H&R REIT Announces Fourth Quarter and 2016 Annual Results

Toronto, Ontario, Feb 15, 2017 - H&R Real Estate Investment Trust (“H&R”) and H&R Finance Trust (collectively, “the Trusts”) (TSX: HR.UN; HR.DB.D; and HR.DB.H) today announced their combined financial results for the year ended December 31, 2016.

Financial Highlights

H&R undertook a strategic review of its assets and decided to sell certain investment properties to take advantage of the high demand for good quality assets. During 2015 and 2016, H&R sold $1.3 billion of real estate assets and acquired $757.5 million of real estate assets for a net decrease of $542.5 million, at H&R’s ownership share.

	3 months ended December 31		Year ended December 31	
	2016	2015	**2016**	2015
Rentals from investment properties (millions)	**$305.5**	$296.2	**$1,196.0**	$1,188.3
Property operating income (millions)	**$202.4**	$202.1	**$764.7**	$773.5
Net income (loss) before income taxes (millions)	**$182.6**	($35.9)	**$590.3**	$375.1
Funds from Operations (“FFO”) (millions)[(1)]	**$142.9**	$142.9	**$584.3**	$569.9
FFO per Stapled Unit (basic)	**$0.48**	$0.48	**$1.96**	$1.95
FFO per Stapled Unit (diluted)	**$0.47**	$0.48	**$1.93**	$1.92
Distributions per Stapled Unit	**$0.34**	$0.34	**$1.35**	$1.35
Payout ratio per Stapled Unit (as a % of FFO)	**70.8%**	70.8%	**68.9%**	69.2%

(1) FFO is a non-GAAP measure. See “Non-GAAP Financial Measures” in this press release. 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

Occupancy as at December 31, 2016 was 95.7% compared to 95.9% as at December 31, 2015. Leases representing 3.7% of total rentable area will expire during 2017 and H&R’s average remaining lease term to maturity as at December 31, 2016 was 9.5 years.

Development Highlights

Construction is progressing on the development of 1,871 luxury residential rental units for the LIC Project in which H&R has a 50% 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 early 2018. As at December 31, 2016, total costs incurred amounted to $655.3 million. The remaining costs are expected to be funded through the construction financing facility. Approximately 99.3% of total hard costs and 89.9% of total project costs have been fixed. Upon completion and stabilized occupancy, the contribution to FFO from the LIC Project at H&R’s interest is projected to be U.S. $23.0 million, which equates to an approximate 8.8% year one yield on H&R’s cash investment. During the year, the fair value of the LIC Project increased by U.S. $54.9 million, at H&R’s interest. An independent third party appraisal was obtained for this property in 2016.

In Q1 2016, H&R entered into two separate 15-year build-to-suit leases for industrial properties to be developed in the Airport Road Business Park in Brampton, ON 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 Q3 2017. Upon completion, the contribution to FFO generated from these two projects is expected to be $1.7 million.

In August 2016, H&R acquired a 31.7% non-managing interest in 38.4 acres of land located in Hercules, California, adjacent to the San Pablo Bay, northeast of San Francisco, ("Hercules Project") for the future development of multi-family residential units. The initial investment to purchase the land was approximately U.S. $10.0 million (at H&R's interest).

Office Segment Highlights

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, net of related costs, of $15.0 million. Proceeds to H&R amounted to $227.0 million, which were primarily used to repay debt including the $180.0 million Series D Senior Debentures that matured in July 2016.

On November 17, 2016, H&R sold a non-managing 50% interest in the TransCanada Tower in Calgary, AB for gross proceeds of approximately $257.4 million. H&R built this property in 2001 for a total cost of $265.8 million, at the 100% level. H&R prepaid the entire mortgage on the property of $93.5 million upon closing. H&R recorded a loss on sale, net of related costs, of $7.4 million. Proceeds to H&R amounted to $163.9 million, which were primarily used to repay debt and acquire a multi-family residential property.

Alberta Office Exposure:
The weighted average lease term remaining in H&R's Alberta office portfolio is 17.2 years. The leases expiring between January 1, 2017 and December 31, 2018 in H&R's Alberta office portfolio total 18,507 square feet. As at December 31, 2016, H&R's Alberta office portfolio had approximately 184,000 square feet of vacant space, at H&R's ownership share, all of which is in F1RST Tower (formerly Telus Tower). Of this vacant space, 12,667 square feet has been leased for a six-year term commencing January 1, 2017.

Lantower Residential Highlights

H&R is continuing its expansion into the multi-family rental market in the United States. During 2016, Lantower Residential acquired four multi-family properties in the United States, all of which were built between 2012 and 2015. These properties comprise 1,246 units and were purchased for a total price of U.S. $232.2 million.

As at December 31, 2016, Lantower Residential has a portfolio of 12 properties, comprised of an aggregate of 3,832 units, an average age of 13 years and an average monthly rent of U.S. $1,081 per unit.

Industrial Segment Highlights

In February 2016, H&R acquired a 50% managing interest in a 264,802 square foot newly constructed industrial property in Calgary, AB for $15.5 million (at H&R's interest).

During 2016, H&R sold its 50% ownership interest in a 139,734 square foot industrial property in Montreal, QC for $4.2 million and its 50% ownership interest in a 52,792 square foot industrial property in Vaughan, ON for $3.0 million.

Retail Highlights

During 2016, H&R sold its 100% interest in five retail properties, totaling 490,839 square feet, all of which were located in the U.S. for U.S. $61.8 million.

