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Volume II Edition II

Has the market hit bottom yet?

In This Edition

What is happening in the market today?
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The challenges facing the US housing market have created a tremendous investment opportunity for Canadians. By buying the right homes, in the right communities, for the right price, we have been able take advantage of the strong rental market, double digit cap rates and tremendous future appreciation in the heavily discounted Arizona real estate market.

What is happening in the market

Almost all the key market indicators turned negative at the end of the second quarter of 2010, and thus predicted the fall in pricing we experienced during the second half of the year.

The good news is that now we are seeing the opposite happen. Those same market indicators are turning positive, suggesting we are likely to see prices strengthen over the next six to nine months.

It is generally regarded as very tricky to call a market bottom (or top) at the time it is happening, but real estate is a relatively slow-changing market and several key indicators give us fair warning if we choose the right ones and track them on a daily basis. The indicators we like are:

1. Days Inventory - Has been falling steeply since November 21, a strong signal that supply is tightening and getting even stronger since January. Currently we have about a 3.5 months' supply of inventory based upon recent sales activity. This is down from a 6 months' supply in January and a high of 20 months' supply in 2008. A 5 month supply is considered a balanced market.

2. Pending Listing Count - Grown from 8,695 on January 2 to 13,326 on May 1st, indicating plenty of buying activity as these are homes that under contract but not yet closed.
3. Contract Ratio - Having dropped to 38 at the beginning of January, has increased sharply to over 81.3 by early May. This again confirms a strong swing in the balance away from supply and towards demand. This swing applies to bank owned properties, short sales and normal listings.

Contract Ratio indicates how "hot" a market is. It specifically measures the number of completed sales contracts relative to the supply of active listings. It is defined as $100 \times (\text{Pending Listings} + \text{Active Listings with Contingent Offer}) / \text{Active Listings without a Contingent Offer}$. The higher the number the greater the buying activity relative to supply. If this number rises then it is a sign of growing contract activity and a positive signal for sellers. Conversely a falling number is a sign of a weakening market - either supply of active listings is increasing or contract activity is slowing, or both. In a balanced market for normal market segments, the value of the Contract Ratio is about 30. When it lies below 20 the market can be considered "slow" or a "buyer's market". Above 40 can be considered a "seller's market" and when it moves above 100 we regard this as evidence of a "buying frenzy". In high-end luxury market segments the normal level is lower, usually lying between 15 and 25.

4. Monthly Sales Volume - Weak during the second half of 2010, this suddenly strengthened in December 2010 and has been well above last year through the first quarter of 2011.
5. Listing Success Rate - Has jumped from 59% in January to 71% now.
6. Sales Price as a Percentage of List Price - The low point was 94.23% on December 31. We have now improved to 95.65%.

Market Summary for the Beginning of May

All of this leads us to conclude we were participating in a strong recovery, but April sales prices stubbornly refused to follow suit and merely stabilized. However during the last ten days of April average price per sq. ft. started increasing in most (but not all) sectors.

We can now declare January 22, 2011 to be an official pricing bottom for the overall ARMLS market (all areas & types), with average sales price per sq. ft. at a low level (\$80.74 per sq. ft.) we are unlikely to see again. As a reminder we experienced another initial bottom in \$/SF prices on April 6, 2009, followed by a rebound that lasted over a year but collapsed along with the expiry of the home buyers' tax credit incentive in 2010. Those waiting for the second bottom just missed it. It is not impossible that we see a third bottom at some point. However prices are unlikely to weaken while the indicators above continue to improve. At the moment we are looking at a W shaped recovery pattern and prices are starting to move up the second upward leg.

We should point out that the sales price per sq. ft. for lender-owned homes is still making fresh lows this week. This is not bringing down the overall \$/SF because lender owned homes are gradually falling as a percentage of the total while normal sales are taking a greater share. For example in April 44.6% of sales were REOs compared with 46.8% in March. Normal sales increased their share from 34.0% to 35.7% while short sales, whose sales \$/SF prices have been rising slightly, increased from 19.2% to 19.8%.

Those looking for bargain buys among the single family detached bank owned properties (REO) should note that the list price average is now \$71.22 per sq. ft. up from its low point of \$68.77 per sq. ft. just six weeks ago on March 21. Short sale and pre-foreclosure single family detached list pricing has held steady for several months at around \$79 to \$80, while normal sale list prices for these homes have surged from \$185.96 on September 26 to \$196.53 today.

