



MAINSTREET EQUITY CORP. RELEASES Q3 2019 RESULTS

Calgary – July 23, 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 June 30, 2019.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, says, “Our third quarter results are an indication of a gradual shift in the macroeconomic climate in Alberta and Saskatchewan.” He adds, “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 Q3 2019 results mark the fifth consecutive quarter of year-over-year double-digit growth in revenues, net operating income (“NOI”), and funds from operations (“FFO”), continuing a steady improvement in our operations over the last 18 months. Revenues rose 18%, NOI increased 17%, and FFO increased 29% compared with Q3 2018.

The cause of this extended upswing is twofold. First, the economic picture in Alberta has undergone a positive shift over the last year, supported by higher oil prices and the election of the United Conservative Party, which many observers view as being pro-business. In addition, population growth in Alberta has outpaced other provinces, partly due to positive interprovincial migration numbers in recent quarters that have reversed a years-long negative trend. Second, our successful results are a direct result of Mainstreet’s countercyclical growth strategy, which we adopted more than four years ago in anticipation of an economic downturn. The plan included aggressively acquiring underperforming properties at low cost; strengthening our internal resources to more rapidly convert residential units; and locking in the majority of our debt at competitive interest rates, which both reduces our interest costs (Mainstreet’s single-largest expense) and provides low-cost capital to fund future growth. Such opportunistic acquisitions have underpinned Mainstreet’s sharp growth trajectory over the years: The Corporation’s total asset value now exceeds \$2 billion, spread over nearly 13,000 units.

While Mainstreet has capitalized on the macroeconomic shift in Alberta, our diversified portfolio continues to bolster financial results elsewhere. Vacancy rates in Vancouver/Lower Mainland, which makes up 21% of our portfolio, were driven down to 0.3% in Q3 compared with 0.5% a year earlier—an almost record low. In addition, we expanded our Saskatchewan portfolio by 23% since the financial year ended September 30, 2018, where NOI increased by 36% over the quarter compared with 2018.

FINANCIAL HIGHLIGHTS:

- **Growth:** Achieved 100% organic, non-dilutive growth by acquiring \$65.6 million in asset value over the quarter, or \$116,000 per door, most of which are located in Calgary’s inner city. Year-to-date including acquisitions subsequent to the completion of Q3 2019, the Corporation has acquired \$130 million in new asset value
- **Operations:** Increased NOI and FFO, by 17% and 29% respectively, despite an accelerated rate of unstabilized acquisitions over the past couple of years, which typically increases vacancy rates and lowers both operating metrics
- **Vacancy:** Reduced overall vacancy rates to 6.4%, well below the 10.0% rate in Q3 2018

- **Financing:** Raised \$41.6 million in 10-year, long-term CMHC-insured mortgages at an average interest rate of 2.87% to fund our acquisition and growth. The interest rate of our most recent financing dropped to 2.65%
- **Liquidity:** Maintained a liquidity level of approximately \$80 million in Q3, even after approximately \$150 million in acquisitions in 2018, and \$130 million in year-to-date acquisitions in 2019
- **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, will improve our operational efficiencies

RESULTS

Rental revenues in Q3 2019 increased 18% to \$34.7 million, compared with \$29.3 million in Q3 2018; this came alongside an 8% increase in same-asset rental revenues to \$29.5 million, from \$27.4 million in Q3 2018. NOI increased 17% to \$21.3 million, and increased 6% to \$18.4 million on a same-asset basis. FFO increased 29% to \$9.3 million, compared with \$7.2 million in Q3 2018. FFO per basic share increased 21% to \$0.99, compared with \$0.82 in Q3 2018.

Operating margins have remained largely constant, averaging 62% in Q3, despite higher property taxes in the region. The Q3 2019 vacancy rate on a same-asset basis dropped to 5.8%, compared with 9.6% one year earlier. Overall vacancy decreased to 6.4%, down from 10.0% in Q3 2018, due in part to Mainstreet's fast-paced stabilization of assets over the year, and despite a record number of acquisitions in 2018 and 2019 that would typically drive up vacancy rates.

