February 14, 2019

Fellow Unitholders,

Looking back on 2018, H&R REIT ("H&R") made significant progress towards the goals set out in our Letter to Unitholders a year ago. These goals include streamlining and simplifying our portfolio and recycling capital into higher growth properties, while enhancing the profile of H&R to our unitholders. In 2018 we sold approximately $1 billion of lower growth assets, including substantially all of our U.S. retail portfolio, and made significant investments into our attractive and well-advanced development projects and our U.S. residential rental portfolio, structurally enhancing the growth profile of the portfolio. While this capital reallocation program has had an impact on our financial results, we are pleased to note that it is essentially behind us. H&R returned to a single trust structure through the wind up of H&R Finance Trust, thereby simplifying H&R from the previous Stapled Unit structure. In 2018, we also repaid our final series of convertible debentures, eliminating the related potential future dilution and simplifying our capital structure.

Building on the governance improvements made in recent years, we have implemented a sustainability policy focused on increasing energy efficiency and reducing waste, consumption and pollution at our properties. We are also proud to have also updated our diversity policy to include a new target for board composition reflecting a minimum target for women to comprise at least 25% of our board members by the 2021 annual general meeting.

We believe the steps we have taken to simplify and streamline H&R's portfolio and increase our internal growth profile will contribute to positive Funds from Operations ("FFO") per unit and net asset value ("NAV") per unit growth. In 2019 and 2020, this enhanced growth profile will be complemented by Sears and Target replacement tenancies commencing by lease-up of four recently built Lantower Residential properties, and by the contribution of Jackson Park, which is expected to reach stabilization later this year. We will continue to pursue opportunities to simplify and streamline our portfolio and enhance the REIT's growth prospects in 2019, but believe the significant actions taken to date have already successfully elevated H&R's growth profile.

Developments

Property development is a key contributor to H&R's strategy of growing per-unit NAV and FFO. The scale and quality of our portfolio provides the stability and resilience of cash flow that, when paired with our balance sheet strength, allows H&R to pursue significant value creating developments. These investments enhance our existing portfolio by delivering value creation through the development process, increasing NAV per unit, and raising the growth profile of our overall portfolio. Our development projects all share the following characteristics: gateway city and/or primary market locations; strong prospects for rental rate growth over time driven by positive demand-growth and supply-constrained market fundamentals; and high-quality construction and profile, placing these properties at the top of their respective markets.

Last year we added more detail to our disclosure of our development pipeline, including Jackson Park, our flagship 1,871-unit luxury residential rental development in Long Island City, New York ("LIC"). With this project well into lease-up and achieving rents slightly above our pro forma projections, we have already seen significant value creation delivered to our unitholders and expect cash flow contribution to increase throughout 2019 and into 2020. The appraised value of this project stands at U.S. $800 million at our 50% ownership interest, approximately U.S. $260 million more than our total investment to date.

Amazon's November 2018 announcement that LIC had been selected as one of its HQ2 locations included plans to invest $2.5 billion and create 25,000 new high-paying jobs in this market. Despite the excitement created by Amazon's announcement, we have conservatively taken the position that it remains too early to forecast how Amazon's plans might impact Jackson Park. The assumptions used to support the appraised value, and our future cash flow forecast for the property do not take into account Amazon's announcement.

What Amazon's announcement has done however, is highlight the appealing characteristics of LIC, which are the same factors that drove our investment in Two Gotham and Jackson Park. These two properties sit at what we believe is the single best location in LIC, atop the Queens Plaza Subway Station - the gateway to LIC as the nexus of 3 main New York City subway lines. Our investment in LIC, along with Corus Quay in Toronto and River Landing in Miami, are notable examples of how H&R has identified and made significant investments in attractive, gentrifying urban areas early in their development cycle, subsequently benefitting from the emergence of these locations as prime nodes.

Construction is well advanced on our River Landing development in Miami. This 100% owned mixed-use urban infill project is located in the Miami Health District, two miles from downtown Miami, with 1,000 feet of waterfront on the Miami River. With a U.S. $425 million construction budget, this development includes office and retail components aggregating 482,000 sq.ft., and 529 luxury residential rental units. We expect an attractive 5.7% yield on cost, and strong growth in residential and commercial rents over time, as the local market intensifies and develops. Occupancy is expected to commence in Q2 2020.

The completion of Jackson Park will contribute to H&R's overall growth in property operating income and FFO in 2019 and 2020. In addition to Jackson Park and River Landing, H&R has several other developments in the gateway cities of San Francisco, Seattle, Dallas, Austin, Los Angeles and Toronto in various stages of development.

Significant Intensification Opportunities

With more than 460 properties, H&R's portfolio includes many properties with the potential for higher and better use, as their locations have evolved since they were acquired by the REIT, including some owned since the REIT's IPO over 23 years ago. Our Toronto portfolio in particular holds numerous significant opportunities among its 47 properties aggregating over 12 million square feet. While we have long considered these properties prime candidates for eventual intensification, the economics of these intensifications and redevelopments have only recently become attractive, and in some cases extraordinarily so. We plan to explore options to capitalize on these opportunities in the years ahead, including redevelopments, intensifications and/or dispositions.

Outlook

We believe that continuing to streamline and simplify our property portfolio into fewer but more significant segments, and increasing the focus on trophy and flagship properties in primary markets will not only enhance the growth prospects of our portfolio, but also improve the profile and transparency of H&R to its unitholders.

The market volatility and economic uncertainty we witnessed in the final quarter of 2018 and the beginning of 2019 are reminders of the need for prudent and conservative strategic principles. For H&R REIT, these prudent and conservative principles are incorporated into all aspects of our strategy. High-quality and well located assets, a strong and diverse portfolio of credit tenants, long-term leases, a strong and flexible balance sheet with low leverage, a large pool of unencumbered properties, and the scale and stability provided by interests in over 460 properties across 42 million square feet, are all evidence of the steps we have taken to protect and grow your investment.

As we continue to build on H&R's strengths, we would like to thank our employees who have all contributed to the progress we have made over our 22-year history. Each member of our team has been crucial to the progress we have made and are the foundation of H&R's bright future.

The board, management and their families collectively own more than $400 million of equity in H&R REIT, and firmly believe that the units are deeply undervalued. We will continue our efforts to improve H&R's investment profile, enhance our internal growth prospects, capitalize on opportunities within our portfolio, and narrow the gap between our unit price and NAV.

Respectfully,

Ronald C. Rutman
Chairman

Thomas J. Hofstedter
President & Chief Executive Officer