



RENTAL MARKET

REPORT

Canada Mortgage and Housing Corporation

www.cmhc.ca

Sherbrooke

OCTOBER 2004 SURVEY

VACANCY RATE POSTS FIRST RISE

In the Sherbrooke census metropolitan area (CMA), the situation remained practically unchanged on the rental market, as the vacancy rate went from 0.7 per cent to 0.9 per cent between 2003 and 2004. Even though this was a small change, it still represents a first step toward greater fluidity on the rental market.

The number of unoccupied dwellings, which stood at 166 units one year ago, has now reached 228 units, out of a stock of 25,326 apartments contained in privately initiated buildings with three or more housing units. The market therefore remains tight, and it will still be difficult to find dwellings.

In the short term, renters seeking an apartment will hardly feel the effects of the increase in unoccupied units, and the cautious behaviours that they adopted in recent years will continue to be appropriate.

The small hike in the vacancy rate was attributable to the steady increase in the supply of new units since 2002. However, the rise was limited by the fact that demand has remained vigorous, on account of the constant arrival of a significant number of foreign immigrants, the move into urban areas of people aged 65 years or older and, to a lesser extent, a slight increase in the job pool for young people on the labour market.

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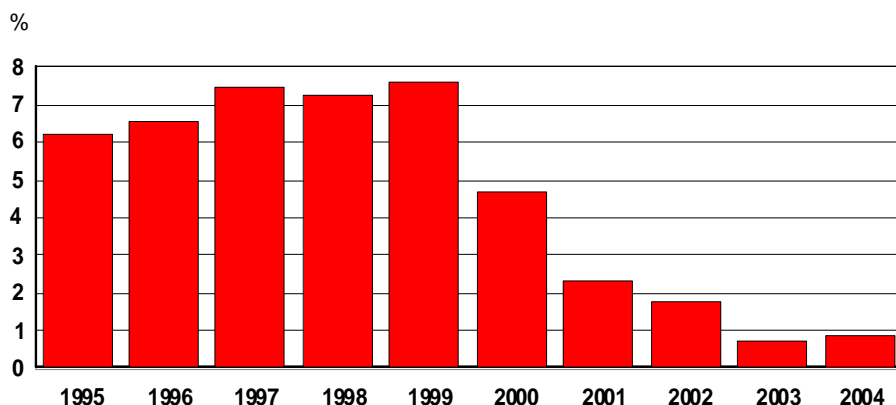
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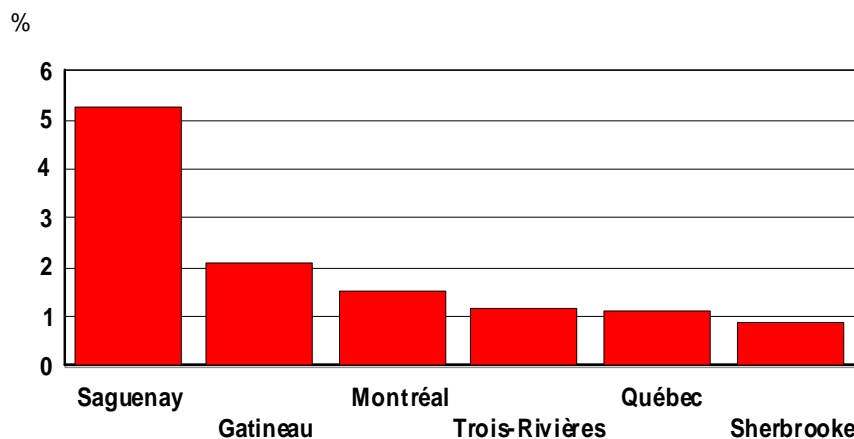
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**First Step Toward Softer Market Conditions
Vacancy Rate - Sherbrooke CMA**



