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HOUSING NOW *Sherbrooke*

YOUR LINK TO THE HOUSING MARKET

Canada Mortgage and Housing Corporation

www.cmhc.ca

VOLUME 5, NUMBER 3,
THIRD QUARTER 2002

Significant Rise in Apartment Construction

In the third quarter, housing starts went up significantly in the Sherbrooke census metropolitan area (CMA). According to the surveys, 147 units were started between July and September 2001, compared to 218 during the same period this year. The increase in starts therefore attained 48 per cent and marked a sixth consecutive quarterly gain.

It was a considerable rise in the production of apartments that accounted for the increase recorded in the third quarter. During this period, 98 apartments were started, while just 26 such new units were enumerated in the same period last year. Half of these dwellings are intended for the condominium market, which had not seen the start-up of a large housing project (over 40 units) since 1998. The addition of these apartments, once

completed, will lessen the pressure on the rental market, even if most of them are intended for the mid- to upper-range market segments. For every occupied new apartment, whether it is an upscale unit or a condominium, there will be one less occupied existing apartment, which will then be available for a less wealthy family.

The frenzy that overtook houses construction at the beginning of the year now seems to have calmed down, as single-family home starts remained stable at 121 units in the third quarter.

Results Very Positive for the First Nine Months of the Year

Since the beginning of the year, 100 houses and close to 200 apartments more than last year have been built in the

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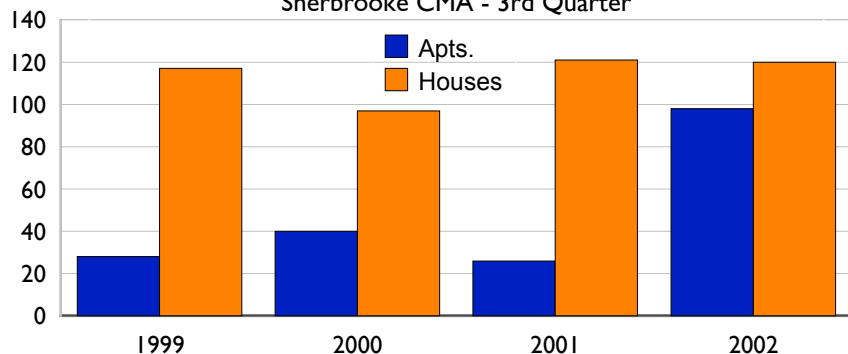
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Major Increase in Apartment Production

Apartment Starts
Sherbrooke CMA - 3rd Quarter



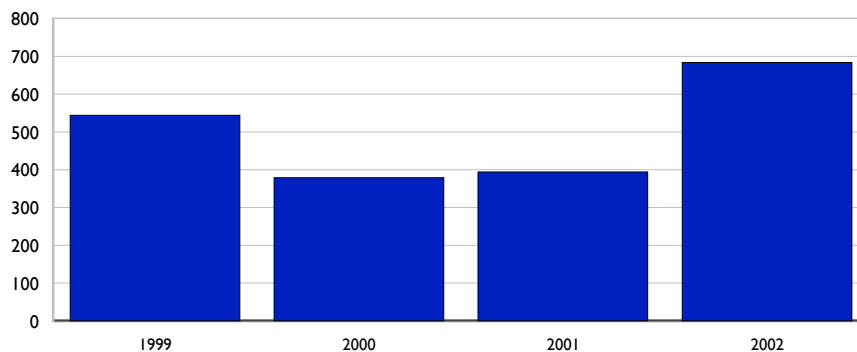
HOME TO CANADIANS
Canada

Sherbrooke CMA, for an increase of about 74 per cent in the overall production. Housing starts also went up in the other CMAs across Quebec, with gains of 51 per cent in Gatineau, 60 per cent in Montréal, 62 per cent in Québec, 68 per cent in Chicoutimi-Jonquière and 83 per cent Trois-Rivières.

