H&R REIT Announces Senior Leadership Changes; Strong First Quarter 2022 Results with Significant Increase in NAV and Distribution Increase

Philippe Lapointe Appointed President of the REIT
$21.06 NAV per Unit[(1)]
19.1% Same Property NOI (Cash Basis) Growth[(2)]
5.8% Distribution Increase

Toronto, Ontario, May 12, 2022 - H&R Real Estate Investment Trust ("H&R" or "the REIT") (TSX: HR.UN) today is pleased to announce strong first quarter financial results and senior leadership and Board of Trustees changes.

"Our strong first quarter financial results mark a pivotal moment in the continuation of our transformation and the surfacing of the embedded value within our portfolio," said Tom Hofstedter, CEO. "Following the successful spin out of our enclosed shopping centre division and the sale of the Bow and Bell office campus, our portfolio today is significantly more concentrated on higher growth asset classes within strong urban markets. Today's results are a testament to the quality of our properties, platform and strategic plan."

Tom Hofstedter further added, "As we execute on our repositioning plan, I am very pleased to announce that Philippe Lapointe has accepted the role as President of the REIT. His broad and proven real estate track record, combined with close to 15 years of experience in development, finance, operations and strategic planning, has been and will continue to be invaluable to the REIT. Philippe will continue to oversee our residential platform, as well as have more influential involvement in investment strategy, capital redeployment and investor relations for the REIT."

SENIOR LEADERSHIP CHANGES

The REIT is pleased to announce the following changes effective immediately:

- Philippe Lapointe, currently President of the REIT's residential division, is appointed President of H&R REIT.
- Tom Hofstedter is appointed Executive Chairman and will continue in his role as Chief Executive Officer.
- Ronald Rutman, currently the Chair of the Board of Trustees, is appointed Vice-Chair and independent Lead Trustee.

Ronald Rutman, Vice-Chair and Lead Trustee said, "The Board of Trustees is very pleased that Philippe Lapointe has accepted the role as President of the REIT. His leadership capabilities and achievements in the creation and development of the residential platform, make him exceptionally well-qualified to further contribute during our exciting phase of transition and growth."

"I am honoured to serve as the REIT's next President," said Philippe Lapointe. "Since 2014, I have had the privilege of working closely with Tom, the executive team and the Board of Trustees to build a strong foundation for the REIT, which will serve as a catalyst for our future growth. I am committed to this expanded leadership role to advance our strategic repositioning plan, and deliver on our commitment to close the significant discount to NAV at which our Units trade. I look forward to spending more time with investors discussing our progress and direction."

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

QUARTERLY FINANCIAL HIGHLIGHTS

- $1.0 billion in favourable fair value adjustments driven by capitalization rate compression and rental growth;
- $19.88 unitholders' equity per Unit, an increase of $3.33 from December 31, 2021;
- $21.06 Net Asset Value ("NAV") per Unit(2), an increase of $3.36 from December 31, 2021;
- 34.4% Debt to total assets per the REIT's financial statements;
- 43.1% Debt to total assets at the REIT's proportionate share(2);
- 96.0% Occupancy representing H&R's high-quality property portfolio;
- Sold 33.3% non-managing interest in The Pearl, in Austin, Texas for approximately U.S. $45.8 million, generating a gain of $20.7 million over construction cost, and a return on equity invested of approximately 221.5%;
- 13,715,500 Units repurchased year to date, at a weighted average price of $12.97 per Unit, for a total cost of $177.8 million as at May 10, 2022;
- $931.5 million in liquidity comprised of $103.0 million in cash and $828.5 million available to be drawn under the REIT's credit facilities;
- $4.5 billion unencumbered property pool;
- 30.9% decrease in net operating income as compared to Q1 2021 primarily due to the spin-off of Primaris REIT and property dispositions throughout 2021; and
- 19.1% Same-Property net operating income (cash basis)(1) growth driven by strong residential and office rental growth together with industrial and retail property lease-ups.

