

R

ENTAL MARKET

REPORT

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Sherbrooke

Canada Mortgage and Housing Corporation

OCTOBER 2003 SURVEY

Scarcity of dwellings available for rent

According to the results of the latest Rental Market Survey conducted in October 2003 by Canada Mortgage and Housing Corporation (CMHC), dwellings for rent are getting increasingly scarce in the Sherbrooke census metropolitan area (CMA). In fact, the vacancy rate in privately initiated rental buildings with three or more housing units fell for a

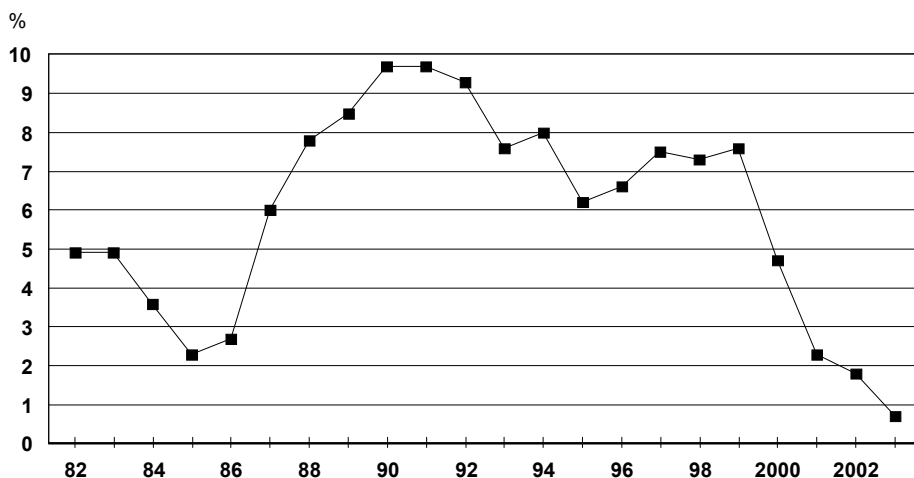
fourth straight year and now stands at 0.7 per cent. Out of the 24,943 rental housing units covered by the survey in the area, only 166 were available. This number dropped and represents just over one third of that recorded in 2002, when 442 dwellings were up for rent. In a very short time, the Sherbrooke rental market went from one extreme to the other, considering that the

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Vacancy rate posts fourth straight decrease-Sherbrooke CMA



