



MAINSTREET EQUITY CORP. ANNOUNCES YEAR END 2021 RESULTS

Calgary – December 07, 2021 /CNW/ – Mainstreet continued to see highly positive results in Q4 2021, achieving double-digit growth across all key metrics, including a 14% increase in funds from operations (“FFO”), a 12% rise in net operating income (“NOI”), and a 10% increase in rental revenues compared with Q4 last year.

We also posted remarkable results on an annual basis, achieving 9% growth in FFO, 7% growth in rental revenues, and a 5% increase in NOI.

Bob Dhillon, Founder, President and CEO of Mainstreet, said, “Our steady performance over the last two years, despite difficult operating circumstances, points to the success of our value-added growth model.” He added, “While the global pandemic created especially difficult operating circumstances for Mainstreet, we see immense opportunity to continue diversifying our portfolio and creating shareholder value in coming months.”

Fiscal 2021 was also a milestone year for Mainstreet on several fronts, as the Corporation successfully:

- Acquired \$216 million (1,625 units) in new assets, the largest in Mainstreet history (YTD acquisitions total \$239 million (1,884 units) as of Dec.6, 2021)
- Refinanced \$292 million in 10-year, CMHC-insured mortgages, raising \$191 million in low-cost capital at averaged interest rate of 2.07% for growth (including subsequent financing activities, Mainstreet refinanced YTD \$334 million, raising \$230 million)
- Diversified our portfolio through \$75 million (538 units) in acquisitions, including new markets in Winnipeg, interior British Columbia, and Vancouver Island
- Reached over \$1 billion in market capitalization; Mainstreet portfolio now totals 15,465 apartment units including 5 vacant lands and 4 commercial buildings as of Dec.6, 2021

These positive results come despite a highly challenging business environment in 2021, due to the global pandemic and a sharp rise in operating costs. Pandemic realities in particular required Mainstreet to double down on our commitment to a healthy and safe work environment, and to adhere to our corporate social responsibilities. This involved: waiving rental payments for struggling tenants; delaying rent increases; halting evictions; and allocating additional financial resources toward safety provisions, among other things. Although these measures sharply increased our operating costs and negatively affected our earnings on a same-store basis, we strongly believe that the social benefits of our actions will far outweigh any short-term financial losses incurred by Mainstreet.



We view our strong performance in 2021 as largely due to the success of Mainstreet's countercyclical growth strategy, where we have continued to take advantage of economic downturns by leveraging ultra-low interest rates while aggressively acquiring underperforming assets on an opportunistic basis. We also view our solid financial results as evidence of the extraordinary resiliency of the mid-market multifamily apartment space, which has avoided much of the disruption seen in other sectors during the pandemic. Mainstreet collection rates during COVID-19 have averaged 98%, roughly equal to pre-pandemic levels.

Heading into fiscal 2022, Mainstreet sees major opportunity to continue pursuing our 100% organic, non-dilutive growth model to expand and diversify our portfolio. We believe higher economic growth in our core Alberta, British Columbia, and Saskatchewan markets, driven by rising commodity prices, will boost revenues, FFO and NOI, which can be diverted toward such strategic efforts. We enjoy a substantial estimated liquidity position of \$223 million to fund our value-added growth plans.

Last year, we entered the Winnipeg market for the first time, and widened our position in Vancouver/Lower Mainland, Vancouver Island, and interior British Columbia, which has become a core market for Mainstreet as we continue to expand, reinforcing our fully diversified position across Western Canada. We plan to continue this diversification strategy in fiscal 2022, as we believe it will lower our overall risk profile and contribute to long-term financial growth. The performance of our B.C. portfolio has continued to outperform other regions, contributing 30% of Mainstreet NOI and 33% of our total value of investment properties in 2021. Fortunately, our Abbotsford, Chilliwack, and Kamloops's properties have not been impacted by recent severe flooding across the Lower Mainland.

CHALLENGES

Despite promising results in 2021, inflationary pressures continue to put pressure on Mainstreet earnings, raising costs of both capital and of every line item of our operating cost. Still, interest rates currently remain low: our average refinancing in 2021 was locked in at a 10-year fixed rate of just 2.07%, well below current inflation levels. Moreover, the vast majority of Mainstreet debts are set in long-term yields, with an average maturity period of 6.6 years.

Meanwhile, government-imposed lockdowns have seriously diminished Mainstreet's business velocity for 2 years, in particular causing us to miss out on the high rental seasons in summer and fall. Despite the partial re-opening of the Canada-U.S. border in November, other restrictions on international travel have halted the inflow of foreign students and immigrants. Classroom limits in colleges and universities have meaningfully reduced the number of domestic and foreign students, who make up a portion of our



Edmonton customer base. Still, we believe the eventual re-opening of both the border and post-secondary institutions will quickly reverse that trend.

That has likewise put upward pressure on Mainstreet vacancy rates, which increased to 8.9% in 2021 from 7.3% in 2020. Our record year of acquisitions of unstabilized properties (1,884 units in YTD 2021) has added to those pressures. However, we believe those rates will decline as our management team aggressively restabilizes units and as COVID-19 restrictions are gradually eased.

In addition to revenue challenges, rising operating costs continue to pose headwinds. Major fixed expenses have increased sharply, including property taxes, insurance, and utilities. Carbon taxes and labour, which effectively place the financial burden on property owners, have added to these cost increases. Global supply chain constraints have put further upward pressure on labour and materials costs.

