H&R REIT Reports Strong Fourth Quarter and Year-End 2022 Results

Toronto, Ontario, February 13, 2023 - H&R Real Estate Investment Trust ("H&R" or "the REIT") (TSX: HR.UN) is pleased to announce its financial results for the three months and year ended December 31, 2022.

HIGHLIGHTS:

- Same-Property net operating income (cash basis)[(1)] growth of 10.9% and 14.9%, respectively, for the three months and year ended December 31, 2022 compared to the respective periods in 2021;
- Net operating income per the REIT's Financial Statements decreased by 12.8% and 19.1%, respectively, for the three months and year ended December 31, 2022 compared to the respective periods in 2021 primarily due to the spin-off of Primaris REIT completed on December 31, 2021 and property dispositions during the two-year period ended December 31, 2022;
- $463.2 million in property dispositions at the REIT's proportionate share[(1)], including 100 Wynford Drive in Toronto, ON ("100 Wynford");
- 22.9 million units of the REIT ("Units") were repurchased in 2022 for a total cost of $297.1 million, at a weighted average price of $12.99 per Unit, representing an approximate 40.4% discount to Net Asset Value ("NAV") per Unit[(3)];
- $21.80 NAV per Unit[(3)] at December 31, 2022, an increase of $4.10 per Unit from December 31, 2021; primarily due to net fair value adjustments, the stronger U.S. dollar and the repurchase of Units;
- $20.64 unitholders' equity per Unit at December 31, 2022, an increase of $4.09 per Unit from December 31, 2021;
- 44.0% debt to total assets at the REIT's proportionate share[(2)(3)], an improvement compared to 46.6% at December 31, 2021;
- 34.4% debt to total assets as per the REIT's Financial Statements[(2)], an improvement compared to 37.1% at December 31, 2021;
- $4.9 billion of unencumbered properties; and
- In excess of $1.0 billion in liquidity comprised of $76.9 million in cash and cash equivalents and $930.4 million available to be drawn under the REIT's credit facilities.

"2022 was a very important year for H&R REIT. Despite the volatility in the public markets, our teams achieved many substantial milestones aligned with our simplification strategy through capital recycling, unit buy backs, a distribution increase and a renewed focus on our investor communication program," said Tom Hofstedter, CEO. "Through these actions, we have enhanced our geographical exposure, asset mix, tenant diversification and enhanced our balance sheet with reduced leverage, driving strong operating and financial results, while also strengthening relationships with the investment community."

Philippe Lapointe, President added "We are very proud of what we accomplished in 2022, and we thank our loyal and hard-working employees for their tireless commitment and dedication throughout this considerable period of change at H&R. The past year has once again demonstrated to us just how critical our team members are to the success of our company and we are excited about what's to come in 2023."

(1) These are non-GAAP measures. Refer to the "*Non-GAAP Measures*" section of this news release.
(2) Debt includes mortgages payable, debentures payable, unsecured term loans and lines of credit.
(3) These are non-GAAP ratios. Refer to the "*Non-GAAP Measures*" section of this news release.

FINANCIAL HIGHLIGHTS

	December 31	December 31
	2022	2021
Total assets (in thousands)	**$11,412,603**	$10,501,141
Debt to total assets per the REIT's Financial Statements[1]	**34.4%**	37.1%
Debt to total assets at the REIT's proportionate share[1][2]	**44.0%**	46.6%
Unitholders' equity (in thousands)	**5,487,287**	4,773,833
Units outstanding (in thousands)	**265,885**	288,440
Exchangeable units outstanding (in thousands)	**17,974**	13,344
Unitholders' equity per Unit	**$20.64**	$16.55
NAV per Unit[2]	**$21.80**	$17.70

