H&R REIT Reports Fourth Quarter and 2021 Annual Results

Enhanced geographical exposure, improved asset mix, strengthened balance sheet and NCIB utilization

Toronto, Ontario, February 14, 2022 - H&R Real Estate Investment Trust ("H&R" or "the REIT") (TSX: HR.UN) is pleased to announce its financial results for the year ended December 31, 2021.

SIGNIFICANT 2021 HIGHLIGHTS

Transformational Strategic Repositioning Plan:

On October 27, 2021, H&R announced its transformational strategic repositioning plan to create a simplified, growth-oriented business focused on residential and industrial properties in order to surface significant value for unitholders. H&R's target is to be a leading owner, operator and developer of residential and industrial properties, creating value through redevelopment and greenfield development in prime locations within Toronto, Montreal, Vancouver, and high growth U.S. sunbelt and gateway cities.

"2021 truly was a transformational year for the REIT. Despite the enduring global pandemic, our teams accomplished many significant milestones including simplifying and enhancing our portfolio's geographical exposure, asset mix, and tenant diversity, while also lowering leverage and increasing liquidity. To enable this change, H&R successfully transacted on approximately $4.7 billion of real estate during the year," said President & CEO Tom Hofstedter. "Management and the board remain fully committed to the Strategic Repositioning Plan and are actively evaluating opportunities to increase unitholder value and address the significant discount at which our Units trade. Equipped with a strong balance sheet, significant liquidity and enhanced portfolio concentration in large primary markets with strong population and economic growth, H&R is very well positioned to continue its evolution."

2021 Highlights:

- **Bow and Bell office campus sale**: The sale of the Bow and Bell Office Campus in October 2021 significantly reduced Calgary office exposure, enhanced tenant diversification, and created the liquidity and strengthened balance sheet to enable the Primaris Spin-Off.

- **Primaris Spin-Off**: H&R carried out a tax-free Primaris spin-off of the REIT's Primaris properties on December 31, 2021, including all of H&R's enclosed malls into a new, completely independent, stand-alone, publicly traded REIT, known as Primaris REIT (the "Primaris Spin-Off").

- **U.S. office property sale:** H&R sold a 172,039 square foot single-tenanted property in Culver City, CA for approximately U.S. $165.0 million in January 2021.

- **50% owned Industrial dispositions:** During 2021, H&R sold its 50% ownership interest in 14 single tenanted properties and two multi-tenanted properties encompassing 915,611 square feet located across Canada for approximately $160.4 million.

- **Sold partially owned U.S. residential development completed in Q4 2020:** In September 2021, the REIT sold its 31.7% non-managing interest in The Exchange at Bayfront in Hercules, CA for approximately U.S. $35.9 million.

- **River Landing Development:** H&R completed its River Landing development in Miami, FL in Q2 2021 with residential occupancy exceeding management's expectations on leasing velocity.

- **$300M debenture issuance:** In February 2021, H&R issued $300.0 million principal amount of 2.633% Series S Senior Debentures maturing February 19, 2027.

- **Future Intensification projects:** H&R has submitted rezoning, site plan and plan amendment applications for six office properties with an additional three submissions pending for two office properties and one industrial property.

Benefits of these transactions include:
(comparison figures are from December 31, 2020 to December 31, 2021 at the REIT's proportionate share[1], unless otherwise stated)

- Greater concentration to higher growth residential and industrial assets, with reduced exposure to retail and office properties.
  - Increased U.S. residential property exposure from 21.0% to 32.1%.
  - Completely eliminated exposure to enclosed retail shopping centres.
  - Reduced retail property exposure from $3.9 billion to $1.8 billion.
  - Reduced Calgary office property exposure from $1.2 billion to $221.1 million.
- Enhanced major market presence in the Greater Toronto Area and high-growth U.S. sunbelt and gateway cities.
  - Reduced Alberta property exposure from $2.3 billion to $482.5 million.
- Improved balance sheet enhances financial flexibility to execute on expanding the REIT's residential platform through developments.
  - Improved debt to total assets at the REIT's proportionate share from 51.1% to 46.6%.
- Enhanced tenant diversification
  - Reduced exposure to Ovintiv Inc. from 11.9% to 2.7% of rental revenue from investment properties.

