

Philadelphia's Housing Continues to Exhibit Flat Prices but Strong Sales in Q4

YET: Inventories fall to an all-time historic low, million-dollar sales drop sharply and Zillow downgrades Philadelphia's market temperature from "Hot" to "Warm".

January 28, 2019: House price appreciation remains very modest while sales volume remains strong. But, there's a few wrinkles. Here's the latest numbers for 2018 Q4:

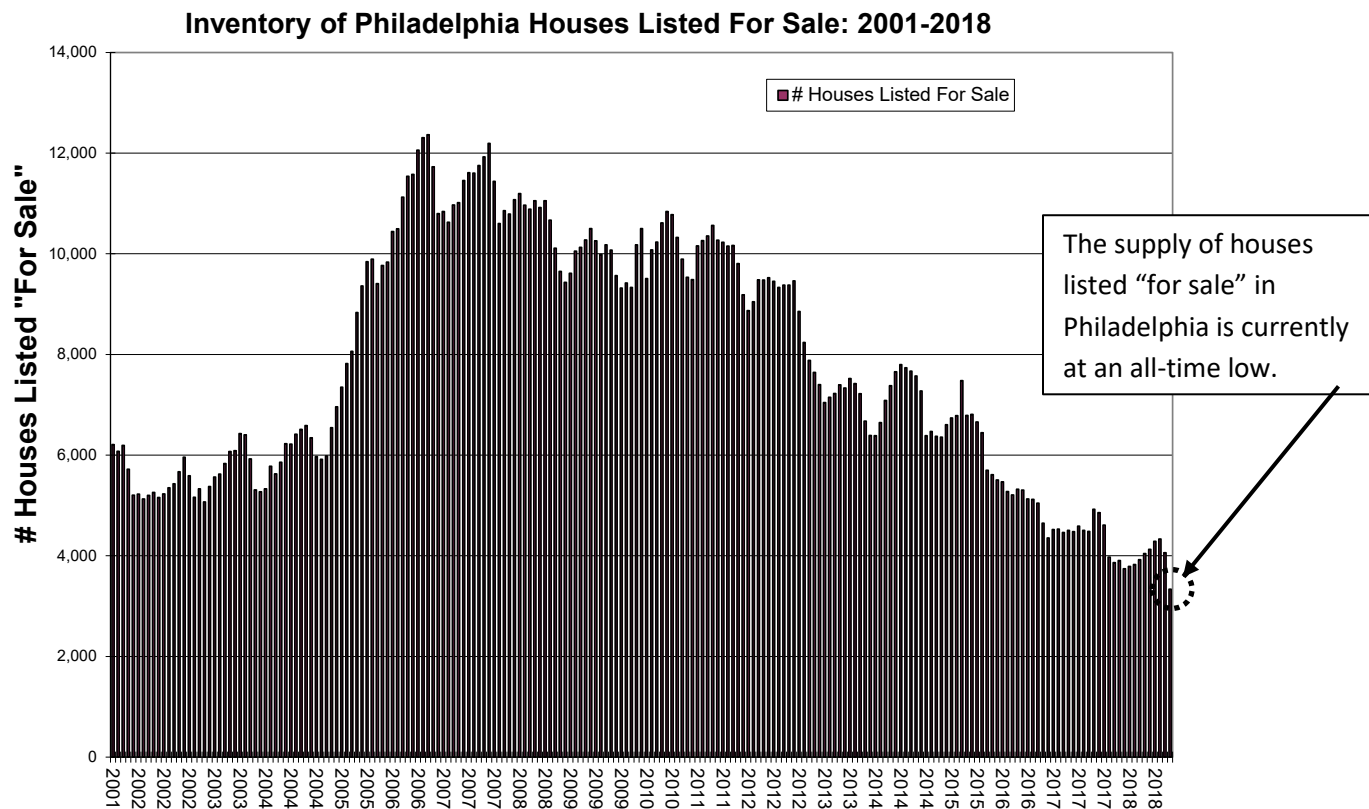
- **The average price of Philadelphia homes rose slightly in Q4 on a quality- and seasonally-adjusted basis.** The general level of house prices in the city increased by 1.1% in Q4. This was a deceleration over the previous quarter's price growth of 2.1%.
- **Philadelphia's house prices are up 4.2% from one year ago (YoY).** However, much of this increase was due to reductions in past values of the house price index as seasonally-induced volatility has been decreased; i.e smoothed out¹ due to a new algorithm used to compute the index, rather than recent increases in house prices. Moreover, this YoY increase is also a significant deceleration from previous Q4s: in 2017 Q4, prices were up 6.4% YoY, and in 2016 Q4, prices were up 11.8% YoY.
- **Median house prices remain essentially flat, while average house prices have actually declined...slightly.** The median house price in Philadelphia in Q4 was \$161,000, which is barely up from \$160,000 in the previous quarter. The median house price is the exact midpoint of prices that all houses have transacted at. The average house price in Q4 was \$192,447, which is down from \$193,695 in the previous quarter.
- **House price changes in individual submarkets were very modest, but are down from their rate of change one year ago.** The average quarterly change in the submarket-level house price indices in 2018 Q4 was 1.3%. In 2017 Q4, it was 1.9%. From smallest to largest, the average quarterly change in seasonally- and quality-adjusted house prices by submarket was: Center City/Fairmount (-0.3%), Northwest Philadelphia (-0.1%), South Philadelphia (-0.1%), Kensington/Frankford (+1.2%), Upper Northeast Philadelphia (+1.6%), Lower Northeast Philadelphia (+1.7%), University City (+2.2%), West Philadelphia (+2.4%) and North Philadelphia (+2.8%).
- **Home sales activity remains exceptionally strong.** There were 5,513 arms-length sales in Q4, up 5.1% from 5,245 home sales in the same quarter one year ago². ~3,900 is the City's historic quarterly average. This is the highest sales volume in Q4 since the current bull market in local

