



Quarterly Report to Unitholders

For the six months ended June 30, 2001

H&R REIT REPORTS CONTINUED GROWTH IN SECOND QUARTER RESULTS Double Digit Increases in Revenue and Distributable Income

H&R Real Estate Investment Trust has continued its excellent financial performance into the second quarter ended June 30, 2001.

Distributable income for the second quarter increased 15% from \$16.9 million at the end of the first quarter to \$19.5 million or \$0.3401 per Unit this quarter. Operating revenue of \$52.8 million represents 23% growth over 2001's first quarter level of \$43.1 million. The REIT generated \$17.2 million or \$0.3000 per Unit in net earnings, reflecting a 14% increase on a dollar basis compared with the first quarter. Cash distributions to Unitholders in the quarter of \$0.2910 per unit were unchanged with the first quarter and up 5% over the second quarter of last year.

For the six months-to-date, distributable income is up 27%, from \$28.6 million in 2000 to \$36.5 million, or \$0.6663 per Unit (a 6% increase). Operating revenue increased almost 30% to \$95.9 million from \$74.0 million. Cash distributions to Unitholders in the period totaled \$0.5820 per unit, a 5% increase over the 2000 level of \$0.5520 per unit. The REIT generated \$32.4 million or \$0.5915 per Unit in net earnings, reflecting a 23% increase on a dollar basis compared with the first six months of last year and a 2% increase on a per Unit basis.

We are pleased with these solid results. We continue to deliver strong growth to our Unitholders while maintaining our discipline of leasing our properties to highly creditworthy tenants under long-term leases.

Highlights of the second quarter included:

- Exercising the REIT's option to acquire the prestigious 936,000 square foot class A TransCanada PipeLines Tower in Calgary, Alberta for \$263 million in May 2001;
- Closing a \$125 million transaction to acquire two office/data centre facilities in Toronto and Montreal totaling approximately 900,000 square feet leased to Bell Canada for 20 years;
- Completing the \$13.5 million acquisition of a 183,000 square foot expansion to Palladium I, the REIT's industrial property in Kanata, Ontario that is leased to Nortel Networks; and
- Growing the REIT's property portfolio by exercising options to acquire an industrial property leased to Purolator Courier in Saskatoon, Saskatchewan and a new 173,000 square foot retail property in Niagara Falls, Ontario

The addition of TransCanada PipeLines Tower reflects the importance of our mezzanine financing program. This property is now the flagship of our portfolio and, in combination with the Bell Mobility mezzanine project, a 500,000 square foot office complex currently under construction and leased for a 20-year term, enhances the REIT's ability to generate cash flow momentum going forward.

For more information, please call:

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Additional information on H&R REIT, including supplementary financial information, is available on the REIT's web site at: www.hr-reit.com

Unaudited
Consolidated Financial Statements of

H & R REAL ESTATE INVESTMENT TRUST

For the Six months ended June 30, 2001

H & R REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheet and Statement of Unitholders' Equity

(In thousands of dollars except unit amounts)

	June 30 2001 (unaudited)	December 31 2000 (audited)	June 30 2000 (unaudited)
Assets			
Income properties (note 3)	\$1,359,217	\$891,215	\$775,699
Mortgages receivable (note 4)	82,819	176,451	159,686
Deferred expenses (note 5)	19,480	11,292	8,972
Accounts receivable	3,507	3,480	2,075
Accrued rent receivable	8,535	7,743	6,903
Prepaid expenses and sundry assets	8,875	7,137	2,376
Cash and short-term investments	3,456	2,493	1,290
	<u>\$1,485,889</u>	<u>\$1,099,811</u>	<u>\$957,001</u>

Liabilities and Unitholders' Equity

Liabilities:

Mortgages payable (note 6)	\$712,986	\$464,342	\$424,035
Bank indebtedness (note 7)	115,491	98,185	42,951
Accounts payable	48,767	26,437	21,960
	<u>877,244</u>	<u>588,964</u>	<u>488,946</u>
Unitholders' equity (note 8)	608,645	510,847	468,055
	<u>\$1,485,889</u>	<u>\$1,099,811</u>	<u>\$957,001</u>

