

Philadelphia Region's Housing Market Shows Contrasting Numbers in Q2

The suburbs appear to be reacting differently to the pandemic than the city.

August 13, 2020: The first round of post-pandemic housing market data shows some divergence between the city and suburbs. Here's the latest numbers for Q2, supplied by Houwzer LLC.:

- **Suburban house prices moved in a different direction than the city's house prices in Q2.** The suburban house price index declined in Q2, and now indicates that the general level of suburban house prices are down 6.8% from where they were a year ago. By contrast, the city's house price index is up 8.9% from where it was one year ago, which includes some significant gains in the most recent quarter.
- **Raw house prices increased across the region in Q2, but this is unlikely due to traditional market forces.** The median Philadelphia house price is 14.8% higher than where it was one year ago, rising from \$174,900 to \$200,750. Similarly, the median suburban house price is 3.8% higher than it was one year ago, increasing from \$265,000 to \$275,000. However, both the data and the analysis indicate that these increases are a combination of both seasonality and a bias in this quarter's sales towards higher-priced houses¹ (which often happens during economically distressing times). That's why the house price indices—which control for these aforementioned factors—show much different changes than the raw median prices.
- **House price changes across the region were positive in the city and uniformly negative in the suburban counties.** From lowest to highest, the average YoY change in house price levels by county in Q2 was: Salem (-13.6%), Delaware (-7.7%), Gloucester (-6.4%), Camden (-6.0%), Mercer (-4.5%), New Castle (-3.8%), Burlington (-3.7%), Montgomery (-3.3%), Chester (-3.1%), Bucks (-0.5%) and Philadelphia (+8.9%). Historically, the average annual change in the region's house prices has ranged between 4% and 5%.
- **But, while sales volume dropped sharply in the city, it performed relatively better in the suburbs.** In Philadelphia, arms-length home sales declined by an enormous 43% from the same quarter one year ago: from 5,462 to just 3,125². Moreover, city sales declined not only YoY, but also from Q1 to Q2: from 5,339 sales in Q1. This is particularly notable since sales volume activity almost always shows a seasonal increase from Q1 to Q2, regardless of the overall state of the market, because the warmer weather favors both showings and moving. In the suburban counties, home sales fell by a lesser 31% from one year ago, from 19,142 to 13,236. But, since 12,146 homes transacted in Q1, sales activity actually increased by 9% from Q1 to Q2—in contrast to the city's numbers.

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 change in median prices misleadingly indicates the actual change in house 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—change in house prices.

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).

- **The supply of homes listed for sale remains stubbornly low, but appears both more pronounced and more persistent in the city.** At the current pace of sales, there is a 3.3 month's supply of inventory ("MSI"³) in Philadelphia, while there is almost a 5 month's supply in the suburbs⁴. Anything below 5 months is considered in the industry to be indicative of a seller's market⁵, with conditions favoring sellers over buyers. However, although both the city and suburbs are in a seller's market right now, the city has generally been a consistent seller's market for nearly 5 years, while the suburbs have frequently swung back and forth from a balanced market to a seller's market during this same time period.
- **Zillow's house price forecast for the Philadelphia region is now projecting negative appreciation.** Zillow is currently predicting that the general level of house prices in the region will decline by 2.3% over the next 12 months⁶. Its previous forecast had been for an increase of 0.6%.

The sharp difference between the market's numbers for the city and its suburbs is both notable and relatively unusual. The relatively lower supply of homes available for purchase in the Philadelphia is likely a key factor in explaining why the city's sales numbers are down but its prices are up. However, one quarter's data point does not make a trend. It should be remembered that real estate markets move relatively slowly, and hence prices and sales tend to be "backward looking" indicators. While these numbers reflect the market's initial reaction to the pandemic and subsequent quarantine, they are unlikely to reflect its reaction to the protests and civil unrest that disproportionately occurred in June and into July. For that, the next quarter's numbers should provide some insight.

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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: Brokermetrics via Houwzer LLC

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

⁶ Source: https://www.zillow.com/philadelphia-camden-wilmington-metro-pa_r394974/home-values/