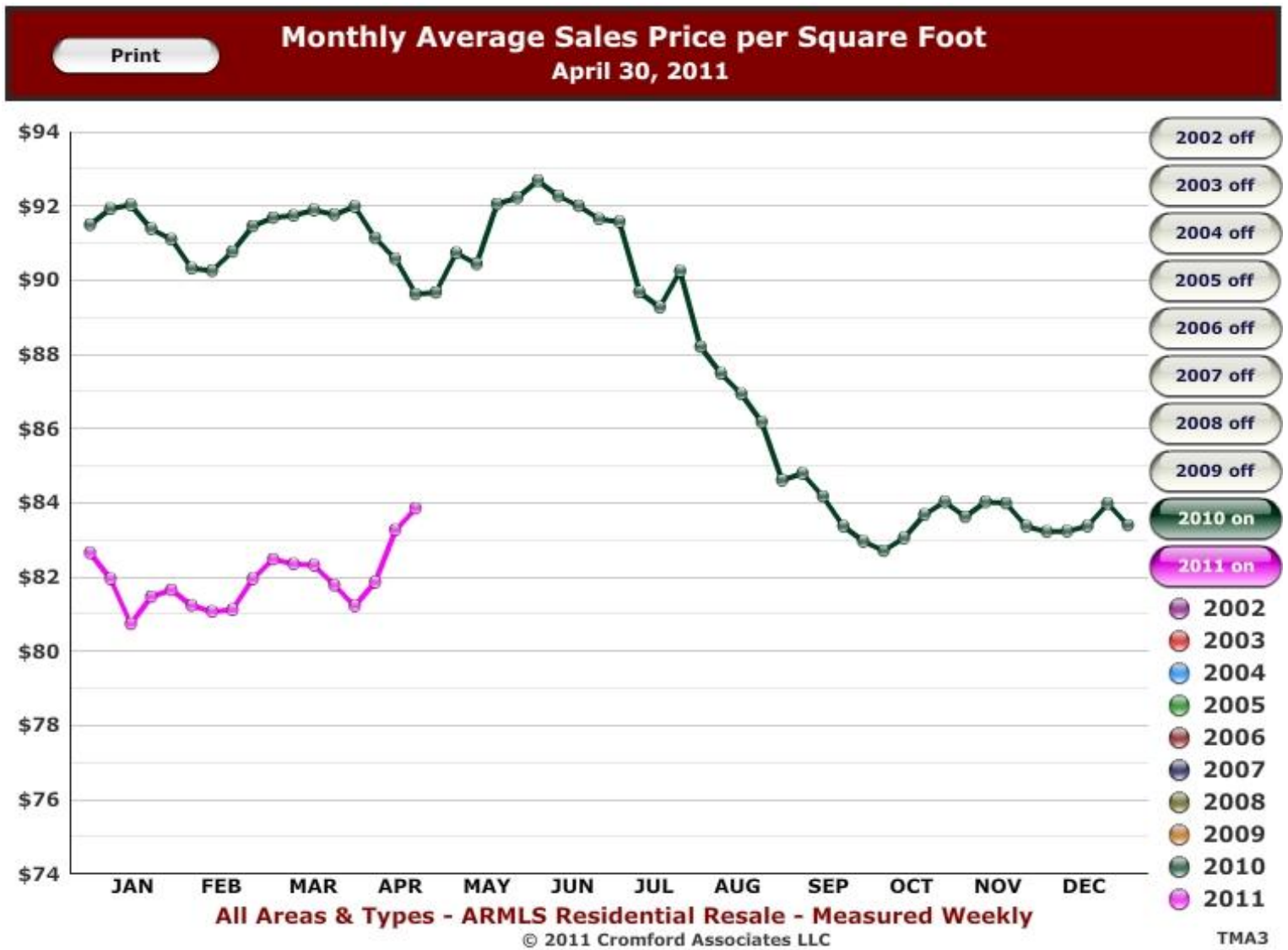
The recent increase in average sales pricing was quite sharp and was emphasized by greater participation from the luxury market. It is a little known fact that \$/SF pricing for homes above \$300,000 has been moving gently higher since October/November 2010 and sales volumes are on the rise. We should expect increased price volatility over coming months as the mix of sales varies. Remember that August is historically a weak month for pricing.

