

## Mainstreet Equity Corp achieved 24 years of continued double-digit growth across key metrics

December 5, 2023 - CALGARY – In Q4 2023, Mainstreet posted our eighth consecutive quarter of double-digit, year-over-year growth across all key operating metrics. We view these results as a significant achievement given that Mainstreet has been operating through successive quarters of historically severe headwinds. Capping off this highly successful fiscal year, we are looking forward to strong tailwinds in fiscal 2024.

Bob Dhillon, Founder, President & CEO of Mainstreet, said, “Mainstreet has yet again proven the viability of our add-value business model as we continue to post positive results amid elevated economic and geopolitical uncertainty.” He added, “In this time of structural housing undersupply, Mainstreet continues to pride itself on being a vital supplier of affordable, quality, renovated housing for middle-class Canadians.”

### Performance Highlights For FY 2023

- **Drove significant shareholder value** by achieving double-digit growth in FFO (30%), NOI (20%) and rental revenues (16%). We also achieved significant growth on a same-asset basis (NOI increased 12%, revenues 9%).
- **Improved efficiencies** by boosting operating margins to 63% (up from 61% in 2022) and same-asset operating margins to 63% (up from 61% in 2022).
- **Enhanced value creation and diversification** by growing our portfolio. Mainstreet now operates 17,042 (YTD 17,462) residential apartment units in 20 cities across Western Canada, with total asset value exceeding \$3 billion.
- **Maintained strong liquidity** of \$430 million<sup>1</sup>.
- **Bolstered operational and vacancy gains** by repositioning units at an accelerated pace, reducing vacancy rates to 4.5% (down from 7.2% in 2022) despite high levels of unstabilized recent acquisitions that make up 13% of Mainstreet’s portfolio.

We believe these highly positive results yet again demonstrate the viability of Mainstreet’s value-add business model. Since Mainstreet began trading on the TSX in 2000, our management team has continued to generate shareholder value by adhering to our proven countercyclical growth strategy, leveraging low cost of capital and our sizable liquidity position to acquire underperforming rental properties at attractive prices. Over the last 24 years, we have expanded our portfolio from a handful of rental units to more than 17,400, and built up a \$3 billion+ asset base while avoiding equity dilution. Our share value has increased 5,000% over that period.

### Continued strong market conditions

Mainstreet’s strong performance also comes at a time when rental markets have tightened to new, historically low levels. Sharp population growth in Canada, combined with a lack of new apartment spaces, continues to intensify a structural supply-demand imbalance in the market, pushing vacancies down to record lows. Across Canada’s entire rental universe of 2.2 million apartments, vacancy rates

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<sup>1</sup> Including \$82 million cash-on-hand, \$220million expected funds to be raised through up-financing of maturing mortgages and financing of clear titled assets after stabilization and a \$130 million line of credit.

in 2022 were the lowest in decades at 1.9%, according to CMHC data. That trend is particularly visible in some of Mainstreet's main operating hubs like Vancouver (0.9%), Calgary (2.7%), Edmonton (4.3%, down from 7.3% in 2021), Saskatoon (3.2%, down from 4.6% in 2021) and Regina (3.0%, down from 6.8% in 2021), according to CMHC data. Meanwhile, high immigration levels have raised Canada's population at the steepest rate since the 1950s. As of July 1, 2023, Canada's population was 40,097,761, marking a 2.9% increase from a year earlier, according to Statistics Canada. About 98% of Canada's population increase over that period was due to a major influx in international migrants, particularly non-permanent residents (697,701), immigrants (468,817) and international students (551,405 in 2022). We believe the current macroeconomic environment is just the beginning of a multi-year cycle that will provide ample opportunity for Mainstreet to pursue our growth strategy.

In 2023, the Western Canadian rental housing market once again proved to be among the most resilient asset classes, offering stability at a time of elevated economic uncertainty. And while robust market fundamentals are beneficial to Mainstreet, they also underscore our corporate objective of improving the lives of middle-class Canadians. At a mid-market average rental rate of just \$1,050, Mainstreet apartments provide affordable, quality, renovated housing during a period when high inflation has pinched the pocketbooks of every Canadian family, worker and student.

## CHALLENGES

### **Inflation and cost pressures**

Despite promising macroeconomic tailwinds, rising costs continue to pose a challenge to Mainstreet. Primarily, inflation and associated higher interest rates increase the cost of Mainstreet debt, our single-largest expense. Mainstreet has locked in 99% of our debt into CMHC-insured mortgages with an average interest rate of 2.79%, maturing in 5.37 years, to proactively protect us against any eventual rate increases—see Outlook section below. Smaller line items including everything from labour to materials are also impacted by inflation, elevating operating costs.

### **Combatting higher expenses**

Mainstreet works tirelessly on multiple fronts to counteract rising expenses. By securing longer-term natural gas contracts, we substantially reduced energy costs across a large portion of Mainstreet buildings. We also managed to reduce our insurance costs—a sizable Mainstreet expense—by more than 13% for fiscal 2023 by obtaining improved premium rates and coverage. Still, major fixed expenses like maintenance and utilities, property taxes and apartment repairs remain high. Carbon taxes, which place the financial burden on property owners, are scheduled to rise annually, from \$65 per tonne today to \$170 by 2030. Despite our best efforts to control costs where possible, inflationary pressures nonetheless introduce added financial burdens that will, in some cases, be passed onto tenants through soft rent increases. Mainstreet has reignited our supply chain, aiming to further reduce capital costs in 2024.