Unitholders' Equity

Unitholders' equity, beginning of period	\$510,847	\$466,623	\$466,623
Proceeds of offering of units	101,778	42,527	236
Issue costs	(4,535)	(1,114)	(65)
Net earnings	32,360	54,458	26,266
Distributions to unitholders	(31,805)	(51,647)	(25,005)
Unitholders' equity, end of period	<u>\$608,645</u>	<u>\$510,847</u>	<u>\$468,055</u>

See accompanying notes to consolidated financial statements

H & R REAL ESTATE INVESTMENT TRUST

Unaudited Consolidated Statement of Earnings and Distributable Income

(In thousands of dollars, except per unit amounts)

	Three Months ended		Six Months ended	
	June 30 2001	June 30 2000	June 30 2001	June 30 2000
Operating revenue:				
Rentals from income properties	\$49,270	\$30,890	\$87,252	\$61,482
Mortgage interest income and other	3,581	6,301	8,696	12,554
	<u>52,851</u>	<u>37,191</u>	<u>95,948</u>	<u>74,036</u>
Operating expenses:				
Property operating costs	17,760	11,777	31,431	23,842
Mortgage and other interest	13,528	9,388	24,200	18,418
Depreciation of income properties	2,701	1,769	4,886	3,131
Amortization of deferred expenses	691	351	1,214	686
	<u>34,680</u>	<u>23,285</u>	<u>61,731</u>	<u>46,077</u>
Earnings from operations	\$18,171	\$13,906	\$34,217	\$27,959
Trust expenses	945	877	1,857	1,693
Net earnings	<u>\$17,226</u>	<u>\$13,029</u>	<u>\$32,360</u>	<u>\$26,266</u>
Add (deduct):				
Depreciation	2,701	1,769	4,886	3,131
Accrued rent	(396)	(398)	(792)	(796)
Distributable income	<u>\$19,531</u>	<u>\$14,400</u>	<u>\$36,454</u>	<u>\$28,601</u>
Basic net earnings per unit (note 9)	\$0.3000	\$0.2876	\$0.5915	\$0.5798
Fully diluted earnings per unit (notes 2 and 9)	\$0.2978	\$0.2871	\$0.5870	\$0.5793
Distributable income per unit (note 9)	\$0.3401	\$0.3178	\$0.6663	\$0.6314
Cash distributions per unit	\$0.2910	\$0.2760	\$0.5820	\$0.5520

See accompanying notes to consolidated financial statements

H & R REAL ESTATE INVESTMENT TRUST

Unaudited Consolidated Statement of Cash Flows

(In thousands of dollars)

	Three Months ended		Six Months ended	
	June 30 2001	June 30 2000	June 30 2001	June 30 2000
Cash provided by (used in):				
Operations:				
Net earnings	\$17,226	\$13,029	\$32,360	\$26,266
Items not affecting cash:				
Depreciation and amortization	3,392	2,120	6,100	3,817
Gain on sale of income properties	(265)	(222)	(553)	(222)
Net changes in:				
Accounts receivable	415	563	(27)	1,298
Deferred expenses	(8,331)	(72)	(9,402)	(1,477)
Accrued rent receivable	(396)	(355)	(792)	(753)
Prepaid expenses and sundry assets	(2,533)	203	(1,738)	(693)
Accounts payable	18,329	1,703	22,330	1,040
	27,837	16,969	48,278	29,276
Financing:				
Bank indebtedness	107,393	(59,704)	17,306	(52,527)
Mortgages payable:				
Acquisitions	29,400	20,782	35,300	21,382
Repayments	(13,824)	(2,344)	(17,145)	(4,039)
Proceeds from offering of units, net	220	149	97,243	171
Distributions to unitholders	(16,711)	(12,504)	(31,805)	(25,005)
	106,478	(53,621)	100,899	(60,018)
Investments:				
Income properties				
Proceeds on disposition	523	4,463	10,291	4,463
Acquisitions	(135,207)	(15,028)	(168,158)	(15,461)
Mortgages receivable	1,844	47,116	9,653	40,850
	(132,840)	36,551	(148,214)	29,852
Increase (Decrease) in cash and short-term investments	1,475	(101)	963	(890)
Cash and short-term investments, at beginning of period	1,981	1,391	2,493	2,180
Cash and short-term investments, at end of period	\$3,456	\$1,290	\$3,456	\$1,290
Supplementary information:				
Interest received	9,557	4,290	14,376	\$9,510
Interest paid	14,428	11,507	24,144	19,662
Acquisitions of income properties through assumption of mortgages payable	220,860	38,930	236,721	48,270
Acquisitions of income properties through repayment of mortgages receivable	83,979	27,693	83,979	31,937
Mortgages payable assumed by Purchasers' on disposition of income properties	-	-	6,232	-

