

## HOUSING MARKET OUTLOOK

## Sherbrooke CMA



Canada Mortgage and Housing Corporation

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## Housing starts and MLS® sales to decrease in 2009 in the Sherbrooke CMA

Given the weakened global economy, the state of the real estate market in the Sherbrooke census metropolitan area (CMA) will be slightly different this year. Compared to 2008, housing starts will decrease by 5 per cent, while home sales registered

through the Multiple Listing Service (MLS)® will fall by 3 per cent.

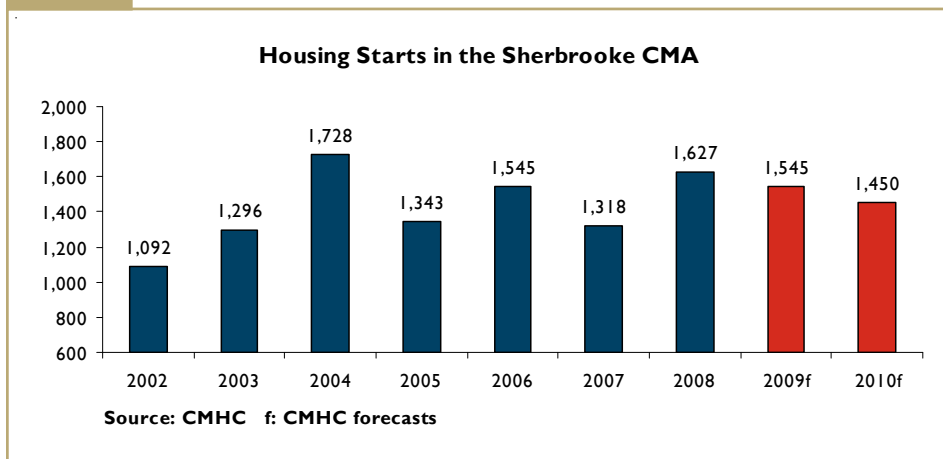
### Labour market less dynamic in 2009

The slower economic growth that is currently impacting all industrialized countries is showing no signs of sparing the Sherbrooke area. In fact, the average employment level<sup>1</sup> dropped by 1.3 per cent between 2007 and 2008, falling from 84,100 to 83,000 jobs. Employment

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Figure 1



<sup>1</sup> Data for the Sherbrooke CMA exclude Magog. Employment data in the manufacturing sector of the MRC de Memphrémagog for 2008 are available, however, in the *Rapport annuel 2008 du CLD de la MRC de Memphrémagog*. The number of manufacturing jobs in this MRC was down 17.6 per cent in 2008, compared to 2007.

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declined more significantly in the case of full-time jobs, which decreased by 1.6 per cent, while part-time positions fell by 0.6 per cent. As the latest labour market data seem to suggest, there will be further employment losses in 2009 in the Sherbrooke area. In this regard, CMHC forecasts that the GDP will decrease in 2009, before increasing in 2010. In such circumstances, housing demand will moderate this year in the Sherbrooke CMA, before slowly picking up in 2010.

Still, several factors will limit the negative impact on the Sherbrooke economy and, in turn, on the housing market. First, the decrease in employment will be mainly concentrated in the young labour force, whose incomes are usually lower than those of older workers. In fact, according to the data for the first quarter of 2009, the number of full-time positions declined in the 15-24 years' age group, while it was stable in the 25-44 years' age group and even climbed in the 45-64

years' age group<sup>2</sup>. Given that young people usually enter the rental market when they leave the family home, demand on the new home and resale markets will be less severely impacted in the coming year. Second, the capital of the Eastern Townships should benefit from several economic stimuli in the next few months, such as investments in infrastructure by the Quebec government and numerous road projects. Third, the different levels of government are the largest employers in the CMA, which makes jobs less vulnerable to the current economic fluctuations. Finally, several organizations, such as the Charles River Laboratories, CGI and the Centre hospitalier universitaire de Sherbrooke (CHUS)-Fleurimont, will also be seeking new talent.

