



MAINSTREET EQUITY CORP RELEASES Q1 2018 RESULTS

Calgary – February 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 three months ended December 31, 2017.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “We are in an incredibly unique position to further expand our company over the next fiscal year.” He added, “After several years of economic turbulence in some of our core markets, we now see a tremendous recovery underway. Going forward, we will continue to pursue our long-term strategy of growing our portfolio without diluting the value of Mainstreet shares.”

As we enter 2018, Management believes that Mainstreet is presented with one of the best growth opportunities in its history, with record-high potential to boost net operating income (“NOI”) and what we believe is an ample liquidity position to pursue future acquisitions. Our long-term strategy since fiscal year 2015 of aggressively acquiring assets during periods of economic downturn— totalling over 1,900 units for approximately \$200 million—created a record-high number of unstabilized units in our portfolio (1,306 units, or 12% of the portfolio). In 2018, Management will now focus on stabilizing these units to increase NOI, while continuing to expand our portfolio on an opportunistic basis. We also intend to bolster our already sizeable liquidity position of \$150 million by financing clear title assets at a time when interest rates remain relatively low.

FINANCIAL HIGHLIGHTS FOR Q1 2018:

- Continued to demonstrate the effectiveness of our 100% organic growth model, purchasing 733 units for \$80.4 million (\$109,600 per unit).
- Expanded our portfolio to include Regina, Saskatchewan in Q1 2018 through the acquisition of 641 units.
- Refinanced 3 clear title assets into 10-year, CMHC-insured mortgage loans for \$24 million at an interest rate of 3.05%.
- Repurchased and cancelled 3,659 common shares under our normal course issuer bid (“NCIB”) at a price Management believes is well below its true net asset value (“NAV”).
- Maintained our sizeable year-to-date estimated liquidity position of \$150 million, including a cash balance of \$24 million, to pursue further organic growth.

After Mainstreet’s rental revenues and overall occupancy rate saw a significant drop beginning fiscal year 2015, the trend appears to have levelled off since the beginning of Q1 2017.

Vancouver/Lower Mainland, which makes up 25% of our portfolio, continues to outperform the balance of our portfolio in Western Canada. Our vacancy rate in the region remained low at 1.1% in Q1 2018, while NOI grew 11% compared to Q1 2017.

For more detailed analysis of Mainstreet operating results for Q1 2018, please refer to the sections titled “Funds from Operations” and “Rental Operations” in our Management’s Discussion and Analysis (“MD&A”) accompanying this message.

RESULTS

In Q1 2018, FFO increased 48% to \$6.3 million, compared with \$4.3 million in Q1 2017. FFO before payout penalties per share increased 3% to \$0.72, compared with \$0.70 in Q1 2017. Rental revenues

increased 5% to \$27.1 million, compared with \$25.8 million in Q1 2017; this came alongside a 1% fall in same asset rental revenues to \$25.7 million, from \$25.8 million in Q1 2017. NOI increased 5% to \$16.4 million, and stayed the same at \$15.7 million on a same asset basis. Operating margins stayed the same at 61%, despite a drop in rental revenues over the same period.

The same asset vacancy rate in Q1 2018 increased to 9.9%, up from 9.6% in Q1 2017. The overall Q1 2018 vacancy rate, which includes vacant units as apartments undergo stabilization, increased year-over-year to 11.1% from 9.7% in Q1 2017, due to increased acquisitions over the past three years.

CHALLENGES

Economic uncertainty remains our biggest challenge, particularly in the Alberta and Saskatchewan markets. While petroleum prices rebounded significantly at the end of 2017, natural gas prices remain relatively weak and several years of collapsed commodity prices had a ripple effect across the broader Western Canadian economy, raising unemployment levels and reducing in-migration. While the broader economic outlook in the region seems to be improving, uncertainty remains over the pace and scale of recovery.

Those negative macroeconomic forces have been compounded by a persistent oversupply in the rental market. This oversupply was caused by the rapid build out of investor-owned condominiums during times of high economic growth, many of which have been converted into rental units that spilled over into the broader market. Despite recent indications that oversupply is being gradually absorbed, we expect this trend to continue over the near-term.

Due to Mainstreet's high volume of acquisitions during the downturn, our total number of unstabilized assets (62 properties, or 1,306 units) is at a record high. More unstabilized units resulted in a higher overall vacancy rate, which remained above average at 11.1% over the quarter. However, Management believes this is a finite trend as we continue to stabilize units through renovations.

