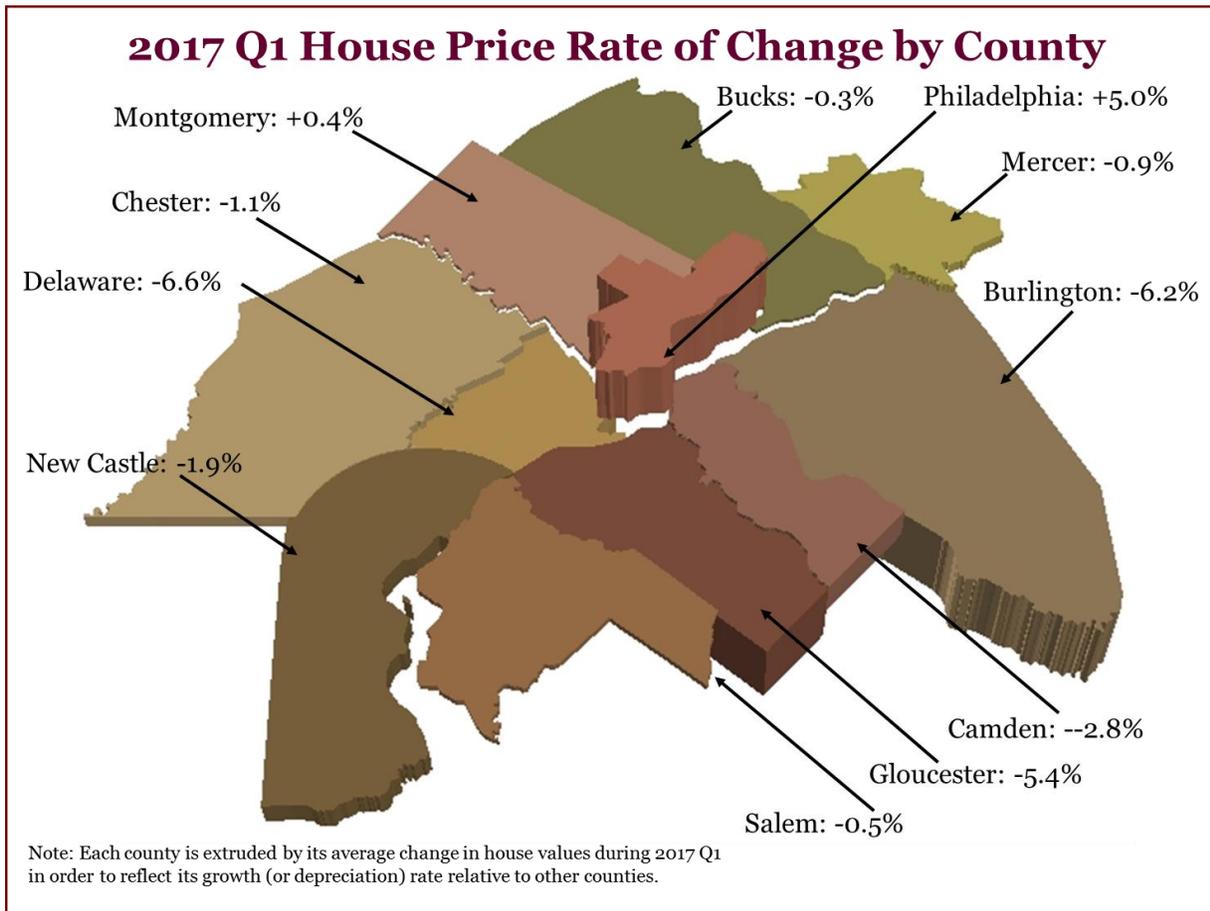


## Region's Housing Market Resumes Divergence in Q1 Philadelphia's housing market continues to significantly outpace its suburbs.

**May 24, 2017:** After collectively declining last quarter, the house price indices for the City of Philadelphia and Suburban Philadelphia resumed their post-recession tradition of moving in opposite directions during the most recent quarter. Although house values in both the city and its suburbs fell by 0.8% on a quality- and seasonally-adjusted basis in 2016 Q4, average house values in the city increased by 5.0% in 2017 Q1 while average house values in the suburbs declined by 2.9%. The current spread between house price appreciation rates in Philadelphia v. its suburbs is at an all-time high.