See accompanying notes to consolidated financial statements

H & R REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements, page 1

(In Thousands of dollars)

June 30, 2001

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. Basis of Presentation:

Interim Financial Statements:

The interim financial statements follow the same accounting policies and methods of their application as the December 31, 2000 annual financial statements except for the fully diluted earnings per share calculation as detailed in note 2.

In the opinion of the Trust, the accompanying unaudited consolidated condensed financial statements contain all the adjustments necessary to present fairly the financial position and unitholders' equity as of June 30, 2001, December 31, 2000 and June 30, 2000, and the results of operations for the three and six months ended June 30, 2001 and 2000 and the changes in cash flow for the three and six months ended June 30, 2001 and 2000. While the Trust believes that the disclosures presented are adequate to make the information not misleading, it is suggested that these condensed financial statements be read in conjunction with the financial statements and notes included in the Trust's Annual Report for the year ended December 31, 2000.

The results of operations for the three and six months ended June 30, 2001 are not necessarily indicative of the results for the full year.

2. Change in accounting policy - earnings per unit

Effective January 1, 2001, the Trust adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to computing and disclosing earnings per unit on a retroactive basis. The most significant change is that in calculating diluted net earnings per unit it is assumed that proceeds received from the exercise of unit options are used to repurchase outstanding units. Under the previous standard, it was assumed that the proceeds were invested to earn a return.

3. Income properties:

			June 30 2001	December 31 2000	June 30 2000
	Cost	Accumulated depreciation	Net book value	Net book value	Net book value
Land	\$273,419	\$0	\$273,419	\$178,000	\$159,129
Buildings	1,108,883	23,085	\$1,085,798	713,215	616,570
	\$1,382,302	\$23,085	\$1,359,217	\$891,215	\$775,699

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Notes to Consolidated Financial Statements, page 2

(In Thousands of dollars)

June 30, 2001

4. Mortgages receivable:

The mortgages receivable are secured by real property under construction, bear interest at a weighted average of 10.9% (December 31, 2000 - 10.4%, June 30, 2000 - 10.5%) per annum and are repayable between 2001 and 2003. The Trust has options to acquire an interest in the properties subject to mortgages.

5. Deferred expenses:

			June 30 2001	December 31 2000	June 30 2000
	Cost	Accumulated amortization	Net book value	Net book value	Net book value
Leasing	\$21,384	\$3,950	\$17,434	\$9,215	\$7,320
Financing	2,445	399	2,046	2,077	1,652
	\$23,829	\$4,349	\$19,480	\$11,292	\$8,972

6. Mortgages payable:

The mortgages payable are secured by the income properties, bear interest at the weighted average rate of 7.9% (December 31, 2000 - 8.21%, June 30, 2000 - 8.4%) per annum and mature between 2001 and 2023. Future principal payments are as follows:

Year ending December 31:

2001	\$29,086
2002	38,749
2003	20,315
2004	35,318
2005	38,977
Thereafter	550,541
	<u>\$712,986</u>

7. Bank indebtedness:

The bank indebtedness bears interest at rates approximating the Bank of Canada prime rate, is secured by fixed charges over certain income properties and is due on demand. At June 30, 2001, the Bank of Canada prime interest rate was 6.25% (December 31, 2000 - 7.5%, June 30, 2000 - 7.0%) per annum.