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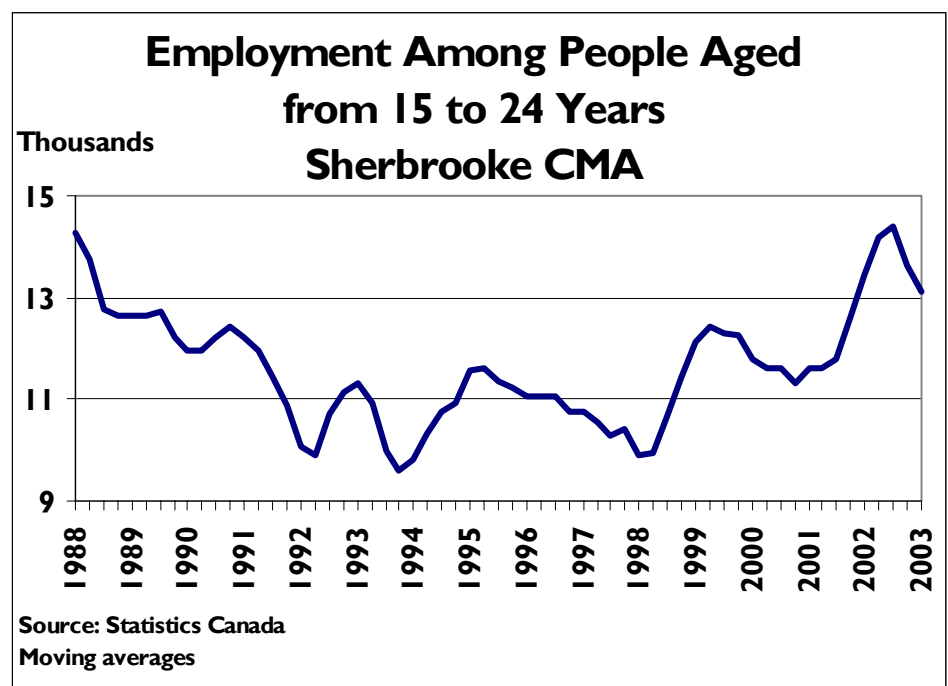
Apartment Vacancy Rates		
Canada	2002	2003
Metropolitan Areas		
Abbotsford	2.0	2.5
Calgary	2.9	4.4
Charlottetown	2.2	3.5
Saguenay	4.9	5.2
Edmonton	1.7	3.4
Halifax	2.7	2.3
Hamilton	1.6	3.0
Gatineau	0.5	1.2
Kingston	0.9	1.9
Kitchener	2.3	3.2
London	2.0	2.1
Montréal	0.7	1.0
Oshawa	2.3	2.9
Ottawa	1.9	2.9
Québec	0.3	0.5
Regina	1.9	2.1
Saint John	6.3	5.2
Saskatoon	3.7	4.5
Sherbrooke	1.8	0.7
St. Catharines-Niagara	2.4	2.7
St. John's	2.7	2.0
Sudbury	5.1	3.6
Thunder Bay	4.7	3.3
Toronto	2.5	3.8
Trois-Rivières	3.0	1.5
Vancouver	1.4	2.0
Victoria	1.5	1.1
Windsor	3.9	4.3
Winnipeg	1.2	1.3
Total Canada	1.7	2.3
Québec Province		
Urban Areas from 50,000 to 99,999 inhabitants		
Drummondville	2.2	2.5
Granby	2.5	1.7
Shawinigan	8.5	7.4
St-Jean-sur-Richelieu	0.6	0.5
Sub-Total 50,000-99,999	3.0	2.6
Urban Areas from 10,000 to 49,999 inhabitants		
Alma	5.0	7.0
Amos	13.0	12.0
Baie-Comeau	11.1	6.9
Cowansville	3.5	3.8
Dolbeau-Mistassini	4.7	4.9
Gaspé	6.5	4.5
Joliette	0.9	0.8
La Tuque	16.7	17.4
Lachute	1.0	1.8
Magog	1.4	0.4
Matane	10.8	9.7
Montmagny	1.4	0.3
Rimouski	2.6	0.9
Rivière-du-Loup	1.6	1.0
Roberval	3.7	4.0
Rouyn-Noranda	10.0	7.9
Salaberry-de-Valleyfield	2.2	1.5
Sept-Îles	9.2	5.2
Sorel-Tracy	5.8	4.3
St-Félicien	3.4	5.0
St-Georges	2.3	3.6
St-Hyacinthe	0.7	0.5
St-Lin	n.d.	1.7
St-Marie	3.1	1.3
Thetford-Mines	7.9	7.1
Val d'Or	11.7	6.4
Victoriaville	1.8	4.0
Sub-Total 10,000-49,999 inhabitants*	4.5	3.6
Total Province of Québec	1.2	1.3

vacancy rate reached 7.6 per cent in October 1999. At that time, the surplus situation had lasted for over 12 years and, every year, the rental market had vacancy rates above 6 per cent.

Rental housing demand intensifies

If this rental housing surplus was brought down to this extent, it is that the Sherbrooke CMA rental market is facing an ever-growing demand, while apartment construction is slow in adjusting, although it is picking up somewhat. In general, this demand continues to be stimulated by the good performance of the economy in the Sherbrooke area but, more specifically, by a vigorous job market, successful international immigration policies and the aging of the population.

In 2003, the labour market continued in its stride that began a few years ago. These robust labour market conditions are benefiting young people, as illustrated in the graph below. Despite a small decrease in 2003, the 15 to 24 years' cohort reached a level of employment not seen since the late 1980s. Since the low point in 1998, some 3,200 jobs have been created, half of which are full-time, which ensures a certain income stability to young households. Financially more at ease, these young people left their parents or their roommates to move into their own dwelling. It should be noted that the number of people in this age group remained stable between 1996 and 2001, so it was only by improving their financial situation that they boosted demand for rental housing.



