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ORECAST

Sherbrooke

Spring - Summer 2004

SUMMARY

Canada Mortgage and Housing Corporation

Real estate activity to stay at a fever pitch again this year

Residential construction

✓ The level of activity will remain high on job sites this year, as 1,190 housing units will be started, compared to 1,070 last year. In 2004, the number of starts will exceed the historical average for the last 30 years by 200 units—a feat that has not been seen since 1990.

✓ The intense activity on the new home market largely results from the acute shortage of available rental housing. This year, construction will get under way on 640 units intended for the rental market, in comparison with 473 in 2003. An occasional substitute for rental dwellings, condominium housing will remain popular this year, with 50 starts.

✓ The low mortgage rates, the increase in household income, the strong employment growth in 2003 and the scarcity of existing homes for sale will continue to support demand for new homes in 2004. Even with these more than favourable conditions, though, freehold housing starts will decline by

63 units to 500 in 2004. The backlash of the early home purchases made in 2002 and 2003, encouraged by affordable mortgage rates and the scarcity of available rental housing, will start to be felt on the market.

✓ Housing starts will decrease in 2005, following a slight rise in mortgage rates, a less vigorous labour market and a greater impact of past early home buying decisions. In all, 900 housing units will be started next year.

Resale market

✓ The resale market will remain very tight in 2004, but it will show its first signs of easing, with the end of the decline in listings and also a longer listing period for upscale homes.

✓ For the last three years, although the market has been very active, transactions have levelled off somewhat on account of the limited choice of properties for sale. The year 2004 will not escape this trend. Sales will reach 1,250 units, which is the

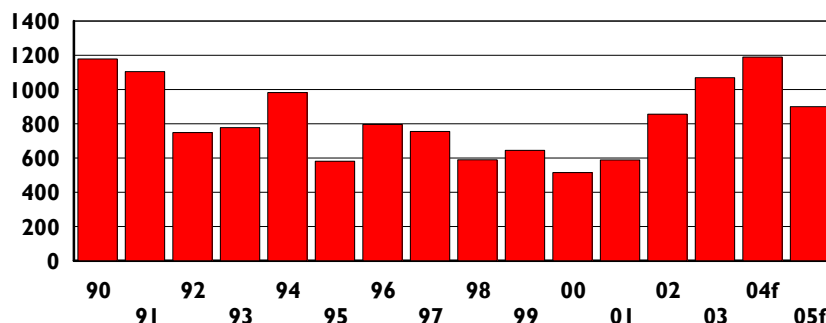
midpoint of the range in which they have been hovering for the last three years (1,200 to 1,300 transactions).

✓ With a seller-to-buyer ratio of almost 4 to 1 and mortgage rates that went down again at the beginning of the year, the price of existing homes will post another appreciable gain in 2004. The increase over last year will be 12 per cent, bringing the average price of transactions to \$131,000. The price of new single-detached homes, for its part, will reach \$147,000, up by 7 per cent.

✓ Several factors are working towards a slowdown in sales in 2005. Existing homes will be less affordable as a result of the major increase in prices and the rise in mortgage rates that will occur toward the end of 2004. By then, the labour market will have slowed down its rate of growth, and many households will have taken advantage of the exceptional financing conditions during the period from 2002 to 2004 to adapt their housing consumption to the tastes and needs.

✓ In 2005, 1,100 existing homes will change hands, for a decrease of 12 per cent. The average price, for its part, will rise by 2 per cent to \$133,600.

Last Year of Growth in 2004
Housing Starts - Sherbrooke CMA



f: CMHC forecast
Source: CMHC



HOME TO CANADIANS
Canada

Rental market

✓ The marked increase in the production of rental apartments in 2003, supported by the intense construction activity observed at the beginning of this year, will allow for a small rise in the vacancy rate. In October, 1.0 per cent of rental housing units will be unoccupied, compared to 0.7 per cent one year earlier. The contraction of the job pool at the beginning of the year, at a time when lease renewal decisions are made, will also help ease market conditions.

✓ The persistent scarcity of dwellings on the market will maintain the upward pressure on rents. The amount charged for a two-bedroom unit is expected to reach \$483 in 2004 and \$493 in 2005.

Mortgage rates

✓ In Canada, the weak inflation and

accommodative monetary policy will keep mortgage rates at low levels over the next few quarters. The monetary policy will be tightened, however, as economic growth gets stronger in 2004 and 2005, such that Canadian short-term interest rates will rise by 50 to 100 basis points next year.

✓ The three-year mortgage rate will reach 5.46 per cent this year, before rising to 6.04 per cent next year. As for the five-year rate, it will go from 6.13 per cent up to 6.73 per cent over the same period.

✓ For a few years now, given the strong competition on the mortgage market, buyers have been able to negotiate decreases of 100 to 125 basis points from the posted rates. This practice will continue over the forecast period.

Employment and economy

✓ The year 2004 started off with a contraction of the job pool. However, the awakening of the U.S. economy and the announced residential and non-residential investment projects suggest that the situation will recover during the year. Despite the difficult conditions in the textile industry, the manufacturing sector should continue to generate new jobs. In 2004, overall employment growth should attain 1.2 per cent or 950 jobs. Last year, the Sherbrooke economy created 2,400 net jobs, enough to stimulate the housing demand over the short and medium terms.

FORECAST SUMMARY Sherbrooke Census Metropolitan Area Spring - Summer 2004

	2003	2004f	% Chg.	2005f	% Chg.
NEW HOME MARKET					
Total housing starts by intended market	1,070	1,190	11%	900	-24%
Freehold	563	500	-11%	370	-26%
Rental	473	640	35%	500	-22%
Condominium	34	50	47%	30	-40%
Average price for single-detached houses (\$)	136,400	147,000	7%	153,000	4%
RESALE MARKET					
MLS® sales	1,291	1,250	-3%	1,100	-12%
Average MLS® price (\$)	117,000	131,000	12%	133,600	2%
RENTAL MARKET					
Vacancy rate (%)	0.7	1.0	N/A	1.7	N/A
Rent for a two-bedroom unit (\$)	471	483	2.5%	493	2.1%
ECONOMIC OVERVIEW					
Mortgage rate - 3-year (%)	5.82	5.46	N/A	6.04	N/A
Mortgage rate - 5-year (%)	6.39	6.13	N/A	6.73	N/A
Employment level	79,000	79,950	1.2%	80,950	1.3%
Employment growth (number of jobs)	2,400	950	N/A	1,000	N/A

f: CMHC forecast