(1) This is a non-GAAP measure. Refer to the "Non-GAAP Measures" section in this news release.

Normal Course Issuer Bid

On December 13, 2021, the REIT received approval from the TSX for the renewal of its normal course issuer bid ("NCIB") allowing the REIT to purchase for cancellation up to a maximum of 14.0 million Units on the open market until the earlier of December 15, 2022 or the date on which the REIT purchased the maximum number of Units permitted under the NCIB. During the year ended December 31, 2021, the REIT did not purchase any Units for cancellation.

As at February 9, 2022, the REIT purchased and cancelled 4,222,700 Units at a weighted average price of $13.00 per Unit, for a total cost of $54.9 million, at a material discount to net asset value ("NAV")[1].

(1) This is a non-GAAP measure. Refer to the "Non-GAAP Measures" section in this news release.

FINANCIAL HIGHLIGHTS

	December 31, 2021	December 31, 2020
Total assets (thousands)	**$10,501,141**	$13,355,444
Debt to total assets at the REIT's proportionate share(1)(2)	**46.6%**	51.1%
Unitholders' equity (thousands)	**$4,773,833**	$6,071,391
Units outstanding (in thousands of Units)	**288,440**	286,863
Unitholders' equity per Unit	**$16.55**	$21.16
NAV per unit(3)	**$17.70**	$21.93

	3 months ended December 31		Year ended December 31	
	2021	2020	**2021**	2020
Rentals from investment properties (millions)	**$265.8**	$277.5	**$1,065.4**	$1,098.7
Property operating income (millions)	**$169.8**	$183.6	**$661.6**	$663.7
Same-Asset property operating income (cash basis) (millions)(3)	**$140.6**	$131.2	**$527.7**	$557.0
Net income (loss) from equity accounted investments (millions)	**$89.3**	($44.7)	**$125.6**	($17.0)
Fair value adjustment on real estate assets (millions)	**($13.0)**	$70.0	**$13.0**	($1,196.0)
Net income (loss) (millions)	**$208.2**	$111.6	**$597.9**	($624.6)
Funds from operations ("FFO") (millions)(3)	**$104.6**	$127.4	**$461.4**	$503.1
FFO per Unit (basic)(3)	**$0.35**	$0.42	**$1.53**	$1.67
Adjusted Funds from Operations ("AFFO") (millions)(3)	**$76.2**	$67.3	**$365.8**	$383.8
AFFO per Unit (basic)(3)	**$0.25**	$0.22	**$1.21**	$1.27
Weighted average number of Units and exchangeable units for FFO	**301,779**	301,746	**301,772**	301,687
Cash distributions per Unit(4)	**$0.27**	$0.17	**$0.79**	$0.92
Payout ratio per Unit (as a % of FFO)(2)(3)	**77.1%**	40.5%	**51.6%**	55.1%
Payout ratio per Unit (as a % of AFFO)(2)(3)	**108.0%**	77.3%	**65.3%**	72.4%

(1) Debt includes mortgages payable, debentures payable, unsecured term loans and lines of credit.
(2) These are non-GAAP ratios. Refer to the "Non-GAAP Measures" section in this news release.
(3) These are non-GAAP measures. Refer to the "Non-GAAP Measures" section in this news release.
(4) Distributions for the three months and year ended December 31, 2021, include the special cash distribution of $0.10 per Unit declared on November 15, 2021, payable to all unitholders on record as at December 31, 2021. This distribution was paid on January 12, 2022 and has been included in the calculations of Payout ratio as a % of FFO and AFFO.

The Bow Sale

Sale of the Bow property and 40% interest in the Ovintiv lease

In October 2021, the REIT sold its interest in the Bow office property ("The Bow") in Calgary, AB including 40% of the future income stream derived from the Ovintiv lease until the end of the lease term in May 2038 to an arm's length third party, Oak Street Real Estate Capital ("Oak Street") for approximately $528.0 million. Subsequent to the maturity of the Ovintiv lease, Oak Street will receive all future lease revenue earned by the property. Although the REIT sold the property, the transaction did not meet the criteria of a transfer of control under IFRS 15 as the REIT has an option to repurchase 100% of the Bow property for approximately $737.0 million ($368 per sq. ft.) in 2038 or earlier under certain circumstances. This option is substantially below the current aggregate sale proceeds of $946.0 million and it provides H&R the ability to capture potential upside in the Calgary office market over an extended time frame of approximately 16 years. As such, the REIT continues to recognize the income producing property whereby the fair value will be adjusted over the remaining life of the Ovintiv lease bringing the value of the real estate asset to nil by the lease maturity. The net proceeds received by the REIT on disposition were $496.1 million. These proceeds were recorded as Bow deferred revenue (classified as a liability) and will be amortized over the remaining term of the lease (40% of the rental income remitted to Oak Street will consist of principal and interest).