* Now including Rimouski and Saint-Hyacinthe

Net Migration - Sherbrooke CMA

	Total	2001-2002	2000-2001	1999-2000	1998-1999	1997-1998
International immigration	4,244	985	1,019	915	535	790
Interprovincial and intraprovincial migration	(1,087)	220	(98)	(305)	(580)	(324)
Total inward migration (outward migration)	3,157	1,205	921	610	(45)	466

Migration is another factor that accounts for the strength of this demand. Between 1997 and 2002, almost 3,200 people immigrated to the Sherbrooke CMA, and just over one third of them (1,205) did so from 2001 to 2002. Immigration ensured demographic growth in the Sherbrooke CMA, as an average of 850 people per year came from abroad to settle in the area. It is a known fact that the arrival of immigrants has a rapid and significant impact on demand for rental housing, since most of them seek this type of housing during the first few years. It should be noted that migration flows within the country were responsible for the excellent results obtained in 2001-2002. In fact, the winds changed during this period, and the Sherbrooke CMA effectively posted an interprovincial and intraprovincial migration gain of 220 people. The good performance of the Sherbrooke economy is drawing attention and attracting job seekers.

Demand for rental dwellings is also benefiting from the aging of the population. In fact, when they get older, some homeowners go back to renting. In addition, many people aged 65 years or older come to the Sherbrooke CMA from the surrounding rural areas.

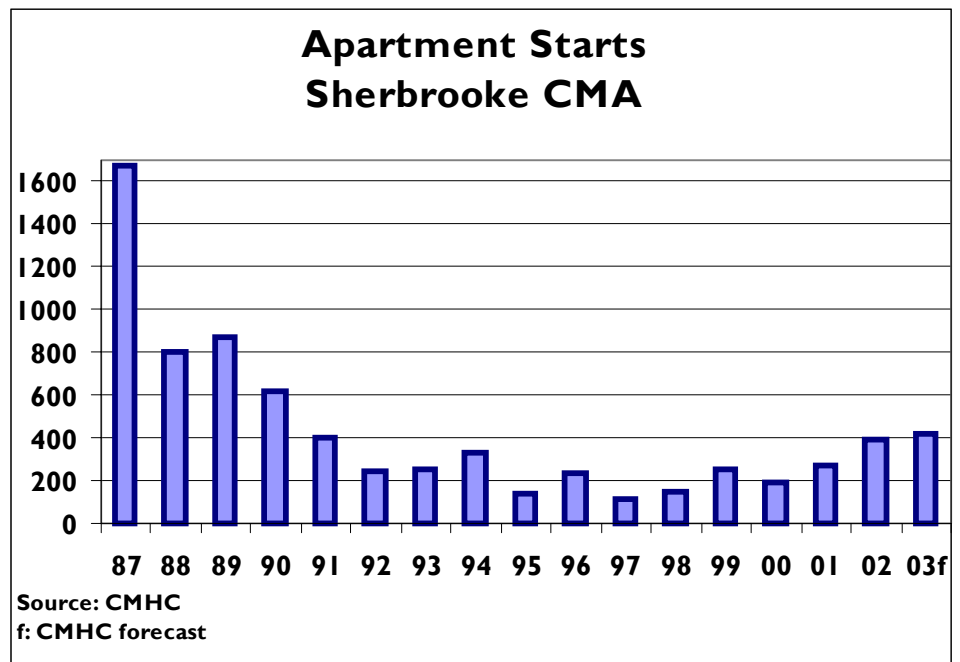
From 1997 to 2002, 20 per cent of newcomers to the Sherbrooke CMA were over 65 years. We believe that they are attracted by the supply of dwellings in retirement homes, easy access to different services and a more comprehensive health care network than in their area of origin.

