

Philadelphia's Housing Market Moves from Red Hot to White Hot in Q4 **Prices, Sales and Turnover accelerate...and Philadelphia's Price Appreciation Surpasses Most US Cities**

February 24, 2021: 2020 may have been unpleasant for people, but not for houses. Here's the latest numbers:

- **The average price of Philadelphia homes rose by 5.0% in Q4 on a quality- and seasonally-adjusted basis.** This is a significant acceleration from the previous quarter's rate of 0.7%.
- **Philadelphia's house prices are currently up an average of 12.8% from one year ago (YoY).** This increase is nearly triple the city's historic annual average house price appreciation rate of 4.5%, and it is also an acceleration of the YoY increase of 8.4% that Philadelphia experienced in the previous quarter. The last time that Philadelphia saw such large double-digit appreciation was in 2006.
- **After breaking the \$200,000 barrier for the first time in Q2, the median house price in Philadelphia broke another record by hitting \$210,000 in Q4.** This was just the second time in 12 months that Philadelphia broke this record.
- **Philadelphia is also outpacing most other large US cities...and by a large margin** Philadelphia's house prices increased by an average of 12.8% in 2020, while Case-Shiller's 10-City composite house price index (which excludes Philadelphia) is up by just 9.8% during the same period.
- **Annualized (YoY) house price changes in individual submarkets continue to be uniformly positive—and also well above their historic averages—but were also generally higher in the outer neighborhoods than in the central ones.** From smallest to largest, the average annual change in seasonally- and quality-adjusted house prices by submarket was: University City (+3.2%), Center City/Fairmount (+3.9%), South Philadelphia (+5.6%), Kensington/Frankford (+7.4%), Lower Northeast Philadelphia (+10.2%), Upper Northeast Philadelphia (+13.1%), Northwest Philadelphia (+15.7%), North Philadelphia (+17.0%) and West/SW Philadelphia (+22.4%).
- **Home sales continue to surge forward following their pandemic-driven contraction.** After plunging to an 8-year low in Q2 (due to both COVID and government-imposed restrictions on showing homes), sales activity have since risen sharply. The number of arms-length transactions in Q4 was 6,097, which was up from 5,339 in Q3, which in turn was up a whopping 71% from just 3,127 transactions in Q2. Although this quarter's volume was down slightly from what occurred in the same quarter one year ago¹, it is still well above the city's historic quarterly average of approximately 4,000 transactions.

¹ Like raw house prices, the seasonality of home sales volume make it a standard industry practice to compare these numbers to the same time period one year ago rather, than to recent months or quarters.

- **Philadelphia’s housing market also continues to break other records (or come close), even after breaking these same records in the previous quarter:**
 - **Inventories continue to drop to new lows.** There are currently just 2,511 houses listed for sale in Philadelphia. Not only is this a significant drop from the 3,623 houses listed for sale in the previous quarter, but it is also the first time that the supply of homes available for purchase has fallen below 3,000. By contrast, Philadelphia has historically averaged ~7,400 houses listed for sale in any given month.
 - **Listed homes continue to sell incredibly fast.** The average amount of time that it takes for a home in Philadelphia to sell (DOM) is currently 41 days, which is well below the 65 days that the housing industry considers typical of a “balanced” market. This is just 7 days shy of the previous record of 34 days, set way back in July 2005.
 - **Record-high turnover plus record-low supply equals a market that strongly favors sellers over buyers.** At the current pace of sales and the current level of inventories, Philadelphia would completely burn through its current supply of homes available for sale in just 2.2 months. Although this number remains unchanged from where it was three months ago, it remains well below the 5-7 month average that the industry considers to be typical of a “balanced” market, where conditions favor neither seller nor buyer at the other’s expense.
 - **The general mood of homebuilders seems to be euphoric...especially in the Northeast US.** The NAHB² index of homebuilder sentiment (which measures the sentiment of both national and northeast homebuilders on a scale of 0 to 100) swung from a score of 17 back in May of last year to a score of 84 this February. This surpassed the previous peak of 78, set back in 1998. Also, the value of the index for just homebuilders in the Northeast US was 89, surpassing the value of the national index for the first time since 2012.
 - **After rebounding from record lows, housing-related stocks are setting new highs.** The Philadelphia Stock Exchange Housing Sector Index (Nasdaq Symbol: HGX), which is composed of several dozen stocks of housing-related companies (homebuilders, mortgage lenders, building materials suppliers, etc.) closed at nearly \$440 per share in mid-February. This new high came just four months after closing at over \$400 a share for the first time ever. In March of last year, the index plunged to an all-time historic low of \$180 per share. By contrast, when the HGX was first offered in 2002, its initial value was \$250 per share.

The last few months of any year almost always shows a slowdown in the housing market, as the weather cools and the holidays approach. But the confluence of three critical forces—low interest rates, low inventories and high demand for housing (due to the pandemic-driven shift of work from office to home)—are what have not only produced such a currently hot housing market, but are continuing to trend in a direction that favor continued increases in the market’s temperature. Moreover, these factors are self-reinforcing: when supply is low and listed homes are going under contract quickly, this incentivizes would-be buyers to not only bid quickly, but also to bid higher than what they would otherwise before another buyer beats them to it. Other would-be buyers realize this, and thus behave similarly. The result

² National Association of Homebuilders. They survey their members monthly to ask them to rate the near-term outlook for their business on a scale of 0 to 100. A value of the index in excess of 50 indicates that more homebuilders are optimistic than pessimistic, and vice-versa if the value of the index is less than 50.

is that there are both more and higher multiple offers than what would occur in a more normal market, and this exerts even more upward pressure on house prices.

Since current trends in the market's underlying factors show no signs of abating, such fevered bidding, accelerated price appreciation and rapid turnover are likely to continue in the short term. Moreover, real estate markets are much slower to adjust to changes in their underlying fundamentals than other markets. So, even an increase in interest rates and/or inventories will still likely take months before they relieve pressure in the market. And, prices are typically even slower to adjust than sales. So, for example, the increase in mortgage rates that occurred recently will dampen housing affordability, but it is unlikely to show up in cooling prices until at least this spring. Until then, there is no reason to not expect more of the same.

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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.