H&R REIT Announces First Quarter 2017 Results

Toronto, Ontario, May 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 three months ended March 31, 2017.

Financial Highlights

H&R continued to strategically sell certain investment properties between January 1, 2016 and March 31, 2017 for total proceeds of $1.03 billion and acquired $380.6 million in new properties and developments primarily in the multi-family segment in the U.S. The net proceeds have been used to strengthen H&R's balance sheet by reducing debt. As at March 31, 2017, the debt to total asset ratio was 43.5% compared to 46.4% at March 31, 2016. The interest coverage ratio was 3.04 for the three months ended March 31, 2017 compared to 2.82 for the three months ended March 31, 2016. These sales resulted in reduced rentals from investment properties, property operating income and FFO (as defined below).

	3 months ended March 31	
	2017	2016
Rentals from investment properties (millions)	**$293.9**	$303.4
Property operating income (millions)	**$155.2**	$167.9
Net income before income taxes (millions)	**$121.8**	$46.8
Funds from Operations ("FFO") (millions)[1]	**$139.3**	$147.6
FFO per Stapled Unit (basic)	**$0.46**	$0.50
FFO per Stapled Unit (diluted)	**$0.46**	$0.49
Distributions per Stapled Unit	**$0.3450**	$0.3375
Payout ratio per Stapled Unit (as a % of FFO)	**75.0%**	67.5%

[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 net income to FFO. Readers are encouraged to review the reconciliation in the combined MD&A.

Operating Highlights

Occupancy as at March 31, 2017 was 95.5% compared to 95.8% as at March 31, 2016. Leases representing only 2.4% of total rentable area will expire during 2017 and H&R's average remaining lease term to maturity as at March 31, 2017 was 9.5 years.

Developments

Construction is progressing on the development of 1,871 luxury residential rental units for the Long Island City, NY project ("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 March 31, 2017, total project costs incurred amounted to U.S. $741.3 million, of which U.S. $86.0 million was incurred during Q1 2017. The remaining costs are expected to be funded through the construction financing facility. 100.0% of total hard costs and 91.7% 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.

In January 2017, H&R acquired a mortgage receivable secured against nine acres of land in the principal amount of approximately U.S. $34.0 million. The site, known as River Landing, is on the Miami River adjacent to the Health District in the City of Miami, Florida and is zoned for approximately 425,000 square feet of retail space and 500 multi-family units.

Office

Alberta Office Exposure:
The weighted average lease term remaining in H&R's Alberta office portfolio is 17.0 years. The leases expiring between April 1, 2017 and December 31, 2018 in H&R's Alberta office portfolio total 18,507 square feet. As at March 31, 2017, 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 in F1RST Tower (formerly Telus Tower). Due to the long-term leases with contractual rental increases, H&R expects cash flow from the Alberta Office portfolio to continue to increase over the next few years.

Lantower Residential

As at March 31, 2017, Lantower Residential had a portfolio of 12 properties, comprised of an aggregate of 3,832 units with an average age of 13 years. Subsequent to March 31, 2017, Lantower Residential acquired a multi-family property in Austin, TX, comprising 375 units for a total purchase price of U.S. $51.9 million.

Primaris and Target Update

Primaris:
In January 2017, H&R sold a 50% non-managing interest in two enclosed shopping centres; Cataraqui Town Centre in Kingston, ON and Place du Royaume in Chicoutimi, QC for $211.6 million. The purchaser assumed 50% of the existing financing on the properties of approximately $126.6 million. These properties were classified as held for sale at December 31, 2016. The net proceeds of approximately $81.0 million have been used to repay debt.

Target Update:
Redevelopment of the former Target stores has commenced, however, the space has not been transferred to properties under development as the space is part of existing, already developed properties. For the three months ended March 31, 2017, H&R spent approximately $17.8 million in redevelopment. 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	1,062,676	774,035	$4.0
Backfill progress:			
Committed space	609,562	418,794	6.7
Conditional agreements	91,447	83,947	1.5
Advanced discussions	82,612	67,291	1.3
Total backfill progress	**783,621**	**570,032**	**9.5**
Space currently being marketed	45,671	27,508	0.6
Total gross leasable area ("GLA") upon completion of redevelopment	**829,292**	**597,540**	**$10.1**
Expected GLA to be converted to common area	175,543	147,574	N/A
Space for demolition/potential redevelopment	57,841	28,921	N/A
Total	**1,062,676**	**774,035**	

H&R expects that, once the above leasing is complete, the new tenants will contribute approximately $10.1 million annually or 253% 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 most occupancy occurring between late 2017 and early 2019. During Q1 2017, committed space tenants occupied 81,237 square feet and contributed $0.2 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 $81.1 million at H&R's ownership interest.

Debt

H&R continued to actively manage its capital structure in Q1 2017, and had available liquidity of $647.9 million as at March 31, 2017. In January 2017, H&R repaid its Series I Senior Debentures of $60.0 million and in February 2017, repaid its Series B Senior Debentures of $115.0 million. In January 2017, H&R issued $150.0 million of floating rate Series M Senior Debentures maturing July 23, 2019 and $200.0 million of 3.369% Series N Senior Debentures maturing January 30, 2024. The Series M Senior Debentures bear interest at a per annum interest rate equal to the applicable Canadian Dealer Offered Rate ("CDOR") plus 1.23%.

Subsequent to March 31, 2017, H&R issued an additional $150.0 million principal amount of 3.369% Series N Senior Debentures bringing the total principal amount outstanding to $350.0 million.

In March 2017, H&R, through Primaris, extended the maturity date of its $300.0 million secured operating facility which was originally due in December 2017 to July 2019.

Monthly Distribution Declared

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

	Distribution/Stapled Unit	Annualized	Record date	Distribution date
June 2017	$0.11500	$1.38	June 16, 2017	June 30, 2017

Conference Call

Management will host a conference call to discuss the financial results for H&R on Tuesday, May 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 89675181 followed by the pound key. The telephone replay will be available until Tuesday, May 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=1390265&s=1&k=BF999549A62C6F72CF4C6DF8E4AE03D9. 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.

2017 Annual Unitholders' Meeting

H&R will host its annual Unitholders' meeting at 1pm on Monday, June 19, 2017 at the TSX Gallery, 130 King Street West, Toronto, Ontario.

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 $14.1 billion at March 31, 2017. 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 45 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. $221.7 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, financing, and occupancy of the LIC Project, expected cash flow and contribution to FFO from the LIC Project, the expected net leasable area, occupancy date, expected cash flow and contribution to FFO and the remaining costs to complete from the industrial properties at Airport Road Business Park and the expected cash flow from the Alberta office portfolio. 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, FFO, Interest Coverage Ratio and Trusts' proportionate share 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 three months ended March 31, 2017, 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.