



Philadelphia's Housing Continues to Make Progress in Q4

Sales activity remains strong Citywide, while low-income areas continue price recovery.

January 15, 2015: Following a quarter in which both sales and house price increases became more widespread across the City's neighborhoods, the latest data indicate that this positive development has continued this past quarter.

The average house value in Philadelphia increased by 0.8% in Q4 on a quality- and seasonally-adjusted basis, according to the latest data from the City's Recorder of Deeds. This modest appreciation is a slight decrease from Q3, but is primarily due to increased home sales in lower-priced parts of the City. By contrast, since hitting bottom two years ago, Philadelphia housing's recovery had been largely confined to the higher-income and higher-priced areas of the City. Consequently, the slowdown in Citywide price appreciation due to more sales in low-priced neighborhoods can be interpreted as the housing recovery becoming more widespread and equitable across Philadelphia's many neighborhoods.

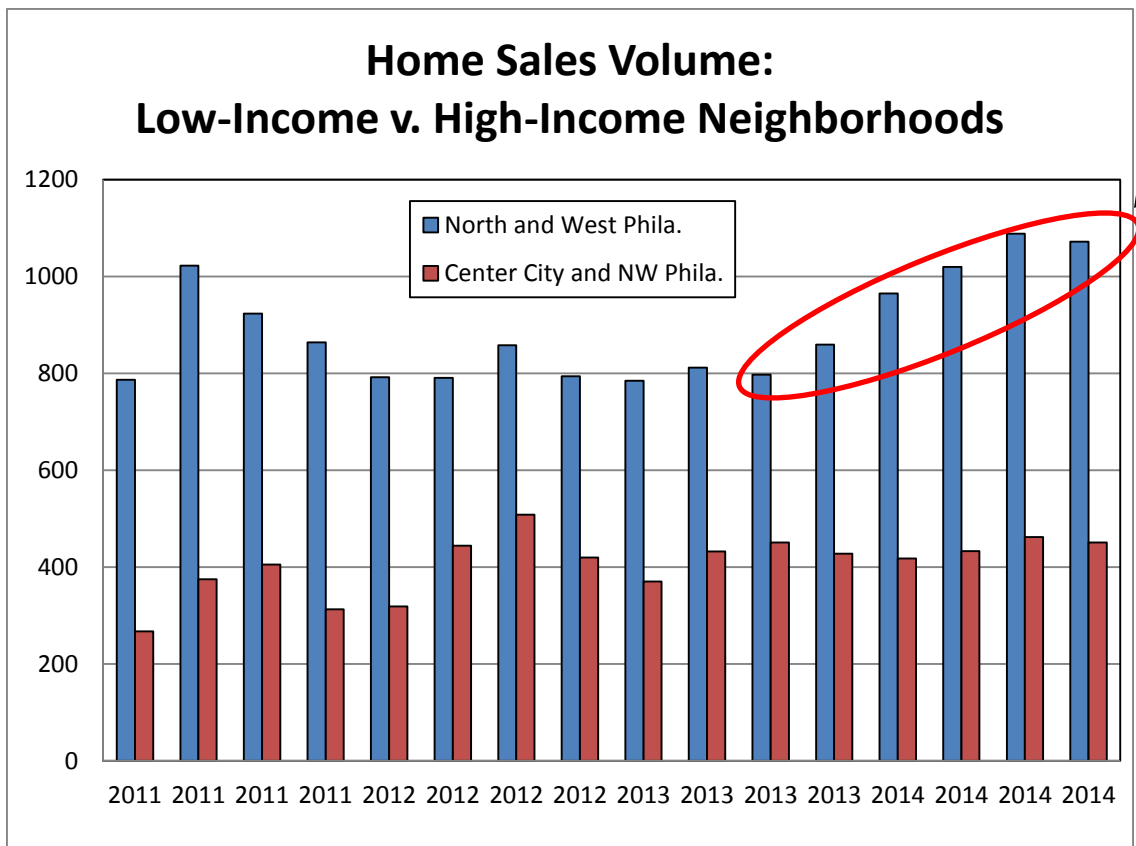
As further proof of this, house price appreciation this past quarter was actually strongest in the City's poorest areas, while being flat or negative in its relatively higher-income neighborhoods. From smallest to largest, the average change in house prices by neighborhood in Q4 were: Center City/Fairmount (-2.7%), Northwest Philadelphia (-1.9%), South Philadelphia (-1.8%), Lower Northeast Philadelphia (-1.6%), University City (-0.9%), Upper Northeast Philadelphia (-0.8%), North Philadelphia (+0.9%), Kensington/Frankford (+2.1%), and West Philadelphia (+2.3%).

Note that prices fell this quarter in the City's highest-priced neighborhoods of Center City/Fairmount and Northwest Philadelphia (which includes the relatively affluent enclaves of East Falls, Mount Airy and Chestnut Hill) as well as in the revitalizing neighborhoods of South Philadelphia and University City, but price appreciation was strongest in the low-income neighborhoods of North Philadelphia, Kensington/Frankford and West Philadelphia. Moreover, this is the first time that these neighborhoods have seen two consecutive quarters of price appreciation since Philadelphia's house prices hit bottom in the winter of 2012.

Sales activity also continued to be strong. This quarter, 3,710 homes changed hands under arms-length conditions. This is a nearly 11% increase over the same quarter one year ago, and marks the strongest fourth quarter of sales activity in five years¹. As such, it appears that home sales levels have returned to being close to their historic quarterly average of approximately 3,800 transactions.

As further evidence that flat house prices Citywide are being driven by an increased volume in sales of relatively lower-priced homes, consider the following chart that compares total home sales in relatively low-income neighborhoods to total home sales in relatively high-income neighborhoods from 2011 through 2014:

¹ Although sales in Q4 declined from Q3, this is a normal seasonal pattern.



35% increase in home sales in low-income neighborhoods over the last 18 months.

The blue bars represent the number of home sales in the City’s poorest neighborhoods of North and West Philadelphia, while the red bars represent the same in the City’s wealthiest neighborhoods of Center City and Northwest Philadelphia. While sales activity has trended relatively flat in the latter over the last four years, they have increased by nearly 35% in the former over the last 18 months. Although the greater volume of lower-priced home sales has acted as a headwind on Philadelphia’s overall price recovery, the fact that home sales activity is increasing in relatively under-served areas of the City after experiencing a significant post-bubble drop is welcome news.

But, even though its recovery has lagged national trends, Philadelphia’s leading indicators for housing continue to give reasons for optimism. Housing inventories (the number of homes listed for sale) also continued to decline this quarter, and are very close to being back to their historic pre-bubble average of 6,000. And, financial markets continue to be more optimistic, too. The Philadelphia Housing Sector Index, which is a composite index of publicly traded stock for firms in the housing sector, hit a new post-bubble high of \$218 per share. The index hit an all-time low of \$52 per share in 2009 after falling from a peak of nearly \$290 per share back in the boom year of 2005.

Lastly, Zillow.com provides additional confirmation that a more bullish outlook for Philadelphia’s housing market is warranted, as its latest projection of Philadelphia house prices is more optimistic than its previous forecasts. Zillow is currently forecasting Philadelphia house prices to increase by an average of 3.4% Citywide over the next 12 months, which is a significant upgrade over its previous forecast of a mere 0.5%

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