

Philadelphia Home Sales Hit Post-Bubble High in Q3

Liberated from negative equity, many households appear to be returning to the market.

October 28, 2016: Last quarter, the significant gains in house prices across the city were sufficient to finally erase the overall losses from the deflation that occurred during the Great Recession. Now that many households who bought at or near the peak of the bubble are no longer underwater on their homes, they appear to be getting back into the market...and aggressively.

Although citywide house price appreciation in Q3 decelerated from its recent assertive gains, total sales of single-family homes hit a post-recession high this past quarter, and sales of million-dollar homes reached a new all-time high.

Philadelphia house prices increased by an average of 1.4% on a quality- and seasonally-adjusted basis this past summer, according to data from the City's Recorder of Deeds and Trend MLS. The citywide median house price also increased from \$145,000 to \$149,000; a new all-time high. Although this quarter's increase is smaller than its previous quarterly increases of 6.2% and 4.2%, respectively, the typical Philadelphia home is now priced nearly 13% higher than it was a year ago. Absent a significant decline in prices this autumn, 2016 will likely be the best year for Philadelphia's housing market since the boom years of the previous decade.

House price appreciation was generally positive across most of the City's neighborhoods, but was typically in the low single percentages. From smallest to largest, the average increase in house prices by neighborhood in Q3 was: South Philadelphia (-2.4%), Northwest Philadelphia (-1.0%), Upper Northeast Philadelphia (-0.6%), West Philadelphia (+2.1%), Lower Northeast Philadelphia (+3.7%), North Philadelphia (+4.3%), Kensington/Frankford (+4.4%), Center City/Fairmount (+5.0%), and University City (+18.0%).

The citywide house price index finished the quarter at a new all-time high of 512.0. This places the general level of house values in Philadelphia nearly 10% higher than they were during their previous peak in mid-2007, as well as at their highest level in history. As indicated in our previous quarter's report, these recent gains have generally erased the losses in house values that were incurred during the recession, thus freeing many negative equity households who were virtual prisoners in their homes to re-enter the market.

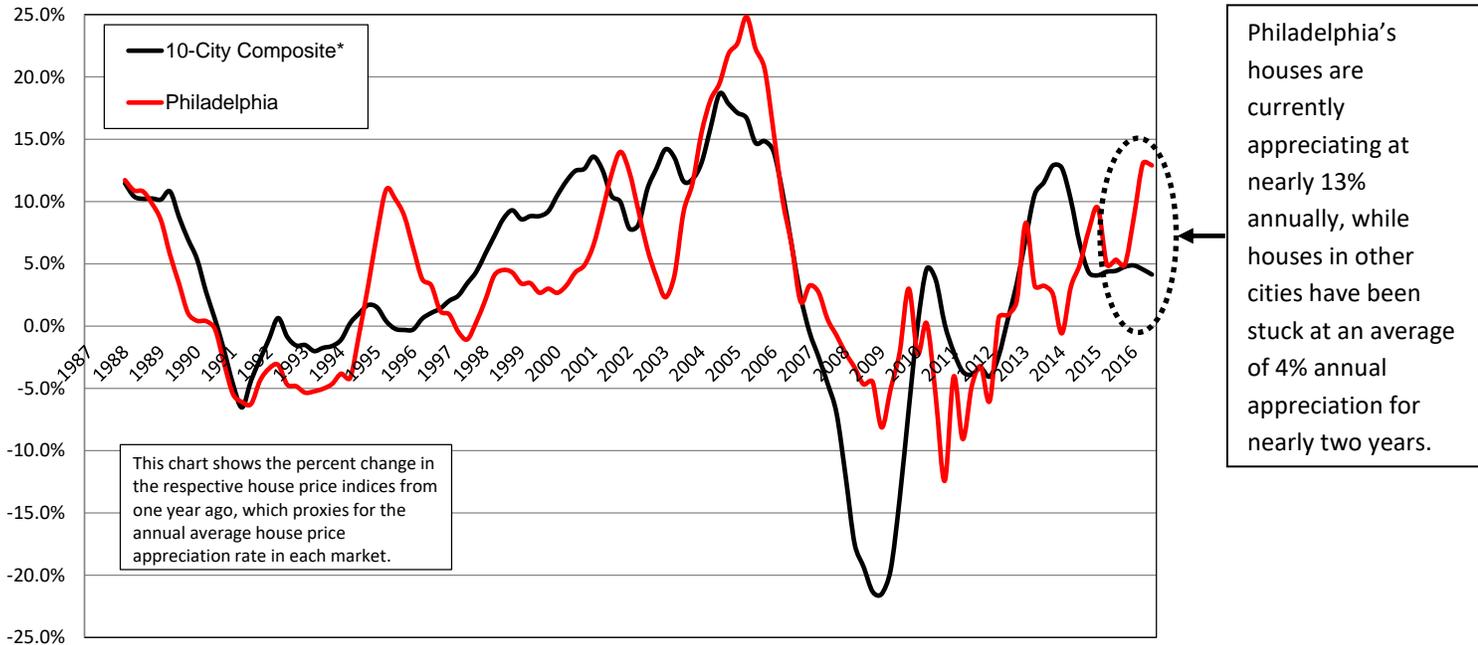
And they re-entered the market with enthusiasm. Home sales volume in Q3 continued to be exceptionally strong, with 5,358 houses transacting under arms-length conditions in Q3. This is up 12% from 4,774 in the previous quarter, and up 15% from the 4,655 sales that occurred in the same quarter last year. It is also the first time that Philadelphia has experienced quarterly sales in excess of 5,000 units since 2007, when the housing bubble was just beginning to burst.

