

Mainstreet Equity achieves 11th quarter of double-digit growth in Q3

July 23, 2024 - CALGARY, Alberta – In Q3 2024, Mainstreet posted our 11th consecutive quarter of double-digit, year-over-year growth across all key operating metrics. Funds from operations (“FFO”) before current income taxes grew 32%, net operating income (“NOI”) increased 19%, same-asset NOI rose 15% and rental revenues increased 17%. Overall operating margins improved to 64% in Q3 2024, up from 63% last year. Same-asset operating margins over the same period also increased to 66%, up from 64%.

Key metrics | Q3 2024 Performance Highlights

Rental Revenue

From Operations	Up 17% to \$63.3M (vs. \$53.9M in Q3 2023)
From same asset properties	Up 12% to \$56.6M (vs. \$50.5M in Q3 2023)

Net Operating Income (NOI)

From Operations	Up 19% to \$40.5M (vs. \$34.0M in Q3 2023)
From same Asset Properties	Up 15% to \$37.1M (vs. \$32.2M in Q3 2023)

Funds from Operations (FFO)

FFO - before current income tax	Up 32% to \$23.5M (vs. \$17.8M in Q3 2023)
FFO - per basic share-before current income tax	Up 32% to \$2.52 (vs. \$1.91 in Q3 2023)
FFO - after current income tax	Up 24% to \$22.1M (vs. \$17.8M in Q3 2023)
FFO - per basic share-after current income tax	Up 24% to \$2.37 (vs. \$1.91 in Q3 2023)

Operating Margin

From Operations	64% (vs. 63% in Q3 2023)
From same asset properties	66% (vs. 64% in Q3 2023)

Net (Loss) Profit

Net (Loss) Profit Per Basic Income	Net loss of \$15.8M (vs. net profit of \$34.2M in Q3 2023) including changes in fair value of \$19.5M in Q3 2024 vs \$23.8M in Q3 2023 and deferred income tax expense of \$58.1M in Q3 2024 vs \$57.5M in Q3 2023
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Total Capital Expenditure

Total Capital Expenditure	\$6.2M (vs. \$6.2M in Q3 2023)
Total Capital Expenditure (unstabilized assets)	\$1.0M (vs. \$0.9M in Q3 2023)
Total Capital Expenditure (stabilized assets)	\$5.2M (vs. \$5.3M in Q3 2023)
Stabilized units	416 Properties (15,632 units) out of 477 properties (18,297 units)

Vacancy rate

From operations	2.8% (vs. 4.7% in Q3 2023)
From same asset properties	2.7% (vs. 4.3% in Q3 2023)
Vacancy rate as of 18th July 2024	2.8% excluding unrentable units

Total Acquisition

During Q3 2024	\$91.6M for 632 units (vs. \$17.7M for 130 units in Q3 2023)
Total YTD Acquisition 2024	1,242 units (\$168.8M)

Total units

As of June 30, 2024 and YTD 18,351 units (including 54 condo suites acquired and held for resale)

Fair Market Value

Up 9% to \$3.33B (vs. \$3.05B in 2023)

Liquidity Position

\$301M

Bob Dhillon, Founder and Chief Executive Officer of Mainstreet, said, “Mainstreet’s third-quarter results underscore the success of our value-add business model, which has allowed us to generate compounding returns for shareholders over an extended period of time.” He added, “Through our flexible and effective operating strategy, our management has repeatedly demonstrated the ability to create value no matter where Mainstreet is in the economic cycle.”

Q3 2024 FINANCIAL HIGHLIGHTS

- **Acquisitions set new record:** Mainstreet acquired 632 units (1,242 units year-to-date) for \$91.6 million, our biggest quarter ever. The aggressive buying strategy was partly the result of an opportunity Mainstreet identified ahead of the increased capital gains inclusion rate (effective June 25, 2024) that, together with high interest rates and economic uncertainty, led real estate owners to shed assets, creating highly accretive buying opportunities.
- **Vacancy rates continue to improve:** Vacancies dropped to 2.8%, down from 4.7% a year earlier (despite 15% of units being unstabilized). That is Mainstreet’s lowest such rate in more than 10 years, and comes as a result of the continued strength of the rental market as well as our long-term efforts to allocate capital toward unit renovations that effectively drive down vacancies and boost NOI.
- **Liquidity remains strong:** Despite high levels of recent acquisitions, particularly in Q3, Mainstreet continues to sit atop \$301 million in readily-deployable liquidity, even after \$170 million in acquisitions YTD. Mainstreet’s liquidity reserves underscore the strength of our balance sheet, and continue to provide opportunity for further non-dilutive, organic growth.

