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QUIC RESEARCH REPORT

Cash Yield

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Allied Properties REIT (TSX:AP.UN) Investment Defense

Developing its Way Into a Core Cash Yield Holding

Introduction

The Cash Yield team is continuing to re-evaluate our investment theses of each holding as we look to trim down the portfolio to four core holdings. In the Office real estate space, we feel that Allied Properties REIT (TSX:AP.UN) will outperform its peers as a result of the theses laid out below.

Investment Theses

Thesis I: Strong, Diversified Geographic Footprint

Thesis II: Unique Development Capability

Thesis III: Experienced and Aligned Management

Valuation

Applying a 16.5x P/FFO multiple and a 10.0% premium to Net Asset Value, we arrive at a one year target price of $38.00, implying a total return of 17.5%.

QUIC Research Reports focus on emerging investment themes that affect current portfolio companies and companies under coverage.

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Office Sub-Sector Outlook

Over the past year, Office REITs with exposure to Alberta struggled as firms downsized their operations in the region, driving down demand for office spaces, especially within Calgary's downtown market. Vacancy rates soared above 20%, leaving Office REITs with little bargaining power in lease negotiations, this resulted in low rental rate increases and more attractive lease incentives needed to both maintain current leases and bring in new tenants. Looking at the Canadian Office market as a whole, absorption moved negative in 2016 as a result of oversupply in the market, with ~8.1 MM sf of office space coming online over the past year. This negative absorption increased national vacancy rates to ~12.5%, 250bps higher than the long-term average.

Oversupply is likely to remain a primary theme for the Canadian Office real estate market going forward. Across major markets there is ~12.6 MM sf of GLA being developed, with the majority of these properties coming online over the next two years. Absorption of these new properties is expected to be sub-par in comparison to earlier years, but will likely turn positive on a slight uptick from 2016's negative absorption. National new office supply is expected to reach a peak in 2017, with an estimated ~8.3 MM sf coming online this year, decreasing by 65% to ~3.0 MM sf in 2018.

We have increasingly seen a divergence in fundamentals between energy-centric markets and urban markets throughout the rest of the country. While the Edmonton and Calgary markets attempt to recover from the flight from the oil patch, there is a large amount of new supply coming online in these markets in 2017. Due to the increases in supply in both markets, there is expected to be a decrease in net asking rents and an increase in vacancy, with a high likelihood of a 25% vacancy rate in Calgary. Landlords will also need to accept less attractive lease terms and offer incentives to renew leases with current tenants. Taking a look at the GTA, while there are expectations of a slight uptick in vacancy through 2017, the Toronto office market remains one of the most diverse and attractive markets to operate in as Canada's population moves back into urban centres.

EXHIBIT 1: Effect of Incoming Supply on Vacancy

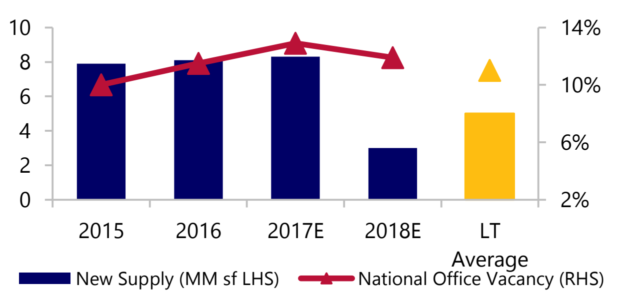
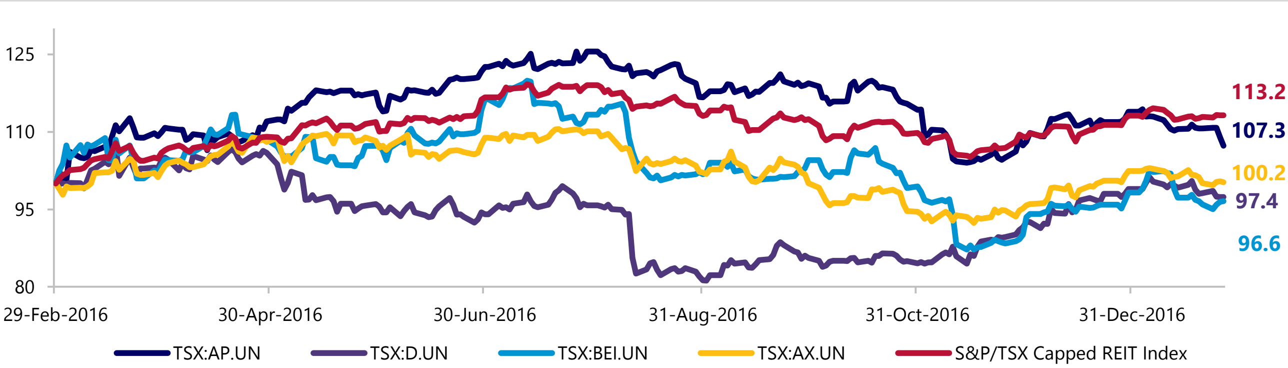