It should be pointed out that, fortunately, the significant homeownership trend attenuated the vigorous demand for rental housing again in 2003. Most first-time home buyers freed up a rental dwelling, thereby allowing other households to gain access to the rental market. According to the mortgage insurance data,

homeownership was just as strong in the first ten months of 2003 as during the corresponding period in 2002, and this intense activity should continue in 2004. The lack of choice on the rental market and the affordable mortgage rates will again encourage many renter households to take the plunge into homeownership.

Apartment construction slow in adjusting

During the first three quarters of 2003, apartment construction rose slightly, as 350 starts were recorded, or 22 more units than during the same period in 2002. While this



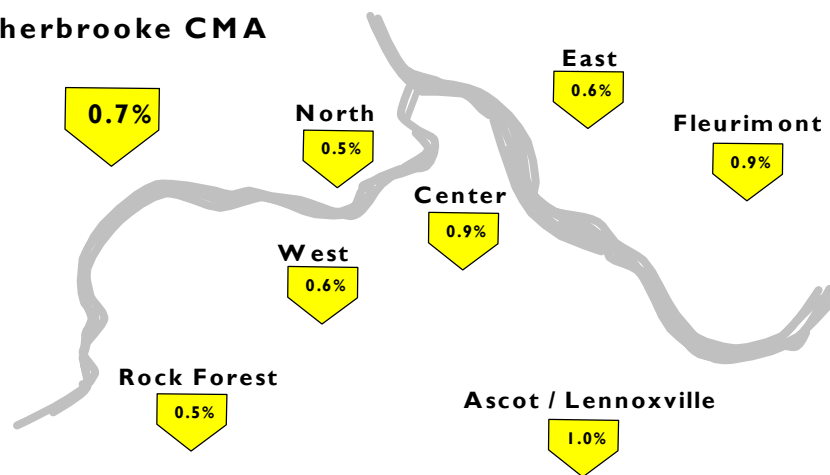
volume may be higher than just a few years ago (190 apartment starts had been enumerated for the year 2000), it is far from the 1,600 units built each year in 1986 and 1987. Still, CMHC is forecasting that a total of around 415 apartments will be started in 2003, for an increase of 7 per cent over the previous year. Almost all these units are intended for the traditional rental market, and most are located in the north district of the former city of Sherbrooke and in Rock Forest.

Developers and builders recall that, not so long ago, the rental market was contending with a major surplus of dwellings for rent. Throughout the 1990s, these difficult market conditions ate away at the return of rental buildings and, no doubt, the industry still remains cautious. As well, given the relative profitability afforded by an investment in a rental project, developers and builders are more inclined to start mid- and upper-range dwellings in small rental structures with fewer than six units. This type of construction, similar to a large house, is less restrictive and therefore less expensive. Tenants of such dwellings benefit from a better quality of life, comparable to that enjoyed by homeowners, and they are willing to pay a higher rent. In addition, these small buildings are easier to resell, as they require a smaller monetary investment, while being suitable to homeowners who want to reduce their housing costs.

Market conditions tight everywhere

In 2003, all sectors of the Sherbrooke CMA are experiencing

Sherbrooke CMA



tight market conditions. With the exception of the Lennoxville-Ascot sector, the vacancy rates are below 1 per cent everywhere. Once again this year, Lennoxville-Ascot has the highest rate. However, it was in this sector that market conditions tightened the most, as the proportion of vacant units went from 3.7 per cent in October 2002 down to 1.0 per cent this year. The rental market in the former city of Sherbrooke also posted significant vacancy rate decreases (especially the east and centre districts), even if most of the apartments built last year were on this territory (221 units).

The vacancy rate decrease also extended to units of all sizes, but the drop was more significant in the case of units with two bedrooms or less. In fact, the proportion of unoccupied units in the two-bedroom unit category fell to 0.4 per cent in October 2003—the lowest vacancy rate. The rate for one-bedroom units reached the same level as that for

the three-bedroom unit category, as it went down to just 0.8 per cent. The vacancy rate for bachelor units dropped by almost half, reaching only 1.7 per cent. Since available larger dwellings were already scarce last year, the tighter rental market conditions forced renters to turn to smaller apartments. Older projects also benefited, as those built between 1940 and 1959 posted a major improvement in their vacancy rate, which went from 4.2 per cent in 2002 to 1.0 per cent in 2003.

