RENTAL MARKET REPORT

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Sherbrooke

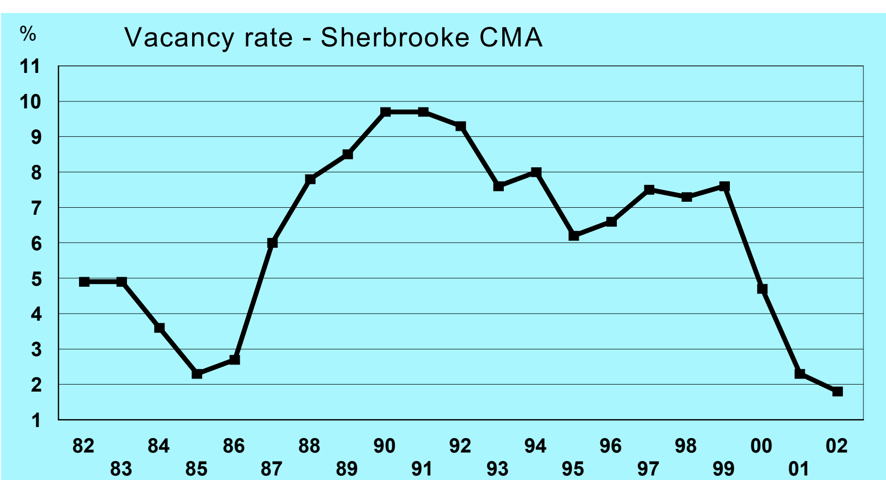
Canada Mortgage and Housing Corporation

OCTOBER 2002 SURVEY

Vacancy Rate Falls Again

The vacancy rate in privately initiated rental buildings with three or more housing units decreased slightly in 2002 in the Sherbrooke census metropolitan area (CMA). In fact, according to the latest results compiled by Canada Mortgage and Housing Corporation (CMHC), the proportion of unoccupied units went from 2.3 per cent in October 2001 down to 1.8 per cent in October 2002. Out of the 24,586 rental housing units in the area, 442 were available, or 127 fewer than one year earlier. Following this third consecutive annual decrease, the vacancy rate now stands at its lowest level since 1980.

Vacancy Rate Now at Its Lowest Level Since 1980



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Analysis

CMHC SCHL

HOME TO CANADIANS

Canada

Apartment Vacancy Rates		
Canada Metropolitain Areas	**2001**	**2002**
Abbotsford	2.4	2.0
Calgary	1.2	2.9
Charlottetown	1.8	2.2
Chicoutimi-Jonquière	4.4	4.9
Edmonton	0.9	1.7
Halifax	2.8	2.7
Hamilton	1.3	1.6
Gatineau	0.6	0.5
Kitchener	0.9	2.3
London	1.6	2.0
Montréal	0.6	0.7
Oshawa	1.3	2.3
Ottawa	0.8	1.9
Québec	0.8	0.3
Regina	2.1	1.9
Saint John	5.6	6.3
Saskatoon	2.9	3.7
Sherbrooke	2.3	1.8
St. Catharines-Niagara	1.9	2.4
St. John's	2.5	2.7
Sudbury	5.7	5.1
Thunder Bay	5.8	4.7
Toronto	0.9	2.5
Trois-Rivières	4.7	3.0
Vancouver	1.0	1.4
Victoria	0.5	1.5
Windsor	2.9	3.9
Winnipeg	1.4	1.2
Total Canada	**1.2**	**1.7**
Québec Province		
Urban Areas from 50,000 to 99,999 inhabitants		
Drummondville	1.8	2.2
Granby	2.5	2.5
Shawinigan	7.7	8.5
St-Jean-sur-Richelieu	1.2	0.6
Rimouski*	3.9	2.6
St-Hyacinthe	1.3	0.7
Sub-Total 50,000-99,999 inhabitants	**2.6**	**2.6**
Urban Areas from 10,000 to 49,999 inhabitants		
Alma	4.4	5.0
Amos	14.2	13.0
Baie-Comeau	16.2	11.1
Cowansville	6.0	3.5
Dolbeau-Mistassini	3.9	4.7
Gaspé	9.2	6.5
Joliette	2.2	0.9
La Tuque	13.0	16.7
Lachute	5.5	1.0
Magog	1.1	1.4
Matane	11.4	10.8
Montmagny	1.3	1.4
Rivière-du-Loup	3.4	1.6
Roberval	4.1	3.7
Rouyn-Noranda	15.5	10.0
Salaberry-de-Valleyfield	3.7	2.2
Sept-Îles	7.7	9.2
Sorel-Tracy	8.4	5.8
St-Georges	2.7	2.3
Ste-Marie	2.8	3.1
Thetford-Mines	11.5	7.9
Val d'Or	11.4	11.7
Victoriaville	2.0	1.8
Sub-Total 10,000-49,999 inhabitants	**6.2**	**5.5**
Total Province of Québec	**1.3**	**1.2**

* In 2002, Rimouski was added to the urban centres with 50,000 to 99,999 inhabitants.

