

Rating Report

Report Date:

April 30, 2008

Previous Report:

April 25, 2007



Insight beyond the rating.

H&R Real Estate Investment Trust

Analysts

Income Funds

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The Trust

H&R REIT owns a diversified portfolio of 301 properties across asset classes including office (35), industrial (125) and retail (141) in Canada and the United States, totalling over 43 million square feet. The Trust also has development activities with a potential leasable area of 3.3 million square feet.

Rating History

Current	2007	2006	2005	2004	2003
STA-3 (high)	STA-3 (high)	STA-3 (high)	STA-3 (high)	STA-3 (high)	STA-3 (high)

Stability Rating Update

Legend

Superior		Moderate		Weak		
Operating Characteristics	Asset Quality	Financial Profile	Diversification	Size & Market Position	Sponsorship & Governance	Growth

Stability Rating Rationale

DBRS has confirmed the Income Fund rating of H&R Real Estate Investment Trust (H&R or the Trust) at STA-3 (high). H&R's rating continues to be supported by underlying stable cash flows from its large-scale, diversified, real estate portfolio which benefits from long-average lease maturities averaging 12.1 years (the highest among its peers) closely matched with long term financing (averaging 10.2 years).

In 2007, H&R's payout ratio improved to approximately 89% of cash available for distribution, despite a 2.7% increase in cash distributions to \$1.37, due to a reduction in leasing and maintenance capex which had been higher than normal in recent years to upgrade multi-tenant office space. In 2008, H&R's payout ratio could increase to closer to 95% given another 5.1% increase in cash distributions to \$1.44 and slower overall growth in cash flow. DBRS views this as manageable given the overall stability of H&R's cash flows from long average lease terms and minimal lease maturities in 2008 of only 1.5%. As well, H&R has about 25% participation in the distribution reinvestment plan (DRIP) which reduces the actual cash payout ratio.

H&R's risk profile has increased somewhat given uncertainty relating to its major development project, namely, The Bow, a two million square foot office complex in downtown Calgary. (Continued on page 2.)

Rating Considerations

Strengths

- (1) Long-term leases with average terms of 12.1 years
- (2) Diversified portfolio with high-quality tenants
- (3) High portfolio occupancy at over 99%

Challenges

- (1) Limited internal growth opportunities
- (2) Coverage ratios at lower end of peer group
- (3) Portfolio concentration in Ontario and Alberta

Financial Information

	3 mos. to Dec. 31	3 mos. to Dec. 31	For the year ended December 31				
	2007	2006	2007	2006	2005	2004	2003
Declared distributions per unit (\$)	0.34	0.33	1.37	1.33	1.30	1.24	1.22
Cash available for distribution per unit (\$)	0.38	0.32	1.54	1.43	1.21	1.38	1.36
Net income before extras. per unit (\$)	0.19	0.16	0.79	0.69	0.79	1.00	1.15
Total debt/total capital	67.3%	66.8%	67.3%	66.8%	65.3%	66.1%	63.3%
Cash flow/total debt	0.07	0.06	0.07	0.06	0.06	0.06	0.06
EBITDA interest coverage	2.08	2.11	2.06	2.03	2.03	2.10	2.07
Cash flow return on average equity	14.4%	12.3%	13.7%	12.8%	13.0%	13.1%	12.5%
Declared distributions/cash avail. for distribution	91.2%	99.9%	89.3%	93.3%	109.3%	90.9%	91.2%
Market capitalization (CAD millions)	2,687.3	3,001.2	2,687.3	3,001.2	2,301.0	1,786.5	1,369.7



Stability Rating Update (Continued from page 1.)

The cost of the project has risen to \$1.4 billion (from \$1.1 billion last year partly due to an increase in size from 1.84 million square feet) while construction costs have not been fixed, and specific construction financing has not been secured. H&R is currently financing ongoing construction through bank facilities and dispositions of non-core assets. At this point, DBRS views the risks as acceptable within the current rating given that there are several mitigating factors against the usual risks of such a significant development.

First, H&R has renegotiated the lease terms to compensate for the higher anticipated construction costs and H&R has recently entered into fixed cost supply contracts for a portion of the total costs (H&R is expected to provide an update in Q2 2008). The budgeted cost also includes a reasonable amount for cost over-runs which could potentially benefit H&R. As well, H&R has indicated that it is willing to consider the option of a significant equity partner to raise capital and potentially reduce H&R's exposure to higher financial leverage to fund construction.