Apartment Vacancy Rates		
Canada	2003	2004
Metropolitan Areas		
Abbotsford	2.5	2.8
Calgary	4.4	4.3
Saguenay	5.2	5.3
Edmonton	3.4	5.3
Halifax	2.3	2.9
Hamilton	3.0	3.4
Kingston	1.9	2.4
Kitchener	3.2	3.5
London	2.1	3.7
Montréal	1.0	1.5
St. Catharines-Niagara	2.7	2.6
Oshawa	2.9	3.4
Gatineau	1.2	2.1
Ottawa	2.9	3.9
Québec	0.5	1.1
Regina	2.1	2.7
Saint John	5.2	5.8
St. John's	2.0	3.1
Saskatoon	4.5	6.3
Sherbrooke	0.7	0.9
Sudbury	3.6	2.6
Thunder Bay	3.3	5.0
Toronto	3.8	4.3
Trois-Rivières	1.5	1.2
Vancouver	2.0	1.3
Victoria	1.1	0.6
Windsor	4.3	8.8
Winnipeg	1.3	1.1
Charlottetown (CA)	3.5	4.2
Total Canada	2.2	2.7
Québec Province		
Urban Areas from 50,000 to 99,999 inhabitants		
Drummondville	2.5	3.4
Granby	1.7	2.2
Shawinigan	7.3	6.3
St-Jean-sur-Richelieu	0.5	0.5
Sub-Total 50,000-99,999	2.6	2.7
Urban Areas from 10,000 to 49,999 inhabitants		
Alma	7.0	5.8
Amos	12.0	6.8
Baie-Comeau	6.9	4.7
Cowansville	3.8	0.7
Dolbeau-Mistassini	4.9	5.3
Gaspé	4.5	1.1
Joliette	0.8	1.5
La Tuque	17.4	12.0
Lachute	1.8	2.4
Magog	0.4	1.0
Matane	9.7	7.9
Montmagny	0.3	1.7
Rimouski	0.9	1.0
Rivière-du-Loup	1.0	1.1
Roberval	4.0	4.0
Rouyn-Noranda	7.9	4.8
Salaberry-de-Valleyfield	1.5	0.9
Sept-Îles	5.2	1.5
Sorel-Tracy	4.3	4.6
St-Félicien	5.0	5.5
St-Georges	3.6	5.5
St-Hyacinthe	0.5	1.8
St-Lin	1.7	0.7
Ste-Marie	1.3	2.0
Thetford-Mines	7.1	6.1
Val d'Or	6.4	3.2
Victoriaville	4.0	4.7
Sub-Total 10,000-49,999 inhabitants	3.6	3.1
Total Province of Québec	1.3	1.7

Sherbrooke Has Tighest Market Vacancy Rates in 2004 - Quebec CMAs



Rental market conditions are on an easing trend, although sometimes marginal, in almost all CMAs across Quebec. In Montréal, Québec, Gatineau and Saguenay, the vacancy rates are higher in 2004 than they were in 2003. In the Trois-Rivières area, the decrease in the proportion of vacant units has not yet been stopped. Sherbrooke is now the area with the lowest vacancy rate among the CMAs in the province.

Vacancy rate hike affecting mainly newer units

The vacancy rate went up considerably in newer structures, built since 2000. For this market segment, the surplus of units rose from 0.5 per cent to 4.1 per cent between 2003 and 2004. Given the high construction costs in recent years and the type of dwellings built, the units that have been added to the rental housing stock in the past five years command higher rents. This niche seems limited, though, as the vacancy rate in newer buildings is

relatively high. Since there are not that many newer dwellings (1,950 units), the surplus of apartments in this stock should be absorbed quite rapidly.

Since 2000, new rental housing units have been started mainly in the North district of Sherbrooke and the former municipality of Rock Forest. It is therefore not surprising to learn that the North district is the sector where the vacancy rate went up the most, from 0.5 per cent to 1.5 per cent between 2003 and 2004. In Rock Forest, the vacancy rate fell slightly and now stands at 0.3 per cent, and yet the apartments that are built there have high rents. The average price for a two-bedroom unit exceeds the average rent charged in the North district, even though this last sector has the reputation of being the most stylish in the area. Rock Forest is well served by its outstanding location for anyone using the highway to Magog, Granby or Montréal. This sector also offers an interesting quality of life, somewhat away from downtown, but close to shopping centres and restaurants.

Unoccupied units scarce for all apartment and building types

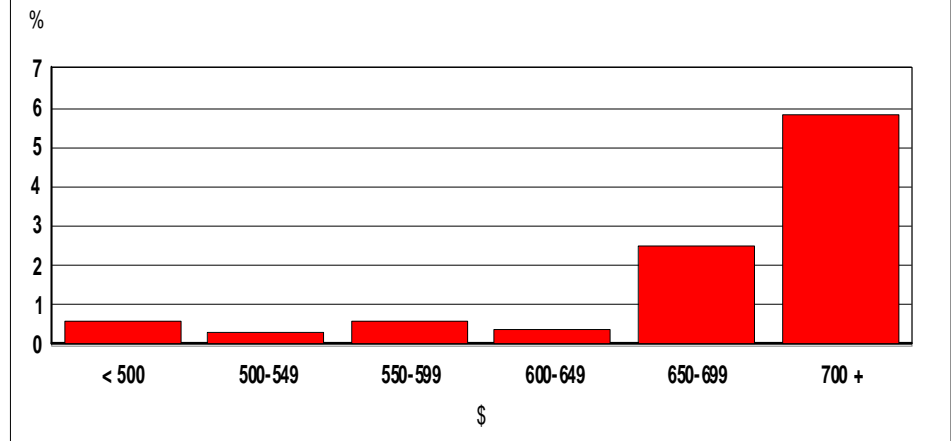
With an overall vacancy rate of 0.9 per cent, it is no surprise that unoccupied units are scarce, regardless of apartment or building size. For the entire CMA, the vacancy rates are no higher than 1.1 per cent, for every building and unit size.

