

**Property Operating Costs**

Property operating costs include costs relating to such items as cleaning, interior and exterior building repairs and maintenance, elevator, HVAC and insurance (collectively “building operating costs”); realty taxes, utilities and property management fees among other items. For Q4 2010, building operating costs, realty taxes, utilities and property management fees represented 26.0%, 46.9%, 11.3%, and 6.0%, respectively, of total property operating costs (Q4 2009 - 22.2%, 51.3%, 12.3% and 4.2%). For the year ended December 31, 2010, these costs represented 20.6%, 51.7%, 12.3% and 6.0%, respectively, of total property operating costs (December 31, 2009 - 19.6%, 54.2%, 11.8% and 4.5%).

<b>Property Operating Costs</b> <b>(in thousands of dollars)</b>	Three months ended December 31			Year ended December 31		
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>
Same-asset property operating costs	<b>\$55,427</b>	\$50,303	\$5,124	<b>\$201,812</b>	\$193,658	\$8,154
Acquisitions	<b>488</b>	-	488	<b>1,050</b>	-	1,050
Terminated leases due to U.S. bankruptcies	<b>(235)</b>	232	(467)	<b>1,222</b>	1,957	(735)
Total property operating costs	<b>\$55,680</b>	\$50,535	\$5,145	<b>\$204,084</b>	\$195,615	\$8,469

The increase in same-asset property operating costs of \$5.1 million for Q4 2010 as compared to Q4 2009 is due primarily to the following reasons:

- higher regular property operating expenses of \$2.8 million;
- higher major repair expenditures of \$1.7 million;
- higher management fees of \$0.6 million due to an incentive fee of \$0.6 million (Q4 2009 - \$nil) payable to H&R Property Management Ltd. (the “Property Manager”). In 2009, the incentive fee was waived by the Property Manager; and
- lower expenses related to the REIT’s U.S. properties of \$0.2 million due primarily to the change in foreign exchange rates.

The increase in same-asset property operating costs of \$8.2 million for the year ended December 31, 2010 as compared to the year ended December 31, 2009 is due primarily to the following reasons:

- higher regular property operating expenses of \$1.8 million;
- higher major repair expenditures of \$5.3 million;
- higher management fees of \$2.5 million due to an incentive fee of \$2.5 million (December 31, 2009 - \$nil) payable to the Property Manager. In 2009, the incentive fee was waived by the Property Manager; and
- lower expenses related to the REIT’s U.S. properties of \$1.4 million due primarily to the change in foreign exchange rates.

<b>Same-Asset Property Operating Income*</b> <b>(in thousands of dollars)</b>	Three months ended December 31			Year ended December 31		
	<b>2010</b>	<b>2009</b>	<b>Change</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>
Same-asset current rentals and straight-lining of contractual rent	<b>\$158,262</b>	\$152,116	\$6,146	<b>\$610,984</b>	\$604,907	\$6,077
Same-asset - property operating costs	<b>55,427</b>	50,303	5,124	<b>201,812</b>	193,658	8,154
Total same-asset - property operating income	<b>102,835</b>	101,813	1,022	<b>409,172</b>	411,249	(2,077)
Total same-asset – property operating income excluding straight-lining of contractual rent	<b>\$98,076</b>	\$99,309	(\$1,233)	<b>\$398,153</b>	\$398,641	(\$488)

\* Same-asset property operating income excludes the properties where the tenants have terminated their leases due to U.S. bankruptcies.