TELL ME THE TIME

In real estate timing is everything

Winter 2010

GTA Clock Sync

Including Hamilton and KWC Commentary

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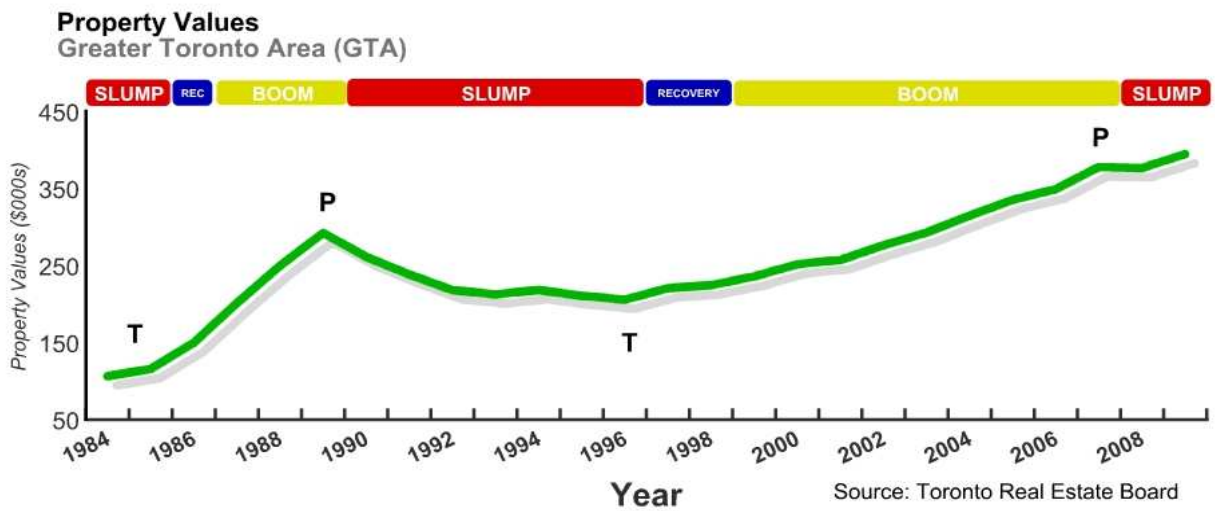
Our Mission

To educate real estate investors around the world on how to sustain long term wealth using the real estate cycle.

History of the

GTA Real Estate Cycle

Below is the history of the GTA real estate cycle. Knowing where this market has been is fundamental to understanding where it is today – and where it is headed.



Preceding Cycle

- Cycle lasted 12 years from 1985 to 1996.
- Recovery lasted 1 year, 1985.
- Boom lasted 4 years, from 1986 to 1989. Total of 175% appreciation generated during the Boom and Recovery.
- Slump lasted 7 years, from 1990 to 1996. A total of 30% appreciation was lost during the Slump.

Current Cycle

- Current cycle has lasted 13 years to date, starting with the Recovery 1997.
- End of the Slump will signal the end of this cycle.
- Recovery lasted 2 years, 1997 and 1998.
- Boom lasted 9 years, from 1999 to 2007. A total of 84% appreciation was generated during the Boom and Recovery.
- The current Slump began in 2008.

Key Observations

- The recent Boom and Recovery Phases recorded half the appreciation of the preceding one (84% compared to 175%).
- Greater Toronto Area (GTA) average home values are closer to their true fundamental values currently than values were during the last Slump Phase. Specifically, housing affordability rates at the beginning of the previous Slump (1990) were upwards of 67%, while at the beginning of the most recent Slump (2008), housing affordability peaked at only 53%.
- Despite indications that a Recovery was imminent due to the recent uptrend in home prices, review of the overall Key Drivers clearly indicates that the current Slump will continue. Evidence exists to suggest that the current up-trend in home values since the end of the last Boom Phase is most likely not sustainable.
- The current hyped market is a result of temporary factors, including market influencers such as emergency low interest rates.

