



City's Housing Continues to Recover While Suburbs Lag City opens up substantial lead over the suburbs in Q1.

June 17, 2016: Despite continued improvements in sales volume across the region this past winter, Philadelphia County's house prices continued their forward surge while suburban prices remained stuck in reverse. As a consequence, the disparity between the City's housing recovery and that of its suburbs is the largest it's been since regional house prices hit their bottom four years ago.

According to the latest analysis compiled for Berkshire Hathaway Home Services by economist Kevin C. Gillen, the typical Philadelphia home increased in value by 3.9%, while the average suburban home fell in value by 1.3% on a quality- and seasonally-adjusted basis during 2016 Q1.

Although house prices increased sharply in the city, they were flat-to-negative across the suburban counties. From lowest to highest, the average change in house values by county in Q1 were: Delaware (-5.8%), Mercer (-3.1%), Chester (-1.9%), Bucks (-1.4%), Salem (-1.0%), Burlington (-0.6%), Camden (-0.4%), Montgomery (-0.1%), New Castle (+0.1%), Philadelphia (+3.9%) and Gloucester (+4.3%).

While the disparity in the City' versus the suburb's house price recovery might have widened this past quarter, sales numbers did continue to increase across the region. There were a total of 13,760 arms-length transactions in the Philadelphia region in Q1. This is up from 12,093 in the same quarter last year¹, and also continues a steady trend upwards ever since hitting bottom at 8,732 transactions in Q1 of 2009. In fact, this was the best Q1 for sales since 2007.

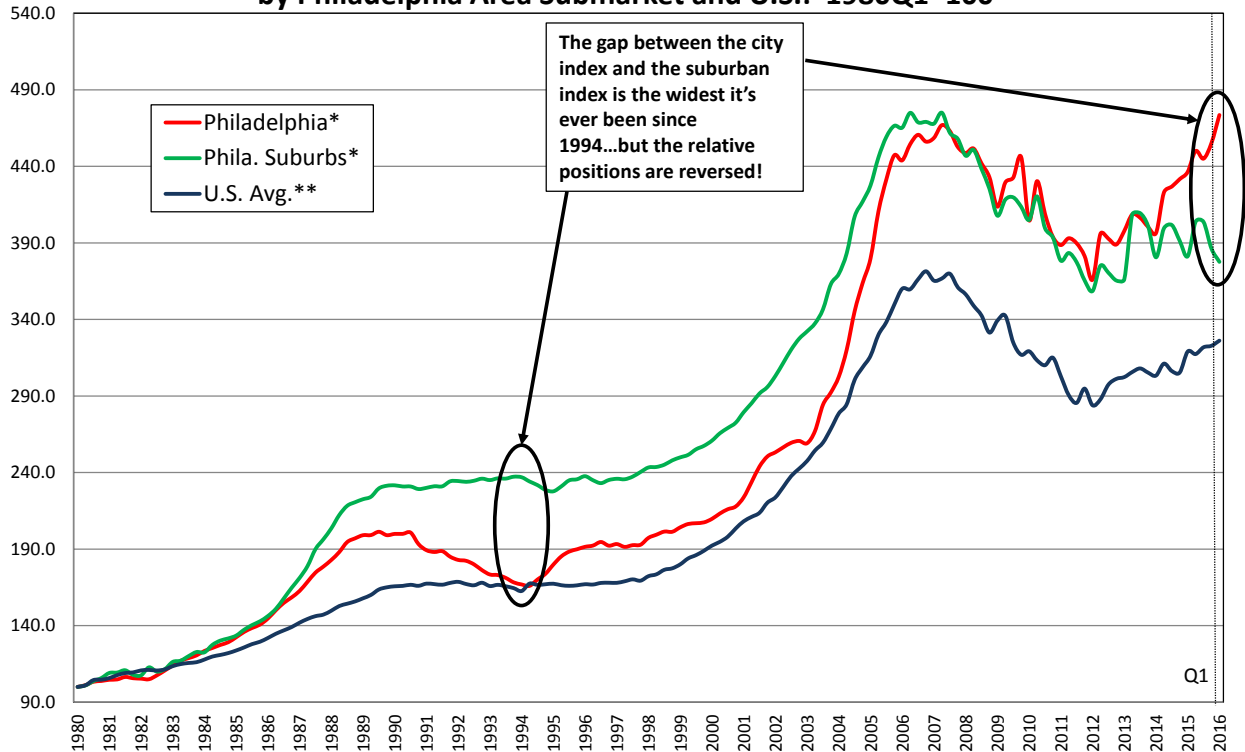
These latest numbers have further exacerbated the spread between the City's relatively robust house price recovery and the sluggish one of its suburbs. Although both markets declined by roughly similar amounts and over the same period of time during the recession, house values in the City have rebounded not only much faster, but by a much larger margin than house values in most of the suburbs.

Since prices in both markets hit bottom in 2012 Q1, they have risen 23% in Philadelphia County compared to just an average of 4% in the surrounding suburbs. As a consequence, house prices in the City have completely erased their losses due to the recession, with current house price levels in the City being 1% above their pre-recession peak in 2007. By contrast, suburban prices need to rise another 21% before they can erase their losses. Of course, it should be understood that this is an average result across both city neighborhoods and suburban townships, with local results varying from one community to the next.

These results can be interpreted to support the City's renewed vitality by placing them in their historical context. For almost the entire history of the house price indices going back to 1980, the City's index has lagged that of the suburbs, indicating that house price appreciation in the suburbs has generally and historically outpaced that of the City's. The spread between the two indices was widest in 1994, when the City was recovering from both a fiscal crisis and a recession. After finally catching up during the peak of the boom in 2007, the house price indices for both markets generally declined together until the City's recovery began to outpace that of its suburb's in 2014. Currently, not only is the spread between the two indices the widest it's been since the early 1990s, but their positions are reversed: the City's index is now higher than that of the suburbs:

¹ Since home sales volume tends to be highly seasonal, it is generally considered to compare sales on a Year-on-Year basis rather than comparing recent sales to sales in the previous month or quarter.

Philadelphia Regional House Price Indices 1980-2016 by Philadelphia Area Submarket and U.S.: 1980Q1=100



*Empirically estimated by Kevin C. Gillen, PhD **Courtesy Federal Housing Finance Agency (FHFA)

Note: The suburban index includes all counties in the regional index, except for Philadelphia county.

A reversal of fortune, indeed.

With inventories remaining below their historic levels and expectations for interest rates to rise, there will likely continue to be short-term upward pressure on house prices in both markets. But as housing supply begins to expand due to a significant amount of new construction in the pipeline (especially in the City), along with a general overall slowing of the current exceptionally long economic expansion, upward pressure on prices should begin to ameliorate.

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