EXHIBIT 2: YTD Office REIT Performance Versus Benchmark



Source: : Company Reports, RBC CM

Business Overview

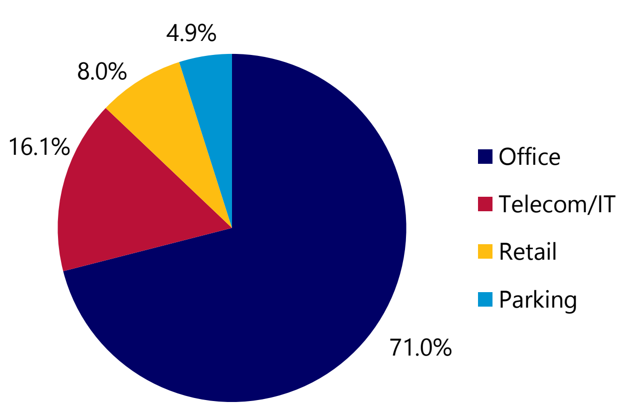
Allied Properties REIT (TSX:AP.UN) owns and operates a portfolio of 155 properties, comprised primarily of office space, with some exposure to Telecom/IT, Retail, and Parking markets. The vast majority of the REIT's 11.8 MM square feet (sf) of gross leasable area (GLA) is located in core urban markets, with 75.4% of Allied's GLA located in Toronto and Montreal. The REIT's fully internalized management team has focused on acquiring and intensifying Allied's position within core urban markets, looking to benefit from Canada's increasingly urban population. Management has focused on developing "Class I" office spaces, created through the adaptive re-use of light industrial properties. These buildings typically feature high ceilings, abundant natural light, interior brick, and hardwood floors. Demand for Class I properties has steadily increased over the past few years as firms are increasingly looking for modern, open office spaces.

Though Allied is classified as an Office REIT, the REIT has some interesting exposure to the Telecom/IT specialty subsector. We view this as a positive for the REIT, as increased demand for quality data centre space will benefit Allied going forward. Over the next 5 years, Canadian data centre revenues and established units are expected to grow by 16.6% and 15.7% respectively. As one of the only Canadian REITs with exposure to the subsector, Allied is well positioned to capitalize on this growth.

Management has emphasized that going forward, they will continue targeting markets that are characterized by fragmented ownership, providing the REIT with consolidation opportunities. This allows the REIT to continually develop and intensify its core urban properties.

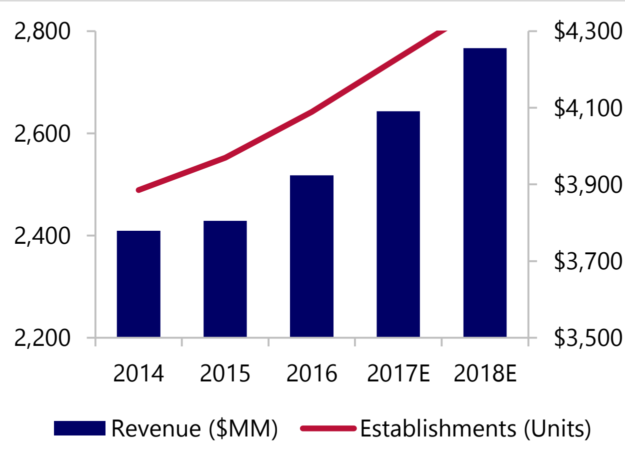
The REIT also operates with very strong leverage and cash retention metrics. As of Q3/16, debt to gross book value (D/GBV) and the REIT's AFFO Payout Ratio stand at 38.6% and 73.0%, respectively. Both metrics are below peer averages, meaning that management has ample space to lever up the balance sheet at an attractive cost of capital, while also being able to fund acquisitions and developments using the high amount of cash retained, due to Allied's low payout ratio.

EXHIBIT 3: NOI by Property Type



Source: Company Reports

EXHIBIT 4: Data Centre Growth



Source: Company Reports, IBIS World

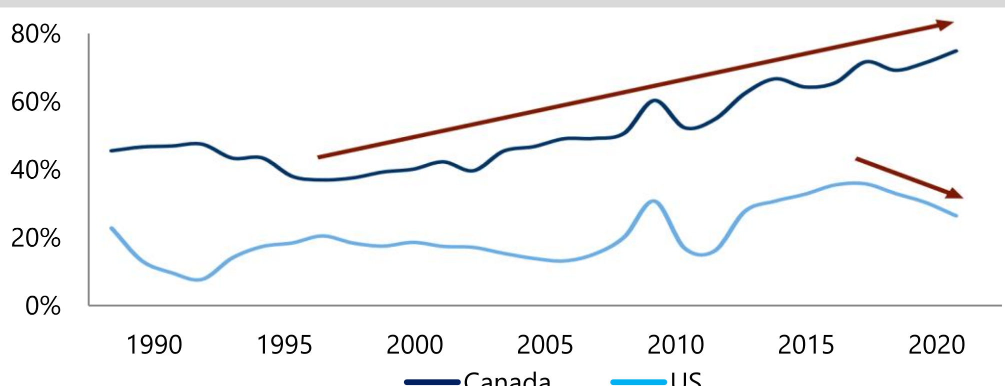
Investment Thesis I: Strong, Diversified Geographic Footprint

