# H&R Reports Solid Q4 Results

Toronto, Ontario, March 8, 2013 - 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 year ended December 31, 2012.

**Operating Highlights**
H&R REIT's average remaining term to maturity as at December 31, 2012 was 12.5 years for leases and 7.7 years for outstanding mortgages. Occupancy at December 31, 2012 was 98.7%, down slightly from 99.1% at December 31, 2011. Leases representing 1.9% of total rentable area will expire during 2013. As at December 31, 2012, the ratio of H&R's debt to fair market value was 51.6% compared to 53.6% as at December 31, 2011. H&R's debt excluding convertible debentures to fair market value ratio was 48.3% compared to 47.1% as at December 31, 2011.

**Capital Transaction Highlights**
During the fourth quarter of 2012, H&R REIT:

- completed a public offering of $150.1 million of Stapled Units;

- purchased two grocery anchored retail properties totalling 135,200 square feet in Florida, United States for an aggregate purchase price of U.S. $19.7 million, at a weighted average capitalization rate of 7.2% and a levered return of 11.2%. H&R REIT assumed a U.S. $6.5 million mortgage bearing interest at 5.75% per annum for a 9-year term and subsequently closed a U.S. $5.8 million mortgage bearing interest at 3.35% per annum for a 6.75-year term.

| Property Address | Anchor | Square Feet | Occupancy |
|---|---|---|---|
| 1491-1575 Main St., Dunedin, Florida | Publix | 74,200 | 87% |
| 955 State Road 16, St. Augustines, Florida | Publix | 61,000 | 93% |
| Total | | 135,200 | |

- acquired a 50% interest in a 84,100 square foot retail property in Thunder Bay, Ontario for a purchase price of $1.4 million;

- sold four retail properties in Georgia, United States for gross proceeds of approximately U.S. $51.4 million; and

- sold an industrial property and a parcel of land held for development in Ontario for gross proceeds of $22.7 million.

**Development Highlights**
H&R REIT has reached practical completion on the construction of a two million square foot office building in Calgary, Alberta (the "Bow"), which is fully pre-leased to Encana Corporation for a 25-year term. Floors 3 to 57 were delivered to Encana Corporation in tranches between May 2, 2012 and February 22, 2013. The 25-year lease term is expected to commence on March 15, 2013 upon the anticipated delivery of the final two floors to Encana Corporation. 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. H&R REIT estimates a further $48.2 million in costs will be incurred to complete the project, including capitalized interest. As at December 31, 2012, the total cost incurred on the project amounted to $1.67 billion (December 31, 2011 - $1.48 billion). This amount includes the costs for the construction of 1,358 parking stalls. Encana Corporation is entitled to a 60-day free rent fixturing period and a rent credit equal to the delay penalty of approximately $32.5 million. As at December 31, 2012, the unused portion of the rent credit balance relating to the delay penalty was approximately $15.2 million. This rent free period, combined with the interest expense that was no longer capitalized as tranches of the project became available for their intended use, resulted in an FFO loss of

$1.3 million and an AFFO loss of $31.0 million in 2012 as shown in the table below. The table below also provides an estimate of FFO and AFFO for the first three quarters in 2013.

| | Actual | | Estimate[(2)] | | |
|---|---|---|---|---|---|
| In Millions | Q4 2012[(1)] | Total 2012 | Q1 2013 | Q2 2013 | Q3 2013 |
| Basic rent | $ - | $ - | $2.2 | $22.4 | $23.3 |
| Straight-lining of contractual rent | 15.4 | 29.7 | 22.6 | 2.7 | 1.9 |
| Interest no longer capitalized[(3)] | (14.0) | (25.1) | (3.1) | (4.3) | (4.3) |
| Mortgage interest | (3.4) | (5.9) | (4.4) | (4.6) | (4.6) |
| Expected Bow impact on FFO[(4)] | (2.0) | (1.3) | 17.3 | 16.2 | 16.3 |
| Expected Bow impact on AFFO[(4)] | (17.4) | (31.0) | (5.3) | 13.5 | 14.4 |

(1) Results varied from previously reported estimates due to a delay in the projected completion date.
(2) 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 other purposes.
(3) The estimates for Q1 and Q2 2013 supersede the estimates previously provided by H&R since, in particular, the interest no longer capitalized is now being compared to Q4 2012's capitalized interest whereas it had previously been compared to 2011's.
(4) H&R's combined Management Discussion and Analysis ("MD&A") includes reconciliations of: net income to FFO; FFO and AFFO; and AFFO to cash provided by operations. Readers are encouraged to review such reconciliations in the combined MD&A.