Average rent posts firmer increase

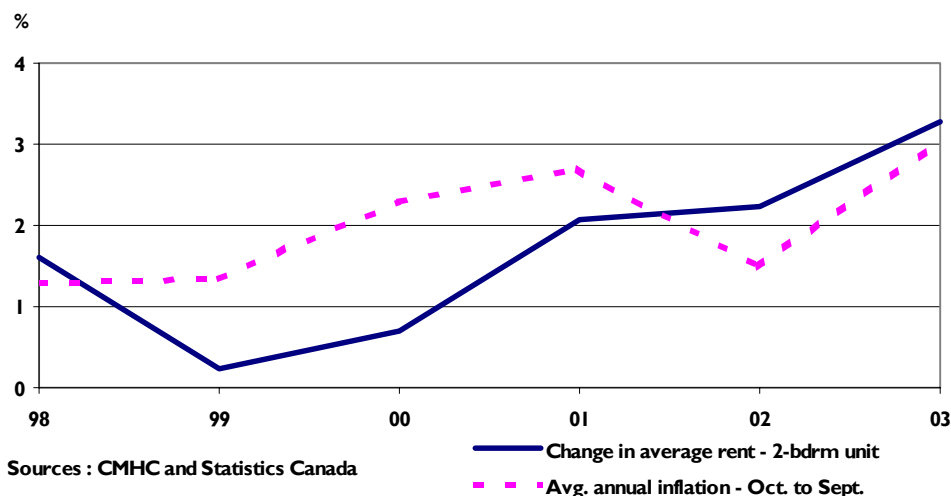
The scarcity of dwellings available for rent is favouring landlords and explains the firmer increase in rents. The next graph compares inflation with the increase in the average rent for a two-bedroom unit in Sherbrooke CMA (the most common dwelling type on the market). For the second year in a row, the rise in the average rent is

above inflation. This year, however, the hike will have allowed rents to barely keep up with inflation. The average rent rose by 3.3 per cent over October 2002, slightly exceeding inflation, which stood at 3.1 per cent (annual average from October 2002 to September 2003).

More significant increases were recorded in the one-bedroom unit category, where the average rent went up by 4.3 per cent over October 2002 and now stands at \$385. The north district of the former city of Sherbrooke posts the highest rents and recorded the most substantial rental hikes in CMA. Renters there have to pay an average of \$367 for a bachelor unit and \$536 for a two-bedroom apartment, representing increases of 8.7 per cent and 7.9 per cent, respectively.

It should be noted, however, that the Sherbrooke area is still one of the CMAs with the most affordable rents in Canada. With an average

Context Favourable to Rental Increase



rent of \$471 for a two-bedroom unit, Sherbrooke ranks as the third most affordable area (see table: Average Rent for a Two-Bedroom Unit).

Situation to ease slightly in the short term

In 2004, there will not be a great many dwellings available for rent in

the Sherbrooke CMA. However, the new constructions that will have been added to the housing stock in 2003 will help ease the market, and the vacancy rate should rise slightly and reach 1.4 per cent in 2004. Demand will continue to be stimulated by the good performance of the job market and the arrival of immigrants and seniors. The homeownership trend will continue to free up some dwellings for these new renter households, but it could be slowed by the rise in prices on the resale market. In fact, based on the average price of a single-family home and the current mortgage rates, the monthly mortgage payment, which was \$693 last year, should be around \$750 in 2003. The favourable mortgage rates are therefore no longer sufficient to offset the increase in prices.

Over the longer term, the number of young households will progressively decline in the Sherbrooke CMA, which will consequently ease the pressure on the rental housing demand.

