



FORECAST

Sherbrooke

Fall - Winter 2004

SUMMARY

Canada Mortgage and Housing Corporation

Markets gradually enter slowdown phase

Different factors make for a smooth landing

✓ Three factors will ensure a moderate slowdown of the housing markets in the Sherbrooke census metropolitan area (CMA) in 2005: a vigorous labour market, sustained migration, as well as the gradual and limited increase in mortgage rates.

✓ The number of employed persons continued to rise in 2004 in the Sherbrooke CMA, although net job creation fell by half in relation to 2003. The poor results registered in the manufacturing sector were more than offset by the excellent performance posted in the public administration and service sector.

✓ Sherbrooke holds an enviable position, as the rest of the Eastern Townships region saw its job pool shrink considerably. The vigour of the Sherbrooke economy can also be noted when comparing this region to others of similar size elsewhere in Quebec. In 2003, the unemployment rate in the

Eastern Townships was 7.6 per cent, while it reached 10.4 per cent in the Mauricie region and 11.7 per cent in Saguenay-Lac-Saint-Jean.

✓ This vigour is not extraneous to the rise in migration in the area. Sherbrooke receives about as many international immigrants as the Québec CMA, and yet this last area is much more populous. This year, Sherbrooke will post a positive net interprovincial migration level for the third straight year.

✓ The increase in mortgage rates should materialize in 2005. However, it will be limited to less than one percentage point, and take place very gradually. Between the end of 2004 and the middle of 2005, during the period when most home buying decisions will be made, rates will go up by about half of a percentage point.

Resale market

✓ It will have been necessary to wait until October to get concrete proof that the decrease in listings was effectively

over in the area, while this reality already set in a few months ago on the Montréal and Québec area markets.

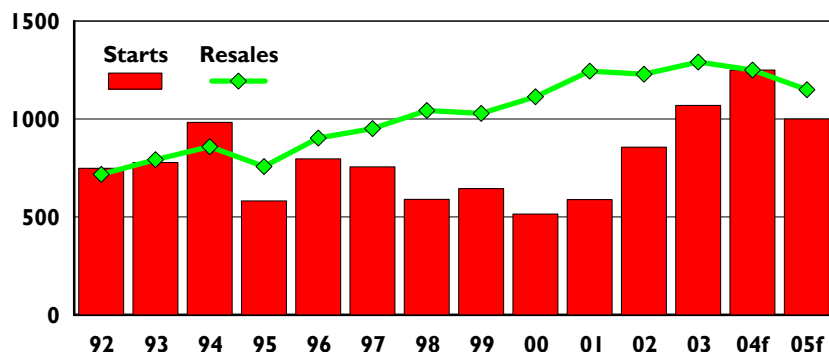
✓ Demand for existing homes remained strong and allowed sales to stay in the range where they have been hovering since 2001 (1,200 to 1,300 transactions).

✓ Several factors are working towards a slowdown in sales in 2005. Existing homes will become less affordable as a result of the strong price increase and a mortgage rate hike that will occur toward the end of 2004. 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 their tastes and needs.

Resale market conditions will remain tight in 2005, but more and more signs of easing will become apparent as the year progresses: listings will pick up, listing periods will get longer for upscale homes, the price increase will slow down and sales will fall slightly.

Slowdown to Begin Gradually in 2005

New and Existing Home Markets - Sherbrooke CMA



Sources: CMHC and Chambre immobilière de l'Estrie f: CMHC forecast



HOME TO CANADIANS

Canada

✓ Since the seller-to-buyer ratio will stay quite low (between 5 and 6 to 1), average prices are expected to rise by about 7 per cent in 2005. This hike will bring the total price increase to 48 per cent since 2001.

✓ At \$140,000 in 2005, the average price of homes will be around three times the average household income. At this level, the risk of a decrease in prices could start to arise, should there be an economic slowdown or a major rise in mortgage rates.

Residential construction

✓ Residential construction will have been very vigorous in 2004 with 1,250 starts, for an increase of 17 per cent over the already high level recorded in 2003. The scarcity of existing homes for sale and available dwellings for rent

will have added fuel to the fire lit by the low interest rates.

✓ In 2005, housing starts will enter a contraction phase. Single-family home building will slow down for the same reasons that will bring about a decrease in existing home sales. As well, with the growing choice of homes for sale, there will be fewer buyers who will prefer to turn to new housing in the end, for lack of choice on the existing home market.

✓ The production of rental housing will also decline, after a strong push in 2004. The new rise in the vacancy rate and the increase in construction costs will incite investors to show some caution.

✓ Overall, housing starts will decrease by 20 per cent in 2005. At 1,000 units, however, they will be close to the average for the last 30 years, making for a most acceptable year.

Rental market

✓ Demand for rental housing will be supported by the rise in international immigration and the aging of the population, since the increase in employment among people aged from 15 to 24 years was based on part-time jobs.

✓ Rental housing construction has picked up significantly. In 2003, close to 475 such dwellings were started, or 225 more than in 2001 and 150 more than in 2002. This year, the production intended for the rental market will reach nearly 600 units.

✓ The acceleration of this type of construction in 2003 and 2004 will help ease conditions on this market. The vacancy rate should pick up slowly, reaching 1.2 per cent in 2004 and then 1.8 per cent in 2005.

FORECAST SUMMARY

Sherbrooke Census Metropolitan Area Fall - Winter 2004

	2003	2004f	% Chg.	2005f	% Chg.
NEW HOME MARKET					
Total housing starts by intended market	1,070	1,250	17 %	1,000	- 20 %
Freehold	563	575	2 %	490	- 15 %
Rental	473	595	26 %	450	- 24 %
Condominium	34	80	> 100 %	60	- 25 %
Average price for single-detached houses (\$)	136,400	147,000	7 %	153,000	4 %
RESALE MARKET					
MLS® sales	1,291	1,250	- 3 %	1,150	- 8 %
Average MLS® price (\$)	117,000	131,000	12 %	140,000	7 %
RENTAL MARKET					
Vacancy rate (%)	0.7	1.2	n.a.	1.8	n.a.
Rent for a two-bedroom unit (\$)	471	483	2.5 %	493	2.1 %
ECONOMIC OVERVIEW					
Mortgage rate - 3-year (%)	5.82	5.69	n.a.	6.45	n.a.
Mortgage rate - 5-year (%)	6.39	6.28	n.a.	6.95	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