We believe Mainstreet’s consistently strong performance illustrates the flexibility and effectiveness of our management team’s value-add business strategy. By remaining nimble in our business approach, Mainstreet has continued to capitalize on opportunities in the market no matter where we are in the economic cycle. This adaptiveness forms the foundation for our countercyclical growth strategy, which has allowed Mainstreet to generate decades of shareholder value without equity dilution. Mainstreet derives its value from tangible, real-world assets, and our portfolio now comprises more than 18,300 rental units, clustered around inner-city neighbourhoods across several major Western cities. That leading position in the rental market provides a solid bedrock for organic, non-dilutive growth, and reinforces Mainstreet as a mid-market, value-add investment proposition and an outlier in the financial market.

Also, in Q3, solid market fundamentals continued to define the rental housing space. The chronic supply-demand imbalance that has fueled a housing shortage is set to persist for years: Canada will have to build at least 3.5 million new homes by 2030 to ease the current lack of new homes, according to CMHC data. Several key trends, detailed below, explain the systemic housing gap:

- **Supplies lagging:** Canada added just 131,003 purpose-built rental apartments in the three years ended 2023, a fraction of the 2.3 million units that comprise the country's entire rental universe. Adding to the shortage, high interest rates, growing construction costs and regulatory red tape have suppressed new additions to the purpose-built market.
- **Populations exploding:** While supplies are slow, populations are growing at the fastest pace on record. Canada's population grew by 2.4 million people in the last three years - more than its entire rental universe - as high rates of immigrants, international students and temporary foreign workers enter the country and inflate housing demand. While the federal government plans to stabilize immigration rates beginning 2026, Canada will likely maintain above-average targets of around 500,000 newcomers per year going forward, according to government estimates.
- **Economies growing:** Despite some uncertainties, a generally robust macroeconomic picture has fed high rates of interprovincial migration to some provinces, particularly Alberta, Mainstreet's largest market (see Outlook section).
- **Vacancies strengthening:** Combined, these trends have pushed vacancies to their lowest levels in years. Canada's national rental market vacancy was 1.5% in 2023 (CMHC). Similarly low vacancies persist across several of Mainstreet's main hubs: Surrey (1.5%), Calgary (1.4%), Edmonton (2.4%), Regina (1.4%), Saskatoon (2.0%) and Winnipeg (1.8%), according to CMHC data.

Mainstreet believes these fundamentals speak to the inherent stability of the rental market space in Canada, offering a solid foundation for growth as we enter the second half of fiscal 2024.

CHALLENGES

Inflation and cost pressures

Despite an overall favorable operating environment, 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 2.97%, maturing in 5.8 years, to proactively protect us against any eventual rate increases—see Outlook section below). Inflation also increases major operating expenses like labour, property taxes, utilities and materials. Carbon taxes increased from \$65 per tonne to \$80 in April.

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

Defending against higher expenses

Mainstreet works constantly and 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.

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.

Cybersecurity

During Q3 2024, Mainstreet was the target of a cybersecurity incident that affected our internal systems. Mainstreet immediately implemented the procedures we had in place in the event of such an event—including the retention of breach counsel and hiring of an experienced third-party cybersecurity firm—to provide response services. Fortunately, our main operating system was not impacted by the event. As a result, Mainstreet did not suffer any material downtime or loss of productivity in our daily operations.

In the upcoming weeks, Mainstreet will be notifying individuals whose personal information was deemed to have been impacted as a result of the incident and reporting to appropriate privacy regulators.