Sale of 45% interest in the Ovintiv lease

In a separate transaction, in October 2021, the REIT sold 45% of its residual 60% interest in the future income stream derived from the Ovintiv lease to an arm's length third party that was financed by Deutsche Bank Credit Solutions and Direct Lending ("Deutsche Bank"). The REIT received a lump-sum cash payment of $418.0 million as consideration. The net proceeds received of $408.3 million were also recorded as Bow deferred revenue (classified as a liability) and will be amortized over the remaining term of the lease as the 45% lease payments are made to Deutsche Bank and will consist of principal and interest.

Summary

H&R effectively retains a 15% interest in the net rent payable under the Ovintiv lease to the expiry of the lease in May 2038. The retained interest in the cash flow from the Ovintiv lease totals approximately $15.0 million annually.

The following is a summary of the Bow in the REIT's consolidated statement of financial position in the REIT's Financial Statements:

(in thousands of Canadian dollars)	**December 31 2021**
Income producing property- fair value of the Bow	$1,042,918
Bow deferred revenue (net of amortized principal of $7,576)	896,801

The following is a summary of the financial results for the **Bow** included in the consolidated statements of comprehensive income (loss) in the REIT's Financial Statements as well as a reconciliation of the Bow's contribution to FFO and AFFO:

(in thousands of Canadian dollars)	**October 2021**	**November 2021**	**December 2021**	**Three months ended December 31, 2021**	**Year ended December 31, 2021**
Rental income earned from the Bow	$5,533	$1,191	$1,241	**$7,965**	**$81,194**
Rental income accrued from the Bow- non-cash	2,634	6,943	6,943	**16,520**	**16,520**
Straight-lining of contractual rent	-	-	-	**-**	**1,254**
Revenue reimbursement for property operating costs	1,754	5,618	3,369	**10,741**	**42,058**
Property operating costs	(1,754)	(5,618)	(3,369)	**(10,741)**	**(42,058)**
Property operating income from the Bow	8,167	8,134	8,184	**24,485**	**98,968**
Finance cost - operations	(1,390)	-	-	**(1,390)**	**(20,172)**
Finance income	36	32	2	**70**	**60**
Accretion finance expense on Bow deferred revenue- non-cash	(1,426)	(3,759)	(3,759)	**(8,944)**	**(8,944)**
Fair value adjustment on real estate asset- non-cash	-	-	(4,391)	**(4,391)**	**90,817**
Net income from the Bow	5,387	4,407	36	**9,830**	**160,729**
Fair value adjustment on real estate asset	-	-	4,391	**4,391**	**(90,817)**
The Bow non-cash rental and accretion adjustment	(1,208)	(3,184)	(3,184)	**(7,576)**	**(7,576)**
FFO from the Bow[1]	4,179	1,223	1,243	**6,645**	**62,336**
Straight-lining of contractual rent	-	-	-	**-**	**(1,254)**
AFFO from the Bow[1]	$4,179	$1,223	$1,243	**$6,645**	**$61,082**

(1) These are non-GAAP measure. Refer to the "Non-GAAP Measures" section in this news release.

Excluding the non-cash rental income adjustment under IFRS 15, property operating income from the Bow for the three months and year ended December 31, 2021 was $8.0 million and $82.4 million, respectively.

The Bell Office Campus Sale

In October 2021, H&R sold its 100% interest in the 1.1 million square foot Bell Office Campus ("Bell Office Campus") located in Mississauga, ON. Total proceeds were approximately $525.0 million. H&R continues to manage the Bell Office Campus for the remainder of the term of the existing Bell Office Campus leases, earning management fees of approximately $1.6 million annually.

