H&R REIT Announces Fourth Quarter and 2018 Annual Results

Toronto, Ontario, February 14, 2019 - H&R Real Estate Investment Trust ("H&R" or "the REIT") (TSX: HR.UN) is pleased to announce its financial results for the year ended December 31, 2018.

During 2018, H&R actively pursued its capital reallocation program through property dispositions, acquisitions, developments and the repurchase and cancellation of REIT units ("Units"). The objectives of this program include 1) simplifying H&R by focusing on fewer property types and increasing the contributions from its core portfolio; 2) making H&R easier for investors to understand, analyze and value; and 3) enhancing the REIT's internal growth profile. The following 2018 transactions highlight H&R's progress in achieving the strategic objectives identified in its letter to unitholders included in H&R's 2017 Annual Report:

- 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;
- Sold H&R's ownership interest in five non-core Canadian industrial assets and two non-core Canadian retail assets for $72.1 million;
- Reinvested sales proceeds in higher growth assets by acquiring residential assets in the U.S. for U.S. $340.6 million;
- Further advanced and expanded the development pipeline to $1.5 billion of properties under development;
- Purchased and cancelled 6.6 million Units at an average price of $20.62 per Unit for a total cost of $136.3 million; and
- Eliminated H&R Finance Trust ("Finance Trust") and the Stapled Unit structure to return H&R to a single trust in line with industry peers.

While the above noted transactions have reduced property operating income and Funds from Operations ("FFO") in 2018, due to the lag between property sales and the reinvestment of proceeds as well as the lower initial yields on acquisitions relative to sold properties, net asset value ("NAV") per Unit has increased by 2.9%. H&R looks forward to benefitting from the capital reallocation program, which is expected to result in an enhanced growth profile going forward.

FINANCIAL HIGHLIGHTS

	3 months ended December 31, 2018			Year ended December 31, 2018		
	2018	2017	% Change	**2018**	2017	% Change
Rentals from investment properties (millions)	**$297.4**	$298.0	-0.2%	**$1,176.6**	$1,168.5	+0.7%
Property operating income (millions)	**$192.0**	$199.4	-3.7%	**$733.9**	$741.4	-1.0%
Same-Asset property operating income (cash basis) - Canada[(1)] (millions)	**$137.5**	$134.5	+2.2%	**$535.6**	$528.3	+1.4%
Same-Asset property operating income (cash basis) - U.S. in U.S. dollars[(1)] (millions)	**$37.2**	$36.3	+2.4%	**$150.2**	$149.1	+0.7%
Same-Asset property operating income (cash basis) total in Canadian dollars[(1)] (millions)	**$187.0**	$180.6	+3.5%	**$730.8**	$722.1	+1.2%
Net income before income taxes	**$98.5**	$262.5	-62.5%	**$378.1**	$629.6	-39.9%
Net income (millions)	**$61.1**	$325.2	-81.2%	**$337.9**	$667.9	-49.4%
FFO (millions)[(1)]	**$130.5**	$137.4	-5.1%	**$525.7**	$560.1	-6.1%
FFO per Unit (basic)[(1)]	**$0.433**	$0.448	-3.3%	**$1.737**	$1.840	-5.6%
Distributions per Unit	**$0.345**	$0.345	0.0%	**$1.380**	$1.380	0.0%
Payout ratio per Unit (as a % of FFO)[(1)]	**79.7%**	77.0%	+2.7%	**79.4%**	75.0%	+4.4%
NAV per Unit as at December 31[(1)]	**$26.30**	$25.57	+2.9%	**$26.30**	$25.57	+2.9%

(1) These are non-GAAP measures. See "Non-GAAP Financial Measures" in this press release. H&R's management discussion and analysis ("MD&A") for the year ended December 31, 2018 includes a reconciliation of property operating income to Same-Asset property operating income (cash basis) and net income to FFO as well as the calculation of NAV per Unit. Readers are encouraged to review the reconciliations and calculation in H&R's MD&A.

