H&R REIT Reports Strong Second Quarter 2023 Results

Toronto, Ontario, August 10, 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 and six months ended June 30, 2023.

Q2 2023 HIGHLIGHTS:

- Net operating income increased by 4.4% compared to Q2 2022.
- Same-Property net operating income (cash basis)(1) increased by 11.7% compared to Q2 2022 driven by healthy gains across our operating segments:

• Residential	+22.9%	Driven by strong rent growth and the strengthening of the U.S. dollar
• Industrial	+18.6%	Driven by strong rent growth and higher occupancy
• Retail	+9.1%	Driven by the strengthening of the U.S. dollar
• Office	+2.1%	Driven by the strengthening of the U.S. dollar

- Funds From Operations ("FFO")(1) per Unit grew 4.6% to $0.30 per Unit compared to $0.28 per Unit for Q2 2022. The REIT distributed 50.5%(2) of FFO to Unitholders.
- Cash distributions per unit increased by 11.1% compared to Q2 2022.
- $277.6 million in property dispositions.
- ($260.7) million fair value adjustment on real estate assets, driven by capitalization rate expansion. The following weighted average capitalization rates were used to value the REIT's investment properties:

	June 30, 2023	March 31, 2023
• Residential (sunbelt)	4.75%	4.50%
• Residential (other)	4.08%	4.01%
• Industrial	5.28%	5.20%
• Office (general)	7.31%	6.99%
• Office (rezoning)	4.81%	4.52%
• Retail	6.35%	6.40%

- 2.8 million units of the REIT ("Units") were purchased for a total cost of $29.2 million, at a weighted average price of $10.26 per Unit, representing an approximate 51.2% discount to Net Asset Value ("NAV") per Unit(2).
- Unitholders’ equity per Unit was $20.09 and NAV per Unit(2) was $21.04 at June 30, 2023.
- Liquidity was in excess of $900.0 million at June 30, 2023.

(1) These are non-generally accepted accounting principles ("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.

“Year to date, our portfolio and team are producing strong financial and operating results across all our property classes,” said Tom Hofstedter, Executive Chair and Chief Executive Officer:

- Residential continues to see strong rental rate growth;
- our high-quality, well located office properties continue to produce stable cash flow with a weighted average lease term of 7.1 years and 98.7% occupancy;
- industrial properties located in key industrial markets remain in high-demand as we realize continued rental rate growth; and
- our high-quality grocery-anchored and single-tenant retail property portfolio is performing well, providing essential services to their respective communities.

"Given the line of sight we have into our current disposition pipeline and the demand we are seeing for our properties, we are reiterating our target to sell approximately $600 million of non-core assets this year of which $387 million has been sold to date."

FINANCIAL HIGHLIGHTS

	June 30	December 31
	2023	2022
Total assets (in thousands)	**$11,080,621**	$11,412,603
Debt to total assets per the REIT's Financial Statements[1]	**35.2%**	34.4%
Debt to total assets at the REIT's proportionate share[1][2]	**44.8%**	44.0%
Unitholders' equity (in thousands)	**$5,286,373**	$5,487,287
Units outstanding (in thousands)	**263,172**	265,885
Exchangeable units outstanding (in thousands)	**17,974**	17,974
Unitholders' equity per Unit	**$20.09**	$20.64
NAV per Unit[2]	**$21.04**	$21.80