	3 months ended December 31		Year ended December 31	
	2022	2021	**2022**	2021
Rentals from investment properties (in millions)	**$216.8**	$265.8	**$834.6**	$1,065.4
Net operating income (in millions)	**$148.1**	$169.8	**$534.9**	$661.6
Same-Property net operating income (cash basis) (in millions)[3]	**$124.7**	$112.5	**$477.1**	$415.2
Net income from equity accounted investments (in millions)	**$53.5**	$89.3	**$47.1**	$125.6
Fair value adjustment on real estate assets (in millions)	**($224.5)**	($13.0)	**$546.1**	$13.0
Net income (in millions)	**($116.1)**	$208.2	**$844.8**	$597.9
Funds from operations ("FFO") (in millions)[3]	**$87.9**	$104.6	**$341.2**	$461.4
Adjusted funds from operations (“AFFO”) (in millions)[3]	**$62.5**	$76.2	**$287.3**	$365.8
Weighted average number of Units and exchangeable units for FFO (in 000's)	**283,859**	301,779	**290,782**	301,772
FFO per basic Unit[2]	**$0.310**	$0.347	**$1.173**	$1.529
AFFO per basic Unit[2]	**$0.220**	$0.253	**$0.988**	$1.212
Cash Distributions per Unit	**$0.188**	$0.272	**$0.590**	$0.790
Payout ratio as a % of FFO[2]	**60.6%**	78.4%	**50.3%**	51.7%
Payout ratio as a % of AFFO[2]	**85.5%**	107.5%	**59.7%**	65.2%

(1) Debt includes mortgages payable, debentures payable, unsecured term loans, lines of credit and liabilities classified as held for sale.
(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.

Primaris Spin-Off

H&R's 2022 financial results were significantly impacted due to the 27 properties transferred by H&R to Primaris REIT on December 31, 2021 (the "Primaris Spin-Off"). The impact of the Primaris Spin-Off on certain of H&R's financial results is shown in the table below:

	3 months ended December 31		9 months ended December 31	
	2022	2021	**2022**	2021
Rentals from investment properties (in millions)	$—	$67.2	$—	$254.0
Net operating income (in millions)	$—	$34.6	$—	$134.1
Net income (in millions)	$—	$13.3	$—	$355.1
FFO (in millions)[1]	$—	$30.2	$—	$116.4
AFFO (in millions)[1]	$—	$20.4	$—	$87.8
FFO per basic Unit[2]	$—	$0.100	$—	$0.386
AFFO per basic Unit[2]	$—	$0.068	$—	$0.291

(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 in this news release.

SIGNIFICANT 2022 ACTIVITY

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.

H&R has executed on and completed a number of significant transactions and initiatives in furtherance of its strategic repositioning plan:

October 2021: $1.67 billion in strategic transactions completed with the sale of the Bow in Calgary, AB and Bell Office Campus in Mississauga, ON which significantly reduced Calgary office exposure, enhanced tenant diversification and created the liquidity and strengthened balance sheet to enable the Primaris Spin-Off.

December 2021: $2.4 billion tax-free 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.

May 2022: Enhanced senior leadership team with appointment of Philippe Lapointe as President of H&R.

August 2022: Strategic sales of office and retail properties valued at $167.8 million, including 100 Wynford.

December 2022: Reduced leverage to 44.0% debt to total assets at the REIT's proportionate share(2)(3), an improvement compared to 46.6% at December 31, 2021.

Total 2022 non-core property sales at the REIT's proportionate share totalled $463.2 million, including 100 Wynford.

The REIT has entered into an agreement to sell 160 Elgin Street ("160 Elgin"), an office property in Ottawa, ON, for $277.0 million. The selling price is in line with 160 Elgin's value recorded at December 31, 2022. 160 Elgin was classified as held for sale at December 31, 2022. Closing is expected to occur in April 2023.

(2) Debt includes mortgages payable, debentures payable, unsecured term loans and lines of credit.
(3) These are non-GAAP ratios. Refer to the "*Non-GAAP Measures*" section of this news release.

The following tables provide a breakdown of certain income statement items between operating segments. For further commentary on these tables, please see the REIT's management's discussion and analysis for the three and twelve months ended December 31, 2022 available at www.hr-reit.com.

