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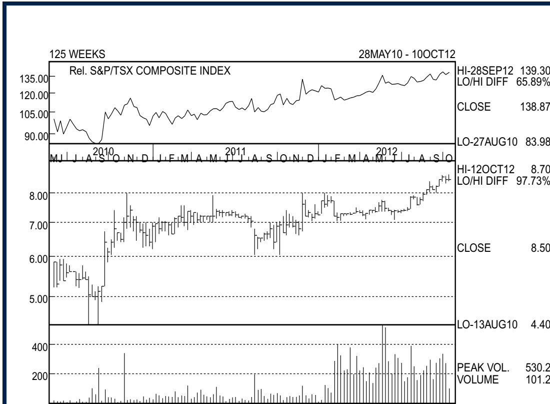
OCTOBER 11, 2012

Partners REIT (TSX: PAR.UN)

Retail Rebirth; Growing Its Way to the Big Leagues



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FY Dec	2011A	2012E	2013E	2014E
EPS (Op) - FD	0.87	0.69	0.61	0.64
P/E	9.8x	12.4x	14.0x	13.4x
FFO (Op) - FD	0.63	0.67	0.69	0.71
P/FFO	13.6x	12.8x	12.4x	12.1x
AFFO - FD	0.47	0.52	0.55	0.58
P/AFFO	18.2x	16.5x	15.6x	14.8x

FFO (Op) - FD	Q1	Q2	Q3	Q4
2012	0.18A	0.18A	0.16E	0.16E
2013	0.17E	0.17E	0.17E	0.17E

FFO (Op): FFO/unit shown is consistent with the derivation employed by Partners REIT.

All values in CAD unless otherwise noted.

Sector Perform
Above Average Risk

Price:	8.56	**Price Target:**	9.00
		Implied All-In Return:	13%
Units O/S (MM):	21.4	**Market Cap (MM):**	183
Distribution:	0.64	**Yield:**	7.5%
NAVPS:	7.40	**P/NAVPS:**	1.2x
BVPS:	6.98	**P/BVPS:**	1.2x
Float (MM):	18.2		
Debt to Cap:	63%		

Strategic Ownership: League IGW REIT - 15%
Priced as of market close October 11, 2012 ET.

Event

Initiating coverage with a Sector Perform rating and $9 price target.

Investment Highlights

- **Retail Rebirth –** In Jul-2010, League IGW acquired a 33% equity stake in the REIT and was installed as the external manager. This sponsorship change was a key catalyst for a new cycle of growth. Since Dec-2010, Partners has acquired more than $250MM of property, tripling the size of its asset base. This has provided increased scale, enhanced geographic diversity, and a stronger capital markets profile.
- **High Yield; Elevated Leverage –** The annual distribution of $0.64 represents a high cash yield of 7.5% (vs. 5.4% for retail peers). Partners' distribution is derived from a comparatively elevated payout ratio (~115% on our 2013E AFFO) and a capital structure which carries above-average financial leverage, as measured by conventional metrics (D/EV, LTV, EBITDA/Interest).
- **"Partner"ing with Developers –** As a provider of mezzanine financing, League is keen to expand the number of its development relationships across Canada. We believe this initiative is still in its infancy and will continue to evolve over time. Successful execution could provide Partners with preferential access to a growing pipeline of high quality, newly developed retail centres.
- **Targeting $1 Billion in Assets by the End of Next Year –** Partners is focused on acquiring neighborhood and community retail centres in the $10MM to $50MM range. Today, the REIT's portfolio includes 30 properties valued at slightly more than $400MM. Management's objective is to increase the size of the asset base to $1B by the end of 2013.
- **Execution Is Key –** We believe there are tangible and intangible benefits to becoming a bigger REIT. However, aggregate asset growth in isolation is not the sole driver of unitholder returns. In our view, successful execution of a growth by acquisition strategy must also incorporate a gradual reduction in financial leverage, growth in AFFO/unit, and ultimately, an improvement in the distribution payout ratio. Continued capital market receptivity (and access to appropriately priced equity capital) will be the key.
- **Valuation Considerations –** Partners' units trade at an implied cap rate of 6.4% and a 15% premium to our NAV. We believe current trading levels appropriately reflect the REIT’s existing retail portfolio, external growth prospects, developing track record and overall franchise value.

Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Conflicts Disclosures, see Page 24.

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Investment Thesis: Retail Rebirth; Growing Its Way to the Big Leagues

We are initiating coverage of Partners REIT (Partners) with a Sector Perform, Above Average Risk rating and a one-year price target of $9.00. Key points underpinning our investment thesis include:

- **Retail Rebirth –** As a 2007-vintage CPC REIT, Partners' initial growth efforts were hampered by difficult capital market conditions. In July 2010, League IGW acquired a 33% equity stake in the REIT and was installed as the external manager. This sponsorship change, along with an improvement in equity capital markets, was a key catalyst for the emergence of a new growth cycle. Since December 2010, the REIT has acquired more than $250 million of property, tripling the size of its asset base. This has provided increased scale, enhanced geographic diversity, and a stronger capital markets profile.
- **High Yield; Elevated Leverage –** The REIT's annual distribution of $0.64/unit represents a cash yield of 7.5% - *notably higher* than the 5.4% simple-average for the Canadian retail peer-group. And, we believe that substantially all of the REIT's distributions will be tax deferred in 2012 and 2013. Having said this, Partners' distribution is derived from a comparatively elevated payout ratio (~115% of our 2013 AFFO estimate) and a capital structure which carries above-average financial leverage, as measured by conventional metrics (D/EV, LTV, EBITDA/Interest).
- **"Partner"ing with Developers: League Affiliation Represents a Potential Pipeline –** League has established a relationship with Vancouver-based shopping centre developer Property Development Group (PDG). As a provider of mezzanine financing, League seems keen to expand upon the number of its development partnerships across Canada. We believe this initiative is in its infancy and will continue to evolve over time. Successful execution should be a strategic benefit, as it may provide Partners with preferential access to a growing pipeline of high quality, newly developed retail properties.
- **Targeting $1 Billion in Assets by the End of Next Year –** Management is focussed on acquiring neighbourhood and community retail centres in the mid-market deal range of $10 million to $50 million. Today, the REIT's portfolio includes 30 properties with an aggregate value of just over $400 million. Management's objective is to increase the size of the REIT's asset base to $600 million by the end of this year, and to reach the $1 billion mark by the end of 2013.
- **Bigger Can Be Better; Execution Is Key –** We believe there are tangible and intangible benefits to becoming a bigger REIT. However, aggregate asset growth in isolation is not the sole driver of unitholder returns. In our view, successful execution of a growth by acquisition strategy must also incorporate a gradual reduction in financial leverage, growth in AFFO/unit, and ultimately, an improvement in the distribution payout ratio. Continued capital market receptivity (and access to appropriately priced equity capital) will be the key.
- **Valuation Considerations –** Partners' year-to-date total return of 24% is notably ahead of the S&P TSX Capped REIT Index's 13% and in-line with our Canadian REIT/REOC simple-average. The REIT's units trade at an estimated implied cap rate of 6.4% and a 15% premium to our NAV. This compares to retail-peers, which carry an average implied cap rate of 6.2% and a 5% premium to NAV.

Recommendation: Sector Perform, Above Average Risk

We see Partners as a small-cap REIT that offers investors above-average external growth potential. The REIT's units have had a strong run-up since mid July (+15%). We believe current trading levels appropriately reflect Partners' existing retail portfolio, external growth prospects, developing track-record and overall franchise value.

Our $9.00 price target, combined with the $0.64 annual distribution, represents total return potential of 13%. This figure is below the simple-average across our Canadian REIT/REOC universe of coverage (17%). Based on risk adjusted relative return expectations, we rate Partners REIT's units Sector Perform, Above Average Risk.

Introduction to Partners REIT

Partners REIT owns 30 retail and mixed-use retail properties encompassing 2.2 million sf located in British Columbia, Alberta, Manitoba, Ontario, and Quebec. The REIT is focussed on growing its portfolio through the acquisition of high quality retail and mixed-use retail properties in the mid-market deal size range of $10 million to $50 million, in both primary and secondary markets across Canada. The REIT's units are listed on the TSX under the ticker symbol PAR.un.

2007-Vintage CPC REIT

Partners' history as a Canadian-listed property vehicle dates back to February 2007, when Charter Realty Holdings Ltd. completed its qualifying transaction. Charter was initially sponsored by C.A. Bancorp Inc. (CAB), a publicly listed merchant bank and alternative asset manager. CAB was a direct equity investor and was formally engaged as Charter's external manager in March 2007. A REIT conversion was completed in May 2007.

Early Growth Efforts Hampered by Difficult Capital Market Conditions

At the time of the REIT conversion, the portfolio included four properties with an aggregate value of roughly $40 million. CAB was seemingly keen to execute a growth by acquisition strategy. In retrospect, timing was not on CAB's side, as market receptivity to small-cap growth-oriented REIT offerings, which was particularly robust from 2004 to early 2007, had already started to wane.

The first sizeable attempt to tap the equity capital market was launched in early July 2007. By way of a marketed offering, the REIT initially sought to raise $55 million to $60 million via the sale of units priced at $18/unit[1]. Ultimately, total proceeds of $51 million were raised. However, in order to get the deal done, the issue price had to be s*ignificantly* reduced to $13.80/unit. This proved to be the REIT's last equity offering until 2010.