	3 months ended June 30		6 months ended June 30	
	2023	2022	**2023**	2022
Rentals from investment properties (in millions)	**$212.5**	$202.4	**$430.8**	$404.1
Net operating income (in millions)	**$152.5**	$146.0	**$249.8**	$238.5
Same-Property net operating income (cash basis) (in millions)[3]	**$128.0**	$114.6	**$255.5**	$229.1
Net income from equity accounted investments (in millions)	**$1.3**	$8.9	**$11.2**	$53.7
Fair value adjustment on real estate assets (in millions)	**($260.7)**	($16.8)	**($175.7)**	$1,005.8
Net income (loss) (in millions)	**($59.4)**	$112.5	**$35.4**	$1,082.4
Funds from operations ("FFO") (in millions)[3]	**$84.1**	$83.0	**$172.0**	$167.4
Adjusted funds from operations (“AFFO”) (in millions)[3]	**$69.6**	$75.0	**$143.3**	$152.2
Weighted average number of Units and exchangeable units for FFO (in thousands)	**283,384**	292,353	**283,637**	297,375
FFO per basic Unit[2]	**$0.297**	$0.284	**$0.606**	$0.563
AFFO per basic Unit[2]	**$0.246**	$0.257	**$0.505**	$0.512
Cash Distributions per Unit	**$0.150**	$0.135	**$0.300**	$0.265
Payout ratio as a % of FFO[2]	**50.5%**	47.5%	**49.5%**	47.1%
Payout ratio as a % of AFFO[2]	**61.0%**	52.5%	**59.4%**	51.8%

(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 of this news release.
(3) These are non-GAAP measures. Refer to the *“Non-GAAP Measures”* section of this news release.

SUMMARY OF SIGNIFICANT Q2 2023 ACTIVITY

2023 Net Operating Income Highlights:

	Three months ended June 30			Six months ended June 30		
(in thousands of Canadian dollars)	**2023**	2022	% Change	**2023**	2022	% Change
Operating Segment:						
Same-Property net operating income (cash basis) - Residential[1]	**$41,298**	$33,601	22.9%	**$81,459**	$66,712	22.1%
Same-Property net operating income (cash basis) - Industrial[1]	**18,040**	15,213	18.6%	**34,528**	30,169	14.4%
Same-Property net operating income (cash basis) - Office[1]	**44,701**	43,777	2.1%	**91,216**	87,291	4.5%
Same-Property net operating income (cash basis) - Retail[1]	**23,974**	21,983	9.1%	**48,291**	44,887	7.6%
Same-Property net operating income (cash basis)[1]	**128,013**	114,574	11.7%	**255,494**	229,059	11.5%
Net operating income (cash basis) from Transactions at the REIT's proportionate share[1]	**32,884**	37,750	(12.9)%	**68,682**	76,030	(9.7)%
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[1][2]	**15,528**	16,246	(4.4)%	**(30,270)**	(24,656)	(22.8)%
Straight-lining of contractual rent at the REIT's proportionate share[1]	**4,313**	(240)	1897.1%	**8,071**	(86)	9484.9%
Net operating income from equity accounted investments[1]	**(28,210)**	(22,283)	(26.6)%	**(52,149)**	(41,877)	(24.5)%
Net operating income per the REIT's Financial Statements	**$152,528**	$146,047	4.4%	**$249,828**	$238,470	4.8%

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

Property Dispositions

In April 2023, H&R sold 160 Elgin Street ("160 Elgin"), a 973,661 square foot office property in Ottawa, ON, for $277.0 million. H&R provided two vendor take-back mortgages ("VTB") to the purchaser upon closing: (i) $180.0 million secured by a first mortgage on the property, bearing interest at 6.5% per annum, maturing July 20, 2023 and (ii) $30.0 million which is subordinate to the first mortgage on the property, bearing interest at 4.5% per annum, maturing April 20, 2028. The remaining proceeds of $67.0 million were primarily used to repay debt and repurchase Units under the REIT's normal course issuer bid ("NCIB"). On July 20, 2023, the REIT received $10.0 million towards the outstanding $180.0 million VTB and provided a four-week maturity date extension.

In May 2023, H&R entered into an agreement to sell four Quebec retail properties for aggregate gross proceeds of $68.0 million. These properties were classified as held for sale at June 30, 2023 and the sale closed in July 2023. The proceeds were used to repay debt and repurchase Units under the REIT's NCIB.

As at June 30, 2023, $29.2 million had been used to repurchase Units, which are currently trading at a significant discount to the REIT's NAV per Unit, under the REIT's NCIB.

2023 non-core property sales to date total $387.0 million.

