H&R REIT Reports Strong Third Quarter 2023 Results

Toronto, Ontario, November 14, 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 nine months ended September 30, 2023.

Q3 2023 HIGHLIGHTS:

- Net operating income increased by 0.7% compared to Q3 2022. Property dispositions in the last 12 months totaled $443.0 million.

- Same-Property net operating income (cash basis)[1] increased by 12.6% compared to Q3 2022 driven by healthy gains across all our operating segments:

• Residential	+19.5%	Driven by strong rent growth and the strengthening of the U.S. dollar
• Industrial	+11.1%	Driven by strong rent growth and higher occupancy
• Office	+9.9%	Driven by lease termination payments, bad debt recovery and the strengthening of the U.S. dollar
• Retail	+8.8%	Driven by increase in occupancy at River Landing Miami and the strengthening of the U.S. dollar

- Funds From Operations ("FFO") per Unit[2] grew 39.1% to $0.42 per Unit compared to $0.30 per Unit for Q3 2022. The REIT distributed 35.7%[2] of FFO to Unitholders.

- Cash distributions per unit increased by 9.5% compared to Q3 2022.

- ($112.8) 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 at the REIT's proportionate share[1]:

	September 30, 2023
• Residential (sun belt)	4.75%
• Residential (other)	4.08%
• Industrial	5.28%
• Office (general)[3]	7.57%
• Office (rezoning)[3]	5.16%
• Retail	6.47%

- Office occupancy at September 30, 2023 was 98.0% and overall portfolio occupancy was 97.0%.

- Unitholders' equity per Unit was $20.62 and NAV per Unit[2] was $21.49 at September 30, 2023.

- Liquidity was in excess of $1 billion at September 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.
(3) Office (general) includes 14 properties expected to be sold as part of H&R's plan to sell office properties. Office (rezoning) includes 8 Canadian properties designated for future intensification.

"H&R's property performance remained strong across all our property classes with Same-Property net operating income on a cash basis growth of 12.6%," said Tom Hofstedter, Executive Chair and Chief Executive Officer. "Our capital structure continues to be conservative with low leverage and a low payout ratio. Given the line of sight we have into our current disposition pipeline we remain confident in our ability to achieve our disposition target of $600 million, sold or under contract, of non-core assets this year of which approximately $432 million has been sold to date."

FINANCIAL HIGHLIGHTS

	September 30	December 31
	2023	2022
Total assets (in thousands)	**$11,064,935**	$11,412,603
Debt to total assets per the REIT's Financial Statements(1)	**34.1%**	34.4%
Debt to total assets at the REIT's proportionate share(1)(2)	**43.9%**	44.0%
Debt to Adjusted EBITDA at the REIT's proportionate share(1)(2)(3)	**8.7**	9.6
Unitholders' equity (in thousands)	**$5,400,145**	$5,487,287
Units outstanding (in thousands)	**261,868**	265,885
Exchangeable units outstanding (in thousands)	**17,974**	17,974
Unitholders' equity per Unit	**$20.62**	$20.64
NAV per Unit(2)	**$21.49**	$21.80

	3 months ended September 30		9 months ended September 30	
	2023	2022	**2023**	2022
Rentals from investment properties (in millions)	**$210.4**	$213.7	**$641.2**	$617.8
Net operating income (in millions)	**$149.4**	$148.4	**$399.2**	$386.8
Same-Property net operating income (cash basis) (in millions)(4)	**$129.7**	$115.2	**$382.6**	$341.4
Net income (loss) from equity accounted investments (in millions)	**($11.0)**	($60.1)	**$0.1**	($6.3)
Fair value adjustment on real estate assets (in millions)	**($112.8)**	($235.2)	**($288.5)**	$770.6
Net income (loss) (in millions)	**$37.6**	($121.5)	**$73.0**	$961.0
FFO (in millions)(4)	**$117.7**	$85.9	**$289.7**	$253.3
Adjusted funds from operations ("AFFO") (in millions)(4)	**$101.2**	$72.7	**$244.5**	$224.9
Weighted average number of Units and exchangeable units for FFO (in 000's)	**280,205**	284,734	**282,480**	293,115
FFO per basic Unit(2)	**$0.420**	$0.302	**$1.026**	$0.864
AFFO per basic Unit(2)	**$0.361**	$0.255	**$0.866**	$0.767
Cash Distributions per Unit	**$0.150**	$0.137	**$0.450**	$0.402
Payout ratio as a % of FFO(2)	**35.7%**	45.4%	**43.9%**	46.5%
Payout ratio as a % of AFFO(2)	**41.6%**	53.7%	**52.0%**	52.4%

