



MAINSTREET EQUITY CORP. RELEASES FY 2018 RESULTS

Calgary – December 13, 2018 /CNW/ – Mainstreet Equity Corp. (“Mainstreet” or the “Corporation”), an add-value, mid-market consolidator of apartments in Western Canada, is announcing its operating and financial results for the year ended September 30, 2018.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “After beginning the year under incredibly difficult circumstances, our earnings for fiscal 2018 mark a promising return to double-digit growth across all of our main metrics.” He added, “This substantial achievement is the direct result of our long-term strategy, stretching over the past three years, to take advantage of the economic downturn. Despite market volatility, management has continued to expand our portfolio without diluting the value of Mainstreet shares.”

Fiscal 2018 began as a challenging year for Mainstreet. Our core markets in the Provinces of Alberta and Saskatchewan were in an economic slowdown, with vacancy rates leaping to 14% and 17%, respectively. Rising interest rates increased the cost of Mainstreet debt—our single largest operating expense. Those rising costs were compounded by the introduction of a carbon tax in the Province of Alberta and higher property taxes, putting yet more strain on our balance sheet. And yet, due to our long-term strategy over the past three years, as well as a slowly improving economy, we believe Mainstreet managed to not only survive but thrive in 2018, producing our best annual results since the recession began in 2014. This included a return to double-digit growth across all of our key real estate metrics. NOI grew 12% compared with 2017, while FFO per share grew 18% and rental revenues increased 11%.

Management believes these improved results are impressive for same assets on a quarterly basis. Mainstreet’s same-asset vacancy rate dropped to 6.3% in Q4 2018 compared with 9.6% in Q4 2017, while same-asset revenues increased 5.2% to \$27.0 million, up from \$25.7 million in Q4 2017. NOI on a same-asset basis increased 4.5% to \$17.7 million (excluding a one-time utility refund), up from \$16.9 million in Q4 2017; FFO also increased 17% to \$8.9 million (excluding a one-time utility refund), up from \$7.6 million in Q4 2017. When comparing same-asset results from Q3 2018 to Q4 2018, the positive trend continued: Mainstreet’s same-asset vacancy rate dropped to 6.3%, from 8.3% in Q3 2018, and same-asset revenues increased 3.0% to \$27.0 million, an improvement from \$26.3 million in Q3 2018. Meanwhile, Vancouver/Lower Mainland remains robust (23% of our portfolio) and continue to outperform the balance of Western Canada.

We believe these achievements are partly due to a long-term countercyclical strategy crafted more than three years ago by Mainstreet management, who had anticipated a major shift in the broader economy. The plan included boosting our acquisitions, locking in the majority of our debt at ultra-low, CMHC-insured levels, and rapidly converting more units to wring maximum value out of our existing assets. This paved the way for Mainstreet to achieve a few significant financial milestones. Fiscal 2018 marked the largest acquisition year in Mainstreet history, in which we grew our portfolio by 1,717 units including subsequent acquisition to over 12,000 residential units, or close to \$1.9 billion in total asset value. The Corporation also expanded its portfolio to include the Regina, Saskatchewan market, and converted a record number of units over the year, stabilizing a total of 705 units.

FINANCIAL HIGHLIGHTS:

- **Stabilization:** Stabilized 705 units in 2018, an all-time high in Mainstreet history.
- **Refinancing:** Raised \$76 million in 10 year, long-term CMHC-insured mortgages at an average interest rate of 3% (a total of \$20 million was funded subsequent to the year-end date).
- **Mortgage:** Locked in 91% of our mortgages portfolio as CMHC-insured mortgages at an average interest rate of 3.01% with an average maturity period of 6 years, reducing our exposure to interest rate risk.
- **Growth:** Achieved 100% organic, non-dilutive growth by acquiring 1,296 residential units for approximately \$150 million. Including 421 units acquired subsequent to the year-end date, the total acquired year to date was 1,717 units for over \$200 million (Total number of unit's year to date -12,917).
- **Occupancy:** Improved our occupancy rate to 93.3% at the end of the year, up from 89.3% a year earlier. As of December 1, 2018, our occupancy rate further improved to 93.9% excluding 60 units under complete re-construction.
- **Technological investment:** Continued to seek out cost-effective investments in new technology, including a five-year, \$2-\$3 million investment in a leading software technology from Yardi System Inc., which will automate our systems and, we believe, sharply improve our operational efficiencies.
- **Liquidity:** Managed to maintain liquidity level over \$120 million, even after approximately \$150 million in acquisitions over the year.

RESULTS

Rental revenues in the fiscal year 2018 increased 11% to \$115.7 million, compared with \$104.7 million in 2017; this came alongside a 1% increase in same-asset rental revenues to \$104.6 million, from \$103.2 million in 2017. NOI increased 12% to \$72.2 million, and increased 4% to \$66.6 million on a same-asset basis. Operating margins from operations increased to 62.4% from 61.5% in 2017; margins improved on a same-asset basis to 63.6%, up from 61.8% a year earlier.

