

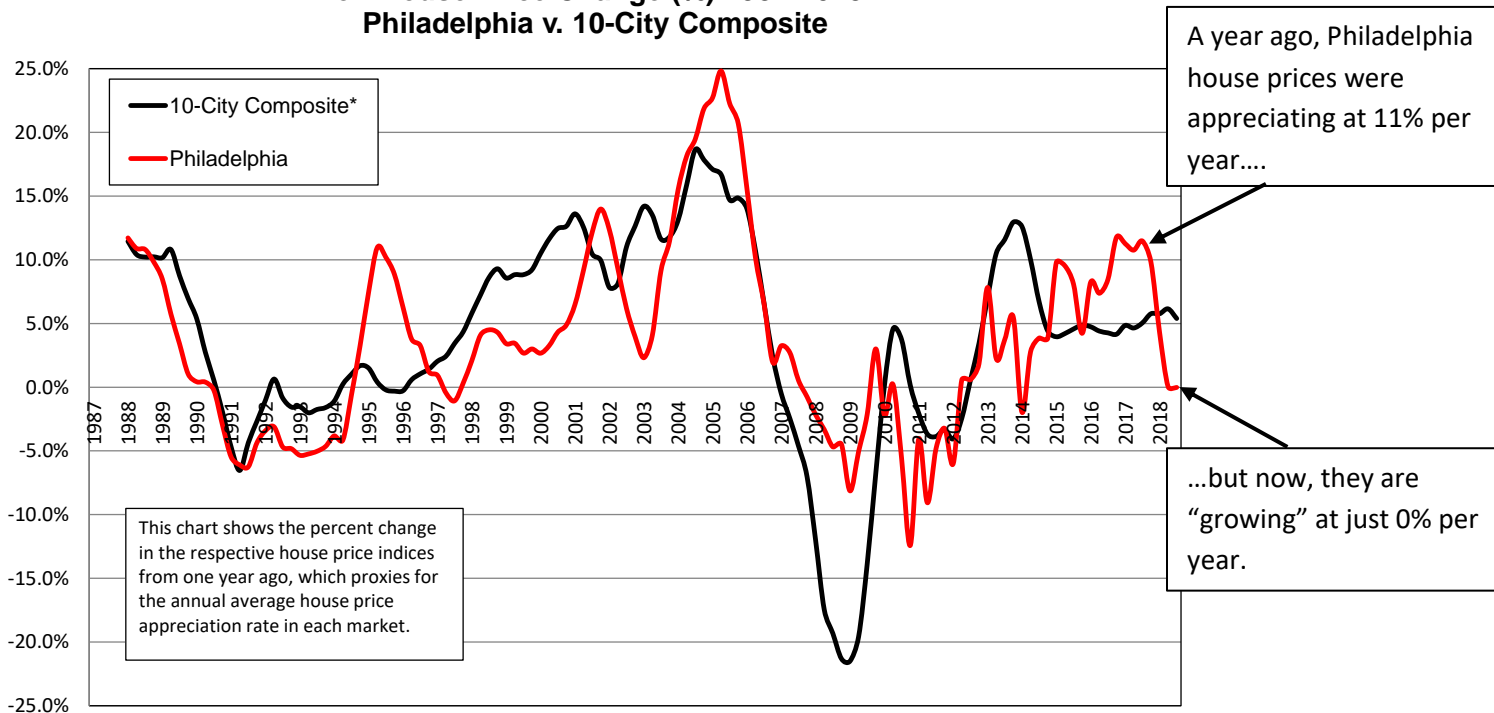
Philadelphia's Housing Market Shows More of the Same in Q3

Strong sales volume but decelerating prices persist.

October 24, 2018: The recent summer months have essentially continued the spring's trends. Here's the latest numbers for 2018 Q3:

- **The average price of Philadelphia homes rose modestly in Q3 on a quality- and seasonally-adjusted basis.** The general level of house prices in the city increased by 2.1% in Q3. Although this was an escalation over the previous quarter's price growth of 0.9%, it was still the same rate of appreciation that occurred in Q3 of last year.
- **With the recent deceleration in prices after several years of above-average appreciation, the typical Philadelphia home is worth no more today than it was one year ago; i.e. YoY appreciation is 0%.** Several quarters of price declines followed by the two most recent quarters of only modest price increases have effectively cancelled each other out. As such, the general level of house prices in Philadelphia is at the same level as it was one year ago. This is a significant deceleration from the same time last year, when average prices were appreciating at an annualized rate of 11%.

