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# H&R REIT Announces First Quarter 2019 Results

Toronto, Ontario, May 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 three months ended March 31, 2019.

## FINANCIAL HIGHLIGHTS

| | 3 months ended March 31 | | |
|---|---|---|---|
| | **2019** | 2018 | % Change |
| Rentals from investment properties (millions) | **$298.7** | $298.6 | 0.0% |
| Property operating income (millions) | **$153.8** | $154.5 | -0.4% |
| Same-Asset property operating income (cash basis) - Canada(1) (millions) | **$138.1** | $132.4 | +4.3% |
| Same-Asset property operating income (cash basis) - U.S. in U.S. dollars(1) (millions) | **$42.8** | $41.7 | +2.8% |
| Same-Asset property operating income (cash basis) total in Canadian dollars(1) (millions) | **$195.1** | $184.9 | +5.5% |
| Net income before income taxes (millions) | **$0.4** | $64.5 | -99.4% |
| Net income (loss) (millions) | **($2.0)** | $63.1 | -103.1% |
| FFO (millions)(1) | **$137.0** | $135.7 | +0.9% |
| FFO per Unit (basic)(1) | **$0.455** | $0.444 | +2.5% |
| Distributions per Unit | **$0.345** | $0.345 | 0.0% |
| Payout ratio per Unit (as a % of FFO)(1) | **75.8%** | 77.7% | -1.9% |
| NAV per Unit as at March 31(1) | **$25.89** | $25.68 | +0.8% |

(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 three months ended March 31, 2019 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.

H&R has been actively pursuing its capital reallocation program through property dispositions to fund value-creating developments, expand its residential portfolio in the United States and strengthen its balance sheet. Between January 1, 2018 and March 31, 2019, H&R sold approximately $1.1 billion of assets while acquiring approximately $460 million of properties. Notwithstanding these transactions, rentals from investment properties and property operating income in Q1 2019 were in line with Q1 2018. In addition, Same-Asset property operating income (cash basis) in each of Canada and the U.S. has increased over these respective periods, with a total increase of 5.5%.

Net income before income taxes decreased by $64.0 million for the three months ended March 31, 2019 compared to the respective 2018 period, 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 $4.3 million from $89.2 million in Q1 2018 to $93.5 million in Q1 2019. Included in net income and FFO for the three months ended March 31, 2019 were lease termination fees received of $6.0 million compared to $0.8 million received in Q1 2018.

## SUMMARY OF SIGNIFICANT Q1 2019 ACTIVITY

### Developments

Management believes that H&R's development pipeline is an important driver of growth in NAV and FFO per Unit. H&R has a significant platform with scale, financial strength and a high quality property portfolio which enables the REIT to pursue large format development opportunities not available to smaller entities. H&R continues to make progress in advancing its value-creating development program, with a significant pipeline of projects.

**Jackson Park**, the 1,871 luxury residential rental unit development in Long Island City, NY in which H&R has a 50% ownership interest, reached substantial completion and was transferred from properties under development to investment properties in Q1 2019. As at March 31, 2019, 1,492 leases were entered into and 1,406 units were occupied. Average occupancy was 72.1% for Q1 2019 and occupancy as at March 31, 2019 was 75.1%. 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, property operating income for the first full year, 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.

The following table presents net income and FFO for Jackson Park for the three months ended March 31, 2019 as well as projections through 2020:

| (H&R's ownership interest) | Q1 2019 (Actual) | Q2-Q4 2019 (Projected) | Annual 2019 (Projected) | Annual 2020 (Projected) |
|---|---|---|---|---|
| **(in thousands of U.S. dollars)** | | | | |
| Property operating income | $4,464 | $22,540 | $27,004 | $35,921 |
| Bank interest and charges[(1)] | (2,566) | ($10,625) | (13,191) | (13,600) |
| Effective interest rate accretion | (542) | ($1,625) | (2,167) | |
| Fair value adjustment on financial instruments | (1,118) | - | (1,118) | - |
| **Net income** | **238** | **10,290** | **10,528** | **22,321** |
| Fair value adjustment on financial instruments | 1,118 | - | 1,118 | - |
| Notional interest capitalization | 283 | 89 | 372 | - |
| **FFO** | **$1,639** | **$10,379** | **$12,018** | **$22,321** |

(1) Estimates are based on existing financing.

