H&R REIT Reports Third Quarter 2019 Results

Toronto, Ontario, November 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 nine months ended September 30, 2019.

During 2019, H&R has continued to actively reallocate capital through net property dispositions to fund value-creating developments, expand its residential rental platform and strengthen its balance sheet. The REIT has completed approximately $1.8 billion of asset sales over the past 21 months, substantially repositioning its portfolio, enhancing its internal growth profile and reducing leverage.

FINANCIAL HIGHLIGHTS

	3 months ended September 30			9 months ended September 30		
	2019	2018	Change	**2019**	2018	Change
Rentals from investment properties (millions)	**$281.6**	$286.2	(1.6%)	**$867.2**	$879.1	(1.4%)
Property operating income (millions)	**$185.2**	$186.4	(0.6%)	**$526.2**	$541.9	(2.9%)
Same-Asset property operating income (cash basis) - Canada[1] (millions)	**$121.4**	$126.9	(4.3%)	**$375.0**	$377.8	(0.7%)
Same-Asset property operating income (cash basis) - U.S. in U.S. dollars[1] (millions)	**$40.9**	$40.1	2.1%	**$122.9**	$120.4	2.0%
Same-Asset property operating income (cash basis) total in Canadian dollars[1] (millions)	**$175.8**	$179.4	(2.0%)	**$538.5**	$533.2	1.0%
Net income before income taxes (millions)	**$70.9**	$111.7	(36.5%)	**$201.8**	$279.7	(27.9%)
Net income (millions)	**$69.3**	$105.5	(34.3%)	**$176.9**	$276.8	(36.1%)
Funds from operations (“FFO”) (millions)[1]	**$130.3**	$127.6	2.1%	**$395.4**	$395.2	0.1%
FFO per Unit (basic)[1]	**$0.43**	$0.42	2.4%	**$1.31**	$1.30	0.8%
Distributions per Unit	**$0.35**	$0.35	-%	**$1.04**	$1.04	-%
Payout ratio per Unit (as a % of FFO)[1]	**79.9%**	81.4%	(1.5%)	**78.9%**	79.4%	(0.5%)
Net Asset Value (“NAV”) per Unit as at September 30[1]	**$25.81**	$25.73	0.3%	**$25.81**	$25.73	0.3%

(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 nine months ended September 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 as well as the explanations for the changes.

FFO per unit has increased by 2.4% for the three months ended September 30, 2019 and 0.8% for the nine months ended September 30, 2019 over the respective 2018 periods. Leverage ratios have decreased due to property dispositions of $889.9 million far exceeding the $184.6 million of property acquisitions during the nine months ended September 30, 2019. Net income has decreased over the same periods mainly due to non-cash fair value adjustments. The decrease in Same-Asset property operating income (cash basis) is primarily due to temporary vacancies in the portfolio. H&R expects all of its segments to see occupancy increases as described below.

SUMMARY OF SIGNIFICANT Q3 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 September 30, 2019, the total development budget was U.S. $607.2 million, of which U.S. $386.3 million was included in properties under development with U.S. $220.9 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 September 30, 2019 approximately U.S. $317.6 million had been invested in the development, including U.S. $40.7 million in Q3 2019.

Proposed Developments

In July 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 two residential buildings of 35 and 39 storeys, and the east block would support two residential buildings of 14 and 23 storeys. Combined, they would introduce approximately 1,135 residential units to the site.

In August 2019, H&R submitted a rezoning application for the redevelopment of 145 Wellington St. W., in Toronto, ON which is currently a 13-storey office building. The proposed project would redevelop the subject site with a full office replacement in a new modern 13-storey podium, topped with a 52-storey residential tower, for an overall building height of 65 storeys. A total of 157,581 square feet of office space and 1,722 square feet of grade-related retail is proposed, along with 476 new residential units comprising 384,971 square feet of residential space. Of these residences, approximately 57% will be larger, family-oriented two or three-bedroom units.