Property operating income from the Bell Office Campus for the three months and year ended December 31, 2021 was $1.8 million and $27.0 million, respectively. FFO for the three months and year ended December 31, 2021 was $1.7 million and $22.6 million, respectively. AFFO for the three months and year ended December 31, 2021 was $1.7 million and $20.7 million, respectively.

<u>Primaris Spin-Off</u>

On October 27, 2021, H&R announced its intention to spin-off its enclosed mall portfolio and together with Healthcare of Ontario Pension Plan ("HOOPP") create Primaris REIT. Primaris REIT's scale, portfolio composition and capital structure were designed to allow Primaris REIT to grow and thrive in the new retail landscape. The Primaris Spin-Off was completed on December 31, 2021 pursuant to a statutory plan of arrangement (the "Arrangement"). Primaris REIT now owns interests in 35 shopping centres with an appraised value of approximately $3.2 billion encompassing 11.4 million square feet of gross leasable area ("GLA") at Primaris REIT's share. H&R contributed 27 properties with an appraised value of approximately $2.4 billion and HOOPP contributed eight properties with an appraised value of approximately $0.8 billion. H&R's secured debt was reduced by approximately $580.0 million in respect of the mortgages assumed by Primaris REIT.

Primaris REIT has substantial scale, a differentiated low leverage financial model and a full service, vertically integrated management platform. Primaris REIT's board of trustees and management are independent with no overlap with H&R's board of trustees and management, and operates as a distinct and separate publicly-traded entity. Immediately following the Primaris Spin-Off, H&R unitholders directly owned approximately 74% of Primaris REIT units outstanding, and HOOPP owned approximately 26% of Primaris REIT units outstanding. Primaris REIT's units began independently trading on the TSX under the ticker PMZ.UN on January 5, 2022.

Pursuant to a step in the Arrangement, H&R unitholders received Primaris REIT units having an implied net asset value on the closing date of $5.53 per Unit.

As a subsequent step in the Arrangement, the Primaris REIT units were consolidated such that each holder of Units received one Primaris REIT unit for every four Units held and resulting in REIT unitholders holding Primaris REIT units in addition to their Units as at December 31, 2021.

As the Primaris Spin-Off was completed on December 31, 2021, the assets and liabilities of the properties now owned by Primaris REIT are not included in the REIT's consolidated statement of financial position.

The following is a summary of the results from the 27 properties contributed by H&R to Primaris REIT which have been included in the consolidated statements of comprehensive income (loss) in the REIT's Financial Statements as well as a reconciliation to FFO and AFFO from these properties:

(in thousands of Canadian dollars)	**Three months ended**	**Year ended**
	December 31, 2021	
Property operating income	$34,590	$134,137
Finance costs - operations	(4,387)	(19,873)
Finance income	5	17
Trust expenses	(1,034)	(2,591)
Fair value adjustment on financial instruments	-	(4,532)
Fair value adjustment on real estate assets	(15,854)	247,924
Gain on sale of real estate assets	-	5
Income tax expense	-	(3)
Net income	13,320	355,084
Exchangeable unit distributions	-	500
Fair value adjustments on financial instruments and real estate assets	-	4,532
Fair value adjustment to unit-based compensation	15,854	(247,924)
Gain on sale of real estate assets	-	(5)
Incremental leasing costs	1,025	4,180
FFO[(1)]	30,199	116,367
Straight-lining of contractual rent	(869)	(3,133)
Capital expenditures	(4,494)	(11,617)
Leasing expenses and tenant inducements	(3,392)	(9,603)
Incremental leasing costs	(1,025)	(4,180)
AFFO[(1)]	$20,419	$87,834

(1) These are non-GAAP measures. Refer to the "Non-GAAP Measures" section in this news release.

Completion of River Landing Development

River Landing is an urban in-fill mixed use property site in Miami, FL which was completed in Q2 2021. River Landing includes approximately 341,000 square feet of retail space, approximately 149,000 square feet of office space and 528 residential rental units. It is adjacent to the Health District with approximately 1,000 feet of waterfront on the Miami River, two miles from downtown Miami.