The 2019 projections from Jackson Park have been updated to reflect a change to effective interest rate accretion. The upfront financing costs previously paid in connection with the construction facility were originally budgeted to be capitalized as part of the development costs. Since the property has now been transferred from properties under development to investment properties, the unamortized costs will be expensed over the expected remaining term of the associated credit facility.

For a complete list of H&R's current development projects, see page 12 of the MD&A.

Office

H&R extended its leases with Bell Canada at six office properties in Toronto, Montreal and Ottawa totaling 2,415,515 square feet for an additional 10 years with effect from January 1, 2019. As at March 31, 2019 the weighted average lease term to maturity for these leases is 16.3 years with annual contractual rental increases of 1.5% per annum. The cash rent payable in 2019 will decrease by $7.3 million compared to 2018 while the straight lining of the contractual rents will add $10.1 million resulting in a net $0.01 positive impact to 2019 annualized FFO per Unit. H&R will be responsible for certain capital expenditures at these properties. These lease extensions provide greater certainty and commitment to these properties. The new rental arrangement has been reset at current market levels, and the built-in contractual rental growth will contribute meaningfully to H&R's organic growth for the next 16 years.

H&R extended two Calgary office leases with AltaLink, L.P. to 20-year terms with effect from March 1, 2019. Although the cash rent did not change as a result of the extended leases, the leases provide for future contractual rental escalations every three years. H&R's office portfolio in Calgary has a 100% occupancy rate with an average lease term to maturity of 17.7 years.

Property operating income and Same-Asset property operating income (cash basis) from the Office segment increased by 7.5%, and 7.2%, respectively, for the three months ended March 31, 2019 compared to the respective 2018 period, primarily due to lease termination fees of $6.0 million received in Q1 2019 compared to $0.8 million in Q1 2018 as well as an increase in occupancy, partially offset by a decrease in current rent from Bell Canada as part of the 10-year lease extensions described above.

Retail

Property operating income from the Retail segment decreased by 7.7% for the three months ended March 31, 2019 compared to the respective 2018 period primarily due to the sale of 63 U.S. retail properties in June 2018. Same-Asset property operating income (cash basis) increased by 3.5% for the three months ended March 31, 2019 compared to the respective 2018 period primarily due to an increase in occupancy and contractual rental escalations from ECHO. Committed occupancy for the Retail segment was 92.0% as compared to actual occupancy of 88.8% as at March 31, 2019.

Redevelopment of the former Sears stores is underway. As each store is part of an existing property, they continue to be classified as investment properties. During the three months ended March 31, 2019, H&R capitalized $0.5 million of property operating costs and $1.1 million of finance costs attributable to the former Target and Sears space. Management expects positive rental growth from the Retail segment as the lease-up of the former Target and Sears space is expected to generate approximately $1.0 million, $4.6 million and $3.8 million of additional annual base rent in 2019, 2020 and 2021, respectively.

Industrial

Property operating income and Same-Asset property operating income (cash basis) from the Industrial segment increased by 3.5% and 3.3%, respectively, for the three months ended March 31, 2019 compared to the respective 2018 period, primarily due to higher rents from the Canadian portfolio.

Residential

Property operating income from the Residential segment increased by $6.3 million for the three months ended March 31, 2019 compared to the respective 2018 period primarily due to properties acquired during 2018 and the lease-up of Jackson Park. Same-Asset property operating income (cash basis) from the Residential segment in U.S. dollars increased 0.1%, for the three months ended March 31, 2019 compared to the respective 2018 period. This growth has been temporarily muted due to the costs associated with a new strategic incentive plan to secure tenants for longer than 18 months.

As at March 31, 2019, the Residential portfolio consisted of 23 properties comprising 8,207 residential rental units at H&R's ownership interest. Eleven properties are in Texas, seven are in Florida, four are in North Carolina and one is in Long Island City, NY.

As at March 31, 2019, there were five properties in lease-up with a weighted average occupancy rate of 77.6%. During the three months ended March 31, 2019, these properties contributed U.S. $6.0 million to property operating income. All five properties are targeted for stabilization by Q4 2019 and are expected to contribute U.S. $36.5 million to property operating income throughout 2019 compared to U.S. $4.0 million contributed in 2018.

