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HOUSING MARKET

OUTLOOK

Sherbrooke

Canada Mortgage and Housing Corporation

www.cmhc.ca

Start of year confirms forecasts

✓ The results observed for the period from January to June corroborate our forecasts made at the beginning of the year, with the resale market remaining dynamic and housing starts declining as a result of a slowdown in the production of apartments intended for the rental and condominium housing markets. The increase in existing home prices should reach

the target of 12 per cent for 2005, set at the beginning of the year.

✓ A variety of information gathered through newspapers, contacts with stakeholders and travel in the area indicates that, as had been forecast at the beginning of the year, unoccupied rental dwellings remain scarce, even if the market is easing slightly.

Economic climate will continue to facilitate new and existing home purchases

✓ The fundamental factors underlying the decision to buy will remain favourable over the forecast period. Employment grew last year in the Sherbrooke census metropolitan area (2,175 jobs) and will continue to do so in 2005 and 2006, although at a slower pace. The effects of this slower job creation will be felt around the end of next year, since

employment has a delayed impact on housing. The current economic prosperity is also helping to stimulate property purchases as a result of the rising income that it generates.

✓ The scarcity of unoccupied rental dwellings (228 units in October 2004) is also contributing to maintaining a favourable climate

FALL-WINTER 2005

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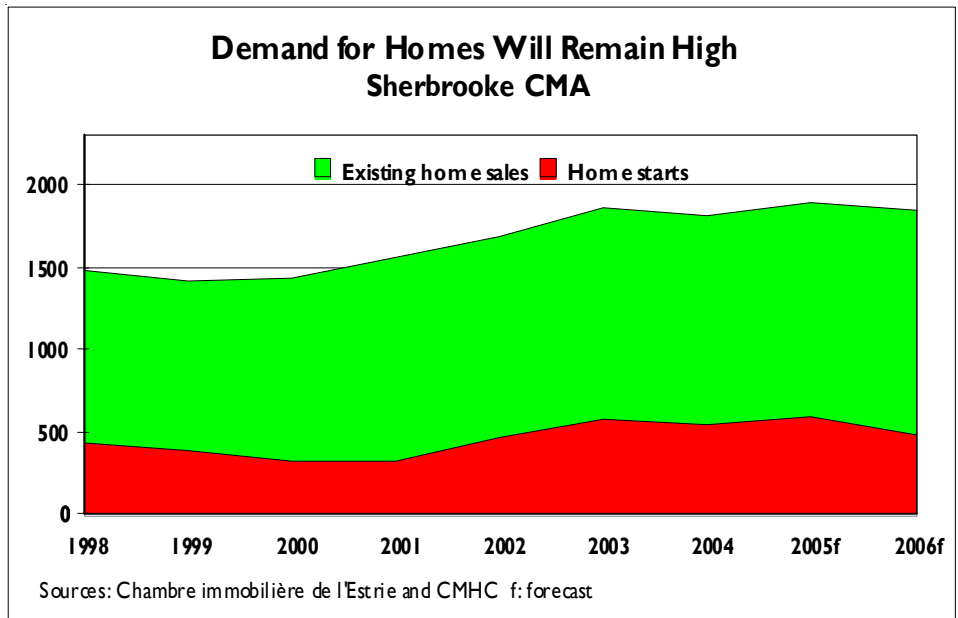
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for buying a home. This is amplified by the fact that around one third of the vacant units charge high rents, close to the average mortgage payment.

✓ The mortgage rates should remain low and gain about 25 basis points this year and around 50 basis points next year. In 2005 and 2006, the posted rates for three-year and five-year mortgages are expected to range from 5.25 per cent to 6.25 per cent and from 5.50 per cent to 6.50 per cent, respectively. Among the fixed-rate mortgages, those with a five-year term are the most popular.

✓ The slow rise in mortgage rates will allow for a more gradual adjustment to the strong increase in the prices of both new and existing homes. The ever-growing flexibility of credit options and the introduction of new products are also facilitating the adaptation. As well, one could think that gifts from parents to children and inheritances will also be among the adjustment factors.

