

## **Philadelphia Housing Officially Achieves “Seller’s Market” Status in Q2 But amid surging prices and sales, affordability and lack of inventory becoming a problem.**

**August 8, 2016:** Philadelphia’s housing market not only continued its recovery this quarter, but aggressively put the pedal to the metal. While the latest numbers indicate that both house prices and sales volume hit new highs, they also indicate that lack of supply and decreased affordability are now becoming key obstacles to a more balanced and equitable market.

Philadelphia house prices increased by an average of 6.2% on a quality- and seasonally-adjusted basis this past Spring, according to data from the City’s Recorder of Deeds and TrEnd MLS. This strong quarter follows on the heels of a 4.2% increase in the previous quarter, placing Philadelphia on track to experience its first year of double-digit house price appreciation since the housing bubble years of the previous decade.

The citywide house price index finished the quarter at a new all-time high of 504.7. This is not only its highest level ever, but it is also the first time the house price index has ever surpassed the 500 mark. Moreover, it further implies that citywide house values are now higher than they were during their last peak, back in 2007 just before the housing bubble burst. These price increases are also corroborated by the raw data: the median house price in Philadelphia rose to \$145,000 in Q2; which is also a new all-time high.

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 Q2 was: Kensington/Frankford (+0.8%), Upper Northeast Philadelphia (+1.7%), Lower Northeast Philadelphia (+3.1%), Center City/Fairmount (+3.4%), South Philadelphia (+4.2%), Northwest Philadelphia (+5.1%), North Philadelphia (+11.7%), West Philadelphia (+11.8%) and University City (+15.0%).

Home sales volume in Q2 was also exceptionally strong. 4,774 houses changed hands under arms-length conditions in Q2. This is up 22% from 3,915 sales in Q1 and up 14% from 4,198 sales in the same quarter last year<sup>1</sup>. Moreover, this was the highest quarterly volume of home sales in the post-recession period. The last time Philadelphia experienced such a high volume of home sales was back in 2007.

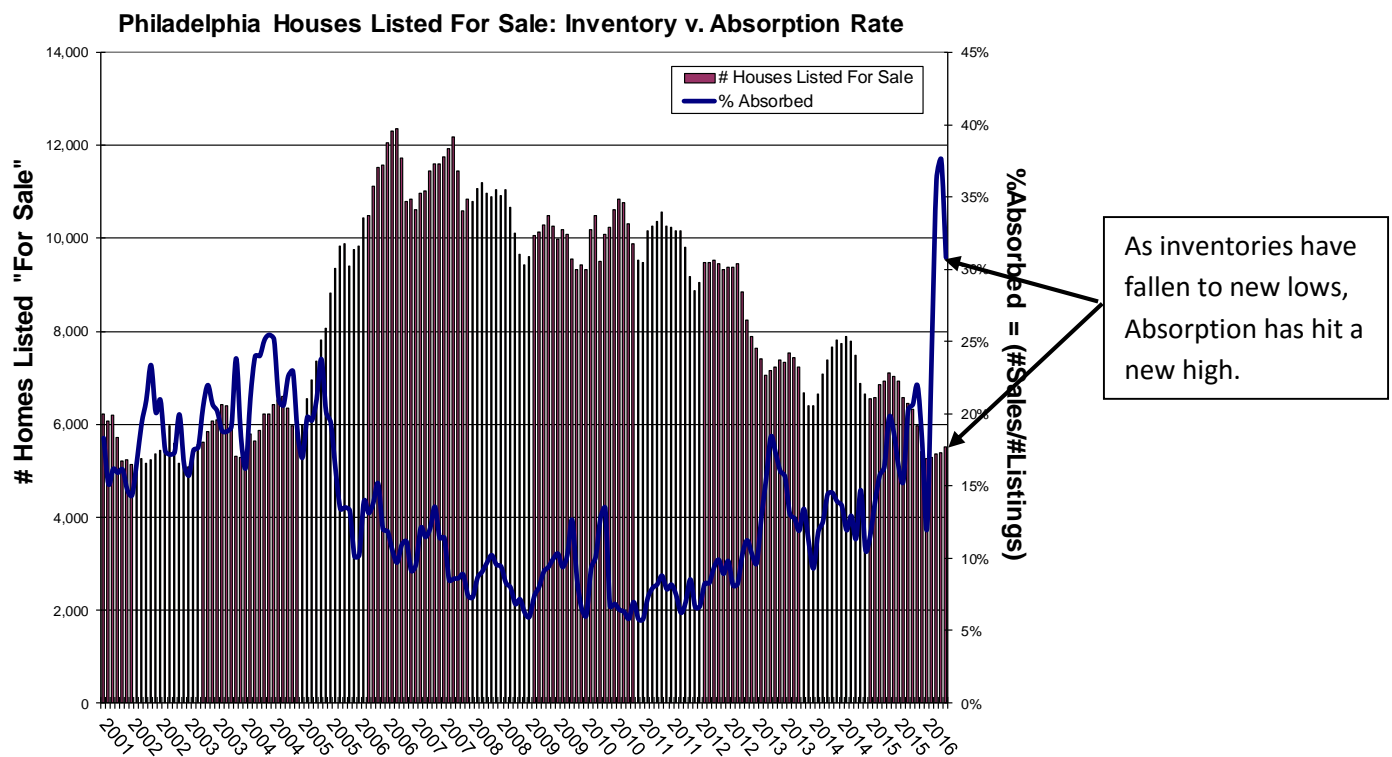
After years of experiencing a sluggish on-again/off-again recovery, Philadelphia’s sudden transition to rapid price appreciation appears to be driven not only by strong demand (as evidenced by increased sales), but also extremely tight supply. Currently, the amount of homes available for purchase has hit a post-bubble low, with the following outcomes:

- Housing inventories (the number of homes listed for sale) stands at about 5,500 units. This is down from over 7,100 units at the same time last year, and is the lowest level of inventories since 2003.

