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Matt Kornack, Analyst, National Bank Financial

Jimmy Shan, Analyst, RBC Capital Markets

Sumayya Syed, Analyst, CIBC World Markets

PRESENTATION

Operator

Good morning and welcome to H&R Real Estate Investment Trust 2024 Fourth Quarter Earnings Conference Call. Before beginning the call, H&R would like to remind listeners that certain statements, which may include predictions, conclusions, forecasts or projections, and the remarks that follow may contain forward-looking information, which reflect the current expectations of management regarding future events and performance and speak only as of today's date. Forward-looking information requires management to make assumptions or rely on certain material factors and is subject to inherent risks and uncertainties and actual results could differ materially from the statements in the forward-looking information.

In discussing H&R's financial and operating performance and in responding to your questions, we may reference certain financial measures which do not have a meaning recognized or standardized under IFRS or Canadian generally accepted accounting principles and are therefore unlikely to be comparable to similar measures presented by other reporting issuers. Non-GAAP measures should not be considered as alternatives to net income or comparable metrics determined in accordance with IFRS as indicators of H&R's performance, liquidity, cash flows and profitability. H&R's management uses these measures to aid in assessing the REIT's underlying performance

and provides these additional measures so that investors can do the same. Additional information about the material factors, assumptions, risks, and uncertainties that could cause actual results to differ materially from the statements in the forward-looking information and the material factors or assumptions that may have been applied in making such statements, together with details on H&R's use of non-GAAP financial measures, are described in more detail in H&R's public filings, which can be found on H&R's website and www.sedarplus.com.

I would now like to introduce Mr. Tom Hofstedter, Chief Executive Officer of H&R REIT. Please go ahead, Mr. Hofstedter.

Tom Hofstedter, Chief Executive Officer, H&R REIT

Good morning, everybody. Thanks for joining us. We have with us Larry Froom, CFO of H&R, and Emily Watson, President of Lantower. I'll hand it over to Larry to bring you up to date.

Larry Froom, Chief Financial Officer, H&R REIT

Thank you, Tom, and good morning, everyone. In my comments to follow, references to growth and increases in operating results, unless stated otherwise, are in reference to the 12 months ended December 31, 2024, compared to the 12 months ended December 31, 2023.

We continued to execute on the strategic repositioning plan. In 2023, we sold $432.9 million of income-producing properties and in 2024, we sold $429 million of real estate assets. On January 6, 2025, we sold a further $49.8 million. 70% of our real estate assets by value is now in the United States.

Overall, given the headwinds we faced at the end of last year with multifamily supply concerns, a weak office market, inflation and rising interest rates, we are very pleased with our results.

Breaking down the results between our segments, our office segment same-property net operating income on a cash basis decreased by 2.8%.

There has been a slate of back-to-the-office policies from different companies and it seems clear that more and more employees are heading back to the office, which is positive for the sector as a whole. Our office portfolio of 16 properties (which includes four properties with residential rezoning opportunities) now only comprises 18% of

H&R's total portfolio. 87.6% of our office revenue comes from investment-grade tenants - a testament to the quality and location of our office properties. Our office occupancy at December 31, 2024 was 96.8% with an average remaining lease term of six years so the portfolio will continue to provide solid cash flow.

Our three downtown Toronto office properties with residential rezoning opportunities are valued at $140 per square foot, which is less than half the value they were at the peak of the market and the rest of the portfolio has a weighted average cap rate of 7.76%.

Residential segment same-property net operating income on a cash basis increased by 0.5% in US dollars. The new supply added to our residential markets has been absorbed. The positive immigration trends have continued, and our tenants are also staying longer. Since the announcement of H&R's strategic plan, H&R's average U.S. residential rents increased from $21.16 per square foot as of June 30, 2021 to $26.84 per square foot at the end of the year December 31, 2024 in U.S. dollars.

Our residential portfolio at December 31, 2024 comprised 49% of H&R's overall portfolio. Lantower West Love in Dallas was substantially complete and transferred from a property under development to an investment property in Q3 of 2024. Lantower Midtown, also in Dallas, was transferred to investment properties in Q4 2024 and has become our 26th residential investment property. We have an additional two residential developments currently under construction which are expected to be completed in 2026. H&R's ownership interest in these two new developments is 29.1%.

Our retail portfolio at December 31, 2024 comprises 15% of H&R's overall portfolio. Retail segment same-property net operating income increased 5% due to occupancy gains at River Landing and foreign exchange. The tenants in our retail portfolio are predominantly grocers and the portfolio has been very stable.