For more detailed analysis of Mainstreet operating results for Q3 2019, please refer to the sections titled "Profit", "Rental Operations", "Funds from Operations-Non IFRS measurement" and "Rental Operations" in our MD&A.

CHALLENGES

Despite gradual improvement in Alberta, negative macroeconomic forces remain our biggest challenge. While benchmark oil prices increased to around US\$60 per barrel in mid-2019, they remain well below the highs of US\$70 at the end of last year — and nowhere near pre-2014 levels. A lack of available pipeline capacity has weighed on Canadian oil prices in particular, and has continued to drive foreign investment away from Alberta and Saskatchewan.

Observers warn that ongoing trade wars between China and the U.S., among other concerns, could trigger a global recession that would ripple through the Canadian economy. Meanwhile, rifts between China and Canada on the trade of meat and other commodities have also dampened investment. In July 2019, the Bank of Canada announced it would hold its overnight interest rate at 1.75%, citing trade uncertainty, and said a rate cut is now equally as likely as a hike in 2020.

Management believes negative macroeconomic forces have likewise caused the ongoing short positions in 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.

Rising operating costs also pose a challenge. While Mainstreet will enjoy roughly six months free of a carbon tax in Alberta in 2019, a federal carbon tax backstop will be imposed in the province beginning in 2020, which in turn raises heating costs for property owners. Various municipalities have meanwhile continued to increase property taxes. Our continued and aggressive stabilization of residential units will also continue to raise overall operating costs for Mainstreet.

Lastly, lower Canadian oil prices have underscored decades of complications in the country's regulatory and legal regime, which have caused delays in large projects like oil pipelines and hydro transmission lines. While

the federal government's June 2019 approval of the Trans Mountain pipeline sent a positive signal, it is still uncertain when the pipeline project can actually be commenced.

OUTLOOK

Management sees plenty of unique opportunities to pursue our countercyclical growth strategy. In particular, we see the potential for more accretive acquisitions, supported by a drop in 10-year interest rates, immigration growth, and tighter stress tests for mortgages announced in 2017, which make it more difficult for first-time homebuyer to secure financing and potentially push more people into the rental market. Similar to 2018, we will also continue our aggressive stabilization strategy, which, management believes should further grow our top-line revenues and NOI, particularly amid a gradually recovering economy.

We view the election of a United Conservative Party as broadly positive for the business climate in Alberta. The party has mulled corporate tax cuts and other business-friendly policies, according to media reports, which could improve investor sentiment.

Meanwhile, Alberta's population grew 1.73% in the year ended March 31, 2019, outpacing all other provinces and performing well above the national average of 1.41. In-migration into Alberta was 10,474 in Q1 2019, up from 7,483 in Q1 2018, according to the provincial government. The increase was driven largely by higher interprovincial migration in the quarter of 3,428, after several years of negative migration flows.

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 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 6.6% in June 2019, or equal to a year earlier, despite faster population growth in province. Saskatchewan unemployment was 5.1% in June 2019, down from 6.2% in June 2018. British Columbia's unemployment rate was 4.4% in the same month, and has remained among the lowest in Canada. A tight market in B.C. drove up Mainstreet's top-line revenues in the province by 8% in Q3, the highest in several quarters.

Mainstreet believes these positive indicators have in turn helped return the Alberta 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, our mid-market rental rate, with a price-point average between \$900 and \$1,000, is perfectly positioned to attract 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 mid-market rental bracket.

RUNWAY ON EXISTING PORTFOLIO

- 1) Closing the NOI gap: In Q3 2019, 20% of the Mainstreet portfolio was going through the stabilization process, even as we achieved lower overall vacancy rates compared to 2018. We believe this provides us plenty of room to lower that imbalance as we enter the final quarter of 2019.
- 2) Pursuing our 100% organic, non-dilutive growth model: Using our strong potential liquidity position of approximately \$80 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 boost 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.

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.

SOURCE Mainstreet Equity Corporation

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