(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) Adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") is calculated by taking the sum of net operating income (excluding straight-lining of contractual rent, IFRIC 21, as well as the Bow and 100 Wynford non-cash rental adjustments) and finance income and subtracting trust expenses (excluding the fair value adjustment to unit-based compensation) for the last 12 months.
(4) These are non-GAAP measures. Refer to the *"Non-GAAP Measures"* section of this news release.

Included in net income, FFO and AFFO for the three and nine months ended September 30, 2023 is $30.6 million (U.S. $22.6 million) related to the proceeds on disposal of a purchase option. H&R had a mortgage receivable of approximately $37.2 million (U.S $27.6 million) which was repaid in August 2023. In addition, H&R sold its option to purchase the land. The combined proceeds from the mortgage receivable and the sale of the option amounted to $67.8 million (U.S. $50.2 million). As a result, H&R recorded $30.6 million (U.S. $22.6 million) as proceeds on disposal of purchase option.

SUMMARY OF SIGNIFICANT Q3 2023 ACTIVITY

2023 Net Operating Income Highlights:

(in thousands of Canadian dollars)	Three months ended September 30			Nine months ended September 30		
	2023	2022	% Change	**2023**	2022	% Change
Operating Segment:						
Same-Property net operating income (cash basis) - Residential[1]	**$38,836**	$32,492	19.5%	**$120,295**	$99,204	21.3%
Same-Property net operating income (cash basis) - Industrial[1]	**17,408**	15,663	11.1%	**51,936**	45,832	13.3%
Same-Property net operating income (cash basis) - Office[1]	**49,247**	44,793	9.9%	**140,124**	131,766	6.3%
Same-Property net operating income (cash basis) - Retail[1]	**24,244**	22,284	8.8%	**70,206**	64,596	8.7%
Same-Property net operating income (cash basis)[1]	**129,735**	115,232	12.6%	**382,561**	341,398	12.1%
Net operating income (cash basis) from Transactions at the REIT's proportionate share[1][2]	**32,491**	39,902	(18.6)%	**103,841**	118,825	(12.6)%
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[1][3]	**15,324**	12,056	27.1%	**(14,946)**	(12,600)	(18.6)%
Straight-lining of contractual rent at the REIT's proportionate share[1]	**1,406**	3,388	(58.5)%	**9,477**	3,302	187.0%
Net operating income from equity accounted investments[1]	**(29,540)**	(22,211)	(33.0)%	**(81,689)**	(64,088)	(27.5)%
Net operating income per the REIT's Financial Statements	**$149,416**	$148,367	0.7%	**$399,244**	$386,837	3.2%

(1) These are non-GAAP measures. Refer to the *"Non-GAAP Measures"* section of this news release.
(2) Transactions includes acquisitions, dispositions, and transfers of investment properties to or from properties under development during the 21-month period ended September 30, 2023.
(3) IFRIC 21 is defined in the "Non-GAAP Measures" section of this news release.

Transaction Highlights

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 received $67.0 million on closing and provided two vendor take-back mortgages ("VTB") to the purchaser: (i) $30.0 million which is subordinate to the first mortgage on the property, bearing interest at 4.5% per annum, maturing April 20, 2028 and (i) $180.0 million secured by a first mortgage on the property, bearing interest at 6.5% per annum, which was repaid in Q3 2023. The VTB proceeds of $180.0 million were used to repay debt, including a $125.0 million unsecured term loan, originally scheduled to mature on November 30, 2024.

In July 2023, H&R sold four single tenanted retail properties in Québec totalling 476,802 square feet for $68.0 million. These properties were classified as held for sale at June 30, 2023. The proceeds were used to repay debt and repurchase Units under the REIT's normal course issuer bid ("NCIB").

In August 2023, H&R sold a 85,725 square foot single tenanted office property in Temple Terrace, FL for U.S. $13.3 million. The property was classified as held for sale as at June 30, 2023. The tenant's lease expired on June 30, 2023 and the property was vacant at closing.

