



MAINSTREET EQUITY CORP. RELEASES Q4 2019 RESULTS

Calgary – December 9, 2019/CNW/ – Mainstreet’s 2019 results mark the sixth consecutive quarter of year-over-year double-digit growth in all of our key metrics, solidifying a steady improvement in our operational performance that has continued to deliver non-dilutive value to our shareholders.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “Our ability to achieve double-digit growth over the past 18 months is a clear signal that our long-term countercyclical strategy is working, and follows a long precedent at Mainstreet of delivering real value.” He added, “As we enter 2020, our management team sees substantial opportunities to continue improving our operations and non-dilutive growth on an opportunistic basis.”

FINANCIAL ACHIEVEMENTS OF 2019:

- Boosted same-asset revenue growth by 8% and same -asset NOI growth by 9% while sharply increasing overall rental revenue (19%), NOI (20%) and FFO (33%), despite a high number of acquisition of unstabilized assets (18% of total portfolio) that would typically lower operational performance
- Increased in stock value by 33% to \$63.62 per share, up from \$48 per share as of the year ended September 30, 2018. Mainstreet stock increased to a record high of nearly \$71 per share as of the end of November 2019
- Acquired \$129 million in new assets in fiscal 2019 (\$114,000 per door), complementing our 100% organic, non-dilutive growth model. Total apartment units increased to 12,901 in fiscal year 2019, up 10% from 11,776 in fiscal 2018 (rising to 13,034 units as of December 5, 2019)
- Raised approximately \$84 million in 10-year, long-term CMHC-insured mortgages at an average interest rate of 3.02% to fund future growth. Recent finance rates were just 2.45%, providing cheaper financing opportunities going forward
- Improved operations by increasing operation margin to 63% in 2019 from 62% in 2018 and driving down vacancy rates, which fell from 10.1% to 5.7% in fiscal 2019 from 10.1% in 2018, despite an aggressive level of acquisitions of underperforming assets over the past four years
- Reduced cycle times in stabilization and renovation, in turn improving the appeal of our apartment units and quality of living for our tenants
- Maintained sizeable liquidity level of approximately \$150 million in fiscal year 2019, providing plenty of room for future opportunistic acquisitions and non-dilutive organic growth

We believe these achievements are a direct result of Mainstreet’s aggressive countercyclical growth strategy and value-added business model as well as a gradual economic improvement in our core markets. In anticipation of an economic downturn more than four years ago, our management team put in place a strategic plan that included aggressively acquiring underperforming properties, strengthening our internal resources to improve the cycle time of stabilization, and capitalizing on low-cost long-term CMHC insured debt financing, which both reduces our interest costs (Mainstreet’s single-largest expense) and provides capital to fund future non-dilutive organic growth.

Mainstreet

OUTLOOK

As we enter 2020, management believes that our countercyclical growth strategy and value-added business model will continue to improve our financial performance and create non-dilutive value for shareholders. We have identified the following areas as a way to achieve future growth:

Runway on Existing Portfolio

- 1) Closing the NOI gap: In fiscal year 2019, 18% of the Mainstreet apartment portfolio was going through the stabilization process due to a high level of recent acquisitions of unstabilized assets. Once they are stabilized, we believe that our same-store revenue, vacancy rate, NOI and FFO will see further improvement.
- 2) Loss to Lease: We believe our Vancouver/Lower Mainland market, which makes up **21%** of our portfolio (2,751 units), offers a significant opportunity for future same-store NOI growth. This is partly due to a continued increase in market rates, combined with rules under the provincial Tenancy Act that has kept some annual rent rate increases substantially below the rest of the market, resulting in loss-to-lease of approximately \$249 per unit per month. Currently, over 95% of our tenants in the region are below the market average. With an average annual turnover rate of about 25%, we expect our NOI will continue to improve while we reduce our loss-to-lease over time.
- 3) Lowering interest cost: Approximately \$156 million of mortgage loans with an average interest rate of 3.9% are maturing in 2020 and 2021. The current 10-year, CMHC-insured mortgage rate is about 2.5%. We expected that the interest cost will remain low and the refinancing of these maturing mortgages will result in substantial reduction in future expenses.
- 4) Pursuing our 100% organic, non-dilutive growth model: With our strong potential liquidity position of approximately \$150 million, through expected financing of clear titled properties after stabilization, and our proven ability to identify and acquire underperforming assets, particularly in during periods of recession, we believe there will be significant opportunity to continue acquiring new assets at low cost that, we believe, will allow us to continue create new value.
- 5) Buying back our common shares: We believe MEQ shares continue to be traded below their NAV, we will continue to buy back our own common shares on an opportunistic basis under our normal course issuer bid (NCIB).

Continued improvement in the rental market

Management believes demand for rental properties will continue to increase due to a steady rise in population and a limited increase in the new supply of purpose-built rental properties. Over the last 10 years, the Canadian population has grown by nearly 4 million, yet the number of new purpose-built rental units has only increased by approximately 200,000, creating a huge gap between supply and demand in the rental market. This trend of rising populations is evident in Mainstreet's core markets. Alberta added 70,595 new residents in the year ended June 2019 alone. In-migration into Alberta was 12,899 in Q2 2019, up from 9,189 a year earlier (Statistics Canada). In addition, the population of foreign students has also increased substantially over the past 10 years, reaching a record high of 721,205 international students in 2018, according to Government of Canada data.