According to the latest data provided by the City's Recorder of Deeds and Berkshire Hathaway Home Services, house price changes were up sharply in most areas of the city while generally flat-to-negative across the surrounding counties. From lowest to highest, the average change in house values by county in Q1 were: Delaware (-6.6%), Burlington (-6.2%), Gloucester (-5.4%), Camden (-2.8%), New Castle (-1.9%), Chester (-1.1%), Mercer (-0.9%), Salem (-0.5%), Bucks (-0.3%), Montgomery (+0.4%), Philadelphia (+5.0%).



Although the median house price in Philadelphia dropped slightly from \$140,000 to \$137,500 in Q1, the median house price in the suburbs declined by a much larger margin, in both dollar and percent terms, from \$231,000 to

\$213,000<sup>1</sup>. Moreover, in contrast to the city, the suburban decline comes on the heels of another decline in Q4, when the median price dropped from \$247,000. Although house prices in this region typically decline during the cold weather months, the median price in the suburbs has not only experienced a larger dollar decline than the city (-\$34,000 v. -\$12,400) during the last six months, but a larger percent decline (-14% v. -8%) as well.

The most recent numbers have further widened the gap between the current rate of house price appreciation in Philadelphia and its suburbs. At their current pace, house prices in Philadelphia are growing at an annualized rate of nearly 12%. By contrast, local suburban house prices are currently yielding a return of only 2.4% per year, while average house prices in the ten largest U.S. cities are appreciating by 5.5% per year<sup>2</sup>.

This wide spread in house price appreciation has important implications for the recovery of the local housing market from the previous housing-led recession. Because of its strong rate of appreciation, Philadelphia's level of house prices are currently 14% above their previous peak back in 2007, while its suburban house prices still remain 17% below their peak that occurred in the same period. This inhibits many suburban homeowners from being able to list or sell their home if they purchased it at or near the previous peak because they cannot obtain a sufficiently high price that allows them to also pay off their remaining mortgage balance. This is likely a major factor in why current inventories (homes for sale) remain at exceptionally low levels across the region.

Another area of divergence in city v. suburban trends is the recent pace of home sales activity. Like house prices, house sales in this region typically decline during the cold weather months. But, while they fell from 13,699 to 10,841 in the suburbs as Q4 turned over to Q1, they actually increased in the city, rising from 3,835 in Q4 to 4,375 in Q1. A similar pattern held for million-dollar sales. The sales of homes at a price of a million dollars or more decreased from 169 to 107 in the suburbs, while doubling from 15 to 30 in Philadelphia during the last three months.

While there are multiple factors that could explain the recently persistent divergence between the city and suburbs, none of them are completely satisfactory. Inventories remain extremely low across the region. There are approximately 24,000 homes currently listed for sale in the Philadelphia metro area, down by more than 50% from their peak of just over 56,000 when the housing market was in decline in 2011. While such low supply could explain upward pressure on house prices in the city, it does not explain why there has not been a similar effect on suburban house prices. Another factor could be that South Jersey's current foreclosure rate remains one of the highest in the country: of the 5 New Jersey counties with the highest foreclosure rates, four of them are located in South Jersey. But, while this may explain the slow pace of home sales and price appreciation in South Jersey, it does not explain why suburban counties in Pennsylvania and Delaware are also running at a similar sluggish pace. Lastly, renewed demand for urban living could—and almost certainly does—explain Philadelphia's current wave of revitalization. But, the recent population growth is confined to specific areas of the city (i.e. in and around Center City), and cannot explain why even many outer neighborhoods in the city that are effectively experiencing zero net population growth still have house price appreciation rates that exceed that of the suburbs.

Of course, one explanation that would be comprehensive, but is still unproven, is that this divergence cannot be explained by fundamental economic or demographic forces. If so, then suburban house prices and sales need to start making some active gains—and soon—or the only remaining option will be for the city's housing market to become increasingly unaffordable...or to make a painful but necessary correction.

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<sup>1</sup> Although median prices declined in Philadelphia in Q1, average prices rose substantially on a quality- and seasonally-adjusted basis during the same period, primarily due to high rates of price appreciation in the upper end of the housing stock's spectrum.

<sup>2</sup> Source: S&P Case-Shiller 10-city composite house price index