

Philadelphia's Suburbs Continue to Lag the City in Housing Market's Recovery Despite strong sales region-wide, suburban house price appreciation remains sluggish.

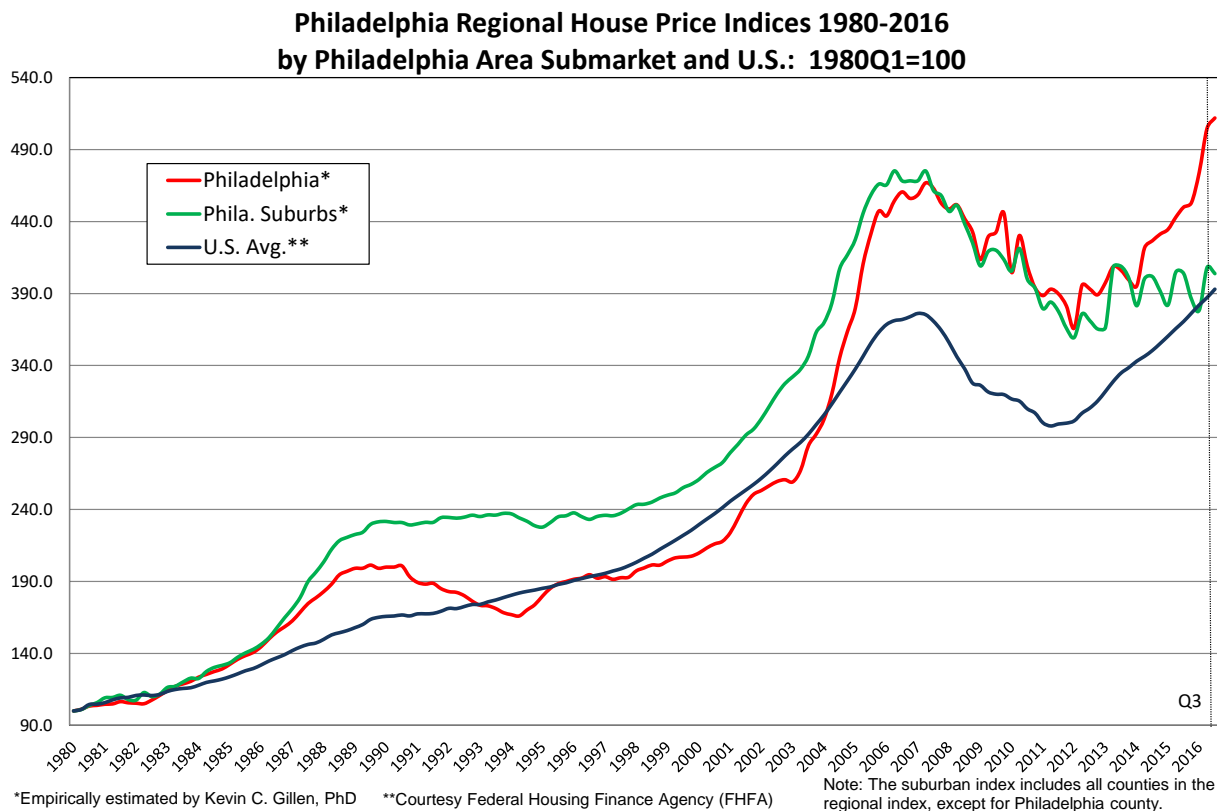
December 23, 2016: Following a strong increase of 7.5% in the previous quarter, the typical suburban home in the Philadelphia region declined by 1.0% in Q3, while the typical city home increased by 1.4% during the same period. Although the most recent quarter's average house price changes were fairly small across the region, they have still allowed the City-wide house price index to open up a historically unprecedented lead over the Suburban index.

According to the latest MLS data provided by Berkshire Hathaway Home Services, house price appreciation was negative across all suburban counties in the Philadelphia region in the most recent quarter, with only one exception. From lowest to highest, the average change in house values by county in Q3 were: Salem (-16.2%), Camden (-2.8%), Mercer (-2.3%), Bucks (-1.4%), Montgomery (-0.9%), Chester (-0.5%), Delaware (-0.5%), New Castle (-0.3%), Burlington (0.0%), Philadelphia (+1.4%) and Gloucester (+1.7%).

From Q2 to Q3, the median house price in Philadelphia increased from \$145,000 to \$149,000, while the median suburban house price declined from \$229,850 to \$227,565.

With these latest numbers, citywide house prices are not only at an all-time high, but are also 10% higher than their previous peak in mid-2007 just before the bursting of the housing bubble. By contrast, suburban house prices remain 15% below their previous peak, which also occurred in mid-2007.

As a consequence of the cumulative house price changes of the previous 18 months, the spread between the City-wide house price index and the Suburban index is now at an all-time high, as illustrated in the chart below:



The last time there was such a significant spread¹ between the two indices was during the recession of the early 1990s—and the relative positions were reversed, with the City-wide index below the Suburban index.

But, despite uneven performance in house price appreciation, home sales continued to be strong across all parts of the region. 21,488 homes changed ownership under arms-length conditions in Q3, up from 20,236 such transactions in the previous quarter, and up from 20,351 transactions in the same quarter last year. Currently, home sales volume in both Philadelphia and its suburbs are at their highest level in the post-recession period.

Although house prices may have declined modestly in the suburbs, million-dollar sales continue to break records in both the city and suburbs. The city experienced 37 sales at a price of \$1m or more in Q3, up from 24 in the previous quarter and up from 34 in the same quarter last year. Likewise, the suburbs saw 243 home sales of \$1m or more in Q3, also up from 166 in the previous quarter and up from 229 such sales in the same quarter one year ago. Sales of +\$1m homes across the Philadelphia region are not only at post-recession highs, but are also at all-time highs, including the boom years of the mid-2000s.

Tight inventories (the number of homes listed for sale) continue to remain a factor in both the city and suburban markets. Currently, just over 29,000 homes are listed for sale in the region, which has been trending steadily downwards from its all-time peak of just over 50,000 homes ten years ago. Rising sales activity combined with relatively low supply have resulted in an unprecedented absorption rate: approximately 20% of all homes listed for sale in recent months are currently being purchased, which is double the region's historic average absorption rate of approximately 10% per month.

Such low supply compared to relatively high demand should not only result in continued upward pressure on prices, but should also incentivize many households who either want to sell or have been considering selling to place their homes on the market, which would increase supply and cause house price appreciation to moderate. The fact that this seems to be taking longer to occur in the suburbs than in the city may be due to the fact that suburban house price levels are still below their pre-recession peak: despite positive market conditions for sellers across the region, many suburban households are still saddled with homes that are valued at less than what they purchased them. As such, these households are unable to sell at a price that would allow them to fully settle their current mortgage and move on, thus inhibiting them from listing their home for sale in the first place. Until suburban house values clear this hurdle, their recovery is likely to continue in an uneven pattern.

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¹ Note: the fact that the City-wide index is currently higher than the Suburban index does *not* indicate the city house prices are higher than suburban house prices. Rather, it indicates that, since both hit bottom in 2012, City-wide house prices have rebounded faster and by much more than Suburban house prices.