Primaris Highlights and Target Update

In November 2016, H&R entered into a conditional agreement to sell a 50% non-managing interest in two enclosed shopping centres for $211.6 million which closed in January 2017. The purchaser assumed 50% of the existing financing on the properties of approximately $126.6 million. The net proceeds of approximately $81.0 million have been used to repay debt.

Redevelopment of the former Target stores has commenced, however, the space has not been transferred to properties under development because the space is part of an existing, already developed property. For the year ended December 31, 2016, H&R spent approximately $31.0 million in redevelopment and, in addition, capitalized $2.4 million of the property operating and finance costs attributable to this space. The following table is a summary of H&R's 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]	1,062,676	774,035	$4.0
Backfill progress:			
Committed space	583,989	404,270	6.4
Conditional agreements	191,364	176,364	1.5
Advanced discussions	44,215	25,645	0.8
Total backfill progress	**819,568**	**606,279**	**8.7**
Space currently being marketed	49,759	32,593	0.6
Total gross leasable area ("GLA") upon completion of redevelopment	**869,327**	**638,872**	**$9.3**
Potential GLA converted for landlord uses (common area etc.)	135,508	106,242	N/A
Space for demolition/potential redevelopment	57,841	28,921	N/A
Total[2]	**1,062,676**	**774,035**	

(1) The above table is disclosed as of February 6, 2017 and H&R's interest has been updated to reflect the 50% sale of two enclosed shopping centres which closed in January 2017.
(2) 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 $9.3 million annually or 225% of the total base rental revenue lost through Target's departure. H&R expects most of the remaining leases will be entered into by Q2 2017, with occupancy occurring between 2017 and early 2019. Throughout 2016, committed space tenants occupied 73,736 square feet and contributed $0.4 million in base rent at H&R's interest. The total remaining cost of subdividing and re-leasing the premises is expected to be approximately $78.0 million at H&R's ownership interest. A partial lease settlement from Target of $20.4 million was received and recognized in the Trusts' Financial Statements as Other Income for the year ended December 31, 2016.

Debt and Liquidity Highlights

H&R repaid all of the outstanding Series D Senior Debentures upon maturity for a cash payment of $180.0 million in July 2016 and all of the outstanding 2016 Convertible Debentures upon maturity for a cash payment of $75.0 million in December 2016. In November 2016, H&R issued $200.0 million principal amount of 2.923% Series L Senior Debentures maturing May 6, 2022.

During 2016, H&R (excluding ECHO) secured 12 new mortgages and secured an increase to an existing mortgage adding a total of $191.1 million of debt at a weighted average interest rate of 2.9% for an average term of 5.1 years and repaid 48 mortgages, which had a weighted average interest rate of 4.9%, upon maturity totalling $629.2 million. The current weighted average interest rate on outstanding debt is 4.3% with an average term to maturity of 4.8 years.

As at December 31, 2016, the debt to total asset ratio per the Trusts' Financial Statements was 44.3% compared to 46.2% at December 31, 2015 and cash on hand plus undrawn credit facilities amounted to $400.3 million.

As at December 31, 2016, unencumbered assets were approximately $3.0 billion and unsecured debt was approximately $1.7 billion, resulting in a coverage ratio of 1.8x (December 31, 2015 - 1.4x).

Distribution Increase

The trustees approved an increase in the current monthly distribution per Stapled Unit commencing December 2016, resulting in a $0.03 annual increase to a total of $1.38 per annum.

Monthly Distribution Declared

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

	Distribution/Stapled Unit	Annualized	Record date	Distribution date
March 2017	$0.11500	$1.38	March 17, 2017	March 31, 2017

Conference Call

Management will host a conference call to discuss the financial results for H&R on Thursday, February 16, 2017 at 9:30 a.m. Eastern Time. Participants can join the call by dialing 647-427-7450 or 1-888-231-8191. 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 21741137 followed by the pound key. The telephone replay will be available until Thursday, February 23, 2017 at midnight.

Webcast

A live audio webcast will be available through http://hr-reit.com/Investor-Relations/InvestorEvents.aspx or http://event.on24.com/r.htm?e=1314650&s=1&k=13C5E1E1C89D3AA97E64CA4C72E1B815. 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 H&R'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 $14.7 billion at December 31, 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. $220.5 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 Disclaimer

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, including future increases to distributions, 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, the expected remaining costs and occupancy of the LIC Project, expected cash flow to H&R from the LIC Project, the expected net leasable area, occupancy date and expected cash flow from the industrial properties at Airport Road Business Park, the expected 50% non-managing interest sale of Transcanada Tower in Calgary, AB, the increases in cash flow, the maintenance of a conservative payout ratio and the expected unencumbered asset pool. 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 prices; credit risk and tenant concentration; real property ownership; liquidity; financing credit risk; credit risk and tenant concentration; interest and other debt-related risk; ability to access capital markets; lease rollover risk; co-ownership interest in properties; 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. The Trusts' management uses a number of measures which do not have a meaning recognized or standardized under IFRS or Canadian Generally Accepted Accounting Principles ("GAAP"). The following measures, Funds from Operations ("FFO"), Debt to Total Assets Ratio and unencumbered asset to unsecured debt coverage ratio as well as other measures discussed elsewhere in this release, should not 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' use these measures to better assess the Trusts' underlying performance and provide these additional measures so that investors may do the same. These non-GAAP Financial Measures are more fully defined and discussed in the Trusts' combined MD&A for the year ended 2016, available at www.hr-reit.com and on www.sedar.com.

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.