



## MAINSTREET EQUITY CORP. RELEASES ITS Q2 2017 RESULTS

Calgary – May 9, 2017 /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 March 31, 2017.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “Over the last two financial quarters, we have begun to see signs of economic stabilization in our core markets.” Dhillon said, “Amid this improving macro-economic picture, we believe we are now poised for accelerated growth through our 100% organic, non-dilutive growth model.”

In Q1 2017, after posting the first increase in same-asset revenues since Q2 2015, Mainstreet management suggested that we might be witnessing the tail end of a prolonged downward curve in revenues and the results of Q2 2017 appear to reinforce that belief. Amid this improving outlook, we now believe there is opportunity to pursue a targeted growth strategy through opportunistic future acquisitions.

While the Corporation is seeing leveling results in the Alberta and Saskatchewan markets, 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 2% and net operating income (“NOI”) growth of 5% year to date. Mainstreet believes there will be substantial potential for further increases in market rental rates in the region, which could possibly raise the NOI and funds from operations (“FFO”) in future quarters.

### FINANCIAL HIGHLIGHTS FOR Q2 2017:

- Mainstreet continued to demonstrate the effectiveness of its 100% organic, non-dilutive growth model by growing its portfolio without increasing share capital of 8.8 million common shares. Since its inception, Mainstreet’s portfolio has surpassed 10,000 units (it now has a total of 10,182 units) while avoiding equity dilution.
- Purchased 245 units of residential apartments for \$23.1 million (\$94,000 per unit) in Q2 2017, as we continue to pursue our strategy of growth through opportunistic acquisitions during periods of slower economic growth.
- Refinanced \$48.2 million in debts at an average interest rate of 2.84%, including \$9.7 million in pre-maturity debts at an average interest rate of 4.95% and \$28.6 million in clear title assets at an average rate of 2.88% to mostly 10-year, long-term CMHC insured mortgages. These financings resulted in interest savings of \$2.1 million for the entire term of 10 years and raised \$38.5 million in additional funds after pay-out of related penalties.
- Maintained a sizeable year-to-date estimated liquidity position of \$143 million, including a cash balance of \$58 million, to pursue further potential growth opportunities.

Mainstreet

## RESULTS

Rental revenues increased 3% to \$26 million, compared with \$25.3 million in Q2 2016; this came alongside a 2% fall in same asset rental revenues to \$24.6 million, from \$25.2 million in Q2 2016. NOI decreased 7% to \$14.8 million, while falling 11% to \$14.1 million on a same-asset basis. Operating margins dropped to 57% compared to 63% in Q2 2016.

In Q2 2017, FFO increased 5% to \$7.2 million, compared with \$6.9 million in Q2 2016. FFO for the quarter was impacted by one-time pay-out penalties of \$197,000 and an insurance settlement totaling \$2.4 million. Excluding one-time items, FFO decreased 30% to \$5.0 million, compared with \$7.1 million in Q2 2016.

The same-asset vacancy rate remained fairly constant at 8.7%, compared with 8.6% in Q2 2016.

## CHALLENGES

The potential for market volatility remains our biggest challenge, despite improvements in the macro-economic climate in Canada. While Mainstreet is not immune to these broader economic forces, economic risk is inherent in its business model.

The particularly harsh winter in Western Canada caused operating costs to rise in Q2. Unusually low temperatures, especially in the British Columbia market, led to higher-than-expected heating costs. Heavy snowfall also induced higher snow removal costs and other one-time maintenance expenses. In Alberta specifically, the introduction of a provincial carbon tax increased heating costs by an estimated 15%.

Mainstreet's overall vacancy rate in Q2 remained high at 10.7%. Our uncommonly high level of strategic acquisitions over the quarter was largely responsible for the rise. While management views the current vacancy rate as high, our total acquisitions over the past 18 months of more than \$85 million (886 unstabilized units) has consistently raised vacancy rates over the period. Furthermore, management believes this is a finite trend as we continue to undergo the stabilization process through ongoing renovations. As of the quarter end date, 879 units, or 9% of the portfolio, remained in the stabilization, reposition and/or construction process.

Negative economic forces over the past two years have likewise caused significant short positions in Mainstreet's stock. As of April 13, 2017, the short position in Mainstreet totaled 727,219 common shares. However, that short position is smaller than on 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

Management believes that nearly all of the key indicators suggest that the macro economic outlook in Western Canada is stabilizing. Oil prices in April 2017 were roughly 20% higher than the year prior, and energy companies appear to have begun gradually raising their annual capital spending plans. Oil and gas drilling activity also appears to be growing. In January 2017, utilization rates of drilling rigs in Canada were the highest in two years at 43%, according to Petroleum Services Association of Canada (PSAC) data. On a weekly basis, PSAC data show rig counts in the Prairie Provinces remain very robust compared to the year prior.

Broader economic indicators also suggest markets could be on the upswing, particularly in Alberta and Saskatchewan. Alberta added 20,000 new full-time jobs in March 2017, retail sales reached \$6.4 billion in January 2017, marking a 4.8% rise compared with the year earlier. Retail sales in Saskatchewan, meanwhile, increased 6% year-over-year to \$1.7 billion (Statistics Canada).

Alberta's population continues to grow, adding more than 11,000 new residents in Q4 of 2016 according to Statistics Canada. Population growth in Alberta year-over-year was 1.51% in 2016, well above the national average of 0.26%. Saskatchewan's year-over-year population growth rate was exactly equal to Alberta at 1.51%. While in-migration into both provinces remains lower than years prior, net migration numbers appear to be stable.

During prior years of high economic growth, there was a rapid build out of condominiums—particularly in Edmonton and Calgary—which caused oversupply in the market. As a result, some of these investor-owned condos were converted into rental spaces that then spilled over into the broader rental market. However, we believe that steady in-migration levels and improving employment conditions will gradually absorb this oversupply in coming years.

Moreover, despite heightened economic activity, consumers remain cautious. 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, we believe our price point average rental rate between \$900 and \$1,000 perfectly aligns with that mid-market demand.

The labour market remains much cooler than when economic activity was at its peak. This provided Mainstreet the opportunity to bulk up on senior and middle management personnel over the past year as we anticipate rapid future growth. While the increased salary expense has negatively impacted our operating and G&A expenses in the short-term, we believe that building a strong management team is crucial to realizing Mainstreet's long-term growth plans.

#### RUNWAY ON EXISTING PORTFOLIO

- 1) Closing the NOI gap: Over Q2 2017, 9% of the Mainstreet portfolio was going through stabilization process, which contributed to higher vacancy rates. This inherent challenge in our business model is further increased by recent acquisitions, which causes higher rates of unstabilized properties that affect our NOI and FFO. However, we see room to shrink our NOI gap in the second half of 2017, as activity in rental markets is historically higher in Q3 and Q4.
- 2) Buying back shares at discount: We believe MEQ shares continue to trade well below their NAV. We will therefore continue to buy back our own shares on an opportunistic basis under our normal course issuer bid.
- 3) Leveraging our ample liquidity: Finally, we maintain a substantial year to date liquidity position that will allow us to capitalize on opportunities for acquisitions. Management anticipates that our estimated year to date liquidity of \$143 million will translate into roughly \$570 million in acquisition opportunities based on a leverage level of 75%. Following any future acquisitions, we believe our continued organic, non-dilutive growth could significantly boost our NOI per share and FFO per share in the long term.

### **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, economic outlooks, 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, the attraction and hiring of additional personnel 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.*

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SOURCE Mainstreet Equity Corporation

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