Sales volume of homes at prices of one million dollars or more was also exceptionally high in Q3. There were 37 such sales this past summer, which broke the previous record of 34 such sales back in 2015, thus setting a new all-time high.

Perhaps surprisingly, Philadelphia is currently outperforming most other metro housing markets in the U.S., which have shown signs of slowing. Not only are total home sales running well above their historic

average, but Philadelphia's house price gains have placed it ahead of many other cities. Currently, Philadelphia's house values have moved it into positive territory since the price deflation of the recession, with prices currently being approximately 10% higher than their last peak in 2007. By contrast, most cities in the Case-Shiller 10-city composite index (which basically covers the ten largest cities in the U.S., excluding Philadelphia) still remain in negative territory: the typical home in these cities is still priced at an average of 11% below its previous peak back in 2007. Moreover, house price appreciation in Philadelphia is currently outpacing these ten other cities. By the end of this year, Philadelphia will likely have experienced double-digit price growth, while annual house price growth in these 10 other comparable cities is currently running at less than 5%.

**YoY House Price Change (%) 1987-2016:
Philadelphia v. 10-City Composite**



Source: Case-Shiller MacroMarkets LLC, Kevin C. Gillen, Ph.D.

Philadelphia's recent accomplishments have also been corroborated by real estate analytics firm Zillow, which actually seems to have trouble keeping up with the city's aggressive performance. Zillow recently upgraded its annual forecast for Philadelphia house prices to 4.2% from its previous forecast of 2.9%, which in turn was an upward revision from that forecast's previous prediction of 2.2%. And, six months ago, Zillow changed its rating of Philadelphia's market temperature from "Hot" to "Very Hot" (Source: <http://www.zillow.com/philadelphia-pa/home-values/>).

Going forward, upward pressure on local house prices is likely to continue since current inventories (the number of homes listed for sale) remain at very low levels. However, a moderation in price appreciation would actually be positive news, since it would provide relief to increasing unaffordability in Philadelphia. Rapid price appreciation may be welcome when house values are trying to make up for lost ground, but not when they are outpacing income or population growth.

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