**YoY House Price Change (%) 1987-2018:
Philadelphia v. 10-City Composite**



*Source: S&P/Case-Shiller. The 10-City Composite index includes Boston, Chicago, Denver, Las Vegas, Los Angeles, Miami, New York, San Diego, San Francisco, and Washington, DC. It does not include Philadelphia.

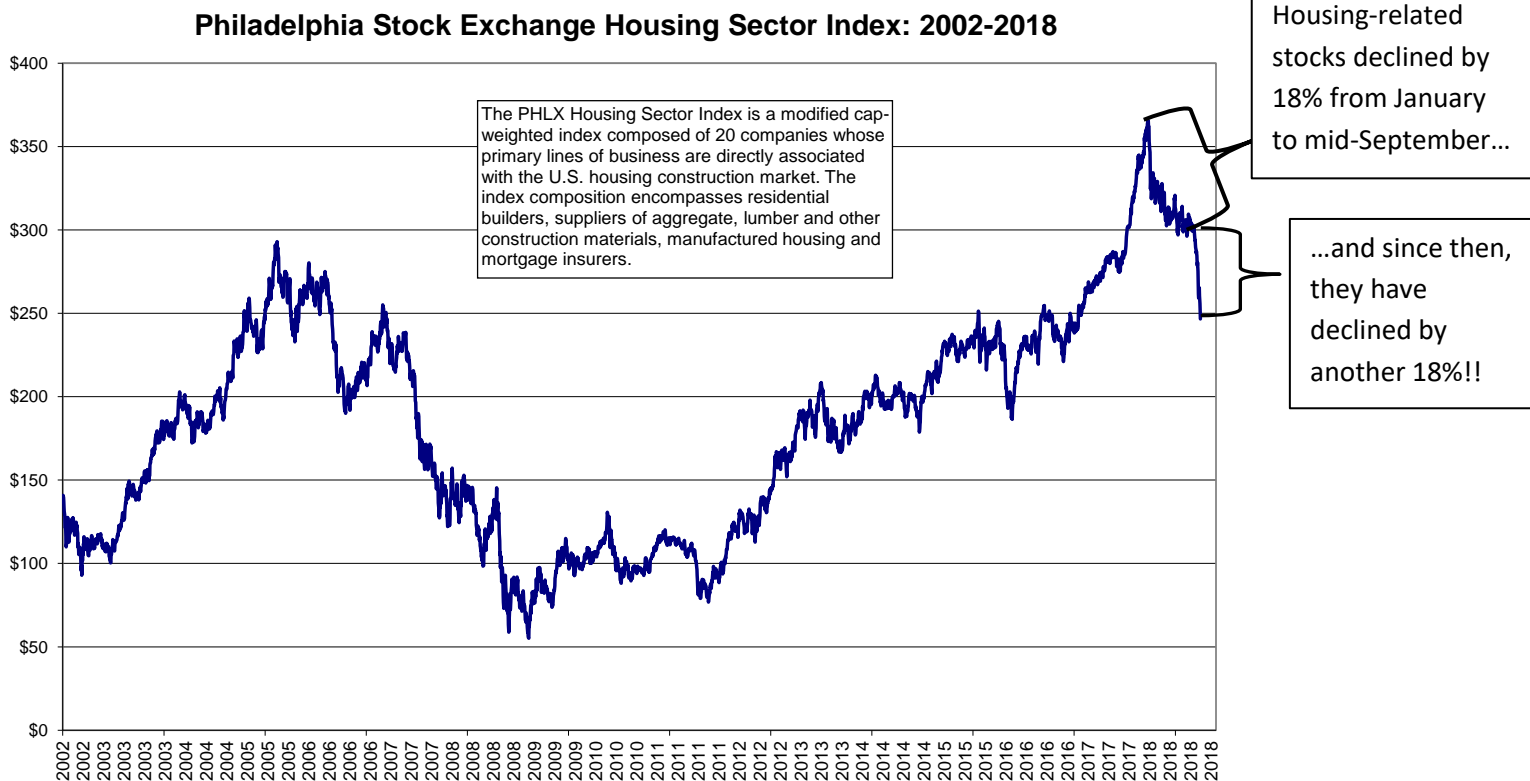
- **Median house prices are also flat.** The median house price in Philadelphia in Q3 was \$160,000. This is only \$100 more than the median price of \$159,900 that occurred in the same quarter last year¹. The median house price is the exact midpoint of prices that all houses have transacted for.
- **House price changes in individual submarkets were mostly positive but also relatively modest.** From smallest to largest, the average quarterly change in seasonally- and quality-adjusted house prices by submarket was: Center City/Fairmount (-1.3%), South Philadelphia (+0.6%), Northwest Philadelphia (+0.7%), West Philadelphia (+2.4%), Lower Northeast Philadelphia (+2.5%), Upper Northeast Philadelphia (+2.6%), Kensington/Frankford (+3.4%), North Philadelphia (+3.7%) and University City (+6.2%).
- **House prices may be cooling, but home sales activity definitely remains hot.** There were 6,403 arms-length sales in Q3, up 14.6% from 5,585 home sales in the same quarter one year ago². This is the second-highest volume of quarterly home sales since the current market began its post-recession expansion in 2012. It is also the highest Q3 volume since 2006, when the last bull market in housing occurred.
- **Million-dollar home sales remain high, but show increased signs of dropping.** There were 35 sales of houses at a price of one million dollars or more in Q3. Although this remains well above the post-recession average of 24 such sales per quarter, it is down slightly from 38 in the same quarter one year ago. A similar pattern occurred in both Q2 and Q1 of this year. Million-dollar sales are considered by many housing analysts to be a leading indicator for the overall market, as they typically involve financially sophisticated parties.
- **Housing inventories (the number of homes listed for sale) still remain very low, but did exhibit a slight increase this quarter.** There are currently 3,974 houses listed for sale in Philadelphia. This is well below its historic average of approximately 6,000 units that typically prevails under more normal market conditions. However, this number has risen from its all-time low of 3,742 houses that occurred in March of this year. With this recent increase, the Month's Supply of Inventory (MSI³) has risen to 3.6 months; its first increase since February of this year. While this is encouraging, it should still be considered to be far too early to call it a trend. As such, current market conditions will continue to favor sellers over buyers in Philadelphia.
- **The recent numbers have improved housing affordability for most Philadelphians.** One upside to the recent cooling of house prices is enhanced housing affordability in the city. Because house prices have been growing faster than local household incomes in recent years, the relative affordability of most area homes has been declining. However, the Philadelphia Housing Affordability Index (which is the ratio of median house prices to median household incomes), has recently leveled off. Currently, the index's value of 2.9 is exactly the same as it was just over one year ago, following several years of increases. Since housing affordability has been the subject of significant policy debate among both city officials and community stakeholders during the past year, this leveling off of affordability should hopefully provide at least some relief for all of the parties who are involved in this important public discussion.