Another mitigating factor is the fact that The Bow is 100% pre-leased to Encana Corporation (rated A (low) by DBRS) for 25 years, which significantly reduces exposure to real estate market risk in Calgary, including any potential downturn in the energy sector and the risk of competing new supply coming on line in the next few years.

DBRS notes that The Bow is expected to pressure coverage ratios during the construction phase. Based upon DBRS's preliminary assumptions, the project is expected to result in a decline in EBITDA interest-coverage ratios to 1.7 to 1.8 times by late 2009 and into 2010. Excluding capitalized interest costs, interest coverage is expected to remain close to 2.0 times, a level that is acceptable given H&R's stable cash flow from its long-term lease profile. H&R's overall leverage is likely to increase to 65% to 66% of gross book value, which is permitted under its Trust Indenture since it now excludes The Bow from its 65% debt-to-gross book value calculation (although debt related to The Bow does have recourse to H&R).

The rating also reflects the following: (1) Lease maturities are well spread out over the next five years averaging only 2.2% annually, the lowest for DBRS-rated REITs; (2) H&R has maintained consistently high occupancy rates of 99% or higher across its portfolio for the past five years. This, combined with minimal lease maturities, should contribute to stable cash flows looking forward. In terms of challenges, the Trust generates over 46% of net operating income (NOI) from office assets, which have experienced weakness in net rental rates within certain parts of the Greater Toronto Area.

Operating Characteristics

Superior

Strengths

- H&R has long average-lease terms of 12.1 years, while lease maturities are minimal at 11% for the next five years in aggregate. The average lease terms are among the highest of any REIT rated by DBRS and are a key factor in the stability of H&R's cash flow.
- Most of the portfolio is comprised of single-tenant properties under long-term triple-net leases. They provide stable cash flows and assure cost recovery of almost all property expenses including maintenance capital.
- Portfolio occupancy has been consistently high at 99% or higher for the past five years. Despite difficulties in the Canadian office market, H&R has managed to maintain a high office occupancy rate above 95%, given that many of its office properties are occupied by single tenants under long-term leases.
- H&R's portfolio is diversified by asset with office at 46% of NOI, industrial at 31% and retail at 23%. The industrial and retail segments have increased in importance in recent years and now contribute 54% of NOI between them, up from 40% in 2002. These assets tend to provide more stable cash flows over the long term.



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- H&R is one of the largest REITs in Canada with a portfolio comprising 43 million square feet and market capitalization of \$2.7 billion, giving it access to lower-cost capital to fund growth. H&R's acquisitions in recent years have translated into steadily growing cash distributions.

Challenges

- Internal growth is limited to contractual rent increases in existing leases. This could be offset by lower net rents achieved when re-leasing office space. H&R has some multi-tenant office properties that have experienced weakness and require capital investment to reposition the properties and improve performance.
- There is tenant concentration as Bell Canada, Bell Mobility Cellular Inc., TransCanada PipeLines Limited and Telus Communications account for 28% of the Trust's total gross rents, although the credit quality of these tenants is solid at A (low) or higher, as rated by DBRS. However Bell Canada and Bell Mobility are currently Under Review with Negative Implications due to a leveraged take-over. The strong negotiating position of larger tenants in single-tenant properties may limit the ability to increase net rents. However, most of these long-term leases have built-in rent steps.
- The portfolio is concentrated in Ontario and Alberta, representing 53% of the total leasable area. In particular, the office market in Ontario, at 15% of total space, has been difficult in recent years and could continue to place downward pressure on NOI growth.
- A rapid expansion into the United States has resulted in that country comprising 31% of the Trust's leasable space. That increases the risk of understanding the local markets (supply and demand) and understanding the tenant. H&R attempts to mitigate these risks through long-term leases with quality tenants. There is also a risk that changes to U.S. tax rules could result in an increase in cash withholding taxes in the United States under the current corporate structure.

Asset Quality

Superior

The Superior rating for asset quality reflects H&R's commercial real estate properties, which have long operating lives and require minimal maintenance capex compared with other asset classes. H&R's portfolio also benefits from a low average age of 14.3 years.

The Trust has a majority of tenants under triple-net leases, which allows it to recover most of the property expenses, including maintenance capex.

Over the past two years, the Trust has experienced higher tenant costs and capital spending related to its multi-tenant office properties as it repositions properties in order to improve future performance. This additional capital spending is expected to be largely completed in 2008.



