



MAINSTREET EQUITY CORP. RELEASES ITS Q3 2017 RESULTS

Calgary – July 20, 2017 /CNW/ – CALGARY—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 June 30, 2017.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “This past quarter was yet another signal that the macro economic picture is beginning to improve in some of our core markets.” Dhillon added, “We remain cautiously optimistic about the economic climate in coming quarters, and we will continue to expand our portfolio on an opportunistic basis through our 100% organic, non-dilutive growth model.”

We believe our Q3 results are an early indication of stability in some of our core markets. For the third consecutive quarter, Mainstreet saw a level trend in same-store revenues. Several other key metrics also improved notably. Our vacancy rate on a same-store basis, for example, decreased to 11.2% in Alberta and Saskatchewan, down from 12.5% in the year prior. While we remain cautious in our overall outlook, we believe these results reflect a steadying macro economic picture in our core markets.

FINANCIAL HIGHLIGHTS FOR Q3 2017:

- Displayed a substantial improvement in key metrics. Rental revenues rose 8% to \$26.4 million; Net Operating Income (“NOI”) from operations increased 7% to \$16.6 million, while NOI on a same-asset basis rose 2% to \$15.7 million.
- Continued to demonstrate the effectiveness of our 100% organic, non-dilutive growth model by growing our portfolio without increasing share capital of 8.8 million common shares. Since its inception Mainstreet’s year-to-date portfolio has grown to 10,313 units while avoiding equity dilution. In Q3 we purchased 103 units of residential apartments for \$13 million (\$126,000 per unit). Subsequent to Q3 2017, we acquired an additional 28 units for \$4.3 million (\$154,000 per unit).
- Maintained our sizeable year-to-date estimated liquidity position of \$140 million, including a cash balance of \$42 million, to pursue further potential growth opportunities.

Vancouver/Lower Mainland remains robust (BC comprises 27% of our portfolio). The region continues to outperform the balance of Western Canada, maintaining a vacancy rate below 1% and NOI growth of 16% compared to Q3 2016.

For more detailed analysis of Mainstreet operating results for Q3 2017, please refer to the sections titled “Funds from Operations” and “Rental Operations” in our MD&A.

RESULTS

Rental revenues increased 8% to \$26.4 million, compared with \$24.5 million in Q3 2016; this came alongside a 1% increase in same-asset rental revenues to \$24.7 million, from \$24.4 million in Q3 2016. NOI increased 7% to \$16.6 million, and increased 2% to \$15.9 million on a same-asset basis. Operating margins remained at 63%, and increased by 1% to 64% on the same-asset basis.

In Q3 2017, Funds From Operations (“FFO”) increased 9% to \$6.7 million, compared with \$6.2 million in Q3 2016. FFO per basic share increased 11% to \$0.76, compared with \$0.68 in Q3 2016.

The vacancy rate on a same-asset basis dropped to 8.1%, compared with 9.2% in Q3 2016. Overall vacancy increased to 10.6%, due to the recent acquisitions of unstabilized assets.

CHALLENGES

Broad economic trends have become more difficult to forecast in recent years, particularly in Mainstreet's Alberta and Saskatchewan markets. This economic uncertainty remains Mainstreet's biggest challenge. Lower petroleum and natural gas commodity prices have also added to this increased volatility. Markets have rebounded from their 2016 lows, but prices for products such as petroleum, natural gas and potash are below the level needed to spur major new capital investments.

The Bank of Canada's decision to raise its overnight interest rate will make future borrowing more costly for Mainstreet. However, in anticipation of rising interest rates, management made the decision to refinance all of the Corporation's pre-matured debts for the fiscal years 2017 and 2018. Mainstreet managed to lock in approximately \$195 million in 10-year, CMHC-insured loans at an average interest rate of 2.47% (5.09% before refinancing). This resulted in approximately \$2.4 million in annualized interest savings, or \$24 million over 10 years and raised additional fund of about \$100 million, including an early pay-out penalty of \$2.9 million. Except for \$3 mortgage loan which will be repaid in Q4 2017, the Corporation's next mortgage loan will not be due until Q1 2019.

Operating costs have increased in response to the introduction of a carbon tax in Alberta, which targets property owners. Heating has also become more costly along with marginally higher natural gas prices.

Mainstreet's overall vacancy rate in Q3 remained high at 10.6%. While management views the current vacancy rate as high, our total acquisitions over the past 18 months of close to \$100 million (982 unstabilized units) has consistently raised vacancy rates over the period. Furthermore, management believes this is a finite trend as Mainstreet continues to undergo the stabilization process through ongoing renovations. As of the quarter end date, 981 units, or 9% of the portfolio, remained in the stabilization and reposition and construction process.

Negative economic forces over the past two years have likewise caused significant short positions in respect of Mainstreet's stock. As of June, 30, 2017, the short position in respect of Mainstreet totaled 711,600 common shares. However, that short position is smaller than the previous quarter ended March 31, 2017, when it totaled 771,800 common shares. Management believes these short positions are partly responsible for MEQ shares trading well below NAV.

OUTLOOK

Despite softening commodity prices, migration into Alberta and Saskatchewan remains steady. Annual net migration into Alberta since Q1 2017 totaled more than 28,000 people, according to Statistics Canada. Net migration in Q1 grew 25% compared to the prior quarter—a total of approximately 5,000 people, and the fourth-highest level in the country. Net migration into Saskatchewan totaled 1,589 in Q1, a 3% rise from prior quarter. Alberta's population is expected to grow by 1.6% in 2017 and 1.7% in 2018, well above the national average. Saskatchewan's population is expected to grow by 1.3% in 2018, down from 1.4% in 2016.

Rising population estimates come alongside encouraging employment numbers in the prairie provinces. Alberta added 23,700 new jobs in the first six months of 2017 alone, and both provinces are expected to see gradual growth in new jobs through the year, according to Statistics Canada.

As in-migration levels stabilize, Mainstreet believes the current oversupply in the rental market will continue to be gradually absorbed. This current oversupply is largely the result of a rapid build out of investor-owned condominiums during times of high economic growth, many of which were later converted into rental units that spilled over into the broader rental market.

Meanwhile, despite stable economic activity, consumers remain cautious. Management believes Mainstreet is well positioned to capitalize on this persisting caution as renters tend to favour middle market prices as they delay major investments like new homes. Again, Management believes Mainstreet's price point average rental rate between \$900 and \$1,000 perfectly aligns with that mid-market demand.

Economic volatility in turn provides Mainstreet with acquisition opportunities. Year-to-date, Mainstreet has purchased \$45 million in new assets across our portfolio. Mainstreet will continue to pursue additional acquisitions on an opportunistic basis.

RUNWAY ON EXISTING PORTFOLIO

- 1) Closing the NOI gap: Over Q3 2017, 9% of the Mainstreet portfolio was going through stabilization process, which contributed to higher vacancy rates. This inherent challenge in Mainstreet's business model is further increased by recent acquisitions, which causes higher rates of unstabilized properties that affect our NOI and FFO. However, Management expects to close this gap over time after stabilization.
- 2) Growing through bricks and mortar: Mainstreet's 100% organic growth model will allow it to continue to boost NOI and FFO while avoiding equity dilution.
- 3) Buying back common shares at a discount to NAV: Mainstreet believes its shares continue to trade well below the NAV. Mainstreet will therefore continue to buy back its 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 Corporation

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