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Notes to Consolidated Financial Statements, page 3

June 30, 2001

8. Unitholders' equity:

(a) The following units are issued and outstanding:

	Units issued and outstanding
As at December 31, 1999	45,293,649
Issued under the dividend reinvestment plan and direct purchase plan	24,887
As at June 30, 2000	45,318,536
Issued under the acquisition of Royop Properties Corporation	3,721,682
Issued under the dividend reinvestment plan and direct purchase plan	42,563
Options exercised	10,000
As at December 31, 2000	49,092,781
Issued on March 1, 2001 (at a price of \$12.20 per unit)	8,300,000
Issued under the dividend reinvestment plan and direct purchase plan	53,491
As at June 30, 2001	57,446,272

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

	Number of Options outstanding June 30, 2001	Number of Options exercisable June 30, 2001
\$10.00, expiring in 2006	885,000	885,000
\$10.84, expiring in 2007	642,900	642,900
\$11.32, expiring in 2008	570,532	570,532
\$11.11, expiring in 2009	265,000	176,667
\$11.00, expiring in 2009	431,250	143,750
\$ 9.17, expiring in 2010	130,000	43,333
\$11.22, expiring in 2010	327,947	0
	3,252,629	2,462,182

9. Net earnings per unit:

Basic net earnings per unit and distributable income per unit have been computed using the weighted average number of units outstanding during the six months ended June 30, 2001 of 54,709,466 (June 30, 2000 - 45,299,812) and during the three months ended June 30, 2001 of 57,427,578 (June 30, 2000 - 45,304,876). For purposes of computing fully diluted earnings per unit the weighted average number of units outstanding during the six months ended June 30, 2001 was 55,127,512 (June 30, 2000 - 45,339,851) and during the three months ended June 30, 2001 was 57,852,527 (June 30, 2000 - 45,383,986).

10. Comparative figures

Certain 2000 amounts have been reclassified to conform to the financial statement presentation adopted in 2001.

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Notes to Consolidated Financial Statements, page 4

June 30, 2001

11. Significant transactions:

On March 1, 2001, the Trust completed its offering of 8,300,000 units for gross proceeds of approximately \$101.3 million.

During the first quarter of 2001 the Trust acquired an interest in 3 retail properties and one office property. The total consideration for these four properties was \$43 million of which \$27.1 million was paid in cash and the remaining \$15.9 million represented the assumption of first mortgages.

On March 1, 2001, Royop Properties Corporation, an indirect wholly owned subsidiary of the Trust, sold three of its retail properties for gross proceeds of \$16 million.

On April 1, 2001, the Trust completed the \$13.5 million acquisition of a 183,000 square foot expansion to an industrial property in Kanata, Ontario

On April 20, 2001, the Trust exercised its option to acquire a 173,000 square foot retail property in Niagara Falls, Ontario for \$41.3 million of which \$35.6 million was funded from mortgages receivable.

On May 1, 2001, the Trust exercised its option to acquire the 936,000 square foot TransCanada Pipeline Tower in Calgary, Alberta for \$263 million. This was paid by assuming the \$220 million first mortgage and \$43 million of mortgages receivable was used to fund the balance.

On May 1, 2001, the Trust completed the acquisition of two data centres leased to Bell Canada in Toronto and Montreal, comprising 882,000 square feet for \$121.1 million.

H&R REAL ESTATE INVESTMENT TRUST

Management's Discussion & Analysis

For the Six Months ended June 30, 2001

The following discussion should be read in conjunction with the financial statements of the REIT and the notes thereto for the six months ended June 30, 2001 and 2000, with the Management's Discussion and Analysis for December 31, 2000 including the section on "Risks and Uncertainties", and with the financial statements and notes thereto for year end of December 31, 2000.

