

City v. Suburban House Price Appreciation Continue to Diverge

While city prices continue steady growth, suburban prices took another pause in Q3

November 30, 2017: After one of its strongest quarters since the recession, the housing market in Philadelphia's suburbs decelerated in Q3. Here's the latest quarter's numbers supplied by Houwzer Inc.:

- The suburban house price index rose 1.7% in Q3, while the city's index increased by 2.9% during the same period. Since the price indices for both markets hit bottom in early 2012, suburban price gains have outpaced the city's price gains in only 3 of the last 21 quarters.
- The median suburban house price increased by 2.4% in Q3, from \$244,000 to \$249,000. This was a significant slowdown from the previous quarter, when the median suburban house price increased by 13.6%.
- House price changes were mixed across counties, but were generally modest in size. From lowest to highest, the average change in house price levels by county in Q3 was: Camden (-1.1%), Chester (-0.3%), Bucks (0.0%), Gloucester (+0.1%), New Castle (+0.1%), Montgomery (+0.6%), Delaware (+1.7%), Philadelphia (+2.9%), Mercer (+3.2%), Burlington (+3.7%) and Salem (+7.9%).
- Sales continue to run strong in both the city and suburbs. Across the region, there were 23,206 arms-length sales in Q3. This was an 8% increase from the 21,488 sales in the same quarter one year ago, and was also the best Q3 since 2005.
- Sales of million-dollar homes also remain high. Region-wide, there were 265 sales of houses at a price of one million dollars or more in Q3. Although this is down slightly from 280 such sales in the same quarter last year, it is still the third-strongest quarter since such sales began being tracked in 2005.
- The pace of home sales remains brisk as well. Although the average Days-On-Market¹ increased slightly from 54 to 58 days in Q3, the last time that Days-On-Market was less than 60 days was in the boom period of May 2007.

While it remains something of a puzzle why suburban home prices have struggled to recover from the recession while the city's house prices have made such extraordinary gains, one indicator might be the difference in the level of inventories (homes listed for sale) between the two markets. Although both the volume and pace of sales in both markets are brisk, there is a significant disparity in the supply of homes for sale in the city v. the suburbs. Currently, it would take Philadelphia would only 3.5 months to completely sell out its inventory, while in the suburbs it would take 5.2 months. Not only is the relatively larger supply of available homes in the suburbs providing relief from upward pressure on house prices there, but 5.2 months is above the critical threshold of 5 months which most industry analysts consider to be the difference between a seller's market and a balanced market.

This disparity in house price appreciation has important implications for the overall health of the region's housing market. Ever since house prices in both the city and suburbs hit bottom in 2012, the city's house prices have since risen 42% and are currently well above their previous pre-recession peak, while suburban prices have only recovered 11% of their lost value and remain well below their pre-recession peak. This implies that—unlike most city homeowners—many suburban homeowners remain “underwater” on their home: they owe more in mortgage debt than what they can sell their house for.

¹ Days-On-Market is the average number of days it currently takes to sell a home.

When this will change and the market will turn in favor of existing suburban homeowners is anyone's guess. But, this report will continue to monitor it with regular and up-to-date information.

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