



H&R REIT Announces Strong Q2 2018 Results

Toronto, Ontario, Aug 9, 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 and six months ended June 30, 2018.

STRATEGY UPDATE

H&R's 2017 annual report included a letter to shareholders identifying H&R's strategic objectives across governance, assets and investment profile. The following Q2 2018 transactions demonstrate H&R's significant progress in achieving these objectives:

- Sold 63 lower growth U.S. retail assets for U.S. \$633.0 million;
- Sold H&R's ownership interest in F1RST Tower in Calgary, AB for \$53.5 million;
- Reinvested sales proceeds in high growth assets by acquiring U.S. \$133.9 million of multi-family assets, with an additional U.S. \$122.3 million under firm contract;
- Purchased and cancelled 3.0 million Stapled Units for \$61.1 million; and
- Advanced and expanded the development pipeline to \$1.2 billion of properties under development.

Thomas Hofstedter, H&R REIT's President & CEO said "We are pleased to report continued strong financial and operating results this quarter, reflecting our high quality portfolio. From a strategic perspective, Q2 2018 was quite productive, with significant asset sales completed in accordance with our goal of streamlining our portfolio and enhancing our growth profile. We also expect to collapse our stapled unit structure in the next month, simplifying our capital structure and further enhancing H&R's profile."

FINANCIAL HIGHLIGHTS

	3 months ended June 30, 2018			6 months ended June 30, 2018		
	2018	2017	% Change	2018	2017	% Change
Rentals from investment properties (millions)	\$294.3	\$287.0	2.5%	\$592.9	\$580.8	2.1%
Property operating income (millions)	\$201.1	\$191.6	4.9%	\$355.5	\$346.7	2.5%
Same-asset property operating income (cash basis) - Canada ⁽¹⁾ (millions)	\$132.8	\$131.9	0.7%	\$264.9	\$262.9	0.8%
Same-asset property operating income (cash basis) - U.S. in U.S. dollars ⁽¹⁾ (millions)	\$37.5	\$36.8	1.8%	\$75.3	\$73.9	2.0%
Same-asset property operating income (cash basis) total in Canadian dollars ⁽¹⁾ (millions)	\$181.6	\$181.3	0.1%	\$361.4	\$361.1	0.1%
Net income (millions)	\$108.2	\$153.1	(29.3%)	\$171.3	\$263.9	(35.1%)
Funds from Operations ("FFO") (millions) ⁽¹⁾	\$131.9	\$142.4	(7.4%)	\$267.6	\$281.7	(5.0%)
FFO per Stapled Unit (basic and diluted) ⁽¹⁾	\$0.44	\$0.47	(6.4%)	\$0.88	\$0.93	(5.4%)
Distributions per Stapled Unit	\$0.35	\$0.35	-	\$0.69	\$0.69	-
Payout ratio per Stapled Unit (as a % of FFO) ⁽¹⁾	79.1%	73.6%	5.5%	78.4%	74.2%	4.2%

⁽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 property operating income and same-asset property operating income (cash basis) despite the disruption of Sears closures in H&R's Primaris portfolio and the strengthening of the Canadian dollar which decreased the income contribution from H&R's U.S. portfolio. The average exchange rate for the three months ended June 30, 2018 was \$1.30 for each U.S. \$1.00 (June 30, 2017 - \$1.34) and \$1.28 for each U.S. \$1.00 for the six months ended June 30, 2018 (June 30, 2017 - \$1.33).



H&R's office portfolio generated \$100.0 million of property operating income in Q2 2018, down 3.3% from Q2 2017 due to the sale of F1RST Tower in Calgary, and the effect of a strengthening Canadian dollar, partially offset by 0.5% growth in same asset property operating income on a local currency basis.

H&R's Primaris portfolio generated \$38.5 million of property operating income in Q2 2018, up 1.8% from Q2 2017, despite occupancy decreasing from 90% at June 30, 2017 to 82.8% at June 30, 2018. Notwithstanding this sharp decline in occupancy, the portfolio delivered 1.3% same asset property operating income growth reflecting the relative low rents Sears had been paying on the vacated space in 2017, the commencement of new leases on the previous Target stores as well as the strength of the remainder of H&R's Primaris tenant base.

H&R's growing Lantower Residential portfolio, now the third largest segment, generated \$17.9 million of property operating income in Q2 2018, up 40.2% from Q2 2017 primarily due to acquisitions. In U.S. dollars, Lantower Residential's same-asset property operating income (cash basis) increased by 4.0% and 4.8%, respectively, for the three and six months ended June 30, 2018 compared to the respective 2017 periods.

