



H&R REIT Announces Strategic Transaction Valued at \$1.67 Billion

Sale of the Bow, Calgary Office Exposure Reduced, Enhanced Strategic Flexibility

August 3, 2021 - H&R REIT (“H&R” or the “REIT”) announces today that it has entered into agreements for the transactions involving the 2.0 million sq.ft. Bow office tower (“the Bow”) located in Calgary, Alberta, and for the sale of the 1.1 million sq.ft. Bell office campus (the “Bell Campus”) located in Mississauga, Ontario, for combined gross proceeds of approximately \$1.47 billion, including proceeds from the sale of an ownership interest to affiliates of Oak Street Real Estate Capital (“Oak Street”) and a secured lease financing arrangement with Deutsche Bank Credit Solutions and Direct Lending (“Deutsche”) (“Deutsche Transaction” and with the sale, collectively “Bow Transaction”).

H&R will effectively retain 15% of net rent from the Ovintiv Lease, ownership of the adjacent lands, (“South Block”), and will retain the management contracts on the Bow and Bell Campus, together valued at approximately \$203 million. The transaction is valued at approximately \$1.67 billion (“Transaction”) inclusive of gross proceeds of approximately \$1.47 billion from the sale to Oak Street, the Deutsche Transaction, and the retained interests.

The \$1.67 billion Transaction exceeds IFRS fair values by approximately \$206 million, with net proceeds of approximately \$800 million being used to pay down debt and to facilitate further strategic initiatives.

Management will host a conference call to discuss the Transaction on August 3rd, 2021 at 11.00 a.m. Eastern Time.

“Today’s announcement is evidence of our commitment to our strategic repositioning and is a critical step forward on our path to achieving a more simplified structure”, said Thomas Hofstedter, President & CEO of H&R. “We appreciate the patience and support of our unitholders as we continue to pursue opportunities to further enhance the value of our units.”

Highlights:

- Significantly reduces Calgary office exposure from 9% to 3% on a fair value basis.
- Reduces tenant concentration to Ovintiv Inc. (“Ovintiv”) from 12% to 2%.
- Provides ~\$800 million of cash proceeds, net of associated mortgage repayments and closing costs.
- Enhances financial flexibility to facilitate the potential for further significant strategic changes.
- H&R retains an option to repurchase 100% ownership interest in the land and building of the Bow for \$368 per sq. ft., being 60% of the total Bow Transaction value

Transaction Overview:

<u>Property</u>	<u>Est. 2021 NOI</u>	<u>GLA Sq.Ft.</u>	<u>Tenant</u>	<u>Location</u>
Bow	\$98,000,000	2,000,000	Ovintiv Inc.	Calgary, AB
Bell Campus	\$31,000,000	1,100,000	Bell Canada	Mississauga, ON
Total	\$129,000,000	3,100,000		

<u>Asset</u>	<u>Gross Proceeds From</u>		<u>Retained Value</u>	<u>Total Value</u>	<u>Q1 2021 IFRS FV</u>	<u>Value Relative To IFRS FV</u>
	<u>Oak Street</u>	<u>Deutsche Bank</u>				
Bow	\$613,000,000	\$418,000,000	\$185,000,000	\$1,216,000,000	\$942,000,000	\$274,000,000
Bell Campus	\$439,000,000		\$18,000,000	\$457,000,000	\$525,000,000	(\$68,000,000)
Total	\$1,052,000,000	\$418,000,000	\$203,000,000	\$1,673,000,000	\$1,467,000,000	\$206,000,000

- Sale of 100% ownership of the land and building of the Bow, together with a 40% interest in the net rent payable under the Ovintiv lease to expiry in May 2038, to Oak Street, for gross proceeds of approximately \$613 million.
- Effective sale of a 45% interest in the net rent payable under the Ovintiv lease to expiry in May 2038, to Deutsche through a secured lease financing structure for gross proceeds of \$418 million.
- Sale of 100% of the Bell Campus to Oak Street for gross proceeds of approximately \$439 million.

