



## H&R Reports Solid Q3 Results and Increases Distributions by 8%

Toronto, Ontario, November 14, 2012 - H&R Real Estate Investment Trust (“H&R REIT”) and H&R Finance Trust (collectively, “H&R”) (TSX: HR.UN; HR.DB.C; HR.DB.D; HR.DB.E) announced their financial results for the third quarter ended September 30, 2012.

### Operating Highlights

H&R REIT’s operating strategy is to stabilize annual earnings and minimize market risk by leasing and financing its properties on a long-term basis. As a result, the average remaining term to maturity as at September 30, 2012 was 11.4 years for leases and 7.9 years for outstanding mortgages. Occupancy at September 30, 2012 was 98.5%, down slightly from 98.9% at September 30, 2011. Leases representing only 4.4% of total rentable area will expire during the remainder of 2012 and 2013. As at September 30, 2012, the ratio of H&R’s debt to fair market value was 53.1% compared to 53.6% as at December 31, 2011. H&R’s debt excluding convertible debentures to fair market value ratio was 49.7% compared to 47.0% as at December 31, 2011.

### Capital Transaction Highlights

During the third quarter of 2012, H&R REIT:

- redeemed all of its remaining outstanding 6.65% 2013 Convertible Debentures for a total cash payment of \$29.8 million;
- redeemed all of its remaining outstanding 6.75% 2014 Convertible Debentures for a total cash payment of \$1.3 million;
- sold two industrial properties, one in Ontario and one in the United States for gross proceeds of \$65.5 million;
- incurred a \$1.3 million prepayment penalty to refinance a \$129.6 million mortgage bearing interest at a rate of 6.93%, with a new \$200.0 million mortgage bearing interest at a rate of 4.0% for a 10-year term; and
- purchased 6 grocery anchored retail properties totaling 416,782 square feet in Florida for an aggregate purchase price of U.S. \$71.5 million at an average capitalization rate of 6.8% and subsequently closed a U.S. \$46.5 million mortgage for these properties at an interest rate of 3.35% for a 7-year term. This resulted in a 13.2% levered return on this portfolio which consists of the following properties:

Property Address	Anchor	Square Feet	Occupancy
840 A1A North, Ponte Vedra Beach, FL	The Fresh Market	52,959	89.5%
11406 San Jose Boulevard, Jacksonville, FL	Publix	56,700	97.2%
125 Merritt Island Causeway, Merritt Island, FL	Publix	88,316	91.0%
1850 Ridgewood Avenue, Holly Hill, FL	Publix	57,870	97.8%
17445 U.S. Highway 192, Clermont, FL	Publix	77,770	93.8%
8145 & 8195 Vineland Ave., Orlando, FL	Publix	83,167	95.0%
Total		416,782	

### Development Highlights

H&R REIT is currently developing the Bow in Calgary, AB. The Bow is a 2-million square foot head office complex, pre-leased on a triple net basis, to Encana Corporation for a term of 25 years. The North Block budget is currently \$1.67 billion leaving approximately \$58.5 million remaining to be spent. Floors 3 to 22, floors 29 to 40 and floors 23-28 were delivered to Encana Corporation on May 2, 2012, October 4, 2012 and November 8, 2012, respectively. Delivery of further floors will occur in December 2012 and January 2013 after which time the 25-year lease will commence. Encana Corporation is entitled to a 60-day rent free fixturing period and a rent credit equal to the delay penalty estimated to be \$33.0 million in respect of all the floors. This rent free period combined with the interest expense that will no longer be capitalized, as floors of the project become available for their intended use, will result in an estimated funds from operations (“FFO”)<sup>(1)</sup> gain of \$0.8 million and an adjusted funds from operations (“AFFO”)<sup>(1)</sup> loss of \$28.9 million in 2012 as shown in the table below.



In Millions	Actual		Estimate <sup>(2)</sup>			
	Q2 2012	Q3 2012	Q4 2012	Total 2012	Q1 2013	Q2 2013
Basic rent	\$ -	\$ -	\$ -	\$ -	\$ -	\$23.2
Straight-lining of contractual rent	5.7	8.6	15.4	29.7	24.6	2.0
Interest no longer capitalized	(3.6)	(8.6)	(11.1)	(23.3)	(14.4)	(15.5)
Mortgage interest	(0.5)	(2.0)	(3.1)	(5.6)	(4.2)	(4.6)
Depreciation	(1.6)	(4.7)	(6.9)	(13.2)	(9.2)	(10.2)
Expected Bow FFO <sup>(1)</sup>	1.6	(2.0)	1.2	0.8	6.0	5.1
Expected Bow AFFO <sup>(1)</sup>	(4.1)	(10.6)	(14.2)	(28.9)	(18.6)	3.1

<sup>(1)</sup> H&R's combined Management Discussion and Analysis ("MD&A") includes reconciliations of: net income to FFO; FFO to AFFO; and AFFO to cash provided by operations. Readers are encouraged to review such reconciliations in the combined MD&A.

