



-----> | H&R REIT ANNUAL REPORT 2000 | ----->

----->
focus

----->
quality

----->
discipline

----->
stability



COVER & LEFT
TransCanada PipeLines Tower in
Calgary, AB – to be completed
in May 2001.

A.R. 2000

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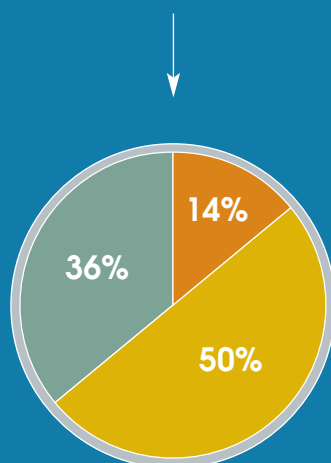
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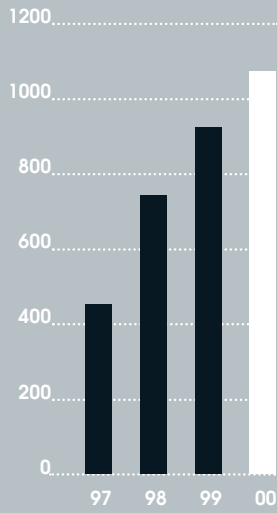
HIGHLIGHTS

Over the course of 2000, H&R REIT:

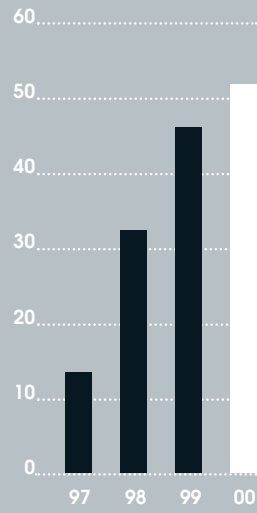
- acquired Royop Properties Corporation and as a result, added nine retail properties to its portfolio, including two major Calgary shopping centres. The transaction increased H&R REIT's portfolio of revenue producing properties by 15%.
- acquired a 150,000 square foot single-tenant industrial building in Kanata, Ontario, leased to Nortel Networks. The new, state-of-the-art building, called Palladium One, is a facility specializing in leading edge chip design and production for networking and fibre optic communications.
- exercised its option to acquire 11 properties for which mezzanine financing had been provided. This is in keeping with one of the REIT's fundamental operating principles: to provide mezzanine financing for development projects, enabling the REIT to enhance returns by acquiring the property at a predetermined cost on completion.
- arranged for the completion of a \$115.5 million, 22-year, public mortgage pass-through financing for the construction of the 508,000 square foot Bell Mobility office complex in Mississauga, Ontario. H&R had already provided \$26 million in mezzanine financing and holds the option to purchase the complex at cost upon completion.
- increased the cash distribution to Unitholders to \$0.097 per month, or \$1.164 on an annualized basis.

H&R Portfolio by NOI, Dec. 31, 2000

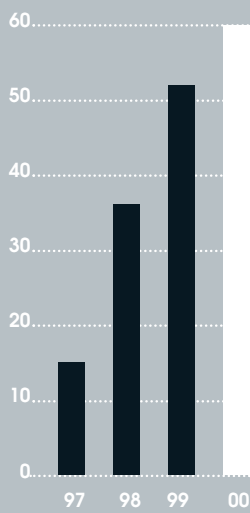




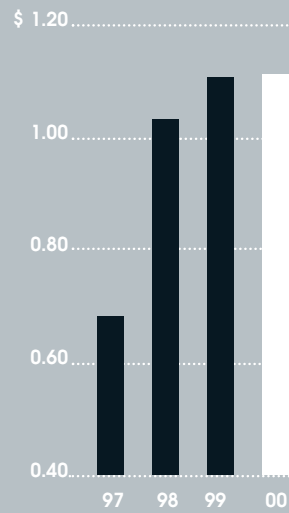
Assets - Income properties & Mortgages receivable
(in millions of dollars)



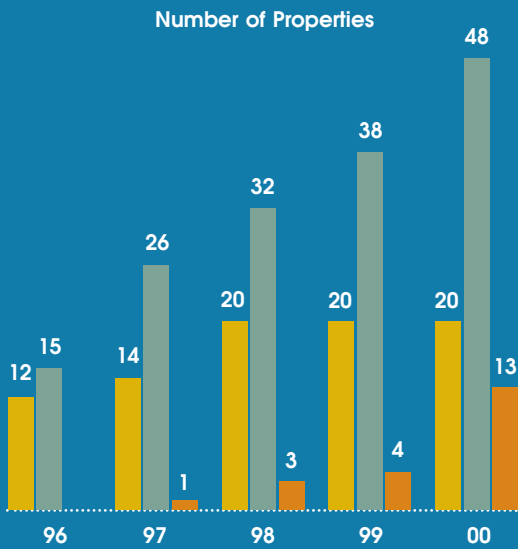
Distributions to Unitholders - Annualized
(in millions of dollars)



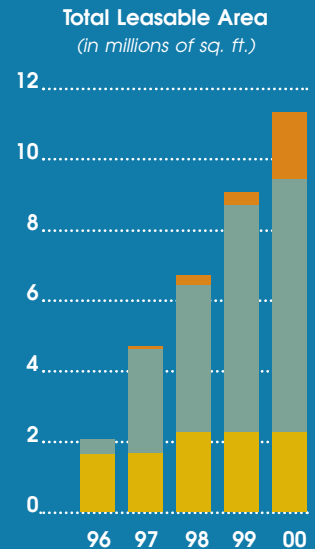
Distributable income
(in millions of dollars)



Cash Distributions Per Unit



Number of Properties



Total Leasable Area
(in millions of sq. ft.)

Office
Industrial
Retail

Office
Industrial
Retail

H&R REAL ESTATE INVESTMENT TRUST

Incorporated on November 4, 1996, H&R Real Estate Investment Trust (H&R REIT) owns and manages a portfolio of income-producing properties and provides mezzanine financing for development projects.

As a closed-end REIT, a substantial proportion of H&R REIT's cash is distributed to Unitholders each month and much of it is tax deferred.

The REIT's internal management conducts the day-to-day operations at the direction of the Board of Trustees. Investments are governed by specific guidelines and are subject to the approval of the Trustees.

Units of the Trust trade on the Toronto Stock Exchange (Symbol: HR.UN).

OBJECTIVES



H&R Real Estate Investment Trust has two main objectives:

First, to provide Unitholders with reliable and growing tax-deferred cash distributions from its portfolio of income producing properties and development projects for which it provides mezzanine financing;

Second, to increase the value of units through active management of the REIT's assets and the acquisition of additional properties, including the exercise of options on properties for which it provides mezzanine financing.

Management is committed to maximizing cash distributions and capital appreciation for Unitholders while maintaining prudent risk management and conservative use of financial leverage.



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-----> Our most ambitious project to date is the 936,000 square foot TransCanada PipeLines Tower in Calgary, scheduled for completion and occupancy in the second quarter of 2001.



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450-1st St. S.W.
Calgary, Alberta

PROPERTY TYPE	OFFICE
EXPECTED COMPLETION	MAY 2001
NET RENTABLE AREA	936,000 SQ. FT.
OCCUPANCY	100%
MAJOR TENANT	TRANSCANADA PIPELINES

REPORT TO UNITHOLDERS

A successful strategy

We are pleased to report on a very successful year 2000 for H&R REIT. Our property portfolio continues to grow as does the resulting cash flow and distributable income to Unitholders. Our adherence to our core operating strategy has made us one of the leading REITs in the country and it will continue to guide us in the years ahead.

OUR APPROACH

In only four years, we have increased the number of properties in our portfolio by more than 200%, have more than five times the leasable space, have a total book value of close to four times where we started, while at the same time we have increased distributable income by over 53% to an annualized rate of \$1.16. We have achieved this enviable rate of growth by adhering to a consistent operating philosophy that has guided us since inception. The four key components of this philosophy are to:

- take a disciplined approach to property acquisition, ensuring accretive returns on a property-by-property basis;
- lease our properties to highly creditworthy tenants on long-term leases with contractual rent increases throughout the term of the lease;
- provide mezzanine financing for development projects, enabling the REIT to enhance returns by acquiring the property at a predetermined cost on completion; and
- closely match the maturity of our long-term financing to our lease terms in order to minimize exposure to interest rate fluctuations.

Our portfolio is comprised of office, single-tenant industrial and retail properties. Measured by net operating income, at the end of 2000, office properties accounted for 50% while single tenant industrial properties were 36% and retail properties the balance. We have been successful in matching our lease terms to our mortgage maturities, with an average mortgage term of 8.7 years and an average lease term of 10.3 years. Our current occupancy rate is 99%, the average interest rate on our debt is 8.2% and, between now and the end of 2005, only 21% of our leases will be up for renewal. These long-term leases and corresponding long-term financing should insulate us from any downturn in the economy. Finally, with two new large-scale, completely financed and fully leased development projects well underway, all of these numbers should clearly improve.

