

## **Both City and Suburbs Exhibit Unusual Housing Numbers in Q4**

**A combination of declining prices, strong sales and exceptionally low inventories characterize current market conditions.**

**February 5, 2018:** If you thought the Q4 housing statistics for Philadelphia were unusual, the ones for its suburbs are even more so. Here's the latest quarter's numbers supplied by Houwzer LLC.:

- **On a quality- and seasonally-adjusted basis, the general level of house prices declined by more in the suburbs than in the city.** The suburban house price index fell by 4.2% in Q4, while the city's house price index declined by a much more modest 0.5%<sup>1</sup>. This is a deceleration from previous quarters, which generally saw positive price appreciation for most of 2017.
- **The median prices for the suburbs also declined by more than the median price in the city.** The median suburban house price decreased by 8.7% in Q4, from \$249,900 to \$229,000. In the city, the decline was 6.4%, from \$159,900 to \$150,000. However, it should be noted that prices generally decline in Q4 due to seasonal factors. That's why the house price indices—which control for seasonal fluctuations—show smaller declines than the median prices.
- **House price changes were generally negative across counties.** From lowest to highest, the average change in house price levels by county in Q4 was: Salem (-19.2%), Camden (-4.7%), New Castle (-3.5%), Burlington (-3.3%), Mercer (-1.9%), Gloucester (-1.0%), Montgomery (-0.8%), Bucks (-0.5%), Delaware (-0.5%), Philadelphia (-0.5%), and Chester (+0.5%). These changes are net of any seasonal effects.
- **In contrast to prices, sales volume in Q4 was one of the highest levels in recent history.** Sales in Philadelphia increased nearly 37% from the same quarter last year, from 3,835 to 5,245<sup>2</sup>. In the suburbs, sales increased 12.8% from the same quarter last year, from 13,699 to 15,455. That is the city's strongest Q4 since 2006, and the suburb's strongest Q4 since the data began being tracked in 2005.
- **Even as the general level of house prices fell, the number of million-dollar sales continue to remain high.** Region-wide, there were 233 sales of houses at a price of one million dollars or more in Q4; 49 in the city and 184 in the suburbs. This is a 27% increase from 184 such sales in the same quarter one year ago, and the highest for any Q4 since the data began being tracked in 2005.
- **The supply of homes listed for sale dropped to a new low.** At the end of 2017, there were 3,329 homes listed for sale in Philadelphia<sup>3</sup>; a substantial decline from the 4,443 homes listed for sale in the previous quarter. In the suburbs, inventories fell from 17,816 in Q3 to 13,230 by the end of Q4. That is the first time in the history of these numbers that the supply of listed homes in the

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<sup>1</sup> Note: all percent changes in prices are in logarithmic rather than simple percentages, which is common practice in financial economics. However, in the majority of cases they are very similar.

<sup>2</sup> Since sales volume of homes are highly seasonal, it is more common to compare quarterly sales numbers to the same quarter one year ago rather than the previous quarter.

<sup>3</sup> Source: Trend MLS via Houwzer LLC

city has fallen below 4,000 and the supply of listed homes in the suburbs has fallen below 15,000. At the current brisk pace of sales, the city has only 2.9 month's supply of homes for sale and the suburbs have only 4.2 month's supply. 5-7 months is considered a "balanced market", with anything less than that being considered a "seller's market".

- **Overall, Philadelphia continues to outpace both its suburbs as well as many other major U.S. cities.** Since the market began to recover from the previous recession back in 2012, prices in the city have risen 44% while prices in the suburbs have only recovered 8%. Moreover, the general level of house prices in Philadelphia is currently 22% above its previous 2007 peak, while the general level of suburban house prices remain 15% below their previous peak in the same year. Lastly, even with this quarter's decline in prices, city house prices are still 12.7% higher than one year ago, while prices in the ten largest U.S. cities (excluding Philadelphia) are up only 5.9%<sup>4</sup> and suburban prices are up only a scant 0.1% during the same period.

The combination of declining prices, increasing sales and very low inventories is both unusual and puzzling. Typically, low inventories and increasing sales would be associated with increasing prices, since limited supply combined with growing demand should place upward pressure on house prices. One possible answer that is suggested by the data may be a decline in the general quality and physical condition of homes that have recently sold. During the first three quarters of 2017, 9.4% of all suburban home sales were new construction and 6.01% were listed in below-average condition. But, in Q4, only 5.2% of home sales were new construction while 13.8% were listed in below-average condition. Hence, the number of sales of relatively high-quality homes declined while the number of relatively lower-quality homes increased at the same time.

This hypothesis is supported by comparing the changes in median prices to changes in the house price indices. Since the regression that computes the house price indices controls for housing quality and a home's physical condition, the house price indices show much more modest declines in Q4 than median prices. For example, the median house price in Burlington and Montgomery counties declined by 10.0% and 6.5%, respectively, in Q4. But, the house price indices for these two counties showed much more modest declines of just 3.3% and 0.8%, respectively, during the same period.

But, even if house prices showed only modest declines after controlling for seasonality and quality, it still does not explain why prices declined at all considering the current conditions of high demand (strong sales volume) and low supply (restricted inventories). Here, both statistical and anecdotal evidence indicate that the answer may be found by examining those households that are currently buying; namely: millennials appear to be finally transitioning from renting to homeownership. A recent analysis by Zillow found that 18-to-34 year-olds have now become the largest group of homebuyers in the U.S.<sup>5</sup> But, due to their generally limited incomes and constrained financial resources (e.g. higher debt, lower savings, lower credit scores), they may only be able to afford relatively lower-priced and lower-quality homes. So, the increase in the number of homebuyers combined with a decrease in their fiscal means may explain the unusual combination of rising sales volume but declining prices, at least in this region. Moreover, the fact that this trend is more pronounced in the suburbs than in the city may also suggest that homebuying millennials are preferring to buy in the suburbs, and may also be decamping the city in the process. However, it should be noted that not only is it too soon to confirm that this is indeed a real trend, but also that it cannot be confirmed from the sales data, which does not contain any information on homebuyers other than their name. But, it is something that bears continued monitoring.

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<sup>4</sup>Source: S&P CoreLogic Case-Shiller 10-City Composite House Price Index

<sup>5</sup> Source: <https://www.bloomberg.com/view/articles/2017-11-10/millennials-leave-the-basement-to-buy-homes>

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