

Quarterly Report to Unitholders

for the nine months ended September 30, 2000

H&R REIT REPORTS CONTINUED GROWTH IN Q3 RESULTS

December distribution to increase by 5.4%

H&R Real Estate Investment Trust is pleased to report that the REIT has continued its year-over-year growth through the third quarter ended September 30, 2000 and that its cash distribution to Unitholders will increase in December.

Distributable income increased 12% to \$15.0 million or \$0.3231 per unit in the third quarter of 2000 from \$13.4 million in the same period in 1999. Operating revenue of \$41.1 million represents 22% growth over 1999's third quarter revenue of \$33.6 million.

For the nine months to date, distributable income is up 16% from \$37.5 million to \$43.6 million, or \$0.9546 per unit. Operating revenue increased 17% to \$115.1 million from last year's \$98.5 million.

During the quarter, H&R REIT completed the acquisition of all of the issued and outstanding shares of Royop Properties Corporation. This transaction provided H&R REIT with an interest in 10 Calgary properties, including three major shopping centres. With their inclusion for the final month of the quarter, the Royop properties contributed to the 33% increase in rental revenue from income properties to \$37.0 million in the third quarter of 2000 versus \$27.9 million in the corresponding period in 1999.

H&R REIT's operating philosophy is to lease buildings to highly creditworthy tenants under long-term leases. This strategy has led to continued growth in distributable income with minimized risk. As a result, the Trustees are recommending an increase in the payment of distributable cash to Unitholders. Effective with the December 2000 payment, H&R REIT will increase its monthly distribution by \$0.005 to distribute \$0.097 per unit, a 5.4% increase from the previous monthly rate. This new payout level represents an annualized rate of \$1.164 per unit.

H&R REIT's two largest mezzanine financing projects continued on schedule through the quarter. Twenty-seven 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 in the first quarter of 2001 with full occupancy by the summer. Development of Bell Mobility's new three building office complex in Mississauga also continues with completion of the first phase of the project scheduled for January 2002. Subsequent to the end of the quarter, H&R REIT announced a \$115.5 million, 22-year, public mortgage pass-through financing for the construction of the Bell Mobility complex.

For more information, please call:

Eric Cohen
Chief Financial Officer

H & R REAL ESTATE INVESTMENT TRUST

Balance Sheet and Statement of Unitholders' Equity

(In thousands of dollars, except per unit amounts)

September 30	2000	1999
Assets		
Income properties	\$890,568	\$651,657
Mortgages receivable	168,072	218,215
Accounts receivable	2,825	9,083
Deferred expenses	10,087	6,738
Accrued rent receivable	7,302	5,650
Prepaid expenses and sundry assets	12,273	4,163
Cash	2,502	1,427
	<u>\$1,093,629</u>	<u>\$896,933</u>

Liabilities and Unitholders' Equity

Liabilities:

Mortgages payable	\$452,481	\$324,577
Bank indebtedness	100,434	86,552
Accounts payable	30,518	19,936
	<u>583,433</u>	<u>431,065</u>
Unitholders' equity	510,196	465,868
49,052,604 units (1999 - 45,293,649) (1)		
	<u>\$1,093,629</u>	<u>\$896,933</u>

Unitholders' Equity

Unitholders' equity, beginning of period	\$466,623	\$397,223
Issue of units	42,427	70,208
Issue costs	(1,256)	(3,165)
Distribution reinvestment and direct purchase plan	385	-
Net earnings	39,874	35,032
Distributions to unitholders	(37,857)	(33,430)
Unitholders' equity, end of period	<u>\$510,196</u>	<u>\$465,868</u>

(1) In addition, options to acquire 3,262,629 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 Nine Months ended September 30

	2000	1999
Operating revenue:		
Rentals from income properties	\$98,465	\$83,984
Mortgage interest income and other	16,680	14,482
	<u>115,145</u>	<u>98,466</u>
Operating expenses:		
Property operating costs	37,705	33,558
Mortgage and other interest	28,693	22,965
Depreciation	4,961	3,853
Amortization	1,273	593
	<u>72,632</u>	<u>60,969</u>
Earnings from operations	<u>42,513</u>	<u>37,497</u>
Trust expenses	<u>2,639</u>	<u>2,465</u>
Net earnings	<u>39,874</u>	<u>35,032</u>
Add (deduct):		
Depreciation	4,961	3,853
Accrued rent	(1,194)	(1,404)
Imputed mortgage interest	0	65
Distributable income	<u>43,641</u>	<u>37,546</u>
Net earnings per unit	<u>\$0.8722</u>	<u>\$0.8670</u>
Distributable income per unit	<u>\$0.9546</u>	<u>\$0.9292</u>

H & R REAL ESTATE INVESTMENT TRUST

Statement of Cash Flows

(In thousands of dollars, except per unit amounts)

For the Nine Months ended September 30

	2000	1999
Cash provided by (used in):		
Operations:		
Net earnings	\$39,874	\$35,032
Items not affecting cash:		
Depreciation and amortization	6,234	4,446
Net changes in:		
Accounts receivable	914	(3,163)
Deferred expenses	(3,179)	(2,370)
Accrued rent receivable	(1,152)	(1,360)
Prepaid expenses and sundry assets	(4,100)	(1,372)
Accounts payable	5,016	3,575
	<u>43,607</u>	<u>34,788</u>
Financing:		
Bank indebtedness	(39,164)	27,548
Mortgages payable:		
Acquisitions	23,382	41,673
Repayments	(13,406)	(3,978)
Issue of units (net of costs)	(1,256)	67,043
Distributions to unitholders	(37,472)	(33,430)
	<u>(67,916)</u>	<u>98,856</u>
Investments:		
Cash and cash equivalents through acquisition of subsidiary	3,376	0
Income properties	10,968	(70,213)
Mortgages receivable	10,287	(62,479)
	<u>24,631</u>	<u>(132,692)</u>
Increase in cash	322	952
Cash, at beginning of period	2,180	475
Cash, at end of period	<u>\$2,502</u>	<u>\$1,427</u>
Supplementary information:		
Interest revenue received	\$12,896	\$7,014
Interest expense paid	28,880	21,977
Interest capitalized paid	114	95
Acquisition of income properties through assumption of mortgages payable	51,560	0
Acquisition of income properties through repayment of mortgages receivable on exercise of option	52,379	2,627

H & R REAL ESTATE INVESTMENT TRUST

Statement of Earnings and Distributable Income

(In thousands of dollars, except per unit amounts)

For the period ended September 30	Third Quarter		Nine Months	
	2000	1999	2000	1999
Operating revenue:				
Rentals from income properties	\$36,983	\$27,907	\$98,465	\$83,984
Mortgage interest income and other	4,126	5,736	16,680	14,482
	41,109	33,643	115,145	98,466
Operating expenses:				
Property operating costs	13,863	10,903	37,705	33,558
Mortgage and other interest	10,275	7,783	28,693	22,965
Depreciation	1,830	1,346	4,961	3,853
Amortization	587	201	1,273	593
	26,555	20,233	72,632	60,969
Earnings from operations	14,554	13,410	42,513	37,497
Trust expenses	946	863	2,639	2,465
Net earnings	13,608	12,547	39,874	35,032
Add (deduct):				
Depreciation	1,830	1,346	4,961	3,853
Accrued rent	(398)	(458)	(1,194)	(1,404)
Imputed mortgage interest	0	0	0	65
Distributable income	15,040	13,435	43,641	37,546
Net earnings per unit	\$0.2923	\$0.2902	\$0.8722	\$0.8670
Distributable income per unit	\$0.3231	\$0.3108	\$0.9546	\$0.9292