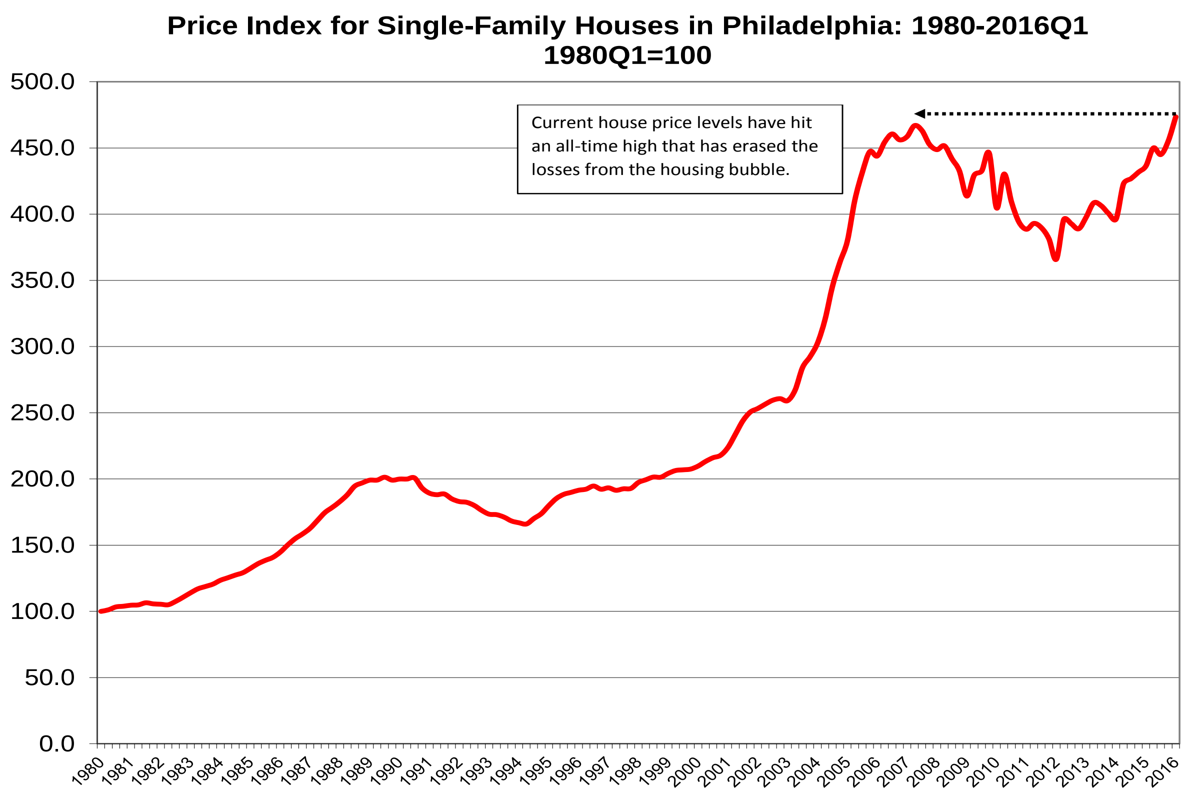
Philadelphia's Housing Surges to Record Levels in Q1

House prices hit post-recession high while sales volume shows unusual non-seasonal increase.

May 16, 2016: Following a strong performance for most of 2015, Philadelphia's housing decided to keep the momentum going and hit the gas pedal this past fall and winter. The latest numbers provide not only good news, but record-breaking news as well.

The citywide house price index finished the quarter at an all-time high of 473.5, which is above its previous high of 466.9 back at the very peak of the housing bubble in 2007 Q2. This implies that all of the losses in house price devaluation due to the bubble and subsequent recession have now been recovered, and the average Philadelphia home has achieved a new all-time high in value. Moreover, sales volume not only had its best Q1 since 2008, but actually increased from 2015 Q4 to 2016 Q1, when transactions volume typically declines due to the transition from autumn to the holiday season and colder winter months.



After years of lagging the national housing recovery since hitting bottom in early 2012, Philadelphia's house values rapidly made up for lost ground in the latter half of 2015 and first quarter of 2016. The typical Philadelphia home increased in value by 3.9% in Q1 on a quality- and seasonally-adjusted basis, according to the latest data from the City's Recorder of Deeds. This increase came on the heels of a 2.3% increase in the previous quarter of 2015 Q4. That makes the two most recent quarters the strongest back-to-back quarters of house price appreciation since Q3 and Q4 back in the boom year of 2005.