RESULTS OF OPERATIONS

Net earnings for the three months ended June 30, 2001 of \$17.2 million or \$0.3000 per unit, increased by 32.2% on a dollar basis and 4.3% on a per unit basis over the \$13.0 million or \$0.2876 per unit for June 30, 2000.

For the six month period ended June 30, 2001 compared to June 30, 2000, net earnings increased 23.2% from \$26.3 million to \$32.4 million on a dollar basis and 2% from \$0.5798 to \$0.5915 on a per unit basis.

Depreciation of \$2.7 million (2000 - \$1.8 million) and amortization of \$0.7 million (2000 - \$0.4 million) are included in the determination of net income for the three months ended June 30, 2001. For the six months ended June 30, 2001, net income determination included depreciation of \$4.9 million (2000 - \$3.1 million) and amortization of \$1.2 million (2000 - \$0.7 million). The REIT does not consider depreciation expense when calculating distributions paid to unitholders.

Income from rental operations before depreciation and amortization
(in thousands of dollars)

	For the three months ended		For the six months ended	
	June 30 2001	June 30 2000	June 30 2001	June 30 2000
Rentals from income properties	\$49,270	\$30,890	\$87,252	\$61,482
Mortgage interest income and other	<u>3,581</u>	<u>6,301</u>	<u>8,696</u>	<u>12,554</u>
	52,851	37,191	95,948	74,036
Property operating costs	<u>17,760</u>	<u>11,777</u>	<u>31,431</u>	<u>23,842</u>
Operating income before interest	35,091	25,414	64,517	50,194
Mortgage and other interest	<u>13,528</u>	<u>9,388</u>	<u>24,200</u>	<u>18,418</u>
Income from operations before depreciation and amortization	<u>\$21,563</u>	<u>\$16,026</u>	<u>\$40,317</u>	<u>\$31,776</u>

H&R REAL ESTATE INVESTMENT TRUST

Management's Discussion & Analysis, page 2.

For the Six Months ended June 30, 2001

RENTALS FROM INCOME PROPERTIES

Rental from income properties for the three month period ended June 30 increased 59.5% from \$30.9 million in 2000 to \$49.3 million in 2001. For the six month period ended June 30, rentals increased from \$61.5 million in 2000 to \$87.3 million in 2001 or 41.9%. The increases are primarily the result of the REIT's ongoing strategy of adding to its properties either through acquisitions or its mezzanine financing program. A net total of 13 properties were added between June 30, 2000 and June 30, 2001 representing a net increase in assets of \$583.5 million.

Property operating costs and mortgage and other interest have also increased from \$11.8 million and \$9.4 million to \$17.8 million and \$13.5 million respectively for the second quarter of 2001. These costs also increased from \$23.8 million and \$18.4 million to \$31.4 million and \$24.2 million respectively for the six months ended June 30, 2001. These increases reflect the increase in activity resulting from the additional properties added to the portfolio (see "changes in financial position - income properties" below).

The occupancy rate in the REIT's portfolio as at June 30, 2001 remains at 99%, unchanged from March 31, 2001 and June 30, 2000.

MORTGAGE INTEREST INCOME

The REIT earned \$3.6 million in mortgage interest income in the second quarter of 2001 compared to \$6.3 million in 2000. This 42.9% decline reflects the reduction in the mortgage receivable asset between June 30, 2000 and 2001 (see "changes in financial position - mortgages receivable" below). For the six month period ended June 30, 2001 compared to June 30, 2000 mortgage interest income declined to \$8.7 million from \$12.6 million, a 30.7% decline. This decline will continue as more of our development projects are completed each quarter 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 weighted average interest earned on these investments for the six months ended June 30, 2001 was 10.9%.

