

Philadelphia's Housing Market Continues to Surge

House prices are still aggressively increasing, but buyers seem to be becoming more hesitant...as both the number of available homes and their affordability decrease.

September 13, 2021: It's still a strong market, but it's not without its concerns. Here's the latest numbers for 2021 Q2:

- **The average price of Philadelphia homes rose by 2.8% in Q2 on a quality- and seasonally-adjusted basis.** This is a deceleration from the previous quarter's growth rate of 5.0%, but it is still well above Philadelphia's historic quarterly appreciation rate of 1.3%.
- **Philadelphia's house prices are currently up an average of 14.5% from one year ago (YoY).** This increase is more than triple the city's historic annual average house price appreciation rate of 4.5%. This marks three consecutive quarters of house price growth in excess of 10%. The last time this occurred in Philadelphia was in 2006.
- **The median house price in Philadelphia rose to \$220,000 in Q2.** The city's median house price first crossed the \$200,000 threshold exactly one year ago.
- **However, despite such aggressive price growth, Philadelphia was surpassed by most other large US cities in Q2 for the first time in several years.** While Philadelphia's house prices are up 14.5% from a year ago, Case-Shiller's 10-City composite house price index (which excludes Philadelphia) is up 16.4% during the same period. Philadelphia had previously been outpacing this index since 2018.
- **Annualized (YoY) house price changes in individual submarkets continue to be positive, with only one exception.** From smallest to largest, the average annual change in seasonally- and quality-adjusted house prices by submarket was: University City (-5.2%), Center City/Fairmount (+3.7%), Lower Northeast Philadelphia (+7.8%), South Philadelphia (+7.9%), Kensington/Frankford (+9.7%), Northwest Philadelphia (+9.9%), Upper Northeast Philadelphia (+10.5%), North Philadelphia (+17.6%) and West/SW Philadelphia (+20.5%).
- **Million dollar home sales in Philadelphia broke a new record—again—in Q2.** There were 53 home sales at a price of one million dollars or more in Q2 of this year. This broke the previous record of 50 that was set just a few months earlier in Q4 of 2020. The previous record was 49 such sales, which occurred in Q4 of 2017.
- **While still remaining at relatively high levels, home sales do appear to be trending downwards.** Although there was a significant resurgence in sales activity after contracting dramatically in Q2 of last year, the general level of home sales is currently below its peak of several years ago. There were 4,958 arms-length home sales in Philadelphia in Q2. Although this is well above the 3,127 sales that occurred in Q2 of 2020¹, Q2 of last year was at the peak of the quarantine and lockdown

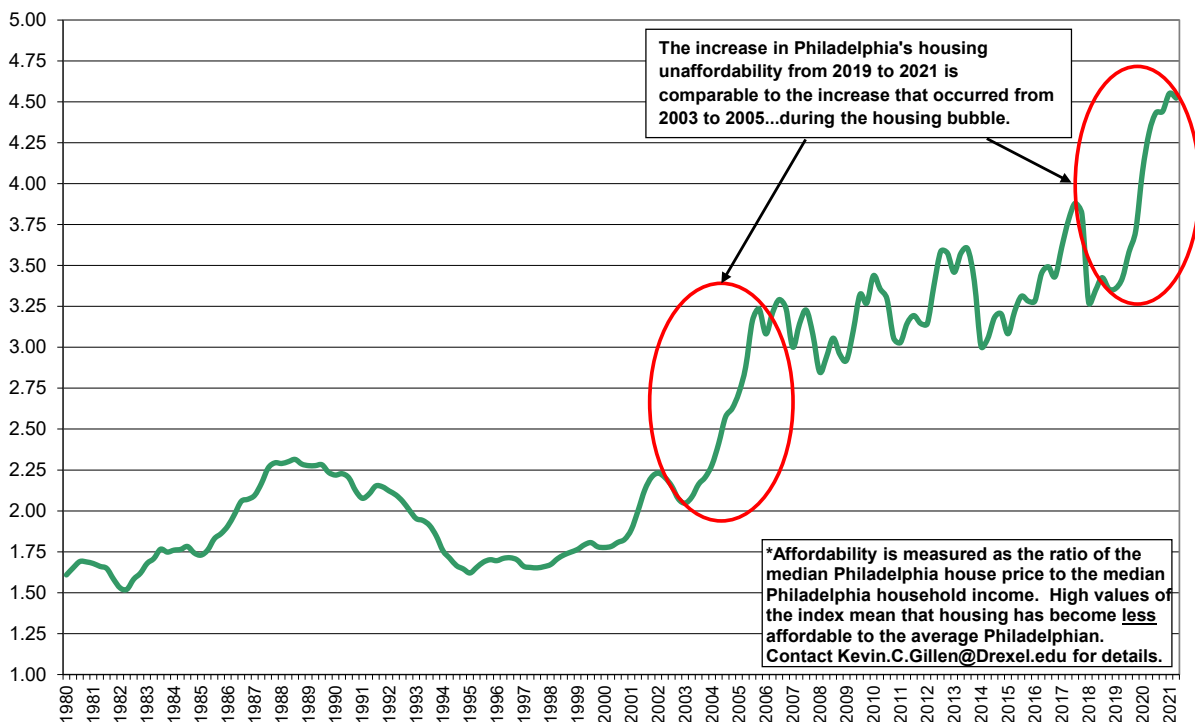
¹ Like raw house prices, the seasonality of home sales volume make it a standard industry practice to compare these numbers to the same time period one year ago rather, than to recent months or quarters.