In our last memo, the Cash Yield team outlined a number of themes which we will be looking to capitalize on in the coming year. One of the themes we highlighted was increasing urban intensification, specifically within Canada's core VECTOM markets. Urban intensification is the development of existing properties to increase density, and potentially add multiple property types within one building in order to generate synergies. The trend of urban intensification is largely driven by urbanization, As Canada's population continues to move from the suburbs to urban centres, we see an increasing demand for property and in turn an increase in the density of these properties. Urbanization, as well as urban intensification, are both trends that we expect to continue to see over the next several decades in Canada.

We believe that Allied Properties REIT (TSX:AP.UN), a REIT with significant exposure to Canada's urban centers, provides us with the best opportunity to take advantage of this trend. With over 90% of Allied's gross leasing area (GLA) located in Canada's six major urban markets, there is no question that they are well positioned to take advantage of the Canadian urbanization. We continue to see secular urbanization occurring in all four of the markets which Allied has identified as being its core markets going forward. These four markets are Vancouver, Calgary, Toronto and Montreal. Allied has emphasized that they will maintain their strategic focus on increasing their presence in Canada's urban centers, The company is expected to continue with its existing capital recycling program in order to increase their weighting in core markets. Recently, Allied has specified ~$160MM of non-core assets in Winnipeg and Victoria which are to be sold over the next 24 months.

Allied's geographic positioning provides it with the opportunity to capitalize on urbanization, but it is the unique nature of Allied's property portfolio that will allow it to take advantage of urban intensification. Unlike the majority of its neighbours, Allied's properties have quite low site coverage, with their buildings generally being between one to four stories . Allied's properties are relatively less dense than many of the surrounding buildings which allows for material intensification opportunities going forward. By developing the existing properties that Allied owns, the REIT can drive organic growth by increasing its GLA and in turn the rental income earned on each property, as well as their portfolio NAV. Coupled with Allied's proven ability to effectively deliver accretive developments to market, the REIT is well positioned to take advantage of a trend that we have identified as a key focus going forward.

EXHIBIT 5: Percentage of Multi-Unit Housing Starts of Total Housing Starts



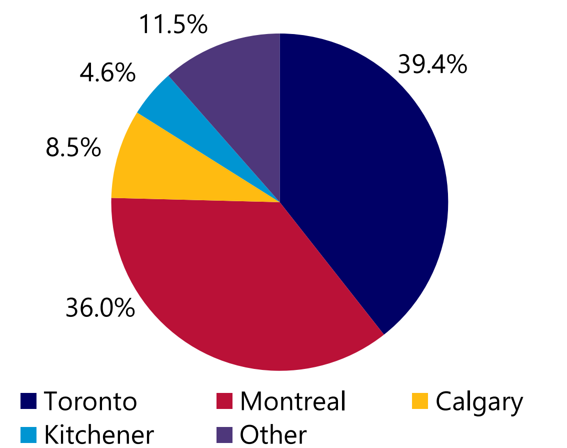
Source: RBC CM

Investment Thesis I: Strong, Diversified Geographic Footprint (Cont'd)

One factor that differentiates Allied Properties from many other Canadian office REITs is their minimal exposure to energy-centric markets. One theme we have continued to emphasize over the past year is our bearish outlook for the Office sub-sector as a result of the growing weakness in the property fundamentals of Calgary and Edmonton. This is due to a number of factors, including a decline in demand resulting from depressed commodity prices and significant new supply coming on line. With only 11% of their GLA located in Alberta, Allied is less exposed to weakness in these geographies compared to many of its peers. Furthermore, Due to this smaller exposure relative to Canadian office peers, uncertainty around the future of oil prices is less material for Allied.

Finally, it's important to note that the urban markets in which Allied Properties owns the majority of its property have quite high barriers to entry. This is especially true of the Toronto Class I office market, where we have been steady growth in demand over recent years and subsequently rising rental rates. The continued strength of this market would be extremely beneficial for Allied, as it is the market which they have the most exposure to, at ~39.0 % of their GLA.

EXHIBIT 6: Portfolio GLA By Geography



Investment Thesis II: Unique Development Capability

As was emphasized in our first investment thesis, Allied's geographic positioning in Canada's urban markets will enable the REIT to take advantage of the continued trend of urbanization. One of the consequences of urbanization is the increased density in urban cores, and it is in these urban cores where Allied has chosen to build up their property portfolio. We believe that this geographic positioning, coupled with the unique nature of Allied's portfolio provide them with the opportunity to capitalize on urban intensification. The majority of the buildings within Allied's portfolio have quite low site coverage. This means that the GLA per square footage of ground level real estate is lower than neighbouring peers. Relative to many of the surrounding buildings, Allied's assets are significantly shorter, generally reaching between one to four stories. The lack of density within Allied's portfolio implies that there is significant opportunity for the REIT to pursue development activity, whereby they could build up and add floors to their existing properties.

