

## Philadelphia's Housing Market Appears to Hold Steady in Q1 However, there is a very big caveat...

**April 28, 2020:** Reasonably stable numbers are reported for Q1, but they are likely to be less timely than what they indicate. Here's the latest numbers, courtesy of Houwzer:

- **The average price of Philadelphia homes rose by 2.1% in Q1 on a quality- and seasonally-adjusted basis.** This modest increase continues the local market's continuing trend of positive, but generally decelerating house price appreciation.
- **Philadelphia's house prices are currently up an average of 3.6% 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 5.6% YoY increase from one year ago, in Q1 of 2019.
- **The median house price in Philadelphia in Q1 was \$193,500.** Although this would appear to be a significant increase from the previous quarter's median price of \$166,750, it is likely due to the fact that the data for this quarter's analysis was limited to transactions listed on the local MLS<sup>1</sup>, rather than the universe of all transactions (MLS-listed sales tend to exclude very low-priced properties). The fact that the regression which computes the average price increase (and controls for the differing characteristics of houses that sold) shows a much smaller increase supports this conclusion.
- **House price changes in individual submarkets were also generally positive, but also modest.** From smallest to largest, the average annual change in seasonally- and quality-adjusted house prices by submarket was: South Philadelphia (-1.8%), University City (-0.1%), West/SW Philadelphia (+1.8%), Northwest Philadelphia (+2.2%), Center City/Fairmount (+3.6%), Upper Northeast Philadelphia (+3.9%), Kensington/Frankford (+4.8%), Lower Northeast Philadelphia (+5.7%) and North Philadelphia (+5.8%).
- **Home sales activity was unseasonably high this winter.** There were 2,896 arms-length sales recorded on the MLS in Q1, up 12.5% from 2,574 home sales in the same quarter one year ago<sup>2</sup>. This is notable because sales activity in the first quarter of the year tends to be the lowest of any time of year, primarily due to the winter weather. But, anecdotal evidence from realtors and other industry professionals indicated that this year's exceptionally mild winter saw much greater foot traffic and buyer interest than usual.

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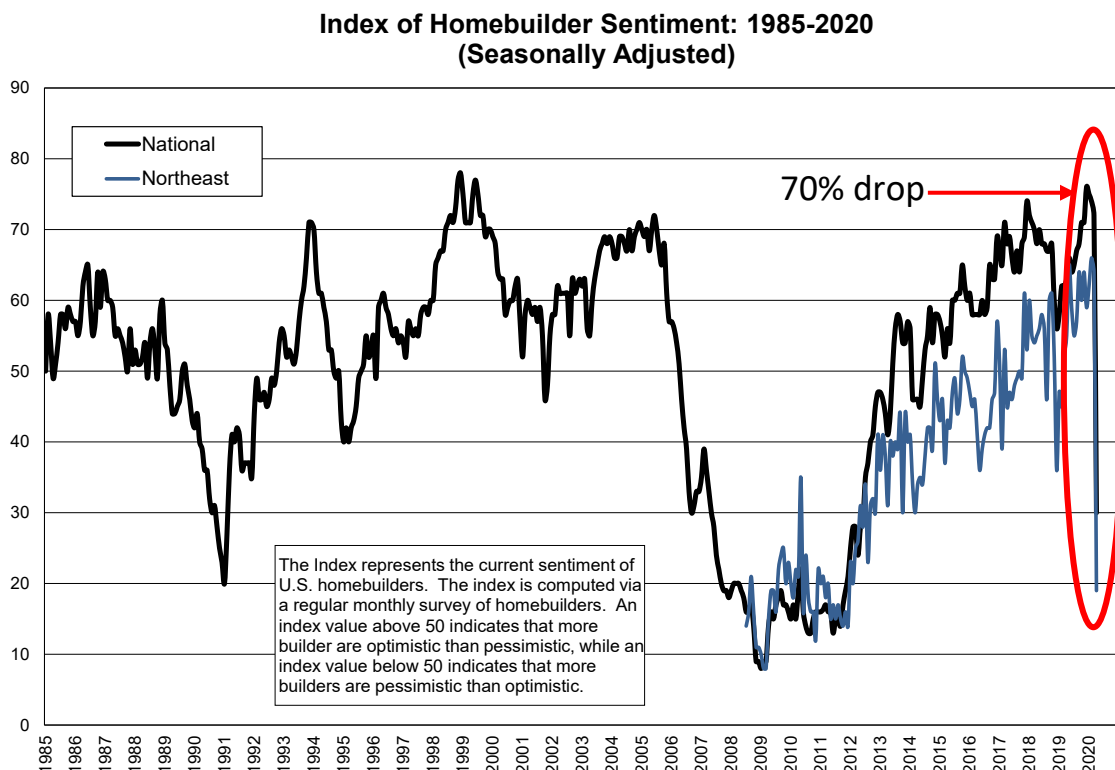
<sup>1</sup> Presumably because of the pandemic, the City's recording of deeded title transfers exhibited a significant delay this past quarter. As of the time of this writing, its data is still not complete through the end of Q1. So, in light of the urgency of current market conditions, we made the decision to produce this report using just the complete set of sales recorded on the local MLS.

<sup>2</sup> 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) hit another new low.** There are currently 2,752 houses listed for sale in Philadelphia, which is well below the historical average of approximately 5,000 houses typically available for sale in any given month in Philadelphia. At the current pace of sales, the total supply of currently listed houses would be exhausted in 2.6 months. Typically, a supply of 5-7 months is considered typical of a balanced market.
- **Zillow’s house price forecast for Philadelphia has turned negative.** Housing analytics firm Zillow is currently projecting the general level of house prices in Philadelphia to decline by 1.1% over the course of the next year. Its previous forecast was for an annual increase of 4.1%.
- **Lastly—and perhaps surprisingly—it should be noted that the numbers for March (when the pandemic and the countermeasures taken against it hit) did not differ significantly from the rest of the quarter.** The prices and sales volume for just the month of March were broken out separately from the data, and they did not indicate any significant plunge from either January or February, or even from March of last year.

While these numbers give some cause for optimism, they should be interpreted in context. In particular: MLS data exhibits a significant lag. All of the transactions data analyzed for this report used home sales which had a closing date between January 1 and March 31 of this year. However, closing dates often occur well after a price has been agreed upon and/or an agreement of sale has been signed. Typically, 40-60 days is the normal amount of time it takes between the time a home is listed for sale and the actual closing occurs. As such, this implies that the closings which occurred in March disproportionately reflect the market conditions that prevailed in previous months—before the pandemic and its economic impact began to be felt—and hence are unlikely to reflect current market conditions.

Next quarter’s report will be more likely to indicate how the local housing market is reacting to the current adverse environment. But, as an example of one leading indicator, here is the NAHB’s Homebuilder Sentiment Index updated through March:



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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.*