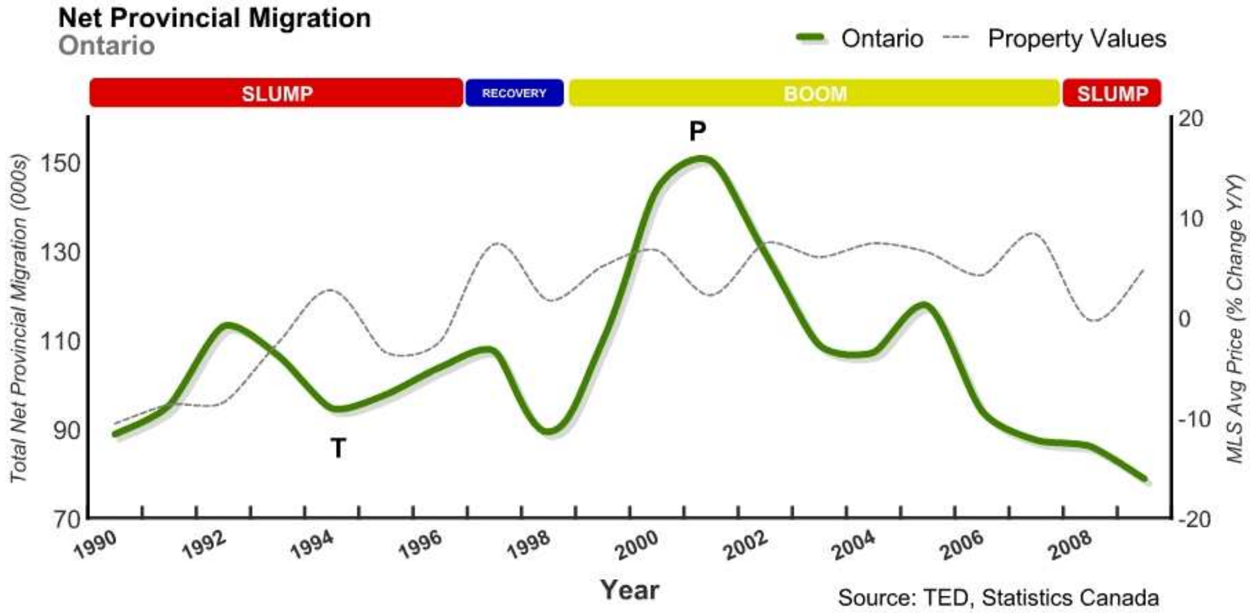
Summary of Key Drivers

Key Drivers propel the real estate cycle collectively rather than individually. They operate like a **combination lock**. Rather than having a single key to unlock the door to the next phase, the correct combination of several drivers is required. Having one or two parts of the combination will not unlock the door. Similarly, the movement of one or two key drivers alone has little impact on the real estate cycle. Below is the Key Driver summary for the GTA market, which reveals the trend direction and Phase of the Cycle for each Key Driver and the overall impact each Key Driver is having on the real estate cycle.

