



Quarterly Report to Unitholders
for the six months ended June 30, 2000

H&R REIT REPORTS CONTINUED STRENGTH IN Q2 RESULTS

Converts Eight Mezzanine Financings into Income Producing Properties

H&R Real Estate Investment Trust is pleased to report that the REIT has continued to produce solid results through the second quarter ended June 30, 2000 and its mezzanine financing program continues to create value for Unitholders.

Distributable income for the second quarter increased 18% from \$12.2 million in the second quarter of 1999 to \$14.4 million or \$0.3178 per Unit in the second quarter of 2000. Operating revenue of \$37.2 million represents 16% growth over 1999's second quarter results of \$32.1 million. The \$13.0 million or \$0.2876 per Unit net earnings results reflect a 15% increase on a dollar basis over 1999's corresponding period.

During the quarter, H&R REIT exercised its option to acquire eight properties for which the REIT provided mezzanine financing. Of these, seven are leased to Purolator Courier for 20-year terms. To date, the REIT has exercised its option to acquire 10 of the 11 Purolator Courier projects. H&R REIT's mezzanine financing program leverages management's development expertise, enabling the REIT to participate in projects earlier in the building cycle. The combination of the REIT's mezzanine financing program and strategy of completing accretive acquisitions of properties leased to long-term creditworthy tenants ensures continued higher returns for Unitholders.

H&R REIT's two largest mezzanine financing projects are progressing on schedule. First, the ground has been broken on the development of Bell Mobility's new office complex in Mississauga that is scheduled for completion by the end of 2001. Second, the first nine floors of the landmark, TransCanada PipeLines Tower in Calgary have been handed over to TCPL for tenant work; the project is on schedule to be completed by the summer 2001.

On June 1st, the REIT announced an offer to purchase all of the outstanding common shares of Royop Properties Corporation. From the transaction, which is expected to close in the third quarter, H&R REIT will acquire interests in 10 properties. The three major properties to be acquired, which are all shopping centres located in Calgary and represent approximately 70% of the net operating income of the assets to be acquired, are

- 50% of the 295,000 square foot Shawnessy Town Centre, of which H&R REIT already owns a 50% interest;
- 100% of the 308,000 square foot NorthPointe Centre; and
- 100% of the 122,000 square foot Southwood Corner.

For more information, please call:

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H & R REAL ESTATE INVESTMENT TRUST

Balance Sheet and Statement of Unitholders' Equity

(In thousands of dollars)

	June 30	
	2000	1999
Assets		
Income properties	\$775,699	\$625,615
Mortgages receivable	159,686	173,399
Accounts receivable	2,075	10,897
Deferred expenses	8,972	5,775
Accrued rent receivable	6,903	5,236
Prepaid expenses and sundry assets	2,376	3,057
Cash	1,290	1,331
	<u>\$957,001</u>	<u>\$825,310</u>

Liabilities and Unitholders' Equity

Liabilities:

Mortgages payable	\$424,035	\$326,023
Bank indebtedness	42,951	82,370
Accounts payable	21,960	18,720
	<u>488,946</u>	<u>427,113</u>
Unitholders' equity	468,055	398,197
45,318,536 units (1999 - 38,968,649) (1)		
	<u>\$957,001</u>	<u>\$825,310</u>

Unitholders' Equity

Unitholders' equity, beginning of period	\$466,623	\$397,223
Distribution reinvestment and direct purchase plan	171	-
Net earnings	26,266	22,485
Distributions to unitholders	(25,005)	(21,511)
Unitholders' equity, end of period	<u>\$468,055</u>	<u>\$398,197</u>

(1) In addition, options to acquire 2,934,682 units are outstanding and certain co-owners with the Trust in certain properties can exchange their interest in such properties for 5,847,353 units.

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	
	2000	1999	2000	1999
Operating revenue:				
Rentals from income properties	\$30,890	\$27,501	\$61,482	\$56,077
Mortgage interest income and other	6,301	4,610	12,554	8,746
	37,191	32,111	74,036	64,823
Operating expenses:				
Property operating costs	11,777	10,619	23,842	22,655
Mortgage and other interest	9,388	7,815	18,418	15,182
Depreciation	1,769	1,274	3,131	2,507
Amortization	351	238	686	392
	23,285	19,946	46,077	40,736
Earnings from operations	13,906	12,165	27,959	24,087
Trust expenses	877	811	1,693	1,602
Net earnings	13,029	11,354	26,266	22,485
Add (deduct):				
Depreciation	1,769	1,274	3,131	2,507
Accrued rent	(398)	(425)	(796)	(946)
Imputed mortgage interest	-	-	-	65
Distributable income	14,400	12,203	28,601	24,111
Net earnings per unit	\$0.2876	\$0.2914	\$0.5798	\$0.5770
Distributable income per unit	\$0.3178	\$0.3131	\$0.6314	\$0.6187

H & R REAL ESTATE INVESTMENT TRUST

Statement of Cash Flows

(In thousands of dollars)

For the Six Months ended June 30

	2000	1999
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Cash provided by (used in):		
Operations:		
Net earnings	\$26,266	\$22,485
Items not affecting cash:		
	3,817	2,899
Net changes in:		
	1,298	(4,977)
	(1,477)	(1,206)
	(753)	(946)
	(693)	(266)
	1,040	2,359
	<hr/> 29,498	<hr/> 20,348
Financing:		
Bank indebtedness	(52,527)	23,366
Mortgages payable:		
	21,382	47,550
	(4,039)	(5,782)
Proceeds of offering of units, net	171	-
Distributions to unitholders	(25,005)	(21,511)
	<hr/> (60,018)	<hr/> 43,623
Investments:		
Income properties	9,222	(40,198)
Mortgages receivable	20,408	(22,917)
	<hr/> 29,630	<hr/> (63,115)
(Decrease)/Increase in cash	(890)	856
Cash, at beginning of period	2,180	475
Cash, at end of period	<hr/> \$1,290	<hr/> \$1,331
Supplementary information:		
Interest revenue received	\$9,510	\$5,526
Interest expense paid	19,662	15,059
Interest capitalized paid	81	66
Acquisition of income properties through assumption of mortgages payable	48,270	-
Acquisition of income properties through		
	<hr/> 52,379	<hr/> 2,627