



## MAINSTREET EQUITY CORP. RELEASES Q3 2018 RESULTS

Calgary – July 17, 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 June 30, 2018.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “This quarter was a promising indication that our Alberta and Saskatchewan markets are recovering after three years of recession,” he said, adding: “I believe this leaves us well-positioned to capitalize on our 100% organic, non-dilutive growth model which has continued to serve the Company and our shareholders well.”

Management of Mainstreet believes the Q3 results show strong evidence that our core markets are recovering from a prolonged downturn, particularly in Alberta. This trend is supported by growth in same-store revenues and lower vacancy rates, which improved year-over-year and then accelerated in recent quarters. Same-asset revenues rose 2.2% in the last nine months, and 1% year-over-year. Vacancy rates on a same-store basis dropped 280 bp to 8.3% both on an annual basis and since the first quarter.

In Alberta, same-store revenues increased 3.5% between Q2 and Q3—the first quarterly increase in three years. Vancouver/Lower Mainland, comprising 26% of our portfolio, continued its strong performance with a 5.3% increase in same-asset revenues over the last 9 months, rising to \$7.9 million in Q3. Moreover, we believe there is room for continued growth as we enter the high rental season in Q4.

Going forward, Mainstreet will continue to pursue its countercyclical strategy of refinancing debts at low interest rate in order to bulk up its liquidity position and acquire non-performing assets. In Q3, we financed 7 clear titled assets into 10-year, CMHC-insured mortgage loans totalling \$19.8 million at an average interest rate of 2.99%. We have been approved by CMHC to raise another \$11.2 million through the financing of 5 clear titled assets. Year-to-date, Mainstreet has acquired \$123 million in new assets, growing its portfolio 10%. Acquisitions in Q3 alone totalled \$33 million.

### RESULTS

In Q3 2018, FFO increased 16% to \$7.8 million, compared with \$6.7 million in Q3 2017. FFO per basic share increased 17% to \$0.89, compared with \$0.76 in Q3 2017. Rental revenues increased 11% to \$29.3 million, compared with \$26.4 million in Q3 2017. This came alongside a 1% rise in same asset rental revenues to \$26.3 million. NOI increased 10% to \$18.3 million, and increased 2% to \$16.8 million on a same asset basis. Operating margins remained relatively stable at 62.4% over the quarter.

The same asset vacancy rate in Q3 2018 was 8.3%, down from 9.4% in Q3 2017. The overall vacancy rate, which includes vacant units as apartments undergo stabilization, fell year-over-year to 10% from 10.6% in Q3 2017, despite acquiring a high rate of unstabilized units both annually and over the past three years.

Mainstreet acquired \$33 million in new assets in Q3 2018, compared with \$13 million in Q3 2017. Subsequent to the quarter end, Mainstreet further acquired 62 units for \$9.7 million (average \$156,000 per unit) in Calgary, Alberta.

Mainstreet

## **CHALLENGES**

Despite signs of stabilization, Mainstreet continues to face economic uncertainty, which is compounded by rising operating costs due to carbon taxes, interest rate increases, higher property taxes, minimum wage increases, and higher expenses for stabilizing units.

The carbon tax in Alberta, which is set to increase annually, targets property owners and therefore raises our energy costs in Alberta. This comes as the introduction of a federal carbon tax, beginning in 2019, could conceivably raise costs in our Saskatchewan portfolio (the federal levy applies to provinces that do not already have a carbon tax in place). Property tax hikes and the raising of the minimum wage to \$15 per hour in Alberta are anticipated to drive up operating expenses.

Higher operating costs come as interest rates are anticipated to rise through 2018 and 2019, likely increasing the cost of Mainstreet's future debt.

Additionally, the economic climate in our core markets of Alberta and Saskatchewan remains uncertain. While higher commodity prices have led to some incremental increase in oil and gas investment over the past 12 months, spending remains well below pre-recession levels. Unlike the recovery following the 2008-09 crisis, this rebound has been much more gradual and subdued, delaying the recovery of our balance sheet.

Negative macro economic forces have likewise caused short positions (270,700 shares as of June 30, 2018) 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.

Lastly, we believe there could be a potential cooling in the broader investment climate tied to uncertainty around the North American Free Trade Agreement (NAFTA), the threat of new tariffs on Canadian exports, and challenges facing the oil and gas sector in building new pipeline infrastructure. While these existential threats have not impacted us directly, we maintain a cautious outlook.

## **OUTLOOK**

Despite our cautious outlook, we believe our top-line revenue and NOI are set to grow over the next 12 months as the economy slowly improves, which will allow us to continue our non-dilutive organic growth strategy of acquiring under-performing assets funded by low cost, long-term insured CMHC debt financing.

Meanwhile, a gradual improvement in the macroeconomic picture has translated into promising migration numbers. Inter-provincial migration into Alberta grew for the first time in Q4 2017, according to Government of Alberta data, and continued to grow in Q1 2018. Net migration into the province was 8,500 in Q1 2018, the highest in four years. Despite the continuing economic slowdown, Alberta's overall population has continued to grow over the past three years, and increased 1.44% in the year ended April 2018—well above the Canadian average of 1.38%. Saskatchewan had a 2,526 loss in migration over the same period, but its population continues to grow, increasing 0.35% in the year ended April 2018 to 1.14 million people.

Improved population numbers come amid strong signals that the Prairie Provinces are potentially on the upswing. Alberta unemployment rates fell to 6.2% in May 2018, the lowest in nearly three years. Unemployment in Saskatchewan was 6.3% in April 2018, down from 6.4% a year earlier. Alberta led Canada in economic growth in 2017, with total GDP increasing 4.9%, compared with the national average of 3.3% (Statistics Canada). The Conference Board of Canada expects GDP growth in both Prairie Provinces to remain stable in 2018, growing 2.1% in Alberta and 1.6% in Saskatchewan.

These indicators come as the rental market in Alberta appears to be returning to balance. We believe rental markets have been oversupplied in recent years following a rapid build out of condominiums during years of high economic growth, which effectively spilled over into the broader rental space. However, Management believes that this trend has now reached a tipping point, as new tenants continue to absorb that oversupply.

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

This trend among first-time buyers (which usually come out of the overall rental pool) is underscored by tighter borrowing requirements under the Office of the Superintendent of Financial Institutions, introduced last year, which will make it more difficult for first-time homebuyers to secure financing. We believe this could be 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.

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 and FFO. Management believes significant value can be unlocked from this stabilization process over the next 12-18 months. This process will already be underway as we enter Q4, strengthening our balance sheet.

#### **RUNWAY ON EXISTING PORTFOLIO**

- 1) Pursuing our organic, non-dilutive growth model: Using our strong potential liquidity position of approximately \$143 million, we see significant opportunity to continue acquiring new assets at low cost. We believe Mainstreet's business strategy will allow us to continue to boost NOI and FFO while improving quality of living standards for middle class Canadians.
- 2) Closing the NOI gap: In Q3 2018, 13.5% 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 decreases our NOI, FFO and margins. However, we plan to focus our efforts on stabilizing units through 2018.
- 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 monitor our share prices and buy back our own 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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