THE Chairman's Report 2016

A Message from Lawrence F. Flick, IV Chairman and Chief Executive Officer
Berkshire Hathaway HomeServices Fox & Roach, REALTORS® and The Trident Group

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The World, Our Neighborhoods, and In-Between

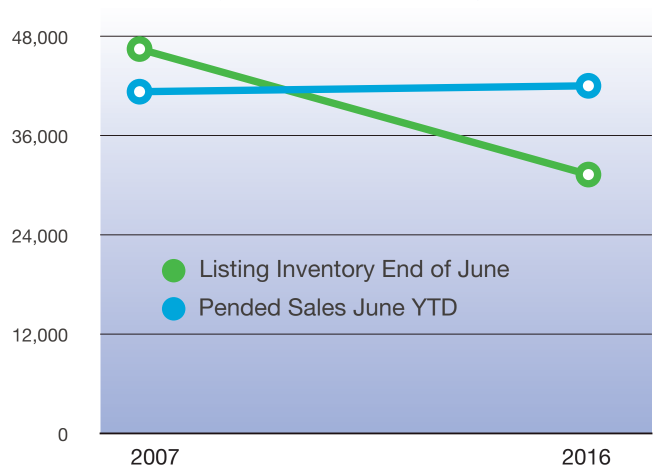
Listen to the news, and the headlines make it very clear that we live in a global age of uncertainty. Yet despite our interconnection with places far and wide, our own corner of the world is where we remain grounded. I'm often asked how the perception of turmoil in our country and the world affects our local real estate market.

My answer is: while our area is full of vibrant communities and brisk commerce, when it comes down to it, our region is a small part of the world. Small, but strong. We have an exceptional local economy situated in the strongest economy in the world — the United States. Job and income growth are solid, and those key factors matter most in the local real estate market.

The evidence for this vibrancy is in the numbers. In the first six months of this year, real estate sales in the BHHS Fox & Roach, REALTORS® market area increased 15% over the first six months of 2015. Overall, unit sales have increased an astounding 71% from their lowest point in 2011. That is a *big* recovery.

Home prices, on the other hand, depend greatly upon location and price range. The *average* increase throughout Philadelphia and its Pennsylvania, New Jersey and Delaware suburbs is 4%, according to the Lindy Institute of Drexel University. Your BHHS Fox & Roach, REALTORS® sales associate can give you guidance about individual locations and price ranges.

NUMBER OF PENDING SALES VS. LISTING INVENTORY



Source: Trend MLS

Though the number of houses sold is similar to the 2007 peak, the number of houses for sale has decreased by 32%. The result is a seller's market, and with the exception of homes in the upper price ranges in suburban markets, properties are selling quickly. Many of our sales associates report that there would be even more sales, if there were more houses to sell!

So why aren't there more houses for sale? Though we are in the midst of a slow but steady recovery, damage from the Great Recession lingers. Many buyers who purchased a home near the peak still do not have enough equity to sell their current home and purchase a new one. Others remain less confident about their own financial situations, and continue to wait for a time when they feel more secure.

But for those whose life circumstances have created the need or desire for a new home, this is a great time to sell and move up. There are buyers out there waiting to purchase a home, and interest rates continue at historic lows. And the concept of timing has changed. Residential real estate market activity used to be seasonal, with most people buying and

selling in the spring. These days, it's not about the time of year, but about when it is the best time for *you*. And if that time is now, it's better to act now, because it's impossible to know what conditions will be like next spring. (After all, no one thought Brexit would happen, but it did.)

I do expect we will continue to see a good market for the rest of the year. It may not be as robust as the first six months of 2016, because at some point, most of the pent-up demand for homes will be largely satisfied, and sales will resume a more realistic pace. We just don't know when that will occur.

If the time is right for you to consider a move, contact your BHHS Fox & Roach, REALTORS® sales associate today. And before you start looking for a home, pre-apply for a mortgage with Trident Mortgage Company, a BHHS Fox & Roach, REALTORS® affiliate. This will give you a real sense of what you are comfortable paying, plus it will make any offer you submit stronger than most competing offers. Your Trident mortgage consultant is ready to guide you through this process.

When it comes to buying and selling, no one knows our corner of the world — your current neighborhood or the one you hope to move to — better than your BHHS Fox & Roach, REALTORS® sales associate.

Lawrence F. Flick, IV
Chairman and Chief Executive Officer
Berkshire Hathaway HomeServices
Fox & Roach, REALTORS® and The Trident Group

AN INDEPENDENT VIEW

Kevin C. Gillen Ph.D. *is an economist who holds a position as a Senior Research Fellow with the Lindy Institute for Urban Innovation at Drexel University. With a background in urban economics and real estate finance, Dr. Gillen's research and consulting practice is concentrated in applied work in the analysis of real estate developments and operation of real estate markets, including their fiscal, economic and financial implications. This work is deployed in advising both public and private sector entities on the costs/benefits of public policy options, as well as the design and implementation of local economic development strategies.*

We're more than halfway through 2016, and it appears that the Philadelphia Metropolitan area's housing market is going to have its best year since the Great Recession. Sales are running at their highest levels in eight years. In many of our local markets, the time it takes to sell a home has hit a post-recession low.

Especially notable is the divergence between city and suburban house prices. Historically, housing downturns typically saw a "flight to quality" from the city to the suburbs. During recessions, it was the outdated inner-city rowhome that got abandoned, while the newer detached suburban home held its value. This was especially notable back in the recession of the early '90s, when Philadelphia house values fell by 20%, while suburban values barely budged.

But this time has been different. Not only have city homes recovered all of their lost value and moved into net positive territory, suburban home values have only just begun to catch up. Since hitting bottom in early 2012, city homes have appreciated an average of 32.2%, while suburban home values are up 12.7%. Moreover, 7.5% of that 12.7% increase occurred only just this past spring.

For the remainder of the year, expect reasonably strong price appreciation and sales activity to continue. But, be aware that the flip side of increasing house prices is decreasing housing affordability. The current appreciation is not only being driven by a renewed demand that was stagnant for many years, but also by exceptionally low inventories that are limiting supply. At the current pace of sales, it would take only three months for the region to burn off its inventory of homes listed for sale. Not only is this a ten-year low, but it is well below the five months of inventory that is typically considered a "balanced market" by the housing industry.

While 2016 should finish fairly strong, expect some deceleration going into 2017. With prices up and negative equity erased, many homeowners should become incentivized to list their homes for sale, and thus provide some relief to restricted supplies. Additionally, interest rate increases should finally start to take effect in 2017, providing a further cooling effect on the market. Lastly, the current economic recovery has been one of the longest since the postwar period. The consensus among many economists is that the probability of a recession will begin to sharply increase in 2017. So, make the most of the good times while you can.