Leasing Highlights:

In Q2 2023, H&R leased 74,689 vacant square feet at a multi-tenanted industrial property in Toronto, ON, at H&R's ownership interest, for a 5.5 year term commencing September 1, 2023 at market rents with annual contractual rental escalations. Previous tenants occupying 37,717 and 36,798 square feet, respectively, both at H&R's ownership interest, vacated in February 2023 and May 2023, respectively. On average, annual contractual rent increased by $12.94 per square foot. In addition, H&R completed a 5 year lease renewal on 49,535 square feet at the same property, at H&R's ownership interest. The original lease expired in March 2023 and annual contractual rent increased by $12.40 per square foot commencing in April 2023 with annual contractual rent escalations. With these new leases, occupancy at this property will increase from 53.1% as at June 30, 2023 to 100.0% as at September 30, 2023.

In Q1 2023, H&R entered into a lease amendment with its tenant at 6900 Maritz Drive in Mississauga, ON to terminate their lease in December 2023. The terms of the rental payments to December 2023 have not changed. The previous lease term would have ended in May 2031. H&R received a lease termination fee of approximately $0.9 million in Q1 2023 and will receive an additional $2.5 million in Q3 2023. IFRS 16, *Leases* ("IFRS 16") requires revenue from leases to be recognized on a straight-line basis over the contractual term of the lease. As a result of this lease amendment, a non-cash adjustment to straight-lining of contractual rent of nil was recorded in Q1 2023 and $0.8 million was recorded in Q2 2023. In addition, ($1.8) million and $0.8 million will be recorded in Q3 2023 and Q4 2023, respectively. Refer to the "Future Intensification" section below for further details regarding H&R's plans to rezone this property from office to industrial use.

Unitholder Activism and Severance Costs

In April 2023, H&R entered into a support agreement (the "Support Agreement") with the K2 Principal Fund L.P. and K2 & Associates Investment Management Inc. (collectively, "K2"). Among other stipulations in the Support Agreement, K2 withdrew its four nominees for election at the meeting of unitholders on June 15, 2023 ("Unitholder Meeting"). K2 also agreed with H&R to support the election of two additional, mutually agreed upon, independent trustees to H&R's Board, Lindsay Brand and Leonard Abramsky, with the size of the Board increasing by two to 10 trustees, and also agreed to vote in favour of the balance of the trustees slated for re-election. Mr. Abramsky and Ms. Brand were elected to the REIT's Board at the Unitholder Meeting.

In May 2023, Philippe Lapointe stepped down as President of H&R and as an officer of H&R's subsidiary, Lantower Residential. Emily Watson, Lantower's Chief Operating Officer, was appointed to lead the Lantower Residential division. The REIT congratulates Emily on being named Executive of the Year at the 2023 Apartment Association of Greater Dallas's Sapphire Awards. This well-deserved accolade is a testament to Emily's outstanding leadership, strategic vision, and unwavering commitment to excellence.

Development Update

Canadian Properties under Development

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 Q4 2023 and Q1 2024, respectively. The REIT expects the construction costs for these two properties under development to be approximately $26.8 million for the remainder of 2023 and $4.4 million in 2024. 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 market rents with annual contractual rental escalations. The lease was finalized and entered into in February 2023. In March 2023, H&R entered into a lease agreement with UAP Inc. to fully lease 1925 Meadowvale Boulevard, totalling 149,510 square feet, for a term of 12.5 years at market rents with annual contractual rental escalations.

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. $129.5 million. The REIT expects its construction costs for these two properties under development to be approximately U.S. $63.4 million for the remainder of 2023 and U.S. $66.1 million in 2024.

Future Intensification

In June 2023, H&R made a re-submission to the City of Toronto for 53 and 55 Yonge Street to satisfy the conditions that were set by the Ontario Land Tribunal to finalize the rezoning approval for a 66-storey mixed use tower including 511 residential units with approximately 159,000 square feet of replacement office area and approximately 13,000 square feet of retail area. H&R expects to have the zoning by-law binding and in force in Q3 2023.

