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Mainstreet Equity mulls move into the U.S. rental market

Barry Critchley May 8, 2012 – 11:15 AM ET



"Over the past twelve months Mainstreet has been examining the possibility of applying its add-value business model to distressed markets in the U.S., and believes it's time to make its move," said Mainstreet Equity's second quarter financial statements that were released Tuesday morning. Justin Sullivan/Getty Images

Calgary-based Mainsreet Equity Corp., which defines itself as a, "growth-oriented real estate corporation focused on the acquisition, redevelopment, repositioning, and asset and property management of mid-market apartment buildings," has expanded eastward and westward from its home base. Now, it's thinking of going south.

That's one of the key points contained in the company's second quarter financial statements that were released Tuesday morning. Mainstreet, which operates in seven Canadian cities from as far west as Surrey B.C. and as far east as Toronto, owns more than 7,700 apartments.

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"Over the past 12 months Mainstreet has been examining the possibility of applying its add-value business model to distressed

markets in the U.S., and believes it's time to make its move. The Corporation has been assessing the risk-reward proposition associated with the U.S. market, and believes that it is a favourable one. The U.S. economy appears to be turning the corner, while valuations in the real-estate market remain intriguing," said the outlook section of the statement.

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But Bob Dhillon, the company's chief executive, said the move will be carefully considered. "As always, Mainstreet remains committed to creating value for its shareholders, as it has since its inception in 1997," he cautioned.

The other message from the financial statements was that Mainstreet "remains committed to driving costs down," claiming that it "has pioneered a global supply chain of people, products and services."

In the release the company spoke of "its proactive work in securing foreign workers." Now it is continuing to "build out its pipeline of high-quality, low-cost materials and supplies direct from manufacturers in China. This has already yielded considerable cost savings on everything from kitchen cabinets to laminate flooring and ceramic tiles, and Mainstreet believes that these relationships will be expanded to include other necessary materials going forward," said the statement.

Officials from the company recently visited India to work on developing a low-cost IT solution. Indeed, Mainstreet's new website and database is currently under development in India. Mainstreet said that the operations in India will be done "at substantially lower costs than are available in Canada."

At least three analysts cover Mainstreet. Prior to the release of its financial statements Tuesday, TD and Dundee had a \$30 target on the stock while GMP had a \$30.75 target. The stock (MEQ/TSX) trades at \$25.67. In early trading Tuesday it hit a 52-week high of \$25.75.

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