

## Philadelphia's Regional Housing Market Remains Robust—but with Increasing Signs of Deceleration

**May 17, 2022:** The market continues to be strong, but not quite as strong as one year ago. Here's the latest numbers, generously provided by Bright MLS:

- **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 appreciation rate has been steadily slowing since 2020 Q4, when it peaked at 4.8%.
- **The average price of suburban homes in the Philadelphia region rose by 1.8% in Q1 on a quality- and seasonally-adjusted basis.** This also indicates some slowing from previous periods, when house price appreciation was growing at a quarterly average rate of 2.4%.
- **On an annual (YoY) basis, house prices in Philadelphia are up an average 9.0% from a year ago, while house prices in its suburbs are up an average of 12.1% from a year ago.** This also indicates a deceleration in house price growth. From mid-2020 to mid-2021, YoY house price appreciation was averaging 11% in the city and an incredible 20% in the suburbs.
- **The raw data also indicate continued strong—yet decelerating—house price appreciation in the greater Philadelphia metro area.** The median house price in Philadelphia is currently \$234,000; up 11.4% from a year ago. Similarly, the median house price in Philadelphia's suburbs is currently \$328,000; up 6.1% from a year ago. By contrast, the YoY percent changes in median prices last summer in each jurisdiction were 16.7% and 10.6%, respectively.
- **House price changes across the region remain both uniformly positive and above their historic averages.** From lowest to highest, the average annual changes in house prices by county over the course of the past year were: Philadelphia (+9.0%), Bucks (+10.5%), Montgomery (+10.6%), Chester (+11.2%), Salem (+11.2%), Delaware (+12.5%), Mercer (+13.2%), New Castle (+13.2%), Camden (+13.8%), Burlington (+14.0%) and Gloucester (+15.6%).
- **Home sales have continued to drop in the suburbs, but showed