



## Philadelphia Region Continues Trend of Weakening Prices but Improving Sales Suburban prices decline while City prices rise in Q4; Surge in foreclosures a likely cause.

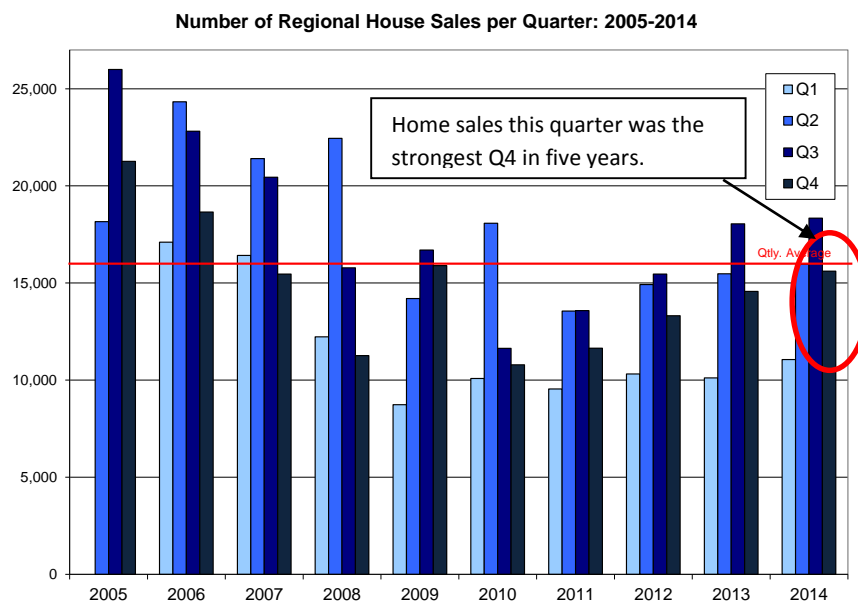
**January 29, 2015:** The Philadelphia Region's housing market continued its schizophrenic behavior in the fourth quarter of 2014, sending mixed signals on a variety of market indicators. House prices increased slightly in the City while declining in the suburbs, even as the region's sales activity continued to rebound from its post-recession lows.

According to the latest analysis compiled for Berkshire Hathaway Home Services by economist Kevin Gillen, the typical Philadelphia-region home fell in value by 1.6% on a quality- and seasonally-adjusted basis during 2014 Q4. However, the average house price increased by a modest 0.8% in Philadelphia County while declining an average of 2.4% in the 10-county suburbs.

Price changes varied significantly across counties. From lowest to highest, the average change in house values by county were: Salem (-6.2%), Delaware (-5.0%), Burlington (-3.4%), Camden (-3.4%), Gloucester (-3.4%), Montgomery (-2.3%), New Castle (-2.3%), Bucks (-0.3%), Chester (0.0%), Philadelphia (+0.8%), and Mercer (+1.1%).

With the latest changes in house prices, the typical Philadelphia-area home has recovered 7% out of the 23% that it lost in value lost during the housing bust, and thus needs to appreciate another 16% to completely recover the entirety of the loss in value.

In contrast, sales volume of homes continued to remain strong this past quarter after running well below average for most of the last five years. Just over 15,600 homes transacted in the fourth quarter, up from 14,500 in the same quarter one year ago<sup>1</sup>. With this most recent data, sales activity in the region has hit its highest level in five years since declining sharply during the recession, and is very close to being back to its historically normal level.