In September 2008, the REIT acquired a portfolio of three properties, leased on a triple-net basis, to Canadian Tire. The sale-leaseback carried a purchase price of $27.3 million and was partially funded by $19.1 million (70% LTV) of fixed-rate (5.65%) mortgage financing. To fund the remainder, the REIT secured $10 million of corporate financing at an interest rate of 8.75%. This highly levered acquisition (the REIT's last until December 2010) was completed just prior to the onset of the global financial crisis.

Concurrent with the Canadian Tire sale-leaseback, the REIT also implemented a 48% reduction to its monthly distribution (to $0.053/unit from $0.103/unit).

By the end of 2008, the REIT's portfolio had grown to include 10 properties (1.0 million sf) with a gross book value of $146 million. The debt to gross book value ratio was 64%. With comparatively elevated leverage, limited liquidity and virtually no access to appropriately priced equity financing, the REIT's acquisition initiatives had effectively ground to a halt.

CAB Initiates a Strategic Review (2009)

In December 2009, Maxam Acquisition Corporation commenced an unsolicited offer to acquire all of the issued and outstanding common shares of CAB. In response, CAB initiated a strategic review. A special committee of the board of directors was formed to consider the Maxam offer, as well as other alternatives, including: **i)** continued execution of its business plan; **ii)** the pursuit of other acquisition proposals; **iii)** an acquisition, divestiture, or spin-out of assets; or **iv)** a merger.

Changing of the Guard: New Sponsor and Manager (2010)

In June 2010, CAB sold its 33% equity interest to a wholly owned subsidiary of League IGW REIT (IGW) for gross proceeds of $8.8 million (1.5 million units at $5.80 per unit). IGW is a private REIT managed by Victoria-based League Assets Corp. (League). As part of this transaction, the management arrangement with CAB was terminated, and League effectively replaced CAB as the external manager.

[1] Partners consolidated all of its issued and outstanding units on a 1-for-4 basis in February 2012. All references to historical unit amounts have been adjusted to reflect the consolidation.

Defensive Capital Raise and a New Name

Several days following the change in sponsorship/management, a rights offering was launched. Upon completion in July 2010, gross proceeds of $9.9 million were raised. Approximately 95% of the 1.8 million units issued (at $5.56/unit) were purchased by IGW, which had backstopped the offering. This brought IGW's equity interest in the REIT to 49.9%.

We would characterize the rights offering as a defensive capital raise. Substantially all of the net proceeds were used to reduce amounts outstanding under the REIT's revolving credit facility (which at the time was essentially fully drawn).

It did not take long for League's presence to be felt. In the months following IGW's investment: **i)** three board members were replaced, and a fourth was added; and **ii)** a new CEO (Adam Gant), COO (Patrick Miniutti), and CFO (Dionne Barnes) were appointed.

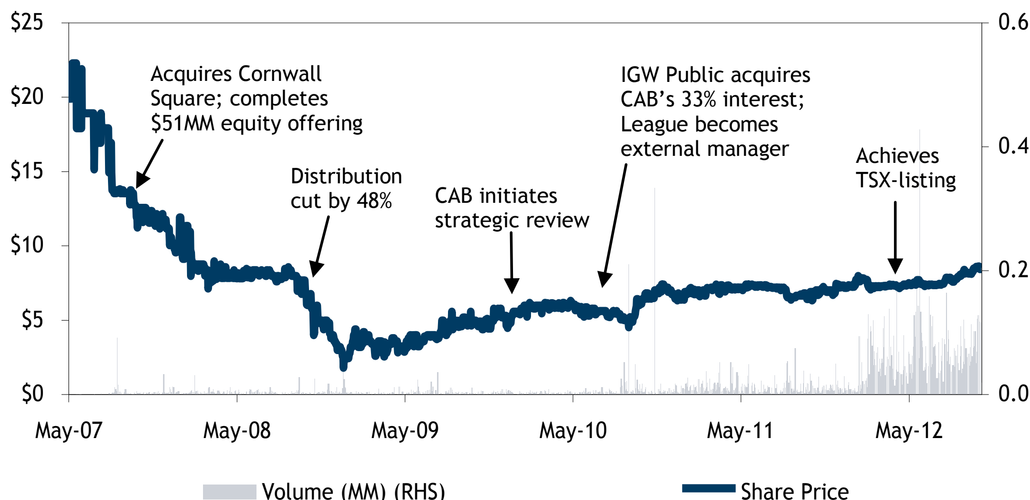
To reflect the new ownership structure, new board of trustees, and renewed growth focus, the REIT's name was changed from "Charter" to "Partners" in November 2010. With new sponsorship solidified and a mended balance sheet, Partners had re-emerged in a stronger position to seek out acquisition opportunities.

New Growth Cycle Emerges (2010-2012)

Under League's stewardship, Partners has made significant progress in bolstering its capital markets profile and expanding its portfolio. We highlight the following milestones and achievements:

- **Portfolio Growth –** Since December 2010, Management has acquired approximately $260 million of retail property encompassing 1.1 million sf. As at June 30, 2012, the income producing portfolio carried an IFRS value of $410 million (a threefold increase from Q2/10's gross book value of $131 million). The recent growth cycle has provided the REIT with increased scale and enhanced geographic diversity.
- **Unit Consolidation and TSX Listing –** On February 14, 2012, Partners consolidated its units on a 1-for-4 basis. On April 3, 2012, the REIT transitioned from the Venture exchange and attained a TSX listing. We believe these initiatives have strengthened the REIT's capital markets profile and increased the trading liquidity of the units.
- **Improving Access to Capital –** Including proceeds received from the July 2010 rights offering, Partners has raised more than $125 million in equity and equity-related capital ($64 million via the issuance of units; $63 million of convertible debentures). Reflecting the REIT's improving access to capital, we note that the last four offerings, which have raised more than $100 million in aggregate, were bought deal financings.

Exhibit 1: Historical Share Price and Chronology of Key Events



Source: RBC Capital Markets and Bloomberg

The NorRock Transaction

On February 1, 2012, Partners acquired substantially all of the assets of NorRock Realty Finance Corporation (NorRock). The NorRock asset pool primarily consisted of $39.5 million in cash and mortgages receivable having an IFRS value of $13.8 million. The acquisition was funded via: **i)** the issuance of 7.4 million REIT units (to holders of NorRock preferred shares and Class A shares); **ii)** $0.7 million in cash; and **iii)** 3.1 million rights. The latter represented contingent consideration based on the realized value of the non cash assets acquired.

In our view, the NorRock transaction was a complex yet creative and opportunistic means by which to raise a large amount of equity capital (compared to the size of the REIT at that time). Upon closing, the number of units outstanding virtually doubled to 15.2 million, and the REIT's market cap increased to approximately $110 million (from just under $60 million).

Interestingly, NorRock was initially sponsored and managed by CAB. In May 2011, CAB sold its equity investment in NorRock, which consisted of 1.0 million Class A common shares (32% of the outstanding), to Green Tree Capital Management Corp. (Green Tree) for $6.4 million ($6.62 per Class A share). As part of the transaction, Green Tree replaced CAB as NorRock's external manager.

We note that that Partners' CEO (Adam Gant) and President & COO (Patrick Miniutti) have an indirect and contingent financial interest in a Trust that owns 50% of the issued and outstanding shares of Green Tree. The NorRock transaction, which was announced in October 2011, was unanimously approved by independent committees of both Partners' and NorRock's board of directors.

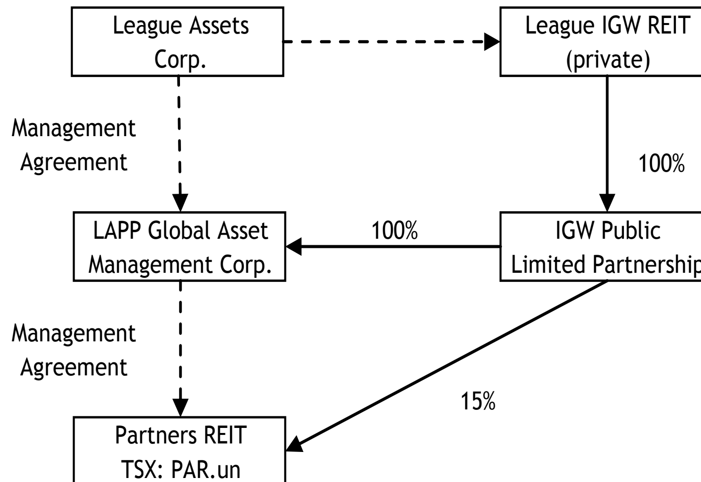
Management, Governance, and Corporate Structure

Externally Managed and Advised by League

Partners is externally managed. The REIT has entered into a management agreement with LAPP Global Asset Management Corp. (LAPP). LAPP is a wholly owned subsidiary of IGW Public LP (the REIT's largest unitholder) and an indirect subsidiary of League IGW REIT (IGW).

League IGW REIT (and the activities of all of its sponsored and supported entities) is externally managed by League Assets Corp. (League). LAPP has contracted with League to provide management services to Partners. The relationship between Partners, LAPP, IGW Public, IGW REIT, and League is outlined in Exhibit 2 below.

Exhibit 2: Partners Is Effectively Managed by League Assets Corp.



Note: Solid lines indicate equity ownership interests. Dashed lines represent management arrangements.
Source: RBC Capital Markets, company reports, and League IGW REIT filings

A Closer Look at the Manager

League is a Victoria (BC) based real estate management organization. The company was co-founded by Emanuel Arruda and Partners' CEO Adam Gant in 2005.

League bills itself as one of Canada's fastest-growing real estate asset managers. The company manages more than thirty entities with assets aggregating to more than $1 billion. Managed entities include League IGW REIT (not publicly listed), Partners REIT, and various other limited partnerships.

