

Mainstreet Equity achieves tenth consecutive quarter of double-digit growth in Q2

May 7, 2024 - CALGARY - Mainstreet posted our tenth consecutive quarter of double-digit, year-over-year growth across all key operating metrics in Q2 2024. Funds from operations (“FFO”) before current corporate tax increased 46%, near the fastest rate in Mainstreet history. Net operating income (“NOI”) rose 23%, same-asset NOI grew 17%, rental revenues increased 19%, and operating margins improved to 61%.

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “Our latest results yet again demonstrate the success of Mainstreet’s value-add business model, continuing our more than 20-year legacy of delivering non-dilutive organic growth to shareholders.” He added, “In this time of structural housing undersupply, Mainstreet remains a proud provider of affordable, quality, renovated living for middle-class Canadians.”

We believe these highly positive results are consistent with the proven success of Mainstreet’s value-added business model. Since Mainstreet began trading on the TSX in 2000, we have expanded our portfolio from a handful of rental units to close to 18,000 units (YTD), allowing the Corporation to organically build a \$3.2 billion asset base with no equity dilution. Over that period, Mainstreet has stuck to a countercyclical strategy of leveraging low cost of capital and our sizable liquidity position (\$396 million) to acquire underperforming rental properties at attractive prices.

Our solid operating performance and Q2 results are underpinned by a few distinct drivers that we believe will continue to create opportunity for Mainstreet’s continued 100% organic, non-dilutive growth.

- **Housing shortages:** Fundamentally, an imbalance between supply and demand in Canada’s housing market appears poised to persist for years. According to CMHC estimates, the country needs to build more than 3.5 million new homes by 2030 in order to close the current housing supply gap, as explosive population growth drives demand to new highs.
- **Structural rental supply gaps:** That broader housing imbalance has filtered down into the purpose-built rental space. Canada’s entire rental universe consists of around 2.3 million apartments (CMHC), which is less than the 2.49 million people the country added to its population in the last three years alone (Statistics Canada). Supply of new purpose-built rental housing, meanwhile, remained flat over that same three-year period, with just 133,204 apartments added. That has helped push vacancy rates to record lows (1.5%, according to CMHC data) with little indication the market can swiftly return to balance. A combination of high interest rates, rising construction costs, longer construction periods and red tape for apartment builders—as well as a sharp rise in the rental rates that would be required to justify new development—suggest new supply will be limited and slow to enter the market, and will therefore continue to lag demand.

- **GDP and population growth:** Housing market trends are further bolstered by strong macroeconomic tailwinds. Canada will continue to see robust levels of immigrants, international students and temporary workers entering the country in coming years (see Outlook section below) that will compound housing market imbalances and feed broader economic growth. Alberta in particular is expected to lead the country in coming years, with 2.9% GDP growth projected in 2024, forecasted by Alberta's Budget 2024.

Amid strong market fundamentals, demand for rental units continues to grow in Mainstreet's core areas of operation. In Calgary, month-to-month demand for rental housing increased 23% in March 2024, according to Rentsnyc data. Demand also rose sharply in Abbotsford (23%), Surrey (21%), Edmonton (8%), Saskatoon (18%) and Winnipeg (15%).

We believe the combination of these numerous positive signals underscore the inherent reliability of the rental space, which has remained stable at a time when other sectors are encountering uncertainty and disruption. Those fundamentals in turn provide a bedrock for Mainstreet to continue aggressively expanding our portfolio through non-dilutive acquisitions and boosting NOI through the rapid stabilization of units (See Outlook and Runway sections below).

CHALLENGES

Inflation and cost pressures

Despite positive macroeconomic tailwinds, rising costs continue to pose a challenge to Mainstreet. Higher interest rates increase the cost of Mainstreet debt, our single-largest expense. (Mainstreet has locked in 99% of our debt into CMHC-insured mortgages at an average interest rate of 2.93%, maturing in 5.4 years, to proactively protect us against any eventual rate increases—see Outlook section below). Inflation also impacts numerous key operating expenses like labour, property taxes and materials, which all lead to raising of overall costs.

Additionally, due to strong growth and solid financial performance over the past 24 years, we are now liable for corporate taxes for one of the first times in Mainstreet's history. We view our performance as an unmitigated success, and do not expect a material impact on Mainstreet's overall performance going forward.

