

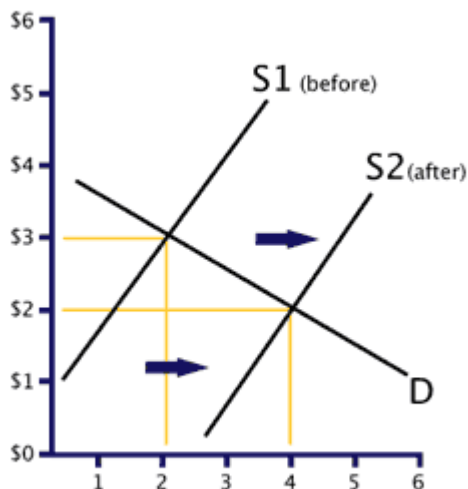


MARKET BASICS

Unlike conventional commodity markets, real estate offers no standard product or physical marketplace to shop for a new home. Additionally, each home or property is unique in its location, use, appearance, size, and setting. Because of these variations in characteristics, housing activity is difficult to monitor let alone predict. As a result “tell tale” market performance indicators like those which exist in commodity markets are absent to signal the correction of inventory levels to meet current demand. This plagues the market with a large response ‘dead band’ resulting in constant imbalance of supply and demand.

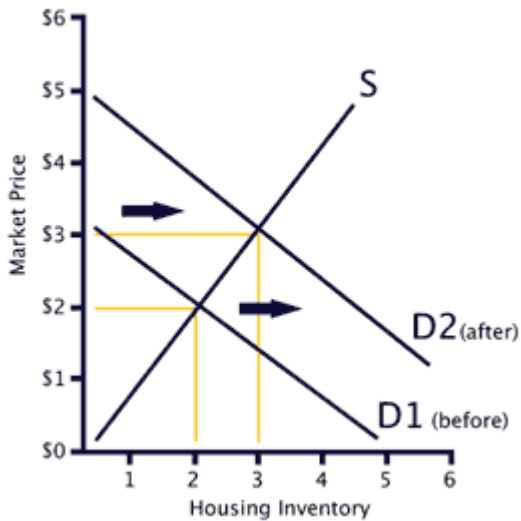
Influences such as mortgage interest rates, employment conditions, and consumer economic confidence establish the relationship between housing supply and demand (and hence price). Referring to our illustration below which represents a balanced relationship between supply and demand for the variables of housing inventory and market price it is easy to denote market response for the combined variation of these influences. This “market response” is better dubbed “market type” and is described by the following characteristics.

In a **Tenant’s Market** the supply of available housing exceeds its demand and landlords are forced to compete against an excess market inventory. As eligible homes wait it out on the market, activity slows and prices decline or “correct” to stabilize with current demand (a shift from S1 to S2). For a tenant, this translates into a situation of favoured negotiating leverage which can be applied against a large housing inventory from which to choose.



In a **Landlord’s Market** demand for available housing exceeds supply. Tenant’s compete against one another to secure a lease. Eligible homes are quickly “snapped up” by prudent

tenant's whose competing activity drives up market pricing to a level which stabilizes the depleted supply (a shift from D1 to D2).



For this discussion we have set aside demographic effects such as migration, age composition, and population changes in addition to provincial/federal government policy and transportation patterns which influence housing market supply and demand on a much broader spectrum and time frame.

From our discussion it is obvious that the ideal time for a tenant to lease a home would be during a tenant's market period. However, realize that the influences which determine this market type may not be suitable for the tenant, as lower market housing prices and high market inventory (selection) are usually a result of heightened interest rates, inflated unemployment levels, and weakened consumer confidence.