### Mortgage rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very

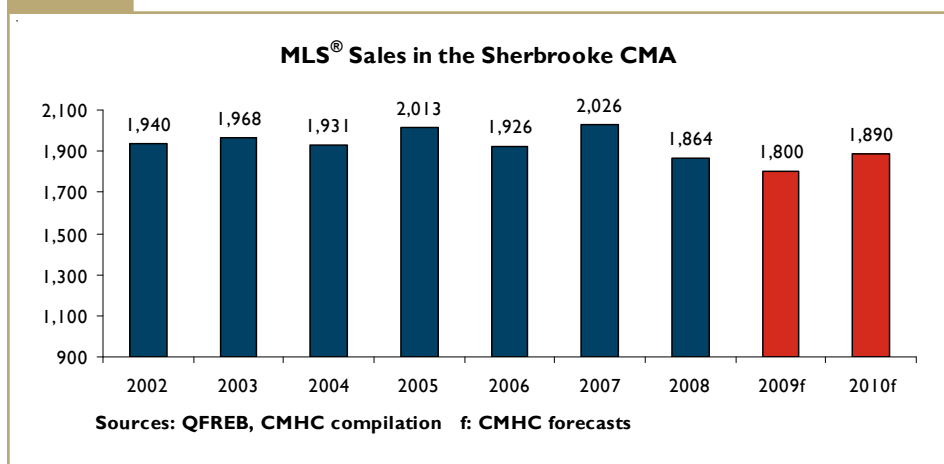
gradually during the course of 2010, reflecting a rise in Government of Canada bond yields. For 2010, the one-year posted mortgage rate will be in the 4.75-6.00 per cent range, while three- and five-year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

### International and interprovincial migration on the rise

In 2007, net migration in the Sherbrooke CMA was about 1,150 people, the highest level in three years. Preliminary data<sup>3</sup> show that about the same number of migrants planned to settle down in the Estrie region in 2008. In addition, weaker economic conditions and the high cost of living in the Western provinces may have contributed to the decrease in the number of people who left the CMA for other provinces in the last year. In 2008, it is estimated that 1,200 migrants moved to the CMA.

Over the next two years, net migration in the CMA should continue to grow, as the Quebec government will significantly increase the targets for the number of newcomers during this period. In 2009 and 2010, more than 2,500 migrants will be looking for dwellings (mostly rental) in the Sherbrooke area, which will limit the slowdown in demand.

Figure 2



<sup>2</sup>As explained in the publication *Point de conjoncture économique : L'Estrie en 2008* by Gilles Lecours of Emploi-Québec Estrie, labour market data do not take into account all factors, such as reduced work hours, decreased wages, etc.

<sup>3</sup>Source: Ministère de l'Immigration et des Communautés culturelles.