The decrease in mortgage rates at the beginning of the year, along with a surprisingly dynamic job market in the area for the last two years, stimulated the housing demand. The tighter market conditions and the limited choice of existing homes forced some consumers to turn to the new home market to meet their housing needs. Lastly, the scarcity of rental housing gave a boost to apartment construction.

Housing Starts Up Significantly

First Three Quarters
Sherbrooke CMA



Source: CMHC

SPOTLIGHT ON THE 2001 CENSUS

The latest 2001 Statistics Canada census results on households and tenure options reveal certain features particular to Quebec

Essential factors

Household characteristics and trends are essential factors in housing market analysis. A review of the latest results from the 2001 Statistics Canada census revealed some national trends and also certain features specific to Quebec.

Households

In Quebec, there are close to 3 million households, representing around 26 per cent of the 11.5 million households or so in Canada. As shown in the graph, household formation and housing starts are closely linked. They reached a peak at the end of the 1980s, when the baby boomers left their parents to form their own households. The decrease in the number of new households observed over the past decade is therefore the direct cause of the decline in housing starts registered during the same period.

Households are not only becoming less numerous, but they are also getting older. The proportion of households aged over 35 years has increased since 1996. The median age in Quebec is now 38.8 years, up by 2.6 years over the previous census. Over the long term, the aging of the population will represent a challenge for the housing market, which will have to adjust to this change, especially after 2020 when the first baby boomers will be reaching the age of 75 years.

Among the census metropolitan areas (CMAs), household growth rates vary. The Gatineau and Sherbrooke areas post the highest rates, at 9.1 per cent and 7.6 per cent, respectively. Montréal and Québec follow, with rates of 5.7 per cent and 6.9 per cent, while Chicoutimi-Jonquière and Trois-Rivières showed the weakest growth in 2001, at 3.8 per cent and 3.3 per cent, respectively.

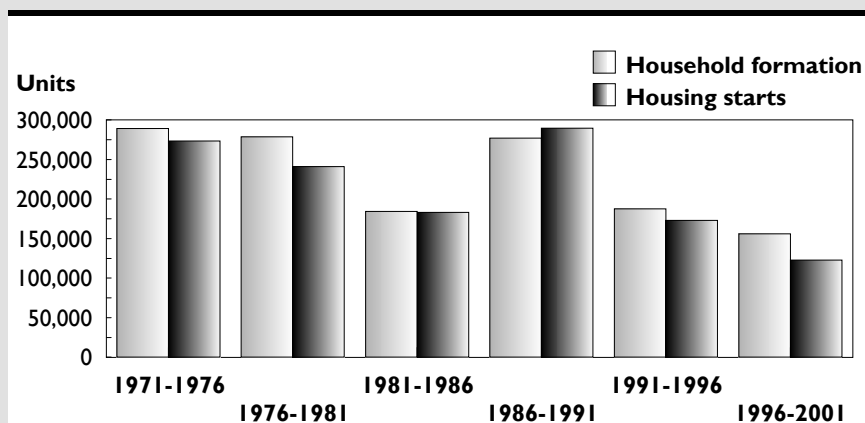
Housing tenure options

In 2001, Quebec had the lowest percentage of homeowners (56 per cent, down by 1 per cent from the previous census), in comparison with the national average of 66 per cent. Among the other Canadian provinces, Ontario has 67 per cent of homeowners, and Alberta, 70 per

cent. The province with the largest proportion of homeowners is Newfoundland, where more than 78 per cent of households own their home.

Among the CMAs, Montréal has the lowest percentage of homeowners in the country, with just 50 per cent. Chicoutimi-Jonquière is the area where this percentage is the highest in Quebec (62 per cent).

Finally, Quebec has the smallest proportion of single-family homes (41.7 per cent versus 57.4 per cent for Canada). Montréal is in last place in this regard, with a meagre 31.8 per cent. The situation is considerably different when it comes to apartments: in Quebec, 43.2 per cent of households live in an apartment, compared to 27.1 per cent across the country.