Higher immigration levels and steady population growth are further supported by gradually improved labour markets in Western Canada. Alberta's unemployment rate was 6.7% in October 2019—a 0.5% decrease from a year earlier (Statistics Canada). Saskatchewan has remained largely constant at 5.1% in October 2019. British Columbia added 15,000 new jobs in the month of October alone, and remains among the lowest unemployment rates in Canada at 4.7%. Management believes that the apparent improvement in labour market conditions will likely result in stronger interprovincial in-migration.

Furthermore, we believe gradual population growth will continue to absorb the ongoing oversupply of condominium units, bringing better balance to the rental market. That oversupply was the result of the rapid construction of condominiums during the last period of high economic growth, which caused roughly 30% of new units to be brought into the rental market, according to CMHC data.

That trend is now showing signs of subsiding. Edmonton's rental market vacancy rate is expected to fall to 3.9% in 2019, down from 5.3% in 2018, according to CMHC data as of October 2019. Calgary's vacancy rate is expected to fall to 3.6%, down from 3.9% over the same period. Saskatoon is expected to fall from 8.3% down to 7.3%, while Regina is expected to increase slightly from 7.7% up to 8.2%. Vancouver is expected to remain among the lowest in the country at 1.1% vacancy.

Driving down costs

Amid ever-rising costs due to public policy, Mainstreet believes it has kept its operating costs at competitive levels, in part by implementing new technological systems and leveraging our management team. Our five-year, \$3 million investment in a leading software technology from Yardi System Inc., which automates our management platform, is just one example of our dedication to future cost savings and increased efficiencies.

We believe these efforts should be helped along by new policies under the Alberta government, whose proposed corporate tax cuts would put the province back among the most competitive rates in the country.

During 2019, we have also successfully expanded our warehousing capacity through development of on-site warehouse spaces at our existing residual land in all cities. This has streamlined our supply chain and enabled us to increase factory-direct sources for materials from China, which will further reduce our cost and improve the cycle time for renovations.

While coming decisions regarding interest rates by the Bank of Canada remain uncertain, interest rates nonetheless remain at low levels. Canadian GDP growth remains below the BoC's target growth rate of 2%, which many analysts believe will keep the bank from pursuing aggressive hikes in the near future.

Capturing the mid-market

In our opinion, Mainstreet's mid-market rental rate, with a price-point average between \$900 and \$1,000, is perfectly positioned to attract would-be customers. We believe the majority of customers, including millennials and "generation Z" (which comprise roughly 45% of the total population), and immigrants, students, and foreign students will continue to favour mid-market prices as they defer major investments like new homes during times of economic uncertainty. We believe we are uniquely positioned to capture the growing market within this lower bracket.

Management believes this trend among first-time buyers (who usually come out of the overall rental pool) are further supported by tighter borrowing requirements under the Office of the Superintendent of Financial Institutions, announced in 2017, which will make it more difficult for first-time homebuyers to secure financing. We believe this trend as generally supportive of the rental market. The Bank of Canada estimates the new rules could disqualify as many as 10% of new buyers every year.

CHALLENGES

As we enter fiscal year 2020, oil market volatility and an uncertain political climate remain our biggest obstacles. Prices for U.S. benchmark West Texas Intermediate (WTI) hovered around the US\$55 range for most of 2019, remaining well below prices five years ago. A lack of available pipeline capacity has weighed on Canadian oil prices in particular, and has widened the differential with WTI, despite efforts by the provincial government to raise prices via a cap on production. The result has been a continued hesitancy among investors, particularly in the U.S., to invest in the Canadian energy sector.

Lower Canadian oil prices have also underscored deeper complications in the country's regulatory and legal regime, which have caused delays in large projects like oil pipelines and hydro transmission lines. While we believe the federal government's June 2019 approval of the Trans Mountain pipeline sent a positive signal, broader uncertainty in our regulatory regime could cause a further cooling in investment levels.

Meanwhile, ongoing trade disputes between the U.S. and China could spill over into the Canadian economy, restricting exports and shrinking GDP growth. While a trade spat between Canada and China over pork exports softened around the end of 2019, tensions between the two countries seem to remain high.

Management believes negative macro-economic forces have likewise caused the ongoing 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, rising operating costs also pose a challenge. The federal carbon tax will be enforced in Alberta beginning in 2020, which in turn raises costs for property owners. Additionally, new federal regulations under the Clean Fuel Standard targeting natural gas emissions are anticipated to come into force around 2023, likely raising home heating costs. Various municipalities, for their part, have continued to increase property taxes. Our efforts to stabilize a record 18% of unstabilized assets have likewise raised costs for human resources, materials, and other operational expenses.

Mainstreet management will continue to monitor any changes in business and market conditions, and take necessary proactive actions to minimize risk and maximize value to shareholders.

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, increase or reduction of vacancy rates, increase or decrease of rental rates and rental revenue, future income and profitability, timing of refinancing of debt and completion, timing and costs of renovations, increased or decreased funds from operations and cash flow, the Corporation's liquidity and financial capacity, improved rental conditions, future environmental impact the Corporation's goals and the steps it will take to achieve them the Corporation's anticipated funding sources to meet various operating and capital obligations 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 this Annual Information Form 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 of existing properties, availability of capital to fund stabilization programs, other issues associated with the real estate industry including availability but without limitation of labour and costs of renovations, fluctuations in vacancy rates, unoccupied units during renovations, rent control, fluctuations in utility and energy costs, credit risks of tenants, fluctuations in interest rates and availability of capital, 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.

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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 or as otherwise described therein.

Certain information set out herein may be considered as "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding the Corporation's reasonable expectations as to the anticipated results of its proposed business activities for the periods indicated. Readers are cautioned that the financial outlook may not be appropriate for other purposes.

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