H&R REIT Announces Fourth Quarter and 2017 Annual Results

Toronto, Ontario, February 14, 2018 - H&R Real Estate Investment Trust ("H&R") and H&R Finance Trust (collectively, the "Trusts") (TSX: HR.UN and HR.DB.D) today announced their combined financial results for the year ended December 31, 2017.

STRATEGY UPDATE

H&R is pleased to report that it continued to make progress on its strategic initiatives, improving on three areas of focus: 1) governance, 2) assets, and 3) its investment profile. These improvements add to the significant changes made over the past several years, and are discussed in greater detail in the letter to unitholders accompanying H&R's financial statements and management's discussion and analysis.

Among the more notable conclusions reached in 2017 was a strategic decision to work towards streamlining H&R's property portfolio by narrowing its focus to fewer property types, which led to the plans to sell H&R's U.S. industrial and retail property portfolios. Management expects that narrowing H&R's focus will streamline operations, while also making it easier for investors to understand and appreciate the business, strategy, and opportunity management and the board of trustees see in H&R's units.

In November 2017, H&R announced plans to sell all 79 of its wholly-owned U.S. retail properties and, together with its partners, 12 remaining U.S. industrial properties. During Q4 2017, six U.S. industrial properties were sold for U.S. $106.1 million, at H&R's ownership interest. The net proceeds from these sales, after mortgage repayments, amounted to approximately U.S. $79.4 million, which were used to fund Lantower Residential acquisitions.

At December 31, 2017, H&R valued its U.S. retail assets (exclusive of its investment in ECHO) under International Financial Reporting Standards ("IFRS") at U.S. $752.7 million and its ownership interest of the six remaining U.S. industrial properties at approximately U.S. $45.2 million. H&R expects to achieve aggregate sales proceeds approximating these values.

Management and the board of trustees of H&R will continue to evaluate all aspects of the business on an ongoing basis, looking for ways to create unitholder value, best position the REIT for long-term success and enhance the profile of H&R among investors. In the pursuit of these objectives, H&R will continue to be guided by its core goal of building a high quality portfolio of real estate in order to deliver strong per unit performance over the long-term.

FINANCIAL AND OPERATING HIGHLIGHTS 2017

Financial Highlights

	3 months ended December 31		Year ended December 31	
	2017	2016	**2017**	2016
Rentals from investment properties (millions)	**$298.0**	$305.5	**$1,168.5**	$1,196.0
Property operating income (millions)	**$199.4**	$202.4	**$741.4**	$764.7
Same-Asset property operating income (cash basis)(1)	**$180.7**	$182.3	**$720.6**	$716.9
Net income	**$325.2**	$140.6	**$667.9**	$388.7
Funds from Operations ("FFO") (millions)(1)	**$137.4**	$142.9	**$560.1**	$584.3
FFO per Stapled Unit (basic)(1)	**$0.45**	$0.48	**$1.84**	$1.96
FFO per Stapled Unit (diluted)(1)	**$0.45**	$0.47	**$1.82**	$1.93
Distributions per Stapled Unit	**$0.35**	$0.34	**$1.38**	$1.35
Payout ratio per Stapled Unit (as a % of FFO)(1)	**77.8%**	70.8%	**75.0%**	68.9%
Interest coverage ratio(1)	**2.99**	2.90	**3.00**	2.81

(1) These are non-GAAP measures. See "Non-GAAP Financial Measures" in this press release. The Trusts' combined MD&A includes a reconciliation of property operating income to Same-Asset property operating income and net income to FFO. Readers are encouraged to review the reconciliation in the combined MD&A.

H&R continued to recycle capital by selling certain investment properties and equity accounted investments between January 1, 2016 and December 31, 2017 for total proceeds of $1.2 billion and acquiring $915.1 million in new properties during such period. These acquisitions were primarily in the multi-family segment in the U.S.

