

## Philadelphia's Housing Market Decelerates in Q4

**Both price appreciation and home sales activity pause from their recent paces.**

**February 13, 2017:** After having its most frenetic year since the Great Recession, Philadelphia's housing market decided to end the year on a time out. Following several quarters in which both prices and sales volume set all-time highs, this past quarter saw citywide house prices level off while sales returned to their historically normal level.

Philadelphia house prices decreased by an average of 0.8% 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 declined from \$149,900 to \$140,000. Although the 0.8% decline is statistically indistinguishable from 0%, it was the first decline in the citywide house price index since the first quarter of 2014.

House price changes were generally flat across most of the City's neighborhoods, with almost all neighborhoods experiencing changes in the low single percentages. From smallest to largest, the average change in house prices by neighborhood in Q4 was: University City (-5.9%), West Philadelphia (-3.0%), Kensington/Frankford (-2.9%), Center City/Fairmount (-2.4%), North Philadelphia (-2.2%), Northwest Philadelphia (-0.1%), Upper Northeast Philadelphia (+1.1%), Lower Northeast Philadelphia (+2.3%) and South Philadelphia (+2.4%).

Home sales volume in Q4 also reverted to normal levels. 3,835 houses transacted under arms-length conditions in Q4. This is a decline of 28% from 5,358 transactions in the previous quarter. However, although this decline may seem large, it is because home sales activity was running well above its historic average during most of 2016. Sales of million-dollar-plus homes also declined in Q4, from 37 to 15 such transactions. While this may also appear to be a dramatic decline, it places current sales activity very close to its post-recession average. The most recent numbers led housing analytics firm Zillow to downgrade its temperature rating of Philadelphia's market from "Very Hot" to "Warm"<sup>1</sup>.

Even with the recent moderation of market activity, 2016 marks the best year for Philadelphia's housing since the boom years of the housing bubble over ten years ago. Despite the most recent quarter's decline in both prices and sales, citywide house prices are still an average of 11.6% higher than they were one year ago, while home sales volume is up 4% from the same time last year. Moreover, the price gains throughout 2016 were sufficient to finally erase the loss in house values that occurred during the recession. The citywide house price index ended the year with the general level of house prices in Philadelphia being 10% higher than they were during their last pinnacle, which occurred at the peak of the housing bubble back in mid-2007.

