February 13, 2020

Fellow Unitholders,

Over the past several years, management and the board of H&R REIT ("H&R") have been actively reviewing the REITs operations and strategy, with the objectives of improving the quality and value of the REITs portfolio, and improving the profile of an investment in H&R. We have previously discussed many of the changes we have made including with respect to governance, capital recycling, enhancing the REIT's internal growth prospects, and simplifying and streamlining the REIT's portfolio.

In 2020 we plan to make further progress in the areas of diversity and our environmental, social and governance practices (ESG). In 2019 we formally adopted our diversity policy including a 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, and a sustainability policy focused on improving the environmental footprint of our property portfolio, including through increasing energy efficiency and reducing waste, consumption and pollution. H&R's commitment is to build on our established policies, and enhance the disclosure of our successes on these fronts.

Property Portfolio

In 2019 H&R took advantage of robust property market conditions to further our strategic priorities of streamlining and simplifying our portfolio, recycling capital into higher growth properties and improving the investment profile of H&R.

Notable accomplishments in 2019 include the sale of The Atrium, a 1.1 million square foot office and retail complex for $640 million, (approximately 86% higher than our 2011 purchase price); investing approximately U.S. 260 million into our pipeline of value creating residential and mixed use developments in the United States; significant lease extensions with Bell Canada, H&R's second largest tenant; and the acceleration of our industrial development pipeline, including the first phase of our 2.7 million square foot Caledon development project. As noted in our previous Letter to Unitholders in 2019, we also advanced our intensification pipeline of projects within our existing portfolio, including Dufferin Grove Village at Dufferin Mall, which will include over 1,100 residential units, and redevelopment of our downtown Toronto properties on Wellington, Yonge and Front Streets.

The net result of all the REIT's capital recycling over the past five years is a changed portfolio profile, with our high-quality multi-residential properties accounting for 23% of fair value of investment properties including developments, up from 1% at year end 2014. Over the same period, retail has reduced from 39% to 28%, office has reduced from 51% to 41%, and industrial has remained at approximately 8% of assets, respectively. Geographically, our portfolio has shifted significantly towards high-growth Sun Belt markets including Dallas, Austin, San Antonio, Orlando, Tampa and Charlotte, as well as gateway cities including New York City, Miami, San Francisco, Los Angeles, and Seattle, with the portfolio's United States market exposure increasing to 42%, up from 23% five years earlier. Accordingly, Canadian markets declined from 77% to 58% with Ontario accounting for 28% today.

With the considerable changes to our portfolio over the past five years, we believe we have significantly enhanced the REIT's internal growth profile, including higher same-asset property operating income prospects, exciting development investments under way, as well as intensification opportunities in the planning stages.

In 2019, Jackson Park, our flagship development in New York City was completed, several other projects were advanced including River Landing in Miami, and added new projects to the pipeline. We expect these investments, which amounted to $829 million at cost as at December 31, 2019, to contribute meaningfully to growth in H&R's net asset value over the next few years.

Outlook

We are excited about H&R's future prospects. Our portfolio is concentrated in major North American population centres with strong demographic and economic growth prospects. Our balance sheet is strong, and we expect to benefit from significant development completions, contractual rent increases and positive leasing spreads.

Management and the board remain focused on increasing unitholder value. Improving the profile of an investment in H&R units is a goal we have outlined in recent years, and while we believe we have made progress, we continue to see our units trading at a discount to net asset value. We remain committed to narrowing this discount, addressing factors that have contributed to a higher cost of equity for H&R, and pursuing further opportunities to simplify the investment profile of H&R. Management, members of the board and their families are strongly aligned with unitholders as we work towards this goal, collectively owning more than $400 million of equity in H&R REIT.

H&R has considerable scale with many advantages, including 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 455 properties across 41 million square feet. These are all attributes we intend to leverage as we advance the interests of unitholders in 2020.

We would like to thank our employees who have all contributed to the success of the REIT as we chart the course for H&R through the 2020s.

Respectfully,

Ronald C. Rutman
Chairman

Thomas J. Hofstedter
President & Chief Executive Officer