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Philadelphia housing market fares better than many

By Linda Loyd
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The U.S. housing market still looks bleak. In July, prices dropped for the third straight month, and sales of new houses dipped yet again. Last week, mortgage applications fell off after Wall Street's wild ride, though interest rates remained very low.

But in the Philadelphia region, local observers say, things aren't looking so bad, which has been the case through much of the real estate bust.

New-home sales here are sluggish just like everywhere else, said economist Kevin Gillen of Econsult Corp., but Philadelphia's market isn't plagued by large inventory the way Sun Belt cities such as Las Vegas and Phoenix are.

"We have not seen the catastrophic declines in new-home prices or new-home sales that a lot of other areas have," Gillen said.

John Mangano, Toll Bros. group president for Philadelphia, Bucks, and Montgomery Counties, said this market was "holding its own." Sales at Toll's Naval Square, a mix of condos and town houses at 24th and Bainbridge Streets, are strong, and building of single-family houses in the suburbs is steady, he said.

"Of course, everybody knows it's slow," Mangano added, but there are still buyers out there. "People sitting on the fence for a long time are making moves every day."

The Philadelphia market "has never boomed like other areas, and it's never hit the lows of other areas, either," he said.

Toll released its fiscal third-quarter earnings Wednesday, beating analysts' expectations. The company reported net income of \$42.1 million, or 25 cents a share, compared with \$27.3 million, or 16 cents a share, in the prior-year three months ended July 31. Net income rose 54 percent, helped partly by a \$38.2 million tax benefit. Revenue from houses delivered dropped 13 percent, to \$394.3 million. The backlog of houses at the end of the quarter increased 8 percent, to \$1.02 billion.

"Our sales are gaining some traction, but consumer confidence is still weak, and the housing sector remains in a fragile state," executive chairman Robert I. Toll said.

The Federal Housing Finance Agency reported Wednesday that home prices fell 5.9 percent nationwide in the second quarter from a year earlier, the biggest drop since 2009, as foreclosures added to the inventory of properties for sale. The Mortgage Bankers Association said applications dropped 2.4 percent last week, hitting a 15-year low.

Those details followed dismal numbers from the Commerce Department, which said Tuesday that sales of new homes across the country fell nearly 1 percent in July. If that pace continued, 2011 would be the slowest year since 1963.

Why has Philadelphia fared better than some markets?

"We didn't build as much during the boom as a lot of other metropolitan areas, in terms of new houses," Gillen said. "Where we did build a lot is Center City condos."

The condo market remains "a relative glut" and "is still struggling the most," he said.

"We added about 11,000 to 12,000 new condo units to our stock during the past decade," roughly doubling the number. But the local market hasn't suffered like places such as Miami and Las Vegas, where "you have ghost towers of condos - 100 units and maybe 10 of them are occupied," Gillen said.

Today, he said, there is pent-up demand among young households, singles, and empty-nester baby boomers to move to Center City. "It's a lifestyle choice largely independent of the economy."

Still, low consumer confidence and a national jobless rate of more than 9 percent stymies real estate recovery.

"It has been a roller-coaster ride," South Jersey home builder Bruce Paparone said, adding that 2008 was the low point.

Business "isn't dropping," but the economy has not instilled "enough confidence in the consumer to say there's an appreciable difference," Paparone said. "We go through periods where we gain traction, and there are positive signs, and we get a push of sales."

Lately, he said, he has seen "some customers coming back, showing some interest, especially with these low mortgage rates. This past weekend, we saw some real interest coming back into the model homes."

Toll Bros. CEO Douglas C. Yearley said his company's position was strong in the metro Washington-to-Boston corridor and its high-rise business in metro New York City.

Toll is considering expansion in Washington, Boston, and Philadelphia.

"Looking forward, historic low interest rates and the growing imbalance between housing production and demographics-driven demand bode well for the industry sooner or later," Yearley said in a conference call. "The key question, of course, is when."

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