Sources: CMHC and Statistics Canada

Table I
Summary of Activity by Intended Market
Sherbrooke Metropolitan Area

<i>Activity / Period</i>	<i>Ownership</i>		<i>Rental</i>	<i>Total</i>
	<i>Freehold</i>	<i>Condominium</i>		
Housing Starts				
Third Quarter 2002	124	47	47	218
Third Quarter 2001	121	0	26	147
Year-to-date 2002 (Jan.-Sept.)	366	47	271	684
Year-to-date 2001 (Jan.-Sept.)	265	7	122	394
Under Construction				
September 2002	80	47	39	166
September 2001	64	0	10	74
Completions				
Third Quarter 2002	196	0	222	418
Third Quarter 2001	129	16	54	199
Year-to-date 2002	323	0	357	680
Year-to-date 2001	242	19	139	400
Unoccupied				
September 2002	3	0	37	40
September 2001	8	0	0	8
Absorptions				
Third Quarter 2002	199	0	151	350
Third Quarter 2001	130	16	58	204
Year-to-date 2002	333	0	275	608
Year-to-date 2001	244	19	140	403
Duration of inventory				
September 2002	0.1	N/A	1.5	0.7
September 2001	0.3	0.0	0.0	0.2

Source: CMHC

Table 2
Housing Starts by Zone and by Intended Market
Sherbrooke Metropolitan Area

Zone / Period	Ownership					Rental	Total
	Freehold				Condo- minium		
	Detached	Semi-det.	Row	Apart.*			
Zone 1: City of Sherbrooke							
Third Quarter 2002	13	2	0	0	47	25	87
Third Quarter 2001	11	0	0	0	0	10	21
Year-to-date 2002	38	6	0	0	47	128	219
Year-to-date 2001	24	4	0	0	7	69	104
Zone 2: Fleurimont							
Third Quarter 2002	12	0	0	2	0	0	14
Third Quarter 2001	9	6	0	0	0	0	15
Year-to-date 2002	31	0	0	2	0	32	65
Year-to-date 2001	31	6	0	0	0	10	47
Zone 3: Rock Forest							
Third Quarter 2002	33	12	0	2	0	22	69
Third Quarter 2001	22	14	0	0	0	10	46
Year-to-date 2002	92	24	0	2	0	85	203
Year-to-date 2001	62	22	0	2	0	37	123
Zone 4: Saint-Élie-d'Orford							
Third Quarter 2002	10	0	0	0	0	0	10
Third Quarter 2001	24	2	0	0	0	0	26
Year-to-date 2002	51	0	0	0	0	0	51
Year-to-date 2001	35	4	0	2	0	0	41
CENTRE (Zones 1 to 4)							
Third Quarter 2002	68	14	0	4	47	47	180
Third Quarter 2001	66	22	0	0	0	20	108
Year-to-date 2002	212	30	0	4	47	245	538
Year-to-date 2001	152	36	0	4	7	116	315
Zone 5: Outlying Area							
Third Quarter 2002	36	2	0	0	0	0	38
Third Quarter 2001	33	0	0	0	0	6	39
Year-to-date 2002	114	6	0	0	0	26	146
Year-to-date 2001	73	0	0	0	0	6	79
TOTAL - SHERBROOKE METROPOLITAN AREA							
Third Quarter 2002	104	16	0	4	47	47	218
Third Quarter 2001	99	22	0	0	0	26	147
Year-to-date 2002	326	36	0	4	47	271	684
Year-to-date 2001	225	36	0	4	7	122	394

Source: CMHC

* Freehold Duplex

Table 3**New Detached and Semi-Detached Absorbed by Price Range
Sherbrooke Metropolitan Area**

Type	Under \$70,000		\$70,000 - \$89,999		\$90,000 - \$109,999		\$110,000 - \$129,999		\$130,000 or over		Total	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	Third Quarter	7	9	43	24	42	44	42	23	63	28	197
Year-to-date (Jan.-Sept.)	12	27	76	54	76	69	69	34	94	52	327	236

