H&R REIT Announces Q2 2019 Results

Toronto, Ontario, August 13, 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 and six months ended June 30, 2019.

Q2 2019 highlights included the sale of The Atrium, the advancement of several development projects, a reduction in leverage and significant leasing progress. Notably, committed occupancy in the retail segment rose from 92.0% as at March 31, 2019 to 93.2% as at June 30, 2019, and in the residential segment, occupancy rose from 88.3% as at March 31, 2019 to 92.5% as at June 30, 2019. H&R also acquired a 314-unit residential rental property in Orlando, Florida for U.S. $74.7 million.

As H&R has executed on its capital reallocation strategy, financial results have reflected the impact of $1.7 billion of asset sales over the past 18 months. Q2 2019 Funds From Operations (“FFO”) was approximately $8.8 million lower than Q1 2019 primarily due to lower lease termination income of $0.2 million in Q2 2019 compared to $6.0 million in Q1 2019. In Q3 2019, management expects FFO to be in line with Q2 levels. Management expects new lease commencements in the retail and residential segments and the full impact of recent property acquisitions to contribute to positive growth in FFO commencing in Q4 2019.

FINANCIAL HIGHLIGHTS

	3 months ended June 30			6 months ended June 30		
	2019	2018	% Change	**2019**	2018	% Change
Rentals from investment properties (millions)	**$287.0**	$294.3	(2.5%)	**$585.7**	$592.9	(1.2%)
Property operating income (millions)	**$187.1**	$201.1	(6.9%)	**$341.0**	$355.5	(4.1%)
Same-asset property operating income (cash basis) - Canada(1) (millions)	**$123.6**	$125.9	(1.8%)	**$254.3**	$251.6	1.1%
Same-asset property operating income (cash basis) - U.S. in U.S. dollars(1) (millions)	**$41.7**	$41.2	1.2%	**$84.2**	$82.3	2.3%
Same-asset property operating income (cash basis) total in Canadian dollars(1) (millions)	**$179.0**	$179.4	(0.2%)	**$366.3**	$357.0	2.6%
Net income before income taxes (millions)	**$130.4**	$103.5	26.0%	**$130.8**	$168.0	(22.1%)
Net income (millions)	**$109.6**	$108.2	1.3%	**$107.6**	$171.3	(37.2%)
FFO (millions)(1)	**$128.2**	$131.9	(2.9%)	**$265.1**	$267.6	(0.9%)
FFO per Unit (basic)(1)	**$0.43**	$0.44	(2.3%)	**$0.88**	$0.88	-%
Distributions per Unit	**$0.35**	$0.35	-%	**$0.69**	$0.69	-%
Payout ratio per Unit (as a % of FFO)(1)	**81.2%**	79.1%	2.1%	**78.4%**	78.4%	-%
Net Asset Value (“NAV”) per Unit as at June 30(1)	**$25.81**	$25.83	(0.1%)	**$25.81**	$25.83	(0.1%)

(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 and six months ended June 30, 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.

Net income before income taxes decreased by $37.2 million for the six months ended June 30, 2019 compared to the respective 2018 period, primarily due to fair value adjustments on financial instruments, higher trust expenses, a decrease in property operating income resulting from the net property dispositions and a gain on foreign exchange in 2018, partially offset by fair value adjustments on real estate assets and the gain (loss) on sale of real estate assets. Included in trust expenses for the six months ended June 30, 2019 is a fair value adjustment to unit-based compensation of $15.3 million, which increased trust expenses due to H&R’s Unit price increasing from $20.65 as at December 31, 2018 to $22.84 as at June 30, 2019.

SUMMARY OF SIGNIFICANT Q2 2019 ACTIVITY

Developments

H&R's active development pipeline in the United States is currently comprised of five residential developments and one mixed-used development. As at June 30, 2019, the total development budget was U.S. $607.2 million, of which U.S. $329.5 million was included in properties under development and U.S. $277.7 million of budgeted costs remaining to complete, at the REIT's proportionate share.