In fiscal 2018, FFO increased 18% to \$30.4 million, compared with \$25.9 million in 2017. FFO per basic share also increased 18% to \$3.44, compared with \$2.91 in 2017. The 2018 vacancy rate on a same-asset basis dropped to 8.6%, compared with 9.7% in 2017. Overall vacancy decreased to 10.1%, down from 10.5% in 2017, despite a high number of unstabilized assets newly acquired over the year.

For more detailed analysis of Mainstreet operating results for fiscal year 2018, please refer to the sections titled "Funds from Operations" and "Rental Operations" in our MD&A.

CHALLENGES

Macroeconomic uncertainty remains a key challenge for Mainstreet. This has been compounded in recent years by rising operating costs due to carbon taxes, interest rate increases, higher property taxes, higher minimum wages, and higher expenses tied to the conversion of apartment units.

The carbon tax in Alberta, which is set to increase annually over the next several years, targets property owners and therefore raises our energy costs in the province. This comes as the introduction of a federal carbon tax, beginning in 2019, is expected to raise costs in our Saskatchewan portfolio. Property tax hikes and the raising of the minimum wage to \$15 per hour in the Province of Alberta also drove up operating expenses.

Higher operating costs come as interest rates are expected to continue to rise through 2019 and possibly 2020, increasing the cost of Mainstreet's future debt.

In addition, while the economic climate in our core markets of the Provinces of Alberta and Saskatchewan has improved significantly in recent years, some risks still persist. After a steady rise in commodity prices for much of 2018, oil prices declined sharply in October, falling from over US\$70 per barrel for West Texas Intermediate down to just over US\$50 per barrel at the end of November with all time high price differentials for oil prices in the Provinces of Alberta. Management believes that the decline does not suggest a return to the 2014 oil price rout; however, it does still point to ongoing volatility in the marketplace.

Adding to Western Canadian oilpatch uncertainty, the decision by General Motors at the end of November to eventually close down one of its plants in Oshawa, Ont. could indicate a broader trend that would put additional pressure on the Canadian economy.

Management also believes negative macro economic forces could likewise cause short positions in respect of the trading of Mainstreet common stock. We believe this is partly responsible for our share price continuing to trade well below what we believe to be its true net asset value.

Lastly, we see a potential cooling in the broader investment climate tied to weakening confidence in Canada's regulatory regime, evidenced by the failure to build major new oil pipelines in Canada. We believe this has hurt Canada's business competitiveness compared to other countries, and has encouraged more oil and gas investment to go to the U.S. in particular. It has also shrunk the revenues of oil producers by the widest discount margins in years. While these existential threats have not impacted us directly, we remain cautiously optimistic in our outlook.

OUTLOOK

We see potential to boost both our top-line revenue and NOI over the next fiscal year, particularly amid a gradually improving economy, by continuing our non-dilutive growth strategy of acquiring under-performing assets funded by low cost, long-term insured CMHC debt financing.

As we embark on those efforts, we believe there has been a gradual improvement in the macroeconomic picture translating into promising migration numbers. In-migration into the Province of Alberta was 10,378 in Q2 2018, meaning more than 10,000 people entered the province for the first time since Q4 2014, a stretch of more than three years [Government of Alberta]. Alberta's overall population has continued to grow in recent years, despite economic recession, increasing 1.49% in the year ended June 30, 2018 [Statistics Canada]. That growth level was higher than the national average of 1.42%. Saskatchewan had negative in-migration of 1,567 in Q2 2018, an improvement compared with recent quarters but 39% lower than its Q2 2017 levels. Its population has also continued to grow, increasing 0.98% in the year ended June 30, 2018.

Higher population growth comes alongside promising labour statistics in the Provinces of Alberta and Saskatchewan markets. Alberta's unemployment rate dropped to 6.3% in November 2018, a 1% decrease compared with a year earlier; Saskatchewan unemployment was 5.5%, compared with 6.2% in November 2017. [Statistics Canada]

We believe these indicators come as the rental market in Alberta may be returning to balance. We further believe rental markets have been oversupplied in recent years following a rapid build out of condominiums during years of high economic growth, which effectively spilled over into the broader rental space. However, Management believes that this trend has now reached a tipping point, as new tenants continue to absorb that oversupply.

We also believe that broader market volatility in turn creates areas of opportunity for Mainstreet. In our opinion mid-market rental rate, with a price-point average between \$900 and \$1,000, is perfectly positioned to attract would-be renters in today's market. Renters tend to favour mid-market prices during times of economic uncertainty as they defer major investments like new homes. Management believes it is uniquely positioned to capture foreign workers, students

and new migrants as our buildings are strategically located nearby schools and community centers in this lower-cost bracket.