Source: CMHC

Table 4**Housing Supply
Sherbrooke Metropolitan Area**

Type	Under Construction	Unoccupied Units	Permits Issued but not Started	Medium- Term Supply
	September 2002			
Detached/semi-det. houses	78	3	20	101
Multiples *	88	37	13	138
Total	166	40	33	239
	September 2001			
Detached/semi-det. houses	64	8	6	78
Multiples *	10	0	0	10
Total	74	8	6	88

Source: CMHC

* Row homes and apartments

**Table 5
Economic Overview
Sherbrooke Metropolitan Area**

Period	In thousands			Unemployment Rate (%)	Mortgage Rates Canada (%)	
	Population 15 yrs over	Labor Force	Employment Total		1-Year	5-Year
	Third Quarter 2002	127.0	85.3	79.7	6.6	5.3
Third Quarter 2001	125.9	81.4	76.4	6.3	6.0	7.5
Average Jan.-Sept. 2002	126.7	83.1	76.6	7.8	5.2	7.1
Average Jan.-Sept. 2001	125.7	80.3	74.2	7.6	6.6	7.6

Sources: Statistique Canada and CMHC

***Interested by the Vacancy Rates and Average Rents of the rented apartments,
following the October 2002 Survey?***

You can find them and more in the:

FASTFAXES

which provide the summary results of the survey
(available at the end of november 2002)

RENTAL MARKET REPORTS

which provide a more in-depth and detailed study of the data collected
(available in the beginning of 2003)

To obtain them, please contact our Customer Service at 1-866-855-5711

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Sherbrooke Metropolitan Area Zones

Zones	<i>Municipalities / Sectors</i>	<i>Large zone</i>
1	Sherbrooke	Centre
2	Feurimont	Centre
3	Rock Forest	Centre
4	St-Élie-d'Orford	Centre
5	Ascot, Ascot Corner, Bromptonville, Deauville, Compton, Hatley CT, Lennoxville, North Hathley, St-Denis-de-Brompton, Stoke, Waterville	Peripheral Area

Definitions and Concepts

NOTE TO READERS: Prior to July 2002, the CMHC Starts and Completions Survey consisted of a monthly enumeration of new housing activity in urban centres with a population of 10,000 persons and over. As of July 2002, the survey will be conducted monthly in urban centres with a population of 50,000 persons and over and quarterly in urban centres with a population of 10,000 to 49,999 persons. Statistical models will be used to estimate provincial and national housing starts in urban centres with a population of 10,000 persons and over, on a monthly basis. The methodology is unchanged for estimating housing starts in rural areas (areas other than urban centres with a population of 10,000 persons and over). In these areas, a sample survey is used on a quarterly basis. As was the case in the past, statistical models continue to be used to estimate national housing starts in all areas on a monthly basis. This quarterly Housing Market publication provides statistical data and analysis of the trends in the Intended Markets for the Sherbrooke Metropolitan Area.

Intended Markets - There are three: the freehold market refers to Single-Family Houses (Detached, Semi-Detached and Row) owned under freehold; the condominium segment comprises houses and apartments held under divided co-ownership; and finally the rental market encompasses apartments dwellings.

Housing Starts - Refer to the beginning of construction work on a building, usually when the concrete has been laid for the whole of the footing around the structure, or equivalent stage where basement will not be a part of the structure.

Under Construction - Refers to units that have started but are not complete. The number of the units under construction at the end of a period may take into account certain adjustment that took place, for various reasons, after the starts have been reported.

Completions - Refer to units where all proposed construction work has been performed or in some cases where ninety percent of all construction work is completed and the structure is fit for occupancy.

Unoccupied Units - Refer to new completed units that have remained unoccupied.

Total Short Term Supply - Refers to the total supply of new units and includes units under construction and units that are completed but not occupied.

Total Medium Term Supply - Refers to the total supply of new units and includes units under construction, units that are completed but not occupied and the permits issued but not started.