The third-party firm has completed an investigation and is in the process of preparing a final report. In addition, Mainstreet is evaluating, in coordination with our experts, ways to further strengthen our cybersecurity processes, policies, and controls. Cybersecurity threats have become increasingly common in our society and Mainstreet will continue to take steps to mitigate these risks, as the security of Mainstreet's tenants, employees and other stakeholders are a top priority.

OUTLOOK

Putting the S in ESG

We believe that the tight housing market emphasizes Mainstreet's position as an important provider of affordable, quality housing in Canada. Mainstreet offers renovated, quality apartments and customer services at a mid-market rental rate that has averaged around \$1,180. As a corporation dedicated to social responsibility, Mainstreet believes our highly affordable rental options are a crucial service at a time when many middle-class and lower-income Canadians feel they are priced out of the market.

Hedging our debts

Mainstreet continues to take an adaptive approach to our mortgage positions. When interest rates were lower, Mainstreet locked in its mortgages at longer-term, 10-year maturities to maximize savings. As rates increased, we shifted toward shorter-term debts. This flexible refinancing strategy has served Mainstreet well, and we continue to monitor and update our debt strategy as monetary policy changes occur.

Strong performance across core markets

Mainstreet continues to benefit from an increasingly diversified portfolio, where each of our core markets have contributed solid results. British Columbia, which accounts for 43% of our estimated net asset value ("NAV") based on appraised value, continues to outperform, and remains one of our primary candidates for NOI future growth (see Runway section below). Alberta, accounting for 41% of our estimated NAV in terms of appraised value, is expected to

lead the country in terms of economic growth this year (2.3%, according to ATB Financial). Alberta's net migration has hit historic highs in recent quarters, while migration into Saskatchewan and Manitoba remains solid, which we expect will keep vacancy rates low while nudging rental rates higher. Calgary and Edmonton saw especially swift population growth in 2023, at 6% and 4.2%, respectively.

Turning intangibles to tangibles

Mainstreet's portfolio of more than 800 low-density buildings, including buildings with subdividable residual lands, creates substantial opportunity to extract added value out of existing assets and additional lands at little cost. We view this opportunity in the context of the ongoing housing shortage, under which Canadian municipalities increasingly aim to promote density through rezoning efforts. Management has developed a three-point plan comprised of the following to improve the density of Mainstreet's portfolio:

- Turning unused or residual space within existing buildings into new units
- Exploring zoning and density relaxations to potentially build new capacity within existing land footprints
- Subdividing residual lands for future developments.

We view this strategy as one of the major potential drivers of future growth in the longer-term, and further evidence of Mainstreet's inherent intangible value. While our efforts remain in the very early stages, Mainstreet has already created 55 units through this plan using existing assets and at minimal cost.

Mainstreet's nominal dividend

Mainstreet started offering a nominal dividend (\$0.11 per share annually) beginning Q1 2024. Given Mainstreet's strong free cash flow, our management team determined we were well placed to establish a nominal dividend to help widen our shareholder base, increase trading volume and elevate our market capitalization without negatively impacting liquidity for future non-dilutive 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 and non-dilutive, pursuing acquisitions funded by low-cost capital.

RUNWAY ON EXISTING PORTFOLIO

1. Expanding our portfolio: Using our strong potential liquidity position, estimated at \$301 million, we believe there is significant opportunity to continue acquiring underperforming assets at attractive valuations.
2. Closing the NOI gap: As of Q3 2024, 15% of Mainstreet's portfolio was going through the stabilization process due largely to high levels of add-value acquisitions. Our management team believes vacancy rates, NOI and FFO will be meaningfully improved as we continue to stabilize units. In the BC market alone, we estimate that the potential upside based on mark-to-market gaps for NOI growth is approximately \$29 million,

based on an estimated average monthly mark-to-market gap of \$582 per suite per month. Alberta and Saskatchewan markets also have substantial room for mark-to-market catch up.

3. Buying back shares: We believe MEQ shares continue to trade below their true NAV, and that ongoing macroeconomic volatility could intensify that trend. Management will continue to buy back shares on an opportunistic basis under the corporation's 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 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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