



Philadelphia Housing Takes Another Pause in Q1 **Prices flat, sales slump.**

April 28, 2015: Continuing its on-again-off-again pattern of recovery, Philadelphia's housing market took another timeout this past quarter after posting two consecutive quarters of gains in both prices and sales.

The average house value in Philadelphia fell by 0.3% in Q1 on a quality- and seasonally-adjusted basis, according to the latest data from the City's Recorder of Deeds. This statistically negligible decline follows a modest appreciation of 0.8% in the previous quarter. However, house prices Citywide remain 4.1% higher than where they were one year ago.

House price changes were equally mixed across neighborhoods, with gains and losses being roughly split equally across the City. But, the magnitude of changes remained relatively small in most cases. From smallest to largest, the average change in house prices by neighborhood in Q1 were: North Philadelphia (-4.1%), Northwest Philadelphia (-2.6%), Kensington/Frankford (-1.7%), Center City/Fairmount (-1.4%), Lower Northeast Philadelphia (-0.8%), West Philadelphia (+0.4%), Upper Northeast Philadelphia (+0.5%), South Philadelphia (+1.0%) and University City (+6.9%).

House sales also fell this quarter to 3,061 transactions, slightly below the 3,148 transactions in the same quarter last year. Previously, home sales had been making steady gains on a YoY basis since hitting bottom five years ago.

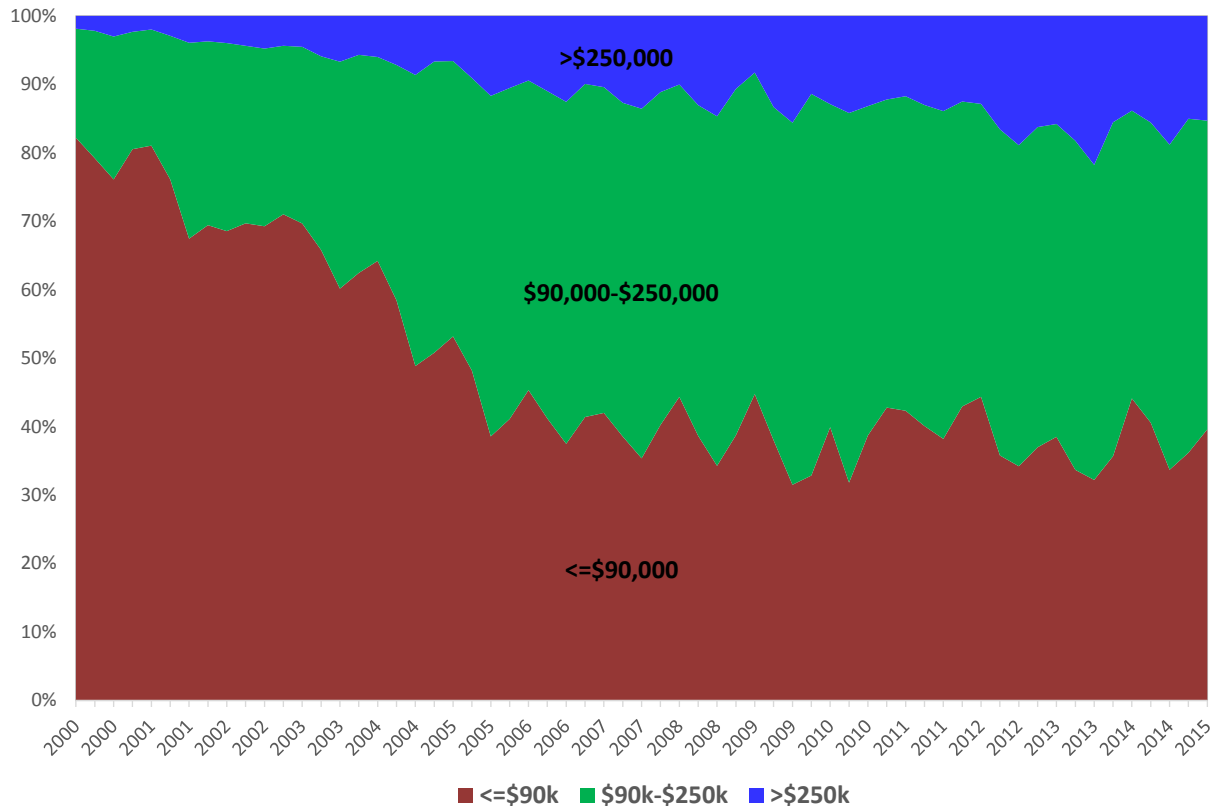
While another especially harsh winter was likely a key factor in this past quarter's slowdown, the data continue to indicate not only how sluggish Philadelphia's housing recovery has been, but also how unbalanced and even inequitable it is. While recent quarters had seen the recovery in both house prices and sales begin to spread to the relatively lower-income neighborhoods of the City, that nascent trend came to a halt this past winter.

