



MAINSTREET EQUITY CORP RELEASES Q2 2018 RESULTS

Calgary – May 8, 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 March 31, 2018.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “This quarter was a strong illustration of the success of our countercyclical business strategy, which has left Mainstreet well positioned for future growth.” Dhillon added, “Despite many years of economic recession, we have continued to pursue our 100% organic, non-dilutive growth model which has continued to serve the company and our shareholders well.”

In anticipation of a prolonged downturn, our management team crafted a strategy several years ago to refinance our debt at record-low interest rates and acquire new assets at opportunistic prices. This countercyclical strategy allowed Mainstreet to build up a sizeable liquidity position, enabling us to acquire more than \$250 million in new assets (nearly 2,500 new units), grow our portfolio 28% since the beginning of the downturn in early 2015, and buy back 1,641,704 shares through our substantial issuer bid (“SIB”) and normal course issuer bid (“NCIB”) at a discount to our believed true net asset value (“NAV”). We also grew our portfolio 7% (to 11,213 units from 10,480 units) over the fiscal year ended September 30, 2017. This growth strategy has led to sharp improvements in our Q2 financial results, despite it being in the low rental season with typically high operating costs.

Mainstreet’s same asset revenues stabilized in Alberta and Saskatchewan in Q2, displaying strong evidence that Western Canada has broken from a prolonged downward trend. Vancouver/Lower Mainland, comprising 25% of our portfolio, continued to outperform the balance of our portfolio in Western Canada. NOI increased 15% compared with Q2 2017, and the average vacancy fell to a record-low 0.4%, compared with 1.5% the year prior.

RESULTS

In Q2 2018, FFO before insurance settlements and pay-out penalties increased 31% to \$6.5 million, compared with \$5.0 million in Q2 2017. FFO per share before insurance settlements and pay-out penalties per share increased 31% to \$0.74, compared with \$0.56 in Q2 2017. Rental revenues increased 9% to \$28.3 million, compared with \$26.0 million in Q1 2017. This came alongside no change in same asset rental revenues of \$25.7 million. NOI increased 14% to \$16.9 million, and increased 6% to at \$15.6 million on a same asset basis. Operating margins increased to 60% compared with 57% in 2017, despite Q2 being a typically high-cost rental season.

The same asset vacancy rate in Q2 2018 was 9.7%, down from 9.9% in Q2 2017. The overall vacancy rate, which includes vacant units as apartments undergo stabilization, increased year-over-year to 11.3% from 10.7% in Q2 2017, due to increased.

CHALLENGES

Despite financial stabilization in our Alberta and Saskatchewan markets, the uncertain macroeconomic climate remains our primary challenge. While petroleum prices have improved substantially in recent

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months, commodity markets remain inherently unpredictable. Lower commodity prices over the past three years have raised unemployment levels across the Prairie Provinces and caused in-migration levels to slow.

Despite that uncertainty, broader market conditions are improving, and have led to a shift in Canadian monetary policy. Interest rates have risen 75 basis points over the past 12 months, and future rate hikes could increase the cost of Mainstreet debt.

Additionally, due to Mainstreet's high volume of acquisitions during the downturn, our total number of unstabilized assets (61 properties, or 1,294 units) is at an all-time high. This higher unstabilization rate resulted in higher overall vacancies, which rose to 11.3% over the quarter, up from 10.7% in Q2 2017. However, management believes this is a finite trend as we continue to stabilize units through renovations

As a result, the Corporation has begun increasing the rate at which it converts unstabilized units back into finished products, thereby reintroducing them to the market in time for the anticipated higher rental season of Q3 and Q4. This faster conversion rate in turn raises 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 an incremental carbon tax in Alberta, which targets property owners. Heating costs have risen due to marginally higher natural gas prices compared to two years ago.

Negative macro-economic 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 April 16, 2018, the short position on Mainstreet totaled 433,600 common shares, which has decreased by 38% since the beginning of the fiscal year 2017.

OUTLOOK

Over the last three years of economic recession in the provinces of Alberta and Saskatchewan Canada, Mainstreet has acquired more than \$250 million worth of assets at opportunistic prices, emphasizing our countercyclical growth model. Now, as economic activity picks up, management sees that window for acquisitions beginning to close. While we remain conservative in our approach, we expect to take advantage of this opportunity and accelerate our pursuit of value-add acquisitions through 2018.

Similarly, the opportunity to refinance our debts at record-low levels is coming to an end as interest rates rise. In anticipation of Bank of Canada hikes, Mainstreet has already locked in more than 92% of our debt at ultra-low rates, freeing up funds to protect against future rate increases, stabilize new units, and grow our portfolio. We will continue to aggressively pursue this refinancing strategy before interest rates return to their pre-recession levels.

Meanwhile, several economic indicators suggest the Prairie Provinces are on the upswing. Alberta unemployment rates fell to 6.3% in March 2018, the lowest in nearly three years and 2% below March 2017 levels. Unemployment in Saskatchewan fell to 5.6% over the same period, down more than 1% from the year prior. 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.

Oil markets are also showing signs of stability. In April 2018, benchmark prices for crude oil were nearing US\$70 per barrel, the highest since markets collapsed in 2014. Business investment remains below what it was during years of high economic growth. But drilling activity remains stable: the Canadian Association of

Oilwell Drilling Contractors estimates total rig utilization rates in Western Canada will be 32% in Q3 and 37% in Q4, well above the 2017 average.

These indicators come as the rental market in Alberta has begun to return to balance. 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.

This balancing of the rental market comes amid stable in-migration numbers in our Alberta and Saskatchewan markets. In-migration into Alberta in Q4 2017 was 5,599, compared with 2,916 a year earlier, according to Statistics Canada. The province's overall population has continued to grow over the past three years, from 4.15 million to 4.32 million, and grew 1.4% year-over-year in January 2018, higher than the national average growth rate of 1.3%. Saskatchewan in-migration over the same period fell to 492, down from 1,564 a year earlier. Furthermore, 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.

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 mid-cost bracket.

This trend among first-time buyers (which usually come out of the overall rental pool) are underscored by tighter loan 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 Q3 and Q4 of this year, reinforcing our financials in the near-term.

RUNWAY ON EXISTING PORTFOLIO

- 1) Pursuing our organic, non-dilutive growth model: Using our strong potential liquidity position of approximately \$150 million, we see significant opportunity to continue acquiring new assets at opportunistic prices. 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 Q2 2018, 11.5% 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: 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.

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.

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