In Q1 2021, the first of two residential towers at River Landing reached substantial completion and was transferred from properties under development to investment properties. In Q2 2021, the second residential tower at River Landing reached substantial completion and was transferred from properties under development to investment properties. The total amount transferred from properties under development to investment properties for the two residential towers was U.S. $201.6 million. As at December 31, 2021, residential occupancy was 94.9%, exceeding management's expectations on leasing velocity.

In Q4 2020, the retail and office portion of this project "River Landing Commercial" reached substantial completion and U.S. $294.3 million was transferred from properties under development to investment properties. As at December 31, 2021, retail occupancy was 79.6% with the remaining retail lease-up expected to occur during the first half of 2022. Major retail tenants include: Publix Super Markets Inc., Hobby Lobby, Burlington, Ross Stores Inc., T.J. Maxx, Old Navy and Planet Fitness.

During Q2 and Q3 2021, the REIT signed two major office leases with the following tenants: (i) Office of the State Attorney – Miami-Dade County to occupy approximately 50,000 square feet and (ii) Public Health Trust of Miami Dade County to occupy 43,351 square feet. As at December 31, 2021, committed office occupancy was 64.0%. The REIT is continuing negotiations with multiple parties on the remaining office space.

Debt Highlights

Mortgages:
During the year ended December 31, 2021, H&R secured seven new mortgages totalling $359.2 million at a weighted average interest rate of 2.1% for an average term of 1.5 years and excluding the Primaris Spin-Off, repaid 28 mortgages totalling approximately $1.5 billion (including mortgages repaid upon sale) at a weighted average interest rate of 3.9%. On December 31, 2021, $580.0 million of mortgages were transferred to Primaris REIT pursuant to the Primaris Spin-Off.

Debentures:
In February 2021, H&R issued $300.0 million principal amount of 2.633% Series S Senior Debentures maturing February 19, 2027. The proceeds were used to repay the term loan noted below as well as lines of credit.

In November 2021, H&R used proceeds from The Bow and Bell Office Campus transactions to redeem all of its $325.0 million outstanding 2.923% Series L Senior Debentures which were maturing May 6, 2022. H&R incurred a prepayment penalty of $3.3 million.

Unsecured Term Loans:
In March 2021, the REIT repaid a $200.0 million unsecured term loan.

Lines of Credit:
In April 2021, the REIT secured a one-year extension on the H&R and CrestPSP revolving secured line of credit for $25.0 million at H&R's ownership interest. The maturity date was extended to April 30, 2022.

As part of the Primaris Spin-Off, in December 2021, H&R renegotiated its credit facilities which resulted in H&R cancelling three revolving unsecured facilities totalling $650.0 million. In addition, H&R reduced the $300.0 million Primaris revolving line of credit to $150.0 million which was then transferred to Primaris REIT on December 31, 2021 pursuant to the Primaris Spin-Off. H&R replaced these facilities with a new $750.0 million revolving unsecured facility maturing December 14, 2026.

Liquidity

As at December 31, 2021, H&R had cash on hand of $124.1 million, $952.4 million available under its unused lines of credit and an unencumbered property pool of approximately $4.0 billion.

2021 Taxation Consequences for Taxable Canadian Unitholders

Distributions and special distribution
The REIT's cash distributions amounted to $0.79 per Unit during 2021 (including a $0.10 per Unit special cash distribution to unitholders of record on December 31, 2021). Of these cash distributions, 3.9% will be designated as capital gains. The REIT also made a special distribution to unitholders of record on December 31, 2021 of $0.63 per Unit payable in additional Units, which were immediately consolidated such that there was no change in the number of outstanding Units. 100% of the special distribution payable in Units will be designated as capital gains. The cash portion of the special distribution was intended to provide liquidity to unitholders to cover all or part of an income tax obligation that may arise from the additional taxable income being distributed via the special distribution. The amount of the special distribution payable in Units ($0.63 per Unit) will increase the adjusted cost basis ("ACB") of unitholders' consolidated Units prior to the apportionment of ACB to Primaris REIT units described below.

Primaris Spin-Off

As described in the REIT's management information circular dated November 5, 2021 (the "Circular"), a REIT unitholder will not realize any income or gain solely as a result of the Primaris Spin-Off and acquisition of Primaris REIT units. The "REIT Transfer Percentage", as defined in the Circular, is now confirmed to be 27%. Unitholders' ACB of their REIT Units should decrease by 27% as a result of the Primaris Spin-Off. Conversely, unitholders' ACB of the Primaris REIT units issued on December 31, 2021 should initially be 27% of the unitholders' former ACB of Units immediately prior to the Primaris Spin-Off.