Our largest retail tenant is Giant Eagle, who has 193 locations in our portfolio. Giant Eagle recently announced that they are selling the Get Go convenience stores and leases to Couche-Tard, which we're expecting to close in Q2. This will further diversify our tenant mix with Couche-Tard.

This will further diversify our tenant mix with Couche-Tard comprising about 1.7% of our revenue. Giant Eagle will then comprise about 3.9% of our revenue.

Industrial segment same-property net operating income on a cash basis increased 6.3%. Our industrial portfolio of 65 properties at December 31, 2024 comprises 18% of H&R's total real estate assets and continues to perform well. Since the announcement of H&R's strategic plan, H&R's average Canadian industrial rents increased from $7.17 per square foot as at June 30, 2021 to $9.66 per square foot as at December 31, 2024. In addition, industrial properties located in the GTA made up 59% of H&R's portfolio at June 30, 2021 compared to 70% of H&R's industrial portfolio as at December 31, 2024. We continue to grow our industrial portfolio and added two newly constructed properties at the beginning of 2024. We currently have one industrial property and a 50% interest in two industrial properties under construction scheduled to be completed later this year.

Headline FFO per unit for Q4 2024 was $29.8 cents compared to $29.9 cents in Q4 2024.

Our balance sheet remains strong. Debt to total assets at the REIT's proportionate share at December 31, 2024 was 43.7% and debt to EBITDA was a healthy 9.4x. Liquidity at December 31, 2024 was in excess of $900 million with an unencumbered property pool of approximately $4.4 billion. Our unencumbered asset to unsecured debt coverage ratio was 2.3x at December 31, 2024.

And with that, I will now turn the call over to Emily.

Emily Watson, Chief Operating Officer, Lantower Residential

Thanks, Larry, and good morning, everyone. I'm happy to discuss our fourth quarter and 2024 performance for our multifamily platform and some operational highlights.

Our 2024 results aligned with our expectations. The United States had an incredible fourth quarter with over 230,000 units being absorbed, further demonstrating the strengthening drivers for our industry. Our multifamily platform continues to benefit from that strong demand, as evidenced by retention of 59% in the fourth quarter. We remain focused on the fundamentals of our business and creating NOI expansion through our repositioning opportunities, development pipeline, and other innovative value-add strategies that add to our bottom line. Given the declining levels of new supply ahead and growing demand in our markets, we are well positioned for substantial growth and value creation in the coming years.

Same-property net operating income for residential properties in US dollars increased by 1.4% and 50 basis points, respectively, for the three months and year ending December 31, 2024 compared to our respective 2023 periods, primarily due to rental growth and lower property operating costs from our gateway city properties. Same-asset occupancy ended the quarter at 95%, a 90 basis points increase over the third quarter and a 70 basis points increase from Q4 of 2023.

Same-asset occupancy in the sunbelt increased 100 basis points in Q4 to 94.4 over the third quarter. Jackson Park was 99.3% occupied with 72% retention. The sunbelt continues to show strong demand metrics moving into 2025. sunbelt move-outs due to home purchases continued to slow to a historical low of 7.7% of total move-outs in the fourth quarter and there continues to be approximately 59% discount to rent versus own in our markets. Blended trade-outs for the sunbelt markets were negative 5.9% in the fourth quarter, ranging from approximately negative 9% in Austin to negative 2% in Dallas, which coincides with levels of direct supply pressure. Based on a recent third-party appraisal and a handful of sunbelt sales comps, we have maintained our fair market value sunbelt cap rates at 4.97% and believe the rate is appropriate and supported. Cap rates are expected to remain low, relatively speaking, for the institutional quality assets in the sunbelt with capital flows interested and focused on long-term heavy sunbelt multifamily allocation.

On the development front, Lantower West Love in Dallas, Texas continues to lease well despite the record level deliveries in Dallas. The community is currently 54% occupied and 58% leased. The property was completed on time and on budget. Also in Dallas, Texas, Lantower Midtown is currently 36% occupied and 46% leased. Both properties are leasing well with an average monthly velocity of 25 leases per month, which is above industry reports for our market and a testament to the superior product and unparalleled amenities our development team has delivered. Midtown was also completed on time and on budget. Our REDT properties are progressing well and also remain on budget with completion expected in mid-2026. Lantower currently has an additional nine development projects in the sunbelt pipeline totaling over 2,900 suites at H&R's ownership interest with multiple sites ready and prepared for construction. We are progressing through the different phases of design, drawing, and permitting on the remainder of our sunbelt development pipeline and currently have two projects shovel ready.