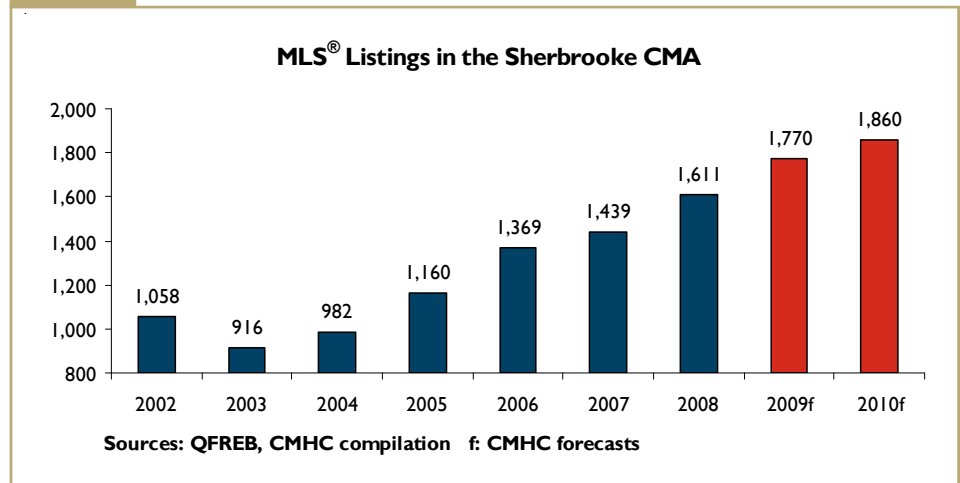
## Resale market favouring buyers

Following a record year in 2007 in the Sherbrooke CMA, when 2,026 MLS® transactions were registered, the situation was quite different in 2008. For the first time, the number of existing homes sold in 2008 fell below the 1,900-unit mark—to 1,864 units, to be exact—the lowest sales level ever recorded (-8 per cent). Furthermore, MLS® sales started to decline during the first six months of 2008 (-4 per cent), and the situation did not improve in the last two quarters of that year, as sales dropped by 9 per cent and 17 per cent, respectively.

Currently, economic fundamentals are not pointing to renewed growth in sales in 2009. Labour market conditions are difficult, and the increase in household incomes will be smaller than in past years. However, as previously mentioned, employment in the 25-64 years' age group should improve this year, which should limit the decline in demand for existing homes. In addition, it must be remembered that sales were weak in 2008 compared to previous years, reducing the extent of the decrease that could be observed in 2009.

Given the economic environment and financing conditions that will remain favourable throughout 2009, we expect that MLS® sales will decrease by only 3 per cent this year, to 1,800 units. It should be noted that this will mark the first time that transactions drop for two consecutive years. In 2010, sales

Figure 3



recorded on the MLS® network will increase by 5 per cent, to 1,890 units. This increase will be due to renewed economic growth and the low mortgage rates.

On the supply side, the number of properties listed in the MLS® system has been increasing for the past five years in the Sherbrooke CMA, reaching 1,611 units in 2008 (+12 per cent). In January 2009, the volume of listings was fairly similar to the levels registered in recent years, with a 10-per-cent increase year-over-year. This trend will continue this year for several reasons. First, as a result of the higher birth rate in the area since 2004, some young families who already own a home may want to buy a larger one. Second, more and more seniors will put their home up for sale over the coming years, as they may want to live in a dwelling that requires less maintenance. Third, since the supply of existing homes is growing from year to year, the number of listings should follow suit. Active listings will therefore increase by 10 per cent over 2008, to 1,770 units.

Given the slowing housing demand and the increasing supply of existing homes in the Sherbrooke CMA, the market will remain favourable to buyers over the next two years. This is in sharp contrast with the situation observed at the beginning of the decade, when the market was favourable to sellers. In fact, from 2002 to 2007<sup>4</sup>, the average MLS® price climbed by 11 per cent annually, rising from about \$104,000 to \$176,000. By comparison, when the advantage shifted to buyers in 2008, the average price went up by only 1.8 per cent. As buyers will have even more choice this year, the average price will remain stable (\$179,400).

While this does not represent our reference scenario, a slight decrease in the average MLS® price is not excluded, however. In times of economic slowdown, relatively affordable property types (semi-detached, row and condominium housing units) can become more popular, to the detriment of higher-priced dwellings (single-detached homes and plexes), which results in

<sup>4</sup> From 2002 to 2005, the market was favouring sellers, as the seller-to-buyer ratio was below 8 to 1. In 2006 and 2007, the market moved to balanced conditions, as the seller-to-buyer ratio was between 8 to 1 and 10 to 1.

a decrease in the overall average price.

## Residential construction will moderate but still remain strong

In the Sherbrooke CMA, foundations were laid for 802 single-detached homes in 2008, the highest level in 20 years. Several factors are, however, pointing to a decrease in this type of construction in 2009. First, the economic uncertainty will curb the enthusiasm of many households wanting to buy a new home. Second, more choice on the resale market will increase competition with the new home market this year. Third, the number<sup>5</sup> of unsold new homes (around 15 at the beginning of 2009) has been increasing for a few quarters now in the CMA, which will prompt builders to slow the pace of construction.