Combatting higher expenses

Mainstreet works on multiple fronts to counteract rising expenses. By securing longer-term natural gas contracts, we substantially reduced energy costs across a large portion of Mainstreet buildings. We also managed to reduce our insurance costs—a sizable Mainstreet expense—by more than 13% for fiscal 2024 by obtaining improved premium rates and coverage. Still, major fixed expenses like maintenance and utilities, property taxes and apartment repairs remain high. Carbon taxes, which place the financial burden on property owners, increased from \$65 per tonne to \$80 in April. Despite our best efforts to control costs where possible, inflationary pressures nonetheless introduce added financial burdens that will, in some cases, be passed onto tenants through soft rent increases over an extended period of time.

OUTLOOK

Putting the S in ESG

Tight rental markets will continue to underscore Mainstreet's position as a crucial provider of affordable, quality housing in Canada. At a time when some members of the public perceive rents to be rising without restraint, Mainstreet offers renovated, quality apartments and customer services at a mid-market rental rate that has averaged around \$1,150. We believe this dedication to social responsibility and affordable living lends meaningful support to the numerous middle-class and lower-income Canadians currently facing affordability challenges.

BC continues to perform

We expect Vancouver/Lower Mainland will continue to provide exceptional growth in 2024. British Columbia is a vital aspect of Mainstreet's portfolio, accounting for approximately 43% of our estimated net asset value ("NAV") based on IFRS value. With an average monthly mark-to-market gap of \$714 per suite per month, 98% of our customers in the region are below the average market rent. According to our internal estimates, that translates into approximately \$29 million in same-store NOI growth potential after accounting for tenancy turnover and mark-to-market gaps.

Calgary and Edmonton lead population growth

Alberta, which comprises the largest portion of Mainstreet's portfolio (56%), had the fastest population growth of any province in 2023 at 4.4%. The province welcomed 202,000 new residents in 2023—the fastest rate of annual growth since 1981. We believe the province will continue to lead national growth averages in 2024, in line with estimates from Deloitte.

Saskatchewan market remains robust

Vacancies in our Regina and Saskatoon markets remain low amid high levels of in-migration into the province, and Mainstreet is anticipating rental increases in the region in fiscal 2024-25. In Q4 of last year, Saskatchewan had 6,517 net migrants enter the province according to Government of Saskatchewan, higher than any previous record before 2023.

Strong international migration

High immigration rates will continue to bolster Mainstreet's core markets. The federal government plans to stabilize immigration starting 2026, but will maintain a target of 500,000 newcomers per year, which is more than previous averages. In 2023, 97.6% of Canada's population growth came from international migration, according to Statistics Canada, as the country welcomed 471,000 permanent immigrants and 804,000 international students and temporary foreign workers. While Ottawa has put a two-year limit on student visas, reducing intake 35% from 2023 levels, Canada will still approve 360,000 new study permits in 2024, according to its own estimates.

Turning intangibles to tangibles

In 2024, we see multiple opportunities to expand our portfolio. To combat the ongoing housing shortage, Canadian municipalities are beginning to increase density through rezoning efforts. Mainstreet, with an extensive portfolio of more than 800 centrally-located, low density buildings - as well as buildings with subdividable residual lands - is well placed to similarly extract more value out of existing assets and additional lands for development at no cost. Management has

therefore been developing a three-point plan to 1) turn unused or residual space within existing buildings into new units 2) explore zoning and density relaxations to potentially build new capacity within existing land footprints and 3) subdivide residual lands for future developments. We view this as a major driver of future growth in the longer-term, and further evidence of Mainstreet's inherent intangible value. While these efforts remain in the very early stages, Mainstreet has already created 55 units through this plan using our existing assets and at minimal cost.

A long-term view on short-term debt

As debt markets shift due to rising interest rates, Mainstreet continues to take an adaptive approach to our mortgage positions. In the past, when interest rates were lower, Mainstreet locked in its mortgages at longer-term, 10-year maturities to maximize savings. Now that rates are higher, we have shifted toward shorter-term debt obligations, which we believe will yield more cost reduction should interest rates eventually fall.

Widening Mainstreet's investor base and increasing trade volume with a nominal dividend

Mainstreet started offering a nominal dividend (\$0.11 per share per year) beginning Q1 2024. Given our strong cash flow generation, Mainstreet's management team determined we were well placed to establish a small dividend to help widen our shareholder base, increase trading volume and elevate our market capitalization without negatively impacting liquidity for future non-dilutive organic growth. As we continue to monitor the effectiveness of our dividend policy, we are encouraged by early indications that it has performed as Management originally intended. As always, Mainstreet will continue to derive growth in a way that is 100% organic, pursuing acquisitions funded by low-cost capital.

