



## H&R REAL ESTATE INVESTMENT TRUST

### **Announces \$230MM Senior Unsecured Debenture Financing and an Agreement to Repurchase the Fairfax Debentures**

TORONTO, January 27, 2010 - H&R Real Estate Investment Trust ("H&R") (TSX: HR.UN; HR.DB; HR.DB.B; HR.DB.C) is pleased to announce it has entered into an agreement to sell on a bought deal basis, to a syndicate of underwriters co-led by RBC Capital Markets and TD Securities, \$230 million principal amount of senior unsecured debentures in two tranches (collectively the "Senior Debentures").

The key terms for the two tranches of Senior Debentures are as follows:

- \$115 million of the Senior Debentures will mature on February 3, 2015 and bear an interest rate of 5.196% per annum (the "Series A Senior Debentures"); and
- \$115 million of the Senior Debentures will mature on February 3, 2017 and bear an interest rate of 5.902% per annum (the "Series B Senior Debentures").

The net proceeds from the offering of the Senior Debentures will be utilized by H&R to fund the repurchase of the Fairfax Debentures, as described below. Dominion Bond Rating Service ("DBRS") has provided H&R with a provisional credit rating of BBB with a stable trend relating to the Senior Debentures. Closing is expected to occur on or about February 3, 2010.

H&R is also pleased to announce that, subject to certain conditions, it has agreed to repurchase all \$200.0 million principal amount of debentures owned by Fairfax Financial Holdings and its affiliates (collectively, "Fairfax") that bear interest at 11.5% per annum (the "Fairfax Debentures"). The Fairfax Debentures were issued to Fairfax on April 24, 2009, pursuant to a trust indenture, and have a maturity date of April 24, 2014, and a first call date, at H&R's option, of April 24, 2013 (the "First Call Date"). H&R expects that the repurchase of the Fairfax Debentures will occur on or about February 3, 2010 (the "Repurchase Date"), based on a yield to the First Call Date of 6.625%, which would require a total cash payment of approximately \$230.0 million by H&R to Fairfax (the "Repurchase Price") on the Repurchase Date. The Repurchase Price includes accrued interest from the last interest payment date of December 31, 2009 to the Repurchase Date.

The repurchase of the Fairfax Debentures is expected to be approximately \$0.07 accretive to H&R's recurring annual AFFO, as a result of the net annual cash flow savings generated by financing the Repurchase Price through the issuance of the Senior Debentures. H&R will recognize a one-time non-recurring charge/expense in its financial results for the quarter ending March 31, 2010 of approximately \$40 million to execute the repurchase of the Fairfax Debentures, representing the difference between the Repurchase Price, excluding accrued interest expense, and the carrying value of the Fairfax Debentures.

H&R's President & CEO Tom Hofstedter said, "We believe that repurchasing the Fairfax Debentures by issuing cost effective senior unsecured financing provides significant benefits to our unitholders. In particular, H&R is repurchasing the Fairfax Debentures, which bear interest at 11.5% per annum, by issuing the Senior Debentures with a weighted average cost of 5.55%. In

addition, issuing the Senior Debentures extends and staggers our debt maturity profile with a cost-effective source of financing.”

The offering of the Senior Debentures is being made under H&R's existing short form base shelf prospectus dated May 11, 2009, as amended. The terms of the offering of the Senior Debentures will be described in a prospectus supplement to be filed with Canadian securities regulators by no later than January 29, 2010.

H&R has received unanimous consent from the lenders (the “Lenders”) in the \$425 million construction loan syndicate for The Bow development project (the “Construction Facility”) in order to complete the offering of the Senior Debentures and repurchase the Fairfax Debentures. In addition, H&R has received approval to issue up to an additional \$270 million of senior unsecured debentures going forward to finance future acquisitions and/or fund further investments in The Bow. Finally, the Lenders have agreed to amend certain covenants for the Construction Facility, including the previous limitation on annual distributions to H&R's unitholders. Going forward, annual distributions to H&R's unitholders will only be limited to 60% of Funds From Operations (“FFO”) for the trailing four quarters, rather than the lesser of \$0.72 and 60% of H&R's FFO for the trailing four quarters. For the purposes of this calculation, FFO will exclude the one-time charge/expense to repurchase the Fairfax Debentures.

### **Forward-looking Statements**

Certain information in this news release contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, among others, statements relating to the objectives of H&R REIT (“H&R”), strategies to achieve those objectives, H&R's beliefs, plans, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts including, in particular, H&R's expectation regarding future developments in connection with the offering of the Senior Debentures and the repurchase of the Fairfax Debentures pursuant to the agreement with Fairfax.. Forward-looking statements generally can be identified by words such as “outlook”, “objective”, “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “should”, “plans”, “project”, “budget” or “continue” or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect H&R's current beliefs and are based on information currently available to management. These statements are not guarantees of future performance and are based on H&R's estimates and assumptions that are subject to risk and uncertainties, including those discussed in H&R's materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results and performance of H&R to differ materially from the forward-looking statements contained in this news release. Those risks and uncertainties include, among other things, risks related to: the completion of the offering of the Senior Debentures and the repurchase of the Fairfax Debentures; the offering of the Senior Debentures not being completed such that the repurchase of the Fairfax Debentures may not occur, conditions of the agreement with Fairfax not being satisfied; prices and market value of securities of H&R; availability of cash for distributions; development and financing relating to The Bow development; restrictions pursuant to the terms of indebtedness; liquidity; credit risk and tenant concentration; interest rate and other debt related risk; tax risk; ability to access capital markets; dilution; lease rollover risk; construction risks; currency risk; unitholder liability; co-ownership interest in properties; mezzanine financing credit risk; competition for real property investments; environmental matters; reliance on one corporation for management of substantially all of H&R's properties; changes in legislation and indebtedness of H&R. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include that the general economy is stable; local real estate conditions are stable; interest rates are relatively stable; and equity and debt markets continue to provide access to capital. H&R cautions that this list of factors is not exhaustive. Although the forward-looking statements contained in this news release are based upon what H&R believes are reasonable assumptions, including assumptions regarding achievable income property acquisition opportunities available to H&R and the terms of available financing in connection with such acquisitions, there can be no assurance that actual results will be consistent with these

forward-looking statements. All forward-looking statements in this news release are qualified by these cautionary statements. These forward-looking statements are made as of today, and H&R, except as required by applicable law, assumes no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

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