In the world of foreclosures, the big news is the rapid fall of new notices of trustee sale. April delivered only 4,418 new notices in Maricopa County of which 4,200 were residential. This is the lowest monthly total since December 2007, nearly three and a half years ago. Completed trustee sales in Maricopa County fell back from the March high as expected, but at 4,709 (4,513 of which were residential) they far outstripped the new notices for the first time ever. This signals a significant phase change in the foreclosure tsunami as the activity starts to decline more rapidly. We are now seeing huge reductions in the pending foreclosure counts, with active notices at the end of April reading 32,203 which contrasts with 51,466 at the end of 2009 and 41,478 as recently as the start of 2011.

The monthly sales total for April is currently standing at 9,366. It is the continued reduction in supply that is most encouraging and inventory now stands at just 3.5 months. To put that into context, the average between 2001 and 2011 has been 5.9 months with a minimum of 0.5 (in March 2005) and a maximum of 20.6 (in January 2008). If you are buying right now, do not go out there expecting to find the widely reported "glut of foreclosed homes for sale". That disappeared several months ago.

The pending \$/SF is also not behaving very well. This is due to the unusual market we are in. Short sales constitute 29% of pending listings but only 20% of sales and they tend to remain pending for long periods, often failing to close at all. Normal listings are only 27% of pending listings but comprise nearly 36% of sales, and they tend to close fast. These factors conspire to make the average list \$/SF of pending listings significantly lower than the actual \$/SF of monthly sales. The mix represented by the pending listings is not currently a true reflection of what will close escrow and that gets increasingly the case as you look out further into the future. Price forecasts (including ours) that are based on measuring pending listings are therefore coming in more pessimistic than they would normally and we recommend that you should be wary of them until the market reverts to a more normal situation.

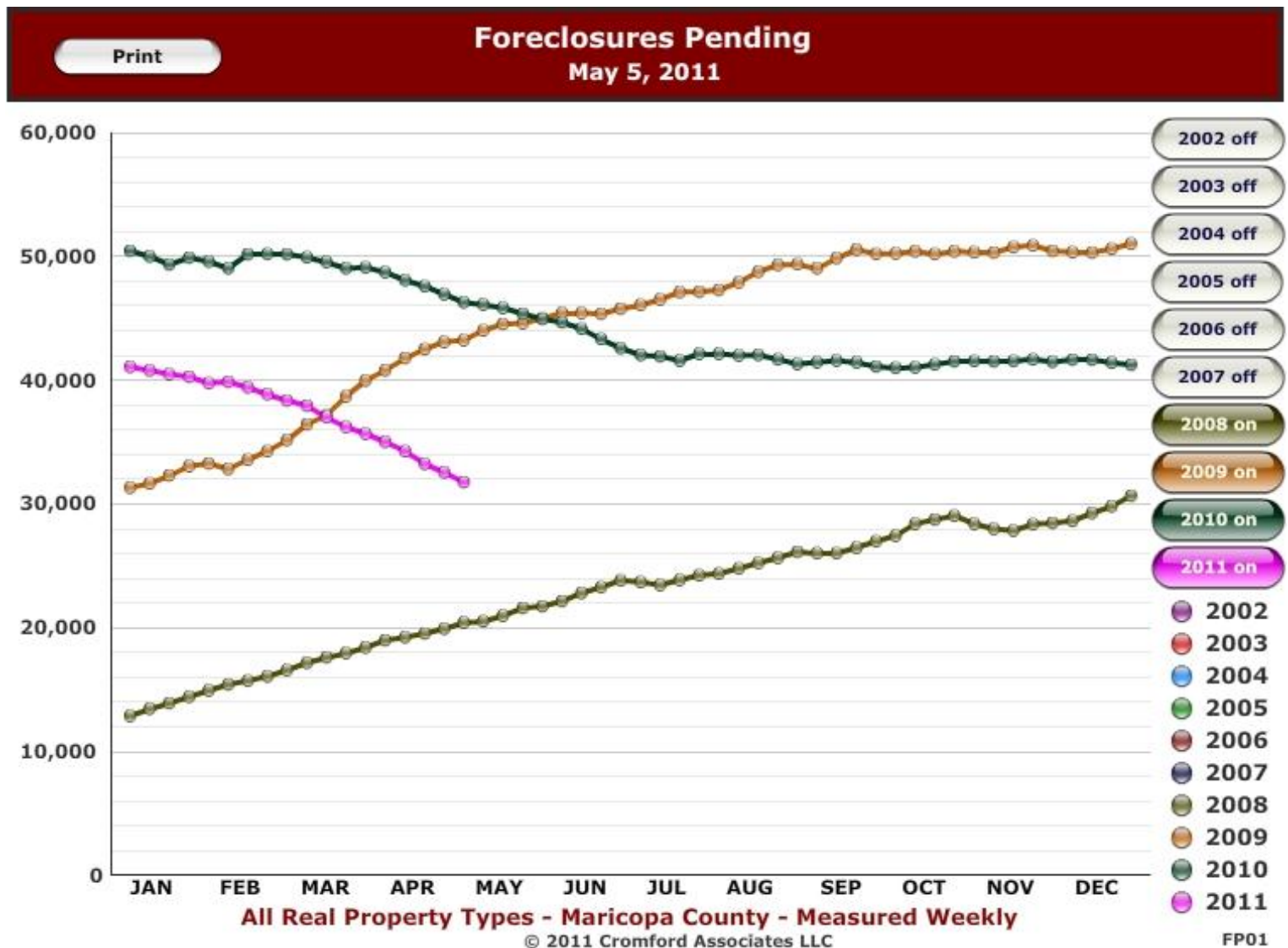
The big question now is: will higher prices lead to weakening of demand or will the sharp reduction in supply cause buyers to get more aggressive in their offers to ensure they don't miss out on the last chance to capture homes at bargain prices?