However, two categories posted more significant increases in their vacancy rates between 2003 and 2004: buildings with 50 or more units and two-bedroom apartments. On the other hand, the rental performance of bachelor units improved. Over the past year, the vacancy rate went from 1.7 per cent down to 1.1 per cent for this dwelling type.

The two sectors that have the greatest number of buildings with 50 or more units, the North and East districts, both posted increases of about 0.8 of a percentage point in their vacancy rates. The arrival of several housing projects for retirees, pre-retirees and people aged 50 years or older, along with the construction of many condominiums during the past year, made for strong competition in this market niche.

Demand for two-bedroom apartments, for its part, suffered from the marked attraction to homeownership in general but, more particularly, in the category of newer or more expensive units. When a two-bedroom apartment rents for \$750, unless we are at an age where owning a property no longer interests us for maintenance reasons, homeownership becomes financially interesting. With an average price of \$131,000 for an existing home, and given the current low mortgage rates, buying a home can easily result in a monthly mortgage payment of about

Expensive Units Have High Vacancy Rate
Vacancy Rates by Rent Range - Sherbrooke CMA



\$750. The temptation to take the plunge into homeownership is therefore great, especially when we see that home prices have risen by 10 per cent or more per year since 2002.

The average rents posted gains ranging from 1.8 per cent for one-bedroom units to 5.1 per cent for two-bedroom units.

Construction remains vigorous but demand stays strong

Between January and October 2004, 459 rental housing units were started, for a level of activity similar to that registered for all of 2003 (473 units). Production therefore remains significant. With over 500 units expected this year, rental housing starts will be high compared to the level that they maintained over the period from 1992 to 2001 (average of 200 units).

The low vacancy rate has not been sufficient to convince developers to further step up their production pace. The strong increase in construction

costs, attributable to both materials and labour, means that the new units are not within everyone's budget. This market niche is limited, and developers know this. The higher vacancy rates for newer units and for apartments renting for \$700 or more per month prove them right. Production must therefore take place gradually, in order to give the market time to absorb these new units and allow interested renters to make the transition from the less expensive to the more expensive apartments.

The new affordable housing agreements should lead to the construction of 75 new affordable housing units in the Sherbrooke area in 2005.

As for demand, it is thanks to foreign immigrants and older people that it will rise the most. During the period from 1999 to 2000, international migration made a significant jump in the Sherbrooke CMA. Since then, there have been around 1,000 newcomers per year, who mainly turn to the rental market. This figure is comparable to the level registered in the Québec CMA, even though this last area is six times more heavily populated than Sherbrooke. The outlook for the current year and

2005 remains favourable to the maintenance of this level of migration.

Also, for the past few years, the area has been attracting over a hundred people aged 65 years or older who are leaving the more rural regional county municipalities to settle in Sherbrooke, where there are more services and more housing projects that meet their specific needs. With no new retirement homes built during the period from 2001 to 2003, this movement was slowed down somewhat, but the units started in this market segment in 2004, along with those anticipated for 2005, are pointing to a favourable outlook for the arrival of people aged 65 years or older over the coming years.

To a lesser extent, demand will also be stimulated by a slight increase in the job pool for young people on the labour market, even if the number of young people remained practically stable between the last two censuses.

In 2005, the homeownership trend will slow down, on account of the expected rise in mortgage rates and the major increase in prices recorded once again this year. As a result, slightly fewer apartments will be vacated, which will support the rental housing demand.

Given the vacancy rate hike in newer buildings, construction should get under way on fewer rental housing units next year. Demand will stay strong, mainly on the part of foreign migrants and older people, and on account of the slowdown in the homeownership movement. Consequently, the vacancy rate will continue to recover only in small steps. In 2005, the vacancy rate in

privately initiated rental buildings with three or more housing units should be between 1.2 per cent and 1.4 per cent in the Sherbrooke CMA.

