

Region's Housing Market Continues to Show Signs of Moderation in Q4 But, Philadelphia County continues to outperform both its suburbs and other U.S. cities.

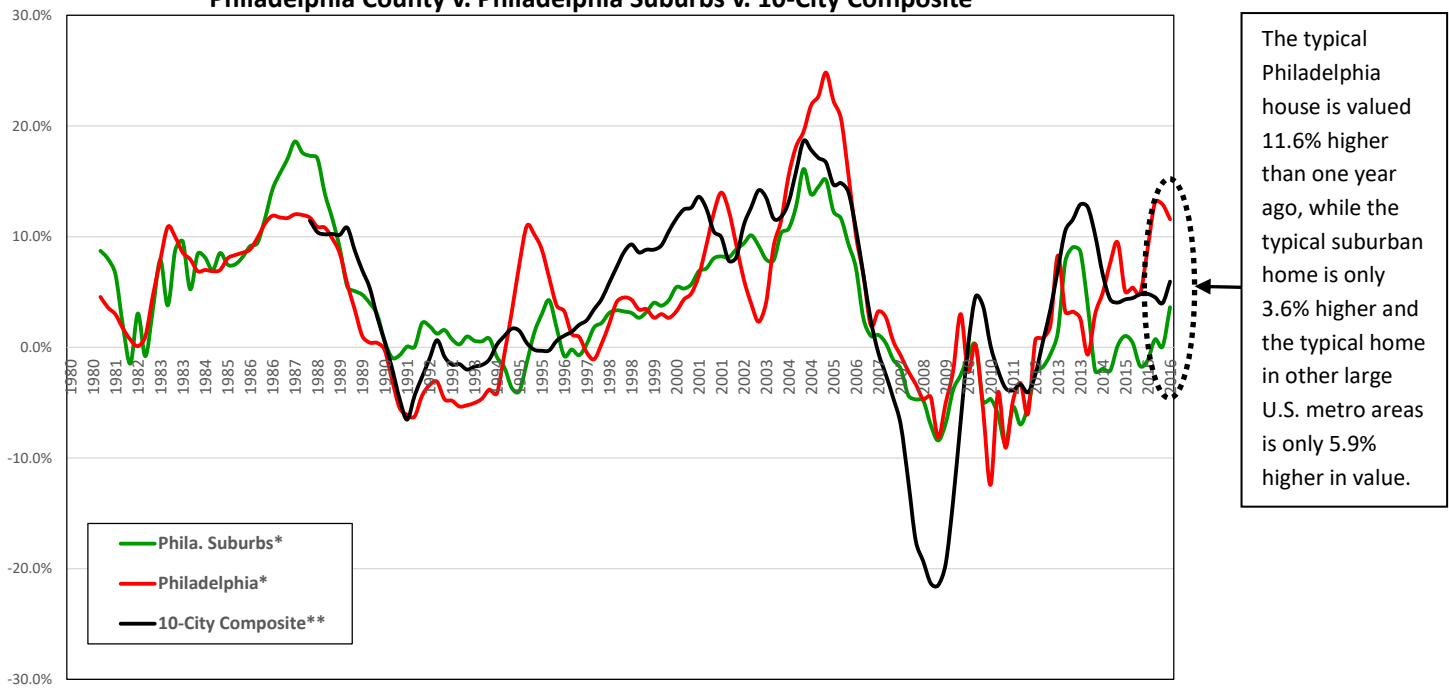
March 3, 2017: After moving in different directions for several periods, the house price indices for both the City of Philadelphia and Suburban Philadelphia declined by 0.8% in Q4 of 2016. This implies that the typical home in both markets fell in value by 0.8%, although this number is not considered meaningfully different from zero. This modest decline follows another deceleration in the region's house price appreciation that occurred in Q3, after what appeared to be several quarters of robust price growth, especially in the city.

According to the latest data provided by the City's Recorder of Deeds and Berkshire Hathaway Home Services, house price changes were generally flat-to-negative across the region. From lowest to highest, the average change in house values by county in Q4 were: Camden (-4.3%), Gloucester (-3.6%), Mercer (-2.4%), Burlington (-1.3%), Philadelphia (-0.8%), Chester (-0.4%), New Castle (-0.3%), Montgomery (+0.6%), Bucks (+1.3%), Delaware (+1.6%) and Salem (+8.3%).

From Q3 to Q4, the median house price in Philadelphia fell from \$149,900 to \$140,000, while the median suburban house price dropped from \$247,000 to \$231,000.

Despite the recent flattening in house price growth, Philadelphia County's housing market is currently outperforming not only its own suburbs, but also most other large metro areas in the U.S. The below chart shows the YoY change in average house prices for Philadelphia County, Philadelphia's suburbs and a composite index for the 10 largest U.S. metropolitan areas. The YoY change is computed as the (rolling) annual percent change in the house price indices for each of the three markets:

YoY Change in Average House Prices: 1980-2016
Philadelphia County v. Philadelphia Suburbs v. 10-City Composite



*Empirically estimated by Kevin C. Gillen, Ph.D.

*Empirically estimated by Case-Shiller. The 10-City Composite reflects average annual house price changes in ten large US cities, including: Boston Chicago, Denver, Las Vegas, Los Angeles, Miami, New York, San Diego, San Francisco and Washington DC. It does not include Philadelphia.

As the chart indicates, the annual change in house prices can be quite volatile over time, in both this region and elsewhere in the U.S. However, while house price appreciation in most other large metropolitan areas of the U.S. has declined from their post-recession peak of approximately 12% several years ago to their current level of 6%, homes in Philadelphia County have been appreciating at an average annual rate of over 10% during the past year. Philadelphia's suburbs, however, have been lagging both the city and national trends, averaging only 2-3% annual appreciation—barely exceeding the general rate of inflation in the national economy—for the past several years. In fact, even though the suburb's current annual return of 3.6% is below both Philadelphia's average and the average for most other large metropolitan areas in the U.S., it is still the highest it has been in almost three years.

Home sales in both the city and suburbs also exhibited a typical seasonal decline from Q3 to Q4, but are higher than during the same period one year ago. Arms-length sales increased 4% in Philadelphia County, from 3,687 in 2015Q4 to 3,835 in 2016Q4, while suburban sales increased nearly 12%, from 12,239 to 13,699 during the same period. Overall, this was the strongest fourth quarter for home sales since 2006.

Looking forward, tight inventories (the number of homes listed for sale) have continued to remain a factor in both the city and suburban markets. Currently, there are less than 23,000 homes are listed for sale in the Philadelphia region, which is nearly half of its 10-year historic average of 44,000. While such low supply relative to demand typically exerts upward pressure on house prices, the recent slowing in price appreciation would seem to suggest that alternative explanations must be found. One possible reason could be that the low supply is deterring many homebuyers from committing to a purchase if they are dissatisfied with currently limited selection of homes available for purchase. Another potential explanation could be that the sharp price appreciation in the City—which has outpaced income growth—has priced many homes out of the reach of what current buyers are either willing or able to pay.

Lastly, it should be remembered that this region's housing market is highly seasonal: both prices¹ and sales drop during the cold weather months and then rise again during the warm weather months, regardless of the overall state of the economy or housing market. Whether this quarter's continued deceleration represents a real trend or is just a typical seasonal fluctuation should be revealed as we move into the spring months, when the market typically becomes more active.

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¹ It should be noted that the house price indices presented in this report adjust for general seasonal changes in house prices. However, not all seasonal changes are of the exact same magnitude.