

## Suburbs (Finally!) Come to Life in Q2

### Suburban house prices and sales follow the City's lead and make aggressive gains.

**August 29, 2016:** Following several years of uneven stops and starts, Philadelphia's suburban housing market showed one of its strongest periods of growth this past quarter. After lagging the City in terms of both price and sales growth for nearly two years, the ten suburban counties underwent significant appreciation this past spring. However, even with these recent increases, the City still maintained its strong lead over its suburban counterparts, and as a consequence is no longer the lowest-priced county in the Tri-State area for the first time in decades.

According to the latest MLS data provided by Berkshire Hathaway Home Services, the typical suburban home increased in value by 7.5% on a quality- and seasonally-adjusted basis in 2016 Q2, while the typical Philadelphia home rose in value by 6.2% during the same period.

Although house prices have recently undergone sharp increases in the city, they grew by even more in the suburbs this past quarter—and at double-digit rates in some places. Price appreciation was positive across all counties in the Philadelphia region in Q2, after showing mixed results in most previous quarters. From lowest to highest, the average change in house values by county in Q2 were: New Castle (+3.2%), Mercer (+4.1%), Bucks (+4.8%), Chester (+5.0%), Gloucester (+5.1%), Montgomery (+5.2%), Philadelphia (+6.2%), Salem (+7.8%), Burlington (+9.0%), Camden (+10.5%) and Delaware (+12.7%).

Further evidence that the region's housing recovery has finally gained real traction comes from the recent improvement in the more widespread distribution of house price gains across the region. Until recently, most of the recovery in house prices had been limited to the more affluent neighborhoods and communities in both the city and suburban counties. This quarter, the greatest increases were actually in the low-income neighborhoods of North and West Philadelphia in the city and in the relatively lower-income (and historically lower-priced) suburban markets of Salem, Burlington, Camden and Delaware counties.

Also catching up to the City's recent surge in home sales were suburban transactions. 15,462 homes changed hands in the suburbs in Q2, up from 9,506 in the previous quarter and up from 14,127 in the same quarter last year. Likewise, 4,774 houses transacted in Philadelphia County in Q2, up from 3,915 sales in Q1 and up from 4,198 sales in the same quarter last year, for a combined YoY increase of more than 10%. With the exception of 2015Q3 (and by a very small margin), this most recent quarter was the strongest quarter for home sales in the region since 2007.

But, while the latest quarter's data indicate that the suburbs are finally showing the same signs of a robust recovery as the city, significant disparities remain in their respective trends:

- The City has opened up—and continues to maintain—a very wide lead over the suburbs in its recent house price recovery. Philadelphia County has shown eight consecutive quarters of positive price appreciation, while the suburbs have actually experienced price declines in five of the last eight quarters<sup>1</sup>.
- House prices in the City have not only recovered their total losses from the recession (on average), but are actually 8% higher than their previous peak before the bubble burst back in 2007. By contrast, suburban house prices are still below their pre-recession peak, and need to rise another 14% just to erase their losses over the last nine years to return to their peak.
- The lack of supply seems to be a much more significant factor—as well as a driver of house price appreciation—in the city than in the suburbs. Currently, inventories (the # of homes listed for sale) are at

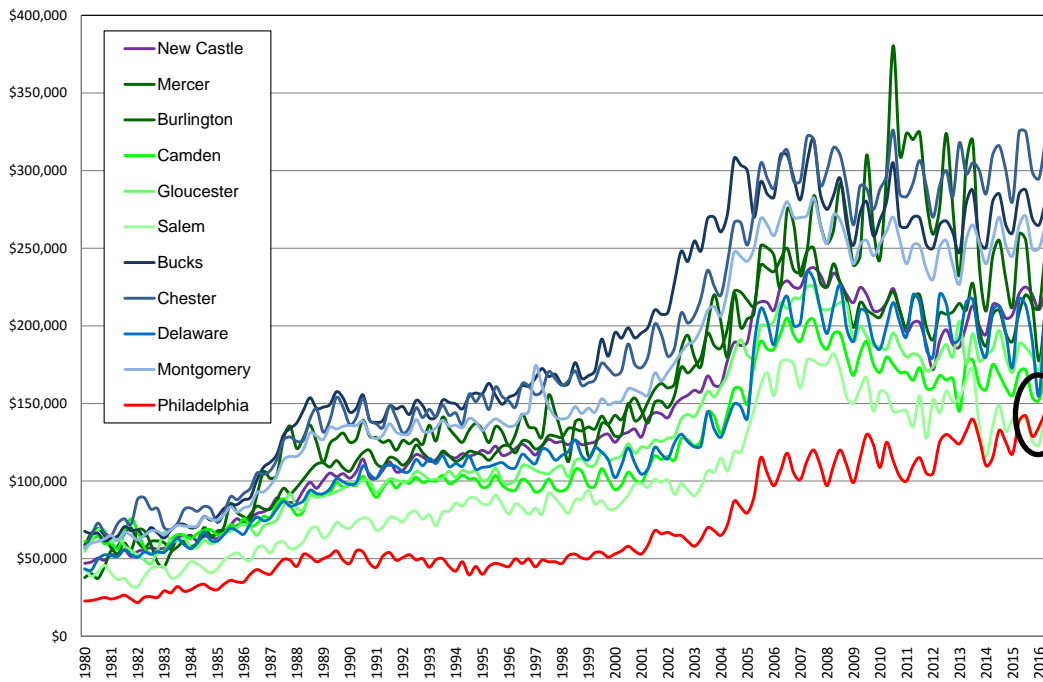
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<sup>1</sup> These are county-wide averages. Local results may vary.

a 15-year low in Philadelphia County. While suburban inventories are down from their overall peak of eight years ago, they are nowhere as low as in the city, and have actually increased in recent months.

- As a consequence of the above trends, the typical house value in Philadelphia County is no longer the lowest in the region for the first time in decades. The median house price in Philadelphia is currently \$145,000—an all-time high. It currently surpasses the median house price of \$144,000 in Salem County NJ (albeit by an admittedly very narrow margin). By contrast, as recently as just over a year ago, Philadelphia’s median house price was \$117,500, while Salem County’s was \$140,000; a 16% difference.

**Median House Price by County: 1980-2016**



Philadelphia’s median house price recently passed Salem County’s, making the typical Philadelphia home no longer the lowest-priced in the region for the first time in decades.

To what extent these trends will continue on their seemingly separate paths is unclear. Rising house prices plus limited inventories should eventually incentivize potential sellers to place their homes for sale, and thus provide some relief from the current forces of price appreciation. However, this incentive remains stronger in the City, where most homes are now above water on their value, while suburban prices need significant continued appreciation before they meet this condition and thus liberate many households to be able to place their homes for sale. While there will almost certainly be an eventual move towards greater convergence between the city and its suburbs in the longer run, current housing market indicators suggest that recent trends will prevail in the immediate short term.

Email for Kevin Gillen: [Kevin.C.Gillen@Drexel.edu](mailto:Kevin.C.Gillen@Drexel.edu)