Net income before income taxes decreased by $164.1 million and $251.5 million for the three months and year ended December 31, 2018 compared to the respective 2017 periods, primarily due to non-cash items including fair value adjustments, gain (loss) on sale of real estate assets and foreign exchange. Excluding these items, net income before income taxes increased by $21.1 million from $246.8 million in Q4 2017 to $267.9 million in Q4 2018 and by $0.2 million from $626.4 million for the year ended December 31, 2017 to $626.6 million for the year ended December 31, 2018. The increase of $21.1 million was primarily due to net income from equity accounted investments increasing by $29.8 million for Q4 2018 compared to the respective 2017 period.

SUMMARY OF SIGNIFICANT Q4 2018 ACTIVITY

Developments

Jackson Park, the 1,871 unit luxury residential rental development in Long Island City, NY, in which H&R has a 50% ownership interest, is nearing completion and expected to be transferred to investment properties in Q1 2019. H&R's trophy project is on budget and slightly ahead of the development lease-up schedule. As at December 31, 2018, 1,274 leases had been entered into and 1,231 units were occupied. The remaining lease-up is expected to occur during the balance of 2019 with stabilized occupancy expected to be achieved during Q3 2019. Upon stabilization, the first full year's property operating income at H&R's ownership interest is projected to be U.S. $35.9 million, equating to a 6.2% yield on budgeted cost of U.S. $580.7 million. Jackson Park, at the 100% level, has been valued at approximately U.S. $1.6 billion as at December 31, 2018 compared to costs to date of approximately U.S. $1.1 billion, resulting in a fair value increase of U.S. $522.6 million since the start of the project.

The following table presents net income and FFO for Jackson Park for the three months and year ended December 31, 2018 as well as projections through 2020:

(H&R's ownership interest)	Q4 2018 (Actual)	YTD Dec 31, 2018 (Actual)	Annual 2019 (Projected)	Annual 2020 (Projected)
(in thousands of U.S. dollars)				
Property operating income	$2,554	$1,988	$27,004	$35,921
Finance cost - operations	(2,999)	(5,475)	(13,191)	(13,600)
Fair value adjustment on financial instruments	(1,699)	1,549	-	-
Fair value adjustment on real estate assets	107,718	107,718	-	-
Net income	**105,574**	**105,780**	**13,813**	**22,321**
Fair value adjustment on financial instruments	1,699	(1,549)	-	-
Fair value adjustment on real estate assets	(107,718)	(107,718)	-	-
Notional interest capitalization	601	5,777	232	-
FFO	**$156**	**$2,290**	**$14,045**	**$22,321**

For Q4 2018, net income from Jackson Park exceeded the projection as at September 30, 2018 primarily due to a fair value increase to the property of U.S. $107.7 million at H&R's ownership interest which was supported by an independent third party appraisal. FFO for Q4 2018 was lower than projected as at September 30, 2018 by $0.4 million primarily due to higher initial operating expenses.

In April 2018, H&R acquired a 33.3% non-managing ownership interest in a residential development site zoned for 263 residential units for U.S. $8.7 million at the 100% level located in Seattle, WA. This development, known as **"Esterra Park",** is part of a larger master planned community and is adjacent to Microsoft, Inc.'s headquarters, bus transit and future light rail which is expected to be completed in 2021. Construction commenced in November 2018 and the total budget is approximately U.S. $95.7 million at the 100% level. As at December 31, 2018, H&R's investment was approximately U.S $6.2 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, with approximately 1,000 feet of waterfront on the Miami River, is adjacent to the Health District and is two miles from downtown Miami. River Landing is a mixed-use development including approximately 346,000 square feet of retail space, approximately 136,000 square feet of office space and 529 residential rental units. To date, 66.0% of the retail space has been leased with a further 10.1% under executed non-binding letters of intent. Construction is underway with occupancy scheduled to commence in Q2 2020. The total cost of the project is expected to be U.S. $424.8 million, and as at December 31, 2018, approximately U.S. $196.0 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. 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, Federal Express, Inc., Liberty Mutual Regional and JP Morgan Chase. The site is expected to consist of 1,000 residential rental units.

In July 2018, H&R acquired a 30.9% non-managing ownership interest in the development of a 315 unit luxury residential rental tower, with 6,450 square feet of retail space for a total of U.S. $15.0 million, at the 100% level. Located in Long Beach, CA **“Shoreline Gateway”** will become the tallest residential tower in Long Beach with 35 floors enjoying views overlooking the Pacific Ocean. Construction commenced in November 2018 and the total budget is approximately U.S. $227.1 million at the 100% level. As at December 31, 2018, H&R’s investment was approximately U.S. $6.4 million.