Significant Activity

The relatively small decrease in the number of vacant rental housing units conceals significant activity, however. According to CMHC mortgage loan insurance data, during the first eleven months of 2002, 1,236 households accessed homeownership in the Sherbrooke CMA. In so doing, most of them vacated apartments. There consequently had to be a large number of newcomers on the rental market to make up for these departures and also allow for a reduction in the number of unoccupied units. The homeownership trend remains strong on account of the low mortgage rates. During 2001 overall, 1,337 households had accessed homeownership, compared to 853 the previous year.

Rental Housing Demand Continues to Grow

In the wake of the events of September 11, 2001, and because economic growth in the U.S. and Canada had shown signs of slowing down during the preceding months, the various levels of government had implemented a series of measures to stimulate the economy and prevent the onset of a recession in Canada. Their objective was achieved, as economic growth became positive once again, after one quarterly decrease, and labour market conditions remained vigorous. Another good outcome was that mortgage rates reached a new all-time low at the beginning of 2002.

For the current year, the average number of employed persons will attain a record level in the Sherbrooke CMA, at 76,100. People aged from 15 to 24 years and from 25 to 44 years are largely benefiting from this expansion of the job pool and are thereby giving a boost to the rental housing demand. Some deserted their family nest, while others left their room-mates, to get their own apartments. For 2002, employment gains should reach approximately 1,700 jobs.

The arrival of international immigrants has also contributed to stimulating the demand for rental housing. For the last three years, net international migration has hovered around 1,000 foreigners per year in the Sherbrooke CMA. Without this inflow, the Sherbrooke population would have remained relatively stable between 1996 and 2001. When they arrive in Canada, foreign immigrants generally opt for rental dwellings, while they get familiar with their new country, learn the language of work, and find jobs.

As for internal migration, the Sherbrooke area loses more inhabitants than it gains: 96 in 2000-

Population Growth and Migration Between 1996 and 2001 Sherbrooke CMA

Total increase in the population	4,241
Net international migration	4,210
Interprovincial and intraprovincial migration	-1,569
Estimated natural growth	1,600

2001, compared to 305 one year earlier. Those who leave the area mainly move to the Montréal CMA, because they are attracted by the larger job pool, the career advancement opportunities or the fast-paced life of Quebec's largest metropolitan area. Those who move to Sherbrooke are especially attracted by the quality of life, the abundant supply of retirement housing and the presence of numerous health care services. As a result, the area receives a fair number of people aged 65 years or older, which brings up the demand for rental housing.

The very good performance of the resale market is another positive factor for the rental housing demand. Since existing homes can be sold rapidly and prices are steadily rising, this is the ideal time for homeowners to sell their property and opt for a rental dwelling. Of course, this change will mainly interest older people or empty-nester baby boomers. For the first nine months of the year, the average price of residential transactions was 11 per cent higher than last year. Rents, for their part, posted increases of just 1 per cent to 4 per cent, depending on the dwelling type.

Apartment Construction Slowly Adjusts

From January to the end of September, 322 apartments were started. For all of 2001, such starts reached 268 units. Apartment construction therefore went up slightly, but still remains far from the average annual production level of 543 units for the last 29 years.

Out of the apartments built this year, about 50 are intended for the condominium market. The rest will be added to the traditional rental market, with two thirds of these dwellings contained in buildings with fewer than 6 units. Again this year, activity was concentrated in the mid- and upper-range segments, as high construction costs force builders to produce apartments that will command high rents. The cost per unit stands at around $75,000.

The scarcity of available units is encouraging the production of apartments. However, construction is also being stimulated by the demand for new rental buildings on the part of investors. Disappointed by the performance of North American stock markets, many of them are deciding to redirect their investments toward the real estate market. Demand is also very strong for existing small rental structures that represent a good product or, in other words, that are well situated.