The Evolution of League IGW REIT

IGW's business activities can be separated into three broad categories:

- **Direct Property Investments (~$130 million) –** IGW's investment property portfolio includes a mix of office, retail, and mixed-use properties with an aggregate value of roughly $130 million.
- **Investments in Public Entities (~$30 million) –** IGW owns 3.2 million Partners REIT units (15% of the outstanding) with a market value of roughly $27 million. Recently, IGW invested $4 million to acquire 0.8 million units of Summit Industrial Income REIT via private placement.
- **Development Loans (~$120 million) –** IGW has extended a number of mezzanine loans to League-affiliated partnerships to fund commercial property development and redevelopment projects. We believe that approximately half of the amount outstanding has been utilized to advance the mixed-use Capital City Centre project in Victoria (BC).

So How Does Partners Fit into the Puzzle?

As IGW has grown, its investment strategy has become increasingly focussed upon larger, higher quality assets with more stable and consistent income streams. As part of this shift, IGW is in the process of selling a number of its directly held properties, with a view to re-investing capital into other platforms. It is possible that a handful of these properties might eventually be vended into Partners. Having said this, we generally don't view IGW's direct property holdings as an acquisition pipeline, as many of the retail assets are small (i.e., value of less than $10 million) and/or not consistent with the Partners' investment strategy.

We note that IGW suspended distributions on all of its common units effective June 1, 2012. League has indicated that it is considering amalgamating its business with the assets of IGW REIT and several other League-affiliated entities in order to create a larger (and, we suspect, better capitalized) asset management platform. We believe a future public listing of a combined entity is also being considered.

Regardless of the restructuring occurring at IGW, it seems clear to us that League views Partners as its Canadian retail investment platform. Our sense is that League would prefer to purchase additional Partners REIT units over time, as opposed to directly acquiring retail properties for its own account.

Base Fee Schedule Appears Reasonable

The management agreement between Partners and LAPP (which was amended and restated on March 30, 2012) outlines the manager's duties and responsibilities with respect to strategic, advisory, and asset management services.

The base asset management fee is tiered, based on the size of the REIT's asset base. Specifically, an annual fee of 0.30% is applicable to the first $1 billion of adjusted book value (ABV). A management fee of 0.25% will be charged to the ABV of assets in excess of $1 billion. This tiered schedule is somewhat unique; however, the rates are generally consistent with the 25bps to 30bps typically found within asset management arrangements of other publicly listed Canadian REITs.

The acquisition fee schedule is also tied to the size of the REIT's asset base. The REIT will initially be charged 0.50% of the cost of property acquired. Once ABV surpasses the $1 billion threshold, the acquisition fee will decline to 0.40%. This compares somewhat favourably to the range typically incurred by other externally managed entities (50bps to 100bps).

Incentive Fee Carves Out a Portion of the Upside

League is entitled to an annual incentive fee initially equivalent to 15% of the REIT's FFO/unit in excess of $0.70. The incentive fee threshold will, unless otherwise agreed to by the parties, increase by 1.5% annually. Interestingly, the incentive FFO calculation *will include* realized gains on dispositions (subject to an adjustment if the cumulative fair value gain of properties retained by the REIT is negative).

For the six months ended June 30, 2012, Partners reported FFO/unit of $0.36. Our forecast calls for full-year 2012 FFO/unit of $0.67, rising to $0.69 in 2013 (see page 15). On this basis, it is possible that the incentive fee will be triggered within the next 18 months.

Exhibit 3: Summarized Fee Schedule

Asset Management	▪ 0.30% on the first $1 billion of ABV of the REIT's assets ▪ 0.25% on the amount by which ABV exceeds $1 billion
Property Management	▪ No more than 3% of gross rental revenue
Development	▪ 5% of hard construction costs incurred on projects with an aggregate cost between $50,000 and $300,000 ▪ 4% of hard construction costs incurred on capital projects greater than $300,000
Acquisitions	▪ 0.50% of the purchase price of a property or portfolio if the REIT's ABV is less than $1 billion (prior to the acquisition) ▪ 0.40% of the purchase price if ABV exceeds $1 billion
Incentive Fee[1]	▪ 15% of FFO/unit in excess of $0.70 ▪ FFO will include realized gains on dispositions (provided that the cumulative fair value adjustment of all other properties is positive)

Note: [1] Incentive fee threshold will increase by 1.5% annually (unless otherwise agreed upon by the parties)
Source: RBC Capital Markets and company reports

Initial Three-Year Term; Termination Carries a Two-Year Penalty

The management agreement carries an initial three-year term (expires March 15, 2015) and is subject to automatic renewals for successive three-year terms. The agreement provides the REIT with the flexibility to terminate the agreement: **i)** on the expiry date of any term; or **ii)** at an earlier date if an internalization decision is reached. The wording of the agreement suggests that the latter can be triggered by the independent trustees if they determine that the costs to manage the REIT internally would be lower than the total management fees paid to League. In either case, the REIT must provide at least 180 days' written notice to LAPP, and pay a termination fee equal to two times the annual management fee paid in the previous calendar year.

Property Management Fees - At "Market"

The management agreement also provides guidelines with respect to the provision of property management services. League is responsible for retaining property management and leasing agents (either by way of a third-party arrangement or with an affiliate).

Property management fees shall not exceed fair market value for such services in the market in which the property is located. "Fair market", which is determined by the REIT's Independent Trustee's, is currently limited to 3% of gross rental income.

League serves as the property manager for selected properties (including single-tenant properties leased to RONA, Shoppers Drug Mart, and Canadian Tire). The REIT also employs third-party managers including Redcliff Realty Management, Sandalwood Management Services, Crofton Moore Management, and Gulf Pacific Property Management.

Senior Management Team

Adam Gant - Chief Executive Officer and Director

Adam Gant was appointed CEO of Partners in September 2010 and he has been a member of the REIT's board of trustees since August 2010. Mr. Gant is also a founding partner and CEO of League Assets Corp. His primary focus over the past five years has been his role within the League group of companies. Since January 2004, specifically, he has organized more than 30 limited partnerships and overseen the acquisition/disposition of more than $500 million of commercial property.

Patrick Miniutti - President, Chief Operating Officer and Director

Patrick Miniutti was appointed President of Partners in July 2010 and is a member of the board of trustees. Prior to joining League (in 2009), Mr. Miniutti was a managing director at Sunset Realty Services. He has also served as a senior executive at a number of U.S.-based real estate companies, including Konover Property Trust, Crown American Realty Trust, New Market Companies, Western Development Corporation (the predecessor to the Mills Corporation), and Cadillac Fairview Corporation.

Tony Quo Vadis - Chief Financial Officer

Tony Quo Vadis was appointed CFO of Partners in April 2011. Prior to joining League in April 2011, Mr. Quo Vadis was a senior executive within Conair Group (diversified aviation and aerospace organization). Mr. Quo Vadis has also held senior financial roles at Finning International and the Jim Pattison Group.

Mr. Quo Vadis has been a Chartered Accountant since 1980 and is a Certified General Accountant. He has also completed the Queen's Executive Program at the Queen's School of Business.

Board of Trustees

The REIT's Declaration of Trust provides that:

- the board is to consist of a minimum of three and a maximum of eleven trustees
- the majority of trustees must be independent
- the Manager may appoint two nominees to stand for election (provided that the number of trustees to be elected at an annual meeting is at least five)

Partners' board currently consists of seven individuals, five of whom are considered to be independent. The board is chaired by Louis Maroun. Readers may recall that Mr. Maroun was President and CEO of Summit REIT from 2002 until Summit was sold to ING Real Estate in 2006. Other Partners' trustees formerly associated with Summit REIT include Paul Dykeman (Executive Vice President and CFO) and Saul Shulman (Trustee). Lastly, we note that John van Haastrecht was formerly President and CEO of Morguard REIT (from 1999 to 2001).

Exhibit 4 lists the board of trustees, their principal occupations, and their equity participation in Partners REIT. As shown, the 195,400 units collectively owned by the trustees equates to approximately 1% of the units outstanding.

Exhibit 4: Board of Trustees Unit Ownership[1]

Name	Principal Occupation	Trustee Since	Trust Units
Paul Dykeman[2]	CEO of Sigma Real Estate Advisors LLP	2010	56,574
Adam Gant	CEO of Partners REIT Co-Founder and CEO of League	2010	6,250
John van Haastrecht[2]	President of Vanreal Ltd.	2007	24,072
Louis Maroun[2]	Executive Chairman of Sigma Real Estate Advisors LLP	2010	84,600
Patrick Miniutti	President and COO of Partners REIT	2010	6,250
Tim O'Neill[2,3]	Founder and Principal of O'Neill Strategic Economics	2012	0
Saul Shulman[2]	CEO of MLG Management Inc.	2009	17,655
Total - Board of Directors			**195,401**
% Of Units Outstanding (Basic)			**1%**
IGW Public Limited Partnership			3,196,965
Green Tree Capital Management			795,741
Total - League Affiliates			**3,992,706**
% Of Units Outstanding (Basic)			**19%**

Notes: [1] Unit ownership as disclosed on SEDI on October 1, 2012
[2] Independent
[3] Mr. O'Neill was appointed as a trustee on July 24, 2012
Source: RBC Capital Markets, company reports, and SEDI

We Would Like To See an Increase in League's Direct Unit Ownership

IGW is Partners' largest unitholder (3.2 million units; 15% of the outstanding). Management has indicated that League does not have a material equity interest in IGW. Rather, League's investment in IGW is largely in the form of a short-term debt-like instrument. This suggests that League's *effective equity* interest in Partners REIT is *substantially below* that of IGW.