In June 2023, Toronto East York Community Council approved the settlement agreement reached between H&R and the City of Toronto for 310 Front Street. The agreement was subsequently adopted at City Council on July 19, 2023. The rezoning approval will be binding and in force upon completion of the statutory appeal period initiated once a notice of the passing of the by-law is issued by the City of Toronto. The approval is for a 65-storey mixed use tower including 578 residential units, approximately 119,000 square feet of replacement office area and approximately 2,000 square feet of retail area.

H&R is preparing a Site Plan Approval application for submission to the City of Mississauga for a new single story 122,400 square foot industrial building at 6900 Maritz Drive in Mississauga, ON, which would replace the existing 104,689 square foot office building. Site Plan approval is expected by Q4 2023.

2023 Distribution

H&R increased its monthly distributions to $0.05 per Unit commencing January 2023. This equates to $0.60 per Unit annually, an 11.1% increase from the 2022 distribution of $0.54 per Unit, excluding the 2022 special cash distribution.

The 2022 special distribution of $0.40 per Unit was comprised of $0.05 per Unit in cash and $0.35 per Unit in additional Units, which were immediately consolidated such that there was no change in the number of outstanding Units. As a result of the recently announced property sales, H&R expects to make a special distribution in 2023. The amount and nature of such distribution will be determined in Q4 2023.

For the three and six months ended June 30, 2023, H&R's payout ratio as a percentage of AFFO was 61.0% and 59.4%, respectively.

Debt & Liquidity Highlights

As at June 30, 2023, debt to total assets per the REIT's Financial Statements was 35.2% from 34.4% as at December 31, 2022. As at June 30, 2023, debt to total assets at the REIT's proportionate share (a non-GAAP ratio) was 44.8% compared to 44.0% as at December 31, 2022.

As at June 30, 2023, H&R had cash and cash equivalents of $53.7 million, $891.9 million available under its unused lines of credit and an unencumbered property pool of approximately $4.1 billion.

MONTHLY DISTRIBUTIONS DECLARED

H&R today declared distributions for the months of August and September scheduled as follows:

	Distribution/Unit	Annualized	Record date	Distribution date
August 2023	$0.05	$0.60	August 31, 2023	September 15, 2023
September 2023	$0.05	$0.60	September 29, 2023	October 16, 2023

CONFERENCE CALL AND WEBCAST

Management will host a conference call to discuss the financial results of the REIT on Friday, August 11, 2023 at 9.30 a.m. Eastern Time. Participants can join the call by dialing 1-888-886-7786 or 1-416-764-8658. 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 614466 followed by the "#" key. The telephone replay will be available until Friday, August 18, 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 $11.1 billion as at June 30, 2023. H&R REIT has ownership interests in a North American portfolio comprised of high-quality residential, industrial, office and retail properties comprising over 27.7 million square feet. H&R's strategy is to create a simplified, growth-oriented business focused on residential and industrial properties in order to create sustainable long term value for unitholders. H&R plans to sell its office and retail properties as market conditions permit. 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.

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 "Summary of Significant Q2 2023 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 take advantage of value-creating opportunities, 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 expiration dates, H&R's expectation regarding the sale of non-core assets including the intent to sell an additional $250 million of properties during the balance of 2023, 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, future intensification opportunities; capitalization rates and cash flow models used to estimate fair values, expectations regarding future operating fundamentals, 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. 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 August 10, 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 unaudited condensed consolidated financial statements of the REIT and related notes for the three and six months ended June 30, 2023 (the "REIT's Financial Statements") were prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting.* 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 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 and six months ended June 30, 2023 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 (a non-GAAP Measure):

