



MAINSTREET EQUITY CORP. RELEASES Q4 2020 RESULTS

Calgary – December 7, 2020/CNW/ - Despite the global pandemic persisting for much of fiscal 2020, Mainstreet still managed to achieve year-over-year double-digit growth in funds from operations (“FFO”) in 2020, increasing 11% from the previous year. Revenues rose 9% and net operating income (“NOI”) increased 8%. We believe these results demonstrate the extraordinarily resilient nature of the mid-market rental industry (with a price-point average between \$900 and \$1,000), which has remained stable even as other sectors face widespread disruption. Mainstreet collection rates, for example, remained comparable to pre-pandemic levels of about 98% throughout the fiscal year.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “The global pandemic in 2020 introduced unprecedented challenges for Mainstreet, forcing our management team to adopt a socially-minded internal policy that prioritized health and safety.” He added, “Even so, we have continued to prove that the mid-market rental space remains a highly resilient asset class, and to demonstrate growth in our key financial metrics.”

Our policy of prioritizing health and safety over revenues, while necessary, did have some impacts on our financial performance in the 4th quarter of 2020, particularly on same-asset earnings. Rental revenues on a same-asset basis remained flat at 0.5%, while same-asset NOI growth declined to 3% in Q4 2020 compared with Q4 2019. Mainstreet’s annual vacancy rate increased to 7.3% in 2020, from 6.4% in 2019, due to a high level of acquisitions of unstabilized assets in recent quarters. Meanwhile, pandemic restraints that eliminated the flow of new immigrants and foreign and domestic students into Canada substantially weakened the summer rental market, causing Mainstreet to miss what is typically the peak of its rental cycle.

Notwithstanding temporary adjustments to earnings, Mainstreet has for decades remained one of the leaders in the affordable housing space, generating real value for shareholders through the smart deployment of capital. We will continue this model of acquiring assets with high value-added potential at low cost, funded by record-low costs of debt and a sizeable estimated liquidity position of \$240 million. As we enter fiscal 2021, we see unprecedented growth opportunities under our countercyclical strategy that, we believe, vastly outweigh any near-term operating risk faced by Mainstreet (see Outlook section below).

FINANCIAL HIGHLIGHTS:

- \$240M - Estimated liquidity position for FY 2021 (excluding \$85 million credit line)
- \$200M - Funds raised through long term refinancing at average rate of 2.1%
- 1.58% - Latest long-rate interest rate on 10-year Mainstreet debt comprising \$38 million (subsequent to 2020)
- 11% - Growth in funds from operations (FFO)
- 7.3% - Vacancy rate (despite a high number of acquisitions and limits to immigration inflows)
- \$100M - Value of acquisitions in 2020 (including subsequent purchases)
- 2,077 units - Stabilized underperforming suites through renovation and reposition in FY2020

Mainstreet

CHALLENGES

Rising operating costs continue to pose a challenge to Mainstreet. Paid leave was extended to team members who could not work due to family health concerns or to look after their children, who were not able to attend school earlier in the pandemic. Social distancing requirements also restricted the number of team members working in the field, lowering overall workplace productivity. Human resources costs more broadly increased as a result of those restraints.

Additional cleaning, sanitizing, and the purchase of PPE also increased operating expenses for Mainstreet. We expect that property taxes, insurance costs, carbon taxes, and other government-imposed costs which had increased substantially this year will continue to increase due to economic uncertainty. Further costs increases could be passed down to private-sector operators like Mainstreet by various orders of government facing weakened financial positions.

Higher operating costs come at a time of lower overall activity in the rental market. Mainstreet typically invests heavily in the first three months of the fiscal year to restabilize units in preparation for the summer high season. Economic restrictions in 2020 diminished that peak in the Mainstreet rental cycle, which negatively impacted performance.

Pandemic restraints also increased vacancy rates in the last two quarters of 2020. Management expects this trend to continue at least in the first two quarters of 2021 until lockdowns and travel restrictions are fully lifted.

Finally, high levels of uncertainty persist around the future health of the broader economy. The federal government has extended its two main COVID-19 support programs until June 2021, which will provide necessary capital to businesses and to renters, including Mainstreet clients. It remains unclear whether emergency programs will be extended into the second half of fiscal 2021; new economic restrictions could be imposed if cases of COVID-19 grow rapidly.

OUTLOOK

With these challenges come considerable opportunities to augment our countercyclical growth model. In fiscal 2021, this may involve the rollout of diversification efforts, including potential asset purchases in Vancouver/Lower Mainland (currently accounting for 21% of our assets); mainland British Columbia; and other locations outside Alberta and Saskatchewan.

Current market conditions have meanwhile created highly favourable conditions to expand our portfolio. Costs for acquisitions, our single-biggest expense, have also fallen as the pandemic dampens buying activity. Interest expenses on debt, Mainstreet's second-largest cost, are also at a record low.

The low cost of debt in particular will help fund Mainstreet acquisitions (our latest pool of 10-year, CMHC-insured debt was locked in at just 1.58%). In the next three years, Mainstreet has \$244 million in maturing debts at 3.41% interest. We are hopeful that if the current interest rate environment persists, we may be able to lock in those much lower rates upon renewal. Additionally, we estimate that Mainstreet will have access to approximately \$240 million in available liquidity in the next 12 months (assuming current lending criteria and continuing low interest rates) that can also be deployed for the purpose of acquisitions.

We believe the mid-market rental industry will remain an essential and safe asset class, underpinned by long-term market fundamentals, like rising populations and relatively low supply of new rental units. As one of the leading providers of inner-city Millennial living, Mainstreet is well positioned to be one of the leading providers of the affordable housing space and continue to improve the quality of living for Canadians.

The Canadian population, meanwhile, is projected to continue grow in the long term even as migration inflows temporarily decline. In November, the Government of Canada announced it would increase immigration targets to 1.2 million people over the next three years — an annual increase of 60,000 new immigrants to 400,000 compared with 340,000 pre-pandemic levels. On October 20, the federal government relaxed restrictions on the inflow of foreign students, one of our target markets, which we believe could positively impact the mid-market rental space. The federal government has also detailed plans to absorb a large influx of Hong Kong residents should unrest in the city continue to worsen. Taken together, we believe the eventual flow of newcomers to Canada will be highly supportive of a sharp economic rebound.

Our financial position is further bolstered by Mainstreet's considerable residual land base, which is not represented on our balance sheet.

RUNWAY ON EXISTING PORTFOLIO

- 1) Pursuing our 100% organic, non-dilutive growth model: Using our strong potential liquidity position which we estimate will be approximately \$240 million, we believe there is significant opportunity to continue acquiring new assets at low cost.
- 2) Closing the NOI gap: In Q4 2020, 7% of the Mainstreet portfolio was going through the stabilization process. Once stabilized, we believe same-asset revenue, vacancy rate, NOI and FFO will be meaningfully improved.
- 3) Leveraging our loss-to-lease: We believe our Vancouver/Lower Mainland market offers a significant opportunity for future same-asset NOI growth. This is partly due to a continued increase in market rates, resulting in loss-to-lease of approximately \$264 per unit per month. Currently, over 95% of our customers 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.
- 4) Lowering interest costs: The current 10-year, CMHC-insured mortgage rate falls between 1.6% and 1.7%. We expect interest rates to remain low in the near term, and we believe that our refinancing of these maturing debts amounted to \$244 million at averaged interest rate of 3.41% in the next three years will result in a substantial reduction in future mortgages expenses.
- 5) Buying back shares at a discount: We believe MEQ shares continue to trade below their true 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, 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. 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 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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