It should be noted that Green Tree owns 0.8 million Partners units. We believe these units were acquired as part of the NorRock transaction (refer to page 6). Prior disclosures indicate that Adam Gant and Patrick Miniutti have an indirect and contingent financial interest in a Trust that owns 50% of the issued and outstanding shares of Green Tree.

The bottom line: we would like to see an increase in League's *direct* equity participation in Partners REIT. In our view, this would signal an even greater commitment to Partners, and it should result in further alignment of management interests with *all* unitholders.

Portfolio Profile and Strategy

Partners owns 30 properties encompassing roughly 2.2 million sf. This section of our initiation report provides a more in-depth examination of the existing portfolio and discusses several key elements of management's growth strategy. *We refer readers to Appendix I for a detailed property list.*

Significant Exposure to Central Canada

Geographically, Partners' portfolio is heavily weighted to Central Canada. In this regard, Ontario (54%) and Quebec (31%) collectively represent 85% of GLA. The remainder of the portfolio is located in British Columbia (7%), Alberta (4%), and Manitoba (4%).

A Mix of Primary, Secondary, and Tertiary Markets

We have performed a detailed review of the REIT's portfolio in order to provide investors with a better understanding of Partners' exposure to primary, secondary, and tertiary markets. Our definition of a primary market is limited to Canada's largest cities (including Vancouver, Edmonton, Calgary, Toronto, Ottawa, and Montreal) and their immediate surrounding areas. Remaining markets with a population of greater than 100,000 have been classified as secondary, while those with a population below 100,000 are deemed to be tertiary.

Based on our analysis, we see the REIT's portfolio as being tilted toward secondary (23%) and tertiary markets (40%), which collectively account for 63% of GLA. We note that Partners' primary market exposure, which accounts for 37% of GLA, is largely attributable to assets located within the Greater Montreal Area.

Exhibit 5a: Owned GLA by Province[1]

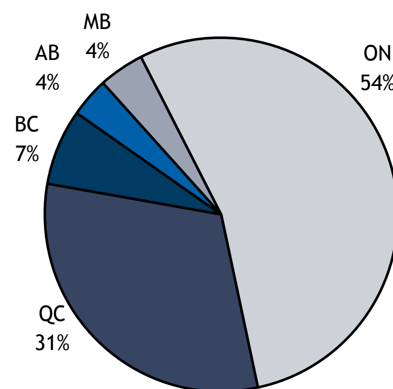
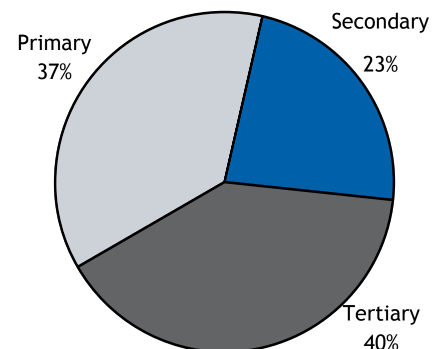


Exhibit 5b: Owned GLA by Market Type[1]



Notes: [1] As at June 30, 2012
Source: RBC Capital Markets and company reports

Tenanted by National Retailers

As shown in Exhibit 6a, national retailers occupy the largest proportion of total space (73% of GLA). Having said this, we note that the proportion of national tenancies is somewhat lower than the estimated figures for several other retail-focussed entities within our universe of coverage (~90% for Plazacorp, 90%-plus for Calloway, ~85% for RioCan).

Shoppers Drug Mart and Canadian Tire Top the Tenant Roster

The REIT's ten largest tenants collectively account for 48% of GLA (Exhibit 6b). At the top of this list are Shoppers Drug Mart (10%) and Canadian Tire (9%).We see the REIT's top ten list as being broadly represented by necessity-based / staples-oriented retailers (Shoppers Drug Mart, Walmart, Metro, Loblaw), home improvement stores (Canadian Tire, RONA), and department stores / general merchandisers (Sears, Brault & Martineau).

Exhibit 6a: Portfolio Tenant Mix - (% of GLA)[1]

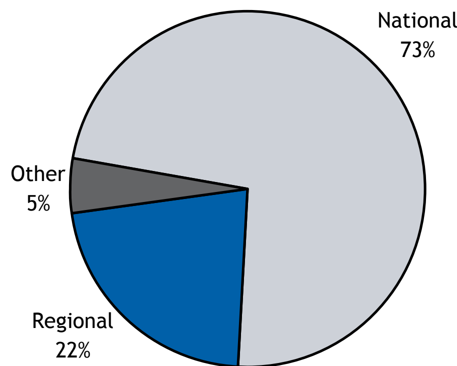


Exhibit 6b: Top-Ten Tenant List[1]

Tenant	% of GLA
Shoppers Drug Mart	10.4%
Canadian Tire	9.4%
Sears	4.7%
RONA	4.2%
Quebec Government	4.0%
Walmart	4.0%
Brault & Martineau	3.8%
Metro / Super C	2.5%
Staples	2.5%
Loblaw	2.0%
Total Top Ten Tenants	**47.5%**

Note: [1] As at June 30, 2012
Source: RBC Capital Markets and company reports

Acquisition Activity and Mega Centre Repositioning Weigh on Occupancy

Partners' total portfolio occupancy was consistently above 98% throughout 2011. Occupancy has been under pressure in the last two quarters, declining 390bps to 94.1% at Q2/12 (from 98.0% at Q4/11). The recent decline was a product of two factors.

First, in February, the REIT acquired six retail properties encompassing 427,000 sf from Bentall Kennedy. The Bentall portfolio was 93% occupied at the end of Q2/12.

Second, during the first half of 2012, management elected not to renew two tenants, representing 60,000 sf at Mega Centre Cote-Vertu. Mega Centre is a 277,000 sf open-air centre located at the intersection of Cote-Vertu Boulevard and Rue Begin, essentially across the street from Primaris Retail REIT's Place Vertu, in St. Laurent (QC). The property was acquired by Partners in 2007 (RioCan Retail Value Limited Partnership was the vendor) for $37 million ($135/sf).

The non-renewals were part and parcel with management's repositioning plan for the Mega Centre. On October 9th, the REIT entered into a 15-year lease agreement with Wal-Mart Canada Corp. for 90,000 sf of space. The new Walmart store (expected to open in Q2/13) should drive higher traffic, enabling management to make further improvements to the retailer mix (and increase rents) over time. We expect that up to $5 million will be invested over the next several months to fit-out the space and to make improvements to the rest of the property (i.e., new signage, parking lot work, façade improvements, etc.).

Exhibit 7a: Historical Portfolio Occupancy[1]

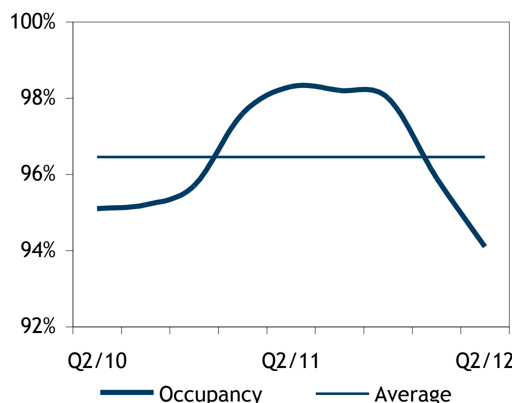
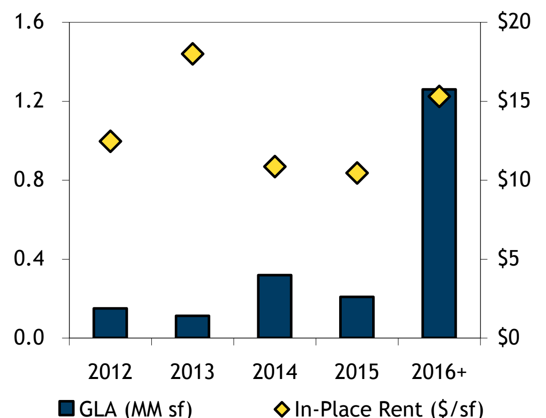


Exhibit 7b: Lease Maturity Profile[1]



Notes: [1] As at June 30, 2012
Source: RBC Capital Markets and company reports

Lease Maturity Profile at the Lower End of the Retail Peer Group

At Q2/12, the REIT's portfolio carried a weighted-average lease term of approximately six years. This figure is broadly consistent with the average for our commercial property universe, yet it is at the lower end of the range (~5 to ~8 years) for Canadian retail peers.

As shown in Exhibit 7b, leases covering 262,000 sf of space (12% of the total portfolio) must be addressed prior to the end of 2013. Leasing exposure picks up fairly substantially in the following year, with 15% of the portfolio scheduled to turn in 2014.

External Growth: A Key Element of the Partners "Story"

Growth via acquisition is a key component of the Partners "story". The pace of growth has continued to accelerate since the July 2010 sponsorship/management change. In this regard, Partners completed acquisitions totalling $22 million in the back half of 2010, $94 million in 2011, and $143 million during the first six months of 2012.

The IFRS value of the income-producing portfolio at June 30, 2012 was $410 million. Management's objective is to increase the size of the portfolio to $600 million by the end of 2012, and to reach the $1 billion mark by the end of 2013.

