

## Philadelphia's Housing Market Shows Mixed Signals in Q4

**Sales volume rises, prices go sideways and inventories decline to an all-time low.**

**January 22, 2018:** After one of its strongest years in living history, the city's housing market produced some contradictory indicators in the last quarter of 2017. Here's the latest numbers:

- **The average price of Philadelphia's housing fell by 0.5% on a quality- and seasonally-adjusted basis in Q4.** Although very modest, this was the first decline in a year, and continues the recent trend of price deceleration after a very aggressive first half of 2017.
- **However, the average price of a Philadelphia home is still up 12.7% from one year ago.** This is a very strong annual appreciation rate by both historical and inter-city comparative standards. The annual appreciation rate of Philadelphia's housing has averaged 4.5% since 1980. And, house prices in the ten largest U.S. cities (excluding Philadelphia) are up only 5.9% from one year ago<sup>1</sup>.
- **The median house price in Philadelphia in Q4 dropped to \$150,000 from \$159,900; a 6.2% decline.** Declines in median prices are normal as the calendar transitions to the colder weather months. The reason the decline in the house price index (-0.5%) is significantly smaller than the decline in median price (-6.2%) is because the regression that computes the house price index adjusts for seasonal fluctuations in house prices. Hence, most of the decline in the median price would seem to be attributable to seasonal—as opposed to economic—factors.
- **Another sign of deceleration was that house price changes were mixed across Philadelphia's neighborhoods in Q4,** following almost uniform price appreciation across all neighborhoods for most of 2017. From smallest to largest, the average quarterly change in house prices by neighborhood in Q4 was: South Philadelphia (-4.0%), Northwest Philadelphia (-2.1%), North Philadelphia (-1.8%), Center City/Fairmount (-1.0%), West Philadelphia (-0.6%), Upper Northeast Philadelphia (+1.6%), Lower Northeast Philadelphia (+4.8%), Kensington/Frankford (+5.7%), and University City (+7.1%).
- **In contrast to prices, home sales continue to remain very robust.** There were 5,245 arms-length sales in Q4. This is up significantly from 3,835 home sales in the same quarter one year ago<sup>2</sup>, and was the strongest Q4 since 6,000 homes transacted during the height of the previous housing boom all the way back in 2006.
- **Million-dollar sales continue to break records.** There were 49 sales of houses at a price of one million dollars or more in Q4. This was not only up from 38 such sales in the previous quarter, but also broke the previous all-time high record of 41 million-dollar sales in Q2 of 2017. And, perhaps even more interesting, such sales are continuing to appear in other neighborhoods besides core Center City and Chestnut Hill, particularly in the neighborhoods adjacent to Center City.

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<sup>1</sup>Source: S&P CoreLogic Case-Shiller 10-City Composite House Price Index

<sup>2</sup> Since sales volume of homes are highly seasonal, it is more common to compare quarterly sales numbers to the same quarter one year ago rather than the previous quarter.

- **Housing inventories (the number of homes listed for sale) continue to plummet.** At the end of 2017, there were 3,329 homes listed for sale in Philadelphia<sup>3</sup>; a substantial decline from the 4,443 homes listed for sale in the previous quarter. Not only is this the first time that this number has fallen below 4,000, but it is the lowest level of housing inventories in the city's history since the data on this market metric became available way back in 2001.
- **Zillow currently characterizes Philadelphia's market temperature as "Hot".** Although this is unchanged from last quarter, Zillow revised its one-year forecast for Philadelphia house prices upwards in Q4, from 3.1% to 5.0%.

The fact that house prices have decelerated while inventories continue to drop towards ever-lower levels would seem to be something of a contradiction. Typically, low supply is both empirically and historically associated with significant upward pressure on house prices. One possible explanation may have to do with buyer psychology rather than the basic laws of supply and demand: potential buyers may be balking at paying such high prices while the selection of homes to choose from is highly limited. In the near term, expect both prices and sales volume to continue to moderate and/or decline during the remainder of the winter months. Whether the local market is near the peak of its current 6-year expansionary cycle or is just taking a seasonal pause won't likely be revealed until the warmer spring months. It should be remembered that the market showed similar mixed numbers at the end of 2016, only to go on to have one its hottest years ever once the calendar rolled over to 2017.

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<sup>3</sup> Source: Trend MLS