H&R REIT Announces Second Quarter 2016 Results

Toronto, Ontario, August 9, 2016 - H&R Real Estate Investment Trust ("H&R") and H&R Finance Trust (collectively, "the Trusts") (TSX: HR.UN; HR.DB.D; HR.DB.E and HR.DB.H) today announced their combined financial results for the three and six months ended June 30, 2016.

Financial Highlights

	3 months ended June 30		6 months ended June 30	
	2016	2015	**2016**	2015
Rentals from investment properties (millions)	**$289.8**	$295.7	**$593.3**	$595.0
Property operating income (millions)	**$195.8**	$200.4	**$363.6**	$370.6
Funds from Operations ("FFO") (millions)[1]	**$156.9**	$142.8	**$304.5**	$282.7
FFO per Stapled Unit (basic)	**$0.53**	$0.49	**$1.03**	$0.97
FFO per Stapled Unit (diluted)	**$0.52**	$0.48	**$1.01**	$0.96
Cash provided by operations (millions)	**$156.9**	$173.3	**$309.1**	$353.2
Distributions per Stapled Unit	**$0.34**	$0.34	**$0.68**	$0.68
Payout ratio per Stapled Unit (as a % of FFO)	**64.2%**	69.4%	**66.0%**	70.1%

(1) The Trusts' combined MD&A includes a reconciliation of FFO to net income. Readers are encouraged to review the reconciliation in the combined MD&A.

Operating Highlights

Adjusted same-asset property operating income (cash basis) was $196.4 million and $395.7 million for the three and six months ended June 30, 2016, respectively, compared to $195.2 million and $390.0 million for the three and six months ended June 30, 2015, respectively. FFO was $0.53 per Stapled Unit for the three months ended June 30, 2016, an increase of 8.2% compared to the same period in 2015 primarily due to lease termination settlements, including Target's partial settlement of $18.9 million. Excluding the income from the lease termination settlements and other non-recurring items, FFO would have been $0.47 per Stapled Unit for the three months ended June 30, 2016 compared to $0.48 per Stapled Unit for the three months ended June 30, 2015 and would have been $0.95 per Stapled Unit for the six months ended June 30, 2016 compared to $0.96 per Stapled Unit for the six months ended June 30, 2015.

Occupancy at June 30, 2016 was 95.6% compared to 95.9% at June 30, 2015. Leases representing only 5.6% of total rentable area will expire during the remainder of 2016 and 2017. H&R's average remaining lease term to maturity at June 30, 2016 was 9.9 years.

Sale of Scotia Plaza

On June 30, 2016, H&R sold its 33.3% freehold and leasehold interests in Scotia Plaza and 100 Yonge Street (collectively, "Scotia Plaza") for approximately $438.3 million. The purchaser assumed H&R's share of the existing financing on the properties. H&R recorded a gain on sale of $15.0 million. Proceeds to H&R amounted to $227.0 million which was used to repay debt including the $180.0 million of outstanding Series D Senior Debentures that matured in July 2016.

Fair Value Adjustments on Real Estate Assets

The Trusts recorded a fair value adjustment on real estate assets at the Trusts' interest of $73.5 million and $77.1 million for the three and six months ended June 30, 2016, respectively. This was primarily due to increases in the fair value of Two Gotham Center in Long Island City, NY and Hess Tower in Houston, TX. Both properties are state-of-the-art office properties fully leased on a long-term basis with future contractual rental escalations to investment grade tenants. These properties were both purchased in Q4 2011. In Q2 2016, H&R obtained appraisals from nationally recognized appraisal firms, which evidenced a substantial increase in value for these properties. Partially offsetting these increases were decreases to H&R's Alberta portfolio. H&R's Alberta portfolio had an IFRS value of $3.8 billion at June 30, 2016, a decrease of $340.0 million and $136.0 million from December 31, 2014 and December 31, 2015, respectively, primarily attributable to H&R's Calgary office portfolio.

Target Update

Redevelopment of the former Target stores has commenced, however, the space has not been transferred to properties under development. During Q2 2016, H&R capitalized $0.7 million of the property operating and finance costs attributable to this space. The following table is a summary of our leasing progress on the former Target space:

	Square Feet at 100%	Square Feet at H&R's Interest	Annual Base Rent at H&R's interest ($ Millions)
Former Target Canada space	1,062,676	831,688	$4.4
Backfill progress:			
Committed space	215,734	118,595	1.7
Conditional agreements	466,866	424,989	5.2
Advanced discussions	142,588	109,088	2.4
Total backfill progress	**825,188**	**652,672**	**9.3**
Space currently being marketed	49,610	44,239	1.0
Total gross leasable area ("GLA") upon completion of redevelopment	**874,798**	**696,911**	**$10.3**
Potential GLA converted for landlord uses (common area etc.)(1)	130,280	105,978	N/A
Space for demolition/potential redevelopment	57,598	28,799	N/A
Total	**1,062,676**	**831,688**	

(1) Represents square footage based on current redevelopment plans and is subject to change based on tenant demand.