Exhibit 8a: Acquisition Activity ($MM)

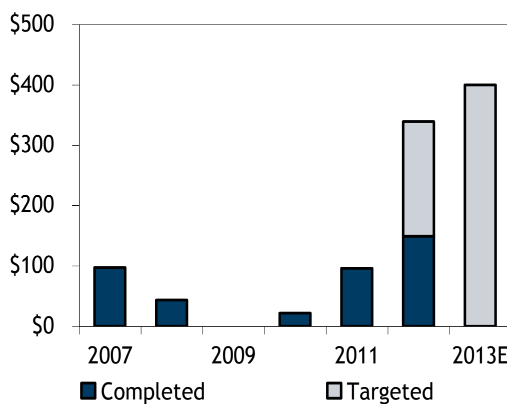
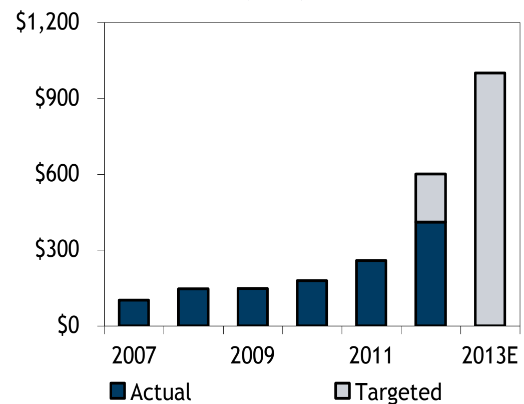


Exhibit 8b: GBV - IPP ($MM)[1]



Note: [1] Figures shown for 2010 and prior are Gross Book Value in accordance with Canadian GAAP. 2011 and onward represent fair value in accordance with IFRS.
Source: RBC Capital Markets and company reports

Mid-Market Focus; Multi-Pronged Approach

The REIT is focussed on acquiring properties (or portfolios of properties) with a purchase price of $10 million to $50 million. In management's view, transactions of this size are beyond the means of many local, private investors. At the other end of the spectrum, it also reduces competition from larger REITs/REOCs and other institutional investors (who have much bigger balance sheets, and require larger absolute deal sizes to effect significant growth).

We see management's investment strategy as a multi-pronged approach, designed to strike a balance between current cash yield while creating opportunities for above-average value creation over the long term. This portfolio strategy broadly encompasses three specific retail formats:

1) **Single-Tenant –** This category includes purpose-built, free-standing retail boxes. Properties of this type are typically leased on a triple-net basis to credit-worthy retailers such as Shoppers Drug Mart and Canadian Tire. While these types of properties tend to have lower organic growth potential, they typically require minimal maintenance cap-ex and/or leasing costs. Approximately 20% of the REIT's portfolio consists of single-tenant retail boxes.
2) **Double Anchor –** Properties that fit within this category are typically tenanted by a grocery store and a drug store (or another staples-oriented retailer). The anchors' businesses are typically less affected by economic cycles and thus a consistent driver of traffic flow throughout the property (which benefits smaller ancillary tenants). Many of the REIT's properties fall within this category, including Evergreen Shopping Centre (Sooke, BC), Grand Bend Town Centre (Grand Bend, ON), Place Desormeaux (Longueuil, QC), and King George Square (Brantford, ON).

3) **Urban Mixed-Use –** Lastly, management has communicated a desire to grow the REIT's exposure to mixed-use formats in urban locations, particularly those attached to, or surrounded by, a high-density residential community. One property currently owned by the REIT that falls into this category is the recently constructed (2007) Centuria Urban Village (Kelowna, BC). The REIT owns the majority of the retail component, which sits beneath a 150-unit condominium tower.

"Partner"ing with Developers: League Affiliation Represents a Potential Pipeline

League has established a relationship with Property Development Group (PDG), a Vancouver-based shopping centre development company. Through its affiliates, League is a provider (or manager) of development financing for several PDG projects. Although the specifics of League's economic rights to acquire these properties upon completion are not entirely clear to us, we believe that the relationship with PDG has the potential to provide Partners with access to a pipeline of high quality retail properties over the next several years.

Exhibit 9 provides a list of PDG development projects with which League is associated. The projects are generally located in secondary/tertiary markets in British Columbia. We believe that assets having a value of roughly $100 million could be vended into the REIT in 2013.

Exhibit 9: PDG Development Properties – Potential Acquisition Candidates

Property	Location	GLA (000's sf)	Estimated Completion
Duncan City Centre	Duncan, BC	235	2013
Eagle Landing Shopping Centre	Chilliwack, BC	200	2013
Capital City Centre - Retail	Victoria, BC	180	2014/2015
North Saanich	Saanich, BC	400	2014
Tsawwassen Commons	Tsawwassen, BC	550	2015

Source: RBC Capital Markets estimates, League reports, Property Development Group website

We believe that League is keen to expand the number of partnerships that it has with developers across Canada. Management specifically notes that it is working on a deal with a Montreal-based developer. If executed, the arrangement would immediately expand the number of potential acquisition targets by six properties (three properties in the immediate term, three projects still to be built-out).

We believe the future expansion of League's development financing platform could potentially provide a strategic benefit to the REIT. This initiative is seemingly still in its infancy, but we believe it will continue to evolve over time.

Financial Review and Forecast

2012-2014 Forecast: Key Assumptions

Our forecast incorporates the following assumptions:

Same Property Portfolio – The base case for our 2012–2014 forecast is the property portfolio owned on June 30, 2012. Q2/12 NOI was $7.3 million ($29.1 million annualized). Adjusting for **i)** $0.3 million of non-recurring income ("liquidity fee" earned on the NorRock transaction) and **ii)** $0.2 million of incremental NOI from Q2/12 acquisitions, we see a Q3/12 quarterly run rate of $7.2 million. From this base, we incorporate 3% same-property NOI growth in 2013 (partially driven by lease-up at the Mega Centre) and a 1.5% organic growth assumption in 2014.

Pending Acquisition Activity – Partners recently announced that it had agreed to acquire two retail properties (Centre Village Shopping Centre and Elgar Place) situated in close proximity to Nun's Island in Montreal (QC). The aggregate purchase price of $21.9 million represents an estimated cap rate of 6.4% ($210/sf). The acquisition will consume $14 million of cash (which Partners has readily available), with the remainder being funded via drawings on the recently secured revolving credit facility. The acquisition is expected to close on October 31 and thus will have a full quarter's impact beginning in Q1/13.

G&A – G&A expense includes the advisory fee payable to LAPP, unit-based compensation expense, and the "out of pocket" costs (including legal, audit, regulatory, etc.) of running a public company. The advisory fee payable to LAPP is currently running at about $360,000 per quarter, or $1.4 million annually. We assume that advisory fees will grow in line with growth in the REIT's asset base and that other costs will be subject to modest annual inflation.

Capital Expenditures – Management notes that the Mega Centre repositioning project is expected to consume $4–5 million of capital. The expenditures are expected to be incurred over the next several quarters. Our forecast assumes that $1 million of capital per quarter is invested beginning in Q2/12 through to Q2/13.

Interest Expense – Q2/12 net interest expense was $3.5 million ($14.1 million annualized). Our 2013 net interest expense forecast of $14.4 million incorporates capital activity subsequent to June 30 and anticipated interest rate savings of $400,000 on the re-financing of 2013 mortgage maturities (5.9%) at market rates.

Taxes – Owing to mortgages acquired via the NorRock transaction, Partners does not currently qualify under the REIT exemption (i.e., it is a SIFT). The REIT is not expected to incur cash taxes in 2012. We expect the remaining mortgage assets will be sold prior to the end of this year, and that Partners will qualify in 2013.

Summary Forecast

A summary of our base-case forecast is provided in Exhibit 10. The REIT reported FFO/unit of $0.63 in 2011. We forecast reported FFO/unit of $0.67, $0.69, and $0.71 in 2012, 2013, and 2014, respectively.

FFO Determination - Not Aligned with REALpac

Partners' FFO determination is not consistent with the guidelines provided by the Real Property Association of Canada (REALpac), in our view. This clouds comparability with many Canadian peers. Items that are added back by management (but specifically denied under the REALpac guidelines) include the amortization of deferred financing fees and unit-based compensation expense (amount not pertaining to fair value changes). As shown in Exhibit 10, the variability between our view of REALpac FFO and Partners' reported FFO is $0.05 to $0.06 per unit on an annual basis.

AFFO - Some Additional Context

Beginning in Q1/12, the REIT's financial disclosures included an AFFO calculation. Partners' AFFO derivation begins with reported FFO and deducts: **i)** non-cash straight-line rental income; and **ii)** capital expenditures to maintain current operations. The latter, which only includes expenses as incurred, aggregated to $0.1 million (0.8% of cash NOI) in H1/12.

With respect to our AFFO derivation, we highlight the following:

Maintenance Capex – To achieve better comparability with peers, our AFFO determination incorporates a normalized reserve to cover maintenance capex and leasing costs. Given our view of the characteristics of Partners' portfolio, we believe a reserve of $0.55/sf to $0.60/sf is reasonable. This equates to approximately 4% of estimated annual cash NOI in 2013 and 2014.

Above Market Debt Amortization – We also deduct the amortization of debt premiums on assumed debt. This non-cash item, which reflects the difference between the contractual amount of debt assumed on an acquisition and "fair value" based on market rates, is amortized through the P&L as interest income.

