



# H&R Real Estate Investment Trust (HRUFF)

Updated May 20<sup>th</sup>, 2025 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$8.60	<b>5 Year CAGR Estimate:</b>	-3.7%	<b>Market Cap:</b>	\$2.4 B
<b>Fair Value Price:</b>	\$4.98	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	08/29/2025
<b>% Fair Value:</b>	173%	<b>5 Year Valuation Multiple Estimate:</b>	-10.4%	<b>Dividend Payment Date:</b>	09/15/2025
<b>Dividend Yield:</b>	5.0%	<b>5 Year Price Target</b>	\$4.98	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Sector:</b>	Real Estate	<b>Rating:</b>	Sell

## Overview & Current Events

H&R Real Estate Investment Trust holds a portfolio of 365 properties across Canada and the United States. The portfolio includes 26 residential properties with a total of 8,929 rental units, mainly focused on expanding its presence in the U.S. Sun Belt. Moreover, the REIT owns 65 industrial properties in Canada and one in the U.S., totaling 8.3 million square feet of space. Additionally, H&R holds 16 office properties across North America, comprising 4.5 million square feet, and 27 retail properties in Canada along with 230 retail properties in the U.S., totaling 4.9 million square feet. The company's strategy these days focuses on residential and industrial assets, while reducing its exposure to office and retail sectors. The REIT pays dividends monthly and reports its financials in CAD. All figures in this report have been converted to USD unless otherwise noted. The stock trades at a market cap of \$2.4 billion.

On August 12<sup>th</sup>, 2025, H&R Real Estate Investment Trust reported its Q2 results for the period ended June 30<sup>th</sup>, 2025. The REIT posted total rental revenue of \$106.0 million for the quarter, a decrease from \$111.9 million in Q2 2024. This drop reflects the impact of property dispositions and shifting portfolio composition.

H&R's Funds from Operations was \$40.3 million, compared to \$46.0 million in Q2 2024. The decline in FFO was driven by lower net operating income and the impact of asset sales. For the quarter, FFO per share was \$0.14. We forecast FFO per share of \$0.83 for FY2025.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>FFO</b>	\$1.08	\$1.15	\$1.21	\$1.03	\$1.00	\$1.00	\$0.96	\$0.73	\$0.84	\$0.66	<b>\$0.83</b>	<b>\$0.83</b>
<b>DPS</b>	\$0.97	\$1.01	\$1.10	\$1.01	\$1.06	\$0.72	\$0.55	\$0.40	\$0.45	\$0.42	<b>\$0.43</b>	<b>\$0.43</b>
<b>Shares<sup>1</sup></b>	276.8	282.2	288.8	287.1	286.1	286.8	287.7	272.7	263.8	262.0	<b>262.6</b>	<b>262.0</b>

Over the past decade, H&R REIT's FFO per share has shifted from a pattern of steady growth and stability to a declining trend in recent years. Between 2015 and 2017, FFO per share rose, powered by the REIT's diversified portfolio of high-quality office, retail, and industrial properties, complemented by U.S. residential expansion under the Lantower brand. This was a period of strong leasing fundamentals, long-term contracts with investment-grade tenants, and successful developments like Jackson Park in NYC which supported consistent growth for the REIT.

In 2018, the REIT began streamlining its portfolio by disposing of lower-growth assets and reinvesting in higher-yielding U.S. residential and industrial properties. While these moves were supposed to boost long-term growth, they began to modestly compress profitability. The early stages of repositioning involved upfront costs, asset sales, and development projects. However, these projects were not producing income. The COVID-19 pandemic in 2020 significantly deepened this trend. It disrupted leasing activity, delayed development timelines, and pressured office and retail income. These were two segments where H&R still had significant exposure. While the REIT preserved stability by cutting distributions and reinforcing liquidity, the economic fallout added to the earnings pressure already underway from the repositioning

<sup>1</sup> Share count is in millions.

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strategy. As H&R doubled down on its transformation in 2021, including spinning off its retail platform and accelerating asset sales, FFO per share dropped further to \$0.73 in 2022 and \$0.66 in 2024.

Moving forward, we expect no growth in FFO and the dividend due to the ongoing portfolio transition, elevated interest rates, and the delayed income contribution from development projects that are still in lease-up or under construction.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/FFO	17.7	15.1	13.6	15.9	16.6	12.0	11.4	15.5	10.8	11.4	<b>10.4</b>	<b>6.0</b>
Avg. Yld.	5.1%	5.8%	6.7%	6.2%	6.4%	6.0%	5.0%	3.5%	5.0%	5.6%	<b>5.0%</b>	<b>8.6%</b>

H&R REIT's P/FFO multiple has gradually compressed over the past decade, driven by declining FFO, uncertainty from its ongoing portfolio repositioning, and weaker investor sentiment around office exposure and delayed development cash flow. Today, the stock trades at just 10.4 times FFO. While this appears like a depressed valuation, we believe H&R REIT deserves to trade at a more modest valuation given the challenges it faces and overall uncertainty attached to it.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