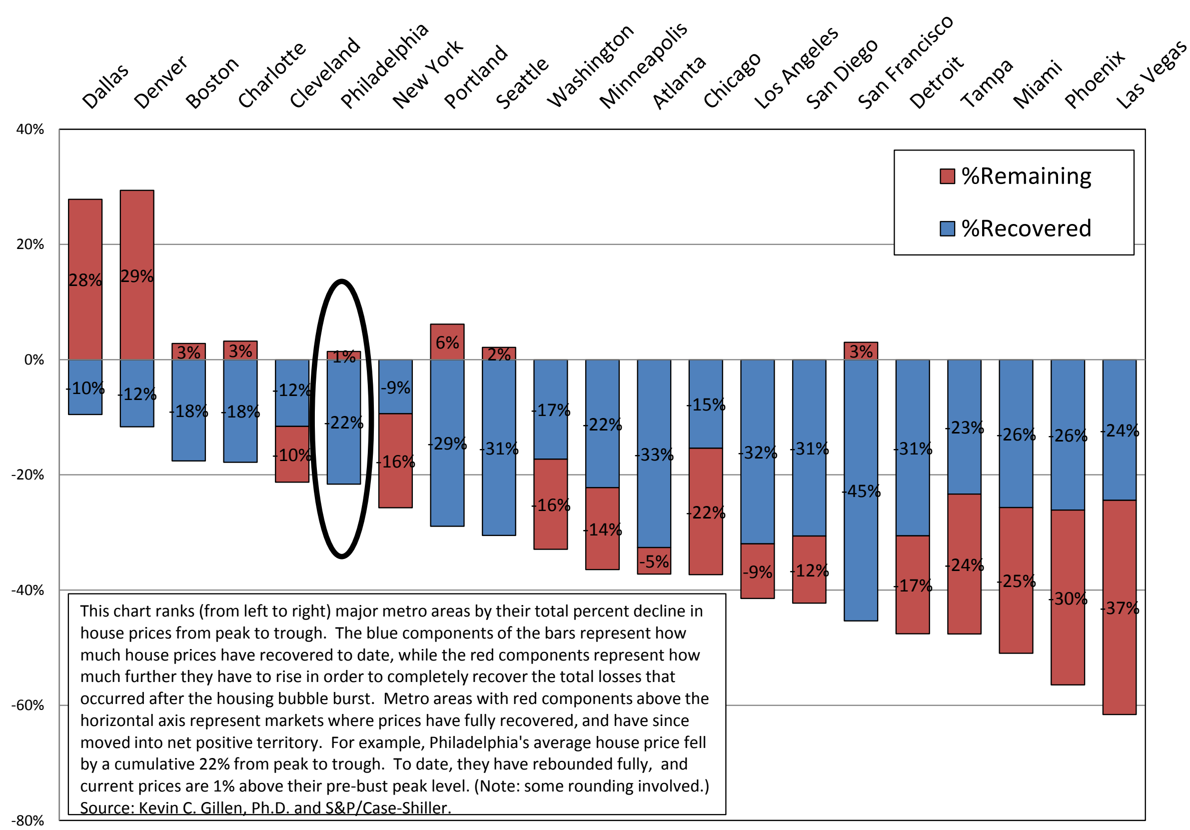
The median sales price of a Philadelphia home also hit an all-time high in 2016 Q1, rising to $143,000; a dramatic increase from just $117,500 one year ago[1].

House price appreciation was also positive across all of the City's neighborhoods, albeit with significant variation. From smallest to largest, the average increase in house prices by neighborhood in Q1 was: West Philadelphia (+0.9%), Northwest Philadelphia (+1.0%), University City (+1.3%), Upper Northeast Philadelphia (+2.4%), Lower Northeast Philadelphia (+2.7%), Center City/Fairmount (+5.2%), Kensington/Frankford (+5.8%), North Philadelphia (+5.8%), and South Philadelphia (+7.4%).

Home sales volume in Q1 was not only strong, but also exhibited a very unusual non-seasonal increase from autumn to winter. 3,915 houses changed hands under arms-length conditions in Q1. This was not only up a whopping 28% from 3,061 from the same quarter one year ago, but was also up 6% from 3,687 in the previous quarter. While the latter increase might seem small, home sales activity almost always declines from the autumn months to the winter months, regardless of the state of the market. The last time home sales increased from Q4 to Q1 was when 2002 rolled over into 2003.

The full recovery of the loss in house values[2] that occurred from the housing bust has allowed Philadelphia to join the club of "net positive" cities: metro areas which have fully recovered their lost values and whose house prices have moved into "net positive" territory. Of the U.S.'s 20 largest cities, these fully recovered cities include: Dallas, Denver, Boston, Charlotte, Portland, Seattle and San Francisco.

Housing's Road to Recovery: %Lost v. %Recovered



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[1] Median prices do not reflect the decline in house values indicated by the house price index because during the recession and recovery, home purchases were biased towards relatively higher-price homes made by relatively higher-income individuals.

[2] It should be noted that not all neighborhoods have recovered their losses in house values. Some still remain below their pre-recession price peak, but generally by a relatively small margin.

The increase in the House Price Index to an all-time post-recession peak is not merely symbolic, but is also an important economic and psychological milestone as well. Many households that purchased homes at or near the peak of the bubble have subsequently been unable to unload their homes and relocate due to the fact that they weren't able to sell their homes at a sufficiently high enough price that would cover their outstanding mortgage balance. Besides the fact that this forced them into being virtual prisoners in their own homes, it also had larger implications for the overall housing market.

Metaphorically, the housing market is analogous to a chain of dominoes: Homeowners on the relatively lower end of the domino chain need to be able to sell their homes in order to upgrade to a home on the higher end of the chain. Homeowners that are already situated on the higher end of the chain may not be underwater on their homes, but they still need someone to sell their home to in order for them to upgrade. The collapse in house prices locked many households (that bought at or near the peak) into their homes, preventing them from being able to sell or relocate. This dammed up the entire chain of dominoes (i.e. homes) that were upstream from them, creating the metaphorical equivalent of gridlock in the housing market.

Now that house prices have recovered these losses, many households can now consider themselves liberated from their negative equity positions. Going forward, this should relieve the gridlock and restore the market to a more balanced operational momentum.

After 9 years of collapse followed by a sluggish recovery, it's about damn time.

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