

R

ENTAL MARKET

Sherbrooke

REPORT

Canada Mortgage and Housing Corporation

October 2001 Survey

www.cmhc.ca

Vacancy rate falls again

The rental housing vacancy rate fell significantly in the Sherbrooke metropolitan area during the past year, going from 4.7 per cent in October 2000 to 2.3 per cent in October 2001. This decrease was the second in a row, following three years of stagnation on this market. As well, it brought the vacancy rate back down to its 1985 level, the lowest point in the last two decades.

Overall, the major decrease in the number of unoccupied units was due to the fact that the rental housing demand rose significantly, while the volume of apartment construction remained relatively stable at a low level.

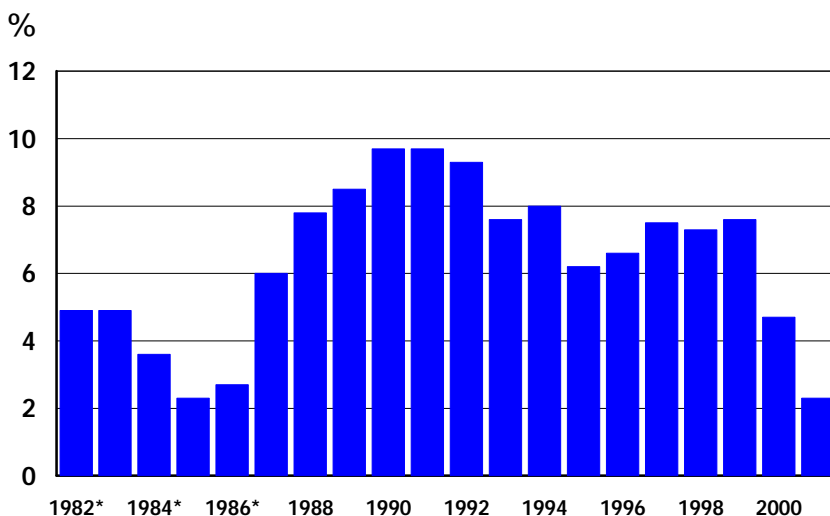
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Vacancy Rate Returns to Its 1985 Level



* Before 1987, the survey covered buildings with six or more units.



HOME TO CANADIANS
Canada

Improved job market conditions for the 25 to 44 years' age group, higher immigration levels and the good performance of the resale market that offered excellent momentum to retirees who wanted to turn to the rental market were the principal factors for the increase in demand.

Youth employment gives good boost

In the last two years, the growth in youth employment provided major support to the rental housing demand. With a job under their belt, many young people were able to leave their family home or their roommates and move into their own apartment.

For the first time in three years, employment posted a gain among people aged from 25 to 44 years in 2000. The effects of this improvement continued to be felt on the housing market in 2001. This year, improved labour market conditions for the 25 to 44 years' age group took the form of a decrease in the level of part-time jobs, to the benefit of an increase in the number of full-time jobs. In fact, 700 such positions replaced 600 part-time jobs.

In recent years, employment variations for the 15 to 24 years' age group have had a limited impact on the rental housing demand. On the one hand, these young people increasingly prefer to own an automobile and take part in recreational activities rather than rent an apartment when their parents live in the area. More of them are therefore choosing to stay in their parents' home. On the other hand, the young people in this age group who are attracted to Sherbrooke mainly want to live there for education purposes, which makes this portion of the rental housing demand more stable and less affected by any jolts on the labour market.

Immigration buoys up rental demand

Two main sources of immigrants contributed to increasing the rental housing demand: those arriving from abroad and seniors coming from surrounding areas.

Immigration from international sources is on rise in the Sherbrooke area. For 2001, it is estimated that the number of foreign nationals was close to 1,100, compared to 800 one year earlier. It is expected that international immigration will continue to increase over the next few years, and should reach 1,600 people in 2003.

As for older migrants, who come from urban and rural areas around Sherbrooke, they are attracted by the growing supply of units in retirement homes, easy access to services and a more complete health care system than in their area of origin. It is estimated that about 150 people aged 65 years or older migrated to Sherbrooke in 2000 and 2001.