Net Migration - Sherbrooke CMA

	2000-2001	1999-2000	1998-1999
Net intraprovincial and interprovincial migration	-96	-305	-580
Net immigration	1,019	915	535
Total net migration	920	610	-45

Did you know that...

According to an INRS study, the prospect of a long-term investment was the reason most frequently cited by landlords to acquire a rental building. Only landlords living in their properties stated that housing themselves was just as important.*

*: For reference to the study, see the box on page 5

Rents Progress Moderately

Despite a rather tight market, rents are rising moderately. The average monthly rent for a two-bedroom apartment, the most common type of unit, rose by $10, or 2.2 per cent. Bachelor apartments posted the greatest percentage increase, at 4 per cent. In absolute terms, however, units with three or more bedrooms were the ones that posted the largest hike, at $15 per month.

Consumer Choices Remain Unchanged

The major trends observed in recent years are being maintained again in 2002. Larger apartments remain popular and their vacancy rate is lower than that for smaller units, particularly bachelors. Tenants continue to seek quality dwellings. Newer apartments are the easiest to rent, and the average rent for unoccupied units remains below the average market rent.

As for the sub-sectors, the vacancy rates in the North district and Rock Forest remain under 1 per cent. However, the former municipality of Fleurimont has now joined this group this year, as its vacancy rate fell from 3.7 per cent to 0.8 per cent between October 2001 and October 2002.

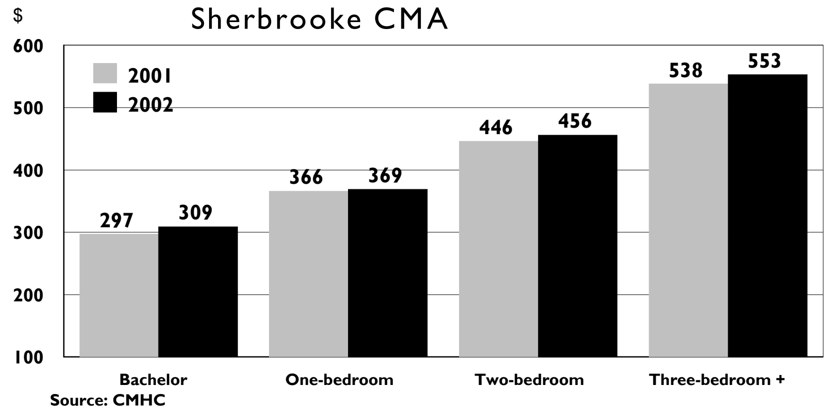
Market to Tighten Again in 2003

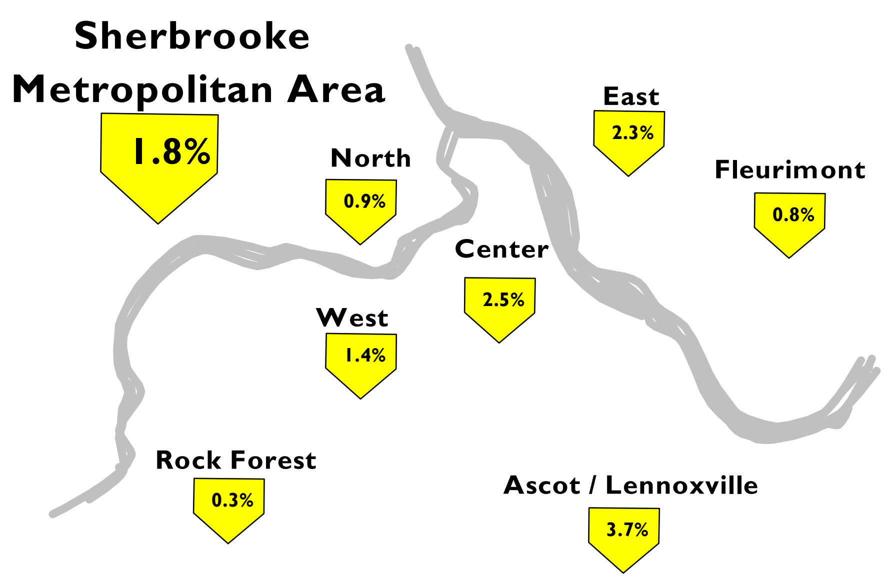
Rental market conditions should be expected to tighten again next year in the Sherbrooke CMA. The good performance of the economy and the labour market will continue to drive up the demand for rental housing, but at a slower pace than in 2002. International migration will have the same impact and, given the dynamic local economic conditions, the area could even show positive net interprovincial and intraprovincial migration levels for the first time in a long time. The rental housing demand will therefore remain strong next year.