- Property operating income decreased by $23.3 million for the year ended December 31, 2017 compared to the respective 2016 period, primarily due to net property dispositions discussed above.
- Same-Asset property operating income (cash basis) increased by $3.7 million for the year ended December 31, 2017 compared to the respective 2016 period.
- Net income increased by $279.1 million for the year ended December 31, 2017 compared to the respective 2016 period primarily due to lower deferred income taxes, an increase in net income from equity accounted investments and fair value adjustments on financial instruments partially offset by a decrease in fair value adjustments on real estate assets.
- FFO was $1.84 per Stapled Unit for the year ended December 31, 2017 compared to $1.96 per Stapled Unit for the year ended December 31, 2016. The decrease is primarily due to $1.0 million received in lease settlement payments from Target in 2017 compared to $20.4 million received in 2016 and the net property dispositions discussed above, partially offset by an $8.9 million realized gain on sale of investment in Q2 2017.

Although the net property dispositions have reduced overall rent, property operating income, net income before income taxes and FFO, the net proceeds were used to repay debt and has strengthened H&R's balance sheet. As at December 31, 2017, the debt to total asset ratio per the Trusts' Financial Statements was 44.6% compared to 46.2% as at December 31, 2015. The interest coverage ratio was 3.00 for the year ended December 31, 2017 compared to 2.81 for the year ended December 31, 2016. As at December 31, 2017, the Trusts had $42.3 million of cash on hand, $313.4 million available under its bank credit facilities and an unencumbered property pool of approximately $3.6 billion. In January 2018, H&R obtained an additional $200.0 million unsecured revolving operating facility maturing in January 2023.

Taxation of Distributions

The 2017 distributions by the Trusts were partly comprised of taxable capital gains (10.5%) and tax deferred return of capital (29.2%). For Canadian resident unitholders, 39.7% (2016 - 32.3%) of the distributions on a Stapled Unit were not subject to tax.

Operating Highlights

Occupancy as at December 31, 2017 was 95.6% compared to 95.7% as at December 31, 2016. Commercial leases representing only 6.7% of total rentable area will expire during 2018. H&R's average remaining lease term to maturity as at December 31, 2017 was 9.1 years.

SUMMARY OF SIGNIFICANT 2017 ACTIVITY

Developments

H&R continues to make significant progress with its value creating development program.

The development of the 1,871 luxury residential rental units known as "Jackson Park" in Long Island City, NY, in which H&R has a 50% ownership interest, is nearing completion. The project is on budget with approximately $197.8 million of costs remaining to complete of which will be funded from the construction facility. To date, the first tower has obtained certificates of occupancy for 333 units. The leasing office for Jackson Park opened in November 2017 and lease-up is expected to occur throughout 2018 and 2019. To date, 125 leases have been entered into and 80 units are currently occupied. Part of the amenity space is expected to open in April 2018. First occupancies in the second and third towers are expected to start during Q2 2018. The property was appraised as of December 31, 2017 by a nationally recognized independent firm of appraisers for a value of U.S. $1.27 billion as compared to total project costs at December 31, 2017 of U.S. $963.5 million resulting in a 2017 fair value increase of U.S. $197.4 million (December 31, 2016 - U.S. $109.7 million). As H&R's investment in Jackson Park is accounted for as an equity investment, this increase in fair value has been recorded as part of net income from equity accounted investments and not as a fair value adjustment on real estate assets. Upon stabilized occupancy of all three towers, the first year's property operating income at H&R's ownership interest is projected to be U.S. $36.9 million.

In January 2017, H&R acquired a mortgage receivable for U.S. $34.0 million secured against nine acres of land in Miami, FL. The urban in-fill development site, known as "River Landing", fronts immediately on the Miami River, adjacent to the Health District and in close proximity to downtown Miami, and is zoned for a mixed-use development including approximately 480,000 square feet of retail and office space and over 500 multi-family units. As at December 31, 2017, the mortgage receivable outstanding was U.S. $67.1 million.

In Q2 2017, the development of two industrial properties in the Airport Road Business Park in Brampton, ON reached substantial completion and were transferred from properties under development to investment properties. Each of these properties were pre-leased for 15 years to Solutions 2 Go Inc. and Sleep Country Canada. The net leasable area of the property leased to Solutions 2 Go Inc. is 215,020 square feet and the tenant's lease commenced in May 2017. The net leasable area of the property leased to Sleep Country Canada is 127,040 square feet and the tenant's lease commenced in September 2017.