In August 2019, H&R acquired a 50% ownership interest in excess lands, held for future re-development, at 3791 Kingsway in Burnaby, B.C for $6.7 million. This property is located adjacent to the REIT's 3777 Kingsway office tower in which it has a 50% ownership interest.

In September 2019, H&R acquired a 100% interest in approximately 8.4 acres of land for the development of 201 residential rental units in Tampa, FL for U.S. $6.0 million.

<u>Office</u>

H&R has made significant leasing progress in its office portfolio having achieved a committed occupancy rate of 99.5% as at September 30, 2019.

<u>Retail</u>

During the three and nine months ended September 30, 2019, $39.2 million and $96.0 million, respectively, was invested in redevelopment at Primaris enclosed shopping centre properties primarily relating to redevelopment of the former Sears stores and one remaining Target store. As each store is part of an existing property, they continue to be classified as investment properties. During the three and nine months ended September 30, 2019, H&R capitalized $0.3 million and $1.1 million, respectively, of property operating costs and $1.6 million and $4.0 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 $4.6 million and $3.8 million of additional annual base rent in 2020 and 2021, respectively. Committed occupancy for the Retail segment was 93.8% as compared to actual occupancy of 89.4% as at September 30, 2019.

<u>Industrial</u>

In September 2019, H&R sold its 50% ownership interest in a 139,694 square foot multi-tenanted industrial property in Kanata, ON for $24.3 million, at H&R's ownership interest. As at September 30, 2019, a 363,983 square foot industrial property in Boucherville, QC was classified as held for sale for $17.1 million at H&R's ownership interest, pursuant to the exercise of a tenant option to purchase at a pre-determined price.

Management expects industrial occupancy to increase from 96.5% as at September 30, 2019 to 97.2% by December 31, 2019 and committed occupancy to be 98.9% by December 31, 2019.

H&R owns approximately 144 acres of land which is being held for development for up to 2.7 million square feet of industrial space. In June 2019, construction commenced on the first three buildings totalling approximately 526,000 square feet, which is expected to be completed in Q2 2020. The total budget is approximately $73.6 million with an expected yield on cost of 5.8%. As at September 30, 2019, H&R had invested $93.8 million in these lands, of which $23.5 million relates to the first three buildings.

Residential

In July 2019, H&R acquired 322 residential rental units at 2725 Reseda Place in Charlotte, NC ("Garrison Park") at a purchase price, before transaction costs, of U.S. $62.8 million which equates to U.S. $195,000 per residential rental unit. The property was constructed in 2019 and occupancy was 47.2% upon acquisition. The property is currently in lease-up and is expected to be fully stabilized by Q3 2020.

In September 2019, H&R sold 12101 Fountainbrook Blvd., in Orlando, FL ("Mirabella Waterford Lakes") for U.S. $77.0 million, which was acquired in April 2015 for U.S. $53.3 million.

As at September 30, 2019, the residential portfolio consisted of 24 properties comprising 8,443 residential rental units at H&R's ownership interest. The portfolio comprises 11 properties in Texas, seven in Florida, five in North Carolina and one in Long Island City, NY.

During the nine months ended September 30, 2019, there were five properties (excluding Jackson Park) in lease-up with a weighted average occupancy rate of 81.4%. As at September 30, 2019, one property has reached stabilization, three properties are targeted for stabilization in Q1 2020 and Garrison Park is targeted for stabilization in Q3 2020. For the three and nine months ended September 30, 2019, the properties in lease-up contributed U.S. $2.5 million and U.S. $5.9 million, respectively, to property operating income (excluding non-cash items) and they are expected to contribute U.S. $2.8 million for Q4 2019 and U.S. $13.5 million in 2020.

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. Average occupancy was 91.0% for Q3 2019 and occupancy as at September 30, 2019 was 94.3%. Stabilized occupancy has now been achieved.

