

H&R REIT Q4 2025 Conference Call

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OPERATOR

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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 at 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

Thank you, Operator. Good morning, everyone. With me today are Larry Froom, our CFO and Emily Watson, COO of Lantower. We will jump right into it and I will hand it over to Larry.

LARRY FROOM

Thank you, Tom and good morning, everyone. Overall, given the headwinds we faced with multi-family supply concerns, a weak office market, the tariff war creating general market uncertainty and a weaker Canadian economy, we are very pleased with our results and in particular, the 1.6% growth in same property net operating income on a cash basis for the year ended December 31st, 2025 compared to the same period last year.

FFO for the year ended December 31st, 2025 was \$1.21 per unit, a 1.4% increase over the \$1.20 for the year ended December 31st, 2024, a great result considering the headwinds I just mentioned and the fact that we have property sales of approximately \$527 million over the two-year period from January 1, 2024 to December 31st, 2025.

Breaking down our same property net operating income on a cash basis between the segments, residential was up 1.1% for Q4 2025 compared to Q4 2024 and was up 1.2% for the 2025 year over the 2024 year. Emily will provide more details on Lantower's results shortly.

Our office segment, same property net operating income on a cash basis increased 1.5% for both Q4 2025 compared to Q4 2024 and for the year 2025 over the 2024 year.

Our office occupancy at December 31st, 2025 was 96% with an average remaining lease term of 5.2 years. We expect vacancy to increase in 2026 with RBC's lease of approximately 189,000 square feet at 330 Front Street maturing on December 31st, 2025. We are in negotiations with several prospective tenants for part of the space.

Our office portfolio at December 31st, 2025 consisted of 15 properties. Four of these properties were classified as held for sale at December 31st, 2025, two of which were sold in January 2026. Hess Tower is expected to be sold at the end of this month and 25 Sheppard is expected to be sold in the second half of 2026. After the sale of these four properties, the proforma office segment will comprise 12% of our total real estate assets.

Retail segment, same property net operating income on a cash basis increased 4.4% for Q4 2025 compared to Q4 2024 and was up 6.7% for the 2025 year compared to 2024 due to occupancy gains at River Landing and Forex.

Our net investment in Echo and 23 Canadian retail properties was sold in January 2026 and we are expecting to sell the remaining three Canadian retail properties in March of

this year. The only remaining retail asset will be the commercial component of River Landing and is expected to comprise 4% of our total real estate assets.

Industrial segment, same property net operating income decreased 9% for Q4 2025 compared to Q4 2024, and decreased 3.7% for the 2025 year over the 2024 year.

Industrial occupancy decreased from 98.9% at December 31st, 2024 to 90.7% at December 31st, 2025.

Our three industrial developments totaling approximately 360,000 square feet at H&R's ownership share have all been leased. Two of the leases totaling approximately 204,000 square feet will commence in Q1 2026 and the third will commence in Q4 2026.

Our FFO and AFFO payout ratios were a healthy 50% and 60%, respectively, for the year ended December 31, 2025.

The proceeds received from the sales announced to date have been used to repay debt.

Our proforma debt to total assets at the REIT's proportionate share are expected to be 41.8% and the proforma debt to EBITDA is expected to be 8.7x coverage.

With that, I will turn the call over to Emily for an update on the Lantower residential segment.

Emily?

EMILY WATSON

Thank you, Larry, and thanks to all of you for joining us. I'll begin with an overview of our fourth quarter performance in the operating environment across our multifamily platform before turning to market trends, development progress, and operational

strategy. However, I want to start by stepping back for a moment because the fourth quarter marked an important inflection point not just for Lantower but for the multifamily sector more broadly.

2025 did not unfold like a typical year due to elevated supply causing slower momentum and softer job growth further depressing pricing power across many Sunbelt markets.

That context matters because it frames how we think about both our fourth quarter results and the setup for the years ahead. Against that backdrop, our portfolio performed as expected and in several respects better than we anticipated.

