

Philadelphia's Suburbs Surge Forward in Q3 while the City Pauses Suburban prices, sales, and especially +\$1m sales break new records.

November 17, 2020: Philadelphia's suburbs had one of its best quarter's ever since the last recession. Here's the latest numbers, supplied by Houwzer LLC.:

- **Suburban house prices shifted significantly upwards in Q3, while the city's house prices cooled.** After several quarters of either negative growth or sluggish growth, the suburban house price index grew by 4.5% in Q3, making this quarter one of the suburb's best quarters in ten years. By contrast, the city's house price index is up only 0.7% in Q3, making this quarter one of the city's most lethargic in recent years.
- **Since the pandemic's peak, the Philadelphia region's house prices have crossed major new thresholds.** The median suburban house price in Q3 was \$300,000; the first time it has ever crossed the \$300,000 mark. The median city house price remained at \$200,000 in Q3, after crossing the \$200,000 mark for the first time ever in Q2.
- **House price changes across the region in Q3 were uniformly positive, but much larger in the suburban counties.** From lowest to highest, the average quarterly change in house price levels by county in Q3 was: Philadelphia (+0.7%), Bucks (+1.2%), Montgomery (+2.2%), Mercer (+2.4%), Burlington (+2.8%), Chester (+2.9%), New Castle (+3.2%), Camden (+7.2%), Delaware (+7.8%), Gloucester (+9.0%) and Salem (+19.8%).
- **Philadelphia still significantly outpaced its suburbs in Year-on-Year (YoY) house price changes.** House prices in Philadelphia County are currently an average of 8.4% higher than they were one year ago, while suburban house prices are just 1.1% higher from where they were a year ago. The reason is that this quarter's robust growth in the suburbs is still largely offset by price declines and subpar growth in the previous quarters leading up to the current one.
- **Home sales rebounded significantly in Q3, but with the suburbs also outperforming the city.** The lifting of the quarantine and its restrictions on home showings in Q3 saw sales volume increase by 71% in Philadelphia (5,339 sales in Q3) and 63% in the suburbs (21,516 sales in Q3). The level of suburban sales is the highest since this data began being recorded in 2005, beating the previous record of 19,360 back in 2018 Q2. However, compared to the level of home sales one year ago¹, the city's sales volume is actually down 14% while the suburb's volume is up 13%.
- **Million-dollar sales across the region broke a new record...and by a HUGE margin.** There were 470 home sales at a price of one million dollars or more across the region in Q3, with 90% of them occurring in the suburbs. Not only is this 49% higher than the previous record of 316 +\$1m sales set one year ago, it is also 167% higher than the region's quarterly average of 176 such sales.

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).

- **The supply of homes listed for sale continues to drive down to new lows.** At the current pace of sales, there is only a 2.1 month's supply of inventory ("MSI"²) in Philadelphia and a 1.4 month's supply in the suburbs³. This is down from 3.3 MSI and 5 MSI, respectively, in the previous quarter. Anything below 5 months is considered by the industry to be indicative of a seller's market⁴, with conditions favoring sellers over buyers, and thus placing upward pressure on house prices.
- **After months of being legally and politically suppressed, foreclosure actions have begun to climb rapidly.** Since this past summer, State-level moratoriums on foreclosures and evictions have begun to be relaxed or even eliminated in the three States (PA, NJ and DE) considered to be part of the Philadelphia metro area. Subsequently, many properties that had been delinquent on their mortgages for months have now entered the foreclosure process. As recently as this past September, 1 in every 40,676 homes in these three States was in the process of foreclosure⁵. By the end of October, that has risen to 1 in every 28,935 homes: **a 41% increase in just 30 days**. In Philadelphia County, the numbers have gone from 1 in every 27,195 homes to 1 in every 9,443 homes: **a 188% increase in just 30 days**.
- **Zillow has switched its forecast for the Philadelphia region's house prices from negative to positive.** Zillow is currently predicting that the general level of house prices in the region will increase by 5.6% over the next 12 months⁶. Its previous forecast had been for a decline of 2.3%.

Although raw house prices—and the volume of high-priced sales—have shown sizable increases this past quarter, this is more attributable to the historically unusual current conditions rather than structural shifts in the region's long-term economic and demographic fundamentals. There is very little substantiation for such significant house price appreciation that can be explained by growth in the region's incomes, jobs and/or households. Rather, it is a unique combination of very favorable borrowing costs (low interest rates), extremely limited supply (scarce inventories) and the pandemic-caused shift in both economic production and consumption from traditional commercial space to residential space (people are now spending more time and money in and on their homes) which has also attracted investment capital away from commercial real estate towards residential real estate. Lastly, there has been significant anecdotal speculation within the industry (but, it should be noted, not much hard empirical data) that there has been a flight of relatively affluent households from both the city of Philadelphia and the New York metro area to this region's suburbs. Future research hopes to examine the veracity of this contention.

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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.

² 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.

³ Source: Brokermetrics via Houwzer LLC

⁴ Source: <https://realtymtimes.com/advicefromtheexpert/item/38353-how-to-determine-if-it-s-a-buyers-sellers-or-a-balanced-real-estate-market?rtmpage=>

⁵ Source: <http://www.realtytrac.com> It should be noted that the foreclosure numbers include not only homes that have been seized and/or auctioned off, but also homes for which court filings initiating the foreclosure process have begun.

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