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## Mainstreet Equity Corp.

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### Building Value in Uncharted Real Estate Waters

Born with merchant's blood in his veins, Bob Dhillon, Founder, CEO, and the largest shareholder of Mainstreet Equity Corp., started in real estate out of the trunk of his car when he was 19, coming to Calgary from Vancouver after his family lost everything escaping Liberian civil war. While phrases like master scuba diver, expert spear fisherman, and professional-level salsa dancer appear when reviewing Dhillon's passions, his legacy lies within Mainstreet Equity Corp. — a company focused on the Canadian multi-family, mid-market real estate sector with a blueprint for international expansion.

Trading on the TSX (trading symbol: MEQ), Mainstreet, a mid-market, add-value real estate consolidator acquires, repositions and operates apartment complexes across Canada. As a corporation, not a REIT, Mainstreet focuses only on purchasing assets to which it can add value; the company's current geographic regions include Surrey, New Westminster, Abbotsford, Calgary, Edmonton, Saskatoon, Toronto and Mississauga. Since its inception in 1998, Mainstreet has grown its portfolio from 272 units with a market value of approximately \$17 million, to over 8,000 units with a market value of over \$1 billion.

### The Mid-market Situation

Property size, location, condition, state of management, and most importantly the fact that this segment trades below replacement cost define the mid-market. With typical unit count of fewer than 100, the mid-market deters institutional investors [REITs]. These assets are commonly owned by the fragmented mom & pop sector, buildings are often mismanaged and require substantial renovations, while the rent usually stands below the market standards, often creating a downward spiral effect for the property — management slashing rent to attract tenants, attracting problematic tenants who create additional issues for the management.

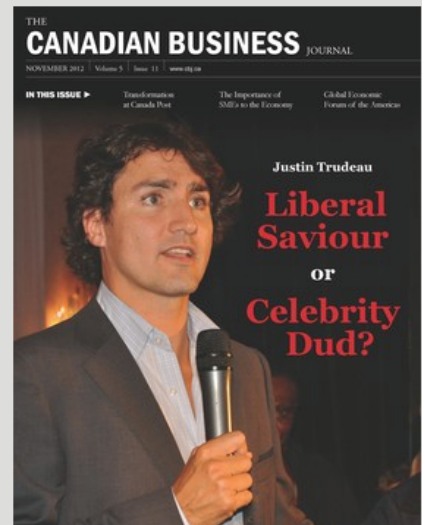
Mainstreet acquires these properties, severing the downward spiral. The company raises property value through extensive renovations, from painting, flooring and new cabinets, to drywall, bathrooms, plumbing, heating and exterior upgrades. Mainstreet also reduces operating costs through professional management, information systems, and energy saving equipment.

### Advantage — Mainstreet Value Chain

Long before Dhillon turned Mainstreet into a billion dollar company, he realized significant advantages offered by the real estate market in Western Canada — limited supply of mid-market apartment buildings per capita; Landlord Tenancy Act in Alberta and Saskatchewan providing a free market environment, giving landlords ability to increase the rent as necessary; high numbers of in-migration to the area per capita, correlated with the supply in this market; and finally the biggest advantage being the fact that the whole of the multi-family universe trades below replacement cost.

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CBJ Research

Do you expect the sovereignty issue will be aggressively pursued now that the PQ is back in power?

"The advantage of this market goes further. While the large REITs are not interested in this market, the mid-market alone represents 80 per cent of the entire rental universe in Mainstreet's core platforms."

The company had put in place Geographic Investing Strategy. The strategy defines property "clusters" in a specific area, which allows to position one building manager to oversee circa four to seven buildings. This strategy allows for substantial savings in management, maintenance and marketing costs, and increases property cash flow. The increased cash flow gives the company the opportunity to refinance the property, based on a higher value, under long-term, CMHC-insured mortgages, recovering the entire capital expense and original equity investment. The funds raised through refinancing are used to acquire further under-performing assets, resulting in the continuous cycle of the Mainstreet Value Chain. This is a fixed cost business, where every incremental increase in revenue flows to the bottom line. "You buy right, you do capital improvements and increase operating efficiencies through systems management.

This increases ROI, creating a stabilized asset that's kicking in a lot of cash," says Dhillon.

### Building Rehabilitation Strategy

With the average age of Canadian apartment buildings between 45 to 60 years, most buildings require extensive renovations. To lower the renovation costs, maintenance costs, and operational costs, Mainstreet employs a global strategy, sourcing building materials directly from China, bringing in labour force from abroad, and outsourcing software development and company service to India.