Collections remained strong and resident retention remained high. While new lease pricing remained pressured in certain markets, renewal performance continued to provide stability supported by a resident base that remains employed and financially healthy. Wage growth continues to track over 3% and our average rent-to-income ratios remain near 20%, reinforcing affordability and supporting consistent renewal behavior. Importantly, fewer than 10% of our move-outs during the year were tied to home purchases, the lowest level we've seen historically, underscoring the structural affordability advantage of renting in our markets. What materially changed as we exited the year was not demand, it was supply. After several years of oversized deliveries, new competitive supply is now declining meaningfully, with forecasts indicating a reduction of 36% in 2026 compared with 2025.

With that shift, while that shift did not immediately translate into pricing power in the fourth quarter, it did begin to stabilize fundamentals beneath the surface. Same property NOI from residential properties in U.S. dollars increased 1.1% on a cash basis

for the three months ending December 31, 2025, primarily due to lower property operating costs, including repairs and maintenance, insurance, and bad debt expense. This was partially offset by a decrease in rental income at H&R Sunbelt Properties, primarily due to a decrease in occupancy.

Same asset occupancy ended the quarter at 92.8%, a decrease of 2.2% from the prior year, and down 1.8% from Q3. Sunbelt blended lease trade-outs were negative 3.2% in Q4, an improvement of 30 basis points over Q3, and a 280 basis point improvement over Q4, 2024. New lease trade-outs in Q4 were negative 12.4%, and renewal lease rates increased 4%. January blended trade-outs for the Sunbelt were negative 3.6%, a 70 basis point improvement over January of 2025. Our Sunbelt portfolio fair market value is supported by a third-party appraisal and recent market transactions, thereby maintaining a weighted capitalization rate of 4.97%. This level remains consistent with Q3 and reflects ongoing institutional confidence in the sector due to compelling long-term fundamentals, including robust population and employment growth, business-friendly environments, and durable migration patterns that underpin lasting value creation. Turning to development, our new Dallas assets continue to progress well. Lantower Westlove is 90% occupied, and Lantower Midtown is 84% occupied, on track to stabilize in early Q2.

Both communities are outperforming competitive market absorption, averaging 21 leases per month versus industry standards of roughly 12 per month since initial move-in. Each was completed on time and on budget, underscoring the discipline of our development execution. Our REDT projects remain on budget.

We are on schedule to receive first move-ins at Lantower Bayside in Tampa in March of 2026 and first move-ins at Lantower Sunrise in Orlando in April, with completion expected mid-2026 for both assets. In addition, Lantower currently has nine Sunbelt developments in the pipeline, totaling approximately 2,900 suites at H&R's ownership interest. Multiple sites are fully permitted and ready for construction, and we are advancing design, drawing, and permitting on the remainder.

These projects reflect our conviction in the long-term growth of our Sunbelt markets and our ability to capitalize on favorable land positions as construction costs stabilize. As we look ahead, we took an important step to position the portfolio for its next phase of growth. Beginning April 1, 2026, we will transition to a third-party property management model through partnering with Greystar.

This evolution reflects our focus on improving operating leverage, reducing fixed overhead, and increasing strategic flexibility across the residential platform. By externalizing day-to-day property management, we retain continuity at the property level, with the majority of our on-site associates expected to transition while enabling the platform to scale more efficiently. This structure allows us to pursue additional multifamily investments in additional high-growth Sunbelt markets without incurring the cost and complexity of expanding a property management organization.

We will retain a focused internal team dedicated to asset management, development, and strategic oversight, ensuring continuity of leadership, investment discipline, and long-term value creation. In closing, our fourth quarter results reflect a portfolio that remains fundamentally sound in an environment that has been anything but typical.

While near-term pricing pressure persists in certain markets, the structural setup for multifamily housing is improving: Supply is moderating, affordability remains compelling, and resident behavior continues to support stable occupancy and cash flow. Combined with a more scalable operating model and disciplined capital allocation, we believe Lantower is well-positioned to navigate the next phase of the cycle and deliver durable value creation over time. Finally, I want to thank our Lantower team for their focus, adaptability, and commitment through a challenging year and their continued commitment to the Lantower portfolio success.

And with that, I'll turn the call back to Tom.

TOM HOFSTEDTER

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

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 1 on your touchtone phone.

You will hear a prompt that your hand has been raised. If you wish to decline from the polling process, please press star followed by the 2. And if you are using a speakerphone, please lift the handset before pressing any keys.