The total value for the Bow Transaction is approximately \$1.216 billion or \$608 per sq.ft. The total value for the Bell Campus is approximately \$457 million or \$415 per sq.ft. The Bow and Bell Campus transactions combined reflect an implied capitalization rate of approximately 7.8%.

H&R will effectively retain a 15% interest in the net rent payable under the Ovintiv lease to the expiry of the lease in May 2038, and will continue to manage the Bow and earn management fees. The retained interest in the cash flow from the Ovintiv lease and management fees total approximately \$18 million annually with a net present value of approximately \$177 million (\$185 million inclusive of the South Block, ownership of which is being retained by H&R).

H&R will also continue to act as manager of the Bell Campus for the remainder of the term of the existing Bell leases, earning management fees of approximately \$1.6 million annually, having a net present value of approximately \$18 million.

The sale includes an option in favour of H&R to repurchase 100% ownership of the land and building of the Bow at expiry of the Ovintiv lease in May 2038 for approximately \$735 million (\$368 per sq.ft.), substantially below the combined sale proceeds of \$1.031 billion (\$515 per sq.ft.) and 60% of the total Transaction of \$1.216 billion (\$608 per sq.ft.). This option provides H&R the ability to capture potential upside in the Calgary office market over an extended ~17 year time frame.

Closing costs are estimated at approximately \$42 million, including a significant early redemption penalty relating to the approximately \$500 million existing Bow Centre Street mortgage bonds. The Bell Campus is currently encumbered with mortgages totalling approximately \$130 million. Combined net proceeds of approximately \$80 million will be used to repay debt.

The sales are subject to customary closing conditions, with closing targeted to be Q3-Q4 2021.

Accounting Implications

Due to the repurchase option in favour of H&R, and in accordance with IFRS-15, the Bow transaction will not be treated as a disposition for accounting purposes, and therefore the Bow will continue to be recorded as an asset on

the balance sheet. Proceeds received from the sale will be recorded as deferred revenue and will be amortized over the term of the lease.

Tax Implications

The Transaction announced today is expected to generate taxable income of approximately \$225 million or \$0.75 per unit of taxable income, including both recapture income and capital gains. H&R anticipates having to make a special distribution in order to ensure the REIT will not be liable to pay income tax. Details of the distribution will be made available to unitholders by year end.

Advisors

BMO Capital Markets is acting as financial advisor with respect to the sale to Oak Street and Moelis & Company LLC is acting as financial advisors with respect to the Deutsche Transaction.

Conference Call

Management will host a conference call to discuss the Transaction on August 3rd, 2021 at 11.00 a.m. Eastern Time. Participants can join the call by dialing 1-888-510-2507 or 1-289-514-5065.

For those unable to participate in the conference call at the scheduled time, it will be archived for replay beginning approximately one hour following completion of the call. To access the archived conference call by telephone, dial 1-800-770-2030 or 1-647-362-9199 and enter the passcode 7737789 followed by the pound key. The telephone replay will be available until September 3, 2021 at midnight.

A live audio webcast will be available through <https://www.hr-reit.com/investor-relations/#investor-events>. Please connect at least 15 minutes prior to the conference call to ensure adequate time for any software download that may be required to join the webcast. The webcast will be archived on H&R's website following the call date. The investor presentation is available on H&R's website at <https://www.hr-reit.com/investor-relations/#investorpresentation>

About H&R REIT

H&R REIT is one of Canada's largest real estate investment trusts with total assets of approximately \$13.2 billion at March 31, 2021. H&R REIT has ownership interests in a North American portfolio of high-quality office, retail, industrial and residential properties comprising over 40 million square feet.

Forward-looking Statements

Certain statements in this news release contain forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements). These forward-looking statements include, but are not limited to H&R's plans, objectives, expectations and intentions, including the expected closing date of the sale of the Bow and Creekbank, the net proceeds of the transactions and the uses thereof, the potential for more strategic changes, net present value of cash flows and the tax and accounting implications for the transactions. 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 risks 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. Although the forward-looking statements contained in this news release are based upon what H&R believes are reasonable assumptions, 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.

Additional information regarding H&R REIT is available at www.hr-reit.com and on www.sedar.com.

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