The following line chart shows the inventory of properties in foreclosure on a weekly basis from 2008 onwards. The inventory of foreclosures pending represents the number of properties which are scheduled for sale by the trustee at some point in the future.

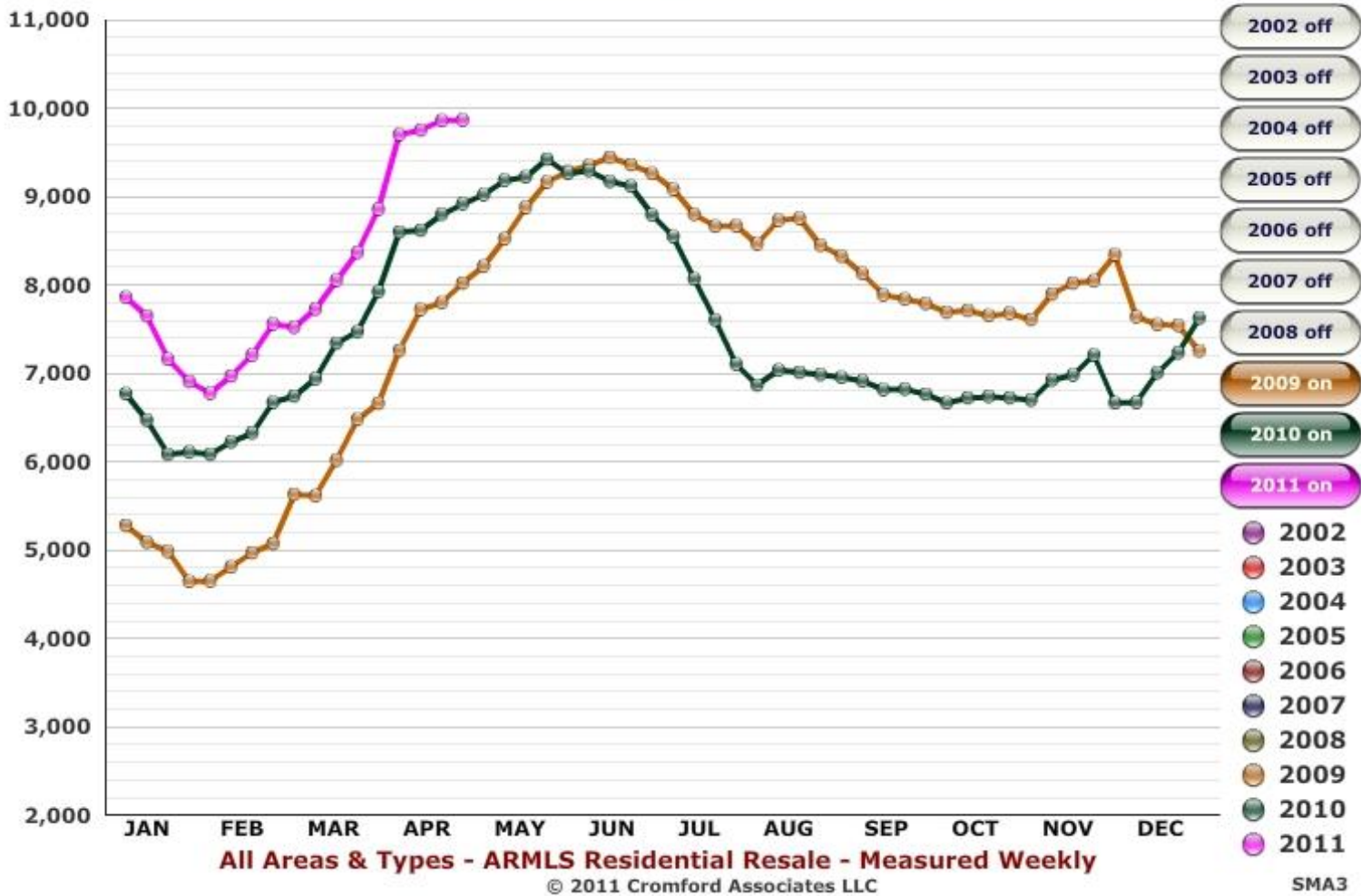
Inventory is increased by 1 whenever a notice of trustee sale is issued. Inventory is reduced by 1 when a trustee sale is cancelled. Inventory is also reduced by 1 when a trustee deed is issued to either a third party or the beneficiary (i.e. the lender). If the trustee deed is issued to the beneficiary then this adds 1 to our REO inventory and it no longer counts as a foreclosure pending.