➤➤➤ One of the key properties we acquired over the last year was a 150,000 square foot single-tenant industrial property in Kanata, Ontario, Canada's leading technology centre.

OUR YEAR

At year-end 2000, we owned 81 properties representing 10.6 million square feet of rentable space and had a further 8 development projects with approximately 1.8 million additional square feet under construction. Total book value of these assets was approximately \$1.1 billion. This compares with year-end 1999 figures of 62 properties representing 9.1 million square feet, 12 development projects and a total book value of \$900 million. This strong growth was achieved while paying out approximately 87% of the REIT's distributable income, reserving adequate capital to maintain the high quality of our portfolio.

All property acquisitions are subject to stringent criteria with respect to building and tenant quality, price per square foot and effect on overall cash flow. As a REIT, we are expected to provide ever-increasing distributable income and therefore all new properties, while meeting our stringent criteria, must be accretive to Unitholders. One of the key properties we acquired this year was a 150,000 square foot single-tenant industrial property in Kanata, Ontario, Canada's leading technology centre. It is leased to Nortel Networks for a 15-year term with contracted rent increases every five years. This state-of-the-art manufacturing facility, called Palladium One, is being used for leading edge chip design and production for networking and fibre optic communications equipment. By the end of the second quarter 2001, we expect to acquire an additional 182,700 square foot expansion facility which is currently under construction adjacent to this building. The REIT will be paying a total of \$13.5 million for the expansion, which will provide a leveraged return of approximately 15% once financed.

500 Palladium Dr.
Kanata, Ontario

PROPERTY TYPE	SINGLE-TENANT INDUSTRIAL
BUILT	2000
RENTABLE AREA	150,000 SQ. FT.
OCCUPANCY	100%
MAJOR TENANT	NORTEL NETWORKS



In August we completed the acquisition of Royop Properties Corporation by means of a share exchange. The transaction added nine new properties to our portfolio and increased the number of revenue producing properties by 15%. The acquisition brought to H&R REIT three significant Calgary retail properties, the 50% of the 294,000 square foot Shawnessy Towne Centre which we did not already own, the 200,000 square foot NorthPointe Towne Centre, and the 121,000 square foot Southwood Corner.

H&R's property portfolio is dominated by highly creditworthy tenants signed to long-term leases, with contractual rental increases throughout the lease term. No single tenant is critical to our ability to generate consistent returns. We have a large and diverse tenant base that allows us to fulfill our primary goal of maintaining a predictable cash flow. Among our major tenants are companies including Nortel Networks, Purolator Courier, Asea Brown Boveri, Wal-Mart, Hyundai Canada, Nestle, American International Group and Royal Bank. Two major names will soon represent sizable additions to this impressive list – TransCanada Pipelines and Bell Mobility.

H&R REIT has carefully managed its exposure in the development arena to capitalize on management's extensive expertise, while at the same time enhancing returns to Unitholders. Management's involvement in the construction of more than one and a half million square feet of commercial properties has been effectively leveraged through a program under which we provide mezzanine financing to selected projects and receive options to purchase those properties upon completion.

As in all its operations, the REIT has a disciplined approach to this business. We will only provide construction financing after 70% of the space has been pre-leased to companies meeting our demanding tenant profile. By getting involved earlier in the development process, we are generating higher returns for our Unitholders while maintaining a lower risk profile. Returns generated from the mezzanine financing program are typically at least 100 basis points higher than the returns from conventional property acquisitions.

An example of the successful results from this strategy can be seen in our ongoing Purolator Courier program. The REIT provided mezzanine financing for the development of 12 distribution centres for Purolator across the country. These properties will add over one million square feet to our net leasable area and approximately \$83 million to our asset base of revenue producing properties. Over the past year, we exercised our options to acquire ten of the properties, and expect to acquire the remainder in 2001. Each centre is leased to Purolator for 20 years with contractual rental escalations in each lease. The REIT generated a 12% cash-on-cash return on the mezzanine financing we provided and we expect to earn an initial leveraged return of approximately 14% once all of the appropriate financing for these properties has been secured.

Our most ambitious project to date is the 936,000 square foot TransCanada PipeLines Tower in Calgary, scheduled for completion and occupancy in the second quarter of 2001. This \$260 million project is 100% pre-leased to TransCanada under a 20-year lease with contractual rental increases every five years and, after we exercise our option to acquire the building, will generate an initial 17% return for our Unitholders.

Construction is well underway on the 508,000 square foot Bell Mobility office complex in Mississauga, Ontario. A \$115.5 million, 22-year, public mortgage pass through financing has been completed for the project, which is fully pre-leased to Bell Mobility for a 20-year term with contracted rental escalations.

The TransCanada PipeLines Tower and Bell Mobility complex will be flagships of H&R REIT and will further the objectives of significantly decreasing the average age of our properties, increasing the average lease and mortgage terms, increasing the overall building and tenant quality and, most importantly, fueling continued strong and reliable growth in distributable income.

Our financial results in 2000 reflect another year of solid growth for H&R REIT. Total operating revenue increased 15% to \$157.0 million. This includes a 17% increase to \$135.8 million in income from revenue producing properties and a 5% increase to \$21.2 million from mortgage and other income, which is primarily interest earned on funds advanced as mezzanine financing for development. This financing is non-dilutive during the development phase and the funds advanced for this program ultimately produce significantly enhanced returns to the REIT.

Net earnings in 2000 increased 13% to \$54.5 million, while distributable income increased 15% to \$59.7 million or \$1.28 on a per Unit basis. Consistent with our long term policy, the REIT's total cash distribution in 2000 was 87%. Monthly distributions to Unitholders were increased in December by more than 5% to \$1.164 on an annualized basis.



Eglinton Ave. E. & Dixie Rd.
Mississauga, Ontario

PROPERTY TYPE	OFFICE
EXPECTED COMPLETION	FEBRUARY 2002
NET RENTABLE AREA	508,000 SQ. FT.
OCCUPANCY	100%
MAJOR TENANT	BELL MOBILITY

Construction is well underway on the 508,000 square foot Bell Mobility office complex in Mississauga, Ontario.





110 Sheppard Ave. E.
North York, Ontario

PROPERTY TYPE	OFFICE
BUILT	1993
RENTABLE AREA	145,116 SQ. FT.
OCCUPANCY	100%
MAJOR TENANTS	EQUIFAX CANADA INC., WYETH-AYERST CANADA INC.

OUR FUTURE

We feel very confident about our future in 2001 and beyond. To date, we have adopted a conservative approach in our growth and this has paid off handsomely for our Unitholders. We do not anticipate any changes to our management philosophy. We have an enviable portfolio of relatively new buildings, a quality tenant base tied to contractual rent increases with many of our properties located in the Toronto area where the demand/supply equation is highly favourable. We have a strong management team at H&R that has been able to capitalize on appropriate opportunities as they arise.

Subsequent to year-end we completed a placement of 8.3 million Trust Units into the market for total gross proceeds of \$101.3 million. Our future growth will continue to be characterized by a focus on the quality of the property we acquire, the tenants we attract and the cash flow we generate. We expect that adherence to these same operating principles will continue to result in future successes for our REIT and improved returns over the long term for our Unitholders.

As always, management is indebted to the Board of Trustees and our employees, whose dedication and hard work are responsible for the sustained growth of H&R REIT. We also recognize the support of our tenants and Unitholders whose commitment is critical to our continued success.

Thomas J. Hofstedter
President and Chief Executive Officer



-----> We have an enviable portfolio of relatively new
 -----> buildings, a tenant base tied to contractual rent
 -----> increases and many of our properties are in the
 Toronto area where the demand/supply equation
 is highly favourable.