Many moves between rental and resale markets

While this phenomenon may be difficult to quantify, there were many moves between the rental and resale markets in 2001, in both directions.

The mortgage rate decreases that occurred very early in the year helped stimulate homeownership. Some apartments were therefore vacated by their occupants. In 2001, there were 1,245 existing home sales through the Multiple Listing Service (MLS). Out of this volume, 732 transactions involved houses priced at \$90,000 or less, a market segment serving many first-time home buyers.

Apartment Vacancy Rates		
Canada	2000	2001
Metropolitan Areas		
Calgary	1.3	1.2
Charlottetown	2.6	1.8
Chicoutimi-Jonquière	4.4	4.4
Edmonton	1.4	0.9
Halifax	3.6	2.8
Hamilton	1.7	1.3
Hull	1.4	0.6
Kitchener	0.7	0.9
London	2.2	1.6
Montréal	1.5	0.6
Oshawa	1.7	1.3
Ottawa	0.2	0.8
Québec	1.6	0.8
Regina	1.4	2.1
Saint John	3.4	5.6
Saskatoon	1.7	2.9
Sherbrooke	4.7	2.3
St. Catharines-Niagara	2.6	1.9
St. John's	3.8	2.5
Sudbury	7.7	5.7
Thunder Bay	5.8	5.8
Toronto	0.6	0.9
Trois-Rivières	6.8	4.7
Vancouver	1.4	1.0
Victoria	1.8	0.5
Windsor	1.9	2.9
Winnipeg	2.0	1.4
Total Canada	1.6	1.1
Québec Province		
Urban Areas from 50,000 to 99,999		
Drummondville	1.8	1.8
Granby	2.0	2.5
Shawinigan	8.4	7.7
St-Hyacinthe	1.8	1.3
Sub-Total 50,000-99,999	3.1	2.6
Urban Areas from 10,000 to 49,999		
Alma	1.8	4.4
Amos	10.5	14.2
Baie-Comeau	16.7	16.2
Cowansville	6.6	6.0
Dolbeau-Mistassini	7.1	3.9
Gaspé	15.0	9.2
Joliette	4.2	2.2
La Tuque	10.6	13.0
Lachute	6.6	5.5
Magog	3.1	1.1
Matane	14.4	11.4
Montmagny	1.5	1.3
Rimouski	6.5	3.9
Rivière-du-Loup	4.5	3.4
Roberval	5.3	4.1
Rouyn-Noranda	12.2	15.5
Salaberry-de-Valleyfield	3.7	3.7
Sept-Îles	12.3	7.7
Sorel-Tracy	11.9	8.4
St-Georges	2.1	2.7
St-Jean-sur-Richelieu	2.8	1.2
Ste-Marie	1.7	2.8
Thetford-Mines	7.8	11.5
Val d'Or	11.4	11.4
Victoriaville	2.3	2.0
Sub-Total 10,000-49,999	5.9	6.2
Total Province of Québec	2.2	1.3

The increase in existing home prices, for its part, favoured an opposing movement, boosting demand for rental housing. With prices on the rise since 2000, some retirees have been taking advantage of the situation to sell their home and turn to the traditional rental market or retirement homes. For seniors, it is important to sell their house when prices are an upward trend, since the equity drawn from the sale will ensure a good portion of their future income. The marked hikes in existing home prices in the last two years (2.7 per cent in 2000 and 3.3 per cent in 2001) created good momentum for people interested in turning to rental housing.