Net income before income taxes decreased by \$65.7 million and \$123.0 million for the three and six months ended June 30, 2018 compared to the respective 2017 periods, primarily due to non-cash items. Excluding non-cash items, net income before income taxes decreased by \$10.6 million from \$150.4 million in Q2 2017 to \$139.8 million in Q2 2018 and by \$19.9 million from \$250.3 million for the six months ended June 30, 2017 to \$230.4 million for the six months ended June 30, 2018. In addition, net income from equity accounted investments decreased by \$19.4 million and \$32.9 million for the three and six months ended June 30, 2018 compared to the respective 2017 periods, primarily due to the change in fair value adjustments on real estate assets and the sale of nine U.S. industrial properties in 2017.

Included in FFO at the Trusts' proportionate share are the following items which can be a source of variances between periods:

(in thousands of Canadian dollars)	Three months ended June 30			Six months ended June 30		
	2018	2017	Change	2018	2017	Change
Lease termination payments	\$690	\$357	\$333	\$1,482	\$447	\$1,035
Jackson Park FFO	236	3,576	(3,340)	2,565	7,094	(4,529)
Other ⁽¹⁾	-	3,295	(3,295)	-	3,295	(3,295)
	\$926	\$7,228	(\$6,302)	\$4,047	\$10,836	(\$6,789)

⁽¹⁾ For complete details please see page [32] of combined MD&A for the three and six months ended June 30, 2018, available under H&R's profile on SEDAR (www.sedar.com) and posted on H&R's website at www.hr-reit.com.

Excluding the above items, FFO would have been \$131.0 million for the three months ended June 30, 2018 (Q2 2017 - \$135.2 million) and \$0.43 per basic Stapled Unit (Q2 2017 - \$0.44 per basic Stapled Unit). For the six months ended June 30, 2018, FFO would have been \$263.6 million (Q2 2017 - \$270.8 million) and \$0.87 per basic Stapled Unit (Q2 2017 - \$0.89 per basic Stapled Unit).

SUMMARY OF SIGNIFICANT Q2 2018 ACTIVITY

Retail

In June 2018, H&R sold 63 U.S. retail properties, totaling 4,235,943 square feet for U.S. \$633.0 million and realized a loss on sale of U.S. \$19.6 million which was primarily due to mortgage prepayment penalties and closing costs. Upon closing, H&R repaid 48 mortgages totaling U.S. \$205.3 million, repaid bank debt of approximately U.S. \$152.4 million and funded Lantower Residential acquisitions of U.S. \$133.9 million. The balance of the proceeds of U.S. \$121.8 million was held in escrow as at June 30, 2018 and is intended to be used for future acquisitions.



Office

In April 2018, H&R sold its 50% ownership interest in F1RST Tower in Calgary, AB (classified as an asset held for sale as at March 31, 2018) for gross proceeds of \$53.5 million and repaid the associated mortgage of \$40.0 million, at H&R's ownership interest. As at June 30, 2018, H&R's Alberta office portfolio consists of four single tenant properties, all of which are fully leased to investment grade tenants, with a weighted average remaining lease term to maturity of 17.9 years.

Primaris

Primaris occupancy as at June 30, 2018 was 82.8%. Excluding 675,613 square feet at H&R's ownership interest previously occupied by Sears that is vacant, occupancy as at June 30, 2018 for the remainder of the Primaris portfolio was 91.3%. The Primaris portfolio generated \$38.5 million of property operating income in Q2 2018, up 1.8% from Q2 2017. Same-Asset property operating income (cash basis) from the Primaris segment increased by 1.3% and 1.0%, respectively, for the three and six months ended June 30, 2018 compared to the respective 2017 periods.

Lantower Residential

In June 2018, Lantower Residential acquired 305 multi-family units at 504 E. Pettigrew St., in Durham, NC ("Bullhouse") at a purchase price, before transaction costs, of approximately U.S. \$76.3 million or approximately U.S. \$250,000 per multi-family unit. The property was built in 2018 and occupancy was 40.3% upon acquisition and 47.9% as at June 30, 2018. Stabilized occupancy is expected to be achieved by March 2019.

In June 2018, Lantower Residential acquired 322 multi-family units at 15175 Integra Junction in Odessa, FL ("Asturia") at a purchase price, before transaction costs, of approximately U.S. \$57.7 million or approximately U.S. \$179,100 per multi-family unit. The property was built in 2017 and occupancy was 86.3% upon acquisition and 88.5% as at June 30, 2018.

