

## Philadelphia Region House Prices Remain Flat in Third Quarter of 2011

### But, suburban home sales show a surprising increase.

**Nov. 2, 2011:** The Philadelphia region's housing market continued to show signs of stabilizing this past summer. Following several years of consecutive declines, house prices appear to have significantly slowed their rate of depreciation in 2011. According to the latest quarter's data, the typical Philadelphia-area home dropped only slightly in value by an average of 0.6 percent on a quality- and seasonally-adjusted basis in Q3. This decline follows a modest increase of 0.7 percent in the prior quarter of Q2.

County-level house price changes continue to be mixed across individual counties. From negative to positive, the average change in house values by county were: Gloucester (-4.1 percent), New Castle (-3.1 percent), Camden (-2.8 percent), Montgomery (-1.8 percent), Burlington (-1.4 percent), Delaware (-0.4 percent), Philadelphia (-0.2 percent), Bucks (+0.2 percent), Mercer (+0.2 percent), Chester (+0.6 percent) and Salem (+6.0 percent).

With these most recent—and small—price changes, the total cumulative decline in the region's house values continues to hold at an average of 19 percent since the bursting of the national housing bubble several years ago.

One particularly notable trend that also continues to hold is the disparity between the city and suburbs in price declines. In this most recent quarter, house prices declined only 0.2 percent in Philadelphia county, compared to a larger decline of 0.8 percent in the surrounding suburban counties. As such, house values in Philadelphia county have — so far — held up better than suburban house values, and by an especially large spread compared to past housing downturns. From their peak in 2007, house prices in the city have fallen by an average of only 16 percent, compared to a 21 percent decline in the suburbs.

While this difference may seem small, consider that during the last housing downturn in 1989-1994, house prices in the city fell by 19 percent while house prices in the suburbs fell by only 16 percent. Thus, not only is this pattern reversed during the current downturn, with house values in the city holding up better than those in the suburbs, but house prices in the city have also held up better during this downturn than during the previous one, despite the fact that the national magnitude of the current housing recession is much more severe than the last one.

But, even with this difference, homes across the region continue to hold their value better than comparable homes in other metro markets. According to Case-Shiller MacroMarkets, the average home in the 10 largest U.S. cities has declined in value by 32 percent from its peak several years ago, while the average Philadelphia-area home has fallen in value by just 19 percent.

There was also a surprisingly large discrepancy in city v. suburban home sales activity in the latest data. While city home sales exhibited a sharp decline this quarter, suburban home sales actually showed both a large and atypical increase. And, both of these changes are significantly in excess of typical seasonal fluctuations in home buying activity, which usually tends to decline slightly from the spring to summer months.

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According to the data, there were 3,039 home sales in Philadelphia county in Q3, which was down 12 percent from the previous quarter and down 8 percent from the same time last year, making this the lowest level of Q3 home sales since 1995. By contrast, 13,578 homes changed hands in the suburbs during Q3, which was up 4 percent from the previous quarter and up a whopping 26 percent from the same time last year.

Such a discrepancy in house prices and sales may suggest a different mindset between suburban and urban home-sellers. While city residents continue to hold the line on their asking prices, this has resulted in houses retaining their values but with the result that fewer homes are changing hands. Conversely, the sharper declines in suburban house prices may have motivated suburban residents to drop their asking prices commensurately, with the benefit that more homes are thus able to transact.

An additional factor is likely to be that financing is currently tighter for lower-income and working-class households. Since these households tend to be disproportionately located in the city, fewer homes are transacting as these households are less able to qualify for a mortgage compared to their relatively more affluent suburban counterparts. The data seem to support this. Even though house values have declined, the median house price continues to stay relatively near its peak of several years ago. According to the data, the median regional house price in Q3 was \$209,000; up slightly from \$202,000 in the previous quarter and down only 8 percent from its peak in 2007. Since tighter financing has disproportionately skewed home sales towards the upper end of the market, the raw statistics don't reflect the actual declines in house values. But, since the regression that estimates the house price indices in this report controls for the size, age and type of homes that are transacting, it is a more accurate measure of the change in house values and thus captures the true declines.

Leading indicators seem to point to the region's market being near its bottom, but not without first enduring some further pain. According to RealtyTrac, 1 in every 1,108 Philadelphia households received a foreclosure notice in September, which is up significantly from 1 in every 725 households this past June. In addition, housing inventories (the number of homes listed for sale) remains quite high at approximately 48,000 units; well above its historic average. These indicators may point up the increase in "shadow inventory" that is starting to be released on to the market, as both reluctant lenders and home-sellers can no longer withhold their homes from the market and are starting to list these dwellings for sale, adding to existing bloated inventories and thus putting further downward pressure on house prices.

As such, it should be no surprise that the near-term forecast is for some future house price declines. According to the latest research by Fiserv Inc., house prices in the Philadelphia metro area are projected to decline another 3.1% before beginning to recover in mid-2012. However, the fact that this decline is rather modest compared to the price declines that have occurred to date indicates that, while some challenges still lie ahead, a bottom would seem to be within sight.

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