Average Rent for a Two-Bedroom Unit

CMA	2002	2003
	\$	\$
Toronto	1,047	1,040
Vancouver	954	965
Ottawa	930	932
Calgary	804	804
Gatineau	599	639
Montréal	552	575
Québec	550	567
Sherbrooke	456	471
Saguenay	440	457
Trois-Rivières	431	436

Financial Health of Renter Households in Quebec¹

A widely used affordability criterion is the « 30 per cent threshold ». According to this criteria, a household that allocates 30 per cent or more of its gross income on housing does not live in an affordable home. From 1996 to 2001, the proportion of renter households in Quebec spending more than the affordability threshold on housing declined. This is what was revealed by the data on shelter costs and household income collected by Statistics Canada at the time of its last two censuses. While, in 1996, 36 per cent of renter households in Quebec allocated 30 per cent or more of their income on housing costs, only 31 per cent did so in 2001. Across Canada, the situation also improved, but to a lesser extent, as this proportion went from 37 per cent down to 35 per cent over the same period. In 2001, among the ten Canadian provinces, Quebec had the lowest percentage of renter households spending 30 per cent or more of their income on housing. These results are not really surprising, given that Quebec has the lowest average rents.

The table below shows the relation between the changes in affordability and the increase in the average rent for a two-bedroom unit from 1996 to 2001 in the six census metropolitan areas (CMAs) across Quebec. It can be noted that, despite more significant increases in the average rents in the CMAs of Montréal (7.5 per cent), Gatineau (6.7 per cent) and Québec (5.3 per cent), these were the areas where affordability improved the most. These were also the areas where the proportions of renter households exceeding the affordability threshold were the lowest in 2001. Conversely, in the CMAs where the average rents rose less significantly, namely, Sherbrooke (4.7 per cent), Saguenay (3.8 per cent) and Trois-Rivières (3.5 per cent), the improvements in affordability were less remarkable. In addition, their percentages of renter households who spent more than the affordability threshold were greater than the average for Quebec. This therefore suggests that renters in the Montréal, Gatineau and Québec CMAs saw their incomes rise more rapidly than those in Sherbrooke, Saguenay or Trois-Rivières and that they are financially more at ease.

	Percentage of renter households spending 30% or more of their income on housing		Increase in the average rent for a two-bedroom unit from 1996 to 2001
	1996	2001	
Quebec	35.8%	31.0%	
Canada	36.9%	34.6%	
CMA			
Gatineau	35.0%	29.5%	6.7%
Québec	35.8%	30.8%	5.3%
Montréal	37.4%	31.6%	7.5%
Saguenay	33.5%	32.0%	3.8%
Sherbrooke	37.9%	33.0%	4.7%
Trois-Rivières	37.7%	34.1%	3.5%

Sources: Statistics Canada and CMHC

¹ This article was based on information contained in the research report *2001 Census Housing Series Issue 1: Housing Affordability Improves*, Research Highlights, Socio-economic Series 03-017, Canada Mortgage and Housing Corporation, September 2003.

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.

Delimitation of Survey Zones

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

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.

1. Apartment Vacancy Rates (%)
By Market Zone and Bedroom Type
Sherbrooke census metropolitan area (CMA)

	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom		Total	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Zone 1 - East District	6.2	3.9	3.3	0.8	1.2	0.3	2.5	0.0	2.3	0.6
Zone 2 - Central District	2.6	***	3.9	0.9	1.0	0.8	0.0	0.0	2.5	0.9
Zone 3 - West District	1.9	1.0	1.2	0.2	1.5	0.2	1.0	2.7	1.4	0.6
Zone 4 - North District	0.2	0.8	1.1	0.8	0.7	0.1	1.5	0.7	0.9	0.5
Former Sherbrooke City	2.8	1.7	2.3	0.7	1.1	0.3	1.5	1.0	1.6	0.6
Zone 5 - Ascot Township and Mun. of Lennoxville	6.1	0.0	3.6	1.5	4.5	0.9	0.3	0.3	3.7	1.0
Zone 6 - Rock Forest	***	***	0.0	0.0	0.5	0.7	0.0	0.0	0.3	0.5
Zone 7 - Fleurimont	***	***	***	***	1.1	0.7	0.0	1.3	0.8	0.9
Total Sherbrooke CMA	2.9	1.7	2.3	0.8	1.5	0.4	1.1	0.8	1.8	0.7