Availability rates suggesting little movement among renters in the short term

According to the Rental Market Survey results, 1.5 per cent of rental units were available on the Sherbrooke market in October. The availability rate is 0.6 of a percentage point higher than the vacancy rate. The availability rate includes not only the vacant units but also the units for which the existing tenant has given, or has received, notice to move, and for which a new tenant has not signed a lease. Availability rates give a slightly broader indication of the trends in unoccupied supply in the short term.

The availability figures seem to indicate that few renters will be moving in the short term, whether to find another dwelling or access homeownership. This movement, which should involve some 150 renters, may become more significant at the beginning of next year, when the lease renewal period will be in full swing. It should be noted however that, since the market has been very tight, renters in the area are being told to be cautious before leaving their unit because it is difficult to find a vacant one. Renters seem to have effectively adopted this behaviour: minimal mobility becomes a sign of caution.

According to the availability indicator, landlords in Fleurimont should expect a high turnover among their clients, as the availability rate in this sector is the highest in the area, at 3 per cent. In this zone, however, vacant units are practically non-existent, since the vacancy rate is 0.1 per cent there.

For more information about this publication or any other questions on the Sherbrooke metropolitan area housing market, please call our:

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METHODOLOGY

Canada Mortgage and Housing Corporation (CMHC) conducts the **Rental Market Survey (RMS)** every year in October to estimate the relative strengths in the rental market. The survey is conducted on a sample basis in all urban areas with populations of 10,000 and more. The survey targets only structures with at least three rental units, which have been on the market for at least three months. The data collected for a structure depends on its initiation type (public or private), and whether it is an apartment or a row structure. The survey collects vacant unit data for all sampled structures. The market rent data are collected for only privately initiated structures. The available unit data are obtained only for privately initiated apartments. Most data contained in this publication refer to privately initiated apartment structures.

The survey is conducted by a combination of telephone interviews and site visits, and information is obtained from the owner, manager, or building superintendent. The survey is conducted during the first two weeks of October, and the results reflect market conditions at that time.

Definitions

Availability: A rental unit is considered available if the existing tenant has given, or has received, notice to move, and a new tenant has not signed a lease; or the unit is vacant (see definition of vacancy below).

Rent: The rent refers to the actual amount tenants pay for their unit. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water. For available and vacant units, the rent is the rent being asked for by the owner for the unit.

Rental apartment structure: Any building containing three or more rental units, of which at least one unit is not ground-oriented. Owner-occupied units are not included in the rental building unit count.

Rental row structure: Any building containing three or more rental units, all of which are ground-oriented. Owner-occupied units are not included in the rental building unit count.

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

Acknowledgement

The Rental Market Survey could not have been conducted without the cooperation of the rental property owners, managers and building superintendents throughout Canada. CMHC acknowledges their hard work and assistance in providing timely and accurate information. As a result of their contribution, CMHC is able to provide information that benefits the entire housing industry.

Market zones

The survey zones reported in this publication are described on page 6.

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

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

	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom		Total	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
Zone 1 - East District	3.9	0.6	0.8	0.5	0.3	0.8	0.0	0.2	0.6	0.6
Zone 2 - Central District	**	0.6	0.9	0.6	0.8	4.0	0.0	0.0	0.9	1.5
Zone 3 - West District	1.0	1.6	0.2	1.2	0.2	0.5	2.7	0.3	0.6	0.8
Zone 4 - North District	0.8	1.4	0.8	0.4	0.1	2.0	0.7	1.6	0.5	1.5
Former Sherbrooke City	1.7	1.1	0.7	0.7	0.3	1.3	1.0	0.8	0.6	1.0
Zone 5 - Ascot/Lennoxville	0.0	2.1	1.5	0.5	0.9	0.5	0.3	0.9	1.0	0.6
Zone 6 - Rock Forest	**	**	0.0	0.0	0.7	0.3	0.0	0.6	0.5	0.3
Zone 7 - Fleurimont	**	**	**	0.0	0.7	0.1	1.3	0.3	0.9	0.1
Total Sherbrooke CMA	1.7	1.1	0.8	0.6	0.4	1.0	0.8	0.8	0.7	0.9

** No structures or sample size not large enough to publish reliable results

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

	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom +	
	2003	2004	2003	2004	2003	2004	2003	2004
Zone 1 - East District	**	305	373	380	449	486	547	586
Zone 2 - Central District	**	301	345	358	401	454	512	539
Zone 3 - West District	309	322	368	377	437	458	539	547
Zone 4 - North District	367	364	432	434	536	544	637	644
Former Sherbrooke City	319	328	387	392	473	498	580	601
Zone 5 - Ascot/Lennoxville	**	335	373	389	435	456	543	570
Zone 6 - Rock Forest	**	*	**	402	520	552	535	560
Zone 7 - Fleurimont	**	*	**	383	471	487	579	568
Total - Sherbrooke CMA	319	328	385	392	471	495	572	591