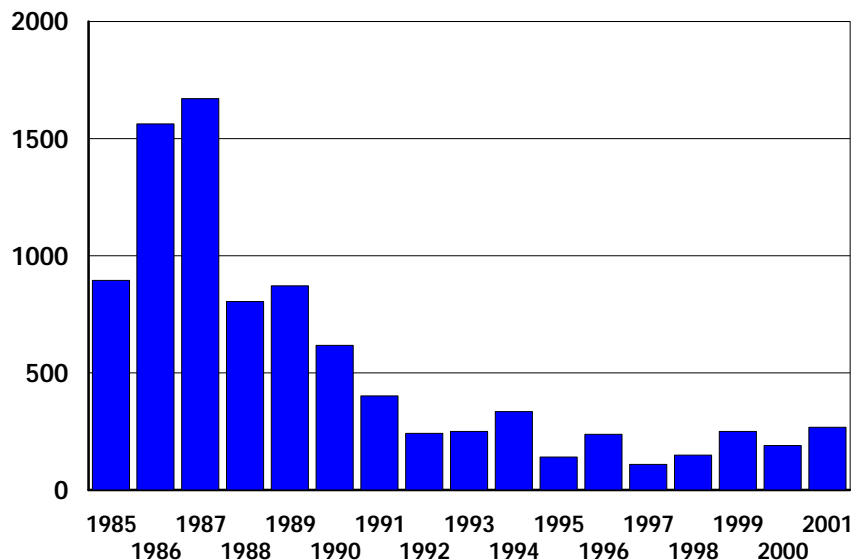
Housing supply slowly adjusting

Between the 2000 and 2001 surveys, just under 250 new apartments were added to the rental housing stock. Several factors account for this rather slow progression. First, it was not that long ago that the Sherbrooke rental market was still contending with a large surplus of units. The considerably tighter market conditions are still quite recent, effectively dating back only one year. Before developers start building on a more significant scale, they will want to make sure that the rise in the rental housing demand is here to stay.

Second, before the stock markets took a tumble, it was much more profitable, and seemingly less risky, to invest on the stock market than in a residential building to make fast profits from one's assets, not to mention that a stock investment requires less personal involvement than the management of a rental property. And, for those who still opted to invest in real estate, studies show that it has been more profitable to buy an existing property than a new one.

Finally, apartment construction is expensive, which means that those who do undertake such projects are then limited to the mid-to-upper-range or retirement home segments, which are

Apartment Production Remains Weak



still relatively small niches in relation to the overall housing stock.

Rental increases below inflation

Although the rental unit surplus was significantly reduced for a second consecutive year, the rental increase remained limited in 2001, ranging from 1 per cent to 2 per cent, depending on the type of unit. The rent charged for two-bedroom apartments posted the greatest increase, as it went from \$437 up to \$446 over the last twelve months. Representing a hike of about 2 per cent, this progression was still below inflation, which should reach 2.8 per cent in 2001 in Quebec.

Vacancy rate to remain low in 2002

The economic slowdown that has been affecting Canada for the past few months will curb the growth in the rental housing demand. An increase in the

unemployment rate has already been noted in the Sherbrooke metropolitan area, suggesting that the employment level will fall in 2002. Young people, with less experience, are often the first ones to be hit by a slowdown on the labour market.

With interest rates remaining low, homeownership will still be significant, which will contribute to vacating some apartments. On the other hand, international immigration, unaffected by economic slowdowns, should continue on its upward course.

On the supply side, at least two hundred new apartments should be added to the housing stock in 2002, a volume similar to the average level of production for the past few years. Apartment construction will be undertaken when investors will perceive an opportunity to make a profit, with the supply of available lots exceeding the demand.

With the demand slowing and the supply staying at a rather low level, the vacancy rate will fall only slightly in 2002. It is estimated that this rate will reach 2.3 per cent at the time of the next survey.

However, this forecast does not take into account the impact of the Affordable Housing Program for which

the bilateral agreement was recently signed between the federal and provincial governments, as the geographical distribution of the units had not yet been specified at the time of writing. As soon as complete information becomes available, CMHC will adjust its forecasts.