	June 30, 2023			December 31, 2022		
(in thousands of Canadian dollars)	**REIT's Financial Statements**	**Equity accounted investments**	**REIT's proportionate share**	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share
Assets						
Real estate assets						
Investment properties	**$8,383,730**	**$2,036,002**	**$10,419,732**	$8,799,317	$2,128,306	$10,927,623
Properties under development	**1,005,328**	**121,038**	**1,126,366**	880,778	89,912	970,690
	9,389,058	**2,157,040**	**11,546,098**	9,680,095	2,218,218	11,898,313
Equity accounted investments	**1,044,683**	**(1,044,683)**	**—**	1,060,268	(1,060,268)	—
Assets classified as held for sale	**78,120**	**—**	**78,120**	294,028	—	294,028
Other assets	**515,016**	**19,743**	**534,759**	301,325	21,892	323,217
Cash and cash equivalents	**53,744**	**35,070**	**88,814**	76,887	38,443	115,330
	$11,080,621	**$1,167,170**	**$12,247,791**	$11,412,603	$1,218,285	$12,630,888
Liabilities and Unitholders' Equity						
Liabilities						
Debt	**$3,895,755**	**$1,090,377**	**$4,986,132**	$3,922,529	$1,137,210	$5,059,739
Exchangeable units	**184,236**	**—**	**184,236**	217,668	—	217,668
Deferred Revenue	**967,312**	**—**	**967,312**	986,243	—	986,243
Deferred tax liability	**443,567**	**—**	**443,567**	483,048	—	483,048
Accounts payable and accrued liabilities	**303,378**	**60,199**	**363,577**	309,505	58,502	368,007
Liabilities classified as held for sale	**—**	**—**	**—**	6,323	—	6,323
Non-controlling interest	**—**	**16,594**	**16,594**	—	22,573	22,573
	5,794,248	**1,167,170**	**6,961,418**	5,925,316	1,218,285	7,143,601
Unitholders' equity	**5,286,373**	**—**	**5,286,373**	5,487,287	—	5,487,287
	$11,080,621	**$1,167,170**	**$12,247,791**	$11,412,603	$1,218,285	$12,630,888

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 (a non-GAAP Measure):

	Three months ended June 30, 2023			Three months ended June 30, 2022		
(in thousands of Canadian dollars)	**REIT's Financial Statements**	**Equity accounted investments**	**REIT's proportionate share**	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share
Rentals from investment properties	**$212,501**	**$36,748**	**$249,249**	$202,394	$30,307	$232,701
Property operating costs	**(59,973)**	**(8,538)**	**(68,511)**	(56,347)	(8,024)	(64,371)
Net operating income	**152,528**	**28,210**	**180,738**	146,047	22,283	168,330
Net income from equity accounted investments	**1,260**	**(941)**	**319**	8,884	(8,746)	138
Finance costs - operations	**(54,944)**	**(12,100)**	**(67,044)**	(53,985)	(9,306)	(63,291)
Finance income	**4,699**	**100**	**4,799**	4,633	5	4,638
Trust expenses	**(6,368)**	**(1,497)**	**(7,865)**	(6,493)	(728)	(7,221)
Fair value adjustment on financial instruments	**65,912**	**(379)**	**65,533**	29,418	1,293	30,711
Fair value adjustment on real estate assets	**(260,684)**	**(13,280)**	**(273,964)**	(16,784)	(3,959)	(20,743)
Gain (loss) on sale of real estate assets, net of related costs	**(2,152)**	**98**	**(2,054)**	11,539	(521)	11,018
Net income (loss) before income taxes and non-controlling interest	**(99,749)**	**211**	**(99,538)**	123,259	321	123,580
Income tax (expense) recovery	**40,354**	**(27)**	**40,327**	(10,802)	(86)	(10,888)
Net income (loss) before non-controlling interest	**(59,395)**	**184**	**(59,211)**	112,457	235	112,692
Non-controlling interest	**—**	**(184)**	**(184)**	—	(235)	(235)
Net income (loss)	**(59,395)**	**—**	**(59,395)**	112,457	—	112,457
Other comprehensive income (loss):						
Items that are or may be reclassified subsequently to net income (loss)	**(96,367)**	**—**	**(96,367)**	136,124	—	136,124
Total comprehensive income (loss) attributable to unitholders	**($155,762)**	**$—**	**($155,762)**	$248,581	$—	$248,581

