

Philadelphia Region's Housing Market Mirrors National Trends in Q2

Both suburbs and city surged in unusually active Spring season.

August 19, 2010: Following a volatile year of see-sawing movements in house prices and sales volume, the greater Philadelphia area saw an improvement in market conditions this Spring as homebuyers moved aggressively to take advantage of the federal homebuyer tax credit before its April expiration.

According to the latest analysis done for Prudential Fox & Roach by Econsult and Penn economist Kevin Gillen, the typical Philadelphia-area home increased in value by an average of 4.0% on a quality- and seasonally- adjusted basis in Q2. This increase more than erases the losses of this past winter, when growing unemployment and unseasonably harsh winter weather combined to drive house prices down an average of 3.5% region-wide.

There was little difference between city and suburban growth rates in Q2, as the behavior of the region's housing market largely reflected national trends. Philadelphia county and its suburbs saw average price increases of 3.8% and 4.0%, respectively, while house prices for the nation's ten largest metro areas rose 1%, according to Case-Shiller MacroMarkets LLC.

The additional modest price increase continued to help erase some of the losses since the bursting of the national housing bubble several years ago. As recently as this past winter, house prices in the Philadelphia area had fallen a cumulative total of nearly 14%. With this quarter's increase, the region's house prices have fallen by a cumulative total of only 10% to date.

House price changes across the region did exhibit some significant variation this past quarter. But, with the exception of Mercer County, house price changes were everywhere positive. From smallest to largest, the average change in house values by county were: Mercer (-4.0%), Burlington (+1.4%), Camden (+1.9%), Gloucester (+2.1%), Chester (+2.5%), Philadelphia (+3.8%), Montgomery (+4.2%), Bucks (+4.7%), New Castle (+5.4%), Delaware (+7.0%) and Salem (+13.6%).

Along with prices, home sales also exhibited an exceptionally strong surge this Spring. According to the data, 18,075 homes transacted in the 11-county metro area in Q2. That is a 27% increase over sales volume during the same period from one year ago, and a whopping 79% increase over the sales volume this past winter. 152 sales occurred at a price point of one million dollars or more; a 41% increase from 2009 Q2 and an 88% increase from 2010 Q1.

Even with the persistence of difficult market conditions, this latest positive data confirm that Philadelphia continues to outperform most other large U.S. cities during the current housing downturn. While most metro areas across the country experienced a rebound this Spring, Philadelphia outperformed most in terms of both price increases and sales increases. Since the beginning of the downturn several years ago, the average home in the ten largest U.S. cities has suffered a loss in value of 30% according to Case-Shiller MacroMarkets, while the typical Philadelphia-area home has only lost 10% of its value. Lastly, foreclosure activity—which places further downward pressure on house prices—remains relatively low here as well. According to RealtyTrac's latest survey, less than 1% of Philadelphia-area households are in foreclosure, which is well below the foreclosure rate in hard-hit areas like Las Vegas (6.6%), Phoenix (4.3%), Miami (3.9%) or Detroit (2.5%).

Still, any optimism that the housing market has begun a sustainable recovery should also be tempered by the data. That this Spring's improvement was largely a temporary reaction to government policy rather than a permanent improvement in economic fundamentals is also supported by the numbers.

While sales volume increased dramatically in Q2, the majority of sales activity was concentrated in April—when the homebuyer tax credit was due to expire—and then steadily tapered off in May and June along with the opportunity to take advantage of the tax credit. In April, 16% of all homes listed for sale actually sold. By July, this sales rate had fallen to 8%; a 50% drop.

As sales activity declined with the approach of summer, so too did pressure to cut house prices in order to sustain sales activity. According to RealtyTrac's latest report, price reductions of homes listed for sale have been steadily increasing since April. In August, 30% of homes listed for sale in Philadelphia underwent price reductions, compared to only 22% in April. And, the typical Philadelphia home listed for sale experienced a 9% reduction in its list price in August.

While this Spring's positive housing news may be only transitory, the negative news at least continues to be relatively moderate compared to what a lot of other U.S. metro areas are experiencing.

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