We are confident in Allied's ability to take advantage of urban intensification and development opportunities given their historical success in bringing accretive developments to market. The geographic attributes of the portfolio and many years of development pre-planning, which includes zoning approval efforts on the part of Allied's management team have positioned the REIT with a significant pipeline of short, medium and long term development and intensification projects in all four of Allied's core

Source: Company Reports, RBC CM

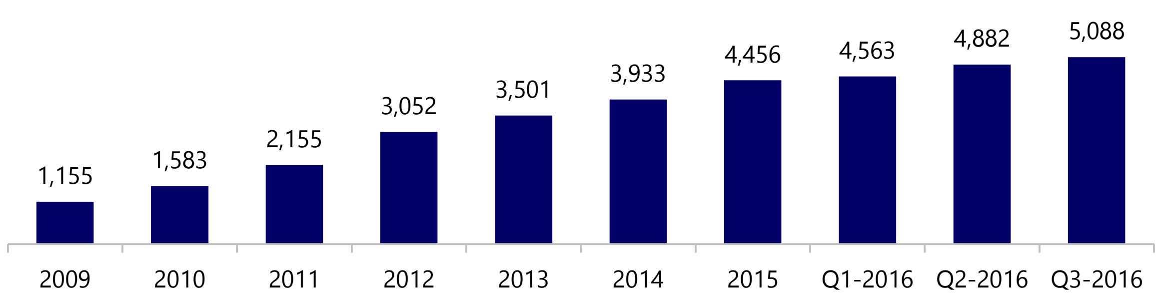
Investment Thesis II: Unique Development Capability (Cont'd)

urban markets. Exemplary of the REITs focus on intensification and development is their activity within the Toronto office market. Allied is currently in the process of approving six properties in Toronto with an estimated GLA of four million square feet, and an IFRS value of ~$464.0MM. Ongoing development and intensification properties currently total ~$618.0MM, or 12.0% of the REIT's balance sheet. Additionally, the REIT has a number of projects within their development pipeline that have yet to be approved, which would add significant GLA to their portfolio.

The Well, a project that Allied is undertaking in conjunction with RioCan REIT and DiamondCorp, is exemplary of Allied's commitment to urban intensification. This project is an effort to develop the largest undeveloped site in the downtown West submarket of Toronto. The vision of the project is to create a mixed-use retail, office and residential environment. With 7.7 acres of land, the site will be able to support significant development.

Allied's ability to bring properties to market, as well as to intensify existing properties within their portfolio, will serve as a significant competitive advantage over other Office REITs in the coming years. Allied has effectively grown portfolio NAV by bringing value-enhancing developments to market. These projects should allow the REIT to organically drive above-average FFO/unit growth and NAV/unit growth over a multi-year horizon. We believe that Allied's proven success in bringing development properties to market, coupled with their unique geographic positioning and property portfolio, will allow the REIT to grow at an outsized pace relative to peers over the coming years.

EXHIBIT 7: Portfolio NAV Growth



Investment Thesis III: Experienced and Aligned Management

One of Allied's main strengths is the experience of their management team, as well as their alignment with the interests of shareholders. Allied has a fully integrated, internalized management structure which provides it with a major competitive advantage over peers, who alternatively have external management structures. The primary advantage of Allied's internal management structure is that it alleviates any conflict of interest between the company's management team and shareholders of the company. Furthermore, by maintaining an internal asset management team, Allied is able to eliminate the expense of having to pay exterior property management fees. Not only does an internal management structure alleviate challenges around conflicts of interest, but also

Source: Company Reports

Investment Thesis III: Experienced and Aligned Management (Cont'd)

allows for more attention to the portfolio at hand. For external property managers, they must oversee multiple portfolios at once and therefore their attention is less focused on any one portfolio.

Furthermore, both the management team and Board of Directors at Allied have significant experience in real estate, but also in other relevant areas of the finance world. The track record of Allied's management team proves their dedication to seeing the REIT succeed, and their commitment to shareholders. A brief summary of Allied's CEO, CFO and COO are presented below.

Michael R. Emory – Chief Executive Officer: Emory has been the CEO and President of Allied Properties REIT since 2003. He has significant experience in commercial real estate, risk management, corporate governance and strategic planning. Prior to joining Allied, Emory was a partner at Aird & Berlis LLP, a Toronto law firm specializing in commercial real estate. Emory has also been an Independent Director of Equitable Bank, and Equitable Bank Group Inc. since May of 2014. Emory has served as a Director of Allied Canadian Corporation since 1988.

Catalina Williams – Chief Financial Officer: Williams was appointed CFO and Vice President of Allied in January of 2015. Previously, Williams served as the CFO of Dream Alternative after being promoted from her role as Vice President of Finance at Dream Hard Asset Alternative Trust. Williams also served as Vice President and Controller of Dream Unlimited Corp. Among her responsibilities were the reporting, planning, analysis and accounting for Dream. Additionally, Williams served as Director of Finance at Shaw Media for two years, and was responsible for operational reporting, planning and analysis.

