

Philadelphia's Housing Market: Still Strong Volume, but Moderating Prices

The city set a new record for sales activity in Q2...but that may be because buyers are moving aggressively in anticipation of further interest rate increases.

August 10, 2022: National numbers all point to signs of cooling, but we still look good...for now. Here's our latest numbers for 2022 Q2:

- **The average price of Philadelphia homes rose by 1.0% in Q2 on a quality- and seasonally-adjusted basis.** This is a significant deceleration from the previous quarter's growth rate of 3.6%, but it is still generally in line with Philadelphia's historic quarterly house price appreciation rate of 1.3%.
- **Philadelphia's house prices are currently up an average of 12.7% from one year ago (YoY).** This increase is nearly triple the city's historic annual average house price appreciation rate of 4.5%. This marks 7 consecutive quarters of double digit YoY house price growth. The previous record for this was the 2003-2006 period, when the city experienced 11 consecutive quarters of YoY house price appreciation exceeding 10%.
- **The median house price in Philadelphia rose to \$240,000 in Q2.** That is a 9.1% increase from \$220,000 one year ago. However, it is also a deceleration from double-digit YoY increases in the previous 3 quarters.
- **However, even with above-average price growth, Philadelphia continues to lag most other large US cities, despite having outpaced them in several recent years.** From 2015 to 2020, Philadelphia's house prices grew at an average annual rate of 7.3%, while Case-Shiller's 10-city composite index (which excludes Philadelphia) grew at an annual average rate of 4.4%. But since then, even though Philadelphia house prices have accelerated to an average annual growth rate of 11.9%, house prices in the 10-city index have accelerated to an average annual growth rate of 16.5%
- **Annualized (YoY) house price changes in individual submarkets continue to be positive.** From smallest to largest, the average annual change in seasonally- and quality-adjusted house prices by submarket is: South Philadelphia (+3.0%), Center City/Fairmount (+3.7%), Kensington/Frankford (+4.7%), Northwest Philadelphia (+5.3%), University City (+8.4%), Upper Northeast Philadelphia (+9.4%), Lower Northeast Philadelphia (+9.5%), North Philadelphia (+13.4%) and West/SW Philadelphia (+15.1%).
- **Million dollar home sales in Philadelphia continue to break new records.** There were 95 home sales at a price of one million dollars or more in Q2 of this year. This broke the previous record of 87 that was set in the previous quarter, which had broken the previous record of 86 such sales that was set in the quarter just before that. For context, from 2012 (when the current expansionary cycle began) through 2021 Q3, +\$1m house sales averaged just 28 per quarter.
- **While still remaining at very high levels, home sales activity has showed a very unusual non-seasonal shift.** 8,655 houses transacted in Q1 of this year. That is the highest quarterly volume since 7,894 houses changed hands in 2005 Q3. But, this dropped to 7,080 in Q2. Normally, sales

activity rises as the calendar transitions from the winter months to the (typically very busy) spring months.

- **Inventories continue to remain at near historic lows.** There are currently just 4,415 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 2.7 month supply of homes available for sale in the city¹. Typically, industry guidelines indicate that a balanced market should have between a 5 and 7 month supply. Such low supply continues to be a key factor in the high rate of house price appreciation.
- **Philadelphia building permits for residential properties showed an enormous spike at the end of 2021, only to plunge in 2022.** 26,116 new housing units were approved in 2021, compared to 3,652 in 2020; a whopping 361% increase. At the current pace of approvals, Philadelphia is on track to approve only 2,530 permits in 2022; a massive drop. However, this is almost certainly due to local developers filing for their building permits before changes to the city's much-debated 10-year Tax Abatement took place when the calendar year rolled over², as opposed to any larger cyclical shifts in market conditions.
- **Although Zillow continues to project above-average house price appreciation for Philadelphia, it has also continued to downgrade its house price forecast for Philadelphia.** Zillow is currently forecasting that the general level of house prices in the Philadelphia market will increase by 6.2% over the next 12 months. However, it had previously forecast a 12.0% increase three months ago, and had also forecast a 14.8% increase six months ago.

The Big Picture: Price growth remains strong, but has been slowing. Sales activity this past quarter was also exceptionally strong, but this may be a short-term “spasm”, as many potential buyers moved to take advantage of (still) relatively low interest rates before they rise any further. Longer term, rising rates will definitely put a headwind on both the housing market and the economy. Other leading indicators are also pointing towards a cooling of the housing market: both the NAHB's index of Homebuilder Sentiment and the Philadelphia Stock Exchange's Housing Sector Index have also showed significant declines over recent months. Lastly: keep in mind that Philadelphia's housing market tends to lag the national trends by about 6 months or so. ***So, don't confuse these recent positive numbers with the belief that Philadelphia is somehow immune to larger forces. What is happening elsewhere may just not be happening here...yet.***

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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.

¹ If no other homes become listed “for sale”, then at the current pace of sales, Philadelphia would exhaust this supply in just 2.7 months.

² Philadelphia's City Council passed legislation last year that effectively cut the benefits of the Abatement in half. This change took effect on January 1, 2022. So, many developers and investors rushed to get their permits approved in 2021, before this change took place.