Exhibit 10: Summarized Financial Forecast ($MM, unless noted)

	2010	2011	Q1/12	Q2/12	Q3/12E	Q4/12E	2012E	2013E	2014E
FFO and AFFO Statement:									
NOI	9.8	15.3	5.7	7.3	7.2	7.5	27.6	30.9	31.4
G&A	(1.1)	(1.8)	(0.5)	(0.8)	(0.8)	(0.8)	(2.8)	(3.2)	(3.2)
Net Interest Expense	(5.6)	(9.6)	(3.1)	(3.5)	(3.5)	(3.6)	(13.7)	(14.4)	(14.2)
Amort'n - TI's and Leasing Costs	0.2	0.2	0.1	0.1	0.1	0.1	0.3	0.3	0.3
FFO (REALpac)	3.3	4.2	2.2	3.0	3.0	3.2	11.4	13.6	14.2
Unit Based Compensation	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Amort'n - Financing Costs	0.3	0.6	0.3	0.3	0.3	0.3	1.3	1.4	1.4
Reported FFO	3.6	4.9	2.5	3.4	3.4	3.5	12.8	15.2	15.7
Straight-line Rent	(0.3)	(0.6)	(0.2)	(0.2)	(0.2)	(0.4)	(1.0)	(1.1)	(0.9)
Amort'n - MTM Adjustment	0.0	0.0	(0.1)	(0.2)	(0.2)	(0.2)	(0.8)	(0.8)	(0.8)
Capex Reserve	(0.4)	(0.6)	(0.2)	(0.3)	(0.3)	(0.3)	(1.1)	(1.3)	(1.3)
RBCCM AFFO	2.9	3.7	1.9	2.7	2.6	2.7	9.9	12.0	12.6
FFO/Unit (REALpac)	**$0.61**	**$0.54**	**$0.15**	**$0.16**	**$0.14**	**$0.15**	**$0.60**	**$0.63**	**$0.66**
FFO/Unit (Reported)	**$0.67**	**$0.63**	**$0.18**	**$0.18**	**$0.16**	**$0.16**	**$0.67**	**$0.69**	**$0.71**
AFFO/Unit (RBCCM)	**$0.54**	**$0.47**	**$0.13**	**$0.14**	**$0.12**	**$0.12**	**$0.52**	**$0.55**	**$0.58**
Balance Sheet:									
Income Producing Property	155.9	258.5	388.5	410.3	411.5	434.8	434.8	437.5	438.2
Notes Receivable	0.0	0.0	10.6	7.9	7.9	7.9	7.9	7.9	7.9
Cash	6.9	1.8	5.1	5.8	16.9	1.5	1.5	0.1	0.5
Other Assets	3.6	5.4	6.5	6.2	6.2	6.2	6.2	6.2	6.2
Total Assets	**166.4**	**265.7**	**410.6**	**430.3**	**442.5**	**450.3**	**450.3**	**451.8**	**452.7**
Credit Facilities	0.0	18.5	32.5	20.6	0.0	8.0	8.0	9.0	9.0
Mortgage Debt	107.1	156.5	211.7	221.7	222.1	222.4	222.4	223.8	225.2
Convertible Debentures	0.0	26.9	26.8	26.9	60.0	60.0	60.0	60.0	60.0
Other Liabilities	5.5	7.4	12.6	11.8	11.7	11.5	11.5	10.9	10.3
Unitholder Equity	53.9	56.4	127.0	149.2	148.7	148.4	148.4	148.1	148.3
Liabilities & Unitholder Equity	**166.4**	**265.7**	**410.6**	**430.3**	**442.5**	**450.3**	**450.3**	**451.8**	**452.7**
Key Metrics:									
G&A - % of "Cash" NOI	12%	12%	9%	11%	11%	11%	11%	11%	11%
EBITDA/Interest	1.6x	1.4x	1.7x	1.8x	1.8x	1.9x	1.8x	1.9x	2.0x
D/GBV (exc. convertible debs)	64%	66%	59%	56%	50%	51%	51%	52%	52%
D/GBV (inc. convertible debs)	64%	76%	66%	63%	64%	64%	64%	65%	65%
Capex reserve - % of "Cash" NOI	4%	4%	4%	4%	4%	4%	4%	4%	4%
Distribution/unit	$0.64	$0.64	$0.16	$0.16	$0.16	$0.16	$0.64	$0.64	$0.64
AFFO Payout Ratio	119%	136%	119%	112%	131%	130%	123%	116%	110%

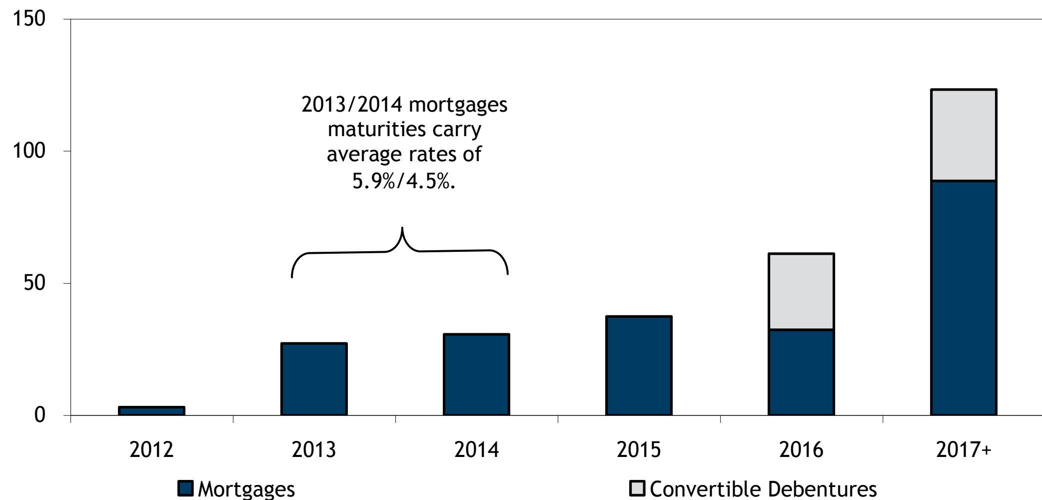
Source: RBC Capital Markets estimates and company reports

Leverage Profile: 2013 Mortgages Offer Significant Rate Roll-Down Potential

Partners' liability profile includes: **i)** $220 million of property-specific mortgages; and **ii)** $63 million of convertible debentures. The mortgages carry a weighted average term of approximately 3.5 years and an average contractual rate of 4.9%.

No mortgages mature prior to the end of 2012. Looking ahead to 2013, we note that $21 million of mortgages are due, which carry a weighted average rate of 5.9%. Management indicated that it is negotiating an early termination of the mortgage (~$17 million) secured by the Canadian Tire properties (acquired in 2008). Our forecast assumes that this mortgage is re-financed at a rate of 3.75% at the beginning of 2013.

Exhibit 11: Pro Forma Debt Maturity Profile[1]



Note: [1] Q2/12 balance sheet adjusted for the subsequent issuance of $34.5 million of 6.0% convertible debentures
Source: RBC Capital Markets and company reports

$63 Million of Convertible Debentures

The REIT's capital stack includes two series of unsecured convertible debentures with an aggregate outstanding par value of $63 million. We note that the trading price of the REIT's units is approaching the $8.80 conversion price on the 8% convertibles.

Exhibit 12: Convertible Debenture Summary

Coupon	8.0%	6.00%
Maturity	31-Mar-16	30-Sep-17
Original Issue Amount ($MM, at par)	28.8	34.5
Outstanding ($MM, at par)	28.8	34.5
Conversion Price	$8.80	$10.35

Source: RBC Capital Markets and company reports

Pro Forma Liquidity Exceeds $30 Million

The Q2/12 balance sheet included $5.8 million of cash. Subsequent capital activity includes:

- the bought deal convertible debenture offering completed September 5 ($34.5 million)
- the repayment of amounts drawn under credit facilities (~$21 million)
- the recently announced acquisition of Centre Village and Elgar Place ($21.9 million)

The acquisition was satisfied via a combination of cash (~$14 million) and drawings under a revolving credit facility (~$8 million). Hence, we see pro forma liquidity of approximately $35 million (~12% of total debt), which consists primarily of availability under the REIT's credit facilities.

We Would Like to See a Gradual Improvement in Leverage with the Passage of Time

Q2/12 D/GBV (including convertible debentures as debt) was 63%. Reflecting the $34.5 million convertible debenture offering and subsequent acquisition activity, D/GBV rises to 65% to 66% over our forecast horizon.

Interest coverage (EBITDA/Interest) for the six-month period ended June 30, 2012 was 1.8x. Reflecting capital deployment, same-property NOI growth, and interest rate savings on mortgage refinancing, our forecast calls for an improvement to 1.9x in 2013 and 2.0x in 2014. The former is substantially *below* the 2.8x simple average estimate for our coverage universe.

The bottom line is that Partners' financial leverage is elevated compared to peers. So, too, is its AFFO payout ratio (~115% based on our 2013E AFFO). Having said this, we note that the REIT's units are trading at a substantial premium (15%) to our NAV. Provided that equity capital markets remain receptive, we believe management will be able to gradually reduce gearing and the payout ratio while executing its growth strategy, over time.

Investment Risks and Price Target Impediments

Geographic Concentration in Ontario and Quebec

Approximately 85% of Partners' portfolio is located in Ontario (54%) and Quebec (31%). Thus, the REIT's financial performance and market value of its assets could be adversely affected by a material change in the regional economy, or by an increase in the migration of citizens to other provinces.

Exposure to Secondary and Tertiary Markets

We estimate that approximately 60% of the REIT's portfolio is located in secondary and tertiary markets. Some of these markets suffer from weaker economic conditions and have comparatively lower barriers to entry than Canada's six largest cities. In instances of tenant bankruptcies, these smaller markets tend to have a shallow prospective tenant pool. We believe this risk is somewhat mitigated by the relatively high concentration of national tenants within the REIT's portfolio.

