

## Suburbs Have Their Best Quarter Since the Recession

### Prices and sales up sharply in Q2, but is it a true recovery or another false start?

**August 7, 2017:** Ever since hitting bottom in early 2012, Philadelphia's suburbs have experienced a recovery that could be described as "lethargic" at best. While the city's house prices have since risen 39% and are currently well above their previous pre-recession peak, suburban prices have only recovered 9% of their lost value and remain well below their pre-recession peak. However, the latest quarter's numbers supplied by Houwzer Inc. indicate that the suburban housing market finally appears to be gaining some traction:

- The suburban house price index rose 5.5% in Q2. Not only is this the largest quarterly increase in four years<sup>1</sup>, but this increase comes after multiple quarters of decreases.
- By contrast, the city's house price index rose by 3.2% during the same period. Since the price indices for both markets hit bottom in early 2012, suburban price gains have outpaced the city's price gains in only 3 of the last 21 quarters.
- The median suburban house price jumped 13.6% in Q2 from \$213,000 to \$244,000. This increase was the biggest quarterly increase in the history of the data, going back to 1980. The next largest increase was 12.4%, which occurred exactly four years ago in 2013 Q2.
- Although the city's median house price also increased by 13.9% during the same period, this was due to a large amount of newly constructed and improved homes transacting this past spring. This was not the case for suburban sales, where sales of new homes were only 4% of the total. Since the regression that computes the house price indices controls for the composition of new v. existing home sales, the city's price index shows a smaller increase than the suburban one.
- House price changes were up in every county except one. From lowest to highest, the average change in house price levels by county in Q2 was: Salem (-6.4%), Philadelphia (+3.2%), Mercer (+4.0%), Montgomery (+4.3%), Burlington (+5.1%), Chester (+5.7%), New Castle (+5.7%), Gloucester (+6.2%), Bucks (+6.4%), Delaware (+8.3%) and Camden (+9.1%). This is the first time since the recession that Philadelphia had the lowest appreciation rate of any county (except one).
- The sales numbers were equally big. There were 24,676 arms-length sales in Q2. This was a huge 62% increase from 15,216 sales in the previous quarter and a 41% increase over the 17,534 sales in the same quarter one year ago. Not only was this sales volume a new post-recession high, but the last time sales were this high was back in 2005 Q3, when pre-recession quarterly sales peaked a 25,996 transactions.
- Sales of million-dollar homes also remained near their peak levels. Region-wide, there were 279 sales of houses at a price of one million dollars or more in Q2. This is just 1 sale shy of the all-time record of 280 such sales in Q3 of last year.
- And the pace of sales significantly accelerated in Q2 as well. The average Days-On-Market<sup>2</sup> fell from 88 days this past winter to just 54 days by June; a nearly 40% decline. The last time that Days-On-Market was less than 60 days was in the boom period of May 2007.

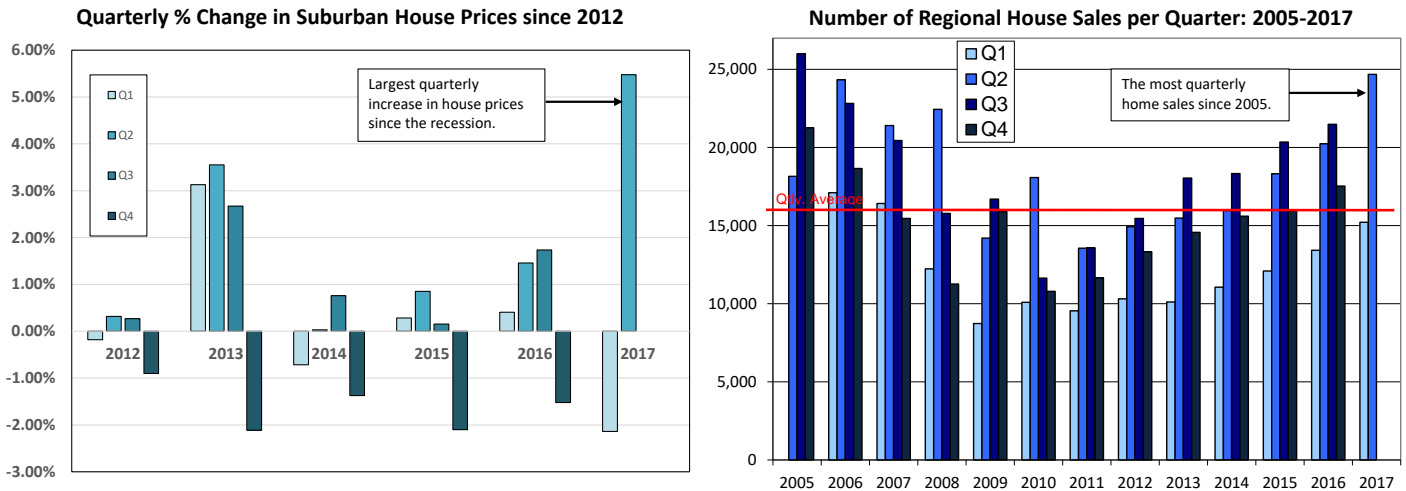
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<sup>1</sup> The suburbs' price index rose by 10.3% in 2013 Q2, but this was partially due to sales of new homes composing an exceptionally large percentage of the data in that period. Prior to this, the last time the suburban index experienced such a large increase was in 2004 Q3, when it rose 6.1%.