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Financial Profile

Moderate 

	3 mos. to		For the year ended December 31				
	Dec. 31 2007	Dec. 31 2006	2007	2006	2005	2004	2003
(CAD thousands)							
Net income (before extras.)	21,969	21,117	86,403	63,384	59,779	67,486	84,603
Depreciation and amortization	30,227	27,434	124,178	112,405	90,302	66,012	23,799
Other non-cash (incl. non-controlling interest)	3,727	(3,177)	1,848	6,061	6,508	1,618	0
Cash Flow from Operations	55,923	45,374	212,429	181,850	156,589	135,116	108,402
Leasing costs and maintenance capex (1)	(4,623)	(5,565)	(8,880)	(13,699)	(31,192)	(10,155)	(6,756)
Cash Available for Distribution	51,300	39,809	203,549	168,151	125,397	124,961	101,646
Gross cash distributions (2)	(46,267)	(39,384)	(179,980)	(155,374)	(135,205)	(112,698)	(92,499)
Cash Available after Distributions	5,033	425	23,569	12,777	(9,808)	12,263	9,147
Change in working capital	7,507	1,213	(15,840)	(12,618)	(46,172)	(3,078)	(6,761)
Free Cash Flow	12,540	1,638	7,729	159	(55,980)	9,185	2,386
(Acquisitions)/dispositions	11,793	(263,549)	(201,900)	(783,842)	(362,130)	(420,797)	(351,433)
Other investments	(156,863)	(1,372)	(308,855)	(19,716)	22,041	(24,400)	(35,191)
Cash Flow Before Financing	(132,530)	(263,283)	(503,026)	(803,399)	(396,069)	(436,012)	(384,238)
Equity financing (net)	11,703	151,587	258,711	288,680	262,004	63,700	214,035
Debt financing (net)	116,068	110,149	253,182	521,238	136,743	359,402	179,536
Net Change in Cash	(4,759)	(1,547)	8,867	6,519	2,678	(12,910)	9,333

Key Financial Ratios

Total debt/total capital	67.3%	66.8%	67.3%	66.8%	65.3%	66.1%	63.3%
Total debt/gross book value	60.9%	61.0%	60.9%	62.0%	62.1%	62.6%	60.9%
Cash flow/total debt	0.07	0.06	0.07	0.06	0.06	0.06	0.06
EBITDA interest coverage	2.08	2.11	2.06	2.03	2.03	2.10	2.07
EBIT interest coverage	1.46	1.54	1.42	1.40	1.44	1.56	1.84

(1) Includes leasing costs and non-recoverable maintenance capex.

(2) Includes cash distributions to unitholders and Class B Master LP units.

Summary

As expected, H&R's cash available for distribution continued to improve in 2007 and in Q4 2007 as higher-than-usual leasing costs and maintenance capex related to its multi-tenant office portfolio has begun to moderate. The upgrades of several multi-tenant office properties were largely completed in 2007 and therefore leasing costs have also declined.

H&R's leverage remained reasonably stable in 2007 with debt-to-gross book value of 61% remaining acceptable for the rating and within H&R's limit of 65%. H&R spent \$261 million in 2007 on acquisitions and invested \$309 million on developments, which were financed with equity issues totalling \$224 million and another \$34 million through reinvested distributions and options, and \$42 million from asset sales. H&R also used about \$270 million in new and assumed debt. The average levered returns were 12% for 2007 acquisitions.

EBITDA interest coverage remains just over two times, which is at the lower end of comparable REITs. This is acceptable given the scale and stability of cash flow from H&R's portfolio. Excluding capitalized interest, H&R's interest coverage improved to 2.2 times from 2.1 times as it continues to benefit from favourable financing rates in recent years.

H&R's payout ratio – based on cash flow from operations – improved slightly to 84.7% in 2007 from 85.4% in 2006. The improvement in payout ratio based upon cash available for distribution was more significant, falling to 89.3% from 93.3% as leasing costs and maintenance capex declined.



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Outlook

DBRS expects H&R to maintain leverage between 60% and 65% of gross book value, excluding The Bow development, which is expected to result in EBITDA interest coverage remaining just over two times.

Looking ahead, if we include The Bow development and assume it is 65% to 70% debt financed (approximately \$900 million to \$980 million in project debt), H&R's consolidated leverage would increase to 64% to 66% of gross book value while interest coverage including capitalized interest would likely decline to about 1.7 to 1.8 times in 2010 when interest from construction financing reaches its peak.