Competition for Property Acquisitions

Partners' growth prospects are dependent in part on identifying suitable acquisition, development, and repositioning opportunities. Competitors may have greater financial resources than Partners and/or lower return thresholds. Increased competition for assets similar to those sought by the REIT could drive property pricing to levels that would be unattractive to Partners, thus possibly frustrating future growth plans. Acquired properties must be integrated into the REIT's portfolio effectively. Moreover, financial returns from these investments may not achieve estimates or targets.

Reliance on Debt and Equity Capital Markets

REITs typically distribute the majority of their free cash flow. Partners' payout ratio appears to exceed its AFFO in the near term (i.e., the business currently appears to have an annual retained earnings deficit). Hence, the REIT's future growth plans, including future property acquisitions and redevelopment and repositioning initiatives, will be highly dependent on the receptivity of debt and equity capital markets. Partners will also be dependent on the mortgage market for the refinancing of existing properties over time. Future disruptions in the availability of mortgage capital could necessitate potentially dilutive equity capital raises.

Over and above these company-specific risks, Partners and its peers are exposed to the following general risks inherent in the ownership of commercial property:

- Competition from other property owners for tenants
- New supply of retail space in the REIT's markets
- Changes in general and local economic conditions
- Interest rate fluctuations
- The financial strength (credit risk) of tenants
- Potential environmental liabilities
- The relative illiquidity of real estate assets

Valuation and Price Target Derivation

We employ two primary valuation approaches in examining Partners' units: **i)** an underlying asset value-based approach; and **ii)** a price/cash flow based approach. These metrics are compared to similarly derived metrics for Partners' peers in order to arrive at our view of relative value.

Shares Trade at a Premium to Our NAV

Our NAV/unit estimate is based on all assets owned at the end of Q2/12, adjusted for subsequent capital transactions and recently announced acquisition activity. We have assigned a 6.75% cap rate to our cash NOI estimate. This renders an estimated market value (gross) of $448 million. Including an adjustment for non-cash working capital and other assets/liabilities ($9 million), we estimate a total asset value of $456 million.

After deducting $287 million of net debt, we arrive at our NAV estimate of $163 million. Based on 23 million diluted units, this equates to our NAV/unit estimate of $7.40. The recent closing price of $8.50 represents a 15% premium to our NAV.

Exhibit 13: Summarized Net Asset Value Derivation ($MM, unless noted)

NOI (Cash Basis)[1]	30.2
Cap Rate Applied By RBCCM	6.75%
Gross Property Value	447.5
Other Assets[2]	8.9
Total Assets	456.4
Net Debt	(287.0)
NAV[3]	169.4
Diluted Shares (MM)	22.8
NAV/Share (rounded)	$7.40
Share Price	$8.50
Premium (Discount) to NAV	15%

Leverage Metrics
LTV[3]
63%
D/EV[3]
60%

Notes: [1] Includes $22MM acquisition announced October 3 and assumed Mega Centre lease-up
[2] Includes imputed proceeds from dilutive options/warrants and a $4 million capital charge to account for the Mega Centre repositioning
[3] LTV = loan-to-value; D/EV = debt (net) to enterprise value
Source: RBC Capital Markets estimates and company reports

Elevated Leverage Amplifies NAV Sensitivity

As we have previously discussed, Partners' balance sheet carries comparatively higher leverage than most Canadian REITs and REOCs. As a result, our NAV/unit estimate is more sensitive to changes to our NOI and cap-rate assumptions. In this regard, a +/–25bps change to the cap rate employed in our NAV derivation results in +/–10% sensitivity. In contrast, the simple-average for our Canadian commercial property universe is 7%.

Exhibit 14: NAV Sensitivity to Varying NOI and Cap Rate Assumptions

	Change In Forward 12-Months' NOI						
Cap Rate	-3%	-2%	-1%	0%	1%	2%	3%
7.50%	$4.93	$5.11	$5.29	$5.46	$5.64	$5.82	$5.99
7.25%	$5.52	$5.71	$5.89	$6.07	$6.25	$6.44	$6.62
7.00%	$6.16	$6.34	$6.53	$6.72	$6.91	$7.10	$7.29
6.75%	$6.84	$7.03	$7.23	$7.40	$7.62	$7.82	$8.01
6.50%	$7.57	$7.77	$7.97	$8.18	$8.38	$8.59	$8.79
6.25%	$8.36	$8.57	$8.78	$8.99	$9.20	$9.42	$9.63
6.00%	$9.21	$9.43	$9.65	$9.88	$10.10	$10.32	$10.54

Source: RBC Capital Markets estimates

Price to Cash Flow Multiples and Other Metrics

The ownership of retail real estate is integral to Partners' business model. Hence, we believe that it is useful to examine valuation parameters in relation to retail-focused REITs and REOCs within our universe of coverage. We also extended our analysis to include Canadian commercial property REITs and REOCs. A detailed comparative valuation table is provided in Appendix II. Data from Appendix II have been summarized in Exhibit 15.

Exhibit 15: Summarized Comparative Valuation Data Points

Company	Implied Cap Rate	Price / NAV	Financial Leverage		P/ AFFO Multiple		AFFO Payout[3]	Cash Yield
			D/EV	LTV	2012E	2013E		
Partners REIT	6.4%	115%	60%	63%	16.3x	15.4x	116%	7.5%
Retail Avg[1]	6.2%	105%	44%	44%	18.5x	17.3x	92%	5.4%
Commercial Property Avg[2]	6.8%	101%	44%	43%	17.2x	15.9x	79%	5.1%

Notes: [1] Includes CWT, FCR, PLZ, PMZ.un, RMM.un, REI.un
[2] Includes AP.un, AX.un, BOX.un, CUF.un, REF.un, D.un, HR.un, HNT, GRT, MRT.un, NWH.un, AAR.un
[3] Current distribution or dividend run-rate as a percentage of 2013 estimated AFFO
Source: RBC Capital Markets estimates, company reports, and ThomsonOne

Takeaways include:

- Partners trades at an estimated implied cap rate of 6.4%. This figure is 20bps higher than the 6.2% average of the Canadian retail peers, yet it is modestly below the 6.8% simple-average for commercial property peers.
- Partners trades at a 15% premium to our NAV estimate, substantially higher than the 5% and 1% premiums for the retail and commercial property peers.
- Partners' balance sheet carries above-average financial leverage. In this regard, D/EV of 60% is 16 percentage points above the simple averages for both the retail and commercial property peer groups.
- Based on our 2013 estimates, Partners trades at a 15.4x P/AFFO multiple. This compares to multiples of 17.3x and 15.9x for the retail and commercial property peers, respectively.
- The REIT's payout ratio (116% of estimated 2013 AFFO) is notably higher than the retail and commercial property peer-set. We believe this is reflected in Partners' cash yield (7.5%), which is 210bps greater than the average for the retail peer group (5.4%).

Price Target Derivation

Our one-year price target of $9.00 is derived by applying a 15.5x multiple to our 2014 AFFO/unit estimate and it equates to a ~20% premium to our NAV. We believe a premium to NAV valuation is warranted given the above-average (and tax-deferred) cash yield on the units and the REIT's external growth prospects. The target multiple represents a discount to the average that we apply to the Canadian retail peer group. We believe this appropriately reflects Partners' existing retail portfolio, external growth prospects, developing track record as a public company, and overall franchise value.

Our $9.00 price target, combined with the $0.64 annual distribution, provides total return potential of approximately 13%. This figure is slightly below the simple-average across our universe of coverage (17%). Based on relative return expectations, we rate Partners' units Sector Perform.

Risk Qualifier: Above Average

Our investment rating process incorporates the assignment of a risk qualifier to the stocks that we cover. Factors that suggest a higher-than-average risk qualifier for Partners' units include: **i)** geographic concentration in secondary and tertiary markets; and **ii)** the above-average financial leverage and distribution payout ratio.

We believe these risks are partially mitigated by the prominence of national tenants within the portfolio and by the fact that our earnings forecast does not incorporate aggressive acquisition and/or financing assumptions.

