



MAINSTREET EQUITY CORP. RELEASES Q2 2019 RESULTS

Calgary – May 14, 2019/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 quarter ended March 31, 2019.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “Our second quarter results point to a very promising upturn in operational results over the past year.” He added, “We believe this substantial achievement is the direct result of our countercyclical strategy, stretching over the past four years, to create value for shareholders during periods of slow economic growth.”

Mainstreet’s Q2 2019 results mark the fourth consecutive quarter of year-over-year double-digit growth in revenues, net operating income (“NOI”), and funds from operations (“FFO”), extending a sharp upswing in our operational performance over the past 12 months. This achievement comes despite a prolonged and frigid winter that increased Mainstreet operating costs, as well as Q2 being a typically low season in the rental market. NOI and rental revenues both rose 19%, while FFO increased 28% compared with Q2 2018.

Our success over the quarter was a direct result of Mainstreet’s countercyclical growth strategy, which Management adopted more than four years ago in anticipation of an economic downturn. The plan included aggressively acquiring underperforming properties during the period of economic slowdown; strengthening our internal resources to more rapidly stabilize apartment units; and locking in the majority of our debt at low interest rates, which both reduces our interest costs (Mainstreet’s single-largest expense) and provides low-cost capital to fund future growth.

Improved earnings also come as market conditions of our core markets of Alberta and Saskatchewan have further been improved. Meanwhile, Vancouver/Lower Mainland, which makes up 28% of our portfolio, continued to outperform with a near record-low vacancy rate of 0.5% over the quarter.

FINANCIAL HIGHLIGHTS:

- **Growth:** Achieved 100% organic, non-dilutive growth by acquiring 130 units for \$13.3 million over the quarter. Year-to-date including subsequent acquisitions, the Corporation acquired 840 units with a total consideration of \$105.7 million.
- **Operations:** Increased NOI and FFO sharply, by 19% and 28% respectively, despite an accelerated rate of unstabilized acquisitions over the past couple of years, which typically increases vacancy rates and lowers both NOI and FFO. With a total of 1,980 units or 16% in unstabilized units, management believes there is plenty of room to further boost operating metrics
- **Vacancy:** Reduced same asset vacancy rates to 6.0%, nearly half the 11.1% in Q2 2018
- **Financing:** Raised \$21.7 million in 10-year, long-term CMHC-insured mortgages at an average interest rate of 3.02% to fund our acquisition and growth. The interest rate of our most recent financing at 10-year rates were subsequent to the quarter end dropped to just 2.65%, providing cheaper financing options in future
- **Liquidity:** Maintained a liquidity level of approximately \$100 million, even after approximately \$150 million in acquisitions in 2018 and \$105.7 million over the current year
- **Technological investment:** Continued to embrace new technologies through a five-year, \$3 million investment in a leading software technology from Yardi System Inc., which will automate our systems and, we believe, improve our operational efficiencies

Mainstreet

RESULTS

Rental revenues in Q2 2019 increased 19% to \$33.7 million, compared with \$28.3 million in Q2 2018; this coming alongside a 10% increase in same-asset rental revenues to \$29.4 million, from \$26.7 million in Q2 2018. NOI increased 19% to \$20.2 million, and increased 17% to \$17.8 million on a same-asset basis. FFO increased 28% to \$8.3 million, compared with \$6.5 million in Q2 2018. FFO per basic share increased 24% to \$0.92, compared with \$0.74 in Q2 2018.

Operating margins stayed the same at 60% compared to a year earlier; margins improved on a same-asset basis to 61%, up from 60% in Q2 2018, despite the especially cold winter season. The Q2 2019 vacancy rate on a same-asset basis dropped to 6.0%, compared with 11.1% one year earlier. Overall vacancy decreased to 6.5%, down from 11.3% in Q2 2018, due in part to Mainstreet's fast-paced stabilization of assets over the year, and despite a record number of acquisitions in 2018 that would typically drive up vacancy rates.

For more detailed analysis of Mainstreet operating results for Q2 2019, please refer to the sections titled "Profit", "Rental Operations", "Funds from Operations" and "Rental Operations" in our MD&A.

CHALLENGES

Negative macroeconomic forces remain our biggest challenge. The Bank of Canada in April put a hold on plans to raise interest rates in the near term, after recent economic data showed Canadian GDP growth had fallen below 1%. Adding to these domestic worries are fears of a wider global recession amid international trade disputes, slower economic growth in China and stock market volatility.