Although these metrics are approaching low levels for the current rating, as discussed below, there are several mitigating factors including the fact that the project is 100% pre-leased for 25 years to a solid investment-grade tenant, Encana.

DBRS expects H&R to invest approximately \$330 million on development in 2008 including The Bow and Phase 3 of the Bell Mobility complex. H&R has recently increased its bank facility to \$300 million (from \$200 million) and also expects to arrange construction financing for The Bow and potentially seek a partner. As well, H&R may use proceeds from sales of non-core properties with 21 properties currently held-for sale with a book value of about \$250 million.

DBRS expects the payout ratio in 2008 to be closer to 95% of cash available for distribution, reflecting a 5.1% increase in cash distributions to \$1.44 per unit (from \$1.37 in 2007).

Debt and Liquidity

(As at Dec. 31, 2007)	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>	<u>Total</u>
Maturing debt (\$ thousands)	152.0	147.4	112.9	152.2	356.1	2,105.5	3,026.1
% of maturing debt	5.0%	4.9%	3.7%	5.0%	11.8%	69.6%	100.0%

Debt Outstanding (CAD millions)		<u>Interest</u>	
		<u>rate</u>	<u>Amount</u>
Secured mortgage debt		6.4%	3,026.1
Bank facility	Cdn. prime	6.0%	95.6
Construction facilities			95.6
Total Debt			<u>3,217.2</u>

Liquidity	<u>Limit</u>	<u>Used</u>	<u>Available</u>
Cash and cash equivalents			24.7
Bank facility	300.0	146.8	153.2
Construction facilities	121.6	99.3	22.4
Total			<u>200.2</u>

note: Bank facility has \$51.3 million used in letters of credit.

Summary of Debt

H&R's debt comprises mainly secured mortgages with mostly fixed rates and an average interest rate of 6.3%. H&R has low average-debt maturities due to its relatively long-term debt with an average remaining term to maturity of 10.2 years. The largest maturity in 2008 of \$48 million relating to an office property on Front Street West in Toronto has been refinanced at significantly lower interest rate just under 5%.

Approximately 49.5% of total debt is non-recourse to the Trust, which limits exposure of the remainder of the assets in the portfolio. H&R has used higher leverage of up to 70% to 75% of gross book value for properties secured using non-recourse debt.

In 2006, in order to increase financial flexibility, H&R eliminated a requirement that debt with recourse to the Trust be limited to 60% of the gross book value of those assets having recourse.



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H&R recently increased its bank facility by \$100 million to \$300 million to fund acquisitions and development prior to obtaining longer term financing. H&R has currently drawn \$153.8 million on its bank facility largely for development activities.

H&R continues to look at options to finance approximately \$900 million in subsidiary debt related to construction of The Bow office development in Calgary.

The Bow Office Development (Calgary)

The Bow represents a significant project for H&R for the next five years. Phase 1 is comprised of a two million square foot office tower in downtown Calgary at a projected cost of \$1.4 billion (increased from \$1.1 billion last year and 1.84 million square feet; completion scheduled for fall 2011). The building will be 100% leased to Encana for 25 years, among the largest leasing transactions ever in Canada.

Given the scale of The Bow, H&R has obtained approval from unitholders to permit a carve-out for the purposes of calculating its debt-to-gross book value limit of 65% within its Trust Indenture. H&R is expected to finance The Bow with up to 65% to 70% leverage, which is expected to raise its consolidated debt-to-gross book value to 64% to 66%. The construction financing is likely to have recourse to H&R to reduce interest costs for close to \$900 million in project debt. DBRS expects that, as a result, interest-coverage ratios could decline to 1.7 to 1.8 times in late 2009 and 2010 on a consolidated basis as construction progresses toward completion in 2011. Excluding The Bow, H&R is expected to maintain EBITDA interest coverage of 2.0 times.

Normally such a significant development project would materially increase H&R's risk profile given the scale of investment (over 20% of current gross book value of assets) and negative cash flow during construction. H&R has mitigated some of the usual development risks from a credit perspective as discussed below. However, significant risks remain including obtaining suitable construction financing and potentially finding to a partner to bear some of the risk. As well, the construction costs have not been fixed as yet.

The project is 100% pre-leased to a solid credit tenant, Encana (rated A (low) by DBRS), under a triple-net lease for 25 years including annual rent steps of 1.5%. The estimated initial capitalization rate in 2011 is expected to be slightly lower than 6.25% reflecting the higher cost, increased leasable area and higher rental rates than the original transaction.