The higher rate of vacancies and unstabilized units has also raised operating costs. Expenses have increased for maintenance, human resources, marketing and advertising as we continue to renovate units and secure new tenants. Mainstreet has also seen increased operating costs due to higher property taxes, as well as the introduction of a carbon tax in Alberta, which targets property owners. Heating costs have risen due to marginally higher natural gas prices compared to two years ago. Lastly, rising interest rates in 2018 and 2019 would also raise the cost of future debt financings.

Negative macroeconomic forces have likewise caused short positions in respect of the trading of Mainstreet common stock. We believe this is partly responsible for our share price trading well below what we believe to be its true NAV. As of February 1, 2018, the short position on Mainstreet totaled 554,000 common shares.

OUTLOOK

The macroeconomic outlook in our Alberta and Saskatchewan markets remains uncertain. But by many indications the region is recovering. The unemployment rate in Alberta fell to 6.9% in December 2017, down from 8.5% a year earlier and the lowest since October 2015, according to Statistics Canada data. Saskatchewan's unemployment rate fell to 6.4% in December 2017, down from 6.6% the year prior. The Conference Board of Canada expects GDP growth in both provinces to remain stable in 2018, growing 2.1% in Alberta and 1.6% in Saskatchewan.

Lower unemployment and continued economic growth come amid signs of improvement in the oil market. As of January 28, 2018, world oil prices were trading above US\$65, and some Canadian companies have begun modestly increasing capital spending plans. Drilling rig utilization rates were 34% in December 2017, the highest in 10 months, according to the Canadian Association of Drilling Contractors.

Despite lower in-migration into Alberta and Saskatchewan over the last three years, net in-migration has remained positive. In-migration into Alberta in Q3 2017 was 11,106, the highest in more than three years (Statistics Canada). The province also saw its first net inflow of interprovincial in-migration in two years, adding 743 people from other provinces. Saskatchewan in-migration over the same period was steady at 2,319. In addition, we believe the federal government's strategy to boost immigration numbers into Canada will have a broadly positive effect on net migration levels in Western Provinces.

Economic stagnation has in turn created opportunities to accelerate acquisitions. While we remain conservative in our approach, Management expects to continue our strategy of acquiring value-added assets on an opportunistic basis through 2018.

In anticipation of Bank of Canada rate hikes, Management has continued refinancing our existing mortgages and clear-title assets into long-term, CMHC-insured debts at record-low levels. We believe this will free up funds for future growth while also protecting against future rate increases. Mainstreet will continue to assess future opportunities to further lock in our long-term debts at low rates.

As interest rates rise, tighter loan requirements under the Office of the Superintendent of Financial Institutions are also expected to make it more difficult for first-time homebuyers to secure financing. We believe this could be generally supportive of the rental market. In a recent report, the Bank of Canada estimated the new rules could disqualify as much as 10% of new buyers every year.

Moreover, we believe our 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. First, renters tend to favour mid-market prices during times of economic uncertainty as they defer major investments like new homes. The overbuilding of new condominiums in recent years has negatively affected the rental market, but most of those additions have been in a price range that is above those of Mainstreet units, causing a less pronounced impact. Second, we believe we are uniquely able to capture foreign workers, students and new migrants in this lower-cost bracket.

Lastly, Mainstreet sees a major opportunity to extract more value from its existing assets in 2018. 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. Management believes significant value can be unlocked from this stabilization process over the next 12-18 months.

RUNWAY ON EXISTING PORTFOLIO

- 1) Pursuing our organic growth model: Using our strong potential liquidity position of approximately \$150 million, we believe Mainstreet's business strategy will allow us to continue to boost NOI and FFO while avoiding equity dilution.
- 2) Buying back common shares at discount: 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.
- 3) Closing the NOI gap: In Q1 2018, 12% of the Mainstreet portfolio was going through the stabilization process, which contributed to higher vacancy rates. This inherent challenge in our business model is further increased by our high volume of acquisitions in recent quarters, which causes higher rates of unstabilized properties that affect our NOI, FFO and margins. However, we plan to focus our efforts on stabilizing units through 2018.

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.

SOURCE Mainstreet Equity Corporation

For further information:

Bob Dhillon, President and CEO

(403) 215-6070

www.mainst.biz

www.sedar.com