, 2002 and may be renewed for further five-year terms upon the approval of two-thirds of the Independent Trustees. The fees paid to the Advisor for acquisition fees and annual advisory services during 1998 were $2,297,538 ($953,900 – 1997) of which $836,939 ($239,203 – 1997) have been capitalized to income properties and the balance included in trust expenses.

(b) *Property Management Fees*

The initial term of the property management agreement was for two years and the agreement has been renewed for a further term, maturing on May 21, 2002, as approved by the Independent Trustees. The Property Manager is owned by individuals who are shareholders of the Advisor. Property management fees are payable based on 3.5% of the gross revenue of the income properties. The fees paid to the Property Manager during 1998 were $1,488,886 ($797,921 – 1997).

The Property Manager has entered into construction management agreements with a related party to provide construction management services to carry out the capital expenditure improvements for the properties. The construction management fees for 1998 of $296,338 ($384,474 – 1997) have been capitalized to income properties.

12. RISK MANAGEMENT

(a) *Interest Rate Risk*

Interest rate risk is minimized as floating rate indebtedness is restricted to 10% of total indebtedness pursuant to the terms of the operating policies contained in CAP REIT's Declaration of Trust. In addition, CAP REIT structures its financings so as to stagger the maturities of its debt, thereby minimizing exposure to interest rate fluctuations.

(b) *Credit Risk*

Credit risk arises from the possibility that the tenants of CAP REIT's properties may experience financial difficulty and be unable to fulfill their rental commitments. Thorough credit assessments are conducted in respect of all new tenants. CAP REIT mitigates the risk of credit loss by diversifying its portfolio geographically and in different multi-residential property classes.

13. UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000 and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect CAP REIT's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting CAP REIT, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

Trustees and Officers

BOARD OF TRUSTEES

THOMAS SCHWARTZ*
PRESIDENT & CEO
President and Chief Operating Officer of the Advisor and the Property Manager

MICHAEL STEIN
EXECUTIVE CHAIRMAN
Chairman and Chief Executive Officer of the Advisor and the Property Manager

HYMAN BLOOM
Director, Ace Mortgage Corporation (a real estate investment company)

PAUL HARRIS†‡
Partner, Goodman Phillips & Vineberg (a Montreal law firm)

HUGH HERON†‡
Director, the Heron Group of Companies (a number of related real estate development companies)

ROBERT McEWEN*†‡
Chairman and Chief Executive Officer, Goldcorp Inc. (a publicly traded natural resources company)

ROBERT W. POWELL
President, Real Estate Finance Group, Gentra Inc. (a public real estate and financing company)

REGINALD RYAN*†‡
Corporate director

STANLEY SWARTZMAN*†‡
Executive Vice President (retired), Loblaw Properties Limited (a real estate development company)

* Audit Committee
† Compensation and Governance Committee
‡ Independent Trustee

OFFICERS

THOMAS SCHWARTZ
President and Chief Executive Officer

MICHAEL STEIN
Executive Chairman

YAZDI BHARUCHA
Chief Financial Officer and Secretary

Unitholder Information

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST
11 Church Street, Suite 200
Toronto, Ontario, Canada M5E 1W1
Tel (416) 861-8282
Fax (416) 861-0177

REGISTRAR AND TRANSFER AGENT
Montreal Trust
151 Front Street West, 8th Floor
Toronto, Ontario M5J 2N1
1 800 663-9097

AUDITORS
PricewaterhouseCoopers LLP
Toronto, Ontario

LEGAL COUNSEL
Goodman Phillips & Vineberg
Toronto, Ontario

INVESTOR INFORMATION
Analysts, Unitholders and others seeking financial data should contact:

YAZDI BHARUCHA
Chief Financial Officer and Secretary
(416) 861-5771

STOCK EXCHANGE LISTING
Units of CAP REIT are listed on the Toronto Stock Exchange under the trading symbol “CAR.UN”.

MONTHLY DISTRIBUTIONS PER UNIT

January/98	$ 0.063
February/98	$ 0.065
March/98	$ 0.065
April/98	$ 0.065
May/98	$ 0.065
June/98	$ 0.070
July/98	$ 0.080
August/98	$ 0.080
September/98	$ 0.080
October/98	$ 0.080
November/98	$ 0.080
December/98	$ 0.080

ANNUAL MEETING OF UNITHOLDERS
The Annual Meeting of Unitholders will be held at 11:00 am on June 28, 1999, at The Ontario Club, Commerce Court South, 5th Floor, 30 Wellington Street West, Toronto, Ontario.

Canadian Apartment Properties Real Estate Investment Trust