310-320-330 Front St. W.
 Toronto, Ontario

PROPERTY TYPE	OFFICE
BUILT	1989-1990
RENTABLE AREA	567,861 SQ. FT.
OCCUPANCY	96%
MAJOR TENANTS	GALILEO CANADA, NATIONAL BANK, ROYAL BANK OF CANADA, LUMBERMAN'S MUTUAL, LAURENTIAN FINANCIAL SERVICES, NCR



PORTFOLIO OF PROPERTIES

Office Properties – As at December 31, 2000

Properties	Ownership Interest	Year Built/Renovated	Net Rentable Area (Sq. Ft.)	Occupancy	Major Tenants	Occupancy by Major Tenants
310-320-330 Front St. W. Toronto, ON	70%	1989/1990	567,861	97%	Galileo Canada, National Bank, Royal Bank of Canada, Lumberman's Mutual, NCR, Laurentian Financial Services	75%
401-405 The West Mall Etobicoke ON	70%	1983/1985	410,784	98%	Livingston International Inc., Parmalat Foods, Royal Insurance, Best Foods, Gilbey Canada, Royal Bank of Canada	62%
25 Sheppard Ave. W. North York, ON	70%	1994	359,227	100%	Nestle Canada, Telemedia, Hewitt & Associates, Association of Professional Engineers of Ontario	87%
26 Wellington St. E. Toronto, ON	70%	1981	172,353	100%	Sun Life of Canada, United Way, Sceptre Investments	67%
55 Yonge St. Toronto, ON	70%	1956/1989	154,890	95%	CIBC, Telerate Canada, TransCanada PipeLines, C.I. Funds Management Inc.	68%
145 Wellington St. W. Toronto, ON	70%	1987	153,314	100%	American International Group, Aon Consulting	78%
110 Sheppard Ave. E. North York, ON	50%	1993	145,116	100%	Equifax Canada Inc., Wyeth-Ayerst Canada Inc.	97%
2810 Matheson Blvd. E. Mississauga, ON	35%	1990	140,210	100%	Credit Union Central of Ontario, TTI Travel	69%
250 University Ave. Toronto, ON	100%	1958/1997	132,000	60%	HSBC InvestDirect, Aber Diamond Corporation, Longbar Management Services	58%
2780-2800 Skymark Ave. Mississauga, ON	60%	1988/1990	109,018	97%	Starber-Fritz Inc., CIBC, Holiday Network, McDonald's	32%
2611-3rd Ave. Calgary, AB	50%	1998	95,465	100%	Telus Advertising Services Inc.	100%
631 South Olive St.* Los Angeles, CA	100%	1986	91,611	100%	The NBBJ Group, M.K. Diamonds	17%
1235 Bay St. Toronto, ON	100%	1973/2000	91,108	100%	Dental Anesthesia Assoc., Interac Business Centres, Walt Disney (Canada) Ltd.	35%
69 Yonge St. Toronto, ON	70%	1914/1988	85,151	99%	Livingston Group, Shoppers Drug Mart	31%
1 Kenview Blvd. Brampton, ON	100%	1989	79,005	100%	Atlantis Aerospace Corp.	100%
291-295 The West Mall Etobicoke, ON	70%	1978	77,345	88%	Parmalat Food, Investors Group Financial Services	38%
3625 Dufferin St. North York, ON	70%	1965/1985	71,288	100%	H&R Property Management Ltd.	35%
88 McNabb St. Markham, ON	70%	1987	69,865	100%	Wyeth-Ayerst Canada Inc.	100%
2767 2nd Ave. Calgary, AB	100%	1998	69,630	100%	DeVry Inc.	100%
131 McNabb St. Markham, ON	100%	1989	54,100	100%	Drug Trading Company Ltd.	100%
Total			3,129,341	95%		

* Held through a wholly-owned U.S. subsidiary.

Single-Tenant Industrial Properties – As at December 31, 2000

Properties	Ownership Interest	Year Built/ Renovated	Net Rentable Area (Sq. Ft.)	Occupancy	Major Tenants	Occupancy by Major Tenants
2300 Rue Senkus LaSalle, QC	100%	1972	742,000	100%	Consumers Packaging Inc.	100%
220 Chemin du Tremblay Boucherville, QC	100%	1999	728,000	100%	Rona Inc.	100%
55 West Dr. Brampton, ON	100%	1969/1981	505,565	100%	Winners Apparel Ltd.	100%
4441-76th St. Calgary, AB	100%	1980	323,796	100%	TCT Logistics Inc., Livingston Distribution Centre	100%
137 Horner Ave. Etobicoke, ON	100%	1962	320,000	100%	TCT Logistics Inc.	100%
2121 Cornwall Rd. Oakville, ON	100%	1997/1998	314,165	100%	Livingston Contract Logistics Inc.	100%
1600 Lionell Boulet Varenes, QC	100%	1971	311,103	100%	ASEA Brown Boveri Inc.	100%
7830 Tranmere Dr. Mississauga, ON	100%	1985/1987	265,469	100%	Paperboard Industries Corporation	100%
6580 Millcreek Dr. Mississauga, ON	100%	1999	249,634	100%	Livingston Contract Logistics Inc.	100%
75 Frontenac Dr. Markham, ON	100%	1986	243,614	100%	Hyundai Auto Canada	100%
6590 Millcreek Dr. Mississauga, ON	100%	1999	225,694	100%	NFC Canada Ltd.	100%
3655 Weston Rd. Downsview, ON	100%	1970	184,266	100%	O.S.F. Inc.	100%
2390 Argenta Rd. Mississauga, ON	100%	1984	179,085	100%	Nortel Networks	100%
6660 Financial Dr. Mississauga, ON	100%	1998/1999	164,116	100%	Servi-Logistics Inc.	100%
1330 Martin Grove Rd. Mississauga, ON	100%	1970/2000	162,775	100%	Palex Inc.	100%
351 Passmore Ave. Scarborough, ON	100%	1986	161,137	100%	Slater Steel Inc.	100%
500 Palladium Dr. Kanata, ON	100%	2000	150,000	100%	Nortel Networks	100%
1616 Eiffel St. Boucherville, QC	100%	1989	139,978	100%	Corporate Express Canada Inc.	100%
11 Kenview Blvd. Brampton, ON	100%	1989	139,548	100%	Para Paints Canada Inc.	100%
2841 Langstaff Rd. Vaughan, ON	100%	1996	123,906	100%	All Metal Machine Specialties Limited, Planet Paper Box Inc.	100%
17718-114th Ave. Edmonton, AB	100%	2000	121,315	100%	Purolator Courier Limited	100%
7000 Rue Armand Quebec City, QC	100%	2000	120,584	100%	Purolator Courier Limited	100%
1350-1380 Matheson Blvd. E. & 5391 Ambler Dr., Mississauga, ON	100%	1987	110,059	100%	Minuk Construction and Engineering	100%
9300 Airport Rd. Hamilton, ON	100%	2000	93,357	100%	Purolator Courier Limited	100%
1550 Creditstone Rd. Vaughan, ON	100%	2000	88,584	100%	Purolator Courier Limited	100%
2600 Meadowvale Rd. Mississauga, ON	100%	2000	84,486	100%	Purolator Courier Limited	100%
10300 Henri Bourassa St. Laurent, QC	100%	1976/1989	81,500	100%	ASEA Brown Boveri Inc.	100%
2 East Beaver Creek Rd. Richmond Hill, ON	70%	1988	78,982	100%	Country Style Donuts, Minacs Worldwide Inc., Pureco Labs, Motorola	100%
6315 Kenway Dr. Mississauga, ON	100%	1999	68,678	100%	Winston Steel Inc.	100%

Single-Tenant Industrial Properties *continued*

Properties	Ownership Interest	Year Built/ Renovated	Net Rentable Area (Sq. Ft.)	Occupancy	Major Tenants	Occupancy by Major Tenants
1060 Tristar Dr. Mississauga, ON	100%	1984	65,284	100%	Clarke Lithographing Ltd.	100%
9201 de l'Innovation St. Anjou, QC	100%	2000	62,217	100%	Purolator Courier Limited	100%
6520 Kestrel Rd. Mississauga, ON	100%	2000	62,217	100%	Purolator Courier Limited	100%
2005 Boul. Dagenais Laval, QC	100%	2000	62,217	100%	Purolator Courier Limited	100%
550 York Rd. Niagara on the Lake, ON	100%	2000	62,185	100%	Purolator Courier Limited	100%
3104-97th St. Edmonton, AB	100%	2000	62,129	100%	Purolator Courier Limited	100%
880 Milner Ave. Scarborough, ON	70%	1990	60,028	100%	House of Electrical, G.H. Import	100%
2860 Plymouth Dr. Oakville, ON	100%	1989	59,613	100%	Garlock of Canada	100%
1 Moyal Ct. Vaughan, ON	70%	1991	52,792	100%	Wajax Motion Technologies	100%
5 Bodrington Ct. Markham, ON	70%	1994	50,000	100%	Belmont Press	100%
360 Spinnaker Way Vaughan, ON	70%	1995	41,944	100%	The Packaging Group	100%
2815 Matheson Blvd. E. Mississauga, ON	70%	1987	40,000	100%	ADT Security Services	100%
380 Spinnaker Way Vaughan, ON	70%	1995	33,017	100%	Topax Export Packaging	100%
4248-14th Ave. Markham, ON	70%	1994	32,708	100%	Linsey Foods Limited	100%
300 Biscayne Cres. Brampton, ON	70%	1996	31,606	100%	Dicom Express Inc.	100%
45 Bodrington Ct. Markham, ON	70%	1992	28,089	100%	Corporate Foods Limited	100%
75 Addiscott Rd. Markham, ON	70%	1996	27,627	100%	Riviera Catering	100%
2400 Matheson Blvd. E. Mississauga, ON	70%	1993	25,000	100%	Givaudan Roure	100%
5230 Orbitor Dr. Mississauga, ON	70%	1994	22,000	100%	W.K. Buckley Limited	100%
Total			7,362,069	100%		

