H&R REIT's First Quarter 2020 Results, COVID-19 Update and Decrease in Distribution

Toronto, Ontario, May 14, 2020 - H&R Real Estate Investment Trust ("H&R" or "the REIT") (TSX: HR.UN) announces its financial results for the three months ended March 31, 2020.

FINANCIAL HIGHLIGHTS

	3 months ended March 31	
	2020	2019
Rentals from investment properties (millions)	**$279.7**	$298.7
Property operating income (millions)	**$140.6**	$153.8
Same-Asset property operating income (cash basis) (millions)(1)	**$193.0**	$191.3
Fair value adjustment on real estate assets (millions)	**($1,301.2)**	($7.7)
Net loss (millions)	**($1,019.8)**	($2.0)
Funds from operations ("FFO") (millions)(1)	**$136.1**	$137.0
FFO per Unit (basic)(1)	**$0.45**	$0.46
Adjusted Funds from Operations ("AFFO") per unit	**$0.40**	$0.39
Distributions per Unit	**$0.35**	$0.35
Payout ratio per Unit (as a % of FFO)(1)	**76.5%**	75.8%
Net Asset Value ("NAV") per Unit as at March 31(1)	**$22.26**	$25.89

(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, 2020 includes a reconciliation of property operating income to Same-Asset property operating income (cash basis) and net loss 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.

H&R continued to actively reallocate capital through property dispositions to fund value-creating developments, expand its residential rental platform and strengthen its balance sheet. The REIT has completed approximately $1.0 billion of asset sales compared to $206.6 million of acquisitions over the past 15 months, substantially repositioning its portfolio, enhancing its internal growth profile and reducing leverage. These net asset dispositions are the primary reason for the decrease in rentals from investment properties and property operating income.

Same-Asset property operating income (cash basis) increased by 0.9% for the three months ended March 31, 2020 compared to the respective 2019 period. Same-Asset property operating income (cash basis) included lease termination fees of $0.2 million in Q1 2020 compared to $5.9 million in Q1 2019. Excluding these lease termination fees, Same-Asset property operating income (cash basis) increased by 4.0% over the same period, which is primarily due to growth in property operating income from the residential segment.

The net loss for the three months ended March 31, 2020 was primarily due to the fair value adjustment on real estate assets as described in the IFRS fair value adjustments below.

BUSINESS UPDATE

COVID-19

The COVID-19 pandemic has brought dramatic and unprecedented challenges to nearly every corner of society and the global economy. The commercial property industry has been impacted significantly. Risk management has been and continues to be a core component of H&R REIT since the time of its IPO, most evident in a focus on long-term leases, high credit quality tenants and a conservative balance sheet.

Tom Hofstedter, President and CEO said “We are doing everything we can to support and protect everyone our organization touches, as we pull together as a community. We have made considerable efforts into ensuring the safety and wellbeing of our employees, tenants and visitors to our properties. I thank our team’s diligent efforts, patience and creativity, as we face new and unique challenges”.

We have facilitated the transition of large numbers of staff to work-from-home, and engaged with residential tenants to provide more payment methods, payment plans, and early renewal options at unchanged rents. Certain retail properties were closed to comply with government mandates while providing for certain essential service tenants to continue to operate out of these otherwise closed properties, and we have engaged with tenants across all of our properties to work together to reach customized operating and financial arrangements. We have also undertaken detailed reviews of operations to reduce expenses, mitigating the financial impact of economic disruptions and property closures on our tenants and on our unitholders.

Liquidity

Management has taken precautionary steps to further bolster the REIT’s liquidity as a result of the severity of the pandemic’s impact on economic conditions. In April the REIT secured a new $425 million unsecured line of credit from a syndicate of four Canadian banks. The REIT also arranged a new $100 million secured mortgage on a previously unencumbered property, maturing in 2029. Notably, both the new credit facility and mortgage were arranged following the onset of the COVID-19 economic disruption, underscoring H&R’s strong access to capital. As at March 31, 2020, H&R had $116.3 million of debt maturing during the remainder of 2020.

H&R has a number of development projects underway, in various stages of planning and construction. The REIT has postponed certain of these development projects where construction had not yet commenced, reducing near-term capital commitments. The REIT’s largest development project, River Landing in Miami, is nearing completion and requires limited further capital investment. Final completion of this project has been delayed to accommodate tenant preferences for the timing of lease commencements and occupancy, and is now expected to occur later this year.

Rent Collection

Rent collection has been a key focus for the REIT during the pandemic, and one where we believe we have performed well while also accommodating the needs of our tenant partners. As of May 14th, 2020, April’s overall rent collection was 85%, with May’s rent collections at 80% as detailed below:

Tenant Type(2)	**Share of Rent**	**April Collection(1)**	**May Collection(1)(3)**
Office	44%	99%	99%
Retail:			
Enclosed malls	*20%*	*40%*	*30%*
Other	*13%*	*88%*	*80%*
Total Retail	*33%*	*59%*	*50%*
Residential	17%	97%	92%
Industrial	6%	98%	90%
Total	**100%**	**85%**	**80%**

(1) These collections include monthly billings for base rent and property operating costs.
(2) Retail tenants in an office property for the purpose of this table have been classified as retail.
(3) Includes Government tenancies whose rent is only due at the end of May.