The first question comes from Sam Damiani at TD Cowan. Please go ahead.

SAM DAMIANI

Thank you. Good morning, everyone. Tom, there hasn't been any new disposition signings or announcements since last November.

Just wondering if you could comment on the efforts, the initiatives, and why it's been quiet on that front now for three months.

TOM HOFSTEDTER

Good morning, Sam. No special reasons, just seasonality. End of the year, we did a lot. The Christmas time comes, the market's low in December, January, as you know. It's currently February. So, I know it's your favorite question.

We're not jumping off to do sales just for the sake of doing sales. We will expect to have on the market some assets that are there now, that are going on now. We expect to realize some sales at the Caledon.

The government has to take the lance for the 415 highway expansion. We expect to hear some news on 26 Wellington. We know it's going on the market.

25 Sheppard, we expect to hear some news. The deals just take time, nothing unusual.

We're still proceeding with selling the properties that we circled and we are totally optimistic that we will get them to the finish line .

SAM DAMIANI

Okay, and then just on the 310 to 330 Front, I think that asset was in discussions for sale last November. The tenant in one building is obviously vacated. Is that no longer under active discussion for disposition?

TOM HOFSTEDTER

It's no longer under active discussion. We decided to go ahead and the office market has gotten better. We have a large chunk of contiguous space of basically full building that very few or nobody in the market downtown has. We are optimistic on our ability to lease that out sometime this year and that point in time after we successfully stabilize the property we are probably looking to sell it. Our game plan hasn't changed at all. Maybe the circle had moved around by a few months but at the end of the day and a year from now, we totally expect to have our Industrial division, our Lantower division, probably our Calgary Bow and TC assets, for the most part, we shall have sold most of those remaining assets probably the end of the year.

SAM DAMIANI

Okay, last one for me, just on the fair value reductions in Long Island City, have you seen market transactions that prompted you to go through the process to test those values and record those big fair value losses in Q4?

TOM HOFSTEDTER

Well, when you have an asset like that....which asset are we talking about? Jackson Park?

SAM DAMIANI

For Jackson Park, mostly, yes.

TOM HOFSTEDTER

So for Jackson Park, we had an appraisal, third-party appraisal, which I was very, very verbal on and vocal on that I didn't agree with. We had reluctance previously from the auditors to write down something where we had a third-party appraisal. We subsequent to that, we've now achieved our own third-party appraisal, even though we have an appraisal at a higher amount from our partner, Tishman and we elected to bring it down to what we feel the value always was.

It was more or less an accounting issue where the auditors didn't allow us to bring it down to where we thought the value was not that the value has changed.

SAM DAMIANI

Okay. Thank you, and I'll turn it back.

OPERATOR

Thank you, ladies and gentlemen. As a reminder, should you have any questions, please press star 1. And the next question comes from Jimmy Shan at RBC Capital Markets.

Please go ahead.

JIMMY SHAN

Thanks. So maybe just to start off on Lantower for Q4, I did notice there's a... the NOI increased a decent amount from Q3.

I was kind of wondering what was behind that quarter of a quarter growth.

EMILY WATSON

Good morning, Jimmy. You know, mostly seasonality had a lot to do with the Q4. We had some true-ups in our real estate taxes that gave us some lift in the Sunbelt and an extra payroll in Q3 that we don't have in Q4, just kind of the timing of those things.

And then Jackson Park had some seasonality as well from their leasing velocity that they typically have in the August, June to August in Q3. So, really not anything different. It's just mainly driven by the seasonality and some real estate true-ups.

And partly, we won several appeals that also had some budget for what the consultants tell us kind of where they think it... And they just came in a little bit better than what we had anticipated. So some true-ups in Q4.

LARRY FROOM

And I'll just add to what... Sorry, Jimmy. Good morning.

Just to what Emily's saying, I think in U.S. dollars, the same store assets increased by \$3.2 million Q4 over Q3. So as Emily's saying, about half of that is due to the Sunbelt and about half of it is due to Jackson Park. What Emily was referring to, the retail real estate taxes and some amendments, the reason it's not in our MD&A is because we had the same kind of value in Q4 of 2024.

