

Philadelphia's Housing Market Remains Robust

House price appreciation is still strong but decelerated in Q4, while sales showed an unseasonal increase.

March 31, 2022: It's still an active market, but there are likely to be some obstacles down the road. Here's the latest numbers for 2021 Q4:

- **The average price of Philadelphia homes rose by 1.1% in Q4 on a quality- and seasonally-adjusted basis.** This is a significant decrease from the previous quarter's growth rate of 3.8%. Philadelphia's quarterly house price appreciate rate has been steadily slowing since 2020 Q4, when it peaked at 4.8%.
- **Philadelphia's house prices are currently up an average of 9.0% from one year ago (YoY).** Although this increase is still well above the city's historic annual average house price appreciation rate of 4.5%, YoY appreciation also appears to be slowing. Like quarterly appreciation, annual appreciation peaked in 2020 Q4 at 13.1%, and has been declining ever since.
- **The median house price in Philadelphia rose to \$234,000 in Q4.** This is an 11.4% increase from one year ago, when the median price was \$210,000. While this is an above-average YoY increase, it is a significant decline from the previous YoY increase of 25.9% that occurred from 2019 Q4 to 2020 Q4.
- **With this recent deceleration in house price growth, Philadelphia is now lagging most other large U.S. cities.** While Philadelphia's house price index is up 9.0% from a year ago, Case-Shiller's 10-City composite house price index (which excludes Philadelphia) is up 17.5%. Philadelphia had previously been outpacing this index since 2016.
- **Annualized (YoY) house price changes in individual submarkets continue to be positive across all areas of the city.** From smallest to largest, the average annual changes in seasonally- and quality-adjusted house prices by submarket are: University City (+2.0%), Center City/Fairmount (+3.4%), Kensington/Frankford (+6.2%), South Philadelphia (+6.6%), North Philadelphia (+7.7%), Northwest Philadelphia (+9.1%), Upper Northeast Philadelphia (+9.6%), Lower Northeast Philadelphia (+10.4%), and West/SW Philadelphia (+11.5%).
- **Million dollar home sales in Philadelphia were not only record-setting—again—in Q4, but also by a record-setting margin.** There were 86 home sales at a price of one million dollars or more in Q4 of 2021. This broke the previous record of 53 that was set just a few months earlier in Q2; a whopping 62% increase in just six months.
- **Home sales showed both a large and unexpected non-seasonal increase in Q4.** Although home sales volume has been consistently running above its historic average since 2015, it had been trending down since its most recent peak in 2018. But, there were 6,416 arms-length home sales in Philadelphia in 2021 Q4. This is not only an unusual increase from Q3 (home sales usually decline as the calendar turns from the warm weather months to the cold ones), but it was also an exceptionally large increase, nearly equaling the recent peak of 6,460 sales in 2018 Q2.

- **Inventories continue to decline to new historic lows.** There are currently just over 2,910 houses listed for sale in Philadelphia. As recently as October of last year, Philadelphia had 4,210 houses listed for sale. For context, Philadelphia has historically averaged ~7,400 houses listed for sale in any given month. At the current pace of sales (average Days-on-Market is just above 40 days), this current supply would be exhausted in just 1.7 months¹. By contrast, industry guidelines suggest that a balanced market should have between a 5 and 7 month supply. Such low supply is undoubtedly a key factor in the high rate of house price appreciation in recent years.
- **Philadelphia saw an enormous surge in residential building permit applications at the end of 2021—but that is almost certainly due as much to political factors as economic ones.** The number of new residential units that were applied for approval went from 5,665 in 2020 to 26,116 in 2021, with half of these units applied for in just the last two months of 2021. Changes to Philadelphia’s 10-year tax abatement that occurred as the new year rolled over are almost certainly a source of this rush by many developers to take full advantage of this program before the reduction in its benefits that were passed last year by Philadelphia’s City Council took effect.
- **The Philadelphia’s Stock Exchange Housing Sector Index also seems to be anticipating further deceleration in both the local and national housing market.** This index—which measures the price of publicly traded companies that specialize in housing—has declined 21% over the last three months. It had previously risen by nearly 200% since Covid hit in March of 2020. The NAHB’s Homebuilder Sentiment Index has also showed a similar decline over the same period.
- **However, Zillow is currently projecting a 14.8% increase in house prices over the next 12 months for the greater Philadelphia metro area.** This is a substantial upward revision from its previous forecast of 6.5%. While some of this increase is attributable to continued declines in inventory, it is also likely due to upgraded expectations of greater overall economy-wide inflation.

Looking ahead, there is no real reason to believe that current trends will change in the near-term. Low inventories, high demand and (still) relatively low interest rates will continue to promote above-average price appreciation. In addition, Wall Street firms have been adding an increasing amount of real estate to their portfolios. As a result, homebuyers are now not only competing with other homebuyers, but with institutional capital as well. Even initial interest rate increases can add further fuel to price growth, as it motivates many buyers to “get ahead of the curve” and buy a home before rates rise even further. However, in the intermediate-to-longer term, there are a number of factors that will put a headwind on this aggressive price appreciation. Eventually, higher interest rates will reduce both homebuyer’s ability and demand to buy a home. And, since house price growth has generally outpaced household income growth over the last few years, housing unaffordability has also increased substantially both locally and nationally. As more and more homes become priced beyond what many buyers are either willing or able to pay, this will further reduce both sales and overall demand, exerting further downward pressure on prices. And, as both the pace and volume of sales drop, more homes will linger on the market longer. This will implicitly increase inventories and thus supply, further reducing upward pressure on house prices. However, none of these events are likely to take effect in the immediate future. The spring market is likely to be as busy as ever, with continued price appreciation and strong sales activity. However, there is a reasonable expectation that it may be a deceleration from last year’s immensely strong spring market. But as the warm weather months transition into the cooler ones later in the year, there may then finally be some welcome normalization in the market.

¹ If no other homes become listed “for sale”, then at the current pace of sales, Philadelphia would exhaust this supply in just 1.7 months.

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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.