In summary, the multifamily platform continues to achieve encouraging results and strong performance relative to our multifamily counterparts. I believe this is a result of engaged associates taking care of our customer. In

the fourth quarter, Lantower Residential received Best Places to Work in Texas and Best Places to Work for Women by the Best Companies Group. The Lantower team is engaged and charging into 2025 ready to drive continued performance.

And with that, I pass along the conversation back to Tom.

Tom Hofstedter, Chief Executive Officer, H&R REIT

Thank you, Emily. Operator, you can open up the call for questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press star followed by the two. And if you are using a speakerphone, please lift the handset before pressing any keys.

The first question comes from Matt Kornack at National Bank Financial. Please go ahead.

Matt Kornack, Analyst, National Bank Financial

Hey, guys. Just quickly, Larry, I think in some of the disclosure you mentioned that you have, I think, a true-up in property taxes in the US portfolio. Can you give us a sense as to how that would have impacted the quarter? And is that in same property numbers?

Larry Froom, Chief Financial Officer, H&R REIT

Good morning, Matt. Yes, it is in same property. The effect was $1.9 million in savings in property taxes for the quarter. But, in Q4 2023 we had about $1 million adjustment. So, in effect, if you kind of do a percentage increase, back out $1 million from 2023 and back out $1.9 million from 2024.

Matt Kornack, Analyst, National Bank Financial

And as a broader statement, like the margins that you have, I guess, for this year for the full year, is that kind of representative of where you see things at this point? And then maybe extending that on just the cadence of how you look at the revival of the US multifamily space, if you could give us a sense, and this is probably Emily, how you foresee kind of the trough and then improvement thereafter, because I think the supply side gets better, at least maybe towards the end of this year. Thanks.

Larry Froom, Chief Financial Officer, H&R REIT

Emily, do you want to take that one?

Emily Watson, Chief Operating Officer, Lantower Residential

Sure. Hi, Matt. Good morning. I am pleased actually with the fact. We are still seeing NOI expansion despite the supply headwinds and January was really off to a great start. Just for comparison, we had negative 5.9 in the sunbelt for our lease spreads and in January that dropped to a negative 1.7%. So, now don't get me wrong, we still have a lot of deliveries that are going to be hitting us in Q1 and Q2, but really drop off dramatically. So in 2024 we had 120,000 in our markets deliver and in 2025 we have 69,000. So, it's front loaded, so Q1 and Q2 are still going to be a little bit choppy, but we do expect Q3 and Q4 to rebound pretty nicely, and then, of course, you know the story in 2026, so those deliveries are very minimal. So, we think that 2026, as we have kind of forecasted, 2026 is going to be a banner year, but 2025 is going to be front loaded and then level out in Q3 and Q4.

Matt Kornack, Analyst, National Bank Financial

Okay. I appreciate that colour. On the industrial portfolio, I mean the growth is low but I think it's just a function of you don't have any leases maturing, essentially. 2027 looks like it's a bigger year for maturities. Is that when we should kind of expect an acceleration on the organic growth front for the industrial portfolio?

Larry Froom, Chief Financial Officer, H&R REIT

Hey, Matt. our industrial portfolio's average rent is $9.66. Current rents are around $14, $15 on our renewals. So, as the expiries come up, that's what you should expect. The more expiries, the bigger growth.

Matt Kornack, Analyst, National Bank Financial

Lastly, transactions-wise, obviously we're living through a period of a bit of uncertainty, but can you give us a sense, maybe, Tom, in terms of where institutional capital is moving or not moving at this point?

Tom Hofstedter, Chief Executive Officer, H&R REIT

Oh, I can't really say that the markets change one quarter over the next quarter. Institutional capital is, I guess, trending in the sectors we've been seeing for the past many, many quarters. Institutional capital is not going into office at all. Institutional capital is not excited about a whole lot. They have to go ahead and spend their money somewhere, so they're really focusing on industrial, which is weakening, a little on the weak side, and residential for the most part. In retail they're, I would say, on the sidelines. Nothing new, nothing that you don't know. [Inaudible] has been a blood bath. And so, there's an awful lot of money that has to play in a lot of sectors. They're not playing multi-res as far as land values go, no one's touching that right now. It's a very, very difficult market with very few trades and comps. Not a whole lot going on. The reason there's few trades is the spread between ask and bid is too wide.