Despite the anticipated decline, single-detached home starts will remain high in 2009 from a historical perspective. For one thing, financing conditions will remain favourable for future buyers. For another, it is probable that builders will opt to produce relatively affordable single-detached homes, to attract households who want to access homeownership, without having too high a mortgage to carry in these uncertain times. In addition, the average price of new single-detached homes climbed by only 1 per cent

from 2007 to 2008 in the Sherbrooke CMA<sup>6</sup>, the smallest increase recorded in the last few years. Also, the price difference between new single-detached and semi-detached homes is much smaller in the Sherbrooke CMA than in other large urban centres across Quebec. This small gap may encourage new buyers to purchase a single-detached house instead of a semi-detached home. It should also be mentioned that, contrary to other CMAs, the Sherbrooke area still has many available lots located close to downtown and major arteries, which may favour single-detached houses.

This year, the increase in the average price of single-detached homes will again be modest, which will limit the decrease in starts in this market segment. Nevertheless, foundations will be laid for 730 single-detached homes in 2009, for a decrease of 9 per cent compared to a year ago. It should not be forgotten, however, that construction was especially strong in 2008, which will make for a larger year-over-year decrease in 2009.

Multiple-unit (semi-detached, row and apartment) housing starts, for their part, will remain relatively stable compared to last year (815 units in 2009, versus 825 in 2008). In the past few months, several major housing projects have been announced in the Sherbrooke CMA, especially near the Centre hospitalier universitaire de

Sherbrooke (CHUS). The apartments that will be built there will allow workers to live close to their workplaces (CHUS, Charles River Laboratories) and also seniors to stay near the largest medical service centre in the CMA. Housing co-operatives could also be started in 2009 in the borough of Mont-Bellevue. It should be recalled that our latest *Rental Market Report* for the Sherbrooke CMA showed that relatively affordable rental apartments were much scarcer than units with higher rents.

Overall, apartment starts will stay at virtually the same level as last year (745 units in 2009, versus 747 in 2008)<sup>7</sup>. These apartments will be evenly split between the rental and condominium markets. Also, given the popularity of single-detached homes, fewer semi-detached and row houses—other generally affordable housing types—will be started this year. Foundations will be laid for 70 such units in 2009, for a slight decrease compared to the 78 units started in 2008.

In 2010, 1,450 dwellings will be started, down 6 per cent from 2009 (1,545 units). Single-detached home construction will slowly pick up (+3 per cent) as the economy improves, but multiple-unit housing starts will drop by 14 per cent. This decline will mainly be due to the fact that fewer apartments for seniors will be built next year. It should be noted that several retirement homes were built in the CMA these past few

<sup>5</sup> 12-month moving average.

<sup>6</sup> Sherbrooke CMA, excluding Magog.

<sup>7</sup> It is important to specify, however, that the exact start dates are not yet known for all the major projects and that the schedules may change. The preceding forecasts are based on the assumption that most of these projects will get under way in 2009, given that several steps must be completed before the actual start of construction. It is still possible, though, that some projects will be started in 2010, which would change the preceding forecasts.

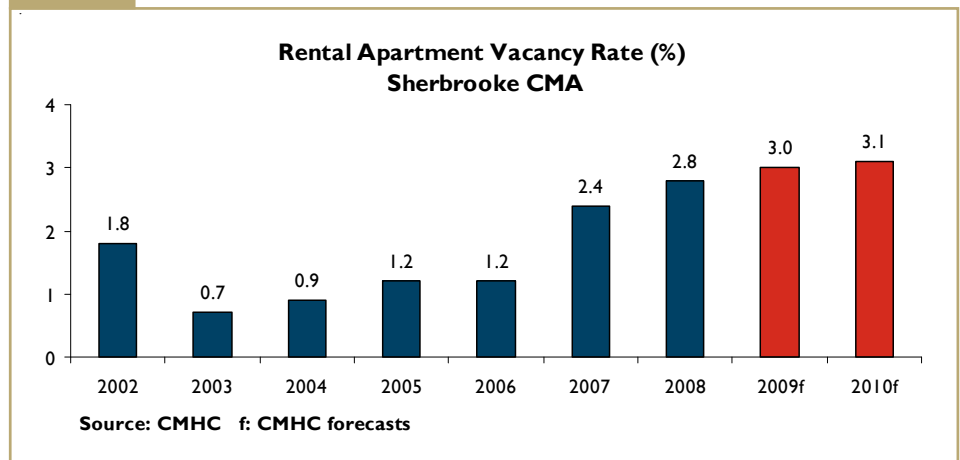
years, at a time when demand was slowing<sup>8</sup>. The vacancy rate in retirement homes has therefore steadily increased in recent years. In fact, fewer retirement home projects will get under way in 2010.

