



MAINSTREET EQUITY CORP. RELEASES Q3 2020 RESULTS

Calgary – August 11, 2020/CNW/ – The global pandemic continued to spread economic uncertainty in the third quarter of 2020. For Mainstreet, that meant shifting our priorities from financial performance toward furthering our social responsibility, in order to ensure the health and safety of our team and of our tenants. We viewed this strategy as absolutely necessary, particularly as the provider of an essential service with customers spread across 13,579 units year-to-date (“YTD”). Supporting our customer base—including financial assistance for residents struggling to pay rent—will remain top of mind through succeeding quarters.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “The COVID-19 pandemic presented Mainstreet with truly unprecedented circumstances over the third quarter, and I am proud that our management team responded with a conscious decision to put people first.” He added, “Despite some headwinds, however, we now see unparalleled opportunities for organic growth in the second half of fiscal 2020.”

Mainstreet’s management team still managed to achieve its 9th consecutive quarter of double-digit growth in funds from operations (“FFO”) in Q3, which saw a 17% boost from Q3 2019. We also posted a 10% increase in net operating income (“NOI”) and an 8% rise in revenues. We believe these results speak to the extraordinarily resilient nature of the mid-market rental industry, which has remained relatively stable even as other sectors encounter immense disruption. We achieved a rent collection rate of 98% in June and 97% in July — figures that are nearly identical to our monthly average, and which speak to the essential nature of Mainstreet’s business model.

Our management team has always been nimble in its approach to changing market conditions. In anticipation of the 2015 economic recession, we implemented a countercyclical growth strategy that involved aggressively acquiring new assets at low cost, which we funded through low-interest debt. We will continue this versatile management approach through the pandemic, which, we believe, now presents Mainstreet with an even greater opportunity to generate value for shareholders.

FINANCIAL HIGHLIGHTS:

- 8% - Growth in rental revenue
- 10% - Growth in net operating income (NOI)
- 17% - Growth in funds from operations (FFO)
- \$35.2M - Additional funds raised through long term refinancing at a low average interest rate of 1.76%
- \$89.4M – FY2020 year-to-date acquisitions

CHALLENGES

The pace of Canada's economic reopening remains highly uncertain, which in turn creates a lack of clarity around government policy. The federal government has signaled plans to wind down its \$80-billion Canada Emergency Response Benefit (CERB) program by end of August, which should incentivize more people to return to the workforce. However there remains a lack of clarity around what degree of financial assistance will remain in place for the second half of fiscal 2020. The tapering of such assistance programs could negatively influence the ability of some Mainstreet tenants to pay their rent, potentially impacting revenues and increasing expenses for bad debts.

Near-term in-migration numbers are also unclear. The temporary closure of the Canadian border has restricted the inflow of foreign students and immigrants, potentially affecting Mainstreet's occupancy. Even prior to the current pandemic, total in-migration in each of our markets, other than Alberta, decreased slightly in Q1 2020 as economic restrictions remain in place. However, our management team is of the belief that these slowdowns should be temporary, and we anticipate that the population in our core markets will continue to expand over the longer term.

Rising operating costs continue to pose a challenge. Paid leave was extended to team members whose children were not able to attend school, while broader social distancing requirements lowered overall workplace productivity. Costs for additional cleaning, sanitizing, human resources, and the purchase of personal protective equipment ("PPE") also increased expenses.

General and administrative costs have also risen with the purchase of new technological systems, which Mainstreet believes will improve operational efficiencies over time. Finally, increases in property taxes (including a 15% rise in Calgary), a 35% rise in insurance costs, and a carbon tax, which came into force in Alberta in 2020, have added to these temporary cost incursions.

OUTLOOK

Despite the current headwinds, Management believes that current economic volatility will present opportunities that vastly outweigh any near-term downside operating risks faced by Mainstreet. We expect that lower costs for acquisitions and debt (**the two biggest factors affecting our future growth**) will drive unparalleled opportunities to organically expand our portfolio. We plan to aggressively accelerate our countercyclical growth strategy, as we expect fewer overall buyers and panic-driven selling in the real estate market to create favorable buying conditions.