2022 Net Operating Income

	Three months ended December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2022**	2021	% Change	**2022**	2021	% Change
Operating Segment:						
Same-Property net operating income (cash basis) - Residential[1]	**$34,059**	$29,351	16.0%	**$125,248**	$95,837	30.7%
Same-Property net operating income (cash basis) - Industrial[1]	**15,222**	13,583	12.1%	**58,046**	54,149	7.2%
Same-Property net operating income (cash basis) - Office[1]	**49,669**	47,862	3.8%	**200,073**	176,649	13.3%
Same-Property net operating income (cash basis) - Retail[1]	**25,719**	21,660	18.7%	**93,742**	88,572	5.8%
Same-Property net operating income (cash basis)[1]	**124,669**	112,456	10.9%	**477,109**	415,207	14.9%
Adjusted for:						
Net operating income (cash basis) from Transactions at the REIT's proportionate share[1][2]	**35,249**	68,121	(48.3)%	**143,032**	294,822	(51.5)%
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[1][3]	**12,600**	12,192	3.3%	**—**	—	—%
Straight-lining of contractual rent at the REIT's proportionate share[1]	**3,588**	1,057	239.5%	**6,890**	23,664	(70.9)%
Net operating income from equity accounted investments[1]	**(27,994)**	(23,985)	(16.7)%	**(92,082)**	(72,111)	(27.7)%
Net operating income per the REIT's Financial Statements	**$148,112**	$169,841	(12.8)%	**$534,949**	$661,582	(19.1)%

For 2023, we are expecting Same-Property net operating income (cash basis) growth between 2% and 5%. 2023 net operating income will be largely dependent on dispositions during the year.

(1) These are non-GAAP measures. Refer to the *"Non-GAAP Measures"* section of this news release.
(2) Transactions are defined in the "*Non-GAAP Measures*" section of this news release.
(3) IFRIC 21 is defined in the "Non-GAAP Measures" section of this news release.

Fair Value Adjustment on Real Estate Assets and December 31, 2022 Capitalization Rates

Operating Segment	Q4 2022 Fair Value Adjustment (in thousands)	Investment Properties at December 31, 2022	Capitalization Rate as at 2022
Residential	$61,982	$3,877,344	4.20%
Industrial	11,951	1,488,751	5.16%
Office	(193,873)	3,843,157	6.43%
Retail	(67,190)	1,718,371	6.40%
At the REIT's proportionate share[1]	(187,130)	10,927,623	5.37%
Less: equity accounted investments	(37,350)	(2,128,306)	
Total per the REIT's Financial Statements	($224,480)	$8,799,317	

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

Transaction Highlights

Acquisitions

In October 2022, H&R acquired a 50% ownership interest in 7-21, 23-31 Prince Andrew Place, a multi-tenanted industrial property in Toronto, ON, totalling 36,999 square feet for $10.5 million at H&R's ownership interest. This site is adjacent to H&R's 50% ownership interest in 1,4,8 Prince Andrew Place and was acquired to provide H&R and its partners with redevelopment intensification opportunities in the future given the close proximity to two future transit lines (the Eglinton LRT and the Ontario Line).

In December 2022, H&R acquired a 92,818 square foot office property in Dallas, TX for U.S. $49.0 million. This property was strategically acquired due to it being partially occupied by Lantower Residential, H&R's residential division, and it is adjacent to a 3.3 acre land parcel already owned by H&R which is being held for future residential development. The property was acquired through a Section 1031 property exchange under the U.S. Internal Revenue Code and the majority of the Section 1031 proceeds that were used to fund this acquisition came from the sale of Alamo Heights in San Antonio, TX, which was sold at a 3.6% capitalization rate.

Major Leasing Transactions and Updates in Q4 2022:

H&R has leased approximately 76.7% of the office space at River Landing Commercial in Miami, FL. The two major tenants are: (i) the Office of the State Attorney, Eleventh Judicial Circuit of Miami-Dade County, whose lease commenced in October 2022 occupying 49,379 square feet; and (ii) Public Health Trust of Miami-Dade County, who will occupy a total of 63,007 square feet, of which 43,351 square feet is expected to be occupied in Q1 2023 and the remaining 19,656 square is expected to be occupied later this year.

H&R leased 2121 Cornwall Road in Oakville, ON, a vacant industrial property totalling 157,083 square feet, at H&R’s ownership interest, for a 10-year term commencing September 1, 2022 at current market rents with annual contractual rental escalations.

H&R completed a 5-year lease renewal at 2300 Rue Senkus in Montreal, QC, an industrial property totalling 371,000 square feet, at H&R’s ownership interest. The original lease was set to expire in December 2022 and rent will increase by 125% commencing in January 2023 with annual contractual rent escalations.