Thomas Burns – Chief Operating Officer: Burns has been the COO of Allied since January of 2012, and also serves as the Executive Vice President. Prior to being promoted to COO, Burns served as Executive Vice President of Operations and Leasing at Allied for the majority of 2011. Prior to his career at Allied, Burns spent his career with a leading real estate brokerage and advisory business.

EXHIBIT 8: Allied's Management Team

Michael Emory, Chief Executive Officer

Thomas Burns, Chief Operating Officer

Catalina Williams, Chief Financial Officer

Source: Company Reports

Investment Risks

Risk I: Relative Valuation to Peers

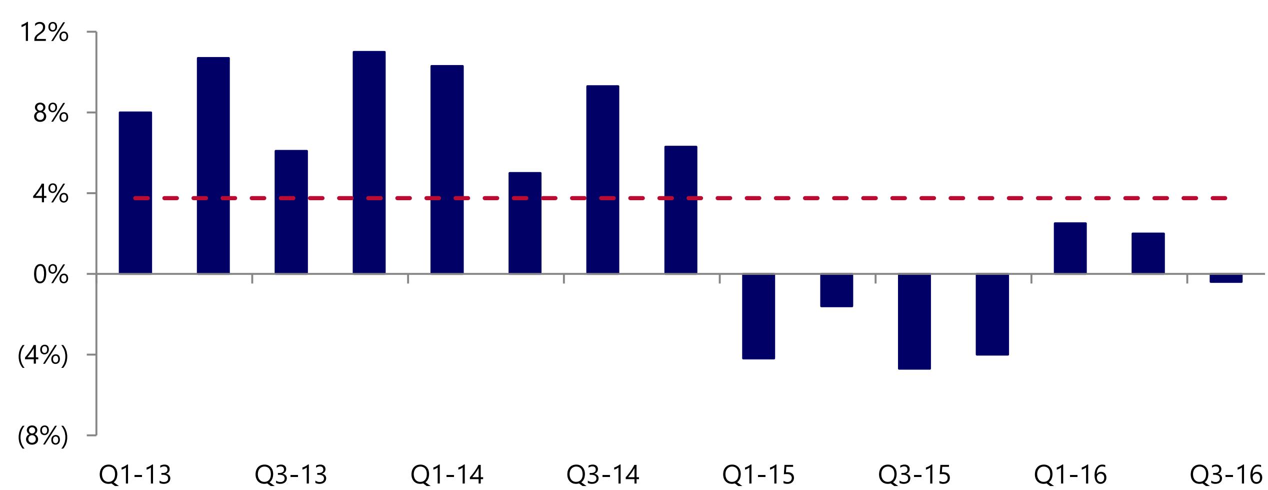
Allied has, and continues to, trade at a significant premium to peers. This is the result of a number of factors, including their minimal exposure to energy-centric markets specifically Calgary and Edmonton, as well as their above average development pipeline and portfolio quality. Additionally, the REIT has above average liquidity and leverage ratios than the majority of their Canadian office peers. The significant premium to peers is evident when looking at their premium to NAV, as well as the FFO and AFFO multiples on which they currently trade. According to BMO Capital Markets Allied currently trades at a ~3.0% premium to the NAV, relative to office peers who trade at a ~16.0% discount. Additionally, Allied is currently trading at a ~18.0x 2017E P/FFO, whereas their peer set trades at an average of ~13.0x.

While we feel that Allied's premium on both a multiple and price to NAV basis are justified, the fact that this REIT currently trades so far above its peers represents a risk that investors could see to see slowing NAV or FFO/unit growth over the next several quarters, we could begin to see the REITs valuation premium relative to peers begin to narrow. Consistently negative same property net operating income could be one factor that would inhibit the REIT from maintaining the significant premium to peers which it currently has.

Risk II: Risks around Development

Our thesis for Allied's continued growth going forward is largely based on their ability to continue to bring accretive development and intensification opportunities to market. While we see Allied's development capability as key strength, our focus on growth through development represents a risk going forward. There are a number of risks associated with development, including cost over-runs, construction delays, failure to achieve project targets, among others. While Allied has been able to mitigate these risks in the past, we see their reliance on development to continue growing their portfolio as a risk.

EXHIBIT 9: Quarterly Same Property Net Operating Income Growth



Source: RBC CM

Catalysts for Growth

I: High Liquidity Provides Opportunity

As Allied's business model has become more operationally intensive over the past several years, the REIT has strived to deleverage their balance sheet beginning in the second quarter of 2015. At Q3 2016 quarter end, Allied's leverage stands at 37.6% Debt to Gross Book Value, which is notably low for most REITs in our universe. Furthermore, the REIT was sitting at an attractive 2.9x Interest Coverage Ratio, and a Debt to EBITDA ratio of 8.0x, both of which are quite low relative to Office REIT peers. Management has stated that their long run target leverage ratio will be sub 40.0%.