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	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
Zone 1 - East District	0.5	0.5	0.9	0.3	0.1	0.5	1.3	2.1	0.6	0.6
Zone 2 - Central District	0.8	0.0	1.0	**	1.5	3.3	**	**	0.9	1.5
Zone 3 - West District	0.4	1.3	1.1	0.5	0.4	1.0	0.0	0.0	0.6	0.8
Zone 4 - North District	0.5	0.5	0.6	3.1	**	0.7	0.1	0.9	0.5	1.5
Former Sherbrooke City	0.5	0.7	0.9	1.4	0.4	0.8	0.4	1.1	0.6	1.0
Zone 5 - Ascot/Lennoxville	0.7	0.0	0.8	0.5	1.0	0.8	**	**	1.0	0.6
Zone 6 - Rock Forest	0.8	0.6	0.5	0.0	0.2	0.4	**	**	0.5	0.3
Zone 7 - Fleurimont	0.0	0.0	**	0.0	1.4	0.4	**	**	0.9	0.1
Total Sherbrooke CMA	0.5	0.6	0.9	1.1	0.6	0.8	0.5	1.1	0.7	0.9

4. Apartment Vacancy Rates (%)
By Year of Completion and Unit Size
Sherbrooke census metropolitan area (CMA)

	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom +		Total	
	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
Before 1970	1.7	1.7	0.5	0.7	0.5	0.8	1.2	0.3	0.8	0.8
1970 to 1979	1.3	0.6	0.9	0.5	0.4	0.7	0.7	0.8	0.6	0.7
1980 to 1989	2.0	0.5	0.8	0.6	0.3	0.3	0.5	0.6	0.5	0.4
1990 to 1999	**	**	**	**	0.8	0.2	**	0.0	1.4	0.3
2000 or later	**	0.0	**	**	0.3	5.3	0.0	3.6	0.5	4.1
Total Sherbrooke CMA	1.7	1.1	0.8	0.6	0.4	1.0	0.8	0.8	0.7	0.9

** No structures or sample size not large enough to publish reliable results

**5. Number of Vacant Units and Unvers
By Market Zone
Sherbrooke census metropolitan area (CMA)**

	Vacant Units	Universe
Zone 1 - East District	39	6,182
Zone 2 - Central District	25	1,629
Zone 3 - West District	39	4,988
Zone 4 - North District	98	6,356
Former Sherbrooke City	201	19,155
Zone 5 - Ascot Township and Lennoxville	20	3,311
Zone 6 - Rock Forest	5	1,490
Zone 7 - Fleurimont	2	1,370
Total Sherbrooke CMA	228	25,326

**6. Apartment Vacancy and Availability Rates (%) - 2004
By Market Zone and Bedroom Type
Sherbrooke census metropolitan area (CMA)**

	Bachelor		1-Bedroom		2-Bedroom		3-Bedroom		Total	
	Vacancy Rate	Availability Rate	Vacancy Rate	Availability Rate	Vacancy Rate	Availability Rate	Vacancy Rate	Availability Rate	Vacancy Rate	Availability Rate
Zone 1 - East District	0.6	3.4	0.5	0.9	0.8	1.4	0.2	0.7	0.6	1.3
Zone 2 - Central District	0.6	1.2	0.6	0.6	4.0	4.8	0.0	0.0	1.5	1.9
Zone 3 - West District	1.6	1.6	1.2	1.4	0.5	0.8	0.3	0.7	0.8	1.0
Zone 4 - North District	1.4	2.5	0.4	0.6	2.0	2.5	1.6	2.4	1.5	2.0
Former Sherbrooke City	1.1	2.3	0.7	0.9	1.3	1.8	0.8	1.4	1.0	1.5
Zone 5 - Ascot/Lennoxville	2.1	2.1	0.5	0.8	0.5	0.5	0.9	1.5	0.6	0.8
Zone 6 - Rock Forest	**	**	0.0	0.0	0.3	0.9	0.6	0.6	0.3	0.7
Zone 7 - Fleurimont	**	**	0.0	7.7	0.1	2.4	0.3	1.3	0.1	3.0
Total Sherbrooke CMA	1.1	2.3	0.6	1.1	1.0	1.6	0.8	1.4	0.9	1.5

** No structures or sample size not large enough to publish reliable results

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