Retail Properties – As at December 31, 2000

Properties	Ownership Interest	Year Built	Net Rentable Area (Sq. Ft.)	Occupancy	Major Tenants	Occupancy by Major Tenants
Shawnessy Towne Centre Calgary, AB	100%	1998 - 1999	294,311	100%	Business Depot, Michael's of Canada, Future Shop, Linens 'N Things, Towne Shoes, Marks Work Warehouse	85%
720 Maloney Blvd. W. Gatineau, QC	50%	1995 - 1998	279,242	100%	Wal-Mart, Canadian Tire Metro Richlieu	93%
NorthPointe Towne Centre Calgary, AB	100%	2000	199,502	100%	Famous Players, Canadian Tire	50%
220 Chain Lake Dr. Halifax, NS	50%	1996 - 1998	135,453	100%	Wal-Mart	98%
Southwood Corner Calgary, AB	100%	1993	121,076	100%	Debaji's, Fabricland, Bank of Montreal	36%
110 Bloor St. W. Toronto, ON	100%	1997 - 1998	85,176	100%	Chapters, Nike, Escada, Louis Vuitton	97%
15 & 25 King Edward St. Coquitlam, BC	100%	1996	62,443	100%	Winners Apparel, Mark's Work Warehouse	63%
Island Highway Nanaimo, BC	100%	2000	58,273	100%	Michael's of Canada, Petccetera	69%
4211-137 Ave & 4204-137 Ave. Edmonton, AB	100%	1996 - 1998	55,997	100%	Cineplex Odeon Corporation	53%
61st Avenue & Barlow Trail S.E. Calgary, AB	100%	1998 - 1999	40,511	100%	Business Depot	64%
Sunridge Plaza Calgary, AB	100%	2000	34,446	100%	Mark's Work Warehouse, CIBC	68%
2605 Fairway Plaza Rd. S. & 2810 Fairway St. S. Lethbridge, AB	100%	1992	25,717	100%	United Buy & Sell	75%
3400 Steeles Ave. W. Vaughan, ON	100%	1999 - 2000	16,010	100%	McDonalds, Tim Hortons	41%
Total			1,408,157	100%		

Mezzanine Financing for Development – As at December 31, 2000

Properties	Property Type	Ownership Option	Expected Completion	Net Rentable Area (Square Feet)	Occupancy	Major Tenants
450-1st St. S.W. Calgary, AB	Office	100%	May 2001	936,000	100%	TransCanada PipeLines
Eglinton Ave. E. & Dixie Rd. Mississauga, ON	Office	100%	February 2002	508,000	100%	Bell Mobility
7500 Lundy's Lane Niagara Falls, ON	Retail	100%	April 2001	173,000	98%	Tommy Hilfiger, Guess, Levi's, Polo Ralph Lauren, Nike
Purolator Distribution Centres Calgary, AB/Saskatoon, SK	Single-tenant industrial	100%	December 2001	121,000	100%	Purolator Courier Ltd.
Derry Road & Hwy. 10 Mississauga, ON	Single-tenant industrial	100%	May 2001	103,000	100%	Maritz Canada Inc.
101 Edgeley Blvd. Vaughan, ON	Retail	50%	N/A	N/A	100% (Wal-Mart only)	Wal-Mart
Front St. W. & John St. Toronto, ON	Office	100%	N/A	N/A	N/A	N/A
Eglinton Ave. E. & Dixie Rd. Mississauga, ON	Industrial/ Office	100%	N/A	N/A	N/A	N/A
Total				1,841,000		

Overview of Portfolio

The following table summarizes the Portfolio of the REIT as at December 31, 2000.
(Net ownership position)

Portfolio	Office	Single-Tenant Industrial	Retail	Total
Number of Properties	20	48	13	81
Total Leasable Area (square feet)	2,248,585	7,204,931	1,189,155	10,642,671
Occupancy*	95%	100%	100%	99%
Average Rent in Place	\$ 15.55	\$ 4.66	\$ 17.23	\$ 8.36
Average Interest Rate on Outstanding Mortgages*	9.6%	7.2%	7.5%	8.2%

* Weighted Average

Lease Maturities

Portfolio	Office*	Single-Tenant Industrial*	Retail*	Total*
2001	1.3%	0.6%	–	1.9%
2002	1.5%	2.7%	–	4.2%
2003	2.0%	3.1%	0.3%	5.4%
2004	2.8%	2.7%	0.1%	5.6%
2005	3.1%	0.8%	0.2%	4.1%

* Percent of total leasable area of portfolio.

Debt Maturities

The following table summarizes the debt maturities for the properties of the REIT on a combined basis, exclusive of normal monthly self-amortizing principal repayments.

Portfolio	Office	Single-Tenant Industrial	Retail	Total	Percentage of Mortgages Outstanding
2001	\$ 21,632	\$ 781	\$ 11,318	\$ 33,731	10.5%
2002	\$ 12,255	\$ 9,709	\$ 6,102	\$ 28,066	7.3%
2003	–	\$ 1,815	–	\$ 1,815	9.6%
2004	\$ 4,128	\$ 11,928	–	\$ 16,056	6.7%
2005	–	\$ 19,256	–	\$ 19,256	7.1%



145 Wellington St. W.
Toronto, Ontario

PROPERTY TYPE	OFFICE
BUILT	1987
RENTABLE AREA	153,314 SQ. FT.
OCCUPANCY	98%
MAJOR TENANTS	AMERICAN INTERNATIONAL GROUP, AON CONSULTING

25 Sheppard Ave. W
North York, Ontario

PROPERTY TYPE	OFFICE
BUILT	1994
RENTABLE AREA	359,227 SQ. FT.
OCCUPANCY	100%
MAJOR TENANTS	NESTLE CANADA, TELEMEDIA, HEWITT & ASSOCIATES, ASSOCIATION OF PROFESSIONAL ENGINEERS OF ONTARIO



2810 Matheson Blvd. E
Mississauga, Ontario

PROPERTY TYPE	OFFICE
BUILT	1990
RENTABLE AREA	140,210 SQ. FT.
OCCUPANCY	100%
MAJOR TENANTS	CREDIT UNION CENTRAL OF ONTARIO, TTI TRAVEL



MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

H&R Real Estate Investment Trust (the "REIT") is an unincorporated closed-end trust created by a Declaration of Trust and governed by the laws of the Province of Ontario.

The REIT commenced operations on December 23, 1996 with the initial acquisition of a 70% undivided interest in a portfolio of 27 properties, principally located in the Greater Toronto Area. As at December 31, 2000, the REIT owned and operated a portfolio of 81 properties (20 office, 48 single-tenant industrial and 13 retail) comprising an aggregate leasable area of 10.6 million square feet (as calculated at the REIT'S level of ownership) and had invested \$176.5 million as mezzanine financing for 8 development projects.

The REIT'S portfolio falls into the following geographic regions: three industrial properties, two office properties, nine retail properties and two development projects are located in Western Canada; one industrial property is located in Eastern Ontario; two industrial properties and one development project are located in Central Ontario; eight industrial properties and two retail properties are located in Eastern Canada (including Quebec); one office property is located in Los Angeles, California and the balance of the properties (53) and the remaining five development projects are located in the Greater Toronto Area.

The REIT has two primary objectives:

- to provide Unitholders with stable and growing cash distributions, generated by revenue it derives from investments in income-producing real estate properties; and
- to maximize unit value through ongoing active management of the REIT'S assets, acquisitions of additional properties and the provision of mezzanine financing for selected development projects.

NET EARNINGS AND FINANCIAL POSITION

The financial information as at December 31, 2000 and the results of operations for the year then ended are presented in accordance with Canadian generally accepted accounting principles applicable to real estate investment trusts. The following discussion should be read in conjunction with the REIT'S financial statements for the years ended December 31, 2000 and 1999.

RESULT OF OPERATIONS

Net income for the year ended December 31, 2000 of \$54.5 million, or \$1.17 per unit, increased by 12.8% on a dollar basis and 0.9% on a per unit basis over the \$48.3 million, or \$1.16 per unit, for December 31, 1999. Depreciation of \$6.8 million (1999 – \$5.2 million) and amortization of \$1.7 million (1999 – \$1.1 million) are included in the determination of net income. The REIT does not consider depreciation expense when calculating distributions paid to Unitholders.