As at June 30, 2018, Lantower Residential had a portfolio that comprises 19 properties in the U.S. with an average age of 7.5 years, consisting of 6,260 multi-family units. Upon completion of properties currently under construction the portfolio will consist of 7,779 multi-family units, at H&R's ownership interest.

Developments

H&R's development pipeline is a key element to delivering growth in Net Asset Value ("NAV") and FFO per unit over time. H&R's large scale, low leverage and high-credit-quality tenant base allows H&R to pursue large format development opportunities not available to smaller entities, while maintaining appropriate risk management exposure. H&R continues to make significant progress with its value-creating development program, consisting of a well-laddered pipeline of projects, the largest of which (Jackson Park) is in lease-up. During Q2 2018, H&R converted mortgage receivable investments into ownership, formally adding two significant development projects to the pipeline.

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. As at June 30, 2018, 1,158 units had received certificates of occupancy, 646 leases had been entered into and 435 units were occupied. The remaining lease-up is expected to occur during the balance of 2018 and 2019 with stabilized occupancy expected to be achieved during Q4 2019. Upon stabilized occupancy of all three towers, the first full year's property operating income at H&R's ownership interest is projected to be U.S. \$35.4 million, equating to a 6.1% yield on budgeted cost of U.S. \$580.7 million.

In June 2018, H&R converted its mortgage receivable secured against the urban in-fill development site in Miami, FL, known as River Landing into a wholly-owned property under development. River Landing fronts directly on the Miami River, is adjacent to the Health District and is in close proximity to downtown Miami. River Landing is a mixed-use development including approximately 345,000 square feet of retail space, approximately 136,000 square feet of office space and 529 multi-family units. Construction is underway and is expected to be completed in Q1 2020. The total cost of the project is expected to be U.S. \$424.8 million and as at June 30, 2018, approximately U.S. \$117.4 million had been invested in the



development. Upon stabilized occupancy, the first full year's property operating income is projected to be U.S. \$24.4 million, equating to a 5.7% yield on budgeted cost.

In June 2018, H&R purchased a 100% ownership interest in 20.3 acres of land in Prosper, TX, a suburb of Dallas ("Prosper") for U.S. \$14.6 million, which was previously held as a mortgage receivable. The location along Dallas North Tollway enables quick access to the acclaimed Legacy West Development, home to major corporate employers including the regional headquarters of Toyota North America, Fedex, Liberty Mutual Regional and JP Morgan Chase. The site is expected to consist of 1,000 multi-family units. Construction on Phase 1 which will consist of 330 multi-family units is expected to commence in Q1 2019.

For a complete list of H&R's current development projects please see page 14 of the combined MD&A for the three and six months ended June 30, 2018, available under H&R's profile on SEDAR (www.sedar.com) and posted on H&R's website at www.hr-reit.com.

Debt and Liquidity Highlights

In June 2018, H&R extended its \$300.0 million Primaris secured operating facility until July 1, 2020.

In June 2018, H&R repaid all of the 3.34% Series G senior debentures upon maturity for a cash payment of \$175.0 million. In addition to repaying the 48 mortgages totalling \$266.9 million (U.S. \$205.3 million) on the U.S. retail assets that were sold in June 2018, H&R also repaid five other mortgages totalling \$62.1 million. Together, these mortgages had a weighted average interest rate of 4.0%.

During Q2 2018, H&R secured two new mortgages totalling \$123.6 million at a weighted average interest rate of 3.8% for an average term of 10 years. The weighted average interest rate on mortgages and debentures payable as at June 30, 2018 was 3.9% with an average term to maturity of 4.6 years.

Normal Course Issuer Bid ("NCIB")

With an increased focus on capital recycling into investments with higher risk-adjusted returns and the availability of excess capital generated from asset dispositions, H&R has taken advantage of the opportunity to acquire Stapled Units through its NCIB at what management believes to be significantly discounted trading prices. During the three months ended June 30, 2018, the Trusts purchased for cancellation 2,999,700 Stapled Units at a weighted average price of \$20.36 per Stapled Unit, for a total amount of \$61.1 million. During the six months ended June 30, 2018, the Trusts purchased and cancelled 6,609,420 Stapled Units at a weighted average price of \$20.62 per Stapled Unit, for a total amount of \$136.3 million.