Since inception, Mainstreet has spent approximately \$100 million in capital expenditures, and by building a direct product pipeline with China, the company can realize savings of 60 to 80 per cent in capital expenditures. "We started out by bringing in kitchen cabinets. These cabinets cost \$4,000 to \$6,000 in Canada, while our FOB-priced imports stand at \$650, but it's a better product. With this success we started importing laminate flooring, kitchen tiles, and so forth. So our short- to medium-term strategy is to have all these cosmetic products sourced from China with total savings between 60 to 80 per cent," says Dhillon's

With the last bull cycle in Western Canada between 2004 and 2009, the company has gone through difficulties finding suitable staff to provide property maintenance services. To remedy this situation in Western Canada, where the energy sector drains the skilled labour market, the company recently began hiring temporary workforce from abroad. "We have brought in 16 workers who are going through our training in landscaping, maintenance and construction, and we expect to bring in 100 workers in total to fill our labour shortage.

"To increase efficiencies, we are also taking the first steps in moving some of our support and IT services to India. We are starting with developing our website. Our second step will be moving our customer service call centre to India; thirdly, we will build custom software that will consolidate management systems of all our properties. Mainstreet has many moving parts such as the stabilized section, the unstabilized section, the construction module, and so on; consolidating them is no easy task. Finally, we would eventually move our back office to India."

A self-proclaimed "guy from the wrong side of the tracks", Dhillon's ideas and experience drive Mainstreet's success. In 2011, Mainstreet added almost 950 residential apartment units to its portfolio — a growth of 15 per cent in its core geographic locations. The company finalized these acquisitions valued at about \$120 million with no equity dilution, as the company continues to focus on organic, non-dilutive growth through cash flow, refinancing matured mortgages, and financing properties after stabilization.

### The Big Moves

It's safe to say that Mainstreet cemented its presence in Western Canada, but Dhillon hasn't finished just yet. Following the same mid-market strategy, a plan for U.S. expansion is well underway. The company set up Mainstreet US Multi-Family Residential Fund, and this U.S. business entity will be a fully owned subsidiary of its Canadian parent, and just like its parent will focus on multi-family residential properties, mostly in in Arizona, Florida, Georgia, Texas and Nevada. Dhillon elaborated, "U.S. is a generational opportunity with five-year gap in supply to the mid-market — the hardest-hit sector of the U.S. real estate.

I expect an incremental increase in occupancy and rent, which will translate into valuation. We are in a process of creating the capital structure for our U.S Sun Belt expansion."

Yes, they'll push extremely hard for sovereignty.

Limited, subtle pushing due to the PQ's minority mandate.

Not at all - it's like they've become nationalists.

Vote



From the Southern United States it's only a stone throw to Belize, where Dhillon acquired an island and works on its development. The 3,000 acre island, Dhillon plans to turn a once sleepy fishing village on the island into an international tourist destination. To the question "Why Belize?" Dhillon replied, "Because it's the last virgin on the planet. The country is untouched and unspoiled by man, and I was lucky enough to discover this jewel of a land. It is an English speaking country and – from the real estate perspective – the country has no ownership restrictions, no capital gains tax, British-based common law system, same land title system as Canada, western banking, and so on. This is an unbelievable opportunity for people to do business, to retire, and live under tropical sun." Dhillon's love with Belize also shows through his book. Titled Business and Retirement Guide to Belize: The Last Virgin Paradise, Dhillon fuses his two passions — Belize and real estate.

With his success, Dhillon also helps communities in Canada as well as Belize. In Canada, Dhillon established the Richard Ivey School of Business scholarship (where he completed his MBA), and donated free apartment suites to victims of the fire in Slave Lake, Alta.

Dhillon also works as Honorary Consul General of Belize for Canada, and he has been an instrumental figure in several fundraisers and donations that benefited the country's people. He helped build San Pedro Lions Polyclinic II., assisted in bringing over a team of Canadian dentists to provide medical services to the underprivileged, donated \$500,000 to the town of San Pedro, and raised \$60,000 BZ for underprivileged children in San Pedro.

### **Attitude and Gratitude**

If there is a successful immigrant to Canada, Dhillon is it. Successful yet humble, he built his success on two things — hard work and Canada. "It's about hard work, taking action, and discipline when acquiring assets. Using a Warren Buffet metaphor, I'm out there hitting singles one building at the time. I'm not trying to hit a homerun and do a big capital market splash. I owe my success to Canada, a country where an immigrant like me can come with no money or education, achieve success and gain the best education. Very few immigrants can weave themselves into the business fabric in a short period of time, and the reason I was able to do it is because Canada has given me the opportunity to do so. I thank Canada for the given opportunity."

Whether its Belize, Canada, the U.S., or around the world, with real estate in Dhillon's DNA, Mainstreet continues to make its mark across the North American market, and there are no signs of slowing down this real estate mogul.

[www.mainst.biz](http://www.mainst.biz)