Encana will represent H&R's largest tenant on a pro forma basis at 15% of rental income, which adds industry diversification to the Trust's tenant list. Telecom currently represents 21% of its total rental income through Bell Canada, Bell Mobility and Telus. However, the Encana lease will result in some concentration in a single tenant within the cyclical energy sector.

From a credit perspective, DBRS considers the following factors key in the context of the current rating: (a) H&R secures a fixed-cost construction contract, given the length of the project and shortage of labour in the Alberta market, which could materially drive up costs. As well, Encana has agreed to be responsible for 100% of tenant improvements and will bear all cost increases or savings related to change orders. (b) It is important that H&R secures long-term financing at interest rates that will ensure cash flow accretion and stability in cash flows throughout much of the 25-year term of the Encana lease.

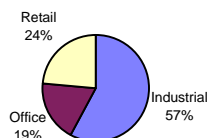
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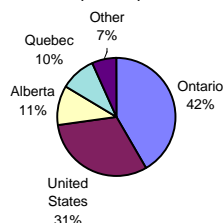
Diversification

Moderate 

Leasable Area by Asset Class (Q4 2007)



Leasable Area by Geography (Q4 2007)



Diversification of the Trust is considered Moderate due to some concentration in the following areas:

- Geographically, the portfolio is focused on Ontario, which represents 42% of leasable area.
- Bell Canada, TransCanada PipeLines Limited, Bell Mobility Cellular Inc. and Telus are the dominant tenants for the Trust, representing 28% of total rental revenue.

The Trust, however, mitigates such concentration through strong property diversification, having one of the largest portfolios among Canadian REITs with 301 properties (199 in Canada and 102 in the United States) comprising 43 million square feet, thereby reducing exposure to any one property and enhancing cash-flow stability.

H&R is also diversified by asset type, with exposure to office (46% of NOI), industrial (31%) and retail (23%).

Size & Market Position

Superior 

The Trust is one of the largest REITs in Canada, with a market capitalization of \$2.7 billion and a portfolio of 301 properties comprising over 43 million square feet of leasable area.

The industrial portfolio benefits from its large scale with 125 properties having 24.8 million square feet, allowing it to accommodate changing tenant requirements.

The office portfolio is moderate in size, while the retail portfolio is relatively small compared with other Canadian REITs. The Trust however continues to increase the scale of its retail portfolio, especially in the United States.

The Trust's large size improves diversification and provides better access to capital.



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Sponsorship & Governance

Moderate

There are currently six trustees, five of whom are independent of the Trust and provide third-party advice.

The Trust has an external property management agreement with H&R Property Management Ltd., which provides property services to the Trust for prescribed fees. In 2006, H&R's fees were reduced as follows: (a) property management fees were reduced to 2% of gross rental revenue (from 3%), and (b) asset management fees are now two-thirds of 1% (from 1%) of the value of acquisitions and project development.

H&R also pays a fee under an annual incentive bonus pool (\$3.7 million in 2007). This includes incentive fees equal to 7.5% of the amount that distributable cash plus gains on asset dispositions exceeds 10% of average unitholders equity.

Management and trustees of H&R as a group own approximately 1.3% of the outstanding Trust units. In addition, Thomas Hofstedter, president and CEO, has an indirect 25% interest in one of the corporations that comprise H&R Developments, which owns 2.96 million Class B units (exchangeable into Trust units at any time).

Growth

Moderate

	3 mos. to		For the year ended December 31				
	Dec. 31 2007	Dec. 31 2006	2007	2006	2005	2004	2003
Trust units outstanding as at (thousands)	135,450	124,585	135,450	124,585	110,624	96,306	86,198
Weighted-average trust units (basic) (thousands)	135,047	121,618	131,160	116,362	102,404	89,591	74,676
Net income before extras. per unit (\$)	0.19	0.16	0.79	0.69	0.79	1.00	1.15
Cash flow from operations per unit (\$)	0.41	0.37	1.62	1.56	1.53	1.51	1.45
Cash available for distribution per unit (\$)	0.38	0.32	1.54	1.43	1.21	1.38	1.36
Declared distributions per unit (\$)	0.34	0.33	1.37	1.33	1.30	1.24	1.22
Declared distributions/cash avail. for distribution	91.2%	99.9%	89.3%	93.3%	109.3%	90.9%	91.2%
Declared distributions/cash flow from operations	82.7%	86.8%	84.7%	85.4%	86.3%	83.4%	85.3%

H&R has continued to experience growth in cash flow from operations on a per unit basis by 3.8% in 2007 due to acquisitions and internal growth driven by rent increases on major leases with Bell Mobility in March 2007, and full year impact from increases related to Trans Canada Pipelines and Telus in May 2006.

