H&R REIT Announces Strong Q1 2018 Results

Toronto, Ontario, May 11, 2018 - H&R Real Estate Investment Trust (“H&R") and H&R Finance Trust (“Finance Trust”) (collectively, the “Trusts”) (TSX: HR.UN) today announced strong combined financial results for the three months ended March 31, 2018.

Thomas Hofstedter, H&R REIT’s President & CEO said “We are pleased with the steady, gradual growth our portfolio continues to deliver, providing stability and flexibility as we continue to recycle capital to increase the REIT’s internal growth profile and take advantage of value creating development opportunities.”

STRATEGY UPDATE

Over the past 22 years, H&R has accumulated a large portfolio of high-quality properties, emphasizing the benefits of scale, quality and diversification. With this large scale and quality, H&R has turned its focus to enhancing its FFO and net asset value (“NAV”) growth profile. Recent examples include H&R’s growing investment in Lantower Residential, its sizable development opportunity portfolio, sales of lower growth assets, and the repurchase of Stapled Units at a significant discount to NAV under the Trusts’ Normal Course Issuer Bid (“NCIB”).

In 2017, H&R made the strategic decision to narrow its focus by streamlining its property portfolio. In November 2017, H&R announced plans to sell all 79 of its wholly-owned U.S. retail properties and, together with its partners, its 12 remaining U.S. industrial properties. During Q4 2017, H&R sold six U.S. industrial properties for U.S. $106.1 million, at H&R’s ownership interest. Management continues to pursue sales of US retail and the remaining U.S. industrial properties and expects to be in a position to announce the sale of most of its U.S. retail assets in the very near future.

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 H&R 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 HIGHLIGHTS

	3 months ended March 31		
	2018	2017	% Change
Rentals from investment properties (millions)	**$298.6**	$293.9	1.6%
Property operating income (millions)	**$154.5**	$155.2	(0.4%)
Same-Asset property operating income (cash basis) - Canada[(1)]	**$133.0**	$131.9	0.8%
Same-Asset property operating income (cash basis) - U.S. in U.S. dollars[(1)]	**$50.1**	$49.4	1.5%
Same-Asset property operating income (cash basis) total in Canadian dollars[(1)]	**$196.1**	$197.0	(0.5%)
Net income	**$63.1**	$110.8	(43.1%)
Funds from Operations (“FFO”) (millions)[(1)]	**$135.7**	$139.3	(2.6%)
FFO per Stapled Unit (basic and diluted)[(1)]	**$0.44**	$0.46	(3.6%)
Distributions per Stapled Unit	**$0.35**	$0.35	-
Payout ratio per Stapled Unit (as a % of FFO)[(1)]	**77.7%**	74.8%	2.9%

(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 (cash basis) and net income to FFO. Readers are encouraged to review the reconciliation in the combined MD&A.

H&R's portfolio generated positive growth in Same-Asset property operating income (cash basis). Despite positive growth in both the Canadian and U.S. portfolios in local currency terms, consolidated Same-Asset property operating income (cash basis) declined 0.5% in Canadian dollars compared to the three months ended March 31, 2017, as Canadian dollar strength reduced the contribution of U.S. growth. The growth in Same-Asset property operating income (cash basis) on a constant currency basis was led by Lantower Residential at 5.6% and Office at 1.7% which accounts for almost half the portfolio by value.

Financial results were impacted by the strengthening of the Canadian dollar compared to the U.S. dollar. The average exchange rate for the three months ended March 31, 2018 was $1.26 for each U.S. $1.00 (March 31, 2017 - $1.32).

Net income decreased by $47.7 million for the three months ended March 31, 2018 compared to the three months ended March 31, 2017. Excluding non-cash items, which consist of fair value adjustments and gain (loss) on foreign exchange and real estate asset sales, net income increased by $0.4 million from $88.8 million at March 31, 2017 to $89.2 million at March 31, 2018.

SUMMARY OF SIGNIFICANT Q1 2018 ACTIVITY

Developments

H&R continues to make significant progress with its value creating development program. "Jackson Park", the 1,871 suite residential development in Long Island City, NY, in which H&R has a 50% ownership interest, is nearing completion. This trophy project is on budget and slightly ahead of the development lease-up schedule with rental rates slightly higher than projected. As at April 30, 2018, 864 units had received certificates of occupancy, 353 leases had been signed and 241 units were occupied. The remaining lease-up is expected to occur throughout 2018 and 2019 and stabilized occupancy is expected to be achieved by Q4 2019. 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, equating to a 6.1% yield on budgeted cost.

