

Philadelphia's Housing Market Shows Continued Deceleration Building permits surge to all-time highs as inventories plummet to all-time lows.

March 18, 2020: Strong but slowing house prices and sales characterize the current market. And, some other market indicators give some further guidance. Here's the latest numbers:

- **The average price of Philadelphia homes rose by 1.1% in Q4 on a quality- and seasonally-adjusted basis.** This modest increase continues the local market's recent trend of positive, but slowing house price appreciation.
- **Philadelphia's house prices are currently up an average of 2.9% from one year ago (YoY).** This increase is below the city's historic annual average appreciation rate of 4.5%, and is down from the YoY increase from one year ago, at the end of 2018. From 2016 through 2018, annual house price appreciation in Philadelphia averaged 8.2%. Hence, the current YoY number is also indicative of slowing house price growth.
- **The city's median house price exhibited a similar pattern of deceleration.** The median house price in Philadelphia in Q4 was \$166,750; a 1.9% decrease from \$169,900 in the previous quarter. However, the YoY change in the median house price was +3.6%. While this latter number is positive, it is still a deceleration from the YoY change in median prices of +7.3% at the end of 2018. It should be noted that median house prices are typically more volatile than the house price index, primarily due to seasonally-driven fluctuations¹.
- **House price changes in individual submarkets were also generally positive, but varied.** From smallest to largest, the average annual change in seasonally- and quality-adjusted house prices by submarket was: University City (-2.4%), Center City/Fairmount (-1.1%), Northwest Philadelphia (+1.7%), Kensington/Frankford (+1.8%), South Philadelphia (+2.2%), Lower Northeast Philadelphia (+4.6%), Upper Northeast Philadelphia (+5.6%), North Philadelphia (+5.7%) and West/SW Philadelphia (+9.7%).
- **Home sales activity remains high, but appears to have peaked.** There were 5,599 arms-length sales in Q4, up slightly from 5,513 home sales in the same quarter one year ago². However, total home sales volume declined in 2019 from 2018 levels: 22,035 sales v. 22,971 sales, respectively. While this is a modest decline, it is the first YoY decline in home sales activity since the current expansionary cycle began in 2012. However, even with this significant decline, overall home sales volume is still running well above average: historically, ~15,800 houses change hands every year in Philadelphia.

¹ House prices typically fall as the calendar transitions from the warm weather months to the cold weather months, regardless of overall market conditions. Since the regression that computes the house price index controls for seasonality, as well as the characteristics of the homes that transact, it typically shows a much more modest—and accurately measured—change in house prices.

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.

- **The pace of home sales continues to slow.** The average amount of time that it takes a home in Philadelphia to sell is currently 58 days (DOM). This number previously peaked during the last recession at 95 days back in 2011. From there it has declined fairly steadily as the housing market recovered, before hitting a low of 38 days in 2018. It has since been rising for the last 18 months³.
- **Housing inventories (the number of homes listed for sale) have plunged to a new low.** There are currently 2,758 houses listed for sale in Philadelphia, which is the first time this number has fallen below 3,000 since it began being tracked back in 2001. As recently as November of last year, there were nearly 4,000 homes listed for sale. Typically, there have been ~5,000 houses publicly available for sale in any given month in Philadelphia. With such a low supply, Philadelphia's market continues to favor sellers over buyers⁴.
- **The Diffusion and Dispersion Indices for Philadelphia's housing market suggest that the market is beginning to transition.** These indices, which are contained in the slide deck accompanying this commentary, compare changes in house prices across submarkets to determine when a market is nearing a turning point; i.e. a peak or trough. These indices are currently approaching levels seen back in 2008 just before the last housing downturn (and recession) occurred.
- **Building permits surged at the end of 2019 to an all-new high.** As recently as October of last year, 2014 appeared to be the high water mark for residential building permits in Philadelphia: nearly 4,000 new housing units filed for permits that year. But a late surge in permit applications has now made 2019 the new record year: permits to build 4,566 new housing units were completed by the end of 2019. The likely cause of this last minute surge was the debate and passage of a bill to curtail Philadelphia's Ten-Year Property Tax Abatement in the final months of 2019. Since this program is considered by most local builders to be a critical factor in facilitating the construction of new market-rate housing in Philadelphia, many likely sought to obtain the permits under the previously existing abatement ordinance before the new legislation could take effect.

After several strong years of strong and consistent growth in house prices, house sales and homebuilding, the initial numbers in early 2019 began showing a more muddled picture. But, these most recent numbers provide mounting evidence of a market that is decelerating. The critical factor working against a future decline in house prices is the unprecedented low levels of housing inventory. If buyer demand remains strong, then a general pattern of deceleration—but not decline—is what would normally be expected. Of course, the recent curtailment of both business and social activities taken as precautions against the spread of COVID-19 (aka the “novel coronavirus”) is the latest development. While its effects are yet to be seen in the housing numbers, you can certainly expect them to eventually be seen.

However, if you would like a preview, here's a very timely chart using data that is only 24 hours old as of the time of this report:

³ There are some seasonally-driven fluctuations in this number from month to month.

⁴ The National Association of Realtors characterizes a market as being a “Seller's Market” if the local Months' Supply of Inventory (MSI) is less than 5 months. Philadelphia's MSI is currently 3.0 months. It has been below 5 months since 2016.

Philadelphia Stock Exchange Housing Sector Index: 2002-2020



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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.