DETAILED RESULTS

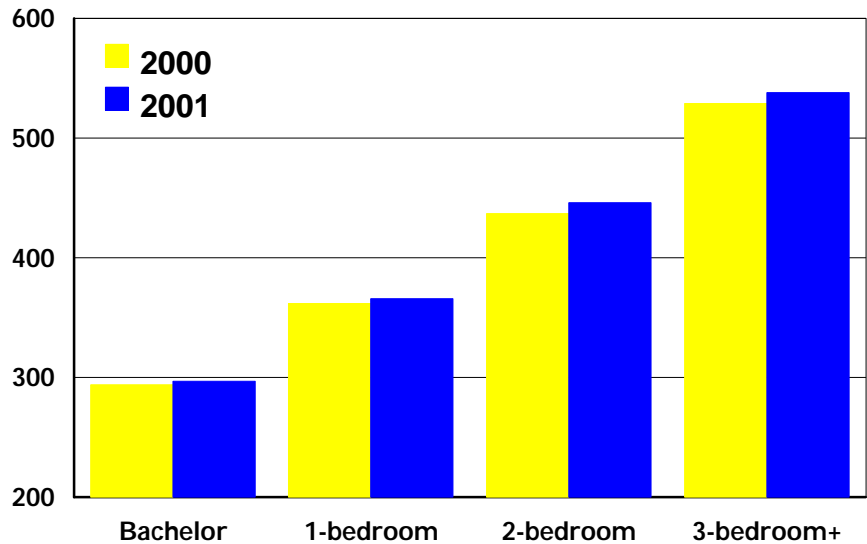
More difficult, but not impossible to find a dwelling

With the marked decrease in the vacancy rate between 2000 and 2001, it has become more difficult for renters to find an unoccupied apartment. But this is not an impossible task as, this past October, there were 570 vacant units in privately initiated buildings with three or more units. And, this result does not take into account condominiums or houses for rent, basement apartments in private residences, duplexes, rooming houses, or triplexes in which one of the units is occupied by the owner. Nor does it take into consideration the supply of dwellings coming from housing cooperatives, low-rent housing or buildings managed by non-profit organizations (NPOs).

Most of the available units are in the former city of Sherbrooke. There were 181 in the East district, 102 in the West district, 86 in the Centre district and 53 in the North district. Among the former outlying municipalities, Lennoxville-Ascot has the greatest supply of unoccupied units, with 91, followed by Fleurimont with 48 vacant apartments. As for Rock Forest, it is posting almost full occupancy.

Tenants who are seeking a quality of life similar to that of homeowners will have to rely on units that will be vacated as, this past October, there were hardly any

Limited Rental Increase

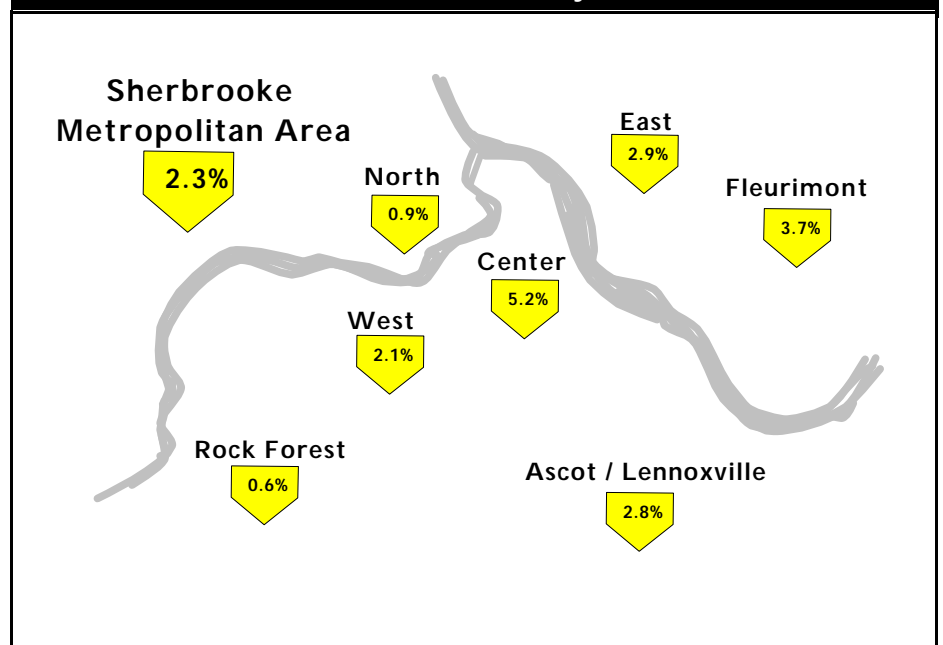


unoccupied dwellings in structures with 3 to 5 units. In buildings of this type, only 0.9 per cent of apartments had not found takers, which represents fewer than 40 units.

