



Mainstreet Equity Corp. Reports Five Straight Years of Double-Digit Growth in Key Metrics

Calgary, December 9, 2015 – Mainstreet Equity Corp. (“Mainstreet” or “The Corporation”) is pleased to report its year-end figures which show a landmark achievement of five consecutive years of annual double-digit growth in funds from operations (“FFO”) and net operating income (“NOI”). In fiscal year 2015, pre-tax FFO from continuing operations was up 24%. NOI from continuing operations increased 12%. Furthermore, Mainstreet’s revenue from continuing operations exceeded \$100 million in 2015, another milestone achievement of the Corporation.

Bob Dhillon, Founding CEO of Mainstreet, says, “I’m proud and excited that we have generated double digit growth for Mainstreet shareholders for five straight years. This is a major milestone for our company and for me personally. Mainstreet has established a disciplined business model as a mid-market, value-added consolidator of apartments in western Canada. From the earliest days, I have been committed to making Mainstreet an outstanding builder of apartment portfolios. Half a decade of continuous high-level performance, with each year better than the one before, is a testament to our remarkable success in doing this.”

Mr. Dhillon says that The Corporation’s guiding principle is to create value for investors through several key advantages. Average apartment rental prices are about \$1,000 per month, in the middle of the market, which means Mainstreet is less buffeted by economic unease than the top end of the market. The portfolio is diverse with more than 31% of units in locations not heavily dependent on the energy sector. Low interest rates provide access to low-cost capital for future acquisitions. Undervalued shares create a sound opportunity for Mainstreet to re-purchase its undervalued shares, which we believe constitutes a sound investment that returns capital to shareholders in a tax-efficient manner, while being accretive to NAV. There is over \$160 million in liquidity available to make non-dilutive acquisitions. There are 1,105 unstabilized units that offer opportunities for further increases in NOI and FFO. We believe that these unstabilized units can be stabilized within the next 12 months.

“While we were affected by the downturn in the economies of Alberta and Saskatchewan, we benefited from the strong position of the British Columbia economy. During the last economic downturn, Mainstreet bought back shares and prepared ourselves for more growth. This time, we’re in an even better position. We have enough liquidity for \$640-million in new acquisitions. The slowing economy has created new hiring opportunities and Mainstreet is moving to internalize variable costs by recruiting people skilled in pest control, plumbing, electrical contracting and general carpentry. This allows us to internalize costs and further strengthen our operations when the economy stabilizes again.

“Five years of consistent growth have proven how well Mainstreet’s value-added business model works. We create new value by making opportunistic and disciplined acquisitions while maintaining careful operational management. This two-pronged approach served us well when the economy was strong. But we feel it is especially compelling during a period of economic uncertainty, a time that

affords new possibilities for expansion at reasonable costs. Mainstreet's substantial liquidity places it in a particularly favourable position to capitalize on current conditions," says Mr. Dhillon.

RESULTS

In fiscal year 2015, pre-tax FFO from continuing operations was up 24% to \$31.8 million, an increase from \$25.6 million in 2014. FFO from continuing operations per basic share before and after income tax increased 25% and 18% to \$3.06 and \$2.89 respectively. NOI from continuing operations increased 12% to \$67.3 million, while growing 6% to \$62.8 million on a same asset basis. Mainstreet's revenue from continuing operations rose 11% to \$100.6 million, up from \$90.6 million in 2014; this included a 5% rise in same asset rental revenues to \$92.9 million, from \$88.3 million in 2014. The same asset operating margins improved to 68%, from 67% last year.

The same asset vacancy rate decreased year-over-year to 6.5% from 7.4% in 2014. The overall 2015 vacancy rate, which includes vacant units as apartments undergo stabilization, decreased to 7.5% as compared to 7.7% in 2014. As of December 1, 2015, our vacancy rate – excluding unrentable units currently undergoing renovations – stood at 7%.

During the 2015 fiscal year, Mainstreet financed \$22.5 million in maturing mortgages and clear title assets to 10-year, CMHC-insured fixed-rate debt at a weighted average interest rate of 2.6%. On average, refinancing of existing mortgages was completed at 190 basis points below that of matured mortgages, creating \$438,000 in annual interest expense savings. By refinancing, we also extracted \$60.1 million in additional funds, while at the same time extending our debt maturities and mitigating interest rate risk.

Under our normal-course issuer bid, Mainstreet repurchased and cancelled 197,830 shares in fiscal year 2015 at a weighted average price of \$37.15 per share or an aggregate amount of \$7.3 million.

CHALLENGES

Alberta and Saskatchewan together account for about 70% of Mainstreet's total rental portfolio. The economy in these provinces has been affected by continued weakness in petroleum, natural gas and other commodity prices, which has led to large numbers of layoffs and slowing in-migration figures. Pressure on rental pricing and vacancies may occur.

However, Mainstreet remains cautiously optimistic and believes the commodity price volatility also creates a series of opportunities that are discussed at greater length in the Outlook section below.

The renovation and repositioning of properties also temporarily raises the overall vacancy rate and hampers NOI performance. However, Mainstreet believes that its unstabilized portfolio (12% of the rental portfolio) is one of its greatest levers for future growth in NOI and FFO.

OUTLOOK

Five years of consistent growth have proven how well Mainstreet's value-added business model works. Slower economic growth has coincided with lower natural gas prices for heating and an easing in labour market pressure, both substantial cost areas for Mainstreet. An uncertain economy also tends to be supportive of the rental market, as consumers tend to delay large purchases like new homes.

There are other reasons, too, for cautious optimism about Mainstreet's ability to continue growing, and to position to make the most of the next economic cycle:

Buying in our backyard, enjoying a strong coastal economy

Mainstreet sees significant opportunity in Alberta and Saskatchewan, which form the heart of its operations. With decreasing bids on properties of interest, there are more chances to buy in our backyard and Mainstreet is moving accordingly. British Columbia, meanwhile, is enjoying some of the strongest economic performance in Canada. Buoyant conditions there have lowered vacancy rates, while operating costs have remained low.

Bolstering talent

The slowing economy has created new hiring opportunities and Mainstreet is moving to internalize variable costs by recruiting people skilled in pest control, plumbing, electrical contracting and general carpentry.

Running down the runway: ample liquidity, low interest rates

Mainstreet has four primary levers for growth in the coming year:

- 1) Mainstreet anticipates over \$160 million in available potential liquidity by the end of fiscal year 2016. Based on a leverage level of 75%, this large liquidity position equates to roughly \$640 million in buying capacity, and positions Mainstreet to act decisively when acquisition opportunities arise.
- 2) Inexpensive borrowing: Mainstreet has successfully negotiated a historically low spread with our major lenders, which has created a further reduction in borrowing costs. The interest rate of our latest 10 year, CMHC insured mortgage was 2.51%.
- 3) Finding ways to add value: Mainstreet has successfully transformed obsolete retail areas and amenity spaces into seven residential suites in Edmonton in 2015, and is in the process of transforming an additional 14 suites in Edmonton, Calgary and Abbotsford.
- 4) Extracting more value from the existing portfolio: Mainstreet currently hold 1,105 unstabilized units (approximately 12% of the portfolio), in addition to other units currently operating below market rent. We believe that the financial effect of closing the gap in these areas alone offers opportunity for a further increase in NOI and FFO and expect that these unstabilized units can be stabilized within the next 12 months.

For further information:

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