

## **Philadelphia's Housing Market Shows Significant Signs of Deceleration in Q3.** **Prices, sales and many other indicators point towards a cooling market.**

**October 27, 2022:** While the national numbers have been indicating a significant cooling in other metro markets for some time, reality appears to be catching up to our area. Here's the latest numbers for 2022 Q3:

- **The average price of Philadelphia homes fell by 1.8% in Q3 on a quality- and seasonally-adjusted basis.** This is the largest quarterly decline in eight years.
- **Philadelphia's house prices still remain higher than a year ago, but have significantly decelerated in their price growth.** The city's general level of house prices is up only 5.9% from one year ago (YoY). That is a substantial drop from just three months ago, when they were up 12.7% from one year ago. This result is corroborated by Zillow, which reports that Philadelphia's house prices are currently up 5.8% YoY<sup>1</sup>.
- **Philadelphia's general level of annual house price appreciation has fallen into the single digits for the first time since Covid.** From 2020 to 2022 Q2, annual house price growth averaged 12.1%.
- **The median house price in Philadelphia fell by 4.2% in Q3.** Currently, the median house price in Philadelphia is \$230,000, compared to \$240,000 in the previous quarter and \$235,000 one year ago. The reason the decline in the median price is larger than the decline in the house price index is because the index controls for seasonal fluctuations (prices typically moderate as the calendar transitions from the spring to summer months) whereas the raw median price does not.
- **For the first time in several years, annualized (YoY) house price changes in individual submarkets have all dropped into the single digits.** From smallest to largest, the average annual changes in seasonally- and quality-adjusted house prices by submarket are: South Philadelphia (+2.0%), Center City/Fairmount (+2.8%), Kensington/Frankford (+3.3%), University City (+5.0%), North Philadelphia (+5.4%), Northwest Philadelphia (+6.3%), West/SW Philadelphia (+6.8%), Lower Northeast Philadelphia (+7.3%), and Upper Northeast Philadelphia (+9.1%). **For context, annual house price growth in Philadelphia has historically averaged 4.5% per year.**
- **Million dollar home sales in Philadelphia also dropped in Q3.** There were 79 home sales at a price of one million dollars or more in Q3 of this year. This is down 17% from 95 such sales in the previous quarter.
- **Home sales activity has also plummeted significantly, although it still remains above average.** 5,600 houses transacted under arms-length condition in Q3. This is a 35% decline from the city's

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<sup>1</sup> Source: <https://www.zillow.com/philadelphia-pa/home-values/>

record high (since 1980) of 8,655 sales in Q1 of this year. Like prices, sales activity typically cools from spring to summer. But this is an atypically large decline.

- **Inventories appear to be rising.** According to Bright MLS, there are currently 5,005 houses listed for sale in Philadelphia. While this still is below Philadelphia's average of approximately 6,000 homes, it is up a whopping 72% from the city's all-time low of 2,910 in February of this past year.
- **Both homebuilder sentiment and housing-related stocks dropped sharply in Q3.** The National Association of Homebuilder's Sentiment index (a gauge of homebuilders' outlook) has fallen by 54% since the beginning of this year. Similarly, the Philadelphia's Stock Exchange Index of housing-related stocks has declined by 27% during the same period. These are both large declines in such a short period of time.
- **Zillow continues to dramatically downgrade its forecast for Philadelphia house prices.** Zillow is currently forecasting that the general level of house prices in the Philadelphia area will grow by only 0.7% over the next 12 months. It had previously forecasted annual growth of 6.2% just three months ago, and 12.0% just six months ago.

**The Big Picture:** There's no denying it: every market indicator is signaling deceleration. Philadelphia house prices have had a great run: up 85.4% over the last ten years. Not only is that an incredible return, but there are some plus sides to a cooling housing market. First, housing affordability needs to improve. If house prices level off and allow household incomes to catch up, that's a good thing. Second, since housing is one of the biggest sources of household expenditures, a cooling off would also give a big relief to the recent high level of inflation. Third, rising inventories (i.e. supply) improves both the number and variety of housing types available for sale, which benefits homebuyers. Lastly, many of the Western and/or Sun Belt markets are fundamentally due for a sharper downturn than us. **Bottom line: be wary...but don't panic!**

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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.*