**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 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 December 31 | | Year ended December 31 | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Rentals from investment properties (millions) | $230.5 | $178.2 | $835.3 | $656.9 |
| Net income (millions) | $102.6 | $24.6 | $508.9 | $338.0 |
| FFO (millions)[(1)(2)] | $85.2 | $67.8 | $329.0 | $261.5 |
| FFO per Stapled Unit (basic)[(2)] | $0.44 | $0.40 | $1.74 | $1.64 |
| Cash provided by operations (millions) | $153.8 | $104.0 | $551.4 | $404.6 |
| Cash distributions paid (millions) [(3)] | $46.2 | $31.7 | $164.8 | $119.4 |
| Distributions per Stapled Unit | $0.31 | $0.26 | $1.18 | $0.98 |

(1) 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.

(2) See below for significant and non-recurring items included in FFO and FFO per Stapled Unit.

(3) 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.

Beginning in Q4 2012, H&R REIT has elected to record investment properties at fair value. This change in accounting policy has been adopted on a retrospective basis and the comparative 2011 results have been restated accordingly. This change resulted in an increase to unitholder's equity of $997.9 million as at January 1, 2011. The fair value adjustment on real estate assets was $30.7 million for the three months ended December 31, 2012 (Q4 2011 - $38.3 million) and $253.1 million for the year ended December 31, 2012 (December 31, 2011 - $199.9 million). 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 $17.7 million for the three months ended December 31, 2012 (Q4 2011 - ($69.2 million)) and ($7.7 million) for the year ended December 31, 2012 (December 31, 2011 – ($108.4 million)). Excluding the fair value adjustment on real estate assets and the gain (loss) on change in fair value net income would have been $54.2 million for the three months ended December 31, 2012 (Q4 2011 - $55.5 million) and $263.5 million for the year ended December 31, 2012 (December 31, 2011 - $246.5 million).

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

| | 3 months ended December 31 | | Year ended December 31 | |
|---|---|---|---|---|
| In millions | 2012 | 2011 | 2012 | 2011 |
| Additional recoveries for capital expenditures | $5.3 | $4.4 | $13.8 | $7.1 |
| Gain (loss) on extinguishment of debt | (0.1) | $0.2 | $10.1 | $9.3 |
| One-time non-recurring items* | $0.1 | - | ($1.5) | $1.9 |
| The Bow | (2.0) | - | ($1.3) | - |
| | $3.3 | $4.6 | $21.1 | $18.3 |

* 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, FFO would have been $81.9 million for the three months ended December 31, 2012 (Q4 2011 - $63.1 million) and $0.42 per basic Stapled Unit (Q4 2011 - $0.38 per basic Stapled Unit). For the year ended December 31, 2012, FFO would have been $307.9 million (December 31, 2011 - $243.2 million) and $1.63 per basic Stapled Unit (December 31, 2011 - $1.52 per basic Stapled Unit).

**Subsequent to December 31, 2012, H&R REIT:**

- sold two industrial properties in Ontario for gross proceeds of approximately $20.5 million;
- repaid a Canadian mortgage of approximately $69.5 million bearing interest at a rate of 8.16% and
- entered into an amended and restated arrangement agreement with Primaris Retail Real Estate Investment Trust ("Primaris") and PRR Investments Inc. to acquire all the property of Primaris remaining following the sale by Primaris of 18 properties to a consortium led by KingSett Capital and to become the sole unitholder of Primaris. In connection with the transaction, H&R expects to issue approximately 65.2 million stapled units for delivery to certain existing Primaris unitholders and H&R REIT expects to assume certain outstanding convertible debentures of Primaris. It is expected that H&R REIT will acquire 26 properties from Primaris with a fair value of $3.1 billion along with assumed indebtedness of approximately $1.4 billion. The transaction is subject to approval by the unitholders of H&R REIT, Finance Trust and Primaris at meetings to be held on March 22, 2013 as well as other customary closing conditions. Assuming all conditions to closing are satisfied or waived, closing is expected to occur in early April 2013.

**March's Monthly Distributions Declared**
March's declared distribution is scheduled as follows:

| | Distribution/Stapled Unit | Annualized | Record date | Distribution date |
|---|---|---|---|---|
| March 2013 | $0.11250 | $1.35 | March 19, 2013 | April 2, 2013 |

**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 42 office, 113 industrial and 138 retail properties comprising over 44 million square feet and 2 development projects, with a fair value of approximately $10 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. As at December 31, 2012, the note receivable balance is U.S. $162.5 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, the acquisition of Primaris by H&R, H&R REIT's expectation regarding future developments in connection with and financial impact of *The Bow* and the amount of distributions to unitholders. 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, the completion of the acquisition of Primaris, risks related to: prices and market value of securities of H&R; availability of cash for distributions; 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 and on 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.