11 Kenview Blvd.
Brampton, Ontario

110 Bloor St. W.
Toronto, Ontario



QUARTERLY INFORMATION Three-month Periods Ended (unaudited) (In thousands of dollars, except per unit amounts)

	Dec. 31 2000	Sept. 30 2000	June 30 2000	March 31 2000	Dec. 31 1999	Sept. 30 1999	June 30 1999	March 31 1999
Rental from income properties	\$ 37,310	\$ 36,983	\$ 30,890	\$ 30,592	\$ 31,898	\$ 27,907	\$ 27,501	\$ 28,576
Mortgage interest income and other	4,564	4,126	6,301	6,253	5,727	5,736	4,610	4,136
Earnings from operations	15,439	14,554	13,906	14,053	13,905	13,410	12,165	11,922
Earnings from operations per unit (basic)	0.291	0.287	0.282	0.287	0.307	0.310	0.312	0.306
Net earnings	14,584	13,608	13,029	13,237	13,227	12,547	11,354	11,131
Net earnings per unit (basic)	0.297	0.292	0.288	0.292	0.292	0.290	0.291	0.286
(fully diluted)	0.294	0.291	0.287	0.291	0.289	0.289	0.290	0.286

INCOME FROM RENTAL OPERATIONS BEFORE DEPRECIATION AND AMORTIZATION (In thousands of dollars)

	2000	1999
Rentals from income properties	\$ 135,775	\$ 115,882
Mortgage interest income and other	21,244	20,209
	157,019	136,091
Property operating costs	50,881	47,028
Operating income before interest	106,138	89,063
Mortgage and other interest	39,692	31,333
Income from operations before depreciation and amortization	\$ 66,446	\$ 57,730

RENTALS FROM INCOME PROPERTIES

Rental income from income properties increased 17.2% from \$115.9 million to \$135.8 million in 2000. The increase is primarily a result of the REIT's ongoing strategy of adding to its properties either through acquisitions or its mezzanine financing program. A net total of 19 properties were added during the year in the gross amount of \$210.6 million. Property operating costs and mortgage and other interest have also increased from \$47.0 million and \$31.3 million to \$50.9 million and \$39.7 million respectively in 2000.

The 99% occupancy rate in the REIT's portfolio at December 31, 2000 remained above the industry average for the 3rd consecutive year. The exposure to lease rollovers as a result of lease expiries over the next 5 years (as a percentage of the REIT- owned portion of the properties) is as follows:

2001	1.9%
2002	4.2%
2003	5.4%
2004	5.6%
2005	4.1%

MORTGAGE INTEREST INCOME

The REIT earned \$21.2 million in mortgage interest income in 2000 compared to \$20.2 million in 1999, an increase of 5%. Included in this amount is \$4.7 million (1999 – \$6.3 million) earned from the mezzanine financing provided for the TransCanada PipeLines Tower development, the largest of our mezzanine financing projects. This reduction of 25.4% is due to the fact that substantial principal was repaid on this loan in late 1999, after permanent financing was arranged for the project. The weighted average interest earned on these investments in 2000 was approximately 10.4% (1999 – 10.9%). For details on mortgage receivable activity in the year, see Mortgages Receivable on page 19.

SALE OF INCOME PROPERTIES

The REIT's philosophy is to dispose of assets that no longer fit its investment strategy and re-deploy the proceeds in more attractive investment opportunities. In 2000, the REIT sold 2 industrial properties in Western Canada, one of which was the result of a tenant exercising a purchase option under its lease. The gain on sale amounted to \$654,000.

TRUST EXPENSES

Trust expenses increased slightly from \$3.1 million in 1999 to \$3.5 million in 2000, an 11.1% increase. These expenses amount to 2.6% of rentals from income properties, down slightly from the previous year's 2.7%, a level that is amongst the lowest in the Canadian real estate industry.

DISTRIBUTION TO UNITHOLDERS

Pursuant to its Declaration of Trust, the REIT is required to distribute not less than 85% of its distributable income to Unitholders on a monthly basis. Depreciation and other non-cash items are added to, or deducted from, net earnings to determine the amount of income for distribution to unitholders, in accordance with the distribution policy of the REIT.

CALCULATION OF DISTRIBUTABLE INCOME for the year ended December 31, 2000 (In thousands of dollars)

	2000	1999
Net earnings	\$ 54,458	\$ 48,259
Add (deduct)		
Depreciation	6,818	5,212
Accrued rent	(1,593)	(1,860)
Imputed mortgage interest	-	65
Distributable income	\$ 59,683	\$ 51,676

Accrued rent represents the adjustment made to normalize rents for certain tenants whose rental rate increases substantially over the term of their respective leases. This adjustment is required by Canadian generally accepted accounting principles and represents a non-cash item to be deducted in determining distributable income.

Total distributions per unit for 2000, which amounted to 86.5% of distributable income, were \$1.109 compared to \$1.104 in 1999. The tax deferred portion of the distribution was 52% in both 2000 and 1999. The deferral will vary in any given year due to factors such as the size and timing of unit offerings and the acquisition of properties and provision of mezzanine financing for development projects.

CHANGES IN FINANCIAL POSITION

ASSETS

Income Properties

The REIT acquired an interest in 21 properties during the year and disposed of two. The acquisitions continued the REIT's investment strategy of acquiring quality assets occupied by long-term creditworthy tenants. These acquisitions impacted two of the REIT's property categories: single-tenant industrial and retail. Certain assets were acquired by utilizing our short-term acquisition line while a second group was acquired in August 2000 through the acquisition of a corporation by the issuance of 3.7 million shares to complete a share exchange transaction. Consequently, income properties increased by 29.6% to \$891.2 million at December 31, 2000 from \$687.4 million at December 31, 1999.

Two properties were acquired through conventional acquisitions and eleven were acquired as a result of the development program. A further nine properties were acquired through the acquisition of another publicly traded corporation (which also included the purchase of the remaining 50% interest in a property for which we already owned the initial 50%).

In March 2000, the REIT exercised its option to purchase the first two of the twelve properties to be developed for Purolator Courier Limited under our mezzanine financing program. The leases in all cases are to run for a twenty-year period. These initial two properties, both situated in Edmonton, Alberta, comprise a combined 183,000 square feet.

During April 2000, the REIT purchased the initial 50% of the 2nd and 3rd phases of the Shawnessy Towne Centre in Calgary, Alberta, the 50% initial interest in the first phase having been purchased at the end of 1999. During the same month, the REIT also exercised its option on the third Purolator property, located in Anjou, Quebec comprising 62,000 square feet.

In May 2000, the REIT exercised its option on another Purolator property, this being located in Niagara, Ontario, totaling 62,000 square feet. During the same month, the REIT acquired a further property developed through its mezzanine financing program, a 163,000 square foot single-tenant industrial facility in Mississauga, Ontario, leased to PALEX Inc. for a 15-year term.

During the month of June 2000, the REIT acquired five additional Purolator properties located in Quebec City, Quebec and Hamilton, Mississauga (two) and Vaughan, Ontario encompassing a total of 506,000 square feet. In addition, the REIT acquired a 150,000 square foot single-tenant industrial property in Kanata, Ontario, leased to Nortel Networks Inc. for a term of 15 years.

During August 2000, the REIT exercised its option on the tenth Purolator property, a 62,000 square foot facility in Laval, Quebec.

Finally, in August 2000, the REIT acquired all the issued and outstanding shares of Royop Properties Corporation. The transaction was completed by way of a plan of arrangement on August 31, 2000 under which each Royop share was exchanged for 0.0938 of an H&R REIT unit. An aggregate of 3,721,682 units were issued in connection with this transaction. As a result of this

transaction, the REIT acquired an interest in nine income producing retail properties comprising 614,000 square feet, as well as the remaining 50% it did not already own of the Shawnessy Towne Centre. Major tenants in these retail centres include Famous Players, Canadian Tire, Winners, Mark's Work Wearhouse, Business Depot and two Canadian chartered banks.

Mortgages Receivable

During 2000, the REIT continued to provide mezzanine financing for development projects that are consistent with the REIT's objectives and philosophy. These projects are secured through mortgage financing provided by the REIT, which receives or anticipates receiving an option to acquire an equity interest in the project. Construction financing is only provided after 70% of the project has been pre-leased. Participation in development projects enables the REIT to acquire high quality, new properties at higher yields than would otherwise be available.

Mortgages receivable decreased 24.1% from 12 developments comprising \$232.5 million to 8 projects comprising \$176.5 million at December 31, 2000. This decline reflects the fact that these development projects are steadily being completed with the REIT either exercising its option, in which case the property is acquired, or releasing its option at which time the mezzanine funds are repaid to the REIT.

The financing for TransCanada PipeLines' new head office in Calgary, Alberta still remains the largest of these transactions at \$48.9 million. The base building for this class A office building was substantially completed in February 2001 and our option to acquire the property is expected to be exercised after lease commencement during the second quarter of 2001.

The second prominent transaction in this asset class is the financing for the development of a 508,000 square foot office complex in Mississauga, Ontario, fully leased to Bell Mobility for a term of 20 years. The total cost of the project is expected



1 Kenview Blvd.
Brampton, Ontario

2600 Meadowvale Rd.
Mississauga, Ontario

to be \$134 million and there is sufficient land adjacent to the Bell site to allow for up to 500,000 square feet of expansion. The total amount of the financing advanced on this project was \$27.8 million at December 31, 2000 compared to \$18.1 million at December 31, 1999. Related to this financing was the announcement in October 2000 that a \$115.5 million, 22 year public mortgage bond financing has been arranged. This project is expected to be completed in the first quarter of 2002.

No new development projects were funded during the year as the REIT concentrated on the completion of its existing transactions.