Matt Kornack, Analyst, National Bank Financial

Fair enough. No, that's as expected. Hopefully things get better, but it is what it is.

Tom Hofstedter, Chief Executive Officer, H&R REIT

Yeah. Lower interest rates will definitely help.

Matt Kornack, Analyst, National Bank Financial

Yep. That's it for me. Thanks.

Operator

Thank you. The next question comes from Jimmy Shan at RBC Capital Markets. Please go ahead.

Jimmy Shan, Analyst, RBC Capital Markets

Just to follow up on that question, so last year the transaction market was no better than it is now, but you did achieve $400 million in asset sales. So maybe can you talk a little bit about what you're working on in terms of asset sales and what are you targeting in terms of amount and what do you think is realistically [inaudible] that you can achieve?

Tom Hofstedter, Chief Executive Officer, H&R REIT

So, to put an asset office building on the market, there's not going to be a bid. To put multi-res land, there's not going to be a bid. The rest of the stuff that you could sell, which is retail, for example, or industrial, it's predicated on interest rates, so the same thing we answered last quarter. There's no point in selling when interest rates are high when the values are just really where they are because of interest rates. So, we're focused on, hopefully by the end of this year, liquidating potentially our ECHO position, our Gowanus position, and my expectation is by the end of the year we shall probably have done a deal on our Caledon lands for the 413 highway. So that's an awful lot of money, that could come in. It's really not market driven. It's market conditions. The Gowanus market is very strong. I think the ECO market is, again, they're looking for chunky institutional dollars to spend and retail is very safe in our particular case. Giant Eagle will have zero debt upon completion of the Couche-Tard deal. So those are three realistic deals that could potentially be done by the end of this year. I don't expect a whole lot of other transactions in the office/we're not selling industrial, and retail, as I said, we're going to wait until interest rates come down.

Jimmy Shan, Analyst, RBC Capital Markets

On either of those three, which one is more advanced in terms of asset sales?

Tom Hofstedter, Chief Executive Officer, H&R REIT

The Caledon lands is not advanced. That's a discussion. And that's in the government's hands as far as timing goes and how fast they want to expedite and it has a lot to do with the politics of the provincial election. So I

would say that they seem engaged and I think that is realistic to say by the end of this year. And I can say for the other two, ECHO seems to have a good likelihood as well. I couldn't say one more or less. And Gowanus it's just a potential of cleaning up some environmental issues, not ours, but within the city, and there would be a demand for that product. Again, all three are very realistic, but they won't happen probably until Q4.

Jimmy Shan, Analyst, RBC Capital Markets

Okay. And then on the Hess, the 280,000 square feet that are planning to vacate, I know you've leased a good chunk of it. How would the rent compare with the expiring rent and then what is the expectation for the rest of the space?

Tom Hofstedter, Chief Executive Officer, H&R REIT

So, it's way off. The market in Houston, like everywhere else, is very, very low. It's really a question of net effective rent, not face rent, and if you're not doing a whole lot of TIs, which we don't plan on doing because the space is in good condition. In addition, we want to bring down the average rent because we want to bring out the average price per pound of the value of the building. You can expect a substantial deterioration in the rent, net rent. In the net effective rent, rather.

Jimmy Shan, Analyst, RBC Capital Markets

Like a half?

Tom Hofstedter, Chief Executive Officer, H&R REIT

No. On a net effective basis I would say it's single digit.

Jimmy Shan, Analyst, RBC Capital Markets

Okay. Okay. And what about the rest of the remaining 200-some-odd square feet?

Tom Hofstedter, Chief Executive Officer, H&R REIT

Well, it's not 200, there's 285 in total, and around 110 is going to be the one that's done. We're negotiating with a substantial amount of the balance of that space in line with those single-digit net effectives and my guess is that they'll all be leased up by 2026.

Jimmy Shan, Analyst, RBC Capital Markets

Okay. And can you remind me, with that space, was it their decision to vacate before the Chevron announcement or is this something that came up after the acquisition? That space that's maturing, were they planning to vacate that space even before the Chevron announcement?

Tom Hofstedter, Chief Executive Officer, H&R REIT

They vacated that space already. The one third of the building that's expiring in 2026 is not occupied by Hess. It's leased by Hess, but it's been sublet by Hess to other tenants.

