

Philadelphia Region's Housing Market Continues Mixed Signals in Q1

City v. suburban numbers continue to diverge.

June 17, 2019: The most recent data shows continued reasons for trepidation. Here's the latest quarter's numbers, supplied by Houwzer LLC.:

- **In a reversal of recent trends, city house prices declined while suburban house prices held their ground.** The suburban house price index increased by 1.1% in Q1, while the city's house price index fell by 5.7%. This quarter's decline was the largest for the city since 2010 Q1, while last quarter's decline was the largest for the suburbs since 2014 Q1.
- **Median house prices also exhibited a similar divergence between the city and suburbs.** The median city house price fell 10.7% in Q1, from \$161,000 to \$143,800. However, the median suburban house price fell by a much more modest 1.9%, from \$234,500 to \$230,000. It should be noted that house prices typically decline in the winter months 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 were generally small.** From lowest to highest, the average change in house price levels by county in Q1 was: Philadelphia (-5.7%), Mercer (-1.0%), Chester (-0.2%), Gloucester (+0.7%), Burlington (+1.1%), Montgomery (+1.2%), Delaware (+1.3%), New Castle (+1.7%), Salem (+1.9%), Bucks (+2.2%) and Camden (+3.2%). These changes are net of any seasonal effects.
- **With these recent changes in recent trends, the city's level of house prices are negative on the year, while the suburb's level of house prices are positive on the year.** The city's house price index is down 1.2% from the same time last year, while the suburb's house price index is up 2.8% during the same span of time.
- **Sales volume in both the city and suburbs has decelerated dramatically.** Region-wide, there were a total of 16,539 home sales under arms-length conditions in Q1, up a mere 0.5% from 16,461 sales in the same quarter one year ago¹. At the same time last year, sales were up 8.2% from one year ago, and in the year before that, they were up 13.4% on the year.
- **Million dollar home sales also show a similar divergence between the city and the suburbs.** There were 130 sales of homes at a price of \$1m or more in the suburbs in Q1, up 35% from 96 such sales in the same quarter last year². By contrast, +\$1m home sales are completely flat in the city: there were only 22 such sales in Q1 of both 2019 and 2018.

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 Like overall home sales, it is customary to compare +\$1m sales to the same period one year ago due to short-term seasonal fluctuations.

- **The supply of homes listed for sale persists in remaining very low.** Currently, there is a 3.6 month supply of inventory (“MSI”³) in the suburbs, while there is a 3.9 month supply in the city⁴. Anything below 5 months is considered in the industry to be indicative of a seller’s market.
- **Foreclosure numbers have plunged in the city**⁵. Last quarter, 1 out of every 899 homes in Philadelphia was in the process of foreclosure. This quarter, 1 out of every 1,422 homes in the same process; a decline of greater than 50%. The decline was large enough to remove Philadelphia from the list of the top 5 counties in Pennsylvania with the highest foreclosure rates. This is the first time that Philadelphia has exited the top 5 since this report began tracking those numbers.
- **Zillow continues to dramatically downgrade its forecast for the Philadelphia region.** After several quarters of forecasting +7% annual increases in house prices, Zillow reduced its forecast to 3.5% this past winter. In its most recent forecast, it has reduced this even further, and is now projecting regional house prices to increase by only 0.8% over the next twelve months.

While the recent shift in trends between Philadelphia and its suburbs is curious, most numbers continue to support a consensus that the market is beginning to transition to a contractionary phase. We are currently in the 8th year of the current expansionary cycle, while the average length of such a cycle is historically an average of only 7 years. In addition, most of the price and sales numbers have shown significant deceleration over the course of the past 12-18 months. While this deceleration has proceeded in fits and starts, the evidence that the market is nearing its next turning point continues to accumulate. As always, the ever-important Spring market should provide some further clues about the near-term outlook after the current quarter comes to a close.

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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 Months’ Supply of Inventory is how many months it would take for the current inventory of homes listed for sale, given the current pace of sales. 5-7 months is generally considered by the industry to be typical of a balanced market.

⁴ Source: Trend MLS via Houwzer LLC

⁵ All foreclosure numbers courtesy of realtytrac.com.