✓ Weaker consumer confidence and more bankruptcies in Quebec are hindering—albeit still only slightly—the generally favourable climate for buying a home. The negative impact of the lower level of confidence should therefore be limited to upscale homes, the first segment usually affected by a turnaround in the trend, as this type of purchase results from a desire to buy, not from a need. Some real estate agents have already noticed longer listing periods in the case of properties selling for over \$250,000. The fact that people aged 45 years or older have significantly benefited from the job

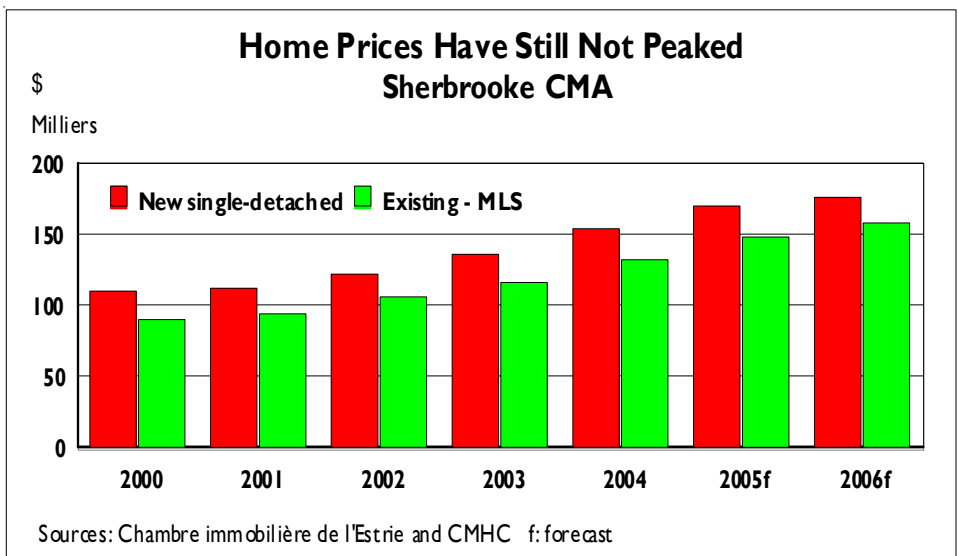


creation in recent years will also help ensure a gradual slowdown in the upper-range segment.

✓ MLS® sales of existing homes will rise slightly in 2005 and 2006. After having reached 1,264 units in 2004, such transactions will attain 1,300 units in 2005 and 1,350 units the following year. As a result, in 2006, existing home sales will go beyond the range of 1,200 to 1,300 units, where they have been hovering for the past four years on

account of the limited supply of homes for sale. This consequently supposes that supply will grow over the coming months, which will allow for a small increase in sales and a slower rise in prices in 2006.

✓ The average price of existing homes will go up by 12 per cent in 2005, and then by 6 per cent in 2006, reaching a level of \$158,700. Since the seller-to-buyer ratio will remain tight (between 4 and 5 to 1), only a major shock, imperceptible at the moment, could cause the price hike



to fall below 6 per cent next year. At press time, the significant increase in oil prices and its expected repercussions on inflation and consumer budgets are not a sufficient factor to revise this forecast, even though it is known that some households are fairly in debt.

✓ Freehold housing starts will increase slightly (for most homes) in 2005, rising from 571 units in 2004 to 600 units this year, on account of the economic and financial climate that will remain favourable to homeownership. In 2006, the production of houses will fall to 500 units. The slowdown in job creation between 2004 and 2005, along with the decline in affordability, will result in fewer households buying a first home, which, in the end, will bring down demand for new houses. While this may be a decrease in activity, it should be pointed out that, in the last 25 years, 450 homes have been started, on average, every year. In 2006, production will therefore continue to surpass the average level of activity. The value of new homes will be \$15,000 higher than last year, as the average price of new single-detached houses will reach \$171,000.

Apartment construction begins a downward trend

✓ Since the performance of the labour market influences the destination of immigrants (with a certain delay), their inflow should be maintained over the forecast period, as job creation will remain positive despite a slowdown. It is

estimated that 74 per cent of new immigrants opt for the rental housing market when they arrive. Immigration will therefore remain the principal driving force behind the new demand for rental dwellings.