In December 2018, H&R acquired a 100% interest in approximately 3.3 acres of land in downtown Dallas, TX (**“2214 Bryan St.”**) for approximately U.S. $23.5 million. The site was purchased for the future development of luxury residential rental units. The location benefits from great connectivity as the Pearl/Arts District DART (public rail) station is adjacent to the site.

<u>Retail</u>

In June 2018, H&R sold 63 lower-growth 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. H&R used the proceeds from the disposition to repay 48 mortgages totaling U.S. $205.3 million, repay bank debt of approximately U.S. $152.4 million and fund Lantower Residential acquisitions of U.S. $255.7 million. The sale of H&R’s 63 U.S. retail assets reduced net income and FFO during the remainder of 2018.

<u>Office</u>

Property operating income and Same-Asset property operating income (cash basis) from the Office segment increased by 0.2% and 1.8%, respectively, for the year ended December 31, 2018 compared to the respective 2017 period, primarily due to an increase in occupancy, contractual rental escalations and renewed leases at higher rents from H&R’s Ontario Office properties. The Office portfolio is leased on a long-term basis to creditworthy tenants, with 81.2% of Office revenue from tenants with investment grade ratings.

In April 2018, H&R sold its 50% ownership interest in F1RST Tower in Calgary, AB for gross proceeds of $53.5 million and repaid the associated mortgage of $40.0 million at H&R’s ownership interest. As at December 31, 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 17.4 years.

Primaris

Property operating income and Same-Asset property operating income (cash basis) from the Primaris segment grew by 0.9% and 0.8%, respectively, for the year ended December 31, 2018 compared to the respective 2017 period, despite the decline in occupancy from 92.6% at December 31, 2017 to 84.9% at December 31, 2018. This reflects the relative low rents Sears had been paying on the vacated space in 2017, the commencement of new leases on the previous Target space as well as the strength of the remainder of the tenant base.

Redevelopment of the former Sears stores has commenced, however, since each store is part of an existing property, they continue to be classified as investment properties. During the three months and year ended December 31, 2018, H&R capitalized $0.5 million and $1.1 million, respectively, of property operating costs and $1.0 million and $2.8 million, respectively, of finance costs attributable to the former Target and Sears space. Management expects positive rental growth from Primaris as the lease-up of the former Target and Sears space is expected to generate approximately $1.0 million, $5.4 million and $3.0 million of additional annual base rent in 2019, 2020 and 2021, respectively.

In August 2018, Primaris sold a 44,158 square foot multi-tenant retail property known as Sherwood Park Plaza in Sherwood Park, AB for $13.3 million.

Lantower Residential

Property operating income and Same-Asset property operating income (cash basis) from Lantower Residential, now H&R's third largest segment, grew by 60.2% and 4.4%, respectively, for the year ended December 31, 2018 compared to the respective 2017 period. The growth in property operating income was primarily due to 11 property acquisitions during 2017 and 2018. Growth in Same-Asset property operating income (cash basis) was primarily due to rental growth.

During 2018, Lantower Residential acquired five properties totalling 1,638 residential units for an aggregate purchase price of U.S. $340.6 million. As at December 31, 2018, Lantower Residential has a portfolio of 22 properties comprising 7,271 residential units. Eleven properties are in Texas, seven are in Florida and four are in North Carolina.

In December 2018, Apple Inc. announced it will be building a new 133-acre campus in Austin, TX to accommodate an additional 5,000 jobs with the capacity to grow to 15,000 jobs. This campus is located within a six-mile radius of Lantower Residential's four properties in Austin, TX.

As at December 31, 2018, Lantower Residential had four properties in lease-up with a weighted average occupancy rate of 67.5%. During the three months and year ended December 31, 2018, these properties contributed U.S. $1.2 million and U.S. $2.0 million, respectively, to property operating income. All four properties are targeted for stabilization by Q4 2019 and are expected to contribute an additional U.S. $7.8 million to property operating income in 2019.