Rising operating costs also pose a challenge. While the political situation in Alberta has shifted, operating costs in the Province remain higher due to a number of policies introduced by the former government, including increased minimum wages, and carbon taxes, which raise heating costs for property owners. In addition, a hike in municipal property taxes and our continued and aggressive stabilization of residential units will also continue to raise operating costs for Mainstreet until they are stabilized.

And, despite the decision to hold interest rates in April, many analysts are predicting that the Bank of Canada is still set to gradually raise its overnight interest rate through 2019 and 2020, which would increase the cost of Mainstreet's future debt.

Management also believes negative macro-economic forces could likewise have caused 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 of the Corporation.

Lastly, commodity prices have been on the rise since the beginning of 2019, but remain volatile amid a lack of pipeline capacity in Alberta and Saskatchewan. Ongoing complications in Canada's regulatory and legal regime have halted progress on several large pipeline projects, including the Trans Mountain expansion project now owned by the federal government. Such delays have led to depressed prices for Canadian crude oil. Management believes this regulatory and legal failure could lead to a broader cooling off in the investment climate in Canada, and could continue to hamper our business competitiveness relative to other jurisdictions.

OUTLOOK

As we enter the second half of the fiscal year, Management sees plenty of unique opportunities to pursue our countercyclical growth strategy. In particular, we see the potential for more acquisitions in 2019, supported by a drop in 10-year interest rates, immigration growth, and stricter stress tests for mortgages that are expected to push more people into the rental market. Mainstreet already took advantage of these cheaper buying opportunities when we recently acquired a property in Saskatoon for just \$50,000 per apartment unit, for example. Similar to last year, we will also continue our aggressive stabilization strategy, which should further grow our top-line revenues and NOI, particularly amid a gradually recovering economy. In addition, Mainstreet anticipates that the performance of our BC portfolio, which accounts for approximately 23% of Mainstreet's portfolio, will continue to grow through rent increases.

Meanwhile, our core markets continue to show promising migration numbers. In-migration into Alberta nearly doubled to 9,196 in Q4 2018, up from 4,838 in Q4 2017, according to Government of Alberta data. In-migration into Saskatchewan also doubled over the same period from 605 to 1,248.

Better in-migration numbers could be compounded by a rising number of foreign students entering Canada. The number of international students in Canada has nearly tripled to 572,000 over the last 20 years, according to the most recent data from Statistics Canada—a growth rate that is three times higher than enrollment numbers by Canadian students over the last two decades. Canada now boasts the second-highest level of foreign student enrollments in the world on a per capita basis.

Better student enrolment numbers come as labour indicators remain between stable and slightly improved. Alberta's unemployment rate was 6.9% in March 2019, up slightly from 6.4% a year earlier. Saskatchewan unemployment dropped to 4.9% in March 2019—the lowest since August 2015, according to Statistics Canada.

Mainstreet believes these positive indicators have in turn helped return the rental market closer to balance. Rental markets have been oversupplied in recent years following a rapid build out of condominiums during years of high economic growth, which then spilled over into the broader rental space. However, we see this trend gradually reversing as new tenants continue to absorb that oversupply.

We also believe that broader market volatility in turn creates areas of opportunity for Mainstreet. In our opinion, 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. Renters tend to favour mid-market prices during times of economic uncertainty as they defer major investments like new homes. We believe we are uniquely positioned to capture foreign workers, foreign students and new migrants within this lower bracket.

Management believes this trend among first-time buyers (who usually come out of the overall rental pool) are underscored 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 see this trend as generally supportive of the rental market. The Bank of Canada estimates the new rules could disqualify as much as 10% of new buyers every year.

RUNWAY ON EXISTING PORTFOLIO

- 1) Closing the NOI gap: In Q2 2019, 16% of the Mainstreet portfolio was going through the stabilization process, even as we achieved lower overall vacancy rates compared to 2018. This inherent challenge in our business model is further increased by our record-high volume of acquisitions in recent years, which causes higher rates of unstabilized properties that decreases our NOI, FFO and margins. However, we see plenty of opportunity to lower that imbalance we enter the second half of fiscal 2019.
- 2) Pursuing our 100% organic, non-dilutive growth model: Using our strong potential liquidity position of approximately \$100 million, we believe there is significant opportunity to continue acquiring new assets at low cost. We also believe Mainstreet's business strategy will allow us to continue to improve NOI and FFO while improving quality of living standards for middle class Canadians in our markets.
- 3) Buying back common shares at a discount to NAV: 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 or any renewal thereof.

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.

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