Those opportunities for growth will be underpinned by the current near record-low interest rates, which reduce our cost of capital and bolster our liquidity position. In the next 24 months, for example, Mainstreet has \$160 million in maturing debts at 3.5% interest. We are hopeful that if the current interest rate environment persists, we may be able to lock in those rates upon renewal at around 1.6%. Additionally, we estimate that Mainstreet will have access to approximately \$240 million in available liquidity in the next 12 months (assuming current lending criteria and continuing low interest rates) that can also be deployed for the purpose of acquisitions.

We believe the mid-market rental industry will remain an essential and safe asset class, underpinned by long-term market fundamentals, like rising populations and relatively low supply of new rental units. Unlike past recessions, we do not view the current downturn as structural. The gradual lifting of restrictions should return the economy to near capacity, even if a full rebound remains some way off.

While migration inflows are well below normal levels, our core markets have remained reasonably stable. Alberta was the only province to post positive in-migration figures in Q1 2020, according to Government of Alberta data, rising by 1.8% compared to the previous year (9,326 new migrants, up from 9,165 in Q1 2019). While the Prairie Provinces will remain at the core of Mainstreet's portfolio, our management team has also been undertaking diversification efforts to expand our footprint in Vancouver/Lower Mainland, mainland British Columbia, and other locations outside Alberta and Saskatchewan.

Unlike the oil collapse of 2014, which occurred a time of oversupply in the rental market, the current downturn comes at a time when the market has continued to return to balance. In 2019, vacancy rates for purpose-built rental units in metropolitan Edmonton fell to 4.9%, down from 5.3% a year earlier, according to CMHC data. Vacancy rates in Calgary have fallen as low as 3.9%. Vancouver/Lower Mainland (which comprises 21% of our portfolio) continues to have among the lowest vacancy rates in Canada, at just over 1%.

We believe that recent moves by CMHC to tighten lending requirements for homebuyers, effective July 1, are likely to support the rental market. We also believe that ongoing employment uncertainty, and the general threat of continued economic turmoil, will cause would-be homebuyers to delay major purchases. In our opinion, Mainstreet's mid-market rental rate, with a price-point average between \$900 and \$1,000, are perfectly positioned to attract would-be renters in today's market.

RUNWAY ON EXISTING PORTFOLIO

1. Pursuing our 100% organic, non-dilutive growth model: Using our strong potential liquidity position which we estimate will be approximately \$240 million in the next 12 months, we believe there is significant opportunity to continue acquiring new assets at low cost.
2. Closing the NOI gap: In Q3 2020, 10% of the Mainstreet portfolio was going through the stabilization process. Once stabilized, we believe same-asset revenue, vacancy rate, NOI and FFO will be meaningfully improved.
3. Leveraging our loss-to-lease: We believe our Vancouver/Lower Mainland market, which makes up 21% of our portfolio (2,799 units), offers a significant opportunity for future same-store NOI growth. This is partly due to a continued increase in market rates, combined with rules under the provincial Tenancy Act that has kept some annual rent rate increases substantially below the rest of the market, resulting in loss-to-lease of approximately \$247 per unit per month. Currently, over 95% of our tenants in the region are below the market average. With an average annual turnover rate of about 25%, we expect our NOI will continue to improve while we reduce our loss-to-lease over time.
4. Lowering interest costs: The current 10-year, CMHC-insured mortgage rate falls between 1.6% and 1.7%. We expect interest rates to remain low in the near term, and we believe that our refinancing of these maturing debts will result in a substantial reduction in future mortgages expenses. Mainstreet's total \$1.1 billion in debt is currently at an average of 2.8% interest, in the event that this average interest rate decreases, management believes there is significant opportunities for savings in interest cost in future years.
5. Buying back shares at a discount: We believe MEQ shares continue to trade below their true 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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