2. Apartment Average Rents (\$)
By Market Zone and Bedroom Type
Sherbrooke census metropolitan area (CMA)

	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom +	
	2002	2003	2002	2003	2002	2003	2002	2003
Zone 1 - East District	305	303	367	373	454	449	548	547
Zone 2 - Central District	269	***	330	345	428	401	486	512
Zone 3 - West District	300	309	351	368	429	437	502	539
Zone 4 - North District	340	367	403	432	493	536	605	637
Former Sherbrooke City	308	319	368	387	460	473	558	580
Zone 5 - Ascot Township and Mun. of Lennoxville	309	317	370	373	422	435	537	543
Zone 6 - Rock Forest	***	***	382	379	492	520	533	535
Zone 7 - Fleurimont	***	***	***	***	453	471	550	579
Total - Sherbrooke CMA	309	319	369	385	456	471	553	572

For further information about this publication or any other question on the Sherbrooke CMA Housing Market, please contact our:

Customer Service Department

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**3. Apartment Vacancy Rates (%)
By Market Zone and Building Size**

Sherbrooke census metropolitan area (CMA)

	3 - 5 units		6 - 19 units		20 - 49 units		50 units +		Total	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Zone 1 - East District	***	0.5	1.7	0.9	2.3	0.1	1.6	1.3	2.3	0.6
Zone 2 - Central District	***	***	2.7	1.0	0.4	1.5	***	0.0	2.5	0.9
Zone 3 - West District	1.1	0.4	2.3	1.1	0.6	0.4	0.7	0.0	1.4	0.6
Zone 4 - North District	0.6	0.5	1.9	0.6	0.2	0.6	0.4	0.1	0.9	0.5
Former Sherbrooke City	2.5	0.5	2.0	0.9	1.1	0.4	0.8	0.4	1.6	0.6
Zone 5 - Ascot Township and Lennoxville	0.7	0.7	3.8	0.8	3.8	1.0	***	3.4	3.7	1.0
Zone 6 - Rock Forest	0.0	***	0.4	0.5	0.2	0.2	***	***	0.3	0.5
Zone 7 - Fleurimont	0.0	0.0	***	1.3	0.2	1.4	***	***	0.8	0.9
Total Sherbrooke CMA	2.0	0.5	2.2	0.9	1.5	0.6	0.9	0.5	1.8	0.7

**4. Apartment Vacancy Rates (%)
By Year of Completion and Unit Size**

Sherbrooke census metropolitan area (CMA)

	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom +		Total	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Before 1940	2.3	2.3	4.4	0.5	1.5	0.5	1.2	0.0	2.6	0.6
1940 - 1959	***	***	5.2	0.0	4.3	1.4	***	1.0	4.2	1.0
1960 - 1974	3.8	1.0	1.7	1.2	1.8	0.3	1.6	1.8	2.0	0.8
1975 - 1984	1.6	2.0	3.0	0.7	1.6	0.4	0.0	0.4	1.7	0.6
After 1985	2.4	1.4	0.7	1.0	0.7	0.3	1.5	0.7	1.0	0.6
Total Sherbrooke CMA	2.9	1.7	2.3	0.8	1.5	0.4	1.1	0.8	1.8	0.7

**5. Number of Vacant Units and Univers
By Market Zone**

Sherbrooke census metropolitan area (CMA)

	Vacant Units	Universe
Zone 1 - East District	39	6,174
Zone 2 - Central District	14	1,624
Zone 3 - West District	32	4,981
Zone 4 - North District	30	6,210
Former Sherbrooke City	115	18,989
Zone 5 - Ascot Township and Lennoxville	32	3,256
Zone 6 - Rock Forest	7	1,364
Zone 7 - Fleurimont	12	1,334
Total Sherbrooke CMA	166	24,943

*** Unavailable or sample too small to disclose results

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