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. During this quarter, the REIT disposed of certain excess land adjacent to one of its industrial properties yielding a profit of approximately \$0.3 million and together with the disposition of three non-core retail properties in the first quarter, have generated profit

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Management's Discussion & Analysis, page 3.

For the Six Months ended June 30, 2001

of approximately \$0.6 million for the REIT. In the first six months of 2000, the REIT had disposed of one property for approximately \$0.2 million profit.

TRUST EXPENSES

Trust expenses increased in the second quarter 2001 over second quarter 2000 by \$68,000 and by \$164,000 for the equivalent six month period reflecting the increase in size and activity of the REIT. These expenses amount to 1.9% of rentals from income properties for the 2001 second quarter, down from 2.8% for the second quarter of 2000. The year-to-date percentage has declined from 2.8% in 2000 to 2.1% in 2001.

DISTRIBUTION TO UNITHOLDERS

Currently, the REIT is required to distribute not less than 80% of its distributable income to unitholders on a monthly basis. This was reduced from 85% by virtue of a change to the Declaration of Trust adopted at our annual general and special meeting of unitholders in May 2001. Depreciation, accrued rent and other non-cash items are added to, or deducted from, net earnings to determine the amount of income available for distribution.

Total distributions in the current quarter, at 9.7c per unit per month, amounted to \$16.7 million or 85.6% of distributable income. This compares to \$12.5 million at 9.2c per unit per month representing an 86.8% payout in the same quarter of the prior year.

Total distributions for the six month period ended June 30, 2001 amounted to \$31.8 million or 87.2% of distributable income, compared to \$25 million for the same period in the year 2000, representing an 87.4% payout ratio.

Distributable income increased by \$5.1 million from \$14.4 million for the quarter ended June 30, 2000 to \$19.5 million for the quarter ended June 30, 2001. This represents an increase on a per unit basis from \$0.3178 to \$0.3401 per unit. Distributable income increased to \$36.5 million or \$0.6663 per unit from \$28.6 million or \$0.6314 per unit for the six months ended June 30, 2001 compared to the same period in fiscal 2000.

The primary reason for the increase in distributable income on both a dollar and per unit basis is the exercising of the REIT's option on May 1, 2001 to purchase the TransCanada Pipeline Tower ("TCPL") in Calgary as well as the acquisition on the same date of 2 properties leased to Bell Canada ("Bell") (see "changes in financial position - income properties" below). The full impact of these two transactions will be felt in the third quarter of 2001 and onwards.

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Management's Discussion & Analysis, page 4.

For the Six Months ended June 30, 2001

Calculation of Distributable Income (in thousands of dollars)	For the three months ended		For the six months ended	
	June 30 2001	June 30 2000	June 30 2001	June 30 2000
Net earnings	\$17,226	\$13,029	\$32,360	\$26,266
Add (deduct)				
Depreciation	2,701	1,769	4,886	3,131
Accrued rent	(396)	(398)	(792)	(796)
Distributable Income	<u>\$19,531</u>	<u>\$14,400</u>	<u>\$36,454</u>	<u>\$28,601</u>

CHANGES IN FINANCIAL POSITION

ASSETS

Income Properties

During the first quarter of 2001, the REIT acquired an interest in 4 properties and disposed of three properties. A 100% interest was purchased in a 123,000 sq.ft. suburban office property located in Burlington, Ontario and leased to Wescam Inc. for a period of 10 years. The remaining 50% interest in 2 Wal-Mart anchored retail centers in which the REIT already owned 50% was also purchased in the quarter together with a 20% interest in a 3rd retail property, also leased to Wal-Mart.

Three smaller retail properties, two located in British Columbia and one in Alberta, were sold during the current quarter for gross proceeds of \$16 million.

During the second quarter of 2001, the REIT acquired 5 new properties and completed the expansion of a property it already owned.

In April 2001, the REIT completed the 183,000 square foot expansion to an industrial property in Kanata, Ontario leased to Nortel Networks Inc. Also in April, the REIT exercised its option to acquire a 173,000 square foot multi-tenant, retail property in Niagara Falls, Ontario.