H&R expects that, once the above leasing is complete, the new tenants will contribute approximately $10.3 million annually or 234% of the total base rental revenue lost through Target's departure. H&R expects that most of these leases will be binding by the end of 2016, subject to development permits, with occupancy occurring between October 2016 and the end of 2017. The cost of subdividing and re-leasing the premises is expected to be approximately $109.0 million at H&R's ownership interest. At June 30, 2016, a partial lease settlement from Target of $18.9 million was received in July 2016 and has been recognized in the Trusts' Financial Statements as Other Income.

Development Highlights

Construction is progressing on the development of 1,871 luxury residential units in Long Island City, NY ("LIC Project"), in which H&R has a 50% ownership interest. The total budget at the 100% ownership level is expected to be approximately U.S. $1.2 billion with occupancy in the first tower scheduled to begin in late 2017. Construction financing for up to U.S. $640.0 million has been secured through a syndicate of lenders. As a condition to the financing, H&R will have to contribute a further U.S. $18.3 million to the project which will increase its total investment to U.S. $260.7 million. Approximately 99.3% of total hard costs and 86.9% of total project costs have been fixed.

In Q1 2016, H&R entered into two separate 15-year build-to-suit leases for industrial properties to be developed at the Airport Road Business Park in Brampton, ON, adjacent to the Unilever project, for Sleep Country Canada and Solutions 2 Go Inc. The total net leasable area for these properties will be approximately 341,775 square feet with occupancy of both projects expected to occur in Q2 2017.

Alberta Office Exposure

The weighted average lease term remaining in H&R's Alberta office portfolio is 17.4 years. The leases expiring between July 1, 2016 and December 31, 2018 in H&R's Alberta office portfolio total 31,568 square feet. At June 30, 2016, H&R's Alberta office portfolio had approximately 171,000 square feet of vacant space at H&R's ownership share, all of which is located at 411-1st St., S.E. Calgary. Of this vacant space, 12,667 square feet has been leased for a six-year term commencing September 1, 2016.

Debt and Liquidity Highlights

Debt to total assets, per the Trusts' Financial Statements at June 30, 2016 was 45.8% compared to 46.2% at December 31, 2015. After the repayment of debt from the proceeds received from the sale of Scotia Plaza, the Trusts' debt to total assets, per the Trusts' Financial Statements, was 44.9%. Cash on hand plus undrawn credit facilities amounted to $724.2 million at June 30, 2016, excluding ECHO. Subsequent to June 30, 2016, H&R secured a $70.0 million increase to a first mortgage at an interest rate of 2.7% per annum for a term of 4.7 years.

Monthly Distribution Declared

The Trusts declared distribution for the month of June is scheduled as follows:

	Distribution/Stapled Unit	Annualized	Record date	Distribution date
September 2016	$0.11250	$1.35	September 16, 2016	September 30, 2016

Conference Call and Webcast Details

Management of H&R will hold a conference call to discuss the financial results for H&R on Wednesday, August 10, 2016 at 8.30 a.m. Eastern Time.

Participants can join the call by dialing 1-888-231-8191 or 647-427-7450. For those unable to participate in the conference call at the scheduled time, it will be archived for replay beginning approximately one hour following completion of the call. To access the archived conference call by telephone, dial 416-849-0833 or 1-855-859-2056 and enter the passcode 54509267 followed by the pound key. The telephone replay will be available until Wednesday, August 17, 2016 at midnight.

A live audio webcast will be available through http://hr-reit.com/Investor-Relations/InvestorEvents.aspx or http://bit.ly/29S8hQP. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast. The webcast will be archived on the Company's website following the call date.

About H&R REIT and H&R Finance Trust

H&R REIT is Canada's largest diversified real estate investment trust with total assets of approximately $14.5 billion at June 30, 2016. H&R REIT is a fully internalized real estate investment trust and has ownership interests in a North American portfolio of high quality office, retail, industrial and residential properties comprising over 46 million square feet.

