

Philadelphia's Housing Market Continues to Decelerate in Q4. But sales have fallen much more than prices (at least, so far).

January 26, 2023: The cooling continues. Here's the latest numbers through 2022 Q4:

- **The average price of Philadelphia homes fell by 0.9% in Q4 on a quality- and seasonally-adjusted basis.** This follows a 1.8% decline in the previous quarter. This is the first time that there have been two consecutive quarters of citywide house price declines since early 2014.
- **Philadelphia's house prices still remain higher than a year ago, but continue to slow in their rate of appreciation.** The city's general level of house prices is currently up only 1.9% from one year ago (YoY). In 2021 Q3, the city's house prices were up 12.1% from the previous year. This annual rate of appreciation has been declining ever since.
- **Philadelphia's general rate of annual house price appreciation has now fallen below its historic average for the first time since 2015.** Since 1980, Philadelphia house prices have grown by an average of 5.0% per year. But since 2015, they have grown at an average of 8.2% per year. They are now currently at 1.9% per year.
- **The median house price in Philadelphia fell by 8.7% in Q4, an acceleration over the previous quarter's decline of 4.2%.** Currently, the median house price in Philadelphia is \$210,000, compared to \$230,000 in the previous quarter and \$234,000 one year ago. The reason that the decline in the median price is larger than the decline in the house price index is because the index adjusts for seasonally-driven fluctuations (prices typically cool as the calendar transitions from the warm to cold weather months) whereas the raw median price does not control for this.
- **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: Kensington/Frankford (-2.6%), South Philadelphia (-1.8%), Center City/Fairmount (+0.0%), University City (+0.9%), North Philadelphia (+1.1%), West/SW Philadelphia (+1.5%), Lower Northeast Philadelphia (+2.2%), Northwest Philadelphia (+2.2%) and Upper Northeast Philadelphia (+6.6%). For context: annual house price growth in Philadelphia has historically averaged 5.0% per year.
- **Home sales volume has plummeted significantly and quickly.** 4,263 houses transacted under arms-length condition in Q4. This is a 51% decline from the city's record high (going back to 1980) of 8,655 sales in Q1 of 2022. Like prices, sales activity typically cools from spring to summer. But, this is both an atypically and especially large decline.
- **Million dollar home sales in Philadelphia also dropped substantially in Q4.** There were 38 home sales at a price of one million dollars or more in Q4 of this year. This is down a whopping 60% from their all-time peak of 95 such sales just six months ago.

- **Inventories appear to be rising.** According to Bright MLS, there are currently 4,148 houses listed for sale in Philadelphia. While this still is below Philadelphia's average of approximately 6,000 homes, it is up 43% from the city's all-time low of 2,910 in February of this past year.
- **Homebuilder sentiment remains very low, but housing-related stocks actually showed a rebound in Q4.** The National Association of Homebuilder's Sentiment index (a gauge of homebuilders' outlook) has fallen by 58% over the last twelve months. But, while the Philadelphia Stock Exchange's Index of housing-related stocks declined by 27% through Q3 of last year, it has rebounded by 26% in the last three-plus months.

The Big Picture: Almost every market indicator continues to signal deceleration. This is true both locally and nationally. The culprits behind both declining sales and prices are a combination of higher interest rates, decreased housing affordability and an overall cooling economy. If inventories continue to rise, that will put further downward pressure on prices. Thankfully, our area's house price declines here have been quite modest so far. But, it should be remembered that Philadelphia tends to lag national trends by ~6-12 months. The recent moderation in interest rates should tap the brakes on declining prices, but it remains to be seen if rate increases resume in response to economy-wide inflation. Lastly, the housing stock index's recent rebound suggests that most market players believe we have hit an inflection point in the housing market's cooling. Since this is a forward-looking index, it bears watching.

Bottom line: Further cooling ahead. Philadelphia's housing market looks much better positioned to weather this downturn than it was during the last one. But it is still too early to say whether these latest numbers indicate a minor setback, or if we are just in the early innings of a much longer game. Unlike the last housing downturn, I expect larger macroeconomic factors to matter more than local housing-specific ones in determining where Philadelphia's residential market goes from here.

Email for Kevin Gillen: Kevin.C.Gillen@Drexel.edu

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.