Key Driver	Phase of Cycle	Impact on Residential Real Estate
Net Migration	**Slump**	Provincial data showing steady declining trend of 2.3% annually since 2000 having negative effect on demand.
Employment	**Slump**	Sharp declines having negative impact on demand.
Property Construction	**Slump**	Steep decline helping reduce inventories.
Return on Investment	**Slump**	Values continue to rise, resulting in downward trend in ROI
Incomes	**Slump**	Rate of growth is on a downward trend which will impact purchasers' ability to pay more for property.
Finance Availability	**Slump**	Looming Government legislation will reduce demand due to investors being required to pay higher deposits.
Gross Domestic Product	**Slump**	Trending down which has negative affect on the overall economy including demand for residential real estate.
Housing Affordability	**Slump**	Improvement over the last 12 months has been due in part to emergency low interest rates. More recently the affordability has slightly deteriorated in part due to the recent strength in values.
Days on Market	**Slump**	Recent data indicates negligible improvement spurring speculation that market might be recovering. However cyclically this key driver is expected to trend up throughout the Slump.
Property Listings	**Slump**	**EXHIBITING FALSE START DUE TO BOUNCE BACK** Active listings have consistently dropped since the 1st quarter of 2009, a sharp downtrend since 2008 levels.
Property Sales	**Slump**	**EXHIBITING FALSE START DUE TO BOUNCE BACK** Recent surge in sales volumes has resulted in strengthening values.
Rents	**Slump**	Rents have stabilized due to higher vacancy rates combined with lower net migration and a large number of condo apartments coming online in early 2009.
Vacancy Rates	**Slump**	Vacancy's are trending up which should put downward pressure on rents in spite of rent controls.
Property Values	**Slump**	Have strengthened in 2009 which fueled the media reports that the market has Recovered and potentially formed a Bubble.

Net Migration - GTA

Changes to Net Migration can often be rapid, causing a sudden surge or drop in demand. A sudden increase can result in strong growth in rental levels as additional properties cannot be supplied easily. Net Migration tends to peak in the middle of the Boom and trough in the middle of the Slump



Preceding Cycle

- Peaked 1987 in the middle of the Boom as expected.
- Troughed 1994 in middle of the Slump as expected.

GTA Cyclical Observations

- Net Migration data was unavailable for the three metropolitan areas outlined in this report, therefore data was compiled from provincial data only. Typically the GTA averages the majority of Ontario's net migration.
- Peaked in 2001 in the middle of boom as expected, still trending down.
- Depending on the other key drivers, when a trough occurs, , we should be entering the middle of the Slump.
- Ontario and the GTA tend to be the gateway for immigrants into Canada. Although in recent years they have had negative interprovincial migration, international net migration has allowed the region to maintain positive migration during the same period.

Observations Since Last Clock Sync

- Another drop in net migration during Q3 2009, no signs yet of a trough to support middle of Slump.
- Inter provincial migration has now been negative for 26 straight quarters.

THE BOTTOM LINE – Steady decline since 2005 having negative impact on demand.

Bonus Coverage – Hamilton & KWC

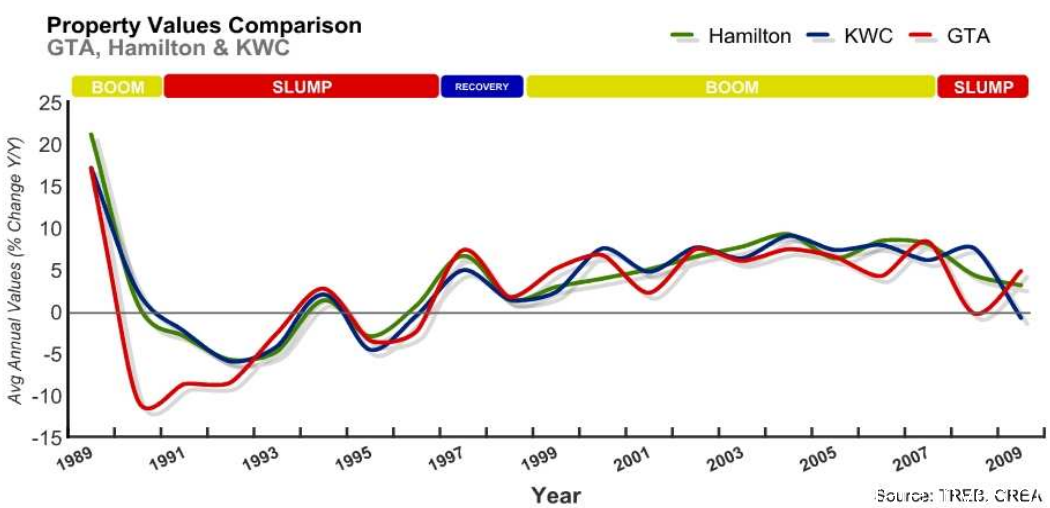
By Harold Hagen
Canadian Analyst

What About Hamilton and KWC?