H&R has a 31.7% non-managing interest in 38.4 acres of land located in Hercules, CA, adjacent to the San Pablo Bay, northeast of San Francisco, for the future development of multi-family units ("Hercules Project"). This waterfront, multi-phase, master-planned, in-fill mixed-use development surrounds a future intermodal transit centre, including train and ferry service, and is adjacent to an 11 acre waterfront future regional park. The initial investment to purchase the land was approximately U.S. $10.0 million (at H&R's ownership interest). As at December 31, 2017, H&R's investment was U.S. $12.5 million. Phase 1 of the Hercules Project will consist of 172 multi-family units and construction will commence in May 2018. The total budget for this phase is expected to be U.S. $78.1 million at the 100% level. Construction financing of approximately U.S. $50.0 million is expected to be secured in Q1 2018.

In July 2017, H&R acquired a 33.3% non-managing ownership interest in approximately 5.0 acres of land in Austin, TX ("Koenig Project") for the future development of 391 multi-family units with construction expected to commence mid-2018. This multi-residential development site is close to major technology employers like Apple, IBM, Oracle, and Samsung, as well as the University of Texas at Austin and downtown Austin. As at December 31, 2017, H&R's investment was approximately U.S. $5.6 million.

As at December 31, 2017, H&R has a mortgage receivable outstanding of U.S. $42.8 million secured against an office property currently under construction and against an adjacent 4.8 acres of land located in Dallas's downtown core ("2217 Bryan St."). This project includes the re-development of a 93,000 square foot existing historical building into state-of-the-art office space. To date, approximately 63.0% has been pre-leased. The 4.8 acres of excess land is well located in the downtown core, and is expected to be developed into a multi-family property.

Lantower Residential

During 2017, Lantower Residential acquired six properties comprised of 2,229 units for U.S. $386.8 million and sold one property comprised of 428 units for U.S. $28.0 million. Three of the properties acquired during the year are in Florida and three are in Texas. As at December 31, 2017, Lantower Residential had a portfolio of 17 properties in the U.S. comprised of 5,633 multi-family units, with an average age of 7.3 years, along with two properties currently under construction (Jackson Park and the Hercules Project) which will, when completed, comprise an additional 990 multi-family units[, at H&R's ownership interest.

Primaris

The enclosed mall portfolio same store sales productivity increased to $545 per square foot for the 12-month period ending December 31, 2017, an increase from the $542 per square foot during the prior year. Primaris continues to realize strong tenant demand having completed 164 new lease transactions during 2017, which has driven the occupancy rate to 92.6%, a substantial increase from the 87.4% at the beginning of the year. Including tenants committed, but not yet open and adjusting for the closure of eight Sears' stores in January 2018, the occupancy rate would be 86.2%.

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.

Sears:

Total Sears basic rent, at H&R's ownership interest, amounted to $2.3 million which equates to an average net rent of $3.47 per square foot. At less than 0.4% of annualized gross revenue, management expects that Sears' departure provides an opportunity to increase net operating income through replacement of an unproductive anchor tenant paying rents well below market rates with tenants that will generate increased rent and traffic to the properties. While disruptive in the short term, management is confident that the replacement of Sears will enhance the profile of these properties and create value for unitholders.

The Trusts' Internal Reorganization

On October 19, 2017, the Trusts announced a proposed internal reorganization (the "Reorganization") intended to continue the benefits of the existing Stapled Unit structure that has been in place since 2008. Joint meetings of Unitholders were held on December 7, 2017 to approve the Reorganization. The Unitholders approved the proposed Reorganization, with approximately 99.8% of the Unitholders of each of H&R and Finance Trust, respectively, voting in favour of the Reorganization.

On December 14, 2017, the Trusts received a final order from the Court of Queen's Bench of Alberta approving the Reorganization. As a result of certain considerations, including the enactment of the U.S. federal income tax legislation commonly referred to as the Tax Cuts and Jobs Act of 2017 ("U.S. Tax Reform"), H&R has decided not to consummate the Reorganization in its original form as it has concluded that the Stapled Unit structure with H&R Finance Trust is no longer necessary. Accordingly, H&R is in the process of seeking the necessary approvals to implement a modified Reorganization in 2018 with the effect of unwinding the Stapled Unit structure.