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

FINANCIAL HIGHLIGHTS

	March 31, 2022	December 31, 2021
Total assets (in thousands)	**$11,366,851**	$10,501,141
Unitholders' equity (in thousands)	**5,548,083**	4,773,833
Units outstanding (in thousands)	**279,062**	288,440
Exchangeable units outstanding (in thousands)	**18,280**	13,344
Unitholders' equity per Unit	**$19.88**	$16.55
NAV per Unit(2)	**$21.06**	$17.70

	Three months ended March 31	
	2022	2021
Rentals from investment properties (millions)	**$201.7**	$266.5
Net operating income (millions)	**$92.4**	$133.7
Same-Property net operating income (cash basis) (millions)(3)	**$124.7**	$104.7
Net income from equity accounted investments (millions)	**$44.9**	$7.2
Fair value adjustment on real estate assets (millions)	**$1,022.5**	$64.7
Net income (millions)	**$970.0**	$159.5
Funds from operations ("FFO") (millions)(3)	**$84.4**	$119.7
Adjusted funds from operations ("AFFO") (millions)(3)	**$77.1**	$97.1
Weighted average number of Units and exchangeable units for FFO (in thousands)	**302,453**	301,758
FFO per basic Unit(2)	**$0.28**	$0.40
AFFO per basic Unit(2)	**$0.26**	$0.32
Cash Distributions per Unit(4)	**$0.13**	$0.17
Payout ratio as a % of FFO(2)	**46.4%**	42.5%
Payout ratio as a % of AFFO(2)	**50.0%**	53.1%

(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 of this news release.

(4) H&R's Q1 2022 monthly distribution was $0.0433 per Unit. Following the spinoff of Primaris REIT to H&R's unitholders, Primaris REIT announced a monthly distribution of $0.067 per Primaris REIT unit, reflecting $0.80 per Primaris REIT unit on an annualized basis (equivalent to $0.20 per H&R Unit annually prior to the spin-off of Primaris REIT and 4:1 consolidation of Primaris REIT units). The Primaris REIT distribution together with H&R's increased annual distribution of $0.55 per Unit on an annualized basis equates to a combined distribution of $0.75 per Unit on an annualized basis which is a 8.7% increase over the $0.69 per Unit on an annualized basis paid by H&R in 2021.

Rentals from investment properties and net operating income for the three months ended March 31, 2022 compared to the respective 2021 period have decreased primarily due to the spin-off of Primaris REIT and property dispositions throughout 2021.

Net Operating Income Highlights

(in thousands of Canadian dollars)	Three months ended March 31 2022	2021	% Change
Operating Segment:			
Same-Property net operating income (cash basis) – Office[(1)]	**$54,053**	$43,496	24.3%
Same-Property net operating income (cash basis) – Retail[(1)]	**24,965**	23,717	5.3%
Same-Property net operating income (cash basis) – Industrial[(1)]	**14,035**	13,393	4.8%
Same-Property net operating income (cash basis) – Residential[(1)]	**31,631**	24,110	31.2%
Total Same-Property net operating income (cash basis)[(1)]	**124,684**	104,716	19.1%
Net operating income (cash basis) from Transactions at the REIT's proportionate share[(1)]	**28,081**	67,315	(58.3%)
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[(1)]	**(40,902)**	(35,410)	(15.5%)
Straight-lining of contractual rent at the REIT's proportionate share[(1)]	**154**	11,348	(98.6%)
Net operating income from equity accounted investments[(1)]	**(19,594)**	(14,291)	(37.1%)
Net operating income per the REIT's Financial Statements	**$92,423**	$133,678	(30.9%)

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

Same Property Net Operating Income (Cash Basis)

Same-Property net operating income (cash basis) from office properties increased by 24.3% for the three months ended March 31, 2022 compared to the respective 2021 period, primarily due to Hess Corporation ("Hess") having a rent-free period for its premises in Houston, TX until June 2021.

Same-Property net operating income (cash basis) from retail properties increased by 5.3% for the three months and year ended March 31, 2022 compared to the respective 2021 period, primarily due to the lease-up of River Landing.

Same-Property net operating income (cash basis) from industrial properties increased by 4.8% for the three months ended March 31, 2022 compared to the respective 2021 period, primarily due to an increase in occupancy and contractual rental escalations.

Same-Property net operating income (cash basis) from residential properties in U.S. dollars increased by 31.2% for the three months ended March 31, 2022 compared to the respective 2021 period, primarily due to an increase in occupancy at Jackson Park in New York. Excluding Jackson Park, Same-Property net operating income (cash basis) from residential properties in U.S. dollars increased by 11.1% for the three months ended March 31, 2022 compared to the respective 2021 period, primarily due to strong rental rate growth.