OUTLOOK

H&R has recently undertaken a number of significant initiatives to enhance the REIT's internal growth profile, including acquisitions, dispositions, developments and the repurchase and cancellation of Stapled Units. Mr. Hofstedter, H&R REIT's President & CEO said "We are excited about the progress we have made on enhancing the REIT's internal growth profile, and eagerly look forward to seeing the positive effects of our recent initiatives in the financial and operating results from 2019 and onwards."

FINANCIAL OUTLOOK

While the intended effect of these initiatives is to enhance same-asset property operating income once implemented, we expect these transactions and development lease-up activities to have notable impacts on financial results in the near term.

The sale of H&R's 63 U.S. retail assets will reduce net income and FFO during the remainder of 2018. These properties incurred a net loss of U.S. \$13.2 million for the three months ended June 30, 2018. Excluding the loss from the sale of assets, the contribution to net income and FFO from these properties was U.S. \$6.4 million for the three months ended June 30, 2018.



As previously reported, when multi-family 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 capitalizing 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 continue to reduce net income and reported FFO during 2018, these changes will not have a cash impact on H&R.

The following table presents net income and FFO for Jackson Park including actual results for the six months ended June 30, 2018 as well as projections through 2020:

Jackson Park (at H&R's Ownership Interest)	(Actual)	(Actual)	(Projected)	(Projected)	(Projected)
(in thousands of U.S. dollars)	Q1 2018	Q2 2018	Q3 & Q4 2018	2019	2020
Property operating income	(\$588)	(\$566)	\$2,587	\$29,000	\$35,400
Finance cost - operations	(100)	(865)	(6,240)	(16,870)	(17,783)
Fair value adjustments	2,153	819	-	-	-
Net income (loss)	1,465	(612)	(3,653)	12,130	17,617
Fair value adjustments	(2,153)	(819)	-	-	-
Notional interest capitalization	2,537	1,587	1,490	130	-
FFO	\$1,849	\$156	(\$2,163)	\$12,260	\$17,617

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 positive overall property operating income growth led by Lantower Residential in 2018 and 2019. As at June 30, 2018, Lantower Residential had three properties with a weighted average occupancy rate of 71.3% that are in the lease-up phase. All three properties are expected to be stabilized by March 2019 and are expected to further contribute approximately U.S. \$7.1 million to property operating income on an annualized basis.

U.S. \$111.6 million of the restricted cash balance as at June 30, 2018 is intended to be used to acquire two additional Lantower Residential properties currently under contract for U.S. \$122.3 million, which are expected to contribute property operating income of approximately U.S. \$6.2 million on an annualized basis once stabilized.

Management expects positive rental growth from Primaris over the next several quarters as the completion of the lease-up of the former Target and Sears space should yield approximately \$9.6 million of additional annual base rent.

The Trusts' previously announced amended reorganization, whereby the Stapled Unit structure will be unwound, is expected to be implemented in August 2018 and will return H&R to a typical REIT capital structure.

Monthly Distribution Declared

The Trusts today declared a distribution for the month of August scheduled as follows:

	Distribution/Stapled Unit	Annualized	Record date	Distribution date
August 2018	\$0.11500	\$1.38	August 17, 2018	August 31, 2018

The distribution will be paid in such amount regardless of the date of implementation of the amended reorganization described above.

Conference Call

Management will host a conference call to discuss the financial results for the Trusts on Thursday, August 9, 2018 at 4:00 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 5358956 followed by the pound key. The telephone replay will be available until Thursday, August 16, 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 \$14.2 billion at June 30, 2018. H&R REIT has ownership interests in a North American portfolio of high quality office, retail, industrial and residential properties comprising over 41 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) 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 made under the headings "Summary of Significant Q2 2018 Activity" and "Outlook" including with respect to the streamlining of H&R's operations, H&R's plans for 2018, including significant development projects, dispositions, acquisitions and the repurchase and cancellation of Stapled Units, and management's belief that these transactions will enhance per unit FFO and NAV growth and have notable impacts on financial results in the near term, expectations for property operating income or rental growth from Lantower Residential and Primaris, the intended use of restricted cash from the sale of H&R's U.S. retail properties, 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 and lease-up of Jackson Park, the expected stabilized property operating income from Jackson Park, and the anticipated projected amounts of net income and FFO in 2018-2020 resulting from Jackson Park, expected future NAV growth from Jackson Park, expectations regarding the development of River Landing, and Prosper, and the expected timing for implementation of the Amended 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 risks and uncertainties 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, 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 the Trusts' 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 August 9, 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 and six months ended June 30, 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.