In August 2023, H&R sold a 13,510 square foot automotive-tenanted retail property in Roswell, GA for approximately U.S. $3.6 million. The property was 37.5% occupied as at June 30, 2023 and at closing.

2023 non-core property sales to date total $431.7 million.

Leasing Highlights:

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 received 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, non-cash adjustments to straight-lining of contractual rent of nil, $0.8 million, and ($1.8) million were recorded in Q1 2023, Q2 2023, and Q3 2023, respectively. In addition, $0.8 million will be recorded in Q4 2023. Refer to the "Future Intensification" section below for further details regarding H&R's plans to rezone this property from office to industrial use.

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 $14.1 million for the remainder of 2023 and $4.4 million in 2024. In February 2023, H&R entered into a lease agreement 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. In March 2023, H&R entered into a lease agreement 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. $110.0 million. The REIT expects its construction costs for these two properties under development to be approximately U.S. $27.9 million for the remainder of 2023 and U.S. $82.1 million in 2024.

Future Intensification

H&R is addressing comments for 53 and 55 Yonge Street received from the City of Toronto in September 2023 on the re-submission made to clear conditions that were set by the Ontario Land Tribunal. H&R expects to have rezoning approval in place by Q1 2024 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.

In July 2023, the final report recommending approval of the rezoning application for 310 Front Street was adopted by Toronto City Council. The statutory appeal period for the passing of the zoning by-law was completed in August 2023, and the rezoning came into force and became binding. The rezoning 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.

In October 2023, H&R submitted a Site Plan Approval application 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. Demolition is expected to commence in Q4 2023 and Site Plan approval is expected by Q1 2024.

Normal Course Issuer Bid

During the three months ended September 30, 2023, the REIT purchased and cancelled 1,304,900 Units at a weighted average price of $10.38 per Unit, for a total cost of $13.6 million, representing an approximate 51.7% discount to NAV per Unit (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this news release). During the nine months ended September 30, 2023, the REIT purchased and cancelled 4,147,200 Units at a weighted average price of $10.30 per Unit, for a total cost of $42.7 million, representing an approximate 52.1% discount to NAV per Unit (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this news release).

2023 Distributions

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 nine months ended September 30, 2023, H&R's payout ratio as a percentage of AFFO (a non-GAAP ratio, refer to the *"Non-GAAP Measures"* section of this news release) was 41.6% and 52.0%, respectively.

Debt & Liquidity Highlights

Unsecured Term Loans
In August 2023, H&R secured a one-year extension on a $250.0 million unsecured term loan which will now mature March 7, 2025.

In August 2023, H&R repaid a $125.0 million unsecured term loan, originally scheduled to mature on November 30, 2024.

Lines of Credit
In August 2023, H&R secured a one-year extension on its $150.0 million revolving unsecured line of credit which will now mature on September 20, 2024.

In September 2023, H&R secured a one-year extension on its $750.0 million revolving unsecured line of credit which will now mature on December 14, 2027.

As at September 30, 2023, debt to total assets per the REIT's Financial Statements was 34.1% compared to 34.4% as at December 31, 2022. As at September 30, 2023, debt to total assets at the REIT's proportionate share (a non-GAAP ratio, refer to the "Non-GAAP Measures" section of this news release) was 43.9% compared to 44.0% as at December 31, 2022.

As at September 30, 2023, H&R had cash and cash equivalents of $145.9 million, $918.4 million available under its unused lines of credit and an unencumbered property pool of approximately $4.1 billion.

MONTHLY DISTRIBUTION DECLARED

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

	Distribution/Unit	Annualized	Record date	Distribution date
November 2023	$0.05	$0.60	November 30, 2023	December 15, 2023

CONFERENCE CALL AND WEBCAST

Management will host a conference call to discuss the financial results of the REIT on Wednesday, November 15, 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 444964 followed by the "#" key. The telephone replay will be available until Wednesday, November 22, 2023 at midnight.