The largest current development project is River Landing, an urban in-fill mixed use development site in Miami, FL, which is adjacent to the Health District with approximately 1,000 feet of waterfront on the Miami River, two miles from downtown Miami. River Landing includes approximately 346,000 square feet of retail space, approximately 136,000 square feet of office space and 528 residential rental units. Construction is underway with occupancy scheduled to commence in Q2 2020. The total cost of the project remains on budget at U.S. $424.8 million and as at June 30, 2019, approximately U.S. $276.9 million had been invested in the development of which U.S. $37.8 million was spent in Q2 2019.

In June 2019, construction commenced on the first phase of a 2.7 million square foot industrial development in Caledon, ON. The first phase consists of three industrial buildings which will total approximately 526,000 square feet upon completion. The total budget for these three buildings is $73.6 million.

In June 2019, H&R acquired a 100% leasehold interest to develop up to 670 residential rental units in Orlando, FL, known as "Sunrise". Sunrise is located within the heart of the I-4 Tourism Corridor in Orlando and is a seven-minute drive from Walt Disney World. Construction on Phase 1 is expected to commence in Q4 2019 with completion expected by Q2 2021 and will consist of 321 residential rental units. The total budget for Phase 1 is expected to be U.S. $57.9 million with an expected going-in yield on cost of 6.1%.

Subsequent to June 30, 2019, H&R submitted a combined application for rezoning and Official Plan Amendment for the redevelopment of the surface parking lots, drive-through restaurants and strip plaza that currently occupy the north end of Dufferin Mall in Toronto, ON to create "Dufferin Grove Village." The proposed project would replace surface parking with four residential buildings over two blocks. Divided by a new road, the blocks would form the backdrop for Dufferin Commons, a new public park. The west block would support residential buildings of 35 and 39 storeys, and the east block would support residential buildings of 14 and 23 storeys. Together, they will introduce approximately 1,135 residential units to the site.

Office

In 2011, H&R purchased The Atrium, a 1.1 million square foot office and retail complex in Toronto, ON for $344.8 million. Since the acquisition, H&R 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 $600.0 million and in June 2019, H&R sold The Atrium for $640.0 million. H&R recorded a gain on sale of approximately $34.4 million, after deducting closing costs. The sale price equates to a capitalization rate of 4.56%. The property was unencumbered and H&R provided the purchaser with a vendor take-back mortgage of $256.0 million, bearing interest at an annual rate of 4.56% and maturing on January 2, 2020. The proceeds received have been used to repay debt including the repayment on maturity of H&R's Series M senior debentures on July 23, 2019.

Retail

Redevelopment of the last former Target store is substantially complete and redevelopment of the former Sears stores is underway. During the three and six months ended June 30, 2019, $36.1 million and $56.8 million, respectively, was spent on redevelopment at the Primaris properties. Committed occupancy for the retail segment was 93.2% as compared to actual occupancy of 88.7% as at June 30, 2019. As each store is part of an existing property, they continue to be classified as investment properties. During the three and six months ended June 30, 2019, H&R capitalized $0.3 million and $0.8 million, respectively, of property operating costs and $1.3 million and $2.4 million, respectively, 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.

In April 2019, H&R sold a 40,480 square foot multi-tenanted retail property in Calgary, AB for gross proceeds of $10.8 million.

Industrial

In June 2019, H&R sold its 50.5% ownership interests in two U.S. industrial properties (previously held through an equity accounted investment) for $26.9 million and repaid the two respective mortgages aggregating $18.4 million upon closing. In addition, H&R purchased the remaining 49.5% interest in 510. E. Courtland St., Morton, IL for $2.9 million. As H&R owns 100% of this property, it is now being consolidated in the REIT's financial statements.

As at June 30, 2019, H&R had classified a 363,983 square foot industrial property in Boucherville, QC as held for sale for $17.1 million at H&R's ownership interest.

Residential

In June 2019, H&R acquired 314 residential rental units at 3512 Grande Reserve Way in Orlando, FL ("Grande Flats") at a purchase price, before transaction costs, of U.S. $74.7 million which equates to U.S. $238,000 per residential rental unit. The property was built in 2018 and occupancy was 94.3% as at June 30, 2019.

As at June 30, 2019, the residential portfolio consisted of 24 properties comprising 8,521 residential rental units at H&R's ownership interest. The portfolio comprises 11 properties in Texas, eight in Florida, four in North Carolina and one in Long Island City, NY.