The supply of new units, for its part, should decline slightly in 2003. This year, the production of units intended for the upscale segment was considerable. Given that this is a small niche, the construction of apartments should slow down in this sector. The production of dwellings resulting from the *Affordable Housing Québec* program, currently estimated at 60 units, will not fully offset the decrease in activity in the upper-range segment.

For all these reasons, and because the homeownership trend will slow down next year on account of the early purchases made in 2002 and an increasingly limited choice, the vacancy rate should fall in 2003 and reach 1.3 per cent.

Rental Increases Range from 1% to 4%





About Renter Households in Quebec

The following information was drawn from a study entitled *Les logements privés au Québec : la composition du parc de logements, les propriétaires bailleurs et les résidants* [private housing in Quebec: the composition of the housing stock, landlords and residents], prepared by Francine Dansereau and Mark Choko, with the collaboration of Gérard Divay, from the INRS-Urbanisation, Culture et Société, for the Société d'habitation du Québec, Canada Mortgage and Housing Corporation, the Régie du logement and the Régie du bâtiment du Québec[1]. This study results from a survey conducted from October 5, 2000, to February 12, 2001, among some 10,000 Quebec households.

Families in smaller buildings, single and older people in larger structures

First of all, the researchers noted a close relation between the size of buildings and the type of renter households living in them. In fact, the majority of couples with children (69 per cent) and without children (55 per cent), as well as single-parent families (54 per cent), lived in smaller buildings (5 units or less). This phenomenon is not extraneous to the fact that households composed of several people need larger dwellings, which are concentrated in smaller structures. As well, more single people than other household types lived in buildings with 20 or more units. As for seniors aged 65 years or older and retirees, around one quarter of them lived in large structures (50 or more units), although these buildings account for only 9 per cent of the rental housing stock.

Modest incomes

In the fall of 2000, for Quebec overall, the annual median income of renter households was $25,048, while that of homeowners (living in their own single-family house or structure with several units—in this last case, either as landlords or co-owners) stood at $45,276. Renter households living in buildings with 1 to 3 units had the highest incomes ($27,711), while those who lived in structures with 20 to 49 units had the lowest incomes ($19,450). The low level of these incomes is due to the fact that single people and single-parent families represent a large share (59 per cent) of renter households.

Great mobility

Half of the renter households had lived in their dwellings for three years or less, while 15 per cent had lived in their units for over 10 years. This length of occupancy did not vary much from one area to another, but it was shorter in larger buildings, where smaller units are concentrated. As this market is more volatile (the renters in such dwellings are less stable than those in larger units and more vulnerable to the ups and downs of the economy), it can be seen that just over a third of renter households who lived in units with 1 or 2 rooms had moved into them less than a year before.

Satisfaction with their dwellings

Two thirds of the renter households deemed that their dwelling required only regular maintenance, and this proportion reached 75 per cent of those who lived in large buildings. Major repairs were necessary for 9 per cent of rental units, and this percentage was higher in structures with 1 to 3 units (10 per cent), as these needs increased with the size of the units (14 per cent for dwellings with 6 or more rooms).

Just over 40 per cent of the renter households stated that they were very satisfied with regard to the noise inside and outside their buildings. The level of satisfaction was higher in buildings with 1 to 3 units and in large structures with 50 or more units. Conversely, it was lower in buildings with 10 to 19 units.

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[1] INRS (Institut national de recherche scientifique)-Urbanisation, Culture et Société [Quebec national scientific research institute-urbanization, culture and society]
Régie du logement [Quebec rental board]
Régie du bâtiment du Québec [Quebec construction board]

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 wich 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: Belvedère 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