Since hitting bottom several years ago, prices and sales had been improving in the relatively more affluent and revitalizing neighborhoods in and around Center City, while lagging in the rest of Philadelphia. More interestingly, this appears to be a longer-term structural shift rather than a short-term cyclical phenomenon.

As an illustration of how sales activity has become biased towards higher-priced areas of the City, consider the following chart. It shows the percent of all home sales that fall into the bottom 50% of house prices, the top 50% of house prices and the top 10% of house prices, over time from 2000 through 2015Q1:

Philadelphia's Home Sales Have Become Steadily Skewed Upwards Over Time:

**%Market Share of Philadelphia Home Sales
by Price Category: 2000-2015**



From 2000 through 2015, the median house price in Philadelphia has been \$90,000: half of all homes have sold for less than this and half have sold for more. The share of home sales in the bottom half of this distribution is represented by the red area in the above chart, and the share in the top half is represented by the green area. The top 10% of home sales are homes which sold for \$250,000 or more, and they are represented by the blue area.

In general, the share of home sales at relatively low prices (<\$90,000) have steadily declined from 2000 through 2015, while the share of home sales at relatively higher prices steadily increased, despite the fact that house prices overall have exhibited large amounts of volatility over the past sixteen years:

- In 2000, before the housing boom really took off, sales of homes priced at the median price of \$90,000 or less constituted as much as 82% of all home sales in Philadelphia. By contrast, sales in the upper half of the distribution constituted only 18% of all sales, with sales in the very top tier constituting only 2% of all sales.
- Low-priced sales subsequently began to cede market share to high-priced sales during the boom years. Of course, a large factor in this was the exceptional price inflation that occurred during the boom: rising prices pushed many homes from being valued below \$90,000 to being valued above \$90,000. By the time the market peaked in 2007, relatively low-priced sales had only 39% of the market's share, while relatively high-priced sales were in the majority, composing 61% of all sales.
- This might normally be considered unremarkable, as it could be explained away by the general price appreciation of the boom that pushed house prices higher across the City. However,

through both the bust and the recovery, this trend has steadily continued. In particular, the price deflation of the bust should have seen the share of lower-priced sales increase and higher-priced sales decrease. But, the opposite happened.

- As of the current quarter of 2015 Q1, lower-priced sales compose only 36% of all home sales in Philadelphia, while higher-priced sales compose the other 64%.
- Moreover, this pattern becomes even more pronounced as you move upwards into ever-higher-priced segments of the housing market. Homes priced at \$250,000 or more (the top 10%) composed only 9% of all home sales at the market's peak in 2007, but currently compose 17% of all sales, ***despite the fact that overall house prices are significantly lower today than they were in 2007!***

Thus, not only have home sales in Philadelphia become steadily skewed towards the upper end of the market in the post-recession landscape, but this skewness becomes even stronger the more the data is parsed. That is, not only is the upper half doing better than the lower half, but the uppermost 10% is doing the best of all.

This pattern in housing is consistent with the criticisms that have been made of the overall economic recovery, in which relatively more affluent households have generally made steady and solid gains while many lower-income—and especially younger—households have been largely left behind and continue to struggle. This parallel outcome in the housing market can be explained in large part by the absence of first-time homebuyers in the market, which is primarily composed of the millennial generation. Faced by a difficult labor market, burdened with high levels of debt and possessing little savings, as well as showing a relative aversion to homeownership, these households have been largely AWOL from the market, and hence the housing recovery has been sluggish as a result.

The upward bias in sales caused by the absence of these households has important implications for the entire market. Purchases by first-time homebuyers are what allow many existing homeowners to be able to sell their home and upgrade to a bigger and/or better one, which in turn allows the next higher tier of homeowners to also sell and be able to upgrade. If the first domino in this chain fails to fall, the entire sequence of homebuyers and sellers becomes locked up. So, until these “left behind” households are both willing and able to make the move to homeownership, a more widespread and equitable recovery is likely to remain elusive.

There are high hopes that 2015 will be the year that first-time homebuyers finally enter the market in significant numbers, and leading indicators continue to give some support for this optimism:

- The cost of owning relative to renting is at a 10-year low in Philadelphia, driven not only by the decline in house prices but also the significant rent inflation that has occurred since the recession.
- Both homebuilders and financial markets remain relatively bullish on housing. Indicators of homebuilder sentiment and the Philadelphia Stock Exchange's housing index are currently close to post-recession highs.
- National housing analytics firm Zillow recently upgraded its annual forecast for house price appreciation in Philadelphia from 0.5% to 2.3%

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