### **Improving capital market exposure**

Due to the success of our non-dilutive growth model, Mainstreet stock has always attracted high levels of interest on public markets. While this is an unmitigated achievement, we believe that high investor appetite combined with Mainstreet's relatively narrow equity shareholder base has at times restricted MEQ trading volume, in turn limiting our market value (see next section).

## OUTLOOK

### **Mainstreet introduces new nominal dividend policy**

Backed by our enviable liquidity position (\$430 million) and strong cashflow position (per-share FFO of \$7.37), Mainstreet continues to see an abundant pipeline of acquisitions for generating organic, non-dilutive growth. We plan to introduce a nominal dividend—\$0.11 per share starting in Q1 2024—for the sole purpose of widening our shareholder base and increasing trading volume. This decision comes after significant numbers of fund managers expressed interest in investing in Mainstreet, but said they were prohibited from taking positions in non-dividend paying corporations. By offering a small dividend, we believe we can satisfy the requirements of more investors while also leaving ample capital available for countercyclical growth opportunities.<sup>2</sup>

### **A shift toward shorter-term debt**

As debt markets shift due to rising interest rates, Mainstreet continues to take an adaptive approach to our mortgage positions. In the past, when interest rates were lower, Mainstreet locked in its mortgages at longer-term, 10-year maturities to maximize savings. Now that rates are higher, we have shifted toward shorter-term debt obligations, which will yield more cost reduction should interest rates eventually fall.

### **Turning intangibles to tangibles**

To combat the ongoing housing shortage, Canadian municipalities are increasingly increasing density through rezoning efforts. Mainstreet, with an extensive portfolio of more than 800 low density buildings, is well placed to similarly extract more value out of existing assets and land titles at no cost. To that end, Management is in the early stages of developing a three-point plan to 1) turn unused or residual space within existing buildings into new units 2) explore zoning and density relaxations to potentially build new capacity within existing land footprints and 3) subdivide residual lands to maximize useable space. While the plan is currently conceptual in nature, we view this as a major driver of future growth in the longer-term, and further evidence of Mainstreet's inherent intangible value.

### **BC remains a standout**

We expect Vancouver/Lower Mainland will continue to provide growth and performance. British Columbia has become central to Mainstreet's portfolio, accounting for approximately 45% of our estimated net asset value ("NAV") based on IFRS value. With an average monthly mark-to-market gap of \$621 per suite per month, 98% of our customers in the region are below the average market rent. According to our estimates, that translates into approximately \$25 million in same-store NOI growth potential after accounting for tenancy turnover and mark-to-market gaps.

### **Alberta and Saskatchewan prosper**

We believe Edmonton, which makes up the largest portion of Mainstreet's portfolio, could be a major performer in 2024. Concession rates in the city continue to fall as vacancy rates hit an all-time low. Rental rates are beginning to grow as Edmonton's economy and population rises.

A similar trend is taking shape across Mainstreet's entire prairie portfolio. In the year ended July 1, 2023, Alberta's population expanded by about 184,000 people, or 4.1%. This represents the highest annual growth rate since 1981 and is also significantly higher than the national rate of 2.98%. Over the

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<sup>2</sup> We note that any decision to pay dividends, and the amount of any such dividends on the shares, will be made by the Board of Directors at the relevant time, on the basis of Mainstreet's earnings, financial requirements and other conditions existing at such future time. The dividend policy of Mainstreet is established by the Directors and is subject to change at the discretion of the Directors.

same period, 56,245 more people moved to the province than left it, the highest annual net inter-provincial gains in Alberta's history and the highest ever recorded in any single province or territory since comparable data are available (1971/1972). Meanwhile, Saskatchewan's population increased by 30,685 over the past year representing a 2.6% rise, compared with 10,711 (0.92%) in the previous 12 months. We believe high in-migration numbers in Alberta, combined with robust economic activity, could continue to nudge rental rates upward.

## RUNWAY ON EXISTING PORTFOLIO

1. Pursuing our 100% organic, non-dilutive growth model: Using our strong liquidity position, estimated at \$430 million, we believe there is significant opportunity to continue acquiring underperforming assets at attractive valuations. As such, Mainstreet will solidify its position as the leader in the add-value, mid-market rental space in Western Canada.
2. Closing the NOI gap: As of Q4 2023, 13% of Mainstreet's portfolio was going through the stabilization process (recent acquisitions). Once stabilized, we remain confident same-asset revenue, vacancy rates, NOI and FFO will be meaningfully improved. We are cautiously optimistic that we can increase cash flow in coming quarters. The Alberta market in particular also has substantial room for mark-to-market catch up.
3. Buying back shares at a discount: We believe MEQ shares continue to trade below their true NAV, and that ongoing macroeconomic volatility could intensify that trend.

## 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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