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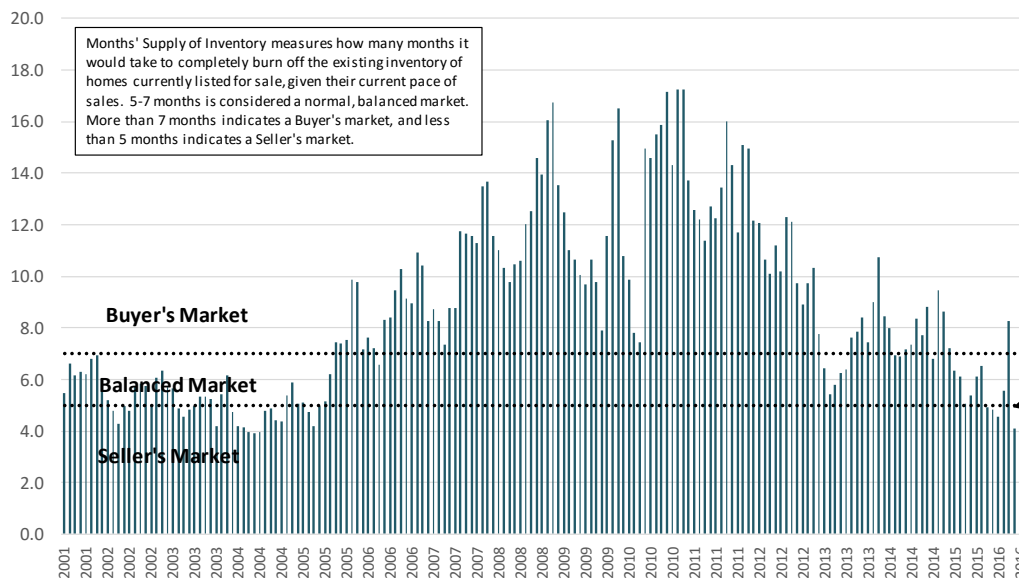
<sup>1</sup> Note: home sales in this region typically increase from Q1 to Q2, due to the transition from Winter to Spring, regardless of the overall state of the market. As such, it’s more common to compare home sales in a given period to the same period one year ago.

- The average amount of time it takes to sell a home has dropped to 53 days. Not only is this down dramatically from 80 days just one year ago, but indicates that homes are being rapidly sold at a pace that has not been seen since 2006.
- The Absorption Rate (the percent of listed homes that sell each month) has soared to over 30%, up from just 12% as recently as this past February. This is the highest Absorption rate in the history of the data, going back to 2001.
- The high pace of sales combined with the low inventory has caused the Months' Supply of Inventory<sup>2</sup> to drop to an all-time low. Currently, it would take only 3 months to completely sell off every home listed for sale in the City, given the current rapid pace of sales. This is down sharply from 5 months just one year ago, and is the lowest level since 2005.
- With the drop in Months' Supply of Inventory to less than 5 months, Philadelphia has officially transitioned from a "Balanced Market" to a "Seller's Market", according to the standard industry interpretation of this number.



<sup>2</sup> Months' Supply of Inventory is commonly used market metric that measures how long it would take to completely burn off the current inventory of homes listed for sale, given the current pace of sales. 5-7 months is considered a normal, balanced market, with >7 months indicating a buyer's market (where supply exceeds demand) and <5 months indicating a seller's market (where demand exceeds supply).

## Months' Supply of Inventory in Philadelphia



The recent plunge in MSI has shifted the housing market from a "Balanced Market" to a "Seller's Market".

As independent corroboration that Philadelphia's housing market is in an aggressive upswing, industry stalwart Zillow recently upgraded its annual forecast for Philadelphia house prices from 2.2% to 2.9%, and changed its market temperature for Philadelphia from "Hot" to "Very Hot".

While the market's long-delayed recovery would generally be considered good news, the flip side of rising house prices is decreased housing affordability. Currently, prices are now rising faster than household incomes, which implies that homebuyers must now sacrifice a greater portion of their wealth to buy a home than they would otherwise, or else must defer the purchase of a home altogether. Moreover, the lack of supply is tightest at the lowest-priced segment of the market, adversely affecting first-time and low-income homebuyers the most. As evidence, this quarter's biggest house price gains were in the lowest-priced (and lowest-income) submarkets of North and West Philadelphia, both of which experienced double-digit price appreciation.

Until new supply comes on to the market, further upward pressure on house prices can be expected. Ever since the housing bubble burst nearly 10 years ago, potential homebuyers have been told that it's a great time to buy a home. But for the first time in 10 years, it now looks like a heluva time to sell one.

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