2022 Distributions

H&R currently anticipates an annual distribution of $0.52 per Unit. Following the spinoff of Primaris REIT to H&R's unitholders, Primaris REIT declared its January 2022 monthly distribution of $0.067 per Primaris REIT unit, reflecting $0.80 per unit on an annualized basis (equivalent to $0.20 per H&R Unit annually prior to the Primaris Spin-Off and 4:1 consolidation of Primaris REIT units). The Primaris REIT distribution together with H&R's intended annual distribution of $0.52 equates to a combined distribution of $0.72 per Unit which is a 4.3% increase over the $0.69 per Unit paid by H&R in 2021. The current H&R annual distribution of $0.52 per Unit is expected to result in an FFO payout ratio between 45% and 55%.

Monthly Distribution Declared

H&R today declared a distribution for the month of March scheduled as follows:

	Distribution/Unit	Annualized	Record date	Distribution date
March 2022	$0.0433	$0.520	March 31, 2022	April 18, 2022

Conference Call and Webcast

Management will host a conference call to discuss the financial results for H&R REIT on Tuesday, February 15, 2022 at 9.30 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 1-647-362-9199 or 1-800-770-2030 and enter the passcode 3504623 followed by the pound key. The telephone replay will be available until Tuesday, February 22, 2022 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/#investor-presentation

About H&R REIT

H&R REIT is one of Canada's largest real estate investment trusts with total assets of approximately $10.5 billion as at December 31, 2021. H&R REIT has ownership interests in a North American portfolio comprised of high-quality office, industrial, residential and retail properties comprising over 29.5 million square feet. H&R is currently undergoing a five-year, strategic repositioning to transform into a simplified, growth-oriented company focusing on residential and industrial properties to surface significant value for unitholders.

Forward-Looking Disclaimer

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 made or implied relating to H&R's objectives, beliefs, plans, estimates, projections and intentions and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts, including the statements made under the headings "Significant 2021 Highlights" and "Financial Highlights" including with respect to H&R's future plans and targets, including the REIT's strategic repositioning and the REIT's ability to execute on such repositioning, the expected benefits from the REIT's strategic repositioning, the REIT's funding of its strategic repositioning, ongoing management fees from the Bow and Bell Office Campus, the ability of H&R to capture potential upside in the Calgary office market, significant development projects, the timing of lease-up of River Landing Commercial, the 2021 taxation consequences for taxable Canadian unitholders, including as a result of the special distribution and the Primaris Spin-Off, management's expectations regarding future distributions, including of Primaris REIT, the expected annual FFO payout ratio of the REIT, management's belief that H&R has sufficient funds and liquidity for future commitments and management's expectation to be able to meet all of the REIT's ongoing obligations. 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.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements are not guarantees of future performance and are based on H&R's estimates and assumptions that are subject to risks, uncertainties and other factors including those risks and uncertainties in H&R's materials filed with the Canadian securities regulatory authorities from time to time, which could cause the actual results, performance or achievements of H&R to differ materially from the forward-looking statements contained in this news release. 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 gradually recovering as a result of the COVID-19 pandemic, the extent and duration of which is unknown; and debt markets continue to provide access to capital at a reasonable cost, notwithstanding the ongoing economic downturn. Additional risks and uncertainties include, among other things, risks related to: real property ownership; the current economic environment; COVID-19; credit risk and tenant concentration; lease rollover risk; interest and other debt-related risk; development risks; residential rental business risk; capital expenditures risk; currency risk; liquidity risk; financing credit risk; cyber security risk; environmental and climate change risk; general uninsured losses; co-ownership interest in properties; joint arrangement risks; dependence on key personnel; potential acquisition, investment and disposition opportunities and joint venture arrangements; potential undisclosed liabilities associated with acquisitions; competition for real property investments; Unit price risk; availability of cash for distributions; ability to access capital markets; dilution; unitholder liability; redemption right risk; risks relating to debentures and the inability of the REIT to purchase senior debentures on a change of control; tax risk, and additional tax risk applicable to unitholders. H&R cautions that these lists of factors, risks and uncertainties are not exhaustive. 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.

