

Philadelphia's Housing Market Shows Unusual Seasonal Pattern in Q1 **Both price appreciation and home sales volume exhibit uncharacteristic strength.**

May 2, 2017: During what is typically the slowest time of year, Philadelphia homebuyers were quite active this past winter. However, the atypical rise in both sales and prices was not evenly spread across all areas of the city.

After taking a brief pause in Q4 of last year, Philadelphia's house prices increased by an average of 5.0% on a quality- and seasonally-adjusted basis in Q1 of this year, according to data from the City's Recorder of Deeds and Trend MLS. Although the citywide median house price declined from \$140,000 to \$137,500 during this period, the average price actually increased from \$169,833 to \$175,042.

However, the changes in house prices during Q1 also showed an exceptionally large degree of variation across different neighborhoods, with neighborhoods in and around Center City generally experiencing the greatest appreciation. From smallest to largest, the average change in house prices by neighborhood in Q1 was: University City (-9.0%), Upper Northeast Philadelphia (-1.9%), North Philadelphia (+0.5%), Northwest Philadelphia (+1.2%), Center City/Fairmount (+6.7%), Lower Northeast Philadelphia (+6.7%), West Philadelphia (+7.9%), South Philadelphia (+9.0%) and Kensington/Frankford (+10.5%).

Home sales volume in Q1 was also both exceptionally and unusually strong. 4,375 houses transacted under arms-length conditions in Q1, up from 3,835 in the previous quarter and up from 3,915 in the same quarter last year. This is exceptional because it was the strongest Q1 since 2007 (5,171 sales) and unusual because home sales activity typically declines from Q4 to Q1, due to the holidays and winter weather.

Million-dollar sales also continue to perform well. 30 homes transacted at a price of one million dollars or more in Q1. That is third-highest quarterly level of million-dollar home sales in Philadelphia's history, behind only 2016 Q3 (37 sales) and 2015 Q3 (34 sales).

A likely driver of this seasonally uncharacteristic price appreciation is the very low level of current inventories (homes listed "for sale"). Currently, the Months' Supply of Inventory in Philadelphia stands at 4.4 months. This is how long it would take to sell off the entire inventory of houses currently listed "for sale", given the current pace of sales. Typically, 5-7 months is considered a "balanced" market. The last time that current inventories were so low was during the bull market of 2004.

Another unusual dynamic in the current pattern of price changes is that homes in the upper end of the housing spectrum have been steadily increasing in price by more than homes in the lower end of the spectrum. Ever since the local housing market began its current recovery in 2012, the average house price in Philadelphia (which the index measures) has been growing faster than the median house price. Moreover, this is not only true citywide, but within individual neighborhoods as well.

As a consequence of these recent numbers, housing analytics firm Zillow recently upgraded its current characterization of Philadelphia's housing market from "Warm" to "Hot", and is projecting house prices to increase 3.5% over the next 12 months. Until the supply of homes available for sale increases, it seems reasonable to expect the upward pressure on Philadelphia's house prices to continue in the near term.

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