Other significant transactions in 2000 included the following:

1. In June 2000, the mezzanine loan to provide financing in connection with the development of an office property in Dallas, Texas for office and telecommunications use was repaid in full in the amount of \$41 million and our purchase option was released.
2. Over the course of the year 2000, the REIT exercised its options on ten Purolator properties which resulted in a reduction of the loan amount outstanding on the Purolator mezzanine financing program of \$30.4 million from \$34.7 million at December 31, 1999 to \$4.3 million at December 31, 2000.

These two transactions accounted for the majority of the decline in the mortgages receivable loan balances outstanding. The other two properties reallocated from this asset class in 2000 were the Shawnessy Towne Centre development which converted to a revenue producing property in April 2000 and the Millcreek project for which the balance of the loan was repaid and the option cancelled.

Finally, the REIT continued to fund six other projects, most of which are expected to convert into revenue producing properties during 2001 and 2002, after the REIT's options are exercised.

Other Assets

Accounts receivable increased marginally from \$3.4 million at December 31, 1999 to \$3.5 million at December 31, 2000 and deferred expenses increased from \$8.2 million to \$11.3 million over the same period. Accrued rent receivable increased by \$1.6 million from \$6.1 million at December 31, 1999 to \$7.7 million at December 31, 2000 while prepaid expenses and sundry assets increased from \$1.7 million to \$7.1 million over the same period.

The majority of the increase in deferred expenses and prepaid expenses and sundry assets arose as a result of the acquisition of Royop Properties Corporation.

Certain leases call for rental payments that increase significantly over their term. Accrued rent receivable records the rental revenue from these leases on a straight-line basis, resulting in accruals for rent that are not billable or due until future years. Accrued rent for 2000 represents the adjustment for \$1.6 million of rent from the Nestle lease at the property located at 25 Sheppard Avenue West.

This accrual has increased accrued rent receivable by \$1.6 million between December 31, 1999 and December 31, 2000 and this asset will continue increasing until 2004 when the balance will begin decreasing until it reaches zero at the lease's maturity in 2019. The annual adjustment for this item affecting the income statement will be removed from the calculation of distributable income each year as it does not represent a cash item.



26 Wellington St. E.
Toronto, Ontario

131 McNabb St.
Markham, Ontario



LIABILITIES

The REIT's Declaration of Trust limits the indebtedness of the Trust to a maximum of 60% of the Gross Book Value of the Trust (Gross Book Value is defined as the book value of the REIT's assets plus accumulated depreciation). At December 31, 2000, the REIT's indebtedness was 50% of the Gross Book Value of the REIT compared to 48% at December 31, 1999.

Mortgages payable increased to \$464.3 million at December 31, 2000 compared to \$358.4 million at December 31, 1999. The mortgages bear interest at the weighted average rate of 8.2% (1999 – 8.4%) and mature between 2001 and 2018. To reduce risk, management has attempted to closely match the weighted average term to maturity of the mortgages of 8.7 years to the remaining average lease term of 10.3 years. Going forward, management anticipates the REIT will be able to renew its debt as it matures. Future principal payments as a percentage of mortgages payable are as follows:

2001	9.5%
2002	8.3%
2003	2.9%
2004	6.1%
2005	6.5%
Thereafter	66.7%

Year-end debt included bank indebtedness of \$98.2 million (1999 – \$95.5 million) which bears interest at rates approximating the prime rate of a Canadian chartered bank. This debt is secured by fixed charges over certain income properties and is due on demand.

Accounts payable have increased by \$5.5 million from \$20.9 million at December 31, 1999 to \$26.4 million at December 31, 2000 reflecting the continual increase in the level of economic activity that the REIT is experiencing.

UNITHOLDERS' EQUITY

During 2000, the REIT issued 3,721,682 units in connection with a plan of arrangement to acquire all the issued and outstanding shares of Royop Properties Corporation. This resulted in an issue of units, net of costs, which added \$41.4 million to unitholders' equity. Combining that with the portion of net earnings not distributed to unitholders, as well as units issued under our distribution reinvestment plan, unitholders' equity increased by \$44.2 million from \$466.6 million at December 31, 1999 to \$510.8 million at December 31, 2000.

LIQUIDITY AND CAPITAL RESOURCES

During 2000, the REIT used a combination of new equity derived from its distribution reinvestment plan, conventional real estate debt, short-term financing (including a \$110 million operating/acquisition facility with a Canadian chartered bank) and stable cash flow from its income properties to meet all of its liquidity requirements. Management expects to be able to meet all of the REIT's ongoing obligations and to finance future growth (including the acquisition of the TransCanada PipeLines Tower) in a similar fashion as well as through the issue of new equity by way of conventional treasury offerings.

ACCOUNTING CHANGE

After year-end, the REIT adopted the new CICA recommendations on Earnings per Share. This new section brings Canadian requirements in line with U.S. and international standards. Under the new standard, the treasury stock method will be used instead of the imputed earnings method to determine the dilutive effect of options and equivalents on per share earnings. Under the treasury stock method, it is assumed that proceeds from the exercise of outstanding unit options are used to purchase units at the average market price during the period. Effectively, only "in-the-money" unit options are included in diluted earnings and cash flow from operating activities per unit calculations.

SUBSEQUENT EVENT

In February 2001, the REIT completed an offering of 8.3 million units for gross proceeds of \$101.3 million. The net proceeds were used primarily to fund the acquisition of additional properties and to reduce the REIT's bank indebtedness.

RISKS AND UNCERTAINTIES

The REIT is exposed to interest rate risk on its borrowings. It minimizes this risk by restricting total debt to 60% of aggregate assets and by obtaining long-term fixed rate debt to replace short-term floating rate borrowings. In addition, the weighted average term to maturity of long-term debt is closely matched to the remaining average lease terms.

The REIT is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the REIT's holdings so that it owns several categories of properties (office, industrial and retail) and is now acquiring properties outside of Ontario. In addition, management ensures that no tenant or related group of tenants accounts for a significant portion of the cash flow.

The REIT is also exposed to credit risk as a lender on the security of real estate in the event that a borrower is unable to make the contracted payments. Such risk is mitigated through credit checks and related due diligence of the borrowers and through careful evaluation of the worth of the underlying assets.

The REIT has been structured to ensure that mandated investment guidelines and operating criteria are strictly adhered to. These policies govern such matters as the type and location of properties that the REIT can acquire, the maximum leverage allowed and the requirements for insurance coverage as well as environmental policies.

The REIT has maintained its ability to properly manage both operational and financial risks. The REIT's properties are leased under long-term arrangements to a diversified base of creditworthy tenants with strong covenants and are financed with long-term fixed rate mortgages.

No single tenant is critical to the REIT's ability to meet its financial obligations. The REIT's large tenant base allows it to fulfill its primary goal of maintaining a predictable cash flow. Risk is further minimized through a low vacancy rate and relatively few short to medium-term lease renewals.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements and information included in this Annual Report have been prepared by the management of H&R Real Estate Investment Trust which is responsible for their consistency, integrity and objectivity. The Trust maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are consistent, efficient and of a high quality.

KPMG LLP, the independent auditor, is responsible for auditing the consolidated financial statements and giving an opinion thereon.

The consolidated financial statements have been reviewed and approved by the Board of Trustees and the Audit Committee. This Committee meets regularly with management and the auditors who have full and free access to the Committee.



Thomas J. Hofstедter
President and Chief Executive Officer



Eric Cohen
Chief Financial Officer

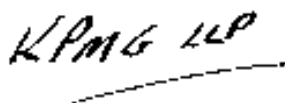
AUDITORS' REPORT

TO THE UNITHOLDERS OF H&R REAL ESTATE INVESTMENT TRUST

We have audited the balance sheets of H&R Real Estate Investment Trust as at December 31, 2000 and 1999 and the statements of earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Toronto, Canada
February 5, 2001,
except as to note 17 which is as of March 1, 2001

FINANCIAL STATEMENTS

BALANCE SHEETS – December 31, 2000 and 1999

(In thousands of dollars)	2000	1999
Assets		
Income properties (note 2)	\$ 891,215	\$ 687,403
Mortgages receivable (note 3)	176,451	232,473
Other assets (note 4)	32,145	21,567
	\$1,099,811	\$ 941,443
Liabilities and Unitholders' Equity		
Liabilities:		
Mortgages payable (note 6)	\$ 464,342	\$ 358,422
Bank indebtedness (note 7)	98,185	95,478
Accounts payable	26,437	20,920
	588,964	474,820
Unitholders' equity:		
49,092,781 units (1999 – 45,293,649) (note 8(a))	510,847	466,623
	\$1,099,811	\$ 941,443

See accompanying notes to financial statements.