Readers are also urged to examine H&R's materials filed with the Canadian securities regulatory authorities from time to time as they may contain discussions on risks and uncertainties which could cause the actual results and performance of H&R to differ materially from the forward-looking statements contained in this news release. All forward-looking statements in this news release are qualified by these cautionary statements. These forward-looking statements are made as of February 14, 2022 and the REIT, except as required by applicable Canadian law, assumes no obligation to update or revise them to reflect new information or the occurrence of future events or circumstances.

Non-GAAP Measures

The REIT's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). However, H&R's management uses a number of measures, including NAV per Unit, FFO, AFFO, payout ratio as a % of FFO, payout ratio as a % of AFFO and debt to total assets at the REIT's proportionate share. Same-Asset property operating income (cash basis) and the REIT's proportionate share, which do not have a meaning recognized or standardized under IFRS or Canadian Generally Accepted Accounting Principles ("GAAP"). These non-GAAP measures and non-GAAP ratios should not be construed as an alternative to financial measures calculated in accordance with GAAP. Further, H&R's method of calculating these supplemental non-GAAP measures and ratios may differ from the methods of other real estate investment trusts or other issuers, and accordingly may not be comparable. H&R uses these measures to better assess H&R's underlying performance and provides these additional measures so that investors may do the same.

For information on the most directly comparable GAAP measures, composition of the measures, a description of how the REIT uses these measures and an explanation of how these measures provide useful information to investors, refer to the "Non-GAAP Measures" section of the REIT's management discussion and analysis as at and for the year ended December 31, 2021, available at www.hr-reit.com and on the REIT's profile on SEDAR at www.sedar.com, which is incorporated by reference into this news release.

The reconciliations for each non-GAAP measure included in this News Release are outlined as follows:

NAV per Unit

The following table reconciles Unitholders' equity per Unit to NAV per Unit:

Unitholders' Equity per Unit and NAV per Unit	December 31, 2021	December 31, 2020
Unitholders' equity	**$4,773,833**	$6,071,391
Exchangeable units	**216,841**	197,796
Deferred tax liability	**350,501**	348,755
Total	**$5,341,175**	$6,617,942
Units outstanding (in thousands of Units)	**288,440**	286,863
Exchangeable units outstanding (in thousands of Units)	**13,344**	14,883
Total (in thousands of Units)	**301,784**	301,746
Unitholders' equity per Unit[1]	**$16.55**	$21.16
NAV per Unit[2]	**$17.70**	$21.93

(1) Unitholders' equity per Unit is calculated by dividing unitholders' equity by Units outstanding.

Same-Asset property operating income (cash basis)

The following table reconciles property operating income to Same-Asset property operating income (cash basis):

	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	2021	2020	Change	2021	2020	Change
Rentals	**$265,794**	$277,509	($11,715)	**$1,065,380**	$1,098,680	($33,300)
Property operating costs (excluding bad debt expense)	**(95,017)**	(90,658)	(4,359)	**(400,508)**	(395,306)	(5,202)
Property operating income (excluding bad debt expense)	**170,777**	186,851	(16,074)	**664,872**	703,374	(38,502)
Bad debt expense	**(936)**	(3,235)	2,299	**(3,290)**	(39,708)	36,418
Property operating income	**169,841**	183,616	(13,775)	**661,582**	663,666	(2,084)
Adjusted for:						
Proportionate share of property operating income from equity accounted investments[1]	**23,985**	18,376	5,609	**72,111**	84,698	(12,587)
Straight-lining of contractual rent at the REIT's proportionate share[1]	**(1,057)**	(4,540)	3,483	**(23,664)**	(10,541)	(13,123)
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[1]	**(12,192)**	(12,229)	37	**-**	-	-
Property operating income (cash basis) from Transactions at the REIT's proportionate share[1]	**(39,959)**	(54,007)	14,048	**(182,284)**	(180,841)	(1,443)
Same-Asset property operating income (cash basis)[2]	**$140,618**	$131,216	$9,402	**$527,745**	$556,982	($29,237)

(1) The REIT's proportionate share is a non-GAAP measure.

