



## Value Investor's Dream: 1 Obscure Real Estate Stock Set to Outperform

### Description

**Mainstreet Equity** ([TSX:MEQ](#)) is one of the leading providers of [affordable mid-market rental apartments](#) in Canada. The company's properties typically have less than 100 units and achieve market-beating results through the company's value chain business model.

### Scalable business model

The company purchases underperforming rental units at prices well below replacement costs. Then, it renovates acquired properties by minimizing operating costs through the use of professional management, efficient technology, and energy-saving equipment.

The company repositions renovated properties in the market as a Mainstreet-branded product, for higher rents, and maintains and builds customer loyalty through high levels of service.

Also, Mainstreet maintains a [sound capital structure](#) with access to capital markets and occasionally sells mature real estate properties to redirect capital into newer, higher potential properties.

In 2020, the company's vacancy rates increased to 7.3% in that year from 6.4% in 2019 and Mainstreet's average monthly rental rate increased to \$942 per unit in 2020 from \$923 per unit in 2019. This resulted in the overall rental revenue increasing by 9% to \$150 million in 2020 as compared to \$138 million in 2019. These excellent results were mainly due to the continued growth of Mainstreet's portfolio.

The company owns and manages a total of 350 revenue-producing buildings, warehouses in Edmonton, Regina, Calgary, and an office building that Mainstreet uses as the company's head office. The company's total portfolio is valued at well over \$2 billion.

### Opportunistic share buybacks

In 2020, Mainstreet purchased and cancelled 31,900 shares at an average price of \$55.37 per

common share for a total consideration of \$1.8 million. The company has no issued and outstanding stock options. Mainstreet's long-term debt consists mainly of low-rate, fixed-term mortgage financing.

All individual mortgages are secured against the appropriate real estate assets and are based largely on the appraised value of properties. The maturity dates for this debt is staggered to lower the overall interest rate risk.

To take advantage of the current low interest rate, Mainstreet financed several maturing mortgages and clear title assets for \$309 million 10-year mortgages at an average interest rate of 2.10%. These refinancings raised approximately \$200 million in additional funds for the company in 2020.

## Renovation program

Renovations are a core part of Mainstreet's business model. These activities enable Mainstreet to improve the attractiveness of the company's properties to tenants, increase rental income, reduce operating costs, and enhance property values in the long term.

To keep pace with the many rental properties acquired in 2020, Mainstreet carried out a large renovation program in the financial year. These improvements consisted of exterior upgrades such as new roofs, windows, balconies, siding, and insulation, and mechanical and interior upgrades such as new boilers, flooring, paint, appliances, and other energy-efficiency measures.

Mainstreet continually monitors and adapts the pace of the company's renovations program to make sure it is consistent with changing market demand. Although the recent economic downturn has caused pain for Alberta, the demand for rental property continues to increase due to steady population increases in core markets, contributed in part by higher national immigration numbers and compounded with growing levels of foreign students, which makes Mainstreet a great stock to own in 2021.

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nikhilwaterloo

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