¹ Technical note: the econometric method by which the house price index is computed has been modified to more accurately adjust for seasonal (i.e. non-market) fluctuations in house prices. Seasonality has become more pronounced in Philadelphia's house prices since 2005. The current regression model which computes the price index has implemented a more sophisticated method to control for these larger seasonally-driven movements in house prices. The result is a less volatile house price index, but past values of the index have changed from previous reports produced by this author. For further details, contact: Kevin.C.Gillen@Drexel.edu

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 a standard industry practice to compare these numbers to the same time period one year ago rather than to recent months or quarters.

housing began its post-recession expansion in 2012. And, it is also the highest Q4 volume since 2006, when the last bull market in housing occurred.

- **Million-dollar home sales continue to show increased signs of dropping.** There were 22 sales of houses at a price of one million dollars or more in Q4. There were 35 sales of houses at a price of one million dollars or more in Q3. Although the current quarter's volume is in line with the post-recession quarterly average of 24 such sales, these numbers continue to show YoY declines. There were 49 such sales in the same quarter last year; a 55% decline to today. A similar pattern occurred in all the other quarters in 2018. **Consequently, 2018 is the first year since the last recession that total +\$1m sales have shown a total Year-on-Year decline.** Million-dollar sales are considered by many housing analysts to be a leading indicator for the overall market, as they typically involve buyers and sellers who are relatively more financially sophisticated and market-savvy than most.
- **Housing inventories (the number of homes listed for sale) plunged to a new all-time low in Philadelphia.** From October to December, housing inventories dropped by nearly 1,000 units, from 4,331 to 3,336. Although inventories typically show a seasonal decline as the region transitions from the warm to cold weather months, this is now the lowest number of houses available for sale in Philadelphia since these numbers began being reported in 2001.



Nationally, most numbers continue to point towards a cooling housing market. Philadelphia's current exceptionalism is likely due to two factors: First, Philadelphia's strong sales volume (demand) combined with low inventories (supply) is likely providing significant upward support for house prices. Second, it should be remembered that Philadelphia tends to lag the national market. During the last cycle, house price growth in most other large U.S. cities began slowing in 2004, while prices didn't begin decelerating in Philadelphia until 2005. So, if you would like some other national indicators to suggest where we are heading: housing-related stocks have fallen precipitously in the last 7 months, homebuilder sentiment in

the northeast has recently moved from “mostly optimistic” to “mostly pessimistic”, and **Zillow has just officially downgraded its temperature for Philadelphia’s housing market from “Hot” to “Warm”³**.

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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.

³ See the slide deck that accompanies this commentary for charts showing these trends.
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