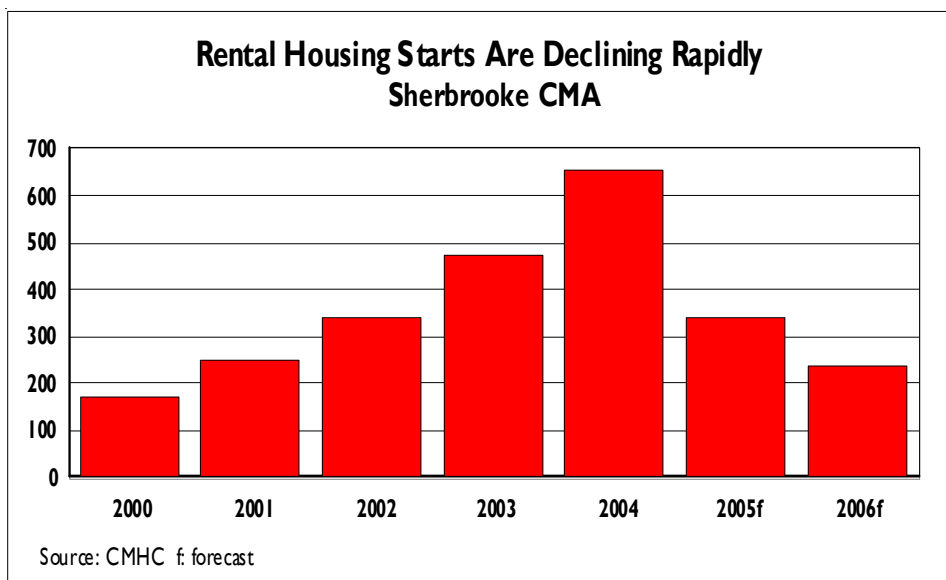
✓ The migration of about a hundred people aged 65 years or older from rural areas to Sherbrooke every year and the recent improvement in employment for people aged from 15 to 24 years will also help support the rental housing demand.

✓ The Rental Market Survey conducted in October 2004 revealed that vacancies went up in newer buildings (4 per cent) and for dwellings renting for \$700 or over (6 per cent), as a result of the rapid increase in apartment construction since 2002, in a context where construction costs are high. Production will therefore begin a downward trend in 2005, as rental housing starts will go from 655 units in 2004 down to 340 units in 2005 and then to 240 units in 2006. The slowdown is slightly more pronounced

than what we had anticipated at the beginning of the year.

✓ Despite the arrival of many new apartments, started last year, and the strong homeownership trend, the rise in the overall vacancy rate will be limited (from 0.9 per cent to 1.4 per cent), on account of the robust rental housing demand. Since production is slowing down this year, the vacancy rate should decrease slightly in 2006 and reach 1.2 per cent.

✓ The production of condominium apartments was vigorous last year in the area, as construction got under way on 129 such units—an unprecedented level. Between the aging baby boomers, the diverse lifestyles, the rising real estate prices and the higher construction costs, condominiums succeeded in increasing their market share. But with this niche being limited to Sherbrooke, production will slow down to 60 units in 2005 and then to 30 units in 2006.



FORECAST SUMMARY

Sherbrooke Census Metropolitan Area

Fall-Winter 2005

	2004	2005f	% Chg.	2006f	% Chg.
RESALE MARKET					
MLS® sales	1,264	1,300	3 %	1,350	4 %
Average MLS® price (\$)	133,700	149,700	12 %	158,700	6 %
NEW HOME MARKET					
Starts - by intended market					
Total	1,355	1,000	-26 %	770	-23 %
Freehold	571	600	5 %	500	-17 %
Rental	655	340	-48 %	240	-29 %
Condominium	129	60	-53 %	30	-63 %
Average price (\$)					
Single-detached houses	156,000	171,000	10 %	176,000	3 %
RENTAL MARKET					
Vacancy rate (%)	0.9	1.4	n.d.	1.2	n.d.
Rent (2-bedroom) (\$)	495	510	3 %	525	3 %
ECONOMIC OVERVIEW					
Mortgage rate - 3-year (%)	5.7	5.6	n.d.	6.0	n.d.
Mortgage rate - 5-year (%)	6.2	6.0	n.d.	6.5	n.d.
Employment level	81,825	82,825	1 %	83,525	1 %
Employment growth (number)	2,175	1,000	n.d.	700	n.d.

f: CMHC forecasts

Sources: CMHC and Statistics Canada

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