H&R completed a 10-year lease renewal at 170 Butts Street in South Hill, VA, an industrial property totalling 412,585 square feet, at H&R's ownership interest. The original lease was set to expire in April 2023 and rent will increase by 10% commencing in May 2023 with annual contractual rental escalations.

Development Update

Canadian Properties under Development

In September 2022, two Canadian properties under development in the REIT's industrial business park in Caledon, ON were substantially completed and transferred to investment properties. 34 Speirs Giffen Avenue, totalling 105,014 square feet, has been leased to Lindstrom Fastener (Canada) Ltd. for a term of 10 years which commenced in January 2023. 140 Speirs Giffen Avenue, totalling 77,754 square feet, has been leased to Coast Holding Limited Partnership for a term of 10 years which commenced in December 2022. This now completes the first phase of H&R’s Caledon industrial park.

The REIT currently has two industrial properties under development located at 1965 Meadowvale Boulevard and 1925 Meadowvale Boulevard in Mississauga, ON, totalling 336,800 square feet, which are expected to be completed in 2023. The total development budget to complete these two properties is approximately $52.6 million. In October 2022, H&R entered into a binding agreement with Armour Transport Inc. to fully lease 1965 Meadowvale Boulevard, totalling 187,290 square feet, for a term of 10 years at current market rents with annual contractual rental escalations.

In Q4 2022, H&R reached a settlement agreement with the City of Toronto for 53 & 55 Yonge Street in Toronto, ON for a 66-storey mixed use tower, including 511 residential units. Subsequently, the settlement agreement was endorsed by City Council on December 14, 2022. The application is scheduled for a 5-day hearing at the Ontario Land Tribunal (“OLT”) commencing on February 27, 2023. H&R expects to have rezoning finalized in Q3 2023 following the completion of the OLT hearing.

U.S. Properties under Development

The REIT commenced construction on two U.S. residential development properties in 2022. The total development budget to complete these two properties is approximately U.S. $167.8 million. The REIT expects its construction costs for these two properties under development to be approximately U.S. $118.6 million in 2023 and U.S. $49.2 million in 2024.

H&R has a 31.2% non-managing ownership interest in Shoreline in Long Beach, CA. In June 2022, the project reached substantial completion and was transferred from properties under development to investment properties within equity accounted investments. As at December 31, 2022, occupancy was 82.2% and committed occupancy was 84.8%.

H&R has a 31.7% non-managing ownership interest in The Grand at Bayfront in Hercules, CA. In June 2022, the project reached substantial completion and was transferred from properties under development to investment properties within equity accounted investments. As at December 31, 2022, occupancy was 60.8% and committed occupancy was 62.1%.

Normal Course Issuer Bid

H&R today announced receipt of final acceptance from the Toronto Stock Exchange ("TSX") of H&R's notice of intention to make a normal course issuer bid ("NCIB"). Under the NCIB, H&R will have the ability to purchase for cancellation up to a maximum of 26,028,249 units of H&R ("Units") on the open market, representing 10% of the public float as of January 31, 2023. As at January 31, 2023, H&R had 265,884,526 outstanding Units.

The NCIB will commence on February 16, 2023 and remain in effect until the earlier of February 15, 2024 and the date on which H&R has purchased the maximum number of Units permitted under the NCIB. Purchases of Units under the NCIB will be made in accordance with TSX rules and policies through the facilities of the TSX, and through alternative trading systems. The Units so purchased will be cancelled. The price paid for any repurchased Units will be the market price of such Units at the time of acquisition. The average daily trading volume of the Units over the prior six months (adjusted to account for Units purchased by H&R over such period) was 544,315 and accordingly daily purchases will be limited to 136,078 Units other than block purchase exemptions.

H&R believes that its outstanding Units represent an attractive investment, and the ongoing purchase of its outstanding Units may benefit all persons who continue to hold Units by increasing their equity interest in H&R.

H&R may establish an automatic purchase plan under which its broker may purchase Units according to a prearranged set of criteria. The plan would enable the purchase of Units at any time, including when H&R would not ordinarily be active in the market because of internal trading blackout periods, insider trading rules or otherwise. The plan will terminate on the earliest of: the date on which the purchase limits specified in the plan have been attained, the date on which the NCIB terminates or the date on which the plan is terminated by a party in accordance with its terms. To H&R's knowledge, after reasonable inquiry, none of the trustees, officers or other insiders of H&R or any associate of any such persons, or any associate or affiliate of H&R currently intends to sell Units to H&R during the course of the issuer bid.