Approved by the Trustees



Edward Gilbert
Trustee



Ronald C. Rutman
Trustee

STATEMENTS OF EARNINGS – Years ended December 31, 2000 and 1999

(In thousands of dollars, except per unit amounts)	2000	1999
Operating revenue:		
Rentals from income properties	\$ 135,775	\$ 115,882
Mortgage interest income and other	21,244	20,209
	157,019	136,091
Operating expenses:		
Property operating costs	50,881	47,028
Mortgage and other interest (note 16)	39,692	31,333
Depreciation of income properties	6,818	5,212
Amortization of deferred expenses	1,676	1,116
	99,067	84,689
Operating income from income properties	57,952	51,402
Trust expenses	3,494	3,143
Net earnings	\$ 54,458	\$ 48,259
Net earnings per unit (note 10)	\$ 1.17	\$ 1.16

See accompanying notes to financial statements.

STATEMENTS OF UNITHOLDERS' EQUITY – Years ended December 31, 2000 and 1999

(In thousands of dollars)	2000	1999
Unitholders' equity, beginning of year	\$ 466,623	\$ 397,223
Proceeds of offering of units	42,527	70,208
Issue costs	(1,114)	(3,136)
Net earnings	54,458	48,259
Distributions to unitholders	(51,647)	(45,931)
Unitholders' equity, end of year	\$ 510,847	\$ 466,623

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS – Years ended December 31, 2000 and 1999

(In thousands of dollars)	2000	1999
Cash provided by (used in):		
Operations:		
Net earnings	\$ 54,458	\$ 48,259
Items not affecting cash:		
Depreciation and amortization	8,494	6,328
Gain on sale of income properties	(654)	(499)
	62,298	54,088
Change in other operating items (note 11)	(4,615)	2,018
	57,683	56,106
Financing:		
Bank indebtedness	(41,413)	36,474
Mortgages payable:		
Acquisitions	37,491	66,290
Repayments	(15,654)	(17,950)
Proceeds from (issue costs of) offering of units, net	(1,114)	67,072
Distributions to unitholders	(51,647)	(45,931)
	(72,337)	105,955
Investments:		
Income properties:		
Proceeds on disposition of income properties	9,281	1,400
Acquisitions	(18,430)	(68,801)
Cash acquired on acquisition of subsidiary (note 9)	3,376	–
Mortgages receivable	20,740	(92,955)
	14,967	(160,356)
Increase in cash and short-term investments	313	1,705
Cash and short-term investments, beginning of year	2,180	475
Cash and short-term investments, end of year	\$ 2,493	\$ 2,180
Supplemental cash flow information:		
Interest received	\$ 15,753	\$ 12,297
Interest paid	39,270	29,520
Interest capitalized paid	352	316
Non-cash investing activities:		
Acquisitions of income properties through assumption of mortgages payable	51,560	25,827
Acquisitions of income properties through repayment of mortgages receivable	33,547	13,591
Acquisition of subsidiary through issuance of units (note 9)	43,622	–

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2000 and 1999. (In thousands of dollars, except per unit and unit amounts)

The H&R Real Estate Investment Trust (the "Trust") is an unincorporated trust with each unitholder participating pro rata in distributions of income and, in the event of termination of the Trust, participating pro rata in the net assets remaining after satisfaction of all liabilities.

1. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and with the recommendations of the Canadian Institute of Public and Private Real Estate Companies and reflect the following policies:

(a) Income properties:

Income properties are recorded at the lower of cost less accumulated depreciation and net recoverable amount. Depreciation of buildings is recorded on the 5% sinking fund basis to fully amortize the cost of buildings over 40 years.

(b) Deferred expenses:

Leasing costs, such as commissions, free rent and other tenant inducements, are deferred and amortized on a straight-line basis over the terms of the related leases. Mortgage financing costs are deferred and amortized over the terms of the related debt.

(c) Accrued rent receivable:

Certain leases call for rental payments that vary significantly over their term. The Trust records the rental revenue from these leases on a straight-line basis, resulting in accruals for rent that is not billable or due until future years. These amounts are recorded as accrued rent receivable.

(d) Co-ownerships:

The Trust carries out a significant portion of its activities through co-ownership agreements and records its proportionate share of assets, liabilities, revenue, expenses and cash flows of all co-ownerships in which it participates.

(e) Income taxes:

Pursuant to the terms of the Trust Agreement, the Trust intends to distribute its income for income tax purposes each year to such an extent that it will not be liable for income taxes under Part I of the Income Tax Act (Canada). Therefore, no provision for income taxes is required.

(f) Unit option plan:

The Trust has an option plan available for officers, employees and certain trustees as disclosed in note 8. No compensation expense is recorded at the time the options are issued. Any consideration paid by option-holders on exercise of unit options will be credited to unitholders' equity.

(g) Cash and short-term investments:

Included in cash and short-term investments are short-term investments which have maturities of three months or less.

(h) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

2. Income properties:

	Cost	Accumulated depreciation	2000 Net book value	1999 Net book value
Land	\$ 178,000	\$ –	\$ 178,000	\$ 137,306
Buildings	731,339	18,124	713,215	550,097
	<u>\$ 909,339</u>	<u>\$ 18,124</u>	<u>\$ 891,215</u>	<u>\$ 687,403</u>

3. Mortgages receivable:

The mortgages receivable are secured by real property under construction, bear interest at a weighted average of 10.4% (1999 – 10.9%) per annum and are repayable between 2001 and 2003. In most cases, the Trust has options to acquire interests in the properties subject to mortgages.

4. Other assets:

	2000	1999
Cash and short-term investments	\$ 2,493	\$ 2,180
Accounts receivable	3,480	3,373
Prepaid expenses and sundry assets	7,137	1,683
Deferred expenses (note 5)	11,292	8,181
Accrued rent receivable	7,743	6,150
	<u>\$ 32,145</u>	<u>\$ 21,567</u>

5. Deferred expenses:

	Cost	Accumulated amortization	2000 Net book value	1999 Net book value
Leasing	\$ 12,095	\$ 2,880	\$ 9,215	\$ 6,803
Financing	2,365	288	2,077	1,378
	<u>\$ 14,460</u>	<u>\$ 3,168</u>	<u>\$ 11,292</u>	<u>\$ 8,181</u>

6. Mortgages payable:

The mortgages payable are secured by the income properties, bear interest at the weighted average rate of 8.21% (1999 – 8.40%) per annum and mature between 2001 and 2018. Future principal payments are as follows:

Year ending December 31:

2001	\$ 44,115
2002	38,705
2003	13,574
2004	27,994
2005	30,240
Thereafter	309,714
	<u>\$ 464,342</u>

7. Bank indebtedness:

Bank indebtedness bears interest at the prime rate of a Canadian Chartered Bank, is secured by fixed charges over certain income properties and is due on demand. At December 31, 2000, the prime interest rate was 7.5% (1999 – 6.5%) per annum.

8. Unitholders' equity:

The beneficial interests in the Trust are represented by a single class of units which are unlimited in number. Each unit carries a single vote at any meeting of unitholders and carries the right to participate pro rata in any distributions.

H&R Developments and certain others, who are co-owners with the Trust in certain properties, have the right and the obligation to exchange their interest in the properties, before December 23, 2036, for an aggregate of 5,847,353 units, subject to adjustment.

(a) The following units are issued and outstanding:

	Units issued and outstanding
As at December 31, 1998	38,968,649
Issued on July 30, 1999 (at \$11.10 per unit)	6,325,000
As at December 31, 1999	45,293,649
Issued on August 31, 2000 (at \$11.40 per unit) (note 9)	3,721,682
Issued under distribution reinvestment plan	67,450
Issued on November 30, 2000 (at \$10.00 per unit)	10,000
As at December 31, 2000	49,092,781

All units were issued for cash, except for units issued August 31, 2000 (note 9) and dividend reinvestment plan.

(b) The following options were granted to officers, employees and certain trustees:

	Number of options outstanding 2000	Number of options outstanding 1999	Number of options exercisable 2000
\$10.00, expiring in 2006	885,000	895,000	885,000
\$10.84, expiring in 2007	642,900	642,900	642,900
\$11.32, expiring in 2008	570,532	570,532	380,355
\$11.11, expiring in 2009	265,000	265,000	88,333
\$11.00, expiring in 2009	431,250	431,250	143,750
\$9.17, expiring in 2010	130,000	–	–
\$11.22, expiring in 2010	327,947	–	–
	3,252,629	2,804,682	2,140,338

As at December 31, 2000, 10,000 options had been exercised.

(c) Unitholders' rights plan:

The Trust has adopted a Unitholders' Rights Plan ("Rights Plan") effective May 24, 2000 to ensure that any takeover bid made for the units of the Trust would be made to all Unitholders, treat all Unitholders equally, and provide the Board of Trustees with sufficient time to consider any such offer and encourage competing bids to emerge. The Rights Plan grants Unitholders the right to acquire, under certain circumstances, additional units at a 50% discount from its then current market price. The Trust, with the consent of its Unitholders or rights holders, may redeem each right at a nominal price. The Rights Plan will expire at the Annual Meeting of Unitholders in 2003, unless earlier terminated.