The data is for the county of Maricopa and includes all real estate property types, including land and commercial. A commercial parcel counts as 1 foreclosure even if there are multiple structures within that parcel.



Sales per Month
April 30, 2011

Print



Information provided by the Cromford Report

Where is the market heading

Where are we now?

- Home ownership rates dropping
- Rental demand rising
- Tight and damaged credit
- Poor economy, high unemployment
- Historically low interest rates
- Highly valued Canadian Dollar
- Foreclosures driving prices down well below replacement costs

What will things look like in 3 to 5 years?

- Foreclosures become smaller part of the market
- Prices rise towards replacement cost
- Employment and migration to Arizona increases
- Interest rates rise to more historical norms
- Canadian dollar returns to more historic value?
- Credit standards ease somewhat and damaged credit is repaired. U.S. borrowers getting financed again
- Pent up demand for housing in areas with
- Increasing populations and strong job markets result in significant long term price increases

New Home Building Lags Population

Housing starts by year

| YEAR | 2007 | 2008 | 2009 | 2010 (Forecast) | 2011 (Forecast) |
|----------------|-----------|---------|---------|--------------------|--------------------|
| Housing Starts | 1,340,000 | 900,000 | 550,000 | 680,000 | 950,000 |

| | | | | | |
|-----------------------------|------------|----------|----------|------------|------------|
| Cumulative Surplus/Deficit* | +1,020,000 | +320,000 | -730,000 | -1,650,000 | -2,300,000 |
|-----------------------------|------------|----------|----------|------------|------------|

**Based on 1.6 million housing starts to accommodate typical U.S. population increases, and starting with a 1,280,000 surplus in 2006.*

Source: Canadian Real Estate Magazine November 2010

Steps in the Buying Process

- **Determine primary use for the home**
- **Arrange financing**
- **Determine price range**
- **Determine best locations and amenities desired**
- **Get set up on a listing search**
- **Plan trip to view homes (2-3 days minimum)**
- **Write a Purchase Offer**
- **Negotiate and Write Counter Offers**
- **Open Escrow with Title Company**
- **Wire Earnest Money Deposit**
- **Setup U.S. bank account**
- **Home Inspection/ Issue Request for Repairs**
- **Order Homeowner's Insurance Policy**
- **Wire closing funds**
- **Close Escrow**
- **Set up home**
- **Contract for Property Management if appropriate**

Services we provide our Canadian clients

- **Specialists in Vacation homes and vacation rentals**
- **Investment properties – Rental and Lease Option**
- **Investment Pool**
- **Trustee Auction services**
- **Property Management**
- **Financing for Canadians**
- **Cross Border Tax and Estate Planning**
- **Home and Auto Insurance**
- **House sitting services**
- **Lawn and Pool services**
- **Home renovation**
- **Listing services**

We have been featured in major media stories in Canada in the Toronto Star, Globe & Mail, CBC National News, CTV, Canadian Real Estate Magazine, The Business News Network and in the U.S. on Fox News, NPR Radio, USA Today and The Arizona Republic.