RUNWAY ON EXISTING PORTFOLIO

1. Expanding our portfolio: Using our strong potential liquidity position, currently estimated at \$396 million, we believe there is significant opportunity to continue acquiring underperforming assets at attractive valuations. As such, Mainstreet will continue to solidify its position as a leader in the add-value, mid-market rental space in Western Canada.
2. Closing the NOI gap: As of Q2 2024, 13% of Mainstreet's portfolio was going through the stabilization process amid high levels of add-value acquisitions. Once stabilized, we remain confident that same-asset revenue, vacancy rates, NOI and FFO will continue to improve. We are cautiously optimistic that we can increase cash flow in coming quarters. In the BC market alone, we estimate that the potential upside based on mark-to-market gaps for NOI growth is approximately \$29 million. The Alberta and Saskatchewan markets in particular also has substantial room for mark-to-market catch up.
3. Buying back shares at a discount: We believe MEQ shares continue to trade below their true NAV, and that ongoing macroeconomic volatility could intensify that trend.

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 the effect of rising interest rates on the Corporation, the effect that inflation will have on: (i) the Corporation's tenants and the effect on credit risk; and (ii) the cost of renovations and other expenses, disruptions effecting the global supply chain and energy and agricultural markets (including as a result of geopolitical turmoil including Russia's invasion of Ukraine and other geopolitical conflicts), future acquisitions, dispositions and capital expenditures, future vacancy rates, increase of rental rates and rental revenue, future revenue, income and profitability, timing of refinancing of debt, access to low-cost long-term Canada Mortgage and Housing Corporation ("CMHC") insured mortgage loans, benefits from shorter term mortgages in the short term, the amount of liquidity the Corporation will have access to in the current fiscal year, including the amount of funds to be raised through up-financing of maturing mortgages and financing of clear titled assets after stabilization, the potential changes in interest and mortgage rates, completion timing and costs of renovations, benefits of renovations, funds to be expended on renovations in fiscal year 2024 and the sources thereof, increased funds from operations and cash flow, access to capital, minimization of operating costs, the Corporation's liquidity and financial capacity, the Corporation's intention and ability to make distributions to shareholders in fiscal 2024, improved rental conditions and decreased vacancy rates, rates of international immigration and population growth in areas where Mainstreet operates, the period of time required to stabilize a property, future climate change impact, the Corporation's strategy and goals and the steps it will take to achieve them, changes in zoning laws and potential benefits to Mainstreet as a result of the same, the Corporation's anticipated funding sources to meet various operating and capital obligations, key accounting estimates and assumptions used by the Corporation, the attraction and hiring of additional personnel, the effect of changes in legislation on the rental market, expected cyclical changes in cash flow, net operating income and operating margins, the effect of environmental regulations on financial results, the effect of income taxes on the Corporation, the handling of any future conflicts of interests of directors or officers, the effects of cyber incidents on the Corporation, the benefits in trading volume from the Corporation's new dividend policy, 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 the Corporation's AIF, dated November 30, 2023

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, , the effect of inflation on consumers and tenants, the effect of rising mortgage and interest rates on the Corporation, including its financing costs, challenges related to up-financing maturing mortgages or financing of clear titled assets after stabilization, public health measures (including travel and post-secondary restrictions), disruptions in global supply chains, labour shortages, the length and severity of geopolitical conflict and the occurrence of additional global turmoil and its effects on global markets and supply chains, costs and timing of the development or renovation of existing properties, availability of capital to fund stabilization programs, other issues associated with the real estate industry including availability of labour and costs of renovations, supply chain issues, fluctuations in vacancy rates, general economic conditions, competition for tenants, unoccupied units during renovations, rent control, fluctuations in utility and energy costs, carbon tax increases, environmental and other liabilities, effects of climate change, credit risks of tenants, availability of capital, changes in legislation and regulatory regime applicable to the corporation, loss of key personnel, a failure to realise the benefit of acquisitions and/or renovations, the effects of severe weather events on the Corporation’s properties, cyber-incidents, climate change, uninsured losses, fluctuations in the capital markets and the trading price of the Common Shares, conflicts of interest of the Corporation’s directors and officers, and other such business risks as discussed herein. This is not an exhaustive list of the factors that may affect Mainstreet’s forward-looking statements. Other risks and uncertainties not presently known to the Corporation could also cause actual results or events to differ materially from those expressed in its forward-looking statements.

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 Corp.

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