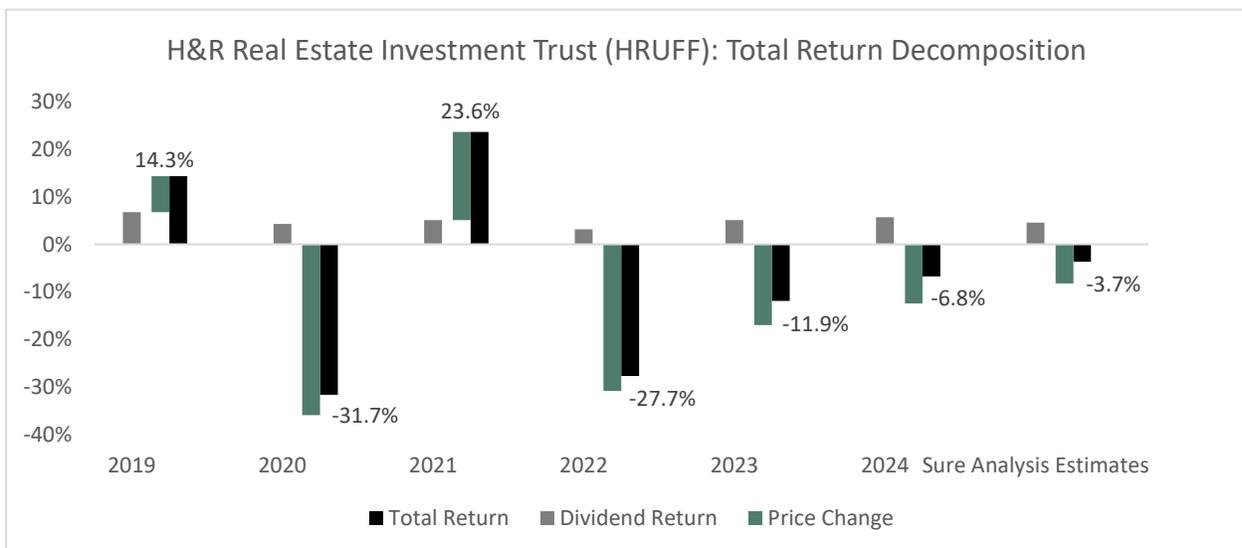
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	90%	88%	91%	98%	106%	72%	57%	55%	54%	64%	<b>52%</b>	<b>52%</b>

H&R REIT offers moderate safety, backed by a strong balance sheet and diversified tenant base, though its recent asset sales and development focus have introduced some notable volatility in FFO. The portfolio quality is improving while it shifts toward Class A U.S. residential and industrial assets, but remains weighed down by lingering office exposure. Its competitive advantage lies in its scale, development pipeline, and deep experience across property types. However, we believe that the REIT's recession resiliency is mixed. Its residential and industrial assets could provide stability, but its office and retail segments remain vulnerable to economic downturns.

## Final Thoughts & Recommendation

H&R REIT offers limited growth potential in our view, as reflected in our stagnant FFO and a lack of expected dividend growth. While it may appear discounted on a historical basis, we believe the REIT remains overvalued considering its weak fundamentals, slow execution, and lingering portfolio risks. For these reasons, we rate H&R REIT a sell.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	931	903	902	908	866	820	850	642	627	596
<b>Gross Profit</b>	599	555	558	552	515	485	505	394	387	364
<b>Gross Margin</b>	64.3%	61.4%	61.9%	60.8%	59.5%	59.1%	59.5%	61.4%	61.6%	61.1%
<b>Operating Profit</b>	599	555	558	552	515	485	505	394	387	364
<b>Operating Margin</b>	64.3%	61.4%	61.9%	60.8%	59.5%	59.1%	59.5%	61.4%	61.6%	61.1%
<b>Net Profit</b>	267	294	515	261	256	(466)	477	649	46	(87)
<b>Net Margin</b>	28.6%	32.5%	57.2%	28.7%	29.6%	-56.8%	56.1%	101%	7.3%	-14.7%
<b>Free Cash Flow</b>	333	276	330	312	267	279	323	169	188	171
<b>Income Tax</b>	27	152	(30)	31	27	(40)	4	78	(23)	(43)

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Assets</b>	10,082	10,499	11,578	10,786	11,088	10,474	8,236	8,409	8,124	7,400
<b>Cash &amp; Equivalents</b>	28	36	34	39	37	49	97	57	48	70
<b>Accounts Receivable</b>	11	10	13	9	9					
<b>Total Liabilities</b>	5,164	5,372	5,868	5,500	5,695	5,712	4,492	4,366	4,210	3,722
<b>Long-Term Debt</b>	4,659	4,555	5,164	4,806	4,881	4,994	3,055	2,890	2,779	2,465
<b>Shareholder's Equity</b>	4,918	5,127	5,710	5,286	5,392	4,761	3,744	4,043	3,914	3,678
<b>LTD/E Ratio</b>	0.95	0.89	0.90	0.91	0.91	1.05	0.82	0.71	0.71	0.67

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Return on Assets</b>	2.5%	2.9%	4.7%	2.3%	2.3%	-4.3%	5.1%	7.8%	0.6%	-1.1%
<b>Return on Equity</b>	5.1%	5.8%	9.5%	4.7%	4.8%	-9.2%	11.2%	16.7%	1.1%	-2.3%
<b>ROIC</b>	2.6%	3.0%	5.0%	2.5%	2.5%	-4.7%	5.8%	9.5%	0.7%	-1.4%
<b>Shares Out.</b>	276.8	282.2	288.8	287.1	286.1	286.8	287.7	272.7	263.8	262.0
<b>Revenue/Share</b>	3.36	3.20	3.12	3.16	3.03	2.86	2.95	2.35	2.38	2.28
<b>FCF/Share</b>	1.20	0.98	1.14	1.09	0.93	0.97	1.12	0.62	0.71	0.65

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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