Our high-quality, long-term leased office portfolio delivered strong rent collection in April and in May, consistent with the profile of the tenant base, where 87.4% of tenants are investment grade-rated. Rent collection was also strong in our industrial and multi-residential portfolios, reflecting the stronger-than-average credit profile of our tenant base across both of these portfolios.

The tenants that have experienced the greatest impact in the COVID-19 pandemic have been retailers. Rent collection in our retail portfolio was 59% in April (50% May to date), reflecting a blend of grocery-anchored centres, single tenant and enclosed mall properties. Non-essential stores across the country were closed by government mandates in March and are beginning to reopen in some parts of the country.

While visibility remains limited as to when operating conditions might return to a more normal state, and government rent assistance programs have yet to become effective in providing significant relief to retailers, we remain committed to working with our tenants and all levels of government to ensure the most timely and efficient resumption of operations, while preserving the safety and security of all stakeholders.

IFRS Fair Value Adjustments

The Q1 2020 financial results include fair value adjustments that are more significant than previous periods. These adjustments are a result of our regular quarterly IFRS fair value process and include the impact of COVID-19 reflecting two trends: i) an acceleration of challenging conditions in the retail landscape impacting the market pricing of retail properties; and ii) energy sector challenges that have impacted the credit quality of many companies operating in this industry, and the related impacts on property market fundamentals in markets significantly influenced by energy industry employment and profitability.

The IFRS fair value of H&R's retail portfolio has been reduced by an aggregate of $659.9 million, with the changes relating primarily to inputs into the forecasting of cashflows, including normalized vacancy rates, market rental rates, tenant retention rates and releasing assumptions. The revised inputs into discounted cash flow models have resulted in lower fair market values and higher implied overall cap rates, in particular for our enclosed mall properties.

The IFRS fair value of H&R's office portfolio with significant energy sector tenancies has been reduced by an aggregate of $679.5 million. These properties are generally subject to long-term leases, and as such there have been limited changes to cash flow models, but more significant changes to the discount rates. While there have been very few recent transactions for comparable properties, our valuation team used assumptions reflecting pricing signals observed in oil prices and the energy sector corporate credit market.

Management and the Board strongly supported taking a more proactive approach to updating fair market values to ensure prudent financial reporting practices. Should the retail industry recover, and energy industry conditions improve, H&R will have the opportunity to update fair values as market conditions evolve.

OUTLOOK

In the midst of the economic disruption and uncertainty caused by the COVID-19 pandemic, forecasts and guidance are inherently more challenging and less reliable, given the wide range of potential pandemic and economic outcomes. Over the past few years, H&R has made significant progress, as detailed in our 2019 annual report, towards the strategic goals outlined in our 2017 annual report of streamlining and simplifying our portfolio, recycling capital into higher growth assets, and improving the profile of an investment in H&R REIT. Since the beginning of 2018, H&R has executed approximately $2.0 billion of asset sales, reducing financial leverage and allowing for a portion of the proceeds to be reinvested into high-quality primarily residential and industrial properties, including new developments, in high-growth markets like Toronto, New York, Miami, San Francisco and Los Angeles. Management expects this reduced leverage and improved portfolio quality to serve the REIT well as it navigates uncertain times ahead, and remains committed to preserving and enhancing unitholder value.

Change in Distribution

Management and the Board have spent considerable time in recent years reviewing the REIT's strategy, capital structure and operations, which has led to many of the changes outlined above. In light of current operating and capital market conditions, and consistent with the prior conclusions management and the Board reached in the above reference review, management has recommended and the Board approved a 50% reduction of monthly distributions effective May 2020, from $0.115 per unit to $0.0575 per unit, or $0.690 per unit annually.

This new distribution rate provides additional financial flexibility to absorb any income interruption related to the pandemic in the near term, and allows for significant capital reinvestment into our properties to address tenant turnover without increasing the REIT's financial leverage. The new distribution rate is also expected to satisfy the REIT's requirement to distribute all of its taxable income.

The Board and management have not taken this decision lightly, and are hopeful conditions will improve to result in this decision appearing to have been overly cautious. However, as unitholders with significant holdings, and reflecting an abundance of caution, the trustees and management believe this action is prudent and conservative in light of the economic uncertainty that currently exists. We believe unitholders are best served by a well capitalized REIT, supporting the capital maintenance of its existing portfolio and providing opportunities for the REIT to enhance its investment profile. The Board of Trustees will reevaluate the distribution on a quarterly basis taking into account a variety of relevant factors including the REIT's taxable income.