The following table reconciles the REIT's Results of Operations from the REIT's Financial Statements to the REIT's proportionate share (a non-GAAP Measure):

	Six months ended June 30, 2023			Six months ended June 30, 2022		
(in thousands of Canadian dollars)	**REIT's Financial Statements**	**Equity accounted investments**	**REIT's proportionate share**	REIT's Financial Statements	Equity accounted investments	REIT's proportionate share
Rentals from investment properties	**$430,796**	**$74,342**	**$505,138**	$404,096	$61,161	$465,257
Property operating costs	**(180,968)**	**(22,193)**	**(203,161)**	(165,626)	(19,284)	(184,910)
Net operating income	**249,828**	**52,149**	**301,977**	238,470	41,877	280,347
Net income from equity accounted investments	**11,156**	**(10,792)**	**364**	53,737	(53,580)	157
Finance costs - operations	**(109,915)**	**(23,995)**	**(133,910)**	(109,271)	(18,105)	(127,376)
Finance income	**6,456**	**160**	**6,616**	7,179	8	7,187
Trust expenses	**(14,459)**	**(2,251)**	**(16,710)**	(13,742)	(1,504)	(15,246)
Fair value adjustment on financial instruments	**46,035**	**(79)**	**45,956**	28,827	1,969	30,796
Fair value adjustment on real estate assets	**(175,693)**	**(13,267)**	**(188,960)**	1,005,753	29,824	1,035,577
Gain (loss) on sale of real estate assets, net of related costs	**(2,649)**	**(1,531)**	**(4,180)**	11,511	212	11,723
Net income before income taxes and non-controlling interest	**10,759**	**394**	**11,153**	1,222,464	701	1,223,165
Income tax (expense) recovery	**24,648**	**(39)**	**24,609**	(140,016)	(166)	(140,182)
Net income before non-controlling interest	**35,407**	**355**	**35,762**	1,082,448	535	1,082,983
Non-controlling interest	**—**	**(355)**	**(355)**	—	(535)	(535)
Net income	**35,407**	**—**	**35,407**	1,082,448	—	1,082,448
Other comprehensive income (loss):						
Items that are or may be reclassified subsequently to net income	**(129,239)**	**—**	**(129,239)**	99,022	—	99,022
Total comprehensive income (loss) attributable to unitholders	**($93,832)**	**$—**	**($93,832)**	$1,181,470	$—	$1,181,470

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 June 30			Six months ended June 30		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Rentals from investment properties	**$212,501**	$202,394	$10,107	**$430,796**	$404,096	$26,700
Property operating costs	**(59,973)**	(56,347)	(3,626)	**(180,968)**	(165,626)	(15,342)
Net operating income per the REIT's Financial Statements	**152,528**	146,047	6,481	**249,828**	238,470	11,358
Adjusted for:						
Net operating income from equity accounted investments(1)	**28,210**	22,283	5,927	**52,149**	41,877	10,272
Straight-lining of contractual rent at the REIT's proportionate share(1)	**(4,313)**	240	(4,553)	**(8,071)**	86	(8,157)
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share(1)	**(15,528)**	(16,246)	718	**30,270**	24,656	5,614
Net operating income (cash basis) from Transactions at the REIT's proportionate share(1)	**(32,884)**	(37,750)	4,866	**(68,682)**	(76,030)	7,348
Same-Property net operating income (cash basis)(1)	**$128,013**	$114,574	$13,439	**$255,494**	$229,059	$26,435

(1) These are non-GAAP measures .