1. Apartment Vacancy Rates (%) By Market Zone and Bedroom Type Sherbrooke Metropolitan Area	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom		Total	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Zone 1 - East District	1.7	6.2	4.1	3.3	2.9	1.2	0.6	2.5	2.9	2.3
Zone 2 - Central District	6.7	2.6	6.6	3.9	2.6	1.0	2.9	0.0	5.2	2.5
Zone 3 - West District	0.4	1.9	2.2	1.2	2.4	1.5	1.7	1.0	2.1	1.4
Zone 4 - North District	3.7	0.2	1.2	1.1	0.6	0.7	0.1	1.5	0.9	0.9
City of Sherbrooke	2.9	2.8	3.2	2.3	2.0	1.1	0.9	1.5	2.3	1.6
Zone 5 - Ascot Township and Mun. of Lennoxville	2.1	6.1	3.2	3.6	2.7	4.5	2.2	0.3	2.8	3.7
Zone 6 - Rock Forest	***	***	0.5	0.0	1.1	0.5	0.0	0.0	0.6	0.3
Zone 7 - Fleurimont	***	***	***	***	3.2	1.1	1.9	0.0	3.7	0.8
Total Sherbrooke Metropolitan	3.0	2.9	3.2	2.3	2.1	1.5	1.0	1.1	2.3	1.8

2. Apartment Average Rents ($) By Market Zone and Bedroom Type Sherbrooke Metropolitan Area	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom +	
	2001	2002	2001	2002	2001	2002	2001	2002
Zone 1 - East District	284	305	357	367	439	454	550	548
Zone 2 - Central District	253	269	328	330	401	428	443	486
Zone 3 - West District	293	300	352	351	435	429	509	502
Zone 4 - North District	339	340	404	403	480	493	577	605
City of Sherbrooke	298	308	367	368	450	460	543	558
Zone 5 - Ascot Township and Mun. of Lennoxville	293	309	356	370	418	422	512	537
Zone 6 - Rock Forest	***	***	381	382	465	492	534	533
Zone 7 - Fleurimont	***	***	***	***	446	453	530	550
Total - Sherbrooke Metropolitan	297	309	366	369	446	456	538	553

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

Customer Service Department

at 1 866 855-5711

or by Email: **cam_qc@cmhc.ca**

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

	3 - 5 units		6 - 19 units		20 - 49 units		50 units +		Total	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Zone 1 - East District	1.0	***	3.1	1.7	2.9	2.3	5.1	1.6	2.9	2.3
Zone 2 - Central District	2.9	***	5.2	2.7	6.7	0.4	6.2	***	5.2	2.5
Zone 3 - West District	1.1	1.1	1.8	2.3	3.1	0.6	1.8	0.7	2.1	1.4
Zone 4 - North District	0.0	0.6	1.0	1.9	1.1	0.2	1.1	0.4	0.9	0.9
City of Sherbrooke	0.9	2.5	2.3	2.0	2.6	1.1	2.9	0.8	2.3	1.6
Zone 5 - Ascot Township and Lennoxville	2.9	0.7	4.1	3.8	2.0	3.8	***	***	2.8	3.7
Zone 6 - Rock Forest	0.0	0.0	1.4	0.4	0.2	0.2	***	***	0.6	0.3
Zone 7 - Fleurimont	0.0	0.0	3.1	***	6.2	0.2	***	***	3.7	0.8
Total Sherbrooke Metropolitan	0.9	2.0	2.5	2.2	2.6	1.5	2.8	0.9	2.3	1.8

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

Year	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom +		Total	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Before 1940	***	2.3	3.5	4.4	2.1	1.5	2.1	1.2	2.9	2.6
1940 - 1959	***	***	2.2	5.2	4.4	4.3	2.2	***	4.0	4.2
1960 - 1974	1.4	3.8	3.8	1.7	2.4	1.8	1.9	1.6	2.6	2.0
1975 - 1984	0.7	1.6	2.8	3.0	2.5	1.6	0.7	0.0	2.2	1.7
After 1985	***	2.4	3.2	0.7	1.0	0.7	0.2	1.5	1.5	1.0
Total Sherbrooke Metropolitan	3.0	2.9	3.2	2.3	2.1	1.5	1.0	1.1	2.3	1.8

5. Number of Vacant Units and Univers By Market Zone Sherbrooke Metropolitan Area

	Vacant Units	Universe
Zone 1 - East District	144	6,199
Zone 2 - Central District	41	1,643
Zone 3 - West District	70	4,975
Zone 4 - North District	54	6,015
City of Sherbrooke	310	18,832
Zone 5 - Ascot Township and Lennoxville	119	3,239
Zone 6 - Rock Forest	3	1,247
Zone 7 - Fleurimont	10	1,269
Total Sherbrooke Metropolitan	442	24,587

*** Sample too small to disclose results