Absorption - Refers to newly completed units which have been sold or unrented. The number of absorptions is obtained from a survey initiated when the structure is completed. Units presold or pre-leased are not included until the completion stage. The number of absorbed units is the number of completed and unoccupied units from the previous quarter plus completions for the current quarter minus completed and unoccupied units for the current quarter.

Duration of inventory - Refers to the period necessary for the absorption of unoccupied units, i. e. the ratio between unoccupied units and absorbed units (average for the last twelve months).

CMHC Market Analysis Centre Publications

National	Province of Quebec	Metropolitan Areas - Province of Quebec
<ul style="list-style-type: none"> • National Housing Market Outlook • Mortgage Market Trends • Canadian Housing Markets • And many more 	<ul style="list-style-type: none"> • Housing Now • FastFax - Rental Market Report 	<ul style="list-style-type: none"> • Housing Market Outlook (Montréal only) • Rental Market Report (1) • FastFax - Rental Market Report (3) • Analysis of the Resale Market (2) • Retirement Home Market (1) <p>(1) Available for all metropolitan areas: Chicoutimi, Gatineau, Montréal, Québec, Sherbrooke and Trois-Rivières (2) Available for Montréal and Québec only (3) Available for the six metropolitan areas plus a Provincial FastFax for the urban areas of 10,000 inhabitants and more</p>

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Please take note that the document

FORECAST SUMMARY

usually included each year with the 2nd and 4th Quarters of the **Housing Now** reports, will be send in the future with the 1st and 3rd Quarters.

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FORECAST

Sherbrooke

Fall - Winter 2002

SUMMARY

Canada Mortgage and Housing Corporation

Record Number of Housing Starts in 2002

Residential Construction

✓ Housing starts will reach a peak in 2002 with 760 new units, compared to 589 one year earlier. The growth period that will be ending this year will have lasted six quarters, twice as long as a typical expansion period in the Sherbrooke metropolitan area. The tight rental market and low mortgage rates will have allowed for this extended cycle.

✓ In 2002, the increase in housing starts will be greater than had been forecast at the beginning of the year for two reasons. First, the supply of existing homes reached its limit two quarters earlier than expected. More buyers therefore had to turn to the new home market to meet their housing needs as, at mid-year, there were only 400 existing homes for sale. Second, the U.S. economic slowdown did not curb the job creation pace in the Sherbrooke area, as had been anticipated at the beginning of the year.

✓ In 2003, a small decrease in housing starts will be observed, due to a decline in apartment construction. The upscale apartment segment grew by many units in recent years, and the production of such dwellings should slow down next year.

✓ As for single-family home building, this segment will continue on its upward trend in 2003, despite the expected increase in prices. The limited choice on the resale market, the narrower gap between new and existing home prices, the small rise in interest rates and the effects of the good economic performance, in terms of the growth in incomes, employment and confidence, will all support demand.

Resale Market

✓ The resale market seems to have reached its limit with regard to its capacity to meet the needs of buyers who are scrambling at its door. Even with economic fundamentals that are favourable to homeownership and house

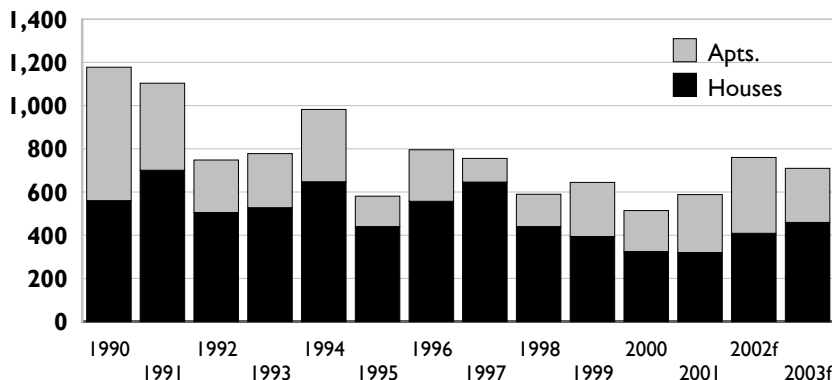
buying, existing home sales will decline in 2002. This year, there will be an average of 500 listings, compared to 725 in 2001 and 1,100 during the period from 1997 to 1998. This major lack of choice will therefore limit the number of transactions in 2002, which should reach 1,200 units, compared to 1,245 in 2001.