Meanwhile, the productivity of Mainstreet's workforce has been negatively impacted by pandemic protocols. That comes as costs for human resources have also climbed. Paid leave was extended to team members whose children were not able to attend school. Costs for additional cleaning, sanitizing, human resources, and the purchase of personal protective equipment ("PPE") likewise increased expenses. Renovation costs have risen due to public emergency orders that restrict on-site work and substantially inflate costs for building materials. More broadly, a tightening labour market has raised costs and introduced new challenges in hiring staff.

The continuation of the COVID-19 virus will determine how long many of these restrictions remain in place. Even with the majority of the Canadian population vaccinated, the recent spread of the new Omicron variant could lead to the re-introduction of some lockdown measures. In early December, various nations including Canada began restricting international travel to slow the spread of Omicron.

OUTLOOK

Despite difficult circumstances created by the pandemic, Mainstreet continues to see significant opportunity to grow and diversify our portfolio and drive shareholder value. Chiefly, relatively low interest rates and costs for acquisitions (our two single-biggest expenses) will continue to provide unprecedented potential for opportunistic growth. We expect that continued economic growth in the Prairie and BC provinces in particular could provide a revenue boost that can be ploughed into other Mainstreet markets.

We believe that rising oil prices, which in November reached their highest level since markets collapsed in 2014, will support continued economic growth in Alberta and Saskatchewan. December contracts for West Texas Intermediate, a U.S. benchmark,



reached US\$75 in November. Prices for natural gas have spiked to their highest level since late-2018, driven by frigid temperatures and rising demand for alternatives to heavier fossil fuels like coal.

Alberta has attracted billions in private investment over the past 12 months, highlighting a strong push to diversify the economy. There has been over \$17 billion in investments announced in various sectors such as financial technology, petrochemicals, green hydrogen and Amazon's operating hub, according to Invest Alberta Corporation.

Meanwhile, massive stimulus spending plans are expected to keep the broader Canadian economy buoyant. The Government of Canada forecast 5.8% economic growth for fiscal year 2021-22 in its April budget, aided by tens of billions in new spending measures. U.S. Congress' recent passage of its US\$1 trillion infrastructure package is also expected to spur growth that analysts say will spill over into the Canadian economy.

High commodity prices and global supply chain constraints have helped push inflation to reach nearly 20-year highs, with the consumer price index (CPI) spiking to 4.7% in November, according to StatsCan. Mainstreet has for years sought to shield itself from inflationary pressures by locking our debt into long-term maturities. Economists remain divided over whether inflation is transitory, but current trends nonetheless appear set to continue at least in the short-term.

That expansion, at the same time, presents opportunities for Mainstreet to boost operating income by taking advantage of our unusually high vacancy rates, which are largely a result of the acquisition of unstabilized properties. As of the year-ended 2021, 1,822 of our 15,074 units (12% of our portfolio) remain unstabilized, creating favourable conditions to increase NOI. Moreover, our strong estimated liquidity reserves will assist Mainstreet in both our stabilization and opportunistic acquisition efforts.

Meanwhile, new supply in Alberta remains flat: Calgary added just 6,695 new rental units over the past five years, while Edmonton has introduced just 10,722. Compare that with population growth of 129,273 in Calgary over the same period, or the population growth of 130,834 in Edmonton. We believe these broad trajectories are overwhelmingly supportive of our macro thesis on the long-term rental market.

Vancouver/Lower Mainland—which accounts for approximately 22% of our overall portfolio, 30% of overall NOI and 33% of overall fair market value—will continue to drive performance for Mainstreet, as vacancies remain among the lowest in the country, and rental rates among the highest. With an average monthly mark-to-market gap of \$376 per suite per month, 92% of our customers in the region are below the average market



rent. That translates into approximately \$13.9 million in NOI growth potential after closing the mark-to-market gap, according to our estimates.

We believe workforce-affordable rental housing will remain an essential and safe asset class, underpinned by favourable long-term market fundamentals that have persisted despite the ongoing pandemic. On the demand side, healthy fundamentals can be seen across our portfolio, including in our core Alberta, British Columbia, and Saskatchewan markets. The federal government is boosting its immigration targets, totalling 1.2 million newcomers over the next three years. Ottawa's decision earlier this year to extend work permits for international students should also attract more newcomers to Western Canada.

Lastly, we believe the robust residential housing market in many urban centres will force young people to remain in the rental market. In 2019, 73% of Canadians (including both working and non-working citizens), or 44.5% of the working Canadian population, earned an income of \$49,999 or less, according to Statista Research Department. Mainstreet's mid-market rental rate, with a price-point averaging between \$900 and \$1,000, is perfectly positioned to attract those seeking affordable and quality homes in today's market.

RUNWAY ON EXISTING PORTFOLIO

1. Pursuing our 100% organic, non-dilutive growth model: Using our strong potential liquidity position, estimated at \$223 million for fiscal 2022 (including a \$135 million line of credit), we believe there is significant opportunity to continue acquiring underperforming assets at attractive valuations.
2. Closing the NOI gap: As at year-ended 2021, 12% of the Mainstreet portfolio was going through the stabilization process. Once stabilized, we remain confident same-asset revenue, vacancy rate, NOI and FFO will be meaningfully improved. We are cautiously optimistic that we can boost cash flow in coming quarters. In the B.C. market alone, we estimate that the potential upside for NOI growth is approximately \$13.8 million, which mainly represents leveraging our loss-to-lease gaps.
3. Lowering interest costs: The current 10-year, CMHC-insured mortgage rate is currently around 2.7%. We expect interest rates to remain low in the near term, and we believe that our debt refinancing of \$293 million at an average interest rate of 3.26%, maturing in the next three financial years, will result in approximately \$1.6 million in annual savings to Mainstreet.
4. 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 Corporations 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.

SOURCE: Mainstreet Equity Corp.

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