

Philadelphia Region's Housing Market Continues Ambiguous Trends in Q4 **City house prices hold steady while suburban prices decline.**

March 28, 2019: The most recent data shows a continuation of mixed signals across the region. Here's the latest quarter's numbers, supplied by Houwzer LLC.:

- **On a quality- and seasonally-adjusted basis, city house prices continue to outpace suburban ones.** The suburban house price index declined by 3.6% in Q4, while the city's house price index increased by 1.1%. This was the largest quarterly decline in suburban house prices since the first quarter of 2014.
- **Median house prices also exhibited a similar divergence between the city and suburbs.** The median suburban house price fell 5.3% in Q4, from \$250,000 to \$234,500. The median house price in the city rose 0.6%, from \$160,000 to \$161,000. House prices typically decline in Q4 due to seasonal factors. That's why the house price indices—which controls for seasonal fluctuations—show different changes than the median price.
- **House price changes across the suburban counties was almost uniformly negative.** From lowest to highest, the average change in house price levels by county in Q4 was: Montgomery (-5.2%), Camden (-4.9%), Bucks (-4.7%), Burlington (-4.6%), Gloucester (-4.1%), Chester (-2.9%), Mercer (-2.8%), Delaware (-1.9%), New Castle (-1.9%), Philadelphia (+1.1%), Salem (+3.0%). These changes are net of any seasonal effects.
- **There is a significant difference between city and suburban house prices from one year ago.** Philadelphia County's house price are 4.2% higher than one year ago, while the general level of suburban house price are only up 0.7% from one year ago. However, it should be noted that the YoY rate of price appreciation for both has been decelerating over the last several quarters.
- **Sales volume remains pretty strong, but is no longer trending upwards.** Region-wide, there were a total of 20,641 home sales under arms-length conditions in Q4. This is well above the previous recessionary low of 10,788 sales in 2010 Q4, but is on par with 20,700 home sales in the same quarter one year ago¹.
- **After breaking records, million dollar home sales show signs of cooling.** There were 187 sales of homes at a price of \$1m or more in Q4. This is down nearly 20% from 233 sales in the same quarter one year ago. After growing steadily for the last ten years, this is the largest Q4 decline in million dollar sales since 2008, when they fell 53% YoY.
- **The supply of homes listed for sale remains very low.** At the end of December, there were 21,046 houses listed for sale in the region². This is well below the region's historic average of 31,609 listings in any given month.

¹ Since home sales volume in this region is highly seasonal, it is standard industry practice to compare quarterly (or monthly) sales volume to the same quarter (or month) one year ago, rather than to the previous quarter (or month).

² Source: Trend MLS via Houwzer LLC

- **Both the city and suburbs remain characterized as being a “Seller’s Market”.** Low inventories plus high sales volume have drastically reduced the amount of time it would take for the current inventory of homes listed “for sale” to burn off. Currently, Philadelphia County only has a 3.2 months’ supply of homes for sale while the suburbs have only a 3.5 months’ supply of homes for sale. The real estate industry generally considers a 5-7 month supply to be typical of a balanced market, with anything below 5 months indicating a market where conditions favor sellers; i.e. low supply and high demand.
- **Zillow has cut its house price forecast for the Philadelphia region in half.** After several quarters of forecasting ~7% YoY increases in house prices, Zillow’s most recent forecast has been significantly downgraded: it is currently projecting house prices in this region to appreciate by only 3.5% over the next twelve months.

The national housing numbers continue to point towards a cooling housing market: housing starts are down 17% this year³, house price appreciation is slowing across almost all major metro areas⁴, and a recent Wall Street Journal story⁵ described how both Millennials and Senior Citizens are increasingly moving to exurban locales in search of more affordable locales. However, because Philadelphia has historically tended to lag most other cities, the better gauge of where Philadelphia’s housing market may be headed in the remainder of 2019 may not be its own current metrics, but those of other large metro areas in the U.S. If that’s the case, then it’s worth noting that inventories are already rising in many other cities, and that realtors in those cities are increasingly predicting a shift to a “buyer’s market” this spring⁶—a sure indicator of a turning point in the housing cycle.

Email for Kevin Gillen: Kevin.C.Gillen@Drexel.edu

If you would like Dr. Gillen to address your organization, business or community group with a presentation on recent trends in the local economy and real estate market, he would be happy to do so...and it’s absolutely free! Just contact him at the email address above.

³ <https://www.housingwire.com/articles/48541-housing-market-cools-down-as-home-building-takes-a-dive>

⁴ <https://www.housingwire.com/articles/48542-case-shiller-home-price-gains-are-shrinking-further-escalating-a-housing-market-slowdown>

⁵ https://www.wsj.com/articles/a-decade-after-the-housing-bust-the-exurbs-are-back-11553610771?mod=hp_lead_pos5

⁶ <https://www.housingwire.com/articles/48537-real-estate-agents-say-housing-market-is-favoring-buyers>