Appendix I: Detailed Portfolio Listing

Property	City	Built / Redeveloped	GLA (000's sf)	Q2/12 Occ.	% - Ann. Base Rent	Weighted Avg Rent	Key Tenants
Evergreen Shopping Centre	Sooke	1978/2010	84.9	90%	4.1%	$15.98	Shoppers Drug Mart
Centuria Urban Village	Kelowna	2007	32.1	100%	2.7%	$24.51	Nesters Market
Washington Park	Courtenay	1992/1993	32.9	100%	2.6%	$23.37	TD Bank; Tim Hortons
Subtotal - British Columbia			**150.0**	**94%**	**9.4%**	**$19.43**	
Manning Crossing	Edmonton	1993 - 1996	64.5	91%	4.6%	$23.08	RBC; Tim Hortons
137th Ave.	Edmonton	2003	15.9	100%	1.0%	$17.84	Shoppers Drug Mart
Subtotal - Alberta			**80.4**	**93%**	**5.5%**	**$22.04**	
SDM Property	Steinbach	2006	21.0	100%	1.5%	$21.01	Shoppers Drug Mart
SDM Property	Brandon	2005	17.0	100%	1.2%	$21.75	Shoppers Drug Mart
SDM Property	Winnipeg	2005	16.8	100%	1.5%	$26.50	Shoppers Drug Mart
SDM Property	Selkirk	2005	16.7	100%	1.1%	$19.02	Shoppers Drug Mart
SDM Property	Winnipeg	2003	15.8	100%	1.4%	$25.77	Shoppers Drug Mart
Subtotal - Manitoba			**87.3**	**100%**	**6.7%**	**$22.69**	
Grand Bend Towne Centre	Grand Bend	2002	41.6	87%	1.9%	$15.48	Shoppers Drug Mart; Sobeys
Quinte Crossroads	Belleville	2005 - 2007	88.3	100%	5.1%	$17.17	The Brick; Best Buy
Thunder Centre	Thunder Bay	2004 - 2007	168.0	98%	8.9%	$16.05	Home Outfitters; Michaels
St. Clair Beach Towne Centre	Tecumseh	2004	40.1	90%	2.4%	$19.81	Shoppers Drug Mart; Swiss Chalet
King George Square	Brantford	1988	67.1	91%	3.5%	$17.11	Shoppers Drug Mart; Dollarama
Crossing Bridge Square	Stittsville	1995	45.9	91%	2.4%	$17.31	Farm Boy; Pet Valu; McDonalds
Cornwall Square	Cornwall	1979/1989	251.0	98%	12.2%	$14.59	Sears; No Frills
Place Val Est	Sudbury	1983/1998	110.5	88%	4.1%	$12.60	Metro ; Rossy
Wellington Southdale	London	1986/2006	86.9	96%	5.6%	$20.03	Empire Theatres; Dollarama
Canadian Tire Property	Brockville	1995/2006	70.4	100%	2.6%	$11.00	Canadian Tire
Canadian Tire Property	Strathroy	2005	67.8	100%	2.5%	$11.00	Canadian Tire
Canadian Tire Property	Wasaga Beach	2007	54.1	100%	2.0%	$11.00	Canadian Tire
RONA Property	Exeter	1996/2000	42.8	100%	0.5%	$3.54	RONA
RONA Property	Zurich	1961/2000	24.4	100%	0.1%	$1.49	RONA
RONA Property	Seaforth	1962/2000	19.6	100%	0.2%	$2.47	RONA
Subtotal - Ontario			**1,178.4**	**96%**	**54.1%**	**$14.21**	
Plaza des Seigneurs	Terrebonne	1998	20.8	100%	1%	$20.07	SAQ; National Bank; Uniprix
Méga Centre	Montréal	1973/2004	277.5	78%	7%	$9.19	Brault & Martineau
Place Desormeaux	Longueuil	1971/2010	249.7	98%	10%	$11.99	Shoppers Drug Mart; Super C
Châteauguay	Montréal	1970/2010	114.7	96%	5%	$13.08	Shoppers Drug Mart; Staples
SDM Property	Gatineau	2007	17.0	100%	1%	$23.99	Shoppers Drug Mart
Subtotal - Quebec			**679.7**	**90%**	**24.3%**	**$11.58**	
Total Portfolio			**2,175.8**	**94%**	**100%**	**$14.47**	

Note: As at June 30, 2012
Source: RBC Capital Markets and company reports

Appendix II: Comparative Valuation Metrics

Company	Ticker	Unit Price	Mkt. Cap ($MM)	Financial Leverage D/EV	Financial Leverage LTV	Implied Cap Rate	RBCCM Cap Rate	NAV / Unit[2]	Price / NAV	P/ AFFO Multiple 2011	P/ AFFO Multiple 2012E	P/ AFFO Multiple 2013E	Dist'n/ Unit	AFFO Payout[3]	Cash Yield
Partners REIT	PAR.un	$8.50	$182	60%	63%	6.4%	6.8%	$7.40	115%	18.0x	16.3x	15.4x	$0.64	116%	7.5%
Retail:															
Calloway REIT	CWT.un	$28.67	$3,616	44%	44%	6.1%	6.1%	$28.50	101%	17.6x	17.1x	16.8x	$1.55	91%	5.4%
First Capital Realty	FCR	$18.55	$3,728	46%	46%	5.7%	6.0%	$17.00	109%	21.0x	20.8x	19.3x	$0.84	87%	4.5%
Plazacorp Retail Properties	PLZ	$4.75	$288	43%	44%	6.6%	6.8%	$4.50	106%	21.1x	19.2x	17.0x	$0.22	77%	4.5%
Primaris REIT	PMZ.un	$23.59	$2,128	39%	38%	6.2%	6.1%	$24.00	98%	19.1x	18.6x	17.8x	$1.22	92%	5.2%
Retrocom Mid-Market REIT	RMM.un	$5.68	$282	52%	49%	7.4%	7.3%	$5.80	98%	17.7x	15.3x	14.3x	$0.45	113%	7.9%
RioCan REIT	REI.un	$27.02	$8,041	40%	42%	5.5%	6.1%	$23.00	117%	21.0x	19.9x	18.4x	$1.38	94%	5.1%
Retail Average				**44%**	**44%**	**6.2%**	**6.4%**		**105%**	**19.6x**	**18.5x**	**17.3x**		**92%**	**5.4%**
Commercial Property:[1]															
Allied Properties REIT	AP.un	$30.73	$1,843	38%	39%	5.9%	6.5%	$27.00	114%	28.7x	21.6x	19.2x	$1.32	83%	4.3%
Artis REIT	AX.un	$15.85	$1,740	56%	56%	6.6%	6.7%	$15.50	102%	16.0x	14.5x	13.6x	$1.08	93%	6.8%
Brookfield Canada Office Props	BOX.un	$29.20	$2,722	42%	41%	5.5%	5.4%	$30.50	96%	28.5x	25.6x	22.7x	$1.17	91%	4.0%
Cominar REIT	CUF.un	$23.27	$2,865	49%	50%	6.5%	6.7%	$22.00	106%	15.5x	15.2x	14.5x	$1.44	90%	6.2%
CREIT	REF.un	$41.87	$2,842	39%	40%	6.0%	6.3%	$39.00	107%	20.2x	19.0x	18.2x	$1.49	65%	3.6%
Dundee REIT	D.un	$36.78	$3,682	45%	45%	6.5%	6.6%	$35.50	104%	16.4x	15.5x	15.2x	$2.20	91%	6.0%
Granite Real Estate Inc.	GRT	$35.64	$1,669	14%	10%	9.7%	9.0%	$38.50	93%	18.1x	14.9x	13.1x	$2.00	73%	5.6%
H&R REIT	HR.un	$24.34	$4,676	54%	52%	6.4%	6.3%	$25.00	97%	17.1x	18.3x	16.3x	$1.25	84%	5.1%
Huntingdon Capital Corp.	HNT	$12.95	$164	54%	48%	8.3%	7.7%	$14.50	89%	16.7x	13.3x	13.9x	$0.24	26%	1.9%
Morguard REIT	MRT.un	$17.65	$1,026	43%	39%	7.0%	6.4%	$20.50	86%	17.8x	16.7x	15.8x	$0.96	86%	5.4%
NorthWest Healthcare REIT	NWH.un	$13.07	$579	50%	50%	6.6%	6.6%	$12.75	103%	17.0x	15.7x	14.8x	$0.80	91%	6.1%
Pure Industrial REIT	AAR.un	$4.80	$353	47%	50%	6.4%	6.8%	$4.20	114%	17.1x	15.8x	13.6x	$0.30	85%	6.3%
Commercial Property Average				**44%**	**43%**	**6.8%**	**6.7%**		**101%**	**19.1x**	**17.2x**	**15.9x**		**80%**	**5.1%**

Notes: [1] Excludes retail focussed REITS and REOCs
[2] NAV/unit is shown on a pre-tax basis
[3] Current distribution or dividend run-rate as a percentage of 2013 estimated AFFO
Source: RBC Capital Markets estimates and ThomsonONE

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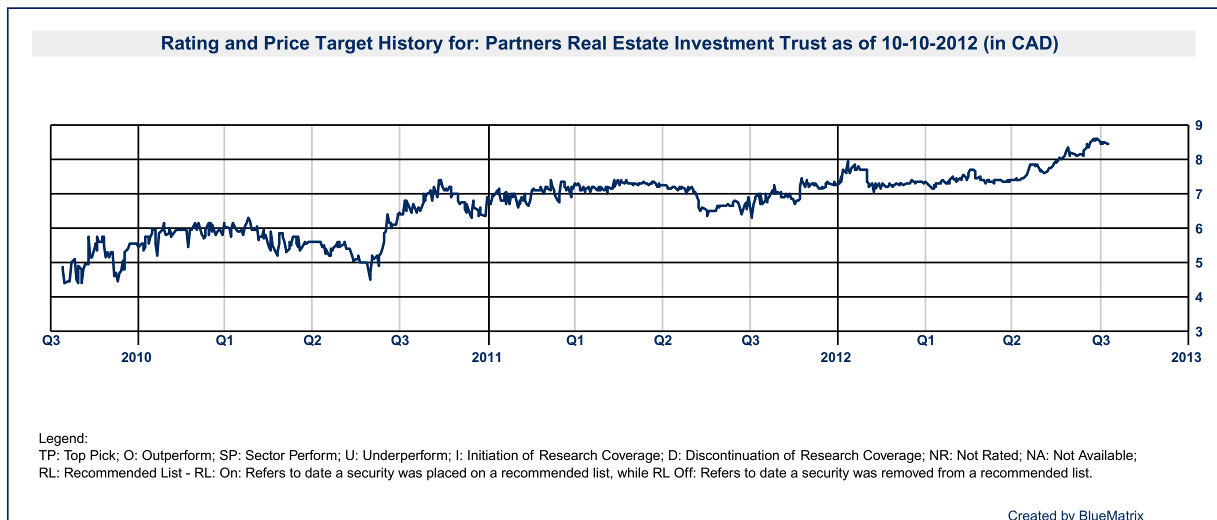

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