Fair Value Adjustments on Real Estate Assets

Fair Value Adjustment on Real Estate Assets (in thousands of Canadian dollars)	Three months ended March 31 2022	2021	Change
Operating Segment:			
Office	**$53,668**	($60,180)	$113,848
Retail	**6,154**	95,475	(89,321)
Industrial	**185,514**	2,428	183,086
Residential	**516,422**	28,893	487,529
Land and Properties under development	**294,562**	-	294,562
Fair value adjustment on real estate assets per the REIT's proportionate share[(1)]	**1,056,320**	66,616	989,704
Less: equity accounted investments	**(33,783)**	(1,913)	(31,870)
Fair value adjustment on real estate assets per the REIT's Financial Statements	**$1,022,537**	$64,703	$957,834

(1) The REIT's proportionate share is a non-GAAP measure. Refer to the "Non-GAAP Measures" section in this news release.

During Q1 2022, the REIT had $1.0 billion in favourable fair value adjustments on real estate assets driven by net operating income:

- Residential: U.S. sunbelt residential capitalization rate compression as observed in the market via two very large publicly-traded U.S. multifamily REIT privatizations, together with an independent appraisal and continued robust growth.

- Industrial: Industrial capitalization rate compression and continued market rent growth confirmed through 53 independent appraisals received during the quarter.

- Lands and Properties under development: Primarily due to industrial lands and properties under development in Long Beach, CA and Hercules, CA. H&R obtained an independent appraisal for its lands in Caledon, ON in Q1 2022 which reflected the values of comparable land sales in the area as a result of changing economics in the area.

LEASING UPDATES

Subsequent to March 31, 2022, the REIT entered into a 10-year lease commencing in September 2022 for the vacant 314,000 square foot industrial property at 2121 Cornwall, Oakville, ON, in which the REIT has a 50% ownership interest.

Subsequent to March 31, 2022, the REIT also entered into a letter of intent to lease its vacant office building located at 649 North Service Road, Burlington, ON for a 10-year term.

DISPOSITION

In March 2022, H&R sold its 33.3% non-managing interest in The Pearl, a 383 residential rental unit development in Austin, TX for approximately U.S. $45.8 million. H&R's total cost to build this property was approximately U.S. $25.1 million, at the REIT's ownership interest. As a result, $20.7 million in value was crystalized, with a return on equity invested amounting to approximately 221.5%.

DEVELOPMENT

Canadian Properties under Development

The REIT currently has two Canadian properties under development at its industrial business park in Caledon, ON which are expected to be completed in Q2 2022 and Q3 2022, respectively. As at March 31, 2022, the total development budget for both properties is approximately $31.3 million, with $20.8 million in costs incurred to date and $10.5 million in costs remaining to complete. 34 Speirs Giffen in Caledon, ON has been leased for a 10-year term and the REIT has entered into a letter of intent to lease 140 Speirs Giffen, Caledon, ON, for a 10-year term.

The REIT expects to commence construction later this year on two industrial projects in Mississauga, ON which will add 586,069 square feet to the REIT's industrial portfolio at H&R's ownership interest. The total development budget for these two properties under development is approximately $154.5 million at H&R's ownership interest.

U.S. Properties under Development

The REIT currently has two U.S. residential properties under development which are expected to be completed in Q2 2022. As at March 31, 2022, the total development budget is approximately U.S. $101.1 million, with U.S. $98.5 million of costs incurred to date and U.S. $2.6 million in costs remaining to complete.

The REIT has five residential developments which are expected to commence construction in 2022. The total development budget is approximately U.S. $464.5 million. The REIT expects its construction costs to be approximately U.S. $73.9 million in 2022 and U.S. $240.0 million in 2023 for these five properties under development.

Completion of River Landing Development

River Landing is a mixed-use urban 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.

As at March 31, 2022, residential occupancy was 94.3% and as of May 6, 2022, the committed retail occupancy was 90.4%.

In March 2022, the REIT signed a new office lease with the Public Health Trust of Miami Dade County to occupy an additional 19,656 square feet for a total of 63,007 square feet at River Landing. As at March 31, 2022, committed office leases was 76.7% with 98.2% of tenants having an investment grade rating. The REIT is continuing negotiations with multiple parties on the remaining office space.

NORMAL COURSE ISSUER BID ("NCIB")

On December 13, 2021, the REIT received approval from the TSX for the renewal of its NCIB allowing the REIT to purchase for cancellation up to a maximum of 14.0 million Units. On April 19, 2022, the TSX approved the increase in the maximum number of Units allowed to be repurchased on the open market to 28,269,228 Units. The NCIB will expire on the earlier of December 15, 2022 or the date on which the REIT purchases the maximum number of Units permitted under the NCIB.