during which real estate showings were significantly curtailed by both state and local governments. However, this quarter's sales volume is below 5,462 sales in Q2 of 2019, which in turn is below the 6,460 sales in 2018. It is also below the 5,613 sales in 2017. Other quarters show a similar YoY downward trend.

- Inventories continue to remain at or near historic lows.** There are currently just over 3,000 houses listed for sale in Philadelphia. Philadelphia has historically averaged ~7,400 houses listed for sale in any given month. At the current high pace of sales (average Days-on-Market is just above 30 days), there is only a 2 month supply of homes available for sale in the city². Typically, industry guidelines indicate that a balanced market should have between a 5 and 7 month supply. Such low supply is undoubtedly a key factor in the recent high rate of house price appreciation.

Since the current trends in the market's underlying factors show no signs of abating, above-average price growth and below average supply would seem to be expected to continue in the short term. In fact, Zillow is projecting that the average house price increase in Philadelphia will be 6.5% over the next 12 months—a downgrade from its previous forecast of 8.3%, but still well above the city's historic average appreciation rate of 4.5%³. However, the decline in sales may suggest that sellers are beginning to hesitate at paying such high prices when low supply restricts their choice to their less-than-ideal home. Additionally, the fact that price growth has exceeded household income growth in recent years would also seem to indicate that more homes are becoming less affordable (or even unaffordable) to an increasing number of Philadelphia households. As an illustration of this, consider the following chart, which plots the ratio of the median Philadelphia house price to the median Philadelphia household income over time:

Philadelphia Housing Affordability* Index: 1980-2021



² If no other homes become listed “for sale”, then at the current pace of sales, Philadelphia would exhaust this supply in 2 just months.

³ If these numbers seem like relatively small differences to you, use a calculator or spreadsheet to see what happens when your money grows at 4.5% per year versus 6.5% or 8.3% over several decades—the typical holding period for a house.

High values of the index show greater housing unaffordability in Philadelphia because it means that house prices are exceeding local incomes by a larger margin. The index's current value of 4.5 implies that the typical local home is priced at 4.5 times the typical local income. Although Philadelphia remains a relatively affordable city (New York and San Francisco have ratios in the 7-8 range), the recent sharp upward trend is still notable. Over the last two years, the difference between house prices and incomes has grown by 35%, which is well above the general level of price inflation in the economy. The last time such comparable growth in housing unaffordability occurred was from 2003 to 2005, when the spread between local prices and incomes grew by 58%. Although this might imply that the current price growth may not be putting the city's housing market into "bubble territory" (like last time), it would still seem to be a valid cause for both economic and civic concern.

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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.