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 balance is U.S. $220.4 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 statements in this news release contain 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, intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts including, the amount of distributions to unitholders, H&R's expectation with respect to contributions to rental revenue by new tenants in former Target locations, the timing of completion and occupancy of any leases relating to such premises and the cost of subdividing and re-leasing such premises, the expected budget and occupancy of the LIC Project, the expected contributions by H&R to the LIC Project, the expected net leasable area and occupancy date for the industrial properties at Airport Road Business Park and the expected pro-forma debt to total asset ratio. 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. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements are not guarantees of future performance and are based on the Trusts' estimates and assumptions that are subject to risks and uncertainties, including those described below under "Risks and Uncertainties" and those discussed in the Trusts' materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results and performance of the Trusts to differ materially from the forward-looking statements contained in this press release. Those risks and uncertainties include, among other things, risks related to: unit price risk; real property ownership; credit risk and tenant concentration; interest and other debt-related risk; ability to access capital markets; lease rollover risk; joint arrangements risk; currency risk; construction risks; availability of cash for distributions; environmental risk; tax risk; tax consequences to U.S. holders; dilution; unitholder liability; redemption right risk and risks relating to debentures. 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 other than in Alberta; local real estate conditions are stable other than in Alberta; interest rates are relatively stable; and equity and debt markets continue to provide access to capital. The Trusts caution that this list of factors is not exhaustive. Although the forward-looking statements contained in this press release are based upon what the Trusts believe are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of today, and the Trusts, 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.

Non-GAAP Financial Measures

The Trusts' Financial Statements are prepared in accordance with IFRS. However, in this press release, a number of measures which do not have a meaning recognized under IFRS or Canadian Generally Accepted Accounting Principles ("GAAP") are presented. These measures, as well as the reasons why management believes these measures are useful to investors, are described below.

None of these non-GAAP financial measures should be construed as an alternative to financial measures calculated in accordance with GAAP. Further, the Trusts' method of calculating these supplemental non-GAAP financial measures may differ from the methods of other real estate investment trusts or other issuers, and accordingly may not be comparable.

The Trusts' Interests

The Trusts apply the equity method of accounting to investments in joint ventures and associates in the Trusts' Financial Statements as prescribed under IFRS. Throughout this press release, any references to the "Trusts' Financial Statements" refer to amounts as reported under IFRS and any references to "The Trusts' interests" are non-GAAP measures which include amounts per the Trusts' Financial Statements plus the Trusts' proportionate share of equity accounted investments.

Property Operating Income

Property operating income is the rental revenue generated from H&R's investment properties, net of the property operating expenses incurred. Management believes that this is a useful measure for investors as it provides a snapshot of how H&R's properties are performing before financing costs and other sources of income and expenditures which are not directly related to the day-to-day operations of a property. Property operating income should not be construed as an alternative to net income calculated in accordance with IFRS.

Adjusted Property Operating Income and Adjusted Property Operating Income (Cash Basis)

Adjusted property operating income is also a non-GAAP measure. Effective January 1, 2014, H&R adopted IFRS Interpretations Committee 21, *Levies* ("IFRIC 21"). Adjusted property operating income excludes the impact of this change in accounting policy which relates to the timing of the liability recognition for U.S. realty taxes. Management believes that adjusted property operating income is an important non-GAAP measure as, by excluding the impact of IFRIC 21, it evenly matches U.S. realty tax expense with realty tax recoveries throughout the period. Adjusted property operating income (cash basis) excludes straight-lining of contractual rent. Management believes this non-GAAP financial measure is useful for investors as it adjusts adjusted property operating income to exclude straight-lining of contractual rent which is a non-cash item.

Same-Asset Property Operating Income and Adjusted Same-Asset Property Operating Income

Same-asset property operating income and adjusted same-asset property operating income are non-GAAP financial measures used by H&R which management believes are useful for investors as it reports period-over-period performance for properties owned by H&R throughout both periods. This typically excludes acquisitions, business combinations, dispositions and transfers of properties under development to investment properties.

Funds from Operations

FFO is a non-GAAP financial measure widely used in the real estate industry as a measure of operating performance. The Trusts present their combined FFO calculations in accordance with the Real Property Association of Canada (REALpac) guidelines however, this method of calculating FFO may differ when comparing to other issuers. Management believes this to be a useful measure for investors as it adjusts for items included in net income that are not recurring including gain (loss) on sale of real estate assets, as well as non-cash items such as the fair value adjustments on investment properties. FFO should not be construed as an alternative to net income or cash flows provided by operating activities calculated in accordance with IFRS. Please refer to the Trusts' combined MD&A.

Debt to Total Assets Ratios

H&R's Declaration of Trust limits the indebtedness of H&R (subject to certain exceptions) to a maximum of 65% of the total assets of H&R, based on the Trusts' Financial Statements. Debt includes mortgages payable, the face value of debentures payable, bank indebtedness and loan payable. Management uses this ratio to determine its flexibility to incur additional debt and ensure it is in compliance with H&R's Declaration of Trust.

Additional information regarding H&R 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.