During the three months ended March 31, 2022, the REIT purchased and cancelled 9,390,500 Units at a weighted average price of $12.99 per Unit, for a total cost of $122.0 million. From April 1, 2022 to May 6, 2022, the REIT purchased and cancelled 4,325,000 additional Units at a weighted average price of $12.91 per Unit, for a total cost of $55.9 million.

Management and the Board of Trustees believe that H&R's Units continue to trade at a significant discount to the REIT's NAV and using excess cash and lines of credit to repurchase Units is an optimal use of capital which will ultimately provide strong returns to unitholders.

DISTRIBUTION INCREASE

H&R is pleased to announce a 5.8% increase in distributions, on an annualized basis, from $0.52 per Unit annually to $0.55 per Unit.

H&R today declared distributions for the months of May and June scheduled as follows:

	Distribution/Unit	Annualized	Record date	Distribution date
May 2022	$0.0458	$0.55	May 31, 2022	June 15, 2022
June 2022	$0.0458	$0.55	June 30, 2022	July 15, 2022

CONFERENCE CALL AND WEBCAST

Management will host a conference call to discuss the financial results for H&R REIT on Friday, May 13, 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, a replay will be available 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 "#" key. The telephone replay will be available until Friday, May 20, 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 $11.4 billion as at March 31, 2022. 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, targets, 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 "Senior Leadership Changes", "Financial Highlights", "Leasing Updates", "Dispositions", "Development" and "Normal Course Issuer Bid" including with respect to H&R's future plans and targets, including the REIT's strategic repositioning, the expected benefits from the REIT's strategic repositioning, the REIT's funding of its strategic repositioning, the REIT's commitment to close the discount of the trading price of the Units relative to NAV, Lantower Residential serving as a catalyst for the REIT's future growth, capitalization rates and cash flow models used to estimate fair values, the REIT's leasing activities, the disposition of certain of the REIT's assets, including seven service station anchored retail properties, significant development projects, H&R's expectation with respect to the future developments, including the timing of construction, the timing of completion and the expected construction costs, the benefit of the REIT's NCIB and use of capital, the potential for positive returns to Unitholders, management's expectations regarding future distributions by 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 described below under "Risks and Uncertainties" and those discussed 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; debt markets continue to provide access to capital at a reasonable cost, notwithstanding the ongoing economic downturn; assumptions concerning currency exchange and interest rates; and the assumptions made in connection with the anticipated benefits of the strategic repositioning plan. Additional risks and uncertainties include, among other things, risks related to: disease outbreaks and COVID-19; real property ownership; the current economic environment; credit risk and tenant concentration; lease rollover risk; interest rate and other debt-related risk; development risks; residential rental risk; currency risk; capital expenditures risk; liquidity risk; cyber security risk; financing credit risk; environmental and climate change risk; general uninsured losses; co-ownership interest in properties; joint arrangement and investment 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; potential conflicts of interest; Unit price risk; availability of cash for distributions; credit ratings; ability to access capital markets; tax risk and additional tax risks applicable to unitholders; dilution; unitholder liability; redemption right risk; investment eligibility; risks relating to debentures and the inability of the REIT to purchase senior debentures on a change of control; and statutory remedies. 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 May 12, 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-Property net operating income (cash basis) and the REIT's proportionate share, which do not have meanings 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 alternatives 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 three months ended March 31, 2022, 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.

FINANCIAL POSITION

The following table reconciles the REIT's Statement of Financial Position from the REIT's Financial Statements to the REIT's proportionate share:

	March 31, 2022			December 31, 2021		
(in thousands of Canadian dollars)	**REIT's Financial Statements**	**Equity accounted investments**	**REIT's proportionate share[(1)]**	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share[(1)]
Assets						
Real estate assets						
Investment properties	**$9,260,087**	**$1,817,538**	**$11,077,625**	$8,581,100	$1,824,609	$10,405,709
Properties under development	**747,492**	**196,256**	**943,748**	481,432	165,187	646,619
	10,007,579	**2,013,794**	**12,021,373**	9,062,532	1,989,796	11,052,328
Equity accounted investments	**985,063**	**(985,063)**	**-**	992,679	(992,679)	-
Assets classified as held for sale	**-**	**-**	**-**	-	57,309	57,309
Other assets	**271,223**	**15,409**	**286,632**	321,789	13,557	335,346
Cash and cash equivalents	**102,986**	**39,951**	**142,937**	124,141	40,499	164,640
	$11,366,851	**$1,084,091**	**$12,450,942**	$10,501,141	$1,108,482	$11,609,623
Liabilities and Unitholders' Equity						
Liabilities						
Debt	**$3,909,592**	**$1,010,514**	**$4,920,106**	$3,894,906	$1,026,836	$4,921,742
Exchangeable units	**238,548**	**-**	**238,548**	216,841	-	216,841
Bow deferred revenue	**891,936**	**-**	**891,936**	896,801	-	896,801
Deferred tax liability	**474,541**	**-**	**474,541**	350,501	-	350,501
Accounts payable and accrued liabilities	**304,151**	**51,424**	**355,575**	368,259	59,130	427,389
Non-controlling interest	**-**	**22,153**	**22,153**	-	22,516	22,516
	5,818,768	**1,084,091**	**6,902,859**	5,727,308	1,108,482	6,835,790
Unitholders' equity	**5,548,083**	**-**	**5,548,083**	4,773,833	-	4,773,833
	$11,366,851	**$1,084,091**	**$12,450,942**	$10,501,141	$1,108,482	$11,609,623

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

RESULTS OF OPERATIONS

The following table reconciles the REIT's Results of Operations from the REIT's Financial Statements to the REIT's proportionate share:

	Three months ended March 31, 2022			Three months ended March 31, 2021		
(in thousands of Canadian dollars)	**REIT's Financial Statements**	**Equity accounted investments**	**REIT's proportionate share[1]**	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share[1]
Rentals from investment properties	**$201,702**	**$30,854**	**$232,556**	$266,467	$25,756	$292,223
Property operating costs	**(109,279)**	**(11,260)**	**(120,539)**	(132,789)	(11,465)	(144,254)
Net operating income	**92,423**	**19,594**	**112,017**	133,678	14,291	147,969
Net income (loss) from equity accounted investments	**44,853**	**(44,834)**	**19**	7,191	(7,115)	76
Finance costs - operations	**(55,286)**	**(8,799)**	**(64,085)**	(59,491)	(9,221)	(68,712)
Finance income	**2,546**	**3**	**2,549**	5,874	52	5,926
Trust expenses	**(7,249)**	**(776)**	**(8,025)**	(5,319)	(673)	(5,992)
Fair value adjustment on financial instruments	**(591)**	**676**	**85**	13,126	999	14,125
Fair value adjustment on real estate assets	**1,022,537**	**33,783**	**1,056,320**	64,703	1,913	66,616
Gain (loss) on sale of real estate assets, net of related costs	**(28)**	**733**	**705**	(3,917)	3	(3,914)
Net income before income taxes	**1,099,205**	**380**	**1,099,585**	155,845	249	156,094
Income tax (expense) recovery	**(129,214)**	**(80)**	**(129,294)**	3,694	(13)	3,681
Net income before non-controlling interest	**969,991**	**300**	**970,291**	159,539	236	159,775
Non-controlling interest	**-**	**(300)**	**(300)**	-	(236)	(236)
Net income	**969,991**	**-**	**969,991**	159,539	-	159,539
Other comprehensive loss:						
Items that are or may be reclassified subsequently to net income	**(37,102)**	**-**	**(37,102)**	(25,913)	-	(25,913)
Total comprehensive income attributable to unitholders	**$932,889**	**$ -**	**$932,889**	$133,626	$ -	$133,626

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

Net operating income per the REIT's Financial Statements decreased by $41.3 million for the three months ended March 31, 2022 compared to the respective 2021 period, primarily due to the spin-off of Primaris REIT and property dispositions throughout 2021.

Net income (loss) before income taxes per the REIT's Financial Statements increased by $943.4 million for the three months ended March 31, 2022 compared to the respective 2021 period primarily due to fair value increases to real estate assets included in Q1 2022 totalling $1.0 billion. This was partially offset by the decrease in net operating income noted above.

Same-Property net operating income (cash basis)

The following table reconciles net operating income per the REIT's Financial Statements to Same-Property net operating income (cash basis):

	Three months ended March 31		
(in thousands of Canadian dollars)	**2022**	2021	Change
Rentals	**$201,702**	$266,467	($64,765)
Property operating costs	**(109,279)**	(132,789)	23,510
Net operating income	**92,423**	133,678	(41,255)
Adjusted for:			
Net operating income from equity accounted investments[1]	**19,594**	14,291	5,303
Straight-lining of contractual rent at the REIT's proportionate share[1]	**(154)**	(11,348)	11,194
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[1]	**40,902**	35,410	5,492
Net operating income (cash basis) from Transactions at the REIT's proportionate share[1]	**(28,081)**	(67,315)	39,234
Same-Property net operating income (cash basis)[1]	**$124,684**	$104,716	$19,968

(1) These are non-GAAP measures.