A live audio webcast will be available through 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 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 September 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 27.1 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 Q3 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 $170 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 November 14, 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 nine months ended September 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, debt to Adjusted EBITDA at the REIT's proportionate share, debt to Adjusted EBITDA 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 nine months ended September 30, 2023 available at www.hr-reit.com and on the REIT's profile on SEDAR at www.sedarplus.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):

	September 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	**$8,375,212**	**$2,075,088**	**$10,450,300**	$8,799,317	$2,128,306	$10,927,623
Properties under development	**1,066,863**	**126,621**	**1,193,484**	880,778	89,912	970,690
	9,442,075	**2,201,709**	**11,643,784**	9,680,095	2,218,218	11,898,313
Equity accounted investments	**1,055,883**	**(1,055,883)**	**—**	1,060,268	(1,060,268)	—
Assets classified as held for sale	**43,656**	**—**	**43,656**	294,028	—	294,028
Other assets	**377,450**	**22,278**	**399,728**	301,325	21,892	323,217
Cash and cash equivalents	**145,871**	**33,656**	**179,527**	76,887	38,443	115,330
	$11,064,935	**$1,201,760**	**$12,266,695**	$11,412,603	$1,218,285	$12,630,888
Liabilities and Unitholders’ Equity						
Liabilities						
Debt	**$3,775,649**	**$1,126,243**	**$4,901,892**	$3,922,529	$1,137,210	$5,059,739
Exchangeable units	**165,902**	**—**	**165,902**	217,668	—	217,668
Deferred Revenue	**957,551**	**—**	**957,551**	986,243	—	986,243
Deferred tax liability	**446,860**	**—**	**446,860**	483,048	—	483,048
Accounts payable and accrued liabilities	**318,828**	**59,540**	**378,368**	309,505	58,502	368,007
Liabilities classified as held for sale	**—**	**—**	**—**	6,323	—	6,323
Non-controlling interest	**—**	**15,977**	**15,977**	—	22,573	22,573
	5,664,790	**1,201,760**	**6,866,550**	5,925,316	1,218,285	7,143,601
Unitholders’ equity	**5,400,145**	**—**	**5,400,145**	5,487,287	—	5,487,287
	$11,064,935	**$1,201,760**	**$12,266,695**	$11,412,603	$1,218,285	$12,630,888

Debt to Adjusted EBITDA at the REIT’s Proportionate Share

The following table provides a reconciliation of Debt to Adjusted EBITDA at the REIT’s proportionate share (a non-GAAP ratio):

	September 30 2023	December 31 2022
Debt per the REIT's Financial Statements	**$3,775,649**	$3,928,852
Debt - REIT's proportionate share of equity accounted investments	1,126,243	1,137,210
Debt at the REIT's proportionate share	**4,901,892**	5,066,062
(Figures below are for the trailing 12 months)		
Net income (loss) per the REIT's Financial Statements	**(43,126)**	844,823
Net income from equity accounted investments (within equity accounted investments)	(1,152)	(1,132)
Finance costs - operations	267,716	260,288
Fair value adjustments on financial instruments and real estate assets	471,286	(582,538)
(Gain) loss on sale of real estate assets	11,211	(7,493)
Income tax (recovery) expense	(38,057)	101,634
Non-controlling interest	771	967
Adjustments:		
The Bow and 100 Wynford non-cash rental income adjustments	(92,717)	(86,555)
Straight-lining of contractual rent	(13,065)	(6,890)
IFRIC 21 - realty tax adjustment	2,346	—
Fair value adjustment to unit-based compensation	813	2,172
Adjusted EBITDA at the REIT's proportionate share	**$566,026**	$525,276
Debt to Adjusted EBITDA at the REIT's proportionate share	**8.7**	9.6