Normal Course Issuer Bid ("NCIB")

During 2017, the Trusts purchased and cancelled 755,420 Stapled Units at a weighted average price of $21.10 per Stapled Unit. Subsequent to December 31, 2017, the Trusts purchased and cancelled 2,945,120 Stapled Units at a weighted average price of $21.00 per Stapled Unit.

Monthly Distribution Declared

The Trusts previously declared a distribution for the month of February and today declared a distribution for the month of March scheduled as follows:

	Distribution/Stapled Unit	Annualized	Record date	Distribution date
March 2018	$0.11500	$1.38	March 15, 2018	March 29, 2018

Conference Call

Management will host a conference call to discuss the financial results for the Trusts on Thursday, February 15, 2018 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 6297527 followed by the pound key. The telephone replay will be available until Thursday, February 22, 2018 at midnight.

Webcast

A live audio webcast will be available through http://hr-reit.com/Investor-Relations/InvestorEvents.aspx. 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 $14.6 billion at December 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. $223.9 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 information in this press release contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements made or implied under the headings “Strategy Update” and “Summary of Significant 2017 Activity” relating to the Trusts’ objectives, strategies to achieve those objectives, the Trusts’ beliefs, plans, estimates, projections and intentions and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts including, H&R’s decision to sell its U.S. retail and industrial properties and the timing and proceeds of any such sales, the expected use of proceeds from expected asset sales, H&R’s expectation with respect to the activities of H&R’s development properties, including redevelopment of existing properties and building of new properties, the expected total cost, source of funding and lease-up of Jackson Park, the first year’s property operating income from Jackson Park, the development, budget and source of financing of the Hercules Project, the expected development of 2217 Bryan St. and the Koenig Project, management’s expectation relating to the opportunity to increase property operating income as a result of Sears’s departure, and that all necessary approvals will be obtained for the implementation of the modified Reorganization.. 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 the Trusts’ current beliefs and are based on information currently available to management. 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, uncertainties and other factors including those described below and those discussed in the Trusts’ materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results, performance or achievements of the Trusts to differ materially from the forward-looking statements contained in this press release. Factors that could cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, but not are limited to, 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. Additional risks and uncertainties include, among other things, risks related to: real property ownership, credit risk and tenant concentration; lease rollover risk, interest and other debt-related risk; construction risks; currency risk; liquidity risk, financing credit risk, cyber security risk; environmental risk; co-ownership interest in properties, joint arrangement risks; unit price risk; availability of cash for distributions; ability to access capital markets; dilution; unitholder liability; redemption right risk; risks relating to debentures, tax risk and tax consequences to U.S. holders. The Trusts caution that these lists of factors, risks and uncertainties are 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. Readers are also urged to examine H&R and Finance Trust’s materials filed with the Canadian securities regulatory authorities from time to time as they may contain discussions on risks and uncertainties which could cause the actual results and performance of H&R and Finance Trust to differ materially from the forward-looking statements contained in this press release. Neither Finance Trust nor any of its trustees or officers, assumes any responsibility for the completeness of the information contained in H&R’s materials filed with the Canadian securities regulatory authorities or for any failure of H&R or its trustees or officers to disclose events or facts which may have occurred or which may affect the significance or accuracy of any such information. Neither H&R nor any of its trustees or officers, assumes any responsibility for the completeness of the information contained in Finance Trust’s materials filed with the Canadian securities regulatory authorities or for any failure of Finance Trust or its trustees or officers to disclose events or facts which may have occurred or which may affect the significance or accuracy of any such information. All forward-looking statements in this press release are qualified by these cautionary statements. These forward-looking statements are made as of February 14, 2018 and the Trusts, except as required by applicable Canadian law, assume 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’ annual audited combined 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 non-GAAP measures FFO, Interest Coverage Ratio, Payout Ratio per Stapled Unit, Same-Asset property operating income (cash basis) and Trusts’ proportionate share as well as other non-GAAP 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 as at and for the year ended December 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.