Under its previous normal course issuer bid approved by the TSX on December 13, 2021 and amended on April 19, 2022 to increase the number of Units that could by repurchased for cancellation to 28,269,228 Units, H&R completed the purchase for cancellation through the facilities of the TSX of 22,873,800 Units at a weighted average price of $12.99 per Unit. H&R's previous normal course issuer bid expired on December 15, 2022.

MONTHLY DISTRIBUTIONS DECLARED

H&R today declared distributions for the months of February and March scheduled as follows:

	Distribution/Unit	Annualized	Record date	Distribution date
February 2023	$0.05	$0.60	February 28, 2023	March 15, 2023
March 2023	$0.05	$0.60	March 31, 2023	April 14, 2023

2022 TAXATION CONSEQUENCES FOR TAXABLE CANADIAN UNITHOLDERS

H&R's cash distributions amounted to $0.59 per Unit during 2022 (including a $0.05 per Unit special cash distribution to unitholders of record on December 30, 2022). The REIT also made a special distribution to unitholders of record on December 30, 2022 of $0.35 per Unit payable in additional Units, which were immediately consolidated such that there was no change in the number of outstanding Units. 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 ($0.35 per Unit) will increase the adjusted cost basis of unitholders' consolidated Units.

ESG REPORTING

H&R also previously announced the launch of its Green Financing Framework, which has been designed to support the REIT's sustainability strategy as the REIT continues to expand its building portfolio in an environmentally and socially responsible way. A copy of the Green Financing Framework can be found on its website at https://www.hr-reit.com/wp-content/uploads/2022/12/HR-REIT-Green-Financing-Framework.pdf.

During 2022, H&R also implemented a human rights policy which can be found on H&R's website at https://www.hr-reit.com/wp-content/uploads/2022/11/Human-Rights-Policy.pdf and filed its 2021 Sustainability Report which can be found on H&R's website at https://www.hr-reit.com/wp-content/uploads/2022/11/HR-REIT-2021-Sustainability-Report.pdf.

CONFERENCE CALL AND WEBCAST

Management will host a conference call to discuss the financial results of the REIT on Tuesday, February 14, 2023 at 9.30 a.m. Eastern Time. Participants can join the call by dialing 1-888-396-8049 or 1-416-764-8646. 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 1-416-764-8692 or 1-877-674-7070 and enter the passcode 280030 followed by the "#" key. The telephone replay will be available until Tuesday, February 21, 2023 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 December 31, 2022. H&R REIT has ownership interests in a North American portfolio comprised of high-quality residential, industrial, office and retail properties comprising over 28.7 million square feet.

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 under the heading "Significant 2022 Activity" 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 with respect to H&R's future plans and targets, the REIT's ability to create a simplified, growth-oriented company and surface significant value for Unitholders, H&R's strategy to grow its exposure to residential assets in U.S. sunbelt and gateway cities, leasing of the REIT's investment properties, including expected lease commencement dates and square footage to be occupied, H&R's expectations with respect to the activities of its development properties, including the building of new properties, the use of such properties, the timing of construction and completion, expected construction plans and costs, anticipated square footage, expected approvals and the timing thereof, capitalization rates and cash flow models used to estimate fair values, expectations regarding future operating fundamentals, future growth in Same-Property net operating income (cash basis), H&R's intention to repurchase Units in the open market, H&R's beliefs regarding the benefits of persons who hold Units, management's expectations regarding future distributions by the REIT, 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 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 assumptions relating to the general economy, including the effects of increased inflation; debt markets continue to provide access to capital at a reasonable cost, notwithstanding rising interest rates; and assumptions concerning currency exchange and interest rates including, for the purposes of expected Same-Property net operating income (cash basis) growth, that there won't be any change in the currency exchange rate. Additional risks and uncertainties include, among other things, risks related to: 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; capital expenditures risk; currency risk; liquidity risk; risks associated with disease outbreaks; cyber security risk; financing credit risk; ESG and climate change risk; co-ownership interest in properties; general uninsured losses; joint arrangement and investment risks; dependence on key personnel and succession planning; potential acquisition, investment and disposition opportunities and joint venture arrangements; potential undisclosed liabilities associated with acquisitions; competition for real property investments; Unit price risk; potential conflicts of interest; availability of cash for distributions; credit ratings; ability to access capital markets; dilution; unitholder liability; redemption right risk; risks relating to debentures; tax risk; additional tax risks applicable to unitholders; investment eligibility; 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 contained in this news release are qualified by these cautionary statements. These forward-looking statements are made as of February 13, 2023 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 audited consolidated financial statements of the REIT and related notes for the year ended December 31, 2022 (the "REIT's Financial Statements") were 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's discussion and analysis as at and for the three months and year ended December 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:

	December 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	**$8,799,317**	**$2,128,306**	**$10,927,623**	$8,581,100	$1,824,609	$10,405,709
Properties under development	**880,778**	**89,912**	**970,690**	481,432	165,187	646,619
	9,680,095	**2,218,218**	**11,898,313**	9,062,532	1,989,796	11,052,328
Equity accounted investments	**1,060,268**	**(1,060,268)**	**—**	992,679	(992,679)	—
Assets classified as held for sale	**294,028**	**—**	**294,028**	—	57,309	57,309
Other assets	**301,325**	**21,892**	**323,217**	321,789	13,557	335,346
Cash and cash equivalents	**76,887**	**38,443**	**115,330**	124,141	40,499	164,640
	$11,412,603	**$1,218,285**	**$12,630,888**	$10,501,141	$1,108,482	$11,609,623
Liabilities and Unitholders' Equity						
Liabilities						
Debt	**$3,922,529**	**$1,137,210**	**$5,059,739**	$3,894,906	$1,026,836	$4,921,742
Exchangeable units	**217,668**	**—**	**217,668**	216,841	—	216,841
Deferred Revenue	**986,243**	**—**	**986,243**	896,801	—	896,801
Deferred tax liability	**483,048**	**—**	**483,048**	350,501	—	350,501
Accounts payable and accrued liabilities	**309,505**	**58,502**	**368,007**	368,259	59,130	427,389
Liabilities classified as held for sale	**6,323**	**—**	**6,323**	—	—	—
Non-controlling interest	**—**	**22,573**	**22,573**	—	22,516	22,516
	5,925,316	**1,218,285**	**7,143,601**	5,727,308	1,108,482	6,835,790
Unitholders' equity	**5,487,287**	**—**	**5,487,287**	4,773,833	—	4,773,833
	$11,412,603	**$1,218,285**	**$12,630,888**	$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 December 31, 2022			Three months ended 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]
Rentals from investment properties	**$216,835**	**$37,471**	**$254,306**	$265,794	$30,316	$296,110
Property operating costs	**(68,723)**	**(9,477)**	**(78,200)**	(95,953)	(6,331)	(102,284)
Net operating income	**148,112**	**27,994**	**176,106**	169,841	23,985	193,826
Net income from equity accounted investments	**53,473**	**(52,719)**	**754**	89,298	(89,139)	159
Finance costs - operations	**(55,625)**	**(11,736)**	**(67,361)**	(61,922)	(9,115)	(71,037)
Finance income	**3,204**	**60**	**3,264**	3,014	3	3,017
Trust expenses	**(11,012)**	**(1,100)**	**(12,112)**	(4,780)	(2,021)	(6,801)
Fair value adjustment on financial instruments	**(30,234)**	**481**	**(29,753)**	50,804	393	51,197
Fair value adjustment on real estate assets	**(224,480)**	**37,350**	**(187,130)**	(13,005)	76,033	63,028
Gain (loss) on sale of real estate assets, net of related costs	**(3,322)**	**(89)**	**(3,411)**	3,192	97	3,289
Net income (loss) before income taxes and non-controlling interest	**(119,884)**	**241**	**(119,643)**	236,442	236	236,678
Income tax (expense) recovery	**3,755**	**(18)**	**3,737**	(28,247)	(23)	(28,270)
Net income (loss) before non-controlling interest	**(116,129)**	**223**	**(115,906)**	208,195	213	208,408
Non-controlling interest	**—**	**(223)**	**(223)**	—	(213)	(213)
Net income (loss)	**(116,129)**	**—**	**(116,129)**	208,195	—	208,195
Other comprehensive loss:						
Items that are or may be reclassified subsequently to net income (loss)	**(71,875)**	**—**	**(71,875)**	(24,996)	—	(24,996)
Total comprehensive income (loss) attributable to unitholders	**($188,004)**	**$—**	**($188,004)**	$183,199	$—	$183,199