NAV per Unit

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

Unitholders' Equity per Unit and NAV per Unit	**March 31, 2022**	December 31, 2021
Unitholders' equity (in thousands)	**$5,548,083**	$4,773,833
Exchangeable units (in thousands)	**238,548**	216,841
Deferred tax liability (in thousands)	**474,541**	350,501
Total	**$6,261,172**	$5,341,175
Units outstanding (in thousands of Units)	**279,062**	288,440
Exchangeable units outstanding (in thousands of Units)	**18,280**	13,344
Total (in thousands of Units)	**297,342**	301,784
Unitholders' equity per Unit[1]	**$19.88**	$16.55
NAV per Unit[2]	**$21.06**	$17.70

(1) Unitholders' equity per Unit is calculated by dividing unitholders' equity by Units outstanding.
(2) This is a Non-GAAP ratio.

Funds from Operations and Adjusted Funds from Operations

The following table reconciles net income per the REIT's financial statements to FFO and AFFO:

FFO AND AFFO

	Three Months ended March 31	
(in thousands of Canadian dollars except per Unit amounts)	**2022**	2021
Net income per the REIT's Financial Statements	**$969,991**	$159,539
Realty taxes in accordance with IFRIC 21	**37,548**	31,647
FFO adjustments from equity accounted investments	**(31,328)**	1,711
Exchangeable unit distributions	**2,375**	2,567
Fair value adjustments on financial instruments and real estate assets	**(1,021,946)**	(77,829)
Fair value adjustment to unit-based compensation	**3,134**	402
Loss on sale of real estate assets	**28**	3,917
Deferred income taxes expense (recoveries) applicable to U.S. Holdco	**128,850**	(3,934)
Incremental leasing costs	**617**	1,670
The Bow non-cash rental and accretion adjustment	**(4,865)**	-
FFO(1)	**$84,404**	$119,690
Straight-lining of contractual rent	**(194)**	(11,205)
Rent amortization of tenant inducements	**1,160**	1,139
Capital expenditures	**(4,997)**	(6,429)
Leasing expenses and tenant inducements	**(1,841)**	(3,502)
Incremental leasing costs	**(617)**	(1,670)
AFFO adjustments from equity accounted investments	**(805)**	(915)
AFFO(1)	**$77,110**	$97,108
Weighted average number of Units and exchangeable units (in thousands of Units)(2)	**302,453**	301,758
Diluted weighted average number of Units and exchangeable units (in thousands of Units)(2)(3)	**303,172**	302,154
FFO per basic Unit (adjusted for conversion of exchangeable units)(4)	**$0.279**	$0.397
FFO per diluted Unit(4)	**$0.278**	$0.396
AFFO per basic Unit (adjusted for conversion of exchangeable units)(4)	**$0.255**	$0.322
AFFO per diluted Unit(4)	**$0.254**	$0.321
Cash Distributions per Unit(5)	**$0.130**	$0.173
Payout ratio as a % of FFO(4)	**46.4%**	42.5%
Payout ratio as a % of AFFO(4)	**50.0%**	53.1%

(1) These are non-GAAP measures.

(2) For the three months ended March 31, 2022 and 2021, included in the weighted average and diluted weighted average number of Units are exchangeable units of 18,060,192 and 14,883,065, respectively.

(3) For the three months ended March 31, 2022 and 2021, included in the determination of diluted FFO and AFFO with respect to H&R's Unit Option Plan and Incentive Unit Plan are 718,878 Units and 396,354 Units, respectively.

(4) These are non-GAAP ratios.

(5) H&R's Q1 2022 monthly distribution is $0.13 per Unit. Following the spin-off of Primaris REIT to H&R's unitholders, Primaris REIT announced a monthly distribution of $0.067 per Primaris REIT unit, reflecting $0.80 per Primaris REIT unit on an annualized basis (equivalent to $0.20 per H&R Unit annually prior to the spin-off of Primaris REIT and 4:1 consolidation of Primaris REIT units). The Primaris REIT distribution together with H&R's increased annual distribution of $0.55 per Unit on annualized basis equates to a combined distribution of $0.75 per Unit on an annualized basis which is an 8.7% increase over the $0.69 per Unit on an annualized basis paid by H&R in 2021.

For further information

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