<sup>(2)</sup> This information is being provided so that investors are able to understand the expected impact of the Bow to H&R REIT's operations. This information may not be appropriate for any other purposes.

Upon full occupancy and following the expiration of the free rent period, the Bow is expected to generate approximately \$93.5 million of net operating income on an annualized basis and H&R REIT will have additional annual interest expense, due to interest expense no longer being capitalized to the project, of approximately \$62.0 million and interest of \$18.5 million on the Bow bonds. Rent escalations will be at 0.75% per annum on the office space and 1.5% per annum on the parking income for the full 25-year term.

### Financial Highlights

The following table includes non-Generally Accepted Accounting Principles ("GAAP") information that should not be construed as an alternative to comprehensive income (loss) or cash provided by operations and may not be comparable to similar measures presented by other issuers as there is no standardized meaning of FFO and AFFO under GAAP. Management believes that these are meaningful measures of operating performance. Readers are encouraged to refer to H&R's combined MD&A for further discussion of non-GAAP information presented.

	3 months ended September 30		9 months ended September 30	
	2012	2011	2012	2011
Rentals from investment properties (millions)	\$213.9	\$169.6	\$604.8	\$478.7
Net income (millions)	\$5.3	\$58.3	\$35.9	\$36.1
FFO (millions) <sup>(1)</sup>	\$78.8	\$70.2	\$244.1	\$204.1
FFO per Stapled Unit (basic)	\$0.41	\$0.43	\$1.31	\$1.30
AFFO (millions) <sup>(1)(2)</sup>	\$62.6	\$62.9	\$202.4	\$177.3
AFFO per Stapled Unit (basic) <sup>(2)</sup>	\$0.33	\$0.39	\$1.08	\$1.13
Cash provided by operations (millions)	\$140.5	\$104.1	\$397.6	\$300.5
Cash distributions paid (millions) <sup>(3)</sup>	\$42.0	\$31.1	\$118.6	\$87.8
Distributions per Stapled Unit	\$0.30	\$0.25	\$0.86	\$0.71

<sup>(1)</sup> H&R's combined MD&A includes reconciliations of: net income to FFO; FFO to AFFO; and AFFO to cash provided by operations. Readers are encouraged to review such reconciliations in the combined MD&A.

<sup>(2)</sup> See below for significant and non-recurring items included in AFFO.

<sup>(3)</sup> Cash distributions paid exclude distributions reinvested in units pursuant to H&R's unitholder distribution reinvestment plan and include distributions paid to the Class B Limited Partnership unitholders who can exchange their units for Stapled Units.

Under International Financial Reporting Standards at each reporting period, H&R REIT fair values its convertible debentures and exchangeable units using closing market prices. This is shown as a gain (loss) on change in fair



value. Also included in the gain (loss) on change in fair value is the net gain (loss) on derivative instruments. The total gain (loss) on change in fair value was (\$7.9 million) for the three months ended September 30, 2012 (September 30, 2011 - \$22.0 million) and (\$25.5 million) for the nine months ended September 30, 2012 (September 30, 2011 - (\$39.2 million)). For the three months ended September 30, 2012, there was a gain (loss) on extinguishment of debt of (\$0.1 million) (September 30, 2011 - \$5.0 million) and for the nine months ended September 30, 2012, there was a gain on extinguishment of debt of \$10.5 million (September 30, 2011 - \$19.6 million). Excluding the gain (loss) on change in fair value and the gain (loss) on extinguishment of debt, net income would have been \$13.3 million for the three months ended September 30, 2012 (September 30, 2011 - \$31.3 million) and \$50.9 million for the nine months ended September 30, 2012 (September 30, 2011 - \$55.7 million).