During May 2001, the REIT exercised its option to acquire the 936,000 square foot TCPL Tower in Calgary, Alberta for which it had previously provided mezzanine financing. During the same month, the REIT acquired two office/data centre facilities leased to Bell in Toronto, Ontario and Montreal, Quebec, comprising an aggregate of 882,000 square feet of leasable area.

H&R REAL ESTATE INVESTMENT TRUST

Management's Discussion & Analysis, page 5.

For the Six Months ended June 30, 2001

During June 2001, the REIT exercised its option to purchase a 65,000 square foot industrial property leased to Purolator Courier in Saskatoon, Saskatchewan for a 20 year lease term.

Consequently, income properties increased by 52.5% to \$1.359 billion at June 30, 2001 from \$891.2 million at December 31, 2000.

Mortgages Receivable

The REIT provides mezzanine financing for development projects that are consistent with the REIT's objectives and philosophy.

At June 30, 2001 there were 6 projects for which the REIT had provided mezzanine development financing compared to 8 projects at December 31, 2000.

Mortgages receivable decreased 53.1% from \$176.5 million at December 31, 2000 to \$82.8 million at June 30, 2001. This decline is primarily due to three items: Firstly, the repayment in part of the amount outstanding on the Derry Road project where \$9.5 million was repaid out of proceeds of bank construction financing obtained by the borrower. Secondly, the exercise of the REIT's option on the property in Niagara Falls, Ontario converted \$35.6 million from mortgages receivable to income properties. Lastly, the acquisition of the TCPL Tower resulted in a \$44.8 million reduction in the same manner as the Niagara Falls property.

Deferred Expenses

Deferred expenses increased by \$8.2 million from \$11.3 million at December 31, 2000 to \$19.5 million at June 30, 2001, an increase of 72.5%. The bulk of this increase is due to a lease inducement payment to be made to Bell to extend its leases on the two properties recently purchased to terms of 20 years.

Other Assets

Other assets comprising of accounts receivable, accrued rent receivable and prepaid expenses and sundry assets were not significantly different between December 31, 2000 and June 30, 2001.

LIABILITIES

The REIT's Declaration of Trust limits the indebtedness of the REIT to a maximum of 65% of the gross book value of the REIT. This was increased from 60% by virtue of a

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Management's Discussion & Analysis, page 6.

For the Six Months ended June 30, 2001

change to the Declaration of Trust adopted at our annual general and special meeting of the unitholders in May 2001. At June 30, 2001 the REIT's indebtedness was 54.9% compared to 50% at December 31, 2000. This increase is primarily due to the increase in mortgages payable and bank indebtedness as outlined below.

Mortgages payable increased by 53.5% from the December year end figure of \$464.3 million to \$713.0 million primarily as a result of the effective assumption of the 20 year non-recourse public bond issued to finance the TCPL Tower in Calgary, Alberta in the amount of \$220 million. This transaction, together with certain mortgages assumed on the Wal-Mart acquisitions during the first quarter, make up the majority of the \$248.7 million increase.

Bank indebtedness increased by \$17.3 million from \$98.2 million at December 31, 2000 to \$115.5 million at June 30, 2001. During the first quarter, the acquisition line was reduced to substantially nil as a result of the completion in March 2001 of an offering of 8.3 million units for net proceeds of \$97 million. However, this indebtedness increased again in May 2001 by \$114 million as a result of the acquisition of the two office/data centre properties occupied by Bell.

Accounts payable increased by \$22.4 million from \$26.4 million at December 31, 2000 to \$48.8 million at June 30, 2001. The majority of the increase is attributable to the TCPL and Bell acquisitions. The TCPL transaction included the assumption of costs to complete, mortgage interest and other accruals of approximately \$8.5 million. The Bell transactions included accruals for deferred leasing costs and other transactional costs amounting to \$12.5 million.