¹ Since raw home prices are highly seasonal, it is more common to compare quarterly prices to the same quarter one year ago rather than to the previous quarter.

² Like raw house prices, the sales volume of homes exhibit substantial seasonal fluctuations that are independent of the market's or economy's cycle. So, it is standard industry practice to compare these numbers to the same time period one year ago rather than to recent months or quarters.

³ A 5-7 months' supply is typical of a balanced market. Anything less than 5 months is considered in the industry to be a "seller's market".

Financial markets have recently grown bearish on housing—and increasingly so. Currently, the Philadelphia Stock Exchange’s Housing Sector Index⁴ (which tracks housing-related stocks) is not only down from its previous peak, but its decline has accelerated dramatically in recent weeks.



After hitting an all-time high of \$366/share in January of this year, the index fell by 18% to a price of \$300/share just over one month ago. However, in the four weeks since then, it has declined another 18% to a price of \$247/share. The last time that the index experienced such a sharp decline in such a short period of time was in 2007, when the previous housing bubble began to burst. Although Philadelphia generally tends to lag national housing trends, there continues to be growing evidence that most market-watchers and investors believe that at least the national cycle would seem to be at or approaching its peak.

Looking forward, it would seem reasonable to expect a general slowdown in Philadelphia’s housing market as time proceeds into both the holiday season and the colder winter months as part of the region’s typical seasonal pattern. However, if the market’s numbers for the next few quarters exceed their typical decline, then this would seem to support increasingly bearish sentiment at both a local and national level.

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If you would like Dr. Gillen to address your organization, business or community group with a presentation on recent trends in the local economy and real estate market, he would be happy to do so...and it’s absolutely free! Just contact him at the email address above.

⁴ The index was created by the Philadelphia Stock Exchange, but is not limited to local companies or local conditions. It is a broad-based measure of the value of publicly-traded companies whose primary line of business is the U.S. housing market. More information here: <https://www.investopedia.com/terms/p/phlx-housing-sector-index.asp>