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

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

	Year ended December 31, 2022			Year ended 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)]
Rentals from investment properties	**$834,640**	**$130,312**	**$964,952**	$1,065,380	$106,990	$1,172,370
Property operating costs	**(299,691)**	**(38,230)**	**(337,921)**	(403,798)	(34,879)	(438,677)
Net operating income	**534,949**	**92,082**	**627,031**	661,582	72,111	733,693
Net income from equity accounted investments	**47,139**	**(46,007)**	**1,132**	125,649	(125,555)	94
Finance costs - operations	**(220,262)**	**(40,026)**	**(260,288)**	(236,878)	(36,302)	(273,180)
Finance income	**14,793**	**88**	**14,881**	17,229	16	17,245
Trust expenses	**(22,121)**	**(3,242)**	**(25,363)**	(27,936)	(4,150)	(32,086)
Fair value adjustment on financial instruments	**38,349**	**2,910**	**41,259**	43,859	1,282	45,141
Fair value adjustment on real estate assets	**546,081**	**(4,802)**	**541,279**	12,984	72,729	85,713
Gain on sale of real estate assets, net of related costs	**7,332**	**161**	**7,493**	6,957	20,874	27,831
Net income before income taxes and non-controlling interest	**946,260**	**1,164**	**947,424**	603,446	1,005	604,451
Income tax expense	**(101,437)**	**(197)**	**(101,634)**	(5,539)	(104)	(5,643)
Net income before non-controlling interest	**844,823**	**967**	**845,790**	597,907	901	598,808
Non-controlling interest	**—**	**(967)**	**(967)**	—	(901)	(901)
Net income	**844,823**	**—**	**844,823**	597,907	—	597,907
Other comprehensive income (loss):						
Items that are or may be reclassified subsequently to net income	**321,570**	**—**	**321,570**	(23,575)	—	(23,575)
Total comprehensive income attributable to unitholders	**$1,166,393**	**$—**	**$1,166,393**	$574,332	$—	$574,332

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

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 December 31			Year ended December 31		
(in thousands of Canadian dollars)	**2022**	2021	Change	**2022**	2021	Change
Rentals from investment properties	**$216,835**	$265,794	($48,959)	**$834,640**	$1,065,380	($230,740)
Property operating costs	**(68,723)**	(95,953)	27,230	**(299,691)**	(403,798)	104,107
Net operating income per the REIT's Financial Statements	**148,112**	169,841	(21,729)	**534,949**	661,582	(126,633)
Adjusted for:						
Net operating income from equity accounted investments[1]	**27,994**	23,985	4,009	**92,082**	72,111	19,971
Straight-lining of contractual rent at the REIT's proportionate share[1]	**(3,588)**	(1,057)	(2,531)	**(6,890)**	(23,664)	16,774
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[1][2]	**(12,600)**	(12,192)	(408)	**—**	—	—
Net operating income (cash basis) from Transactions at the REIT's proportionate share[1][3]	**(35,249)**	(68,121)	32,872	**(143,032)**	(294,822)	151,790
Same-Property net operating income (cash basis)[1]	**$124,669**	$112,456	$12,213	**$477,109**	$415,207	$61,902

(1) These are non-GAAP measures.
(2) Realty taxes accounted for under IFRS Interpretations Committee Interpretation 21, Levies ("IFRIC 21"), which relates to the timing of the liability recognition for U.S. realty taxes. By excluding the impact of IFRIC 21, U.S. realty tax expenses are evenly matched with realty recoveries received from tenants throughout the period.
(3) Acquisitions, business combinations, dispositions, spin-offs, and transfers of investment properties to or from properties under development during the two-year period ended December 31, 2022 (collectively, "Transactions").