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 September 30, 2023			Three months ended September 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	**$210,446**	**$37,923**	**$248,369**	$213,709	$31,680	$245,389
Property operating costs	**(61,030)**	**(8,383)**	**(69,413)**	(65,342)	(9,469)	(74,811)
Net operating income	**149,416**	**29,540**	**178,956**	148,367	22,211	170,578
Net income (loss) from equity accounted investments	**(11,017)**	**11,051**	**34**	(60,071)	60,292	221
Finance costs - operations	**(54,107)**	**(12,338)**	**(66,445)**	(55,366)	(10,185)	(65,551)
Finance income	**4,068**	**78**	**4,146**	4,410	20	4,430
Proceeds on disposal of purchase option	**30,568**	**—**	**30,568**	—	—	—
Trust (expenses) recoveries	**(2,872)**	**(1,290)**	**(4,162)**	2,633	(638)	1,995
Fair value adjustment on financial instruments	**28,126**	**408**	**28,534**	39,756	460	40,216
Fair value adjustment on real estate assets	**(112,824)**	**(27,109)**	**(139,933)**	(235,192)	(71,976)	(307,168)
Gain (loss) on sale of real estate assets, net of related costs	**(3,479)**	**(141)**	**(3,620)**	(857)	38	(819)
Net income (loss) before income taxes and non-controlling interest	**27,879**	**199**	**28,078**	(156,320)	222	(156,098)
Income tax (expense) recovery	**9,717**	**(6)**	**9,711**	34,824	(13)	34,811
Net income (loss) before non-controlling interest	**37,596**	**193**	**37,789**	(121,496)	209	(121,287)
Non-controlling interest	**—**	**(193)**	**(193)**	—	(209)	(209)
Net income (loss)	**37,596**	**—**	**37,596**	(121,496)	—	(121,496)
Other comprehensive income:						
Items that are or may be reclassified subsequently to net income (loss)	**129,027**	**—**	**129,027**	294,423	—	294,423
Total comprehensive income attributable to unitholders	**$166,623**	**$—**	**$166,623**	$172,927	$—	$172,927

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):

	Nine months ended September 30, 2023			Nine months ended September 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	**$641,242**	**$112,265**	**$753,507**	$617,805	$92,841	$710,646
Property operating costs	**(241,998)**	**(30,576)**	**(272,574)**	(230,968)	(28,753)	(259,721)
Net operating income	**399,244**	**81,689**	**480,933**	386,837	64,088	450,925
Net income (loss) from equity accounted investments	**139**	**259**	**398**	(6,334)	6,712	378
Finance costs - operations	**(164,022)**	**(36,333)**	**(200,355)**	(164,637)	(28,290)	(192,927)
Finance income	**10,524**	**238**	**10,762**	11,589	28	11,617
Proceeds on disposal of purchase option	**30,568**	**—**	**30,568**	—	—	—
Trust expenses	**(17,331)**	**(3,541)**	**(20,872)**	(11,109)	(2,142)	(13,251)
Fair value adjustment on financial instruments	**74,161**	**329**	**74,490**	68,583	2,429	71,012
Fair value adjustment on real estate assets	**(288,517)**	**(40,376)**	**(328,893)**	770,561	(42,152)	728,409
Gain (loss) on sale of real estate assets, net of related costs	**(6,128)**	**(1,672)**	**(7,800)**	10,654	250	10,904
Net income before income taxes and non-controlling interest	**38,638**	**593**	**39,231**	1,066,144	923	1,067,067
Income tax (expense) recovery	**34,365**	**(45)**	**34,320**	(105,192)	(179)	(105,371)
Net income before non-controlling interest	**73,003**	**548**	**73,551**	960,952	744	961,696
Non-controlling interest	**—**	**(548)**	**(548)**	—	(744)	(744)
Net income	**73,003**	**—**	**73,003**	960,952	—	960,952
Other comprehensive income (loss):						
Items that are or may be reclassified subsequently to net income	**(212)**	**—**	**(212)**	393,445	—	393,445
Total comprehensive income attributable to unitholders	**$72,791**	**$—**	**$72,791**	$1,354,397	$—	$1,354,397

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 September 30			Nine months ended September 30		
(in thousands of Canadian dollars)	**2023**	2022	Change	**2023**	2022	Change
Rentals from investment properties	**$210,446**	$213,709	($3,263)	**$641,242**	$617,805	$23,437
Property operating costs	**(61,030)**	(65,342)	4,312	**(241,998)**	(230,968)	(11,030)
Net operating income per the REIT's Financial Statements	**149,416**	148,367	1,049	**399,244**	386,837	12,407
Adjusted for:						
Net operating income from equity accounted investments[1]	**29,540**	22,211	7,329	**81,689**	64,088	17,601
Straight-lining of contractual rent at the REIT's proportionate share[1]	**(1,406)**	(3,388)	1,982	**(9,477)**	(3,302)	(6,175)
Realty taxes in accordance with IFRIC 21 at the REIT's proportionate share[1]	**(15,324)**	(12,056)	(3,268)	**14,946**	12,600	2,346
Net operating income (cash basis) from Transactions at the REIT's proportionate share[1]	**(32,491)**	(39,902)	7,411	**(103,841)**	(118,825)	14,984
Same-Property net operating income (cash basis)[1]	**$129,735**	$115,232	$14,503	**$382,561**	$341,398	$41,163