As expected, cash available for distribution per unit grew at a faster pace of 7.7% as higher leasing costs and maintenance capex related mostly to multi-tenant office space subsided. The higher spending related to the negotiation of several large single-tenant leases including Bell Canada, Bell Mobility and TELUS, and higher capex to improve the positioning of H&R's multi-tenant office properties.

As a result, H&R's payout ratio improved to 89% (from 93%) of cash available for distribution despite a 3% increase in cash distributions in 2007.

Looking forward, H&R's payout ratio is expected to remain manageable, but increase to approximately 95% after including another 5.1% increase in cash distributions at the beginning of 2008 to \$1.44. This also reflects the expectation of slower growth in overall cash flows with fewer acquisitions and potential sales of non-core properties.

Internal growth is constrained by the very high occupancy rate of 99% and the minimal lease maturities of only 1.5% in 2008.



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The Portfolio

(As at Dec. 31, 2007)	<u>Office</u>	<u>Industrial</u>	<u>Retail</u>	<u>Total</u>
Leasable area (thousands of sq. ft.)	8,048	24,825	10,167	43,040
% of leasable area	18.7%	57.7%	23.6%	100.0%
Number of properties	35	125	141	301
Occupancy	99.0%	100.0%	99.6%	99.7%
Average rent per square foot (\$)	19.43	5.41	11.56	9.28
Average age of buildings (years)	17.1	14.4	11.6	14.3

H&R has one of the largest portfolios of any Canadian REIT with 301 properties comprised of just over 43 million square feet.

The industrial and retail segments, which tend to be more stable through cycles, have grown in importance in recent years with leasable industrial area growing by 25% and retail growing by 48% over the past two years. Office still represents about 46% of NOI (with industrial 31% and retail 23%), although this is down from 55% three years ago.

The geographic focus for growth has been the United States where H&R's portfolio increased by 29% to 13.3 million square feet over the past two years (now approximately 31% of leasable area). Despite the potential increased risk from competitive pressures in the United States, most of H&R's recent acquisitions have been focused on single-tenant industrial and retail properties under long-term leases.

Major acquisitions for H&R in 2007 included the following: (a) Portfolio of 12 refrigerated warehouses for \$215 million, totalling 1.7 million square feet, located across Canada. The facilities are under long-term leases averaging over 19 years with Eimskip Atlas Canada. (b) A state of the art distribution centre in Ajax, Ontario with 910,000 square feet acquired for \$110 million (expected final cost expected to be \$140 million) leased for 20 years to Loblaw.

Portfolio Occupancy

	<u>As at December 31</u>					
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Office	99.0%	98.6%	98.2%	97.5%	96.0%	97.0%
Industrial	100.0%	99.9%	99.5%	100.0%	99.0%	100.0%
Retail	99.6%	99.7%	99.9%	99.9%	100.0%	99.0%
Total portfolio	99.7%	99.6%	99.3%	99.4%	99.0%	99.0%

H&R has maintained consistently high occupancy levels – at 99% or higher – despite difficulties in the multi-tenant office segment in southern Ontario.

DBRS expects occupancy to remain stable, given H&R's long-term average leases with many single-tenant properties. Most of its industrial space and 20 of 35 office properties are occupied by single tenants.



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Lease Maturities

(As at Dec. 31, 2007)	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Office	0.4%	0.7%	0.6%	0.7%	0.7%	3.1%
Industrial	1.0%	2.7%	1.4%	0.3%	1.4%	6.8%
Retail	0.1%	0.4%	0.3%	0.2%	0.1%	1.1%
Total	1.5%	3.8%	2.3%	1.2%	2.2%	11.0%

Lease maturities are well spread out, at 1.2% to 3.8% per annum. The average lease term is 12.1 years, among the longest for DBRS-rated REITs.

In 2007, the overall average rent per square foot across H&R's portfolio decreased by 0.7% to \$9.28 per square foot. This was brought about by a change in asset mix, with greater exposure to industrial and retail, two asset types that tend to have lower net rents. In-place net rent for offices improved by another 4.4%, due mainly to contractual rent-steps for the lease with Bell Mobility at Phase 1 in Mississauga, Ontario. Average rental rates per square foot for industrial space increased by 4.6% to \$5.41 largely due to acquisitions.

