Philadelphia Region's Housing Market Shows Differential Gains in Q2

The suburbs turn in a particularly strong showing after years of lagging the city.

September 6, 2019: The latest data shows some market indicators remaining steady while a few others are changing. Here's the numbers for Q2, supplied by Houwzer LLC.:

- **House prices in both the city and suburbs showed reasonable appreciation in Q2, but with a switch in city v. suburban trends.** The suburban house price index increased by 2.6% in Q2, while the city's house price index grew by 1.4%. This is a reversal of the trends of the last several years, in which price growth in the city has consistently outpaced that of the suburbs.

- **Median house prices had big gains in Q2, but this seems to be primarily due to seasonally-driven factors.** The median Philadelphia house price rose 21.6% in Q2, from $143,800 to $174,900. At the same time, the median suburban house price rose by a smaller 14.1%, from $232,000 to $264,900. However, most of this increase is a combination of seasonality as well as a bias in this quarter's sales towards higher-priced houses in the city[1]. It should be noted that house prices typically increase in the spring months due to seasonally-driven fluctuations. That's why the house price indices—which control for seasonal factors—show much smaller quarterly changes than the median prices.

- **House price changes across the region were uniformly positive and robust**. From lowest to highest, the average change in house price levels by county in Q2 was: Mercer (+1.4%), Philadelphia (+1.4%), Bucks (+2.1%), Chester (+2.4%), Delaware (+2.4%), Burlington (+2.6%), Montgomery (+2.7%), Gloucester (+2.9%), New Castle (+2.9%), Camden (+4.3%) and Salem (+4.5%). These changes are net of any seasonal effects. While these rates of appreciation may not seem particularly large, it should be remembered that these are quarterly and not annual numbers.

- **The general level of house prices across the region remains strongly positive from a year ago.** The city's house price index is up 8.5% from the same time last year, while the suburb's house price index is up 8.6% during the same span of time. These are approximately double the region's historic average annual appreciation rate of 4-5%.

- **This quarter is only the second time since 2013 that suburban price growth has outpaced that of the city's.** For nearly 20 consecutive quarters, starting in early 2014, the annual house price appreciation rate in Philadelphia has exceeded that of its suburbs. But for the first two quarters of 2019, the opposite has been true.

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[1] House prices typically rise as the calendar transitions from the cold weather months to the warm weather months, regardless of overall market conditions. In addition, this quarter's sales occurred disproportionately in higher-income submarkets, where relatively higher prices prevail. Hence, the increase in the median price overstates the actual increase in market values. Since the regression that computes the house price index controls for seasonality and the characteristics of the homes that transact, it shows a much more modest—and accurately measured—increase in house prices.

- **In an unusual move, sales volume dropped significantly in the city while remaining strong in the suburbs.** In Philadelphia, arms-length home sales declined 15.4% from one year ago, from 6,460 to 5,462[2]. In the suburbs, 19,142 homes changed hands in Q2, nearly unchanged from 19,360 sales in the same quarter last year. However, home sales volume still remains above its historic average for both the city and the suburbs.

- **Million dollar home sales set a new regional record in Q2.** There were 292 sales of homes at a price of $1m or more in Q2, breaking the previous record of 280 in Q3 of 2016. Million-dollar sales are also up 5% from the same quarter last year, and have been running well above their historic average for the last several years in both Philadelphia and its suburbs.

- **The supply of homes listed for sale continues to hover near an all-time low.** At the current pace of sales, there is a 2.7 month's supply of inventory ("MSI"[3]) in the suburbs, while there is a 3.1 month's supply in the city[4]. Anything below 5 months is considered in the industry to be indicative of a seller's market[5], with conditions favoring sellers over buyers. Both the city and suburbs have been a seller's market for several years now.

- **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, and then reduced it again to 0.8% this past spring. In its most recent forecast, it is now projecting regional house prices to increase by only 0.6% over the next twelve months. It's worth noting that Zillow's forecast for the region has been quite accurate: a year ago, they were predicting a 7.03% increase in house prices for the Philadelphia metro area, and the actual YoY change in the regional house price index used in this report is 7.3%.

This quarter's numbers have started to narrow the gap between the suburbs and Philadelphia for the current housing cycle. After decades of trailing behind the suburbs, price appreciation and sales growth in the city have generally outpaced that of most of the suburbs in recent years. This difference has been cumulatively significant: house prices in Philadelphia are currently 16% above their previous cyclical peak that occurred back in 2007, while the general level of suburban house prices remain 7% below their previous peak that occurred in the same year. But, over the past two quarters, the difference between the city's house price index and the suburban house price index has fallen by 4 percentage points. Although this may seem to be a modest decline, the spread between the two price indices had been previously increasing in every single quarter for the last five years. Whether this represents a structural shift in demand for suburban locations over urban ones, or is just a temporary cyclical movement that is allowing the suburbs to catch up to the city's cooling market, remains to be seen

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[2] 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).

[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: Brokermetrics via Houwzer LLC

[5] Source: https://realtytimes.com/advicefromtheexpert/item/38353-how-to-determine-if-it-s-a-buyers-sellers-or-a-balanced-real-estate-market?rtmpage=

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