Industrial

During 2018, H&R acquired ownership interests in two Canadian industrial properties for a total purchase price of $17.3 million at H&R's ownership interest and H&R sold interests in five Canadian industrial properties for total proceeds of $51.3 million at H&R's ownership interest.

Debt Highlights and Liquidity

As at December 31, 2018, debt to total assets was 44.6% unchanged from December 31, 2017.

As at December 31, 2018, H&R had $768.2 million of unused borrowing capacity available under its lines of credit and $3.4 billion of unencumbered assets.

Unwinding of H&R's Stapled Unit Structure

On August 31, 2018, the REIT and Finance Trust effected a Reorganization by way of plan of arrangement involving the REIT, Finance Trust and certain of the REIT's subsidiaries resulting in, among other things, the termination of Finance Trust. Accordingly, H&R's Units are no longer stapled to units of Finance Trust with unitholders now only holding H&R Units, thereby returning H&R to a single trust in line with industry peers.

Normal Course Issuer Bid ("NCIB")

With an increased focus on recycling capital 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 Units through its NCIB at what management believes to be significantly discounted trading prices. During the year ended December 31, 2018, the Trusts purchased and cancelled 6,609,420 Units at a weighted average price of $20.62 per Unit, for a total amount of $136.3 million.

Taxation of Distributions

33.3% of 2018 distributions (including those from Finance Trust) will be treated as a return of capital and 1.7% will be designated as taxable capital gains. For taxable Canadian unitholders, 35.0% (2017 – 39.7%) of the distributions will not be subject to current income taxes.

Monthly Distribution Declared

H&R previously declared a distribution for the month of February and today declared a distribution for the month of March scheduled as follows:

	Distribution/Unit	Annualized	Record date	Distribution date
March 2019	$0.115	$1.380	March 15, 2019	March 29, 2019

Conference Call and Webcast

Management will host a conference call to discuss the financial results for the REIT on Thursday, February 14, 2019 at 4:30 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 4382309 followed by the pound key. The telephone replay will be available until Thursday, February 21, 2019 at midnight.

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.

The investor presentation is available on H&R's website at www.hr-reit.com/Investor-Relations/Investorinformation.aspx.

About H&R REIT

H&R REIT is one of Canada's largest real estate investment trusts with total assets of approximately $14.7 billion at December 31, 2018. H&R REIT has ownership interests in a North American portfolio of high quality office, retail, industrial and residential properties comprising over 42 million square feet.

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 relating to H&R's objectives, strategies to achieve those objectives, H&R's 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 heading "Summary of Significant Q4 2018 Activity", including with respect to the streamlining of H&R's operations, H&R's future plans, including significant development projects, dispositions, acquisitions and the repurchase and cancellation of Units, and management's expectations that the reinvestment of sale proceeds and H&R's enhanced growth profile will result in positive property operating income and FFO growth in 2019 and beyond, expectations for property operating income or rental growth from Lantower Residential and Primaris, H&R's expectation with respect to the activities of its 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 2019-2020 resulting from Jackson Park, the total cost of Esterra Park and Shoreline Gateway, the expected total cost and stabilized property operating income from River Landing, the expected annual base rent from former Sears and Target space, management's expectations regarding future distributions, management's belief that H&R has sufficient funds for future commitments and management's expectation to be able to meet all of its ongoing obligations and to finance short-term development commitments through its general operating facilities. 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 H&R's 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 H&R's estimates and assumptions that are subject to risks, uncertainties and other factors including those risks and uncertainties described in H&R's MD&A under "Risks and Uncertainties" and those discussed in H&R's materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results, performance or achievements of H&R 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. H&R cautions 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 H&R believes 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'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 to differ materially from the forward-looking statements contained in this news release. None of the former trustees or officers of Finance Trust, 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 former trustees or officers to disclose events or facts which may have occurred or which may have affected 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 February 14, 2019 and the REIT, except as required by applicable Canadian 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 REIT's Financial Statements are prepared in accordance with IFRS. H&R's 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 NAV, FFO, Payout Ratio per Unit, Same-Asset property operating income (cash basis) and the REIT's 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, H&R's 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. H&R use these measures to better assess H&R's 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 H&R's MD&A as at and for the year ended December 31, 2018, available at www.hr-reit.com and on www.sedar.com.

Additional information regarding H&R 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.