Mid-size buildings, comprising 6 to 49 units, have the greatest number of vacant apartments, with a total of 450 this past October.

Tenants who like buildings with over 50 units, for the security or services that they provide, will have to work a little harder to fulfill their preference, as barely over 75 units remained available at the time of the latest rental market survey in the Sherbrooke metropolitan area.

October 2001 Vacancy Rates



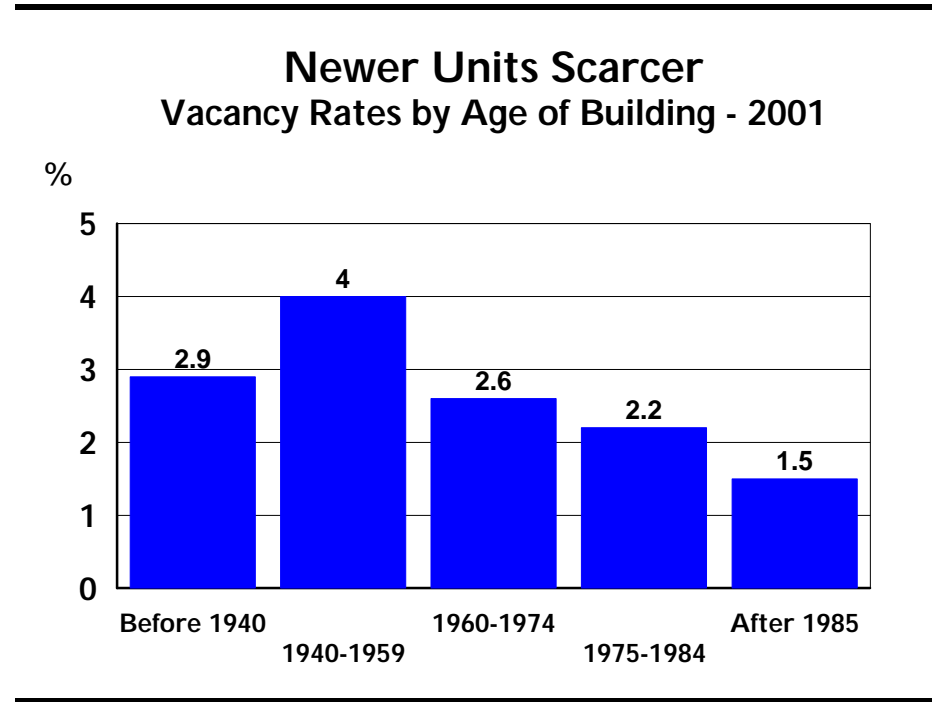
Large apartments are also scarce in the area. This past October, fewer than 40 apartments with three or more bedrooms had not yet found takers. However, there were just over 250 two-bedroom units and 215 one-bedroom dwellings. Very numerous on the market a few years ago, bachelor units are starting to get scarcer, with an estimated 53 such units unoccupied.

Tenants seek quality units

Quality units are increasingly in demand, which means that the currently available units are not necessarily the most expensive ones. Many tenants are prepared to pay more for a quality dwelling.

A comparison between the average rents of unoccupied units and those of all rental apartments reveals that available units systematically have lower rents than the corresponding market rates, regardless of the type of apartment. The table below shows that the average rent for two-bedroom units with no occupants is almost \$30 less per month than that for the market overall.

Another factor demonstrating this attraction to quality units is that newer



apartments, despite their usually higher rents, have a lower vacancy rate than older units. Last October, structures built after 1985 had about 1.5 per cent of their units unoccupied. Those built between 1940 and 1959, for their part, showed a vacancy rate of 4.0 per cent.