Jimmy Shan, Analyst, RBC Capital Markets

Oh, I see. When did they vacate? Was it quite a while back?

Tom Hofstedter, Chief Executive Officer, H&R REIT

Three years ago? Something like that.

Jimmy Shan, Analyst, RBC Capital Markets

Got it. Okay. Okay. Sorry, one last, ah, on Lantower, so I guess some of your peers are saying that the blended lease spreads may be turning positive in the second half of 2025. Based on your comment, it sounds like that will be Q2 with respect to your portfolio on the sunbelt.

Emily Watson, Chief Operating Officer, Lantower Residential

Yeah, I can definitely see that. Just the momentum that we have coming into 2025 when we still have 70,000 units that are delivering, I'm optimistic for Q3 and Q4 to be in the positive range.

Jimmy Shan, Analyst, RBC Capital Markets

Okay. Thank you.

Operator

Thank you. And the next question comes from Sumayya Syed at CIBC. Please go ahead.

Sumayya Syed, Analyst, CIBC World Markets

Thanks. Good morning. Just following up on the Lantower discussion, Emily, just wondering how concessions in your markets have trended and if you're seeing those come down over time at all.

Emily Watson, Chief Operating Officer, Lantower Residential

They've been pretty consistent from Q3 to Q4. We're seeing more than we did, obviously, when we didn't have headwinds. So, I think eventually, in the second half, they'll come down as well. But Q3 we were around 35% of our leases that had concessions in an average of 30 days and that really ranges from a week to five weeks in Austin, as you can probably assume. And then in Q4 that crept up more seasonality on the number of leases of concessions, a percentage of the leases at 63% of our leases had concessions and came down to about 27 days. And then Q1 is, again, off to a good start, back to about 45% is what we saw in the month of January. So seasonality played a part of it. Obviously, the deliveries will play a part of it. So I don't expect us to be using concessions similar to what we were doing our strategy before in the second half of the year as well. So I think our lease trade-outs will improve as well as the use of concessions will come back down to pre-COVID, pre-delivery days.

Sumayya Syed, Analyst, CIBC World Markets

Okay. Got it. And then just moving on to the disposition line of discussion, Tom, you mentioned you have some potentially in the bag maybe by the end of the year. Just wondering when and, if those planned dispositions

come to fruition, how you're thinking about allocating the sale proceeds and if you have a preference between deleveraging or buying back shares.

Tom Hofstedter, Chief Executive Officer, H&R REIT

So, if all of that happens, it's a significant amount of dollars and then we'd do both, and if not all of them happen then first and foremost is to pay down debt.

Sumayya Syed, Analyst, CIBC World Markets

Okay. And then just on the sale of the Canadian retail post the quarter, was it one or multiple buyers and should we expect more sales in the near term of that category?

Tom Hofstedter, Chief Executive Officer, H&R REIT

No, this was a joint venture partner that we had that bought out our position and we should not expect more retail sales. As I mentioned beforehand, we're going to wait until interest rates come down. There's no danger in our retail. It's very safe. It's leased to quality tenants, supermarkets that will be there forever. The rental rates are low and they're dominant in their markets. So there's no danger or any risk to it, it's just a question of value, and value is going to be predicated on interest rates. So, until interest rates come down, we are not planning on selling any more assets.

Larry Froom, Chief Financial Officer, H&R REIT

Four of those properties that we sold, Samaya, were joint venture properties, so it's just in accordance with simplifying the structure. Retail now is basically all 100% owned.

Sumayya Syed, Analyst, CIBC World Markets

Okay. Got it. And then just lastly, on the debt maturity side, you have some debentures coming due in June. Just wondering what your thoughts are there and what seems to be the most attractive option for addressing those.

Larry Froom, Chief Financial Officer, H&R REIT

We have $400 million coming due in June. The debenture market currently is currently open, the spreads [inaudible], so we'll probably look to replace that in about six weeks or so to do another debenture issue for either a floating rate or a fixed term. That's probably what we're going to do. We'll have some more visibility on the sales Tom's talking about that could happen towards the end of the year by then and that's probably when we will decide to replace those debentures.

Sumayya Syed, Analyst, CIBC World Markets

Okay. That's all for me. Thank you.

Operator

Thank you. That concludes our Q&A today. I will turn the call back over to Tom for closing comments.

Tom Hofstedter, Chief Executive Officer, H&R REIT

Thanks for joining us, everybody. Have a great day.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and we ask that you please disconnect your lines.