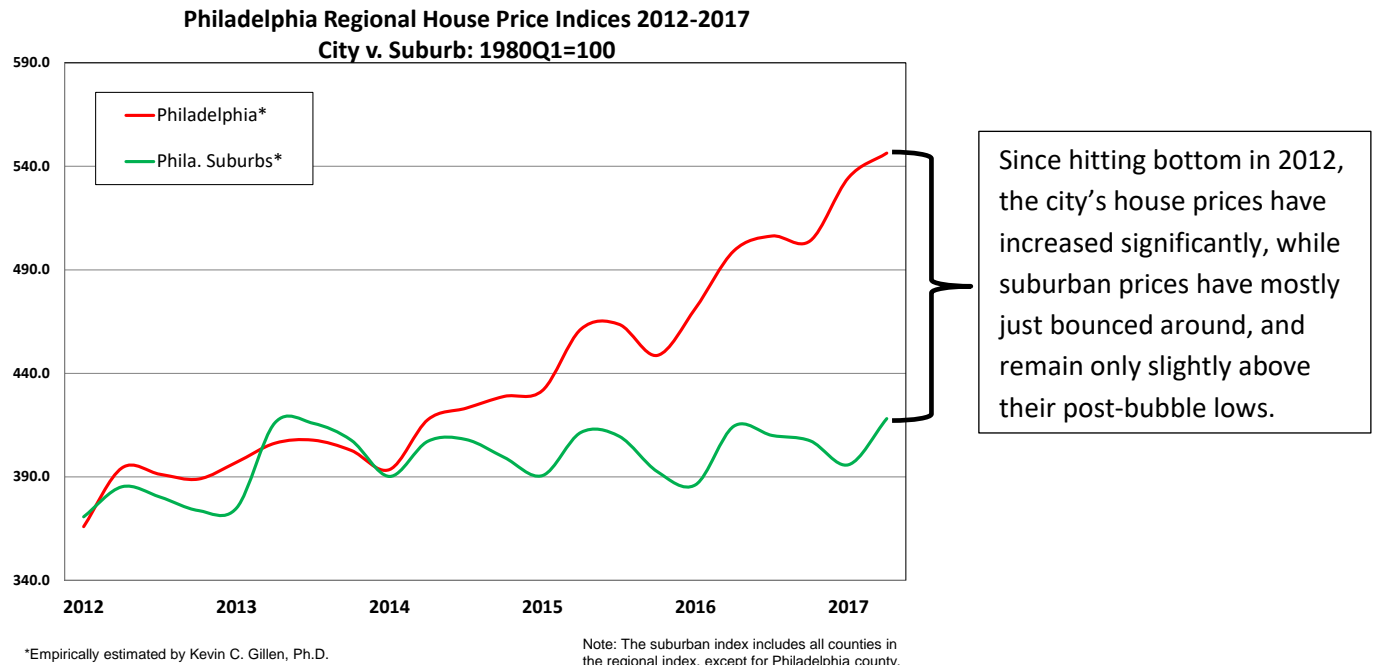
<sup>2</sup> Days-On-Market is the average number of days it currently takes to sell a home.

The numbers clearly indicate that Philadelphia’s suburban housing market had its best quarter since the recent (housing-driven) recession. But do they also indicate that this market is finally transitioning to a meaningful recovery? Such strong numbers would seem to suggest so, but the data also show that we’ve been here before. While both suburban price appreciation and sales volume set new records this quarter, there have been other recent quarters where they have done so as well, only to subsequently slump again:

**Record-level price appreciation and sales volume would suggest that the suburbs’ housing market is finally recovering:**



**But the post-recession suburban market has shown signs of life before, only to sputter out:**



Is this quarter truly different? The numbers suggest optimism, but recent history also advises waiting to see if this quarter is indeed part of a meaningful trend, or yet another single outlier of a data point. What does seem clear is that upward pressure on prices will not abate in the near term. Much like in the city, inventories (houses listed for sale) remain at an all-time seasonally-adjusted low. Given the current frenetic pace of sales, it would take only 4.2 months to sell off this inventory, which is well below the 5-7 month threshold that characterizes a “normal” market. But, even if this is another false start, the fact that suburban homes have finally made some meaningful gains in recovering their lost value is unequivocally good news.

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