Tenants prefer newer buildings because of their characteristics, which are more in line with today's tastes. These include such features as open-concept kitchen and living rooms, kitchen cabinets and counters covered with more modern

materials, and more energy-efficient windows.

For owners of older buildings, this trend is an incentive to renovate their apartments in view of adapting them to today's tastes as much as possible, in order to better compete with newer buildings.

With the lower vacancy rate on the rental market, the profitability of projects is improving, which will facilitate the renovation of older buildings.

Expensive Units not the Ones Left Without Occupants

- Average Rents in October 2001 -

Unit Size	Unoccupied Units	All Units
Bachelor	\$269	\$297
One-bedroom	\$350	\$366
Two-Bedroom	\$417	\$446
Three-Bedroom	\$515	\$536

METHODOLOGY

Canada Mortgage and Housing Corporation conducts the Rental Market Survey every year in October to determine the number of vacancies and the rents charged in the rental structures. The survey is conducted on a sample basis in all urban areas with populations of 10,000 and more. Only structures which have been on the market for at least three months are included. While this publication is mainly about privately initiated apartments with three units and more, the CMHC survey also examines row houses and publicly initiated rental and co-op housing.

The survey is conducted by telephone or site visit, and information is obtained from the owner, manager or building superintendent. The survey is usually conducted in the first two weeks of October and these results reflect market conditions at that time.

Definitions

Vacancy: A unit is considered vacant if, at any time of the survey, it is physically unoccupied and available for immediate rental.

Rent: The rent data refers to the actual amount tenants pay for their unit. Amenities and services such as heat, light, parking, hot water and laundry facilities may or may not be included in the monthly rent reported in individual cases. The average rent figures reported in this publication represent the average of different units in the market area, some of which may have some or all of these services.

Rental apartment structure: Any building containing three or more rental dwellings which are not ground oriented.

Acknowledgement

The Rental Market Survey could not have been conducted without the co-operation of the many property owners and managers throughout Canada. We greatly acknowledge their hard work and assistance in providing timely and accurate information. We sincerely hope that the results of this work will provide a benefit to these clients and to the entire housing industry.

Market Zones

The various zones are described as follows:

Zone 1 : East District

North: City Limits, South: City limits, East: City Limits and West: St-François River

Zone 2 : Central District

North: St-François River, South: Galt West and Wellington, East: St-François River and West: Belvédère and Queen North

Zone 3 : West District

North: Magog River and Galt West, South: City limits, East: Wellington South and West: Magog River

Zone 4 : North District

North: City Limits, South: Magog River, East: St-François River and Queen North

Zone 5 : Canton of Ascot and City of Lennoxville

Including: Ascot Corner, Bromptonville, Brompton Township and St-Denis-de-Brompton

Zone 6 : Rock Forest

Including: Deauville, North Hatley and Hatley Township

Zone 7 : Fleurimont

Including: St-Élie-d'Orford and Stoke

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**Apartment Vacancy Rates (%)
By Market Zone and Unit Size
Sherbrooke Metropolitan Area**

Zone	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom +		Total	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Zone 1 - East District	7.9	1.7	6.5	4.1	4.8	2.9	3.4	0.6	5.3	2.9
Zone 2 - Central District	***	6.7	8.1	6.6	5.6	2.6	1.5	2.9	9.5	5.2
Zone 3 - West District	3.5	0.4	6.3	2.2	3.7	2.4	3.9	1.7	4.4	2.1
Zone 4 - North District	2.6	3.7	3.3	1.2	3.2	0.6	2.4	0.1	3.0	0.9
City of Sherbrooke	7.6	2.9	5.7	3.2	4.0	2.0	3.0	0.9	4.7	2.3
Zone 5 - Ascot Township and Mun. of Lennoxville	***	2.1	3.0	3.2	7.0	2.7	4.8	2.2	5.5	2.8
Zone 6 - Rock Forest	***	***	5.6	0.5	1.6	1.1	1.2	0.0	2.2	0.6
Zone 7 - Fleurimont	***	***	***	***	4.5	3.2	6.0	1.9	5.4	3.7
Total Sherbrooke CMA	7.6	3.0	5.3	3.2	4.4	2.1	3.2	1.0	4.7	2.3