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

(H&R's ownership interest)	Q1 2019 (Actual)	Q2 2019 (Actual)	Q3 2019 (Actual)	YTD 2019 (Actual)	Annual 2019 (Projected)[1]	Annual 2020 (Projected)[1]
(in thousands of U.S. dollars)						
Property operating income	$4,464	$6,519	$7,075	$18,058	$25,131	$34,000
Bank interest and charges	(2,566)	(2,980)	(3,206)	(8,752)	(12,871)	(16,476)
Effective interest rate accretion	(542)	(542)	(542)	(1,626)	(2,167)	(1,589)
Fair value adjustment on financial instruments and real estate assets	(1,118)	(2,600)	(19,105)	(22,823)	(22,823)	-
Net income (loss)	**238**	**397**	**(15,778)**	**(15,143)**	**(12,730)**	**15,935**
Fair value adjustment on financial instruments and real estate assets	1,118	2,600	19,105	22,823	22,823	-
Notional interest capitalization	283	72	-	355	355	-
FFO	**$1,639**	**$3,069**	**$3,327**	**$8,035**	**$10,448**	**$15,935**

(1) Projections have only been updated for the effect of the permanent financing secured as described below.

In September 2019, H&R, together with its partners, secured a U.S. $1.0 billion interest-only first mortgage for Jackson Park (U.S. $500.0 million, at H&R's ownership interest) at a fixed rate of 3.25% for a 10-year term. Upon closing, Jackson Park's existing U.S. $640.0 million construction facility was discharged and the outstanding balance prior to this refinancing was repaid. After closing costs, H&R received a cash distribution of U.S. $194.8 million which was used to repay other debt. As part of the refinancing, an independent third party appraisal was obtained and a decrease in fair value of U.S. $18.7 million at H&R's ownership interest was recorded due to the recent "Housing Stability and Tenant Protection Act of 2019" passed by New York State in June 2019 regarding affordable housing, rent controls and tenant protection.

Jackson Park's annualized unlevered yield on budgeted cost is expected to be 6.4%, an increase from the original expectation of 6.1%. The total cost projected is expected to be approximately U.S. $580.7 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. $49.9 million which will reduce the net budgeted cost to U.S. $530.8 million. With the new financing in place, the REIT's levered yield on its expected net cash contribution of U.S. $30.8 million to Jackson Park is approximately 56.9%.

Debt Highlights

As at September 30, 2019, debt to total assets was 43.3% compared to 44.6% as at December 31, 2018. The weighted average interest rate of H&R's debt as at September 30, 2019 was 3.9% with an average term to maturity of 3.9 years. In November 2019, H&R repaid a U.S. $219.3 million mortgage bearing interest at an annual rate of 4.5%.

Debentures:
In July 2019, H&R repaid all of its Series M senior debentures upon maturity for a cash payment of $150.0 million.

Lines of Credit:
As at September 30, 2019, H&R had $818.9 million of unused borrowing capacity available under its lines of credit.

Monthly Distribution Declared

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

	Distribution/Unit	Annualized	Record date	Distribution date
December 2019	$0.115	$1.380	December 13, 2019	December 31, 2019

Conference Call and Webcast

Management will host a conference call to discuss the financial results for the REIT on Thursday, November 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 2744966 followed by the pound key. The telephone replay will be available until Thursday, November 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 $14.3 billion at September 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 Q3 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 such as Dufferin Mall and 145 Wellington St. W. and building of new properties, the expected timing, total budget and yield on cost of the construction on the REIT's industrial lands, the expected positive rental growth from the Retail segment and the additional annual base rent from former Target and Sears space, the expected Brownfield tax credit to be received from Jackson Park, the expected stabilized property operating income and yield on budgeted cost from Jackson Park, and the anticipated projected amounts of net income and FFO in 2019-2020 resulting from Jackson Park, expected occupancy percentage increases from all segments in 2020, the expected total cost of River Landing and the expected property operating income generated by the residential segment's five properties in lease-up. 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 for the three and nine months ended September 30, 2019 under "Risks and Uncertainties" and those discussed in H&R's other 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 November 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 nine months ended September 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.