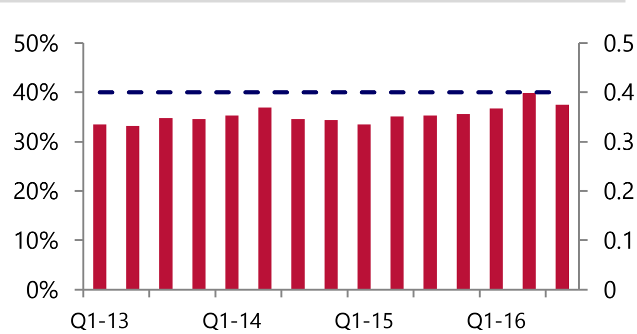
The Cash Yield team believes this provides ample opportunity for Allied to lever up should an attractive acquisition opportunity present itself. Furthermore, despite increasing their payout ratio from 82.0% to 84.0% in 2016, Allied has strong liquidity ratios in comparison to their office peers in Canada. This exemplifies their ability to take advantage of accretive acquisition or development opportunities, without having to immediately lever up. We believe that the combination of Allied's strong liquidity and low financial leverage gives the REIT potential to begin consolidating the fragmented urban markets which they have indicated are their focus.

II: Rental Rate Growth in Re-leasing

We believe that going forward Allied will be able to drive organic growth through their re-leasing activity, by increasing their average monthly rental rates in order to be more competitive with the market. Allied has managed to effectively diversify their tenant base over the past decade. While in 2003, Allied's top ten tenants represented 49% of rental revenue, this figure has decreased significantly to 19.3% in Q3 2016. Not only has Allied been able to effectively diversify their tenant base, but they have also managed to maintain exposure to high quality tenants. Among Allied's top ten tenants, as classified by rental revenue as a percentage of total, are Morgan Stanley, Bell Canada, Desjardins, Entertainment One, among other reputable names.

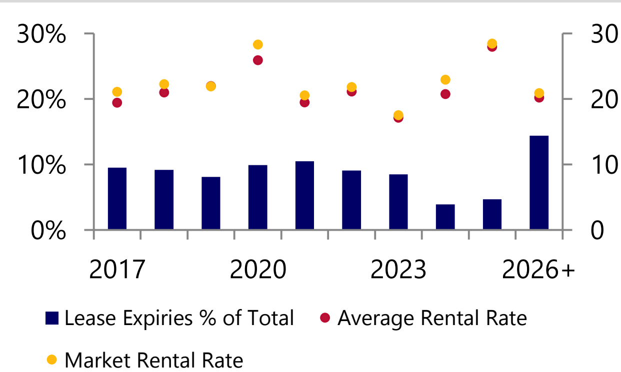
The REIT's lease maturity profile implies that there is significant opportunity in the coming years for Allied to implement rental rate increases for either new or re-signing tenants. In eight of the following ten years, Allied has the opportunity to drive rental rate increases as their existing in-place rent falls below the prevailing market rental rate. In addition, Allied's should not face any significant challenges in releasing their existing properties given that there is only one year in the next ten where they will be required to release more than ten percent of GLA.

EXHIBIT 10: Debt to Gross Book Value



Source: RBC CM

EXHIBIT 11: Lease Maturity Schedule



Valuation

EXHIBIT 12: Comparable Companies Analysis - Canadian Office Peers

Office Company	Enterprise Value	Debt / EV	Net Debt / EBITDA	Price / FFO 2016E	Price / FFO 2017E	FFO CAGR ('14-'17)	Price / AFFO 2016E	Price / AFFO 2017E	AFFO CAGR ('14-'17)	Dividend Yield
Brookfield Canada Office Properties	$5,707	0.5x	11.3x	17.7x	16.7x	4.1%	22.3x	20.9x	4.8%	4.2%
Allied Properties REIT	$4,881	0.4x	9.3x	15.7x	14.5x	6.3%	19.4x	17.0x	6.2%	4.5%
Artis REIT	$4,877	0.6x	8.6x	8.2x	8.4x	1.1%	9.9x	10.1x	(0.0%)	8.7%
Dream Office REIT	$4,819	0.6x	7.2x	7.6x	8.4x	(7.2%)	10.3x	11.7x	(11.4%)	7.8%
Agellan Commercial REIT	$648	0.5x	7.0x	9.3x	8.9x	5.0%	11.7x	11.1x	8.5%	6.6%
Average		**0.5x**	**8.7x**	**11.7x**	**11.4x**	**1.9%**	**14.7x**	**14.2x**	**1.6%**	**6.4%**
Median		**0.5x**	**8.6x**	**9.3x**	**8.9x**	**4.1%**	**11.7x**	**11.7x**	**4.8%**	**6.6%**

EXHIBIT 13: Valuation Multiple Sensitivity Analysis

FTM P/FFO	% Change in Forward 12-Months FFO/Unit (3.0%)	(2.0%)	(1.0%)	0.0%	1.0%	2.0%	3.0%
15.5x	$35.03	$35.39	$35.75	$36.12	$36.48	$36.84	$37.20
16.0x	$36.16	$36.53	$36.91	$37.28	$37.65	$38.03	$38.40
16.5x	$37.29	$37.68	$38.06	$38.45	$38.83	$39.21	$39.60
17.0x	$38.42	$38.82	$39.21	$39.61	$40.01	$40.40	$40.80
17.5x	$39.55	$39.96	$40.37	$40.78	$41.18	$41.59	$42.00