Funds from Operations and Adjusted Funds from Operations

The following table reconciles net income (loss) to FFO and AFFO:

FFO AND AFFO	Three Months Ended December 31		Year ended December 31	
(in thousands of Canadian dollars except per Unit amounts)	**2021**	2020	**2021**	2020
Net income (loss) per the REIT's Financial Statements	**$208,195**	$111,644	**$597,907**	($624,559)
Realty taxes in accordance with IFRIC 21	**(11,014)**	(11,069)	**-**	-
FFO adjustments from equity accounted investments (page 33)	**(77,139)**	52,555	**(92,217)**	62,122
Exchangeable unit distributions	**3,636**	2,567	**11,088**	13,966
Fair value adjustments on financial instruments and real estate assets	**(37,799)**	(25,876)	**(56,843)**	1,112,984
Fair value adjustment to unit-based compensation	**(64)**	2,561	**5,083**	(15,992)
(Gain) loss on sale of real estate assets	**(3,192)**	62	**(6,957)**	2,229
Deferred income taxes expense (recoveries) applicable to U.S. Holdco	**27,957**	(6,612)	**4,458**	(54,000)
Incremental leasing costs	**1,568**	1,566	**6,422**	6,346
The Bow non-cash rental and accretion adjustment	**(7,576)**	-	**(7,576)**	-
FFO[1]	**$104,572**	$127,398	**$461,365**	$503,096
Straight-lining of contractual rent	**(1,261)**	(4,297)	**(23,581)**	(10,652)
Rent amortization of tenant inducements	**1,149**	1,175	**4,557**	2,661
Capital expenditures	**(18,574)**	(14,479)	**(47,089)**	(52,980)
Leasing expenses and tenant inducements	**(6,737)**	(40,309)	**(18,865)**	(49,927)
Incremental leasing costs	**(1,568)**	(1,566)	**(6,422)**	(6,346)
AFFO adjustments from equity accounted investments (page 33)	**(1,354)**	(642)	**(4,140)**	(2,041)
AFFO[1]	**$76,227**	$67,280	**$365,825**	$383,811
Weighted average number of Units and exchangeable units (in thousands of Units)[2]	**301,779**	301,746	**301,772**	301,687
Diluted weighted average number of Units and exchangeable units (in thousands of Units)[2][3]	**302,612**	302,292	**302,605**	302,234
FFO per basic Unit (adjusted for conversion of exchangeable units)[4]	**$0.347**	$0.422	**$1.529**	$1.668
FFO per diluted Unit[4]	**$0.346**	$0.421	**$1.525**	$1.665
AFFO per basic Unit (adjusted for conversion of exchangeable units)[4]	**$0.253**	$0.223	**$1.212**	$1.272
AFFO per diluted Unit[4]	**$0.252**	$0.223	**$1.209**	$1.270
Cash Distributions per Unit[5]	**$0.272**	$0.172	**$0.790**	$0.920
Payout ratio as a % of FFO[4][5]	**77.1%**	40.5%	**51.6%**	55.1%
Payout ratio as a % of AFFO[4][5]	**108.0%**	77.3%	**65.3%**	72.4%

(1) For both the three months and year ended December 31, 2021, included in the weighted average and diluted weighted average number of Units are exchangeable units of 13,350,995 and 14,112,090, respectively. For both the three months and year ended December 31, 2020, included in the weighted average and diluted weighted average number of Units are exchangeable units of 14,883,065.

(2) For the three months and year ended December 31, 2021, included in the determination of diluted FFO and AFFO with respect to H&R's Unit Option Plan and Incentive Unit Plan are 832,976 Units. For the three months and year ended December 31, 2020, included in the determination of diluted FFO and AFFO with respect to H&R's Unit Option Plan and Incentive Unit Plan are 546,306 Units.

(3) Distributions for the three months and year ended December 31, 2021, include the special cash distribution of $0.10 per Unit declared on November 15, 2021, payable to all unitholders on record as at December 31, 2021. This distribution was paid on January 12, 2022 and has been included in the calculations of Payout ratio as a % of FFO and AFFO.

Additional information regarding H&R is available at www.hr-reit.com and on www.sedar.com. For more information, please contact Larry Froom, Chief Financial Officer, H&R REIT, 416-635-7520, or e-mail info@hr-reit.com.