## Rental market to keep easing

According to the results of the Rental Market Survey conducted by CMHC in October 2008, the rental apartment vacancy rate increased in the Sherbrooke CMA. Now on the rise for the past five years, this rate reached 2.8 per cent. The report on this survey also indicates that the greater proportion of renter households now buying homes was one of the factors that accounted for these vacancy rate hikes. Sales of existing and new homes have remained strong in recent years, suggesting that many renter households became homeowners. Financing conditions were also very favourable during that period, which probably drove up the number of homeowner households in the CMA.

Given the current economic environment, the homeownership trend should moderate in 2009 and

Figure 4



2010. Even though employment will be slightly more favourable for people aged from 25 to 64 years—important players on the new home and resale markets—than for younger people, current economic conditions will prompt some households to postpone their purchases. Consequently, the vacancy rate increases will be more limited over the next two years.

As for the young labour force, employment losses in the 15-24 years' age group will cause some young people to delay their decision to leave home, which will lower demand for rental housing. All in all, as previously mentioned, the growth in net migration in the Sherbrooke

CMA expected in 2009 and 2010 will especially boost rental demand. Given these demand conditions and the very small rise in rental housing supply, the vacancy rate will climb very slightly in 2009 and 2010, to 3 per cent and 3.1 per cent, respectively. Therefore, the average rent for two-bedroom apartments will reach \$555 and \$565 over the next two years.

<sup>8</sup> In fact, people aged 75 years or older, who account for a significant share of retirement home clients, were born during the Great Depression of the 1930s, a period when the birth rate was low.

Forecast Summary (1)							
Sherbrooke CMA							
Spring 2009							
	2006	2007	2008	2009f	% chg	2010f	% chg
<b>Resale Market</b>							
MLS® Sales	1,926	2,026	1,864	1,800	-3	1,890	5
MLS® New Listings	1,369	1,439	1,611	1,770	10	1,860	5
MLS® Average Price (\$)	\$160,973	\$176,263	\$179,434	\$179,400	0	\$179,500	0
<b>New Home Market</b>							
<b>Starts:</b>							
Single-Detached	588	666	802	730	-9	750	3
Multiples	957	652	825	815	-1	700	-14
Starts - Total	1,545	1,318	1,627	1,545	-5	1,450	-6
<b>Average Price (\$) - excluding Magog:</b>							
Single-Detached	\$191,177	\$195,868	\$197,904	\$200,000	1	\$202,000	1
<b>New Housing Price Index (% chg) (Que.)</b>							
	4.4	4.2	5.0		-		-
<b>Rental Market - excluding Magog in 2006</b>							
October Vacancy Rate (%)	1.2	2.4	2.8	3	-	3.1	-
Two-bedroom Average Rent (October) (\$)	\$515	\$529	\$543	\$555	-	\$565	-
<b>Economic Overview</b>							
Mortgage Rate (1 year) (%)	6.28	6.90	6.70	4.80	-	5.29	-
Mortgage Rate (5 year) (%)	6.66	7.07	7.06	5.64	-	5.94	-
Annual Employment Level - excluding Magog	81,900	84,100	83,000	81,000	-2	81,500	1
Unemployment rate (%) - excluding Magog	7.9	6.4	6.2	7.5	-	7.4	-
Net Migration - excluding Magog	958	1,182	1,200	1,250	4	1,340	7

(1) According to Statistics Canada's new definition, the Sherbrooke CMA now includes the municipality of Magog. Statistics have been adjusted except where indicated.

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), The Quebec Federation of Real Estate Boards by Centris™ (CMHC compilation), Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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