During the six months ended June 30, 2019, there were five properties (including Jackson Park) in lease-up with a weighted average occupancy rate of 86.6%. As at June 30, 2019, one property had reached stabilization and the remaining four properties are targeted for stabilization in Q4 2019. All five properties are expected to contribute U.S. $19.5 million to property operating income (excluding non-cash items) for the remainder of 2019 compared to U.S. $13.5 million contributed for the six months ended June 30, 2019 and to U.S $4.0 million for the year ended December 31, 2018.

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 June 30, 2019, 1,770 leases were entered into and 1,634 units were occupied. Average occupancy was 83.8% for Q2 2019 and occupancy as at June 30, 2019 was 87.3%. Stabilized occupancy is expected to be achieved during Q3 2019.

Jackson Park's yield on budgeted cost is expected to be 6.4%, an increase from the original proforma of 6.1%. The project is expected to be completed for a cost of approximately U.S. $580 million (at H&R's ownership interest). As part of the New York City Brownfield Cleanup Program, H&R expects to receive approximately U.S. $50.0 million which will reduce the net budgeted cost to $530 million. In addition, H&R has adjusted its forecast for the remainder of 2019 and 2020 due to New York State legislation passed in June 2019, the "Housing Stability and Tenant Protection Act of 2019" regarding affordable housing, rent controls and tenant protection. The revised stabilized property operating income of U.S. $34.0 million equates to a 6.4% yield on budgeted cost.

The following table presents net income and FFO for Jackson Park for the six months ended June 30, 2019 as well as the revised projections through 2020:

(H&R's ownership interest)	Q1 2019 (Actual)	Q2 2019 (Actual)	Q3-Q4 2019 (Projected)	Annual 2019 (Projected)	Annual 2020 (Projected)
(in thousands of U.S. dollars)					
Property operating income	$4,464	$6,519	$14,148	$25,131	$34,000
Bank interest and charges[(1)]	(2,566)	(2,980)	(6,800)	(12,346)	(13,600)
Effective interest rate accretion	(542)	(542)	(1,083)	(2,167)	-
Fair value adjustment on financial instruments and real estate assets	(1,118)	(2,600)	-	(3,718)	-
Net income	**238**	**397**	**6,265**	**6,900**	**20,400**
Fair value adjustment on financial instruments and real estate assets	1,118	2,600	-	3,718	-
Notional interest capitalization	283	72	-	355	-
FFO	**$1,639**	**$3,069**	**$6,265**	**$10,973**	**$20,400**

(1) Estimates are based on existing financing.

Debt Highlights

As at June 30, 2019, debt to total assets was 44.0% compared to 44.6% as at December 31, 2018. The weighted average interest rate of H&R's debt as at June 30, 2019 was 3.9% with an average term to maturity of 4.1 years. Subsequent to June 30, 2019, H&R repaid on maturity its $150.0 million Series M senior debentures primarily from cash on hand, reducing pro-forma debt to total assets to 43.5%.

Lines of Credit:
As at June 30, 2019, H&R had $826.2 million of unused borrowing capacity available under its lines of credit.

Monthly Distribution Declared

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

	Distribution/Unit	Annualized	Record date	Distribution date
September 2019	$0.115	$1.380	September 16, 2019	September 30, 2019

Conference Call and Webcast

Management will host a conference call to discuss the financial results for the REIT on Wednesday, August 14, 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 2077583 followed by the pound key. The telephone replay will be available until Wednesday, August 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 $14.4 billion at June 30, 2019. 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.

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 Q2 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, including redevelopment of existing properties and building of new properties, management's expectations regarding FFO in Q3 2019, the impact of lease commencements and recent property acquisitions on FFO growth, the lease-up and timing for stabilized occupancy of Jackson Park, the expected Brownfield tax credit to be received from 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 timing of the construction on the REIT's industrial lands, the expected yield on cost from the REIT's development properties, the timing of occupancy, the expected total cost and stabilized property operating income from River Landing, the impact of the replacement of tenants, expected capital and tenant expenditures, 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, 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. 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 August 13, 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 and six months ended June 30, 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.