Looking ahead, minimal lease maturities should contribute to stable cash flows and limit exposure over the next few years to changes in market rents.

Tenant Profile

(As at Dec. 31, 2007)	<u>% of rental</u>	<u>Lease term to</u>
<u>Tenants</u>	<u>revenue</u>	<u>maturity (years)</u>
1 Bell Canada	9.1%	16.8
2 TransCanada PipeLines Limited	7.0%	13.0
3 Telus Communications	6.3%	15.5
4 Bell Mobility	5.6%	18.0
5 RONA Inc.	4.0%	12.0
6 Eimskip Atlas Canada Inc.	3.6%	19.0
7 Canadian Tire Corporation	3.4%	18.8
8 Royal Bank of Canada	3.2%	5.0
9 Lowe's Companies Inc.	2.4%	11.3
10 Nestlé Canada Inc.	2.0%	9.8
Total	46.6%	

There is some concentration among the top five tenants, which account for 32% of rental revenue, although this has decreased in recent years as H&R has increased its scale. A mitigating factor is the high credit quality of these tenants, rated BBB (high) to A by DBRS. However, DBRS notes that the credit ratings for Bell Canada and Bell Mobility are currently Under Review with Negative Implications following a planned leveraged buyout of BCE.

The remaining tenants are well diversified, nationally recognized and have long-term leases. The average lease term for the top-ten tenants is about 14 years.

Many of the properties occupied by top tenants have non-recourse debt, including TransCanada PipeLines Limited, Bell Mobility Cellular Inc., Lowe's Companies Inc. and TELUS Communications Inc.



H&R Real Estate Investment Trust

Report Date:
April 30, 2008

H&R Real Estate Investment Trust

Balance Sheet

(CAD millions)

Assets	As at December 31			Liabilities & Equity	As at December 31		
	2007	2006	2005		2007	2006	2005
Cash & short-term investments	24.7	15.8	9.3	Mortgage debt	3,026.1	3,036.4	2,396.9
Income properties	4,055.9	4,136.6	3,383.5	Bank debt	191.1	71.0	67.1
Land under development	366.1	30.2	2.6	Other liabilities	88.1	59.4	55.1
Intangible assets	396.8	401.2	271.4	Intangible liabilities	68.5	68.4	17.4
Accounts receivable	106.5	90.7	65.1	Future Income Taxes	117.1		
Mortgages receivable	16.3	16.1	24.0	Non-controlling interest	103.2	112.9	116.7
Other assets	84.5	88.4	88.4	Unitholders' equity	1,456.6	1,430.9	1,191.1
Total Assets	5,050.8	4,779.0	3,844.3	Total Liab. & Equity	5,050.8	4,779.0	3,844.3

Balance Sheet &

Liquidity Ratios

	3 mos. to		For the year ended December 31					
	Dec. 31	Dec. 31	2007	2006	2005	2004	2003	2002
Total debt/total capital	67.3%	66.8%	67.3%	66.8%	65.3%	66.1%	63.3%	61.8%
Net debt/total capital	67.2%	66.7%	67.2%	66.7%	65.2%	66.1%	63.0%	61.6%
Total debt/gross book value assets	60.9%	61.0%	60.9%	62.0%	62.1%	62.6%	60.9%	59.3%
Secured debt/total debt	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cash flow/total debt	0.07	0.06	0.07	0.06	0.06	0.06	0.06	0.08

Coverage Ratios

EBITDA interest coverage	2.08	2.11	2.06	2.03	2.03	2.10	2.07	2.27
EBIT interest coverage	1.46	1.54	1.42	1.40	1.44	1.56	1.84	2.02

Profitability Ratios

Net rental margin	64.3%	65.3%	67.2%	67.4%	66.0%	66.6%	64.5%	61.9%
Cash flow return on average equity	14.4%	12.3%	13.7%	12.8%	13.0%	13.1%	12.5%	13.2%
Cash flow return on average capital	8.9%	8.4%	8.6%	8.6%	8.8%	8.8%	9.0%	10.2%
G&A/rental revenue	-0.8%	1.3%	1.0%	1.7%	1.4%	1.5%	1.5%	1.5%