The Trusts' Internal Reorganization - Unwinding of Stapled Unit Structure Expected in Q3 2018

The Trusts' previously announced amended reorganization, whereby the Stapled Unit structure will be unwound, remains subject to the receipt by the Trusts of an advance income tax ruling from the Canada Revenue Agency and other customary closing conditions. The reorganization is expected to be implemented by August 2018 and will return H&R to a simplified REIT structure.

Debt and Liquidity Highlights

In January 2018, H&R obtained an additional $200.0 million unsecured revolving operating facility maturing in January 2023. As at March 31, 2018, the Trusts' debt to total assets was 44.8%. As at March 31, 2018, the Trusts had $44.7 million of cash on hand, $600.2 million available under their bank credit facilities and an unencumbered property pool of approximately $3.5 billion.

NCIB

H&R has historically not acquired material amounts of its own units under NCIBs, in part due to the availability of attractive acquisition and development opportunities, combined with limited amounts of excess capital in H&R. However, as management has increased its focus on capital recycling into higher growth assets and higher return investments, a combination of excess capital and a significantly discounted unit price have led to the purchase and cancellation of 3,609,720 Stapled Units at a weighted average price of $20.83 per Stapled Unit, for a total cost of $75.2 million during the three months ended March 31, 2018.

2018 OUTLOOK

H&R's plans for 2018 include significant development projects, dispositions and acquisitions designed to enhance FFO growth and NAV growth per unit, which management expects to influence quarterly and annual financial performance in both 2018 and 2019.

As units in Jackson Park become available for occupancy, IFRS requires H&R to report the associated revenue and expenses in net income and to cease to capitalize costs associated with these units. The largest impact will arise from interest expense which will no longer be allowed to be capitalized. Although the accounting impact of these changes will reduce net income and reported FFO during 2018, these changes will not have a cash impact on H&R. As a result of these accounting changes, management expects a reduction in reported FFO for the balance of fiscal 2018 of approximately U.S. $15.5 million translating into approximately C$0.06 to C$0.07 per Stapled Unit. Details can be found on page 14 of the MD&A. Management expects Jackson Park to deliver NAV growth through the completion of this development, and once stabilized to contribute to higher FFO and NAV growth over time.

Management expects to be in a position to announce the sale of most of its U.S. retail assets in the very near future. Proceeds from the asset sales will be used to repay debt, fund Lantower Residential acquisitions and repurchase Stapled Units under the Trusts' NCIB.

Management expects positive Same Asset property operating income (cash basis) growth led by Lantower Residential in 2018 and 2019 and from Primaris in 2019.

Monthly Distribution Declared

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

	Distribution/Stapled Unit	Annualized	Record date	Distribution date
May 2018	$0.11500	$1.38	May 16, 2018	May 31, 2018
June 2018	$0.11500	$1.38	June 15, 2018	June 29, 2018

Conference Call

Management will host a conference call to discuss the financial results for the Trusts on Monday, May 14, 2018 at 3:00 p.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 9084869#. The telephone replay will be available until Monday, May 21, 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 one of Canada's largest fully internalized real estate investment trusts with total assets of approximately $14.5 billion at March 31, 2018. H&R REIT 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 news 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 "Summary of Significant Q1 2018 Activity", "Strategy Update" and "2018 Outlook" 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 the statements with respect to the streamlining of H&R's operations, expectations for Same Asset property operations income (cash basis) from Lantower Residential and Primaris, H&R's intentions and expectations regarding, and timing of, future U.S. industrial and U.S. retail dispositions, including, without limitation, the use of proceeds of such dispositions, H&R's expectations with respect to H&R's development properties, including Jackson Park, the expected interest expense and lease-up of Jackson Park, the expected stabilized property operating income from Jackson Park, the anticipated reduction in net income and reported FFO in 2018 resulting from Jackson Park, expected future NAV growth and contribution to FFO from Jackson Park, that all necessary conditions will be met for the completion of the amended reorganization and the expected timing for implementation of the amended reorganization, H&R's plans for 2018, including significant development projects, dispositions and acquisitions and management's belief that these transactions will enhance per unit FFO and NAV growth, management's belief that H&R has sufficient funds for future commitments and management's expectation to be able to meet all of the Trusts' ongoing obligations. 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 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 news 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 news 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 news 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 news release are qualified by these cautionary statements. These forward-looking statements are made as of May 11, 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, Debt to total assets, 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 for the three months ended March 31, 2018, 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.