So... But in Q4 over Q3, you see that pick up. And then of course, there's Forex that's just adding to that difference of the \$3.2 million. Plus overall, just something that's not same asset in the whole residential is Midtown and West Love of ramping up occupancy are now starting to contribute to NOI. And so that is also leading to an increase in overall NOI from Lantower.

JIMMY SHAN

Okay. That all makes sense. And then in terms of the decision to outsource the property management to Greystar, I guess, is the plan going forward to continue to scale the portfolio? Because intuitively, I would have thought that outsourcing it means or not meaning internal means you can't really see a path to scale in that portfolio. Maybe what's the thinking around the decision there?

EMILY WATSON

Yeah. I would disagree with that, actually. In a previous company, I had 30,000 units and outsourced to Greystar along with some others.

And it really requires you to be able it allows you to be far more nimble where you want to invest. You're not tied to I have to have critical mass. If you can chase returns a little bit easier, maximize.

But what it really allows you to do is leverage their buying power. And that goes from anywhere from their pay-per-click on marketing to paint cost across the portfolio. So even if we got to a 30,000, 50,000 unit portfolio, we're still not going to have the buying power of a company that has a million unit.

So we saw a lift when we outsourced River Landing a few years ago, and we anticipate that we'll see similar cost savings as well. And just one nugget to our discount on paint, for instance, is only 40% with Sherwin-Williams, whereas theirs is 85%. To really just extrapolate every turn, there's buying power that will hit what I expect every line item on our financial statement.

And it'll allow us to be able to be laser-focused on asset management and driving results and not as people-intensive to be able to really move a little bit faster on scaling the portfolio.

JIMMY SHAN

Okay. Is the plan to scale the portfolio though, going forward?

TOM HOFSTEDTER

The word scale is interesting. We do plan on selling some of our assets more for regional reasons from an asset management perspective, not to scale down assets to sell assets, but more just for operation.

JIMMY SHAN

Sorry. Say that again. Are you planning to sell a few assets?

TOM HOFSTEDTER

We're planning on selling some of the portfolio, whereas Emily and the company don't like the geography or where we don't feel comfortable with the growth. And so we will over time be selling some assets, trading some assets in and out. We will maybe be developing some assets.

The external property management is different in Canada than the United States. The United States, it's a very mature business. It's not extremely profitable at the management fee level versus Canada, which is much more expensive.

So it's very common in the United States to farm out management fees for the reasons Emily mentioned, but also because it's relatively cheap. Going internal doesn't save you a whole pile of money on management fees as it does in Canada. It gives you the flexibility to sell assets without having to worry about human resources.

But when I say sell assets, it's really an asset management function. It's really rotating out of cities or markets or regions that we don't see the growth in and rotating back into stronger markets.

LARRY FROOM

Just to be clear, given our cost of capital, we're not planning on acquiring any new assets. The only assets we may acquire would be if we did a 1031 exchange replacing assets we sold.

JIMMY SHAN

Okay. And then lastly, just on the asset sale, Tom, you had mentioned before where the \$2.6 billion that you think you could potentially sell. So you're close to doing \$1.5 billion. I guess there's \$1.5 billion left. Is that still a good number to think about? I know there are a lot of moving parts and markets unknown, but is that still the target for 2026?

TOM HOFSTEDTER

No. We'll see where we are by the end of the year. The target for 2026 is what I mentioned beforehand.

And I can't say they're all going to get done because some of them are beyond our control, such as Caledon. But we do expect Caledon, Gowanus. We do expect 26 Wellington.

We do expect 25 Sheppard. We do expect phase one of the Cove. I can't say which of those will actually get to the finish line or not get to the finish line.

And I can't tell you if Caledon is going to be buying all the lands, which could be \$300, \$350 million of value or \$150 million of value. So I don't really have a handle on it because it's out of our control. But the magnitude of the lands based on the assets that I just mentioned that are up for potential disposition are substantial.

JIMMY SHAN

What would be the range of value?

TOM HOFSTEDTER

You know what? It could be as low as \$500 million and easily in excess of a billion dollars.

JIMMY SHAN

Okay. Thank you.

OPERATOR

Thank you. We have no questions. I will turn the call back over to Tom Hofstedter for closing comments.

TOM HOFSTEDTER

Thank you, everybody. Have a wonderful long weekend.

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.