Debt Highlights

As at March 31, 2019, debt to total assets was 44.7% compared to 44.6% as at December 31, 2018. The weighted average interest rate of H&R's debt as at March 31, 2019 was 3.8% with an average term to maturity of 4.3 years.

*Debentures:*
In March 2019, H&R repaid all of its Series K senior debentures upon maturity for a cash payment of $200.0 million.

*Mortgages:*
During Q1 2019, H&R secured three new mortgages totalling $60.6 million at a weighted average interest rate of 3.4% for 10-year terms and repaid two mortgages totaling $75.4 million at a weighted average interest rate of 5.0%.

*Unsecured Term Loan:*
In March 2019, H&R borrowed $250.0 million by way of a new unsecured term loan maturing in March 2024. Through an interest rate swap, H&R fixed the interest rate at 3.3% per annum. This is H&R's third unsecured term loan which demonstrates H&R's creditworthiness and access to multiple sources of capital.

*Lines of Credit:*
As at March 31, 2019, H&R had $775.3 million of unused borrowing capacity available under its lines of credit.

The Atrium

Subsequent to quarter end, H&R announced that it had entered into an agreement to sell The Atrium for $640 million, subject to customary closing conditions. The purchase price equates to a capitalization rate of 4.56%. Closing is expected to occur on or about June 6, 2019.

H&R purchased The Atrium for $344.8 million in 2011 and since the acquisition, has increased annual net operating income by $6.5 million, creating substantial value for unitholders. The Atrium's IFRS value as at March 31, 2019 was $600 million. Management expects to record a gain of approximately $40 million, before closing costs, relative to its IFRS value, and a sale price approximately $295 million higher than its original purchase price.

The Atrium is currently unencumbered. H&R will provide the purchaser with a vendor take-back (VTB) mortgage of $256 million, bearing interest at an annual rate of 4.56% and maturing on January 2, 2020. Assuming the proceeds from the sale were used to repay debt, H&R's 2019 FFO dilution is expected to be $0.01 per Unit and its debt to total asset ratio would improve to 42.1% from 44.6% at December 31, 2018.

H&R's president and CEO Thomas Hofstedter said: "Given the strong investor demand for Toronto office properties and the substantial capital this asset will require over the next several years for redevelopment and intensification, we chose to take advantage of strong market pricing, and reallocate capital to both strengthen our balance sheet and to fund our value-creating developments."

**Monthly Distribution Declared**

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

| | Distribution/Unit | Annualized | Record date | Distribution date |
|---|---|---|---|---|
| June 2019 | $0.115 | $1.380 | June 14, 2019 | June 28, 2019 |

**Conference Call and Webcast**

Management will host a conference call to discuss the financial results for the REIT on Wednesday, May 15, 2019 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 4795727 followed by the pound key. The telephone replay will be available until Wednesday, May 22, 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 $14.5 billion at March 31, 2019. H&R REIT has ownership interests in a North American portfolio of high quality office, retail, industrial and residential properties comprising over 43 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, 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 Q1 2019 Activity" including with respect to H&R's future plans, including significant development projects, H&R's expectation with respect to the activities of its development properties and surrounding properties, including redevelopment of existing properties and building of new properties, the lease-up and timing for stabilized occupancy 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 impact of the replacement of tenants, the expected annual base rent from former Sears and Target space, the expected property operating income generated by the Residential segment's five properties in lease-up, the expected closing date of the sale of The Atrium, the use of proceeds from the sale of The Atrium, the expected FFO dilution per Unit and H&R's pro forma debt to total asset ratio as a result of the sale of The Atrium and management's expectations regarding future distributions. 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 below 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 are not 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 and climate change risk; co-ownership interest in properties; joint arrangement and investment risks; unit price risk; availability of cash for distributions; ability to access capital markets; dilution; unitholder liability; redemption right risk; risks relating to debentures, the inability of the REIT to purchase senior debentures on a change of control; tax risk, U.S. tax reform 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. All forward-looking statements in this news release are qualified by these cautionary statements. These forward-looking statements are made as of May 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 for the three months ended March 31, 2019, 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.