In Toronto last October, Don Campbell asked Kieran Trass a question about the real estate cycle. He said “Kieran, it’s great that we now know what’s happening cyclically in the GTA, but many of our REIN members also invest in Hamilton and KWC, so what’s happening to the cycle in those locations?” Kieran’s reply was that, while we hadn’t researched those locations, it was highly likely these markets bordering on the GTA would be cyclically either the same or very similar to the GTA.

Normally we would not attempt to assess such relatively small markets in the absence of adequate historic datasets of the Key Drivers required to perform our analysis. However, due to the high level of interest expressed by our subscribers for these locations we made an exception in this instance. While we weren’t able to obtain a complete dataset, we were able to make some relevant observations. We have included in this Clock Sync the available Key Driver datasets and commentary for the Hamilton and KWC markets.

Of course our first task was to compare the Value Growth trends for the GTA against that of Hamilton and KWC………take a peek!

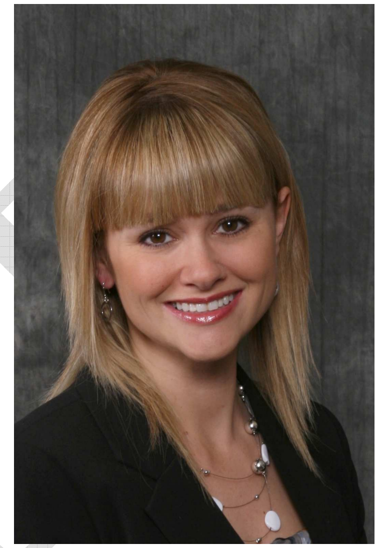


The Main Observation:
Clearly the value growth trends and the real estate cycle phases of Boom, Slump and Recovery have been <u>remarkably close to the GTA since 1992 for both Hamilton and KWC.</u>

Cyclically Sensible Actions

By Christine Ruptash

The Big Picture – What You Should Do Now!



Understanding that the Real Estate Cycle is in play all around us is key - but how do we harness the power of the Real Estate Cycle and use it to our advantage? A critical step investors might not realize they are missing is seeing a 'big picture' view of their entire real estate portfolio. **Do you know how much equity and cash flow you have for your *entire* portfolio? What are your equity and cash flow goals? How close are you to meeting those goals?** Monthly profit and loss statements are valuable, but those alone will not provide the big picture view investors will need in order to follow the Three P's of the Real Estate Cycle:

The Three P's of the Real Estate Cycle:

Position for the Slump **P**repare for the Recovery **P**rofit during the Boom

Sophisticated investors in the GTA must now Position their portfolios for the remainder of the Slump. The first step to Positioning for the Slump is to complete a **Real Estate Portfolio Analyzer (REPA)** and bring the 'big picture' of your real estate portfolio into view. The second step is **Stress Testing your Portfolio**.

Step 1 - REPA

REPA is an 'easy to use' spreadsheet and your first task really *is* easy - set your Equity and Cash Flow Goals. Then you will need to fill in some basic information on each property you own - current market value, mortgage owing, interest rate, revenue and expenses (averaged out for the year). The REPA will automatically fill in your LTV, Equity, Cash Flow and you will show how close you are (or not) to reaching your Goals.

Being able to see the 'big picture' will give investors a chance to see where they need to improve. Do they need to increase cash flow? Maybe refinancing is an option? What if interest rates were to go up - how would that affect cash flow? If vacancy rates continue to rise and your rents decrease, will you still be in a positive cash flow position? Removing the uncertainty of these common variables is Step 2!