NAV per Unit (a non-GAAP Measure)

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

Unitholders' Equity per Unit and NAV per Unit	**June 30**	December 31
(in thousands except for per Unit amounts)	**2023**	2022
Unitholders' equity	**$5,286,373**	$5,487,287
Exchangeable units	**184,236**	217,668
Deferred tax liability	**443,567**	483,048
Total	**$5,914,176**	$6,188,003
Units outstanding	**263,172**	265,885
Exchangeable units outstanding	**17,974**	17,974
Total	**281,146**	283,859
Unitholders' equity per Unit(1)	**$20.09**	$20.64
NAV per Unit	**$21.04**	$21.80

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

Funds from Operations and Adjusted Funds from Operations

The following table reconciles net income (loss) per the REIT's Financial Statements to FFO and AFFO:

FFO AND AFFO	Three Months ended June 30		Six months ended June 30	
(in thousands of Canadian dollars except per Unit amounts)	**2023**	2022	**2023**	2022
Net income (loss) per the REIT's Financial Statements	**($59,395)**	$112,457	**$35,407**	$1,082,448
Realty taxes in accordance with IFRIC 21	**(14,278)**	(15,433)	**27,903**	22,115
FFO adjustments from equity accounted investments	**12,311**	2,824	**17,244**	(28,504)
Exchangeable unit distributions	**2,696**	2,465	**5,392**	4,840
Fair value adjustments on financial instruments and real estate assets	**194,772**	(12,634)	**129,658**	(1,034,580)
Fair value adjustment to unit-based compensation	**(3,933)**	862	**(2,637)**	3,996
(Gain) loss on sale of real estate assets, net of related costs	**2,152**	(11,539)	**2,649**	(11,511)
Deferred income tax expense (recoveries) applicable to U.S. Holdco	**(41,225)**	10,500	**(25,847)**	139,350
Incremental leasing costs	**581**	617	**1,168**	1,234
The Bow and 100 Wynford non-cash rental income and accretion adjustments	**(9,567)**	(7,137)	**(18,931)**	(12,002)
FFO[(1)]	**$84,114**	$82,982	**$172,006**	$167,386
Straight-lining of contractual rent	**(4,266)**	362	**(7,890)**	168
Rent amortization of tenant inducements	**1,130**	1,160	**2,253**	2,320
Capital expenditures	**(7,907)**	(6,970)	**(17,139)**	(11,967)
Leasing expenses and tenant inducements	**(1,543)**	(623)	**(2,303)**	(2,464)
Incremental leasing costs	**(581)**	(617)	**(1,168)**	(1,234)
AFFO adjustments from equity accounted investments	**(1,320)**	(1,250)	**(2,460)**	(2,055)
AFFO[(1)]	**$69,627**	$75,044	**$143,299**	$152,154
Weighted average number of Units and exchangeable units (in thousands of Units)[(2)]	**283,384**	292,353	**283,637**	297,375
Diluted weighted average number of Units and exchangeable units (in thousands of Units)[(2)(3)]	**284,219**	293,199	**284,472**	298,221
FFO per basic Unit[(4)]	**$0.297**	$0.284	**$0.606**	$0.563
FFO per diluted Unit[(4)]	**$0.296**	$0.283	**$0.605**	$0.561
AFFO per basic Unit[(4)]	**$0.246**	$0.257	**$0.505**	$0.512
AFFO per diluted Unit[(4)]	**$0.245**	$0.256	**$0.504**	$0.510
Cash Distributions per Unit	**$0.150**	$0.135	**$0.300**	$0.265
Payout ratio as a % of FFO[(4)]	**50.5%**	47.5%	**49.5%**	47.1%
Payout ratio as a % of AFFO[(4)]	**61.0%**	52.5%	**59.4%**	51.8%

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

(2) For the three and six months ended June 30, 2023, included in the weighted average and diluted weighted average number of Units are exchangeable units of 17,974,186. For the three and six months ended June 30, 2022, included in the weighted average and diluted weighted average number of Units are exchangeable units of 18,279,546 and 18,170,475, respectively.

(3) For the three and six months ended June 30, 2023, included in the determination of diluted FFO and AFFO with respect to H&R's Incentive Unit Plan are 834,973 Units. For the three and six months ended June 30, 2022, included in the determination of diluted FFO and AFFO with respect to H&R's Incentive Unit Plan are 845,906 Units.

(4) These are non-GAAP ratios defined in the "Non-GAAP Measures" section of this news release.

For further information

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