EXHIBIT 14: Target Price

Current Price	$33.60
FTM FFO/Unit	$2.33
FTM P/FFO	16.5x
Implied Share Price	$38.45
Implied SP Return	**12.6%**
FTM AFFO/Unit	1.93
FTM P/AFFO	19.4x
Implied Share Price	$37.44

COMMENTARY

Using analyst consensus 2016E and 2017E FFO/Unit estimates, we obtain an annualized FTM FFO/Unit estimate of $2.33. We decided to use a P/FFO multiple as we feel more comfortable with this metric, but included a P/AFFO target price for comparison.

Applying a P/FFO multiple of 16.5x, slightly above Allied's current multiple, we arrive at a FTM target price of $38.45. This expansion in multiples is warranted as we see Allied benefitting from increasing urbanization, resulting in the REIT trading closer to its long-term P/FFO multiple of ~16.5x.

Source: Capital IQ, Bloomberg, As at Market Close January 27, 2016

Valuation

EXHIBIT 15: Net Asset Value Model

FTM NOI	$250.0
Cap Rate	5.6%
Gross Property Value	$4,464.29
Other Tangible Assets	441.2
Total Assets	4,905.4
Less: Claims on Equity	-
Less: Net Debt	(2,011.5)
NAV	$2,893.9
FDSO	84.7
NAVPU	**$34.17**

EXHIBIT 16: Sensitivity Analysis

Assumed Cap Rate	% Change in Forward 12-Months NOI						
-	(3.0%)	(2.0%)	(1.0%)	0.0%	1.0%	2.0%	3.0%
5.10%	$41.36	$41.99	$42.63	$43.27	$43.90	$44.54	$45.18
5.35%	$38.47	$39.08	$39.68	$40.29	$40.90	$41.50	$42.11
5.60%	$35.84	$36.42	$37.00	$37.58	$38.16	$38.74	$39.32
5.85%	$33.44	$33.99	$34.55	$35.10	$35.66	$36.21	$36.77
6.10%	$31.23	$31.77	$32.30	$32.83	$33.36	$33.89	$34.43

EXHIBIT 17: Implied Unit Price

Current Price	$ 33.60
NAVPU	$ 34.17
Current P/NAV	98.3%
Target P/NAV	110.0%
FTM Target Price	**$ 37.58**

COMMENTARY

Using an annualized consensus FTM NOI estimate of $250.0MM and applying a cap rate of 5.6%, we arrive at a FTM NAVPU estimate of $34.17.

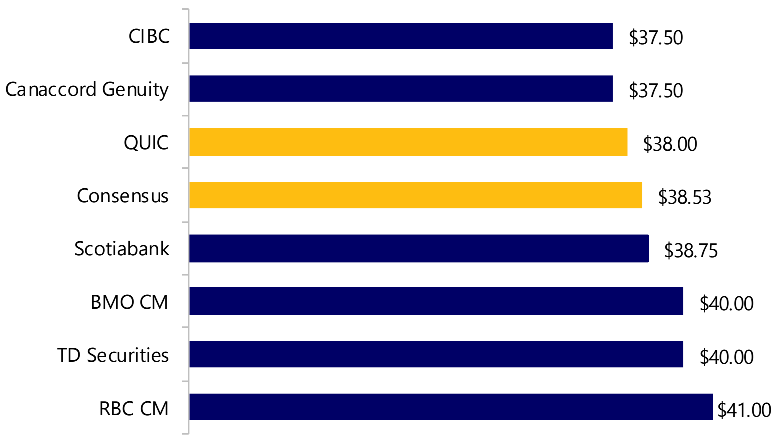
Allied is currently trading at a ~2.0% discount to NAV, well below its historical average of a ~9.0% premium. Poor fundamentals in the Office subsector over the past year have attributed to Allied's discounted valuation. While we have a bleak outlook for the office subsector as a whole, Allied's strong market position, with well-positioned properties within core urban markets warrants a premium valuation. Our FTM target price implies a ~10.0% premium to NAV., just above the REIT's historical average of ~9.0%.

As is evident from the sensitivity analysis, cap rates are the main driver of our NAV valuation. With increasing urbanization putting upward pressure on demand for Allied's high-quality Office spaces in downtown urban markets, we believe that there is room for cap rate compression going forward, stabilizing at ~5.6%.

Source: Bloomberg, As at Market Close January 27, 2016

Valuation

EXHIBIT 18: Analyst Price Targets



Source: Bloomberg

EXHIBIT 19: Target Price

Implied Return

Comps Target	$38.45
NAV Target	$37.58
% Comps	50.0%
% NAV	50.0%
Target Price	$38.00
Dist. Yield	4.4%
Implied Return	17.5%

COMMENTARY

Using a weighted-average of 50% comparable analysis and 50% net asset valuation we arrive at a one-year price target of $38.00. When factoring in Allied's distribution yield of ~4.4%, we arrive at an all-in return of 17.5%.