SUMMARY OF SIGNIFICANT Q1 2020 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 March 31, 2020, the total development budget was U.S. $651.2 million, including U.S. $495.7 million in properties under development with U.S. $155.5 million of budgeted costs remaining to complete, of which U.S. $84.8 million will be funded through secured construction facilities, in each case 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 373,000 square feet of retail space, approximately 118,000 square feet of office space and 528 residential rental units. Construction is nearing completion with occupancy scheduled to commence in Q3 2020. The total cost of the project is expected to be approximately U.S. $467.9 million. As at March 31, 2020, approximately U.S. $397.1 million has been included in properties under development.

Construction continued on the first phase of a 2.7 million square foot industrial development in Caledon, ON. The first phase consists of three buildings, which will total approximately 526,000 square feet upon completion. In January 2020, H&R completed a 10-year lease with Deutsche Post AG to occupy the largest of the three buildings totalling 342,821 square feet. As a result of COVID-19, H&R has temporarily suspended construction of the second and third buildings. The total budget for these three buildings is $83.0 million.

Office

In January 2020, the $256.0 million mortgage receivable secured by The Atrium associated with the sale of the property in June 2019 was repaid. H&R continues to make significant leasing progress in its office portfolio having achieved a committed occupancy rate of 99.8% as at March 31, 2020. Excluding lease termination fees, Same-Asset property operating income (cash basis) from office properties increased by 1.2%.

Industrial

In January 2020, H&R purchased a 50% ownership interest in a 93,330 square foot single-tenanted property in Whitby, ON for approximately $6.6 million, at H&R's ownership interest.

In February 2020, H&R purchased the remaining 49.5% interest in 7575 Brewster Ave., Philadelphia, PA for U.S. $11.6 million. As H&R owns 100% of this property, it is now consolidated in the REIT's Financial Statements. The property is leased to Amazon.com, Inc. with a remaining lease term of approximately 11.4 years.

Same-Asset property operating income (cash basis) from industrial properties increased by 2.8%.

Residential

In January 2020, H&R sold two properties which were previously classified as held for sale as at December 31, 2019: (i) 12601 South Green Dr. in Houston, TX for U.S. $23.9 million, which was acquired in November 2014 for U.S. $16.7 million; and (ii) 8401 Memorial Lane in Plano, TX for U.S. $66.0 million, which was acquired in February 2015 for U.S. $52.3 million. The mortgage of U.S. $38.0 million was assumed by the purchaser upon closing.

Same-Asset property operating income (cash basis) from residential properties in U.S. dollars increased by 33.0% for the three months ended March 31, 2020 compared to the respective 2019 period primarily due to four properties including Jackson Park that were or are still currently in lease-up. Excluding the properties in lease-up, Same-Asset property operating income (cash basis) increased by 8.0% primarily due to an increase in revenue from rental rate growth and the stabilization of various assets in the portfolio.

Retail

Committed occupancy for the Retail segment was 93.8% compared to actual occupancy of 91.1% as at March 31, 2020. Same-Asset property operating income (cash basis) from retail properties decreased by 2.1%.

Debt Highlights

As at March 31, 2020, debt to total assets was 47.9% compared to 44.4% as at December 31, 2019. The increase in debt to total assets is primarily due to the fair value adjustment of certain office and retail properties by approximately $1.3 billion. The weighted average interest rate of H&R's debt as at March 31, 2020 was 3.6% with an average term to maturity of 4.0 years.

In February 2020, H&R repaid all of its Series P senior debentures upon maturity for a cash payment of U.S. $125.0 million. In March 2020, H&R repaid all of its Series F senior debentures upon maturity for a cash payment of $175.0 million.

Monthly Distribution Declared

As mentioned above, H&R today declared a distribution for the month of May scheduled as follows:

	Distribution/Unit	Annualized	Record date	Distribution date
May 2020	$0.0575	$0.690	May 22, 2020	June 5, 2020

Conference Call and Webcast

Management will host a conference call to discuss the financial results for the REIT on Friday, May 15, 2020 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 2981258 followed by the pound key. The telephone replay will be available until Friday, May 22, 2020 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 $13.4 billion at March 31, 2020. H&R REIT has ownership interests in a North American portfolio of high quality office, retail, industrial and residential properties comprising over 40 million square feet.

Forward-Looking Disclaimer

Certain information in this press 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, 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 "COVID-19 Update" and "Summary of Significant Q1 2020 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 the building of new properties, the timing of construction, the timing of occupancy and the expected total cost from development properties, the impact of the COVID-19 virus on the REIT's retail tenants, capitalization rates and other assumptions used to estimate fair values, management's expectations regarding the REIT's leverage and portfolio quality, 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 press release. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy is currently volatile and in an economic downturn as a result of the COVID-19 pandemic and low oil and gas prices, the extent and duration of which is unknown; interest rates are volatile as a result of general economic conditions; and debt markets continue to provide access to capital at a reasonable cost, notwithstanding the ongoing economic downturn. Additional risks and uncertainties include, among other things, risks related to: real property ownership; the current economic environment; COVID-19; 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 and 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 press 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 press release. All forward-looking statements in this press release are qualified by these cautionary statements. These forward-looking statements are made as of May 14, 2020 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 International Financial Reporting Standards ("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, AFFO, 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, 2020, 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.