This trend among first-time buyers (which usually come out of the overall rental pool) are underscored by tighter borrowing requirements under the Office of the Superintendent of Financial Institutions, introduced last year, which we believe will make it more difficult for first-time homebuyers to secure financing. We believe this could be generally supportive of the rental market. The Bank of Canada estimates the new rules could disqualify as much as 10% of new buyers every year.

Lastly, Mainstreet sees an opportunity to extract more value from its existing assets in 2019. We plan to do this by taking a highly focused approach on stabilizing units, which in turn lowers our overall vacancy rate and boosts NOI and FFO which we believe will further strengthen our future balance sheet. This stabilization process is already well underway as we enter 2019, and we have already seen a gradual increase in our NOI due to a continued improvement in our occupancy rates and higher rental income in BC.

RUNWAY ON EXISTING PORTFOLIO

- 1) Pursuing our organic, non-dilutive growth model: Using our potential liquidity position of approximately \$120 million, we believe there is opportunity to continue acquiring new assets at low cost. We also believe Mainstreet's business strategy will allow us to continue to boost NOI and FFO while improving quality of living standards for middle class Canadians.
- 2) Closing the NOI gap: In Q4 2018, 16% of the Mainstreet portfolio was going through the stabilization process, even as we achieved lower overall vacancy rates compared to 2017. This inherent challenge in our business model is further increased by our high volume of acquisitions in recent years, which causes higher rates of unstabilized properties that decreases our NOI, FFO and margins. However, we plan to focus our efforts on stabilizing units through 2019.
- 3) Buying back common shares at a discount to NAV: We believe MEQ shares continue to trade well below their NAV. We will therefore continue to buy back our own common shares on an opportunistic basis under our normal course issuer bid.

Forward-Looking Information

Certain statements contained herein constitute "forward-looking statements" as such term is used in applicable Canadian securities laws. These statements relate to analysis and other information based on forecasts of future results, estimates of amounts not yet determinable and assumptions of management. In particular, statements concerning estimates related to future acquisitions, dispositions and capital expenditures, reduction of vacancy rates, increase of rental rates and rental revenue, future income and profitability, timing of refinancing of debt, access to low-cost long-term Canada Mortgage and Housing Corporation ("CMHC") insured mortgage loans, completion timing and costs of renovations, increased funds from operations and cash flow, minimization of operating costs, the Corporation's liquidity and financial capacity, improved rental conditions, potential increases in rental revenue if optimal operations achieved, the period of time required to stabilize a property, future environmental impact, the Corporation's strategy and goals and the steps it will take to achieve them, the Corporation's anticipated funding sources to meet various operating and capital obligations, key accounting estimates and assumptions used by the Corporation, the intention to renew the Corporation's normal course issuer bid, the attraction and hiring of additional personnel, the Corporation's plans to address the material weaknesses in its internal controls over financial reporting and other factors and events described in this document should be viewed as forward-looking statements to the extent that they involve estimates thereof. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions of future events or performance (often, but not always, using such words or phrases as "expects" or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "estimates" or "intends", or stating that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved) are not statements of historical fact and should be viewed as forward-looking statements.

Such forward-looking statements are not guarantees of future events or performance and by their nature involve known and unknown risks, uncertainties and other factors, including those risks described in the Corporation's Annual Information Form, dated December 11, 2018 under the heading "Risk Factors", that may cause the actual results, performance or achievements of the Corporation to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks and other factors include, among others, costs and timing of the development or renovation of existing properties, availability of capital to fund stabilization programs, other issues associated with the real estate industry including availability of labour and costs of renovations, fluctuations in vacancy rates, general economic conditions, competition for tenants, unoccupied units during renovations, rent control, fluctuations in utility and energy costs, environmental and other liabilities, credit risks of tenants, fluctuations in interest rates and availability of capital, an inability to remediate weaknesses in the Corporation's internal controls over financial reporting on a timely basis or at all and other such business risks as discussed herein. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements include, among others, the rental environment compared to several years ago, relatively stable interest costs, access to equity and debt capital markets to fund (at acceptable costs) and the availability of purchase opportunities for growth in Canada. Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, other factors may cause actions, events or results to be different than anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could vary or differ materially from those anticipated in such forward-looking statements. Accordingly, readers should not place undue reliance on forward-looking statements contained herein.

Forward-looking statements are based on management's beliefs, estimates and opinions on the date the statements are made, and the Corporation undertakes no obligation to update forward-looking statements if these beliefs, estimates and opinions should change except as required by applicable securities laws.

Management closely monitors factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements and will update those forward-looking statements where appropriate in its quarterly financial reports.

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