Revealed: This Little-Known Real Estate Company Turned $10,000 Into $196,289

Description

Most real estate companies trading on the TSX have a similar strategy. They're income plays, paying out almost all of their income back to shareholders in the form of generous dividends. When it comes time to make acquisitions, the company finances it with a combination of new equity and debt.

But this model has some downfalls. It obviously limits growth, since there's only so much equity a company can issue. But it also limits capital gains, which is a very tax-efficient way to earn money. Remember, you don't pay any taxes on capital gains until you sell.

There's one little-known real estate company that is doing things a little differently and quietly posting some eye-popping returns doing so. Here's why you need to pay attention to **Mainstreet Equity** (TSX:MEQ).

The skinny

Headquartered in Calgary, Mainstreet has a simple business plan. It acquires apartments and student housing in Western Canada. Its portfolio includes more than 13,000 suites in British Columbia, Alberta, and Saskatchewan. Approximately 60% of assets are in Alberta, with the rest split pretty evenly between B.C. and Saskatchewan.

Despite the economic weakness in Alberta, management still likes the region. The company believes there is little incentive for developers to build apartments, because existing units are for sale for below replacement cost. Eventually, with increased economic growth and migration to the area, this trend reverses itself, which translates into good news for apartment operators.

When Mainstreet acquires a building, it'll usually embark on a capital-investment program to improve the property. This allows the company to both increase rents and decrease vacancy. Occupancy has been slowly creeping up for years and is currently close to 95%.

Another interesting strategy Mainstreet uses is something it calls "clustering." What that means is the company looks to acquire smaller assets that are located relatively close to each other. This cuts down on property management and maintenance expenses.

The focus on smaller apartment buildings is intentional. These assets come with lower maintenance costs because they lack large common areas, underground parking, or elevators.

A long-term compounder

Mainstreet's strategy is obviously working. The company has done an exemplary job since its 2000 IPO.

It has grown the number of apartments in the portfolio from 272 to 13,034 in less than 20 years. That works out to a 20% annual gain compounded over the long term. That alone is an excellent result.

What makes Mainstreet even more impressive compared to its peers is, it has accomplished this kind of growth without diluting shareholders. It started out with 8.8 million shares outstanding. It issued more shares when advantageous, but also bought back shares when the stock was cheap. These days, Mainstreet has just 9.4 million shares outstanding. It has grown the portfolio 48 times larger, while hardly issuing any shares. It's an impressive feat.

Not surprisingly, Mainstreet has delivered excellent returns for long-term shareholders. The stock gained 1,863% from 2000 to 2019, which works out to just under 16.5% per year. That's enough to turn a $10,000 investment into $192,289.

The company offers an impressive combination of value and growth, too. Management values the portfolio at $102 per share today compared to a stock price of just $70. And the growth story could easily be two-fold. It can keep growing in its current markets as well as expanding the business into other cities. It's obvious the business model works.

The bottom line

Mainstreet doesn't pay a dividend, which enables it to redirect all of its cash flow back into internal growth. It's a business model that has made shareholders wealthy over the last 19 years.

It's easy to see how this is a superior business model compared to paying out most of earnings back as dividends. I know long-term shareholders are likely pretty happy with it.

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