UNITHOLDERS' EQUITY

In March 2001, the REIT completed an 8.3 million unit offering for net proceeds of \$97 million which was used to fund the acquisition of additional properties and to reduce bank indebtedness. This is primarily the reason for the increase in unitholders' equity from \$510.8 million as at December 31, 2000 to \$608.6 million as at June 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities during the second quarter amounted to \$27.8 million, up from \$17 million in the same quarter in 2000. For the six months ended June 30, 2001, cash flow provided from operating activities was \$48.3 million compared to \$29.3 million for the same period last year.

This cash provided by operating activities together with proceeds from the issue of units, conventional mortgage financing and short term bank financing, have been used mainly

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For the Six Months ended June 30, 2001

to fund net property acquisitions of \$168.2 million and distributions to unitholders of \$31.8 million for the six month period ended June 30, 2001.

Management expects to be able to continue to meet all of the REIT's ongoing obligations and to finance future growth through the issue of new equity as well as by using conventional real estate debt, short term bank financing and the REIT's stable cash flow.

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Supplemental financial information

For the six months ended June 30, 2001

The following are details of selected supplemental financial information for the six months ended June 30, 2001. For **additional** supplemental financial information, please call Eric Cohen, Chief Financial Officer at 416-635-7520 or review our website at www.hr-reit.com

Allocation of Net Operating Income

	6 months ended June 30, 2001	Year ended December 31, 2000
Office	49%	50%
Industrial	31%	36%
Retail	20%	14%

Average lease rates per square foot

	6 months ended June 30, 2001	Year ended December 31, 2000
Office	\$16.29	\$15.55
Industrial	\$4.84	\$4.66
Retail	\$17.19	\$17.23
Total weighted average	<u>\$9.87</u>	<u>\$8.36</u>

Lease expiries and average net rent on expiring space

	Office		Industrial		Retail		Total		
	%	Rent \$	%	Rent \$	%	Rent \$	%	Rent \$	
2001	*	0.79	16.89	0.00	-	0.00	-	0.79	16.89
2002		0.79	11.93	2.27	6.73	0.03	21.07	3.09	8.21
2003		1.61	14.25	2.52	5.21	0.25	21.55	4.38	9.46
2004		2.12	18.34	2.20	5.54	0.19	19.75	4.51	12.15
2005		2.68	18.44	0.76	5.79	0.40	16.29	3.84	15.72
Total		<u>7.99</u>	<u>16.80</u>	<u>7.75</u>	<u>5.80</u>	<u>0.87</u>	<u>18.74</u>	<u>16.61</u>	<u>11.77</u>

* for the balance of the year

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Supplemental financial information, page 2

For the quarter ended June 30, 2001

Analysis of largest 10 tenants
(as a percentage of gross revenue)

	Tenant	% of gross revenue	Lease term to maturity (years)
1.	TransCanada Pipeline Canada Ltd	14.18%	19.75
2.	Bell Canada	11.34%	19.75
3.	Purolator Courier	3.70%	18.75
4.	Royal Bank of Canada	2.75%	6.50
5.	Nestle Canada	2.10%	17.75
6.	Nortel Networks	2.10%	9.50
7.	Livingston Group	1.82%	6.75
8.	UPS Logistics Canada Ltd	1.69%	4.75
9.	Wal-Mart	1.63%	14.75
10.	Rona	1.56%	17.75
	Total	<u>42.87%</u>	

Mortgage maturities (in \$millions)

	Future Principal Repayments	Balance Due on Maturity	Average Interest rate on maturing mortgages
2001 *	\$29.1	\$21.6	11.63%
2002	38.8	22.1	6.36%
2003	20.3	1.8	9.57%
2004	35.3	16.1	6.66%
2005	38.9	19.2	7.05%
Thereafter	<u>550.5</u> <u>\$712.9</u>		

* for the balance of the year

Other Statistics

	June 30, 2001	December 31, 2000
Mortgage term to maturity	12.4 years	8.7 years
Average mortgage interest rate	7.9%	8.7%
Lease term to maturity	11.4 years	10.3 years