9. Acquisition of Royop Properties Corporation ("RPC"):

On August 31, 2000, all of the issued and outstanding shares of RPC, a third party, were acquired by the Trust through the issuance of 3,721,682 units for total consideration of \$43,622 (note 8(a)). The transaction has been accounted for by the purchase method with the results of operations included in these statements from the date of acquisition.

Details of the net assets acquired are as follows:

Income properties	\$	116,816
Other working capital		2,983
Mortgages payable		(35,433)
Bank indebtedness		(44,120)
Cash and short-term investments		3,376
	\$	43,622

10. Per unit amounts:

Net earnings per unit, distributable income per unit and cash distributions per unit have been computed by dividing the respective amounts by the weighted average number of units outstanding during the year of 46,559,392 units (1999 – 41,637,279).

11. Change in other operating items:

	2000	1999
Accounts receivable	\$ (6)	\$ 2,547
Prepaid expenses and sundry assets	668	1,108
Deferred expenses	(4,400)	(4,336)
Accrued rent receivable	(1,593)	(1,860)
Accounts payable	716	4,559
	\$ (4,615)	\$ 2,018

12. Risk management and fair values of financial assets and financial liabilities:

(a) Risk management:

The Trust is exposed to interest rate risk on its borrowings. It minimizes this risk by restricting total debt to 60% of aggregate assets and by attaining long-term fixed rate debt to replace short-term floating rate borrowings. In addition, the weighted average term to maturity of long-term debt is closely matched to the remaining average lease terms.

The Trust is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. Management has diversified the Trust's holdings so that it owns several categories of properties (office, industrial and retail) and is now acquiring properties outside of Ontario. In addition, management ensures that no tenant or related group of tenants accounts for a significant portion of the cash flow.

The Trust is also exposed to credit risk as a lender on the security of real estate in the event that a borrower is unable to make the contracted payments. Such risk is mitigated through credit checks and related due diligence of the borrowers and through careful evaluation of the worth of the underlying assets.

(b) Fair values:

The fair values of the Trust's accounts receivable and other assets, bank indebtedness and accounts payable approximate their carrying amounts due to the relatively short periods to maturity of the instruments.

The fair value of the mortgages receivable approximates carrying value since interest rates have not changed significantly since the mortgages were negotiated.

The fair value of the mortgages payable has been determined by discounting the cash flows of these financial obligations using year end market rates for debt of similar terms. Based on these assumptions, the fair value of mortgages payable at December 31, 2000 has been estimated at \$466,723 (1999 – \$360,110) compared with the carrying value of \$464,342 (1999 – \$358,422).

13. Co-ownership activities:

These financial statements include the Trust's proportionate share of assets, liabilities, revenues, expenses and cash flows as follows:

	2000	1999
Assets	\$ 332,689	\$ 333,099
Liabilities	186,032	188,977
Revenues	68,143	71,726
Expenses	49,413	49,860
Operating income from income properties	18,729	21,866
Cash flows provided by operating activities	21,091	20,934
Cash flows provided by (used in) financing activities	(10,852)	12,485
Cash flows used in investing activities	(2,792)	(8,636)

Under the terms of the co-ownership agreements, the Trust is only responsible for its proportionate share of the obligations of the co-ownerships.

14. Distributable income:

Distributable income has been calculated in accordance with the terms of the Declaration of Trust as follows:

	2000	1999
Net earnings	\$ 54,458	\$ 48,259
Depreciation	6,818	5,212
Accrued rent	(1,593)	(1,860)
Imputed mortgage interest	–	65
	\$ 59,683	\$ 51,676
Distributable income per unit (note 10)	\$ 1.28	\$ 1.24
Cash distributions per unit (note 10)	\$ 1.11	\$ 1.10

15. Related party transactions:

The Trust has entered into agreements with H&R Property Management Ltd. (the "Property Manager"), a company affiliated with H&R Developments (note 8), to provide property management services concerning the properties owned by the Trust and support services in connection with the acquisition and development activities of the Trust. The current agreement is for five years expiring December 31, 2004, with three automatic five-year extensions. During the year, the Trust paid fees pursuant to these agreements of \$4,783 (1999 – \$4,416), of which \$1,929 (1999 – \$1,446) were capitalized to the cost of the income properties acquired.

The Trust has a mortgage payable to Batise Investments Limited, an owner of H&R Developments, in the amount of \$12,255 (1999 – \$11,150) bearing interest at LIBOR plus 1.5% per annum. The related mortgage interest expense was \$897 (1999 – \$1,113).

The Trust entered into a mortgage receivable agreement with H&R Development Corporation, an affiliate of H&R Developments, to provide financing for the development of the TransCanada PipeLines Limited head office building. Pursuant to this agreement, the Trust has advanced \$48,944 (1999 – \$43,139) bearing interest at 10% per annum. The related interest income was \$4,718 (1999 – \$6,347).

16. Mortgage and other interest expense:

	2000	1999
Mortgage interest	\$ 33,630	\$ 26,525
Interest on bank indebtedness	6,062	4,808
	<u>\$ 39,692</u>	<u>\$ 31,333</u>

17. Subsequent event:

On March 1, 2001, the Trust completed the issuance of 8,300,000 units for gross proceeds to the Trust of \$101,260,000 before offering expenses and underwriting commissions.

TRUSTEES AND OFFICERS

BOARD OF TRUSTEES

Sandor Hofstedter

Honourary Chairman
Chairman and one of the founders
H&R Developments

Thomas J. Hofstedter^{1,2}

President and Chief Executive Officer
H&R Real Estate Investment Trust

Robert Dickson

Executive Vice President, Corporate Development
Maxxcom Inc.

Edward Gilbert^{1,2,3}

Chief Operating Officer
Firm Capital Mortgage Investment Fund

George Hofstedter

Head of the Residential Division
H&R Developments

The Honourable Robert P. Kaplan, P.C., Q.C.

Business Consultant
Member of Parliament until 1993

Laurence A. Lebovic^{1,3}

Chief Executive Officer
Runnymede Development Corporation Ltd.

Mark S. Mandelbaum

Head of the Land Development Division and
Corporate Counsel
H&R Developments

Ronald C. Rutman^{2,3}

Partner
Zeifman & Company, Chartered Accountants

1 Investment Committee

2 Audit Committee

3 Compensation and Governance Committee

OFFICERS

Thomas J. Hofstedter

President and Chief Executive Officer

Eric Cohen

Chief Financial Officer, Secretary

Nathan Uhr

Vice-President, Acquisitions

UNITHOLDER INFORMATION

H&R Real Estate Investment Trust

3625 Dufferin Street, Suite 500
Downsview, Ontario, Canada M3K 1N4
Telephone: (416) 635-7520
Fax: (416) 398-0040
e-mail: info@hr-reit.com
Web site: www.hr-reit.com

Registrar and Transfer Agent

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario, Canada M5C 2W9
Telephone: (416) 643-5500 or 1-800-387-5501
Fax: (416) 643-5501
e-mail: inquiries@cibcmellon.ca
Web site: www.cibcmellon.ca

Auditors

KPMG

Legal Counsel

Fraser Milner Casgrain

Investor Information

Analysts, Unitholders and others seeking
financial data should contact:
Eric Cohen, Chief Financial Officer
(416) 635-7520.

Taxability of Distributions

52% of the distributions made by the REIT to
Unitholders during 2000 were tax deferred.
Management estimates that 50% of the
distributions to be made by the REIT in 2001
will be tax deferred.

Plan Eligibility

RRSP RRIF DPSP

Stock Exchange Listing

Units of H&R REIT are listed on the Toronto Stock
Exchange under the trading symbol 'HR.UN'.

Annual and Special Meeting of Unitholders

May 24, 2001,
11:00 a.m.,
The Design Exchange,
234 Bay Street (Ernst & Young Tower, TD Centre)
Toronto, ON.

UNITHOLDER DISTRIBUTION REINVESTMENT PLAN

H&R REIT is offering Unitholders of the REIT resident in Canada an opportunity to increase their holdings in the REIT at a discount to the prevailing market price and without incurring brokerage fees by participating in the REIT's Unitholder Distribution Reinvestment Plan and Unit Purchase Plan.

Unitholder Distribution Reinvestment Plan

The Unitholder Distribution Reinvestment Plan allows Unitholders to have their monthly cash distributions reinvested in additional units of the REIT at 95% of the weighted average price of the units on The Toronto Stock Exchange for the 20 trading days immediately preceding the cash distribution date.

Unit Purchase Plan

The Unit Purchase Plan allows Unitholders to purchase additional units on a monthly basis at a similar average market price (with a minimum purchase of \$250 per month up to a maximum of \$13,500).

Updates on Corporate Developments

H&R REIT will notify Unitholders with the latest corporate developments via e-mail, fax or regular mail.

Further Information

If you are a Unitholder and would like to enroll or would like further information about the Plans, please complete and return the attached self-addressed card, or contact H&R REIT (tel. 416-635-7520).



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