Included in AFFO are the following items which can be a source of significant variances between different periods:

In millions	3 months ended September 30		9 months ended September 30	
	2012	2011	2012	2011
Additional recoveries for capital expenditures	\$3.8	\$1.6	\$8.5	\$2.6
Capital and tenant expenditures	(\$8.7)	(\$3.7)	(\$19.5)	(\$11.9)
One-time non-recurring items*	(\$1.3)	\$1.2	(\$1.6)	\$1.9
The Bow	(\$10.6)	-	(\$14.7)	-
	(\$16.8)	(\$0.9)	(\$27.3)	(\$7.4)

\* One-time non-recurring items may include lease termination payments, mortgage pre-payment penalties, sundry income, one-time occupancy and realty tax adjustments and unusual trust expenses.

Excluding the above items, AFFO would have been \$79.4 million for the three months ended September 30, 2012 (September 30, 2011 - \$63.8 million) and \$0.41 per basic Stapled Unit (September 30, 2011 - \$0.39 per basic Stapled Unit). For the nine months ended September 30, 2012, AFFO would have been \$229.7 million (September 30, 2011 - \$184.7 million) and \$1.23 per basic Stapled Unit (September 30, 2011 - \$1.18 per basic Stapled Unit).

#### **Subsequent to September 30, 2012, H&R REIT:**

- sold four retail properties in Georgia, United States for gross proceeds of approximately U.S. \$51.4 million, including a gain on sale of approximately \$5.4 million.

#### **Distribution Increases:**

Consistent with H&R's positive outlook and Encana and Cenovus's occupancy of the Bow, the trustees have adopted an updated distribution policy to replace the distribution policy previously announced in February 2011. Under the updated policy, it is intended that distributions will increase by 8% in January 2013 to \$1.35 per Stapled Unit on an annualized basis (consistent with the previous policy).

#### **About H&R REIT and H&R Finance Trust**

H&R REIT is an open-ended real estate investment trust, which owns a North American portfolio of 41 office, 116 industrial, 135 retail properties comprising over 43 million square feet, and 3 development projects with a fair value of approximately \$10.0 billion. The foundation of H&R REIT's success since inception in 1996 has been a disciplined strategy that leads to consistent and profitable growth. H&R REIT leases its properties long term to creditworthy tenants and strives to match those leases with primarily long-term, fixed-rate financing.

H&R Finance Trust is an unincorporated investment trust, which primarily invests in notes issued by a U.S. corporation which is a subsidiary of H&R REIT. The current note receivable is U.S. \$156.5 million. In 2008, H&R



REIT completed an internal reorganization which resulted in each issued and outstanding H&R REIT unit trading together with a unit of H&R Finance Trust as a "Stapled Unit" on the Toronto Stock Exchange.

### **Forward-looking Statements**

Certain information in this news release contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements relating to the objectives of H&R REIT and H&R Finance Trust, strategies to achieve those objectives, H&R's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts including, in particular, H&R REIT's expectation regarding future developments in connection with and financial impact of *The Bow*, and the amount of actual distributions to unitholders notwithstanding the trustees adoption of a distribution policy. Forward-looking statements generally can be identified by words such as "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "project", "budget" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect H&R's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on H&R's estimates and assumptions that are subject to risk and uncertainties, including those discussed in H&R's materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results and performance of H&R to differ materially from the forward-looking statements contained in this news release. Those risks and uncertainties include, among other things, risks related to: prices and market value of securities of H&R; availability of cash for distributions; development and financing relating to *The Bow* development; restrictions pursuant to the terms of indebtedness; liquidity; credit risk and tenant concentration; interest rate and other debt related risk; tax risk; ability to access capital markets; dilution; lease rollover risk; construction risks; currency risk; unitholder liability; co-ownership interest in properties; competition for real property investments; environmental matters; reliance on one corporation for management of substantially all H&R REIT's properties; and changes in legislation and indebtedness of H&R. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy is stable; local real estate conditions are stable; interest rates are relatively stable; and equity and debt markets continue to provide access to capital. H&R cautions that this list of factors is not exhaustive. Although the forward-looking statements contained in this news release are based upon what H&R believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. All forward-looking statements in this news release are qualified by these cautionary statements. These forward-looking statements are made as of today, and H&R, except as required by applicable law, assumes no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

Additional information regarding H&R REIT and H&R Finance Trust is available at [www.hr-reit.com](http://www.hr-reit.com) and on [www.sedar.com](http://www.sedar.com). For more information, please contact Larry Froom, Chief Financial Officer, H&R REIT, 416-635-7520, or e-mail [info@hr-reit.com](mailto:info@hr-reit.com).