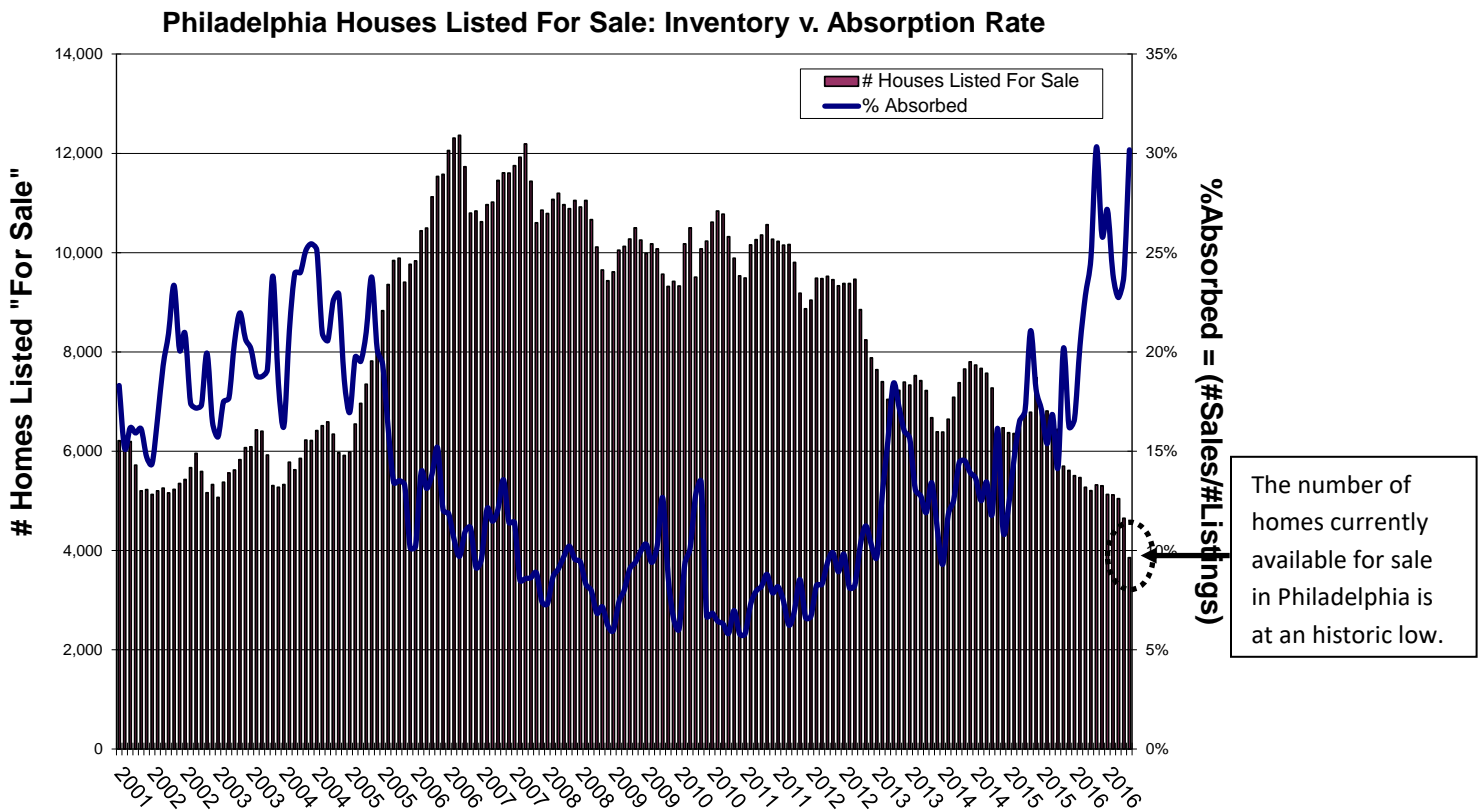
Whether the recent cooling in the temperature of Philadelphia's housing market is just a typical seasonal blip (prices and sales almost always decline during the cold weather months) or is part of a longer-term slowdown remains to be seen. It should be noted that Philadelphia tends to lag most other large metro areas in its housing market indicators, and most other U.S. cities have already experienced a relative cooling. For example, Case-Shiller's 10-City Composite Index (which covers ten large metro areas in the

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<sup>1</sup> Source: <http://www.zillow.com/philadelphia-pa/home-values/>

U.S.) experienced aggressive appreciation in the 5-12% range from 2013-2015. But since then, average annual appreciation has declined to approximately 5%. By contrast, Philadelphia's annual house price appreciation is currently running at 11.6%.

A key metric to watch, going forward, will be housing inventories: the number of homes listed for sale. Currently, there are approximately 4,000 homes listed for sale in Philadelphia County. Although this number fluctuates over the course of the housing cycle, it is currently well below its historic average of approximately 6,000 homes.



Source: TrEND MLS

Typically, such low levels of supply relative to demand would be placing upward pressure on house prices. While this was likely at least a partial factor in explaining the city's aggressive appreciation in house prices for most of 2016, it remains a question why prices and sales moderated in the most recent quarter while inventories continued to decline. A possible explanation may be that the recent highs in house prices have caused many households to either balk at paying such high prices, and/or rendered them unable to buy since prices have been recently rising faster than most household incomes. An additional explanation could be that such a low supply of homes for sale has drastically limited the selection for homebuyers, causing them to decide to wait until a greater variety of homes are listed for sale—and at perhaps more reasonable prices—before choosing the home that is both "right" for them and is also at the "right" price for their budgets.

Going forward, the currently moderate conditions will likely continue through the remainder of the winter months, which is almost always a relatively slow time of year for the local housing market. The spring's numbers that will be revealed in the second quarter should indicate whether the current cooldown is part of a temporary seasonal pattern...or is indeed part of a longer-term shift towards a more balanced market.

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