✓ Despite the decrease in sales, the average price of transactions will rise by 11 per cent, to \$105,000. While greater than inflation, this increase will not be due to the presence of speculators on the market. It will rather be attributable to very tight market conditions (5 sellers per buyer), the increase in household incomes and the decrease in interest rates between 2001 and 2002. This last factor has enabled buyers who were anticipating further price hikes to make purchase offers at higher prices.

✓ A sign that prices are about to reach a peak: their growth will slow down in 2003, as it will be limited to 2 per cent. The market will be somewhat the victim of its own success. The jump in prices observed in 2002, along with an increase in mortgage rates, albeit small, will curb demand in 2003.

Housing Starts Up Significantly in 2002

Sherbrooke CMA



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Rental Market

✓ In 2002 and 2003, demand will remain very strong on the rental market. Full-time employment for young people will continue to grow, as will international immigration and the aging of the population. Next year, the more limited choice on the resale market and the higher prices and mortgage rates will prevent some households from accessing homeownership, which will contribute to increasing the congestion on the rental market.

✓ The production of apartments will jump significantly in 2002, from 268 to 350 units. It will not be possible to maintain this level of activity in 2003 as the upscale segment has been much in demand in recent years. As well, contrary to the period from 2000 to 2002, the Sherbrooke area should not see the construction of any large projects (50 or more units) next year.

✓ In such a context, the vacancy rate will keep falling over the next two years, reaching 1.5 per cent in 2002 and 1.2 per cent in 2003. Further rental increases will be recorded, which will bring the average rent for a two-bedroom unit to \$465 at the end of 2003.

Mortgage Rates

✓ The decrease in mortgage rates in 2002 will have attenuated the impact of the increase in home prices on buyers' budgets. Combined with the favourable economic conditions, it will have brought the housing demand to a peak level.

✓ In the first half of 2003, the rates will rise slightly, which will limit the impact on next year's demand, as most housing choices are made during the first few months of the year.

✓ The rates will rise again on account of the continued economic growth, concern on the financial markets with

regard to inflation and monetary tightening measures to come.

Employment and Economy

✓ Employment gains will continue in their stride over the next two years, as 1,700 jobs will be created in 2002 and another 1,000 in 2003. Most of these new jobs will come from low-to medium-paying sectors, like call centres, subcontracting for the automobile sector and the restaurant trade.

✓ However, the creation of the biomedical incubator and the special tax status granted to the biomedical park should allow for the creation of about 125 higher-quality jobs from now until the end of 2004.

FORECAST SUMMARY Sherbrooke Census Metropolitan Area Fall - Winter 2002

	2001	2002f	% Chg.	2003f	% Chg.
NEW HOME MARKET					
Total housing starts	589	760	29.0	730	-3.9
Single-family houses	321	410	27.7	460	12.2
Apartments	268	350	30.6	270	-22.9
Average price for a detached house (\$)	113,000	120,000	6.2	123,600	3.0
RESALE MARKET					
MLS sales	1,245	1,200	-3.6	1,100	-8.3
Average MLS price (\$)	94,300	105,000	11.3	107,000	1.9
RENTAL MARKET					
Vacancy rate (%)	2.3	1.5	N/A	1.2	N/A
Average rent for a two-bedroom unit (\$)	446	455	2.0	465	2.2
ECONOMIC OVERVIEW					
Mortgage rate - 3-year (%)	6.88	6.36	N/A	7.22	N/A
Mortgage rate - 5-year (%)	7.41	7.07	N/A	7.75	N/A
Employment level	74,400	76,100	1.9	77,100	1.3
Employment growth (number of jobs)	1,300	1,700	N/A	1,000	N/A

f: CMHC forecast