

Quarterly Report to Unitholders
for the six months ended June 30, 1999

H&R REIT MAINTAINS RECORD OF CONSISTENT GROWTH

H&R Real Estate Investment Trust is pleased to report continued growth in distributable income and net earnings for the six months ended June 30, 1999. Net earnings for the period increased 58% while distributable income per unit increased 15%. The strong performance of the REIT is attributable to continued asset growth which totalled 39% when compared to 1998.

Distributable income for the six month period was \$24.1 million or \$0.6187 per unit, representing increases of 61% and 15% respectively compared to last year. Operating revenue of \$64.8 million represents 45% growth over 1998's first six months' result of \$44.6 million. The \$22.5 million or \$0.577 per unit net earnings reflect a 58% increase on a dollar basis and 12% growth on a per unit basis.

In the second quarter, distributable income increased 42% to \$12.2 million from \$8.6 million and 8% to \$0.3131 from \$0.29 on a per unit basis. Operating revenue of \$32.1 million represents 36% growth over 1998 second quarter results of \$23.6 million. Net earnings rose 38% to \$11.4 million from \$8.2 million and to \$0.2914 from \$0.278 on a per unit basis.

H&R REIT's record of consistently strong results is a reflection of the REIT's discipline in adhering to its stated investment philosophy. We will continue to acquire properties leased to creditworthy, high-quality tenants who have signed long-term rental agreements. In addition, we will enhance our returns through the provision of mezzanine financing to top quality development projects that meet the strict investment criteria of the Trust.

Following the completion of the second quarter, H&R REIT completed a \$70.2 million offering of additional units of the REIT. The proceeds are being used to acquire properties and fund development projects that are accretive to Unitholder value and enhance the distributions to Unitholders.

In that regard, the REIT recently completed the purchase of a single-tenant industrial property and commenced the provision of two mezzanine financings. Specifically, the REIT acquired a \$28.0 million, 751,000 sf single-tenant industrial distribution warehouse in Boucherville, Quebec. The property is leased to Rona Inc. for a 20-year term with built-in rental escalations. We provided \$4.0 million as the first phase of mezzanine financing for the construction of a 162,000 sf single-tenant industrial property located in Mississauga, Ontario, and leased to PALEX Inc. for 15 years. The REIT has also allocated \$7.7 million as mezzanine financing for the construction of the first four of 11 design build facilities for Purolator Courier. The facilities are being built in South Edmonton, Alberta, Niagara, Ontario and two in Mississauga, Ontario and are structured on a 20-year lease-back basis.

The REIT's August payment of distributable cash amounted to \$0.092 per Unit or \$1.104 on an annualized basis. This distribution continues to reflect our policy of paying out approximately 90% of distributable income on an annual basis through monthly distributions.

For further information, please call:

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Chief Financial Officer
H&R REIT
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H & R REAL ESTATE INVESTMENT TRUST

Balance Sheet and Statement of Unitholders' Equity

(In thousands of dollars)

	June 30	
	1999	1998
Assets		
Income properties	\$625,615	\$515,020
Mortgages receivable	173,399	66,429
Accounts receivable	10,897	3,007
Deferred expenses	5,775	2,843
Accrued rent receivable	5,236	3,163
Prepaid expenses and sundry assets	3,057	2,167
Cash	1,331	-
	<u>\$825,310</u>	<u>\$592,629</u>

Liabilities and Unitholders' Equity

Liabilities:

Mortgages payable	\$326,023	\$192,928
Bank indebtedness	82,370	35,220
Accounts payable	18,720	13,721
	<u>427,113</u>	<u>241,869</u>
Unitholders' equity	398,197	350,760
38,968,649 units (1998 - 34,368,649)		
	<u>\$825,310</u>	<u>\$592,629</u>

Unitholders' Equity

Unitholders' equity, beginning of period	\$397,223	\$254,785
Proceeds of offering of units	-	100,000
Issue costs	-	(4,348)
Net earnings	22,485	14,242
Distributions to unitholders	(21,511)	(13,919)
Unitholders' equity, end of period	<u>\$398,197</u>	<u>\$350,760</u>

H & R REAL ESTATE INVESTMENT TRUST

Statement of Earnings and Distributable Income

(In thousands of dollars, except per unit amounts)

For the period ended June 30	Second Quarter		Six Months	
	1999	1998	1999	1998
Operating revenue:				
Rentals from income properties	\$27,501	\$22,240	\$56,077	\$43,010
Mortgage interest income and other	4,610	1,331	8,746	1,593
	32,111	23,571	64,823	44,603
Operating expenses:				
Property operating costs	10,619	8,791	22,655	17,898
Mortgage and other interest	7,815	5,086	15,182	9,575
Depreciation	1,274	788	2,507	1,627
Amortization of deferred expenses	238	48	392	148
	19,946	14,713	40,736	29,248
Earnings from operations	12,165	8,858	24,087	15,355
Trust expenses	811	628	1,602	1,113
Net earnings	11,354	8,230	22,485	14,242
Add (deduct):				
Depreciation	1,274	788	2,507	1,627
Accrued rent	(425)	(491)	(946)	(1,011)
Imputed mortgage interest	0	47	65	108
Distributable income	12,203	8,574	24,111	14,966
Net earnings per unit	\$0.2914	\$0.2780	\$0.5770	\$0.5134
Distributable income per unit	\$0.3131	\$0.2900	\$0.6187	\$0.5395

H & R REAL ESTATE INVESTMENT TRUST

Statement of Cash Flows

(In thousands of dollars)

For the Six Months ended June 30

	1999	1998
Cash provided by (used in):		
Operations:		
Net earnings	\$22,485	\$14,242
Items not affecting cash:		
Depreciation and amortization	2,899	1,775
Net changes in:		
Accounts receivable	(4,977)	(2,098)
Deferred expenses	(1,206)	(962)
Accrued rent receivable	(946)	(1,011)
Prepaid expenses and sundry assets	(266)	(623)
Accounts payable	2,359	3,166
	20,348	14,489
Financing:		
Bank indebtedness	23,366	33,995
Mortgages payable:		
Acquisitions	47,550	28,523
Repayments	(5,782)	(27,081)
Proceeds of offering of units, net	-	95,652
Distributions to unitholders	(21,511)	(13,919)
	43,623	117,170
Investments:		
Income properties	(42,825)	(73,530)
Mortgages receivable	(20,290)	(58,129)
	(63,115)	(131,659)
Increase in cash	856	-
Cash, at beginning of period	475	-
Cash, at end of period	\$1,331	-
Supplementary information:		
Interest revenue received	\$5,526	\$502
Interest expense paid	15,059	9,601
Interest capitalized paid	66	141
Acquisition of income properties through assumption of mortgages payable	-	2,577