February 14, 2018

Fellow Unitholders,

As we report on our 2017 performance and look forward to 2018, we are pleased to provide an update on the strides we have recently made to enhance the business of H&R REIT. We view these improvements in three categories: 1) Governance; 2) Assets; and 3) Investment Profile.

Governance

The improvements we have made to our governance over the past five years are significant, and include adopting a fully internalized management structure; adopting new board management policies including term limits; adding three new trustees to our board; and undertaking a comprehensive review and reform of our executive compensation program, with Willis Towers Watson providing independent advice on the design and governance of the new program which came into effect in 2017. Following these improvements, we believe that we have adopted best governance practices for H&R REIT. With management, trustees and their families owning more than $400 million of H&R units we have excellent alignment with investors.

Assets

We have continued to enhance the quality of the REIT's assets, through acquisitions, developments and dispositions. Notable acquisitions in recent years have included a series of large trophy office property acquisitions, beginning in late 2011, including Hess Tower in Houston, Two Gotham in New York and Corus Quay and The Atrium in Toronto. In 2013, we acquired Primaris REIT, one of the very few fully integrated enclosed shopping centre platforms in Canada. Since late 2014, we have also created a residential apartment platform acquiring more than 5,600 suites, primarily in Texas and Florida, operating under the Lantower Residential banner.

Our efforts to improve our asset base have not been limited to acquisitions. We have also undertaken value-creating developments, including a number of U.S. gateway city multi-residential developments, as well as Toronto industrial developments. The largest and most notable is our 50% interest in Jackson Park, a multi-residential development in Long Island City, New York. This 1,871-suite development is nearing completion, with phased occupancy commencing in the first quarter of 2018. We conservatively expect this project alone will have added more than $1.00 to our net asset value per unit upon stabilization. We are confident that our other multi-residential developments, while individually smaller in scale, spanning markets such as Miami, Seattle, Long Beach and San Francisco Bay among others, will also result in positive contributions to our net asset value.

And lastly, as we have acquired and developed high-quality properties, we have also completed significant asset sales, recycling more of our capital into our larger and core properties. We have sold more than $2.6 billion of property over the past four years, including partial interests in our smaller and older Canadian industrial properties; most of our U.S. industrial property portfolio; partial interests in several Primaris properties; and we are currently negotiating to sell our U.S. $750 million U.S. retail portfolio.

We have executed these asset sales for a number of reasons. In some cases, we have pursued partial dispositions, leveraging our management expertise to enhance returns through property management fees from our joint venture partners, while also conservatively managing our risk exposures. In other cases, we have taken advantage of strong property markets to sell some of the smaller and older properties that had been eclipsed in quality and scale by subsequent acquisitions and developments. Some asset sales have reflected our desire to streamline our portfolio to fewer, but larger focus areas, such as our decision to sell all of our U.S. industrial properties and U.S. retail properties. Perhaps most importantly, as we have enhanced the quality of our portfolio through capital recycling, we have done so in a gradual, conservative and measured manner, safeguarding the stability of our capital structure and financial performance.

Investment Profile

This brings us to the third area of improvement: the profile of H&R REIT as an investment. While we operate the business with a long-term perspective and will not allow short-term thinking to drive our decision making, there are several areas where we are spending more time and effort to improve our profile with our unitholders. Some of these initiatives coincide with our strategy, such as reducing leverage significantly over the past five years consistent with investor preference, but also supportive of our strategy of increased investment in developments, as well as cushioning against the potential for interest rates to be a headwind in the future.

As we look to improve our investment profile we continue to listen to our investors, as demonstrated by our "Say on Pay" resolution, which 96% of unitholders supported at our last annual meeting. We have significantly improved our disclosure and communications with unitholders, in an effort to help investors better understand and appreciate our business, our strategy and the opportunity in our units. This quarter marks the seventh consecutive quarter where we have held a conference call, we hosted our first two investor and analyst tours in Toronto and New York in the fall, and we have enhanced the transparency of our financial reporting. We plan to continue to spend time working with our investors to improve communication and disclosure.

Looking ahead, we see a number of positive factors that will contribute to our financial performance, including development completions, rising rents and steady to rising occupancy. We are also pleased with our conservative balance sheet, after a period of de-leveraging that muted FFO growth, and we plan to target maintaining leverage in the 43% - 47% range. In the near term, we expect leverage to remain close to the bottom end of that range, with the dispositions of our remaining U.S. industrial and U.S. retail properties, anticipated in the near future, expected to generate roughly US$800 million of gross proceeds. We are actively pursuing reinvestment opportunities, particularly in our Lantower Residential U.S. apartment platform. We are also buying back units regularly under our normal course issuer bid, at significant discounts to our IFRS fair value, in efforts to minimize the impact of capital recycling on FFO in the near term, and also to take advantage of the discount at which our units trade. However, we expect the process of recycling this capital will have a modest negative impact on FFO growth in 2018, until sale proceeds are reinvested.

After two years of relatively flat performance from our Primaris platform, reflecting the departure of Target, we expect modest positive growth in FFO contribution for the full year 2018 as replacement tenants take occupancy, despite the impact of Sears' closures. The balance between Target replacement tenants and the impact of Sears closures is tilted in our favour by the significantly higher rents generated by replacement tenants, as well as the exceptionally low rents Sears paid (Target's former rents were 50% higher). As we address the re-leasing of Sears vacancies, we are encouraged by the stronger than expected tenant demand experienced, with 400,000 sq.ft. of the 675,000 sq.ft. of total Sears vacancy under advanced leasing discussions. We expect Sears replacement tenants to begin rent payments in 2019, supporting FFO growth, with an even greater positive impact in 2020.

We spent a considerable amount of time in 2017 reflecting on our business. Among the more notable conclusions we reached was that we would focus on streamlining our property portfolio by narrowing our focus to fewer property types, which led to our decisions to sell our U.S. industrial and U.S. retail property portfolios. We expect to continue to evaluate all aspects of our business on an on-going basis, looking for ways we can 1) create value for unitholders; 2) best position H&R REIT for long term success; and 3) enhance the profile of the REIT among investors and analysts and bridging the gap between our trading price and our net asset value.

In our pursuit of continually improving H&R REIT, we remain focused on achieving the main goal we have pursued throughout our history: To build a high quality portfolio of real estate, in order to deliver strong per unit performance over the long term.

Our mandate for 2018 is clear: Continue to improve the quality and profile of our business, and invest time and energy into improving our communication, disclosure and investor relations so that investors can better see the opportunity we see in H&R REIT units.

Respectfully,

Ronald C Rutman
Chairman

Thomas J Hofstedter
President & Chief Executive Officer