Source: Bloomberg, As at Market Close January 27, 2016

Investment Conclusion

The Cash Yield team has decided to continue with our goal of decreasing our portfolio holdings to focus on the names in which we have the most conviction in. As a result, we will be selling out of Canadian REIT (TSX:REF.UN) and reallocating the proceeds from the sale into our four remaining holdings listed below based on our over/under-weight calls for each specific sub-sector.

Canadian REIT is a diversified REIT that holds mainly Retail and Office properties, with some exposure to the Canadian Industrial market as well. We feel that the growth prospects for both the Retail and Office sub-sectors are the weakest in the CY coverage universe, which is reflected in our pro-forma portfolio weighting versus the S&P/TSX Capped REIT Index.

Though we do feel that the growth prospects for Canadian REIT are quite mediocre, the main reason that we are looking to sell the position is to focus on our fore core holdings that we feel are the best REITs available in each sub-sector.

Holding a diversified REIT while we are attempting to concentrate our portfolio is counter-intuitive and with the sale of Canadian REIT, we are able to decrease exposure to both the Office and Retail sub-sectors, while increasing exposure to more favourable Industrial and Multi-Res sub-sectors.

Ultimately, we feel that our fore core holdings will continue to outperform their respective peers while Diversified REITs will continue to see muted growth and returns due to their diverse asset bases.

EXHIBIT 20: Cash Yield Portfolio Weighting

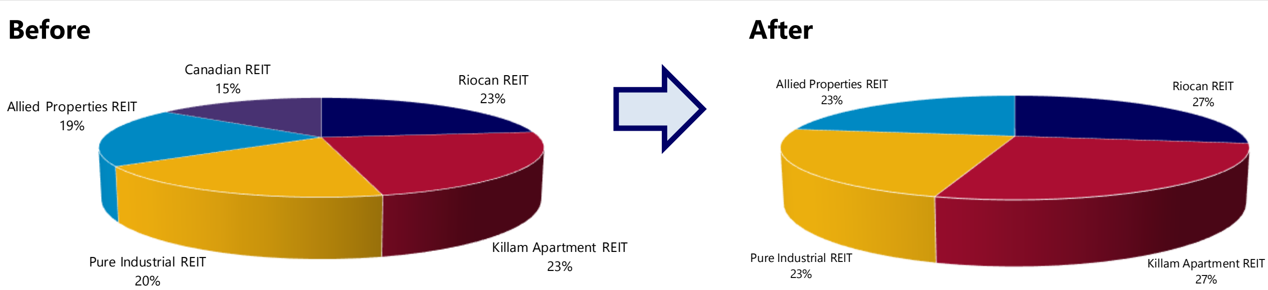
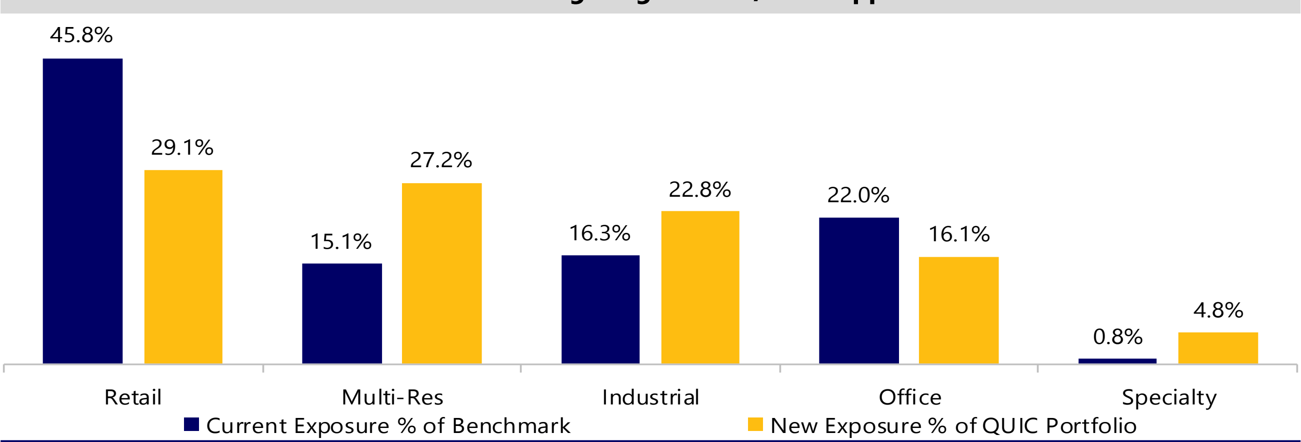


EXHIBIT 21: Pro-Forma Portfolio Sector Weighting vs. S&P/TSX Capped REIT Index



References

1. Bloomberg
2. Capital IQ
3. RBC Capital Markets
4. IBIS World
5. Scotiabank GBM
6. Company Reports