



Philadelphia Region's Housing Continues to Send Out Mixed Signals Suburban prices drop while sales volume increases; Inventories hit post-bubble low.

May 5, 2015: The Philadelphia Region's housing market continued its zig-zag attempts at recovery in the first quarter of 2015, with market indicators providing mixed signals. House prices dropped significantly in the suburbs even though suburban home sales increased substantially, while the exact opposite happened in the City.

According to the latest analysis compiled for Berkshire Hathaway Home Services by economist Kevin C. Gillen, the typical Philadelphia-region home fell in value by 1.8% on a quality- and seasonally-adjusted basis during 2015 Q1. However, the average house price declined by only 0.3% in Philadelphia County while declining an average of 2.3% in the 10-county suburbs.

Price changes varied significantly across counties. From lowest to highest, the average change in house values by county were: Mercer (-6.6%), Delaware (-5.0%), Gloucester (-2.8%), Bucks (-2.4%), Chester (-1.8%), New Castle (-1.3%), Philadelphia (-0.3%), Montgomery (+0.3%), Burlington (+0.8%), Camden (+1.2%) and Salem (+7.0%).

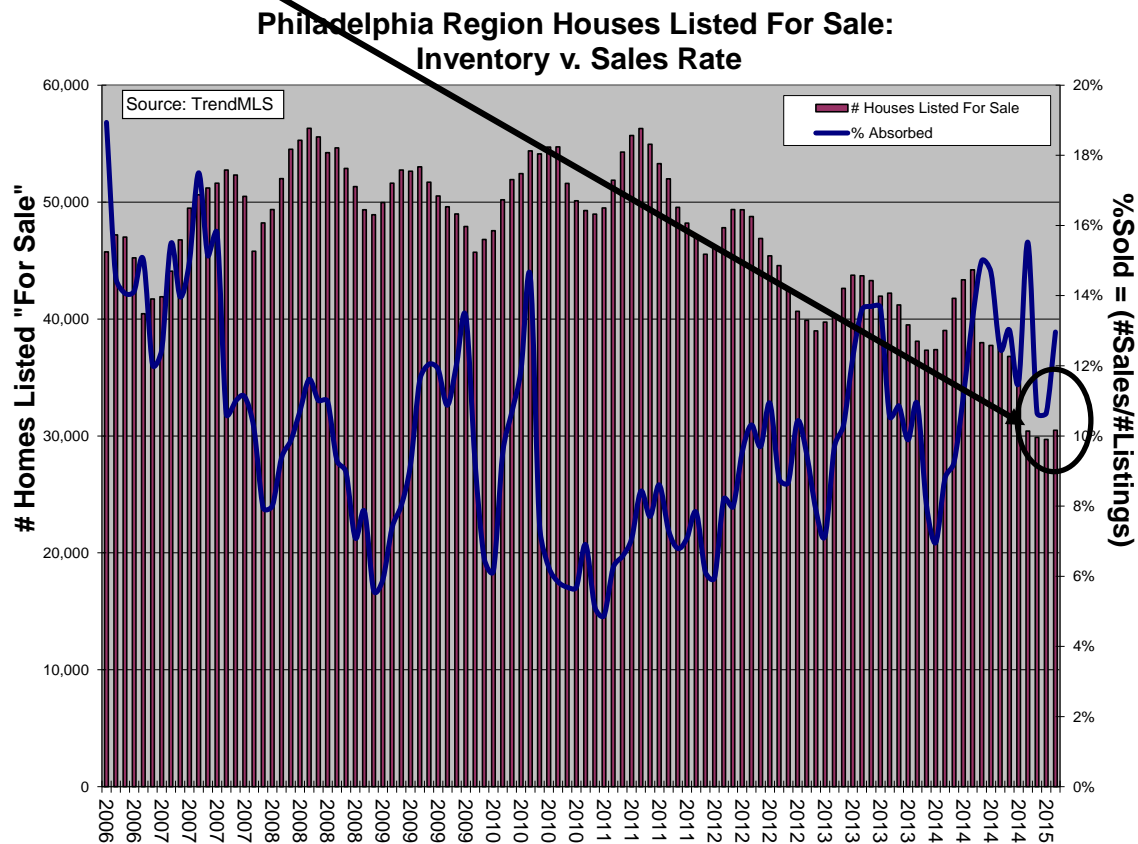
With the latest changes in house prices, the typical Philadelphia-area home has recovered only 5% out of the 23% that it lost in value lost during the housing bust, and thus needs to appreciate another 18% to completely recover the entirety of the loss in value.

Sales numbers were also mixed this past quarter, with transactions dropping in the City while rising in the suburbs on a YoY basis. There were 3,061 arms-length transactions in Philadelphia County in Q1, down from 3,148 in the same quarter last year. In contrast, sales volume in the 10-county suburbs rose from 7,908 one year ago to 9,032 in Q1. Previously, sales had been steadily rising in both the City and suburbs since hitting bottom in 2011.

Sales in the million dollar-plus category also broke their winning streak, declining on a YoY basis for the first time since 2011. There were 112 sales at a price of one million dollars or more in Q1, down slightly from 115 such sales in the same quarter last year.

One particularly notable indicator this quarter was inventories. The number of homes listed for sale declined to nearly 30,000 units in Q1. Not only was this a sharp drop from 35,000 units in the previous quarter, but this also represents an all-new post-bubble low. At their peak back in 2011, the number of homes listed for sale in the region was nearly 55,000 units, when house prices were (un-coincidentally) in freefall.

The Number of Homes Listed “For Sale” in the Region Has Fallen to a Post-bubble 10-year Low:



This decline has an important number of implications:

- The Region’s Absorption Rate (the percent of listed homes that sell each month) has taken a sharp tick upwards, indicating the supply (inventories) has fallen relative to demand (sales).
- Given the most recent inventory and absorption numbers, The Region’s Months-Supply-of-Inventory (the number of months it would take to completely sell off the current inventory of homes, given the current absorption rate) has also fallen to a new post-bubble low of just less than 5 months.
- Typically, 5 months of inventory is considered the bottom threshold between a balanced market and a seller’s market: when MSI falls to less than 5 months, demand exceeds supply and the market begins to put significant upward pressure on house prices¹.
- This decline comes at a time when demand typically shows a seasonal surge, as many buyers enter the market for the busy spring selling season.

The increase in demand that accompanies the spring season combined with inventories being at an all-time low would typically give reason for significant bullishness on the Region’s house prices. But, given the uneven progress by which the recovery has proceeded to date, we will have to wait for the Q2 numbers to see if this prognostication bears out.

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¹ Conversely, an MSI greater than 8 months is considered the top threshold between a balanced market and a buyer’s market. When MSI exceeds 8 months, supply is considered to exceed demand and there is subsequently significant downward pressure on house prices.