NAV per Unit

The following table reconciles Unitholders' equity per Unit to NAV per Unit[2]:

Unitholders' Equity per Unit and NAV per Unit	**December 31**	December 31
(in thousands except for per Unit amounts)	**2022**	2021
Unitholders' equity	**$5,487,287**	$4,773,833
Exchangeable units	**217,668**	216,841
Deferred tax liability	**483,048**	350,501
Total	**$6,188,003**	$5,341,175
Units outstanding	**265,885**	288,440
Exchangeable units outstanding	**17,974**	13,344
Total	**283,859**	301,784
Unitholders' equity per Unit[1]	**$20.64**	$16.55
NAV per Unit[2]	**$21.80**	$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 December 31		Year ended December 31	
(in thousands of Canadian dollars except per Unit amounts)	**2022**	2021	**2022**	2021
Net income per the REIT's Financial Statements	**($116,129)**	$208,195	**$844,823**	$597,907
Realty taxes in accordance with IFRIC 21	**(11,284)**	(11,014)	**—**	—
FFO adjustments from equity accounted investments	**(39,685)**	(77,139)	**2,064**	(92,217)
Exchangeable unit distributions	**3,368**	3,636	**10,692**	11,088
Fair value adjustments on financial instruments and real estate assets	**254,714**	(37,799)	**(584,430)**	(56,843)
Fair value adjustment to unit-based compensation	**6,476**	(64)	**2,172**	5,083
(Gain) loss on sale of real estate assets, net of related costs	**3,322**	(3,192)	**(7,332)**	(6,957)
Deferred income tax expense (recoveries) applicable to U.S. Holdco	**(4,096)**	27,957	**100,108**	4,458
Incremental leasing costs	**411**	1,568	**2,252**	6,422
The Bow and 100 Wynford non-cash rental income and accretion adjustments	**(9,223)**	(7,576)	**(29,166)**	(7,576)
FFO[1]	**$87,874**	$104,572	**$341,183**	$461,365
Straight-lining of contractual rent	**(3,280)**	(1,261)	**(6,512)**	(23,581)
Rent amortization of tenant inducements	**1,209**	1,149	**4,691**	4,557
Capital expenditures	**(15,731)**	(18,574)	**(35,582)**	(47,089)
Leasing expenses and tenant inducements	**(4,874)**	(6,737)	**(8,516)**	(18,865)
Incremental leasing costs	**(411)**	(1,568)	**(2,252)**	(6,422)
AFFO adjustments from equity accounted investments	**(2,304)**	(1,354)	**(5,676)**	(4,140)
AFFO[1]	**$62,483**	$76,227	**$287,336**	$365,825
Weighted average number of Units and exchangeable units (in thousands of Units)[2]	**283,859**	301,779	**290,782**	301,772
Diluted weighted average number of Units and exchangeable units (in thousands of Units)[2][3]	**285,076**	302,612	**291,999**	302,605
FFO per basic Unit[4]	**$0.310**	$0.347	**$1.173**	$1.529
FFO per diluted Unit[4]	**$0.308**	$0.346	**$1.168**	$1.525
AFFO per basic Unit[4]	**$0.220**	$0.253	**$0.988**	$1.212
AFFO per diluted Unit[4]	**$0.219**	$0.252	**$0.984**	$1.209
Cash Distributions per Unit[5]	**$0.188**	$0.272	**$0.590**	$0.790
Payout ratio as a % of FFO[4]	**60.6%**	78.4%	**50.3%**	51.7%
Payout ratio as a % of AFFO[4]	**85.5%**	107.5%	**59.7%**	65.2%

(1) These are non-GAAP measures.

(2) For the three months and year ended December 31, 2022, included in the weighted average and diluted weighted average number of Units are exchangeable units of 17,974,186 and 18,110,844, respectively. For 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.

(3) For the three months and year ended December 31, 2022, included in the determination of diluted FFO and AFFO with respect to H&R's Incentive Unit Plan are 1,216,801 Units. 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 Incentive Unit Plan are 832,976 Units.

(4) These are non-GAAP ratios.

(5) H&R's current monthly distribution was $0.0458 per Unit as at December 31, 2022, which increased from $0.0433 per Unit in May 2022. Following the Primaris Spin-Off on December 31, 2021, 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 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 for 2022 of $0.54 per Unit equates to a combined distribution of $0.74 per Unit for those investors that held Units as at December 31, 2021 and continue to hold both their Units and Primaris REIT units, which is a 7.2% increase over the $0.69 per Unit paid by H&R in 2021.

For further information

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