

Philadelphia House Prices Show Biggest Decline in Nearly 10 Years **Citywide house values experience their largest quarterly drop since the Great Recession.**

April 23, 2019: House prices fall while sales volume remains steady. Here's the latest numbers for 2019 Q1:

- **The average price of Philadelphia homes fell by 5.7% in Q1 on a quality- and seasonally-adjusted basis.** This decline comes on the heels of price deceleration over several previous quarters. It is the largest quarterly decline since 2010 Q1, when house prices were declining in response to the bursting of last decade's housing bubble.
- **Philadelphia's house prices are down 1.2% from one year ago (YoY).** This decline also follows several quarters of cooling in YoY house prices. It is also only the second time that Philadelphia has seen a YoY drop in house prices since 2012, when the current expansionary cycle in housing began.
- **The city's median house price also exhibited a large decline in Q1.** The median house price in Philadelphia in Q1 was \$143,800; a 10.7% drop from \$161,000 in the previous quarter¹. Additionally, the city's median house price is down 4.1% from one year ago. These are the largest quarterly and annual declines in 5 years. The median house price is the exact midpoint of prices that all houses have transacted for in a given period.
- **In contrast to recent quarters, house price changes in individual submarkets were both mixed and relatively large in magnitude.** From smallest to largest, the average quarterly change in seasonally- and quality-adjusted house prices by submarket was: University City (-15.2%), North Philadelphia (-8.1%), Northwest Philadelphia (-7.5%), Upper Northeast Philadelphia (-1.8%), Lower Northeast Philadelphia (-0.8%), Center City/Fairmount (-0.6%), South Philadelphia (+2.0%), West/Southwest Philadelphia (+3.0%) and Kensington/Frankford (+6.7%).
- **Home sales activity remains fairly strong, but its growth has slowed considerably.** There were 4,745 arms-length sales in Q1, up 3.3% from 4,595 home sales in the same quarter one year ago². ~3,900 is the City's historic quarterly average. This is the smallest YoY change in sales volume since the current bull market began in 2012.
- **The pace of home sales has slowed dramatically.** The average number of days that it takes a home in Philadelphia to sell (DOM) increased sharply in Q1, from 38 days to 61 days; a whopping 61% increase. Although DOM typically increases as the market transitions from the winter to spring months, this is a much larger-than-average increase.

¹ Median house prices show greater volatility than the house price index because the index is computed in a way that controls for seasonally-driven volatility and other statistical noise that is common in raw house price data.

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 inventories (the number of homes listed for sale) remain at an all-time low in Philadelphia.** There are currently 3,363 houses listed for sale in Philadelphia, which is essentially unchanged from the 3,336 reported three months ago. Historically, there is typically ~5,000 houses listed for sale in any given month in Philadelphia.
- **Zillow has significantly downgraded its forecast for Philadelphia's house prices.** Currently, Zillow is predicting that house prices in the city will increase by 8.4% over the course of the next 12 months. Three months ago, Zillow's forecast was predicting a 17.3% increase³.

Cumulatively, the numbers continue to uniformly indicate a cooling—if not turning—of the local housing market. While low inventories have consistently been exerting upward pressure on house prices, this quarter's decline could indicate that prices have finally exceeded the threshold of what most households can afford, or simply that buyers are unwilling to pay the high prices that these homes are being listed at. Inventories have already begun to increase in many other metro areas across the U.S., providing some relief to the rapid house price appreciation in these markets. Since Philadelphia tends to lag the national housing market, this could be taken as an indicator of what to expect in the near future. If so, expect further downward pressure on local house prices.

Email for Kevin Gillen: Kevin.C.Gillen@Drexel.edu

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 It should be noted that Zillow has been consistently and overly optimistic in its forecast for Philadelphia during the current bull market.