Operating Statistics

Net interest in GLA (thousands of sq. ft.)	43,040	41,389	43,040	41,389	34,443	30,107	24,461	17,753
Portfolio occupancy rate	99.7%	99.6%	99.7%	99.6%	99.3%	99.4%	99.0%	99.0%

Income Statement

(CAD thousands)

	3 mos. to		For the year ended December 31					
	Dec. 31	Dec. 31	2007	2006	2005	2004	2003	2002
Income from properties	154,902	156,548	599,370	549,332	474,547	382,307	320,059	286,926
Operating expense	(55,265)	(54,370)	(196,742)	(179,317)	(161,571)	(127,863)	(113,561)	(109,398)
Net rental income	99,637	102,178	402,628	370,015	312,976	254,444	206,498	177,528
Interest income	556	548	2,604	1,843	1,951	8,104	7,864	6,584
General and administrative	1,178	(1,970)	(5,929)	(9,101)	(6,866)	(5,796)	(4,843)	(4,372)
EBITDA	101,371	100,756	399,303	362,757	308,061	256,752	209,519	179,740
Interest expense (gross)	(48,692)	(47,705)	(193,914)	(178,620)	(151,559)	(122,178)	(101,117)	(79,251)
Add: Capitalized interest	3,055	0	7,879	0	0	0	0	0
Income before Non-Cash Items	55,734	53,051	213,268	184,137	156,502	134,574	108,402	100,489
Depreciation and amortization	(30,227)	(27,434)	(124,178)	(112,405)	(90,302)	(66,012)	(23,799)	(19,457)
Straight-line rent adjustment	3,534	(78)	17,243	17,025	20,758	22,406	1,585	1,585
Non-controlling interest	(2,765)	(1,663)	123	(5,511)	(6,333)	(1,076)	0	0
Income tax	(773)	(2,837)	(2,810)	(2,837)	(88)	0	0	0
Net Income before Extraordinary Items	25,503	21,039	103,646	80,409	80,537	89,892	86,188	82,617
Discontinued operations	0	(1,795)	0	0	0	(35)	0	0
Extraordinary items	23,188	20	(105,839)	6,028	6,116	(1,076)	4,365	1,405
Reported Net Income	48,691	19,264	(2,193)	86,437	86,653	88,781	90,553	84,022
Distributions declared	(46,267)	(39,384)	(179,980)	(155,374)	(135,205)	(112,698)	(92,499)	(84,318)
Net Remaining	2,424	(20,120)	(182,173)	(68,937)	(48,552)	(23,917)	(1,946)	(296)

Earnings per Trust Unit (Basic)

Weighted-average trust units (basic) (thousands)	135,047	121,618	131,160	116,362	102,404	89,591	74,676	70,289
Cash available for distribution per unit (\$)	0.38	0.32	1.54	1.43	1.21	1.38	1.36	1.28
Net income before extras. per unit (\$)	0.19	0.16	0.79	0.69	0.79	1.00	1.15	1.18
Reported net income per unit (\$)	0.36	0.16	-0.02	0.74	0.85	0.99	1.21	1.20
Gross cash distributions per unit (\$)	0.34	0.32	1.37	1.34	1.32	1.26	1.24	1.20
Declared distributions per unit (\$)	0.34	0.33	1.37	1.33	1.30	1.24	1.22	1.20

Earnings per Trust Unit (Diluted)

Weighted-average trust units (diluted) (thousands)	135,786	122,481	132,003	117,146	103,055	90,198	75,232	70,810
Cash available for distribution per unit (\$)	0.37	0.32	1.53	1.42	1.20	1.38	1.35	1.27
Gross cash distributions per unit (\$)	0.41	0.37	1.62	1.56	1.53	1.51	1.45	1.43

Payout Ratio

Declared distributions/cash avail. for distribution	91.2%	99.9%	89.3%	93.3%	109.3%	90.9%	91.2%	93.9%
Declared distributions/cash flow from operations	82.7%	86.8%	84.7%	85.4%	86.3%	83.4%	85.3%	83.9%



**H&R Real Estate
Investment Trust**

Report Date:
April 30, 2008

Rating

Debt	Rating	Rating Action	Trend
Income Fund	STA-3 (high)	Confirmed	

Rating History

	Current	2007	2006	2005	2004	2003
Income Fund	STA-3 (high)	STA-3 (high)	STA-3 (high)	STA-3 (high)	STA-3 (high)	STA-3 (high)

Note:
All figures are in Canadian dollars unless otherwise noted.

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