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

NAV per Unit (a non-GAAP Ratio)

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

Unitholders' Equity per Unit and NAV per Unit	**September 30**	December 31
(in thousands except for per Unit amounts)	**2023**	2022
Unitholders' equity	**$5,400,145**	$5,487,287
Exchangeable units	**165,902**	217,668
Deferred tax liability	**446,860**	483,048
Total	**$6,012,907**	$6,188,003
Units outstanding	**261,868**	265,885
Exchangeable units outstanding	**17,974**	17,974
Total	**279,842**	283,859
Unitholders' equity per Unit[1]	**$20.62**	$20.64
NAV per Unit	**$21.49**	$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 September 30		Nine months ended September 30	
(in thousands of Canadian dollars except per Unit amounts)	**2023**	2022	**2023**	2022
Net income (loss) per the REIT's Financial Statements	**$37,596**	($121,496)	**$73,003**	$960,952
Realty taxes in accordance with IFRIC 21	**(14,141)**	(10,831)	**13,762**	11,284
FFO adjustments from equity accounted investments	**25,659**	70,253	**42,903**	41,749
Exchangeable unit distributions	**2,696**	2,484	**8,088**	7,324
Fair value adjustments on financial instruments and real estate assets	**84,698**	195,436	**214,356**	(839,144)
Fair value adjustment to unit-based compensation	**(3,026)**	(8,300)	**(5,663)**	(4,304)
(Gain) loss on sale of real estate assets, net of related costs	**3,479**	857	**6,128**	(10,654)
Deferred income tax expense (recoveries) applicable to U.S. Holdco	**(10,075)**	(35,146)	**(35,922)**	104,204
Incremental leasing costs	**570**	607	**1,738**	1,841
The Bow and 100 Wynford non-cash rental income and accretion adjustments	**(9,761)**	(7,941)	**(28,692)**	(19,943)
FFO[(1)]	**$117,695**	$85,923	**$289,701**	$253,309
Straight-lining of contractual rent	**(1,061)**	(3,400)	**(8,951)**	(3,232)
Rent amortization of tenant inducements	**1,131**	1,162	**3,384**	3,482
Capital expenditures	**(13,148)**	(7,884)	**(30,287)**	(19,851)
Leasing expenses and tenant inducements	**(1,464)**	(1,178)	**(3,767)**	(3,642)
Incremental leasing costs	**(570)**	(607)	**(1,738)**	(1,841)
AFFO adjustments from equity accounted investments	**(1,388)**	(1,317)	**(3,848)**	(3,372)
AFFO[(1)]	**$101,195**	$72,699	**$244,494**	$224,853
Weighted average number of Units and exchangeable units (in thousands of Units)[(2)]	**280,205**	284,734	**282,480**	293,115
Diluted weighted average number of Units and exchangeable units (in thousands of Units)[(2)(3)]	**281,143**	285,751	**283,418**	294,132
FFO per basic Unit[(4)]	**$0.420**	$0.302	**$1.026**	$0.864
FFO per diluted Unit[(4)]	**$0.419**	$0.301	**$1.022**	$0.861
AFFO per basic Unit[(4)]	**$0.361**	$0.255	**$0.866**	$0.767
AFFO per diluted Unit[(4)]	**$0.360**	$0.254	**$0.863**	$0.764
Cash Distributions per Unit	**$0.150**	$0.137	**$0.450**	$0.402
Payout ratio as a % of FFO[(4)]	**35.7%**	45.4%	**43.9%**	46.5%
Payout ratio as a % of AFFO[(4)]	**41.6%**	53.7%	**52.0%**	52.4%

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

(2) For the three and nine months ended September 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 nine months ended September 30, 2022, included in the weighted average and diluted weighted average number of Units are exchangeable units of 18,130,185 and 18,156,897, respectively.

(3) For the three and nine months ended September 30, 2023, included in the determination of diluted FFO and AFFO with respect to H&R's Incentive Unit Plan are 938,095 Units. For the three and nine months ended September 30, 2022, included in the determination of diluted FFO and AFFO with respect to H&R's Incentive Unit Plan are 1,016,994 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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