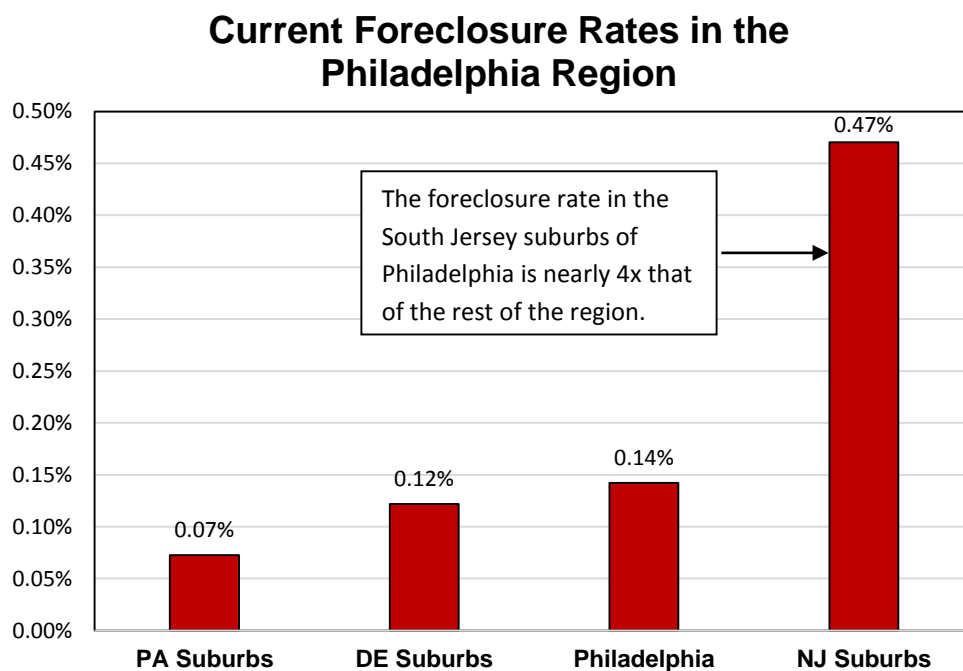


<sup>1</sup> Home sales are highly seasonal, so it is standard industry practice to compare one quarter's sales activity to the same quarter a year ago rather than the previous quarter.

Sales in the million dollar-plus category also continued their exceptionally strong run. There were 157 home sales in Q4 at a price of 1 million dollars or more. This also marks the strongest quarter in five years for million dollar home sales.

The cooling off of prices contrasts with the heating up of home sales, which have typically moved in the same direction with each other over time. In the city, recent increases in relatively lower-priced sales are the cause of this outcome, as the housing recovery has continued to become more widespread across Philadelphia's neighborhoods. This does not appear to be the case in the suburbs, however, as recent sales of lower-priced homes have not exhibited a similar surge.

One key data point that could explain this divergence is a sharp increase in foreclosures and distressed sales in the suburbs. According to RealtyTrac's latest figures, foreclosure activity increased significantly in Philadelphia's suburbs at the end of 2014, while holding relatively steady in the City. The following chart compares current foreclosure rates across different submarkets in the Philadelphia region, calculated from RealtyTrac's county-level numbers<sup>2</sup>:



As the chart clearly indicates, foreclosure levels are relatively high in the southern NJ counties that are considered part of the Philadelphia region. Foreclosures there are occurring at a rate that is nearly four times that of the other parts of the region. Un-coincidentally, house price declines this quarter were also largest for these same NJ counties.

But while the latest data continues the region's uneven pace of recovery, other indicators from the supply side also continue to give reason for optimism:

- Inventories of homes listed for sale fell dramatically in Q4. Currently, there are less than 30,000 homes listed for sale in the Philadelphia, which is the lowest level since the housing bubble's inflation and subsequent deflation. At such low levels, market conditions should begin to tip in favor of sellers and subsequently provide upward support to house prices, going forward.
- The decline in supply combined with the increase in sales activity has driven the region's housing absorption rate to a new post-bubble high. Currently, 16% of all homes listed for sale in a given month are going to closure. This is up sharply from the all-time low of 5% during the depths of the recession several years ago,

<sup>2</sup> Source: <http://www.realtytrac.com/statsandtrends/foreclosuretrends>

and is moving rapidly towards the all-time peak of 19% during the frenetic days of the housing boom ten years ago.

- Although Days-On-Market (the average number of days it takes a home to sell) rose slightly this past quarter to 87 days, it is still down significantly from its peak of 132 days just three years ago, and indicates a continued tightening of supply relative to growing demand.

While the latest indicators continue the Region's pattern of two-steps-forward-one-step-back, the net result of such a pattern is still a positive one, and we will continue to monitor these trends as they develop.

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