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Cyclically Sensible Actions

Step 2 – The Stress Test

The second 'tab' on the REPA allows you to 'Stress Test' your portfolio without losing your original portfolio information. Common variables that affect investors throughout every phase of the Real Estate Cycle are equity, rents, interest rates and expenses. In a Slump, you can see how your portfolio will be affected if the rents decrease and your interest rate increases. What will happen to your equity if values fall another 5%?

You will be able to view a side by side comparison of your current portfolio and your "Stress Tested Portfolio" to see how your equity and cash flow positions will be affected. You can now make strategic moves to Position Your Portfolio for the Slump. Next begin Preparing for the Recovery and you will be able to 'see' your Profits during the Boom!

Step 3 – Position Your Portfolio for the Slump - <u>Focus on Cash Flow</u>

Due to the expected volatility of values throughout the Slump phase of the cycle, the risk inherent in speculating is higher than at any other time in the cycle. This Slump is not suitable for speculation but is the time to **Focus on Cash Flow**.

Whether you have existing real estate, or you are seeking to purchase more, it is critical to focus on adding value to generate additional income to improve cash flow if you can.

You may need to get creative so here are some suggestions to get you thinking:

- Pay down mortgages with high Loan to value ratios (LTV)
- Add an extra suite or convert unused space
- Add an extra bedroom
- Renting out your detached garage or parking space
- Renovate cost effectively in order to obtain higher rents and minimize vacancies
- Student housing
- Lease-option your existing, poorly performing properties to tenant buyers. The upside is greater cash flow on a poor performer or high maintenance property. The downside is that you lose on the long-term equity gains of the property once the lease-option tenant eventually exercises the option to buy the property.
- Sell Billboard space on the outside of the building. (If your real estate is in a high traffic location, and if local zoning by laws permit it)

Don't forget that many economists are telling us that interest rates will rise in 2010. It is likely that having more cash flow will not be a ***nice-ity*** but a ***necess-ity***! **Our advice is to strengthen your cash flow and to seek opportunities with the ability to increase cash flow immediately upon acquisition.**

TELL ME THE TIME

In real estate timing is everything

"Too often home buyers and investors are fooled by individual pieces of information taken in isolation and out of context. A real estate cycle is like a puzzle and Tell Me The Time™ will give you ALL of the pieces of the puzzle in order to see the 'big picture'."

Kieran Trass
Real Estate Cycle Expert
President - Tell Me The Time™

Did you know you could use the Real Estate Cycle to your advantage? Its true - understanding the Real Estate Cycle will:

- **Increase Your Profits**
  When you understand where you are in the cycle, you can take advantage of that phase, and make more money! Mitigate risk during the slump. Plan ahead for the recovery and be prepared to profit during the boom.
- **Save You Time**
  Learn how to filter out unnecessary and biased information. Save *your* time for positioning your portfolio for maximum results!
- **Reduce Your Stress**
  Understanding the 'big picture' view of the market will reduce uncertainty and give you peace of mind to make decisions based on facts, not emotions.

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Subscribe now to Tell Me The Time – GTA and receive:

Quarterly "Clock Sync's"

Sync your Real Estate Cycle Clock every three months with the latest unbiased data and commentary. Your quarterly Clock Sync will include:

- The "Time" on the Real Estate Cycle Clock for your market.
- Key Driver Updates – tables, graphs, commentary and analysis on all key drivers!
- Media and Market Influencers -how the media, interest rates and other market influencers are affecting public sentiment.
- Strategies for maximizing your returns during the current 'Time' – be profitable during each phase of the real estate cycle!

Monthly "Market Minutes"

The real estate market typically tends to pace itself and isn't known for daily volatility like the stock market; however that doesn't mean there isn't valuable information and important clues that affect the real estate cycle clock on a monthly basis! Your monthly Market Minutes will include:

- Media Central - deciphering the headlines that can give false impressions, or correct ones.

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