**Apartment Average Rents (\$)
By Market Zone and Unit Size
Sherbrooke Metropolitan Area**

Zone	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom +	
	2000	2001	2000	2001	2000	2001	2000	2001
Zone 1 - East District	285	284	347	357	431	439	516	550
Zone 2 - Central District	***	253	329	328	388	401	439	443
Zone 3 - West District	294	293	347	352	421	435	509	509
Zone 4 - North District	323	339	410	404	480	480	571	577
City of Sherbrooke	294	298	364	367	442	450	534	543
Zone 5 - Ascot Township and Mun. of Lennoxville	***	293	354	356	407	418	511	512
Zone 6 - Rock Forest	***	***	344	381	434	465	509	534
Zone 7 - Fleurimont	***	***	***	***	438	446	522	530
Total Sherbrooke CMA	294	297	362	366	437	446	529	538

**Apartment Vacancy Rates (%)
By Market Zone and Building Size
Sherbrooke Metropolitan Area**

Zone	3-5 Units		6-19 Units		20-49 Units		50 Units +		Total	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Zone 1 - East District	2.9	1.0	4.5	3.1	7.6	2.9	5.2	5.1	5.3	2.9
Zone 2 - Central District	7.6	2.9	8.8	5.2	15.3	6.7	***	6.2	9.5	5.2
Zone 3 - West District	6.9	1.1	3.7	1.8	3.9	3.1	2.1	1.8	4.4	2.1
Zone 4 - North District	1.2	0.0	2.0	1.0	5.5	1.1	2.6	1.1	3.0	0.9
City of Sherbrooke	4.2	0.9	4.1	2.3	6.3	2.6	3.4	2.9	4.7	2.3
Zone 5 - Ascot T. & Lenn.	2.0	2.9	6.3	4.1	5.4	2.0	***	***	5.5	2.8
Zone 6 - Rock Forest	0.0	0.0	1.7	1.4	3.7	0.2	***	***	2.2	0.6
Zone 7 - Fleurimont	1.9	0.0	3.4	3.1	8.6	6.2	***	***	5.4	3.7
Total Sherbrooke CMA	3.7	0.9	4.2	2.5	6.2	2.6	3.5	2.8	4.7	2.3

**Apartment Vacancy Rates (%)
By Year of Completion and Unit Size
Sherbrooke Metropolitan Area**

Year	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom +		Total	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Before 1940	12.7	***	10.6	3.5	6.9	2.1	2.7	2.1	8.1	2.9
1940 - 1959	***	***	6.9	2.2	1.2	4.4	***	2.2	5.1	4.0
1960 - 1974	6.0	1.4	5.9	3.8	4.0	2.4	4.9	1.9	4.9	2.6
1975 - 1984	5.4	0.7	3.9	2.8	7.6	2.5	3.8	0.7	5.9	2.2
After 1985	2.1	***	2.7	3.2	2.5	1.0	2.6	0.2	2.5	1.5
Total Sherbrooke CMA	7.6	3.0	5.3	3.2	4.4	2.1	3.3	1.0	4.7	2.3

**Number of Vacant Units and Universe
By Market Zone
Sherbrooke Metropolitan Area**

Zone	Vacant Units	Universe
Zone 1 - East District	181	6,194
Zone 2 - Central District	86	1,655
Zone 3 - West District	102	4,973
Zone 4 - North District	53	5,925
City of Sherbrooke	422	18,747
Zone 5 - Ascot Township and Lennoxville	91	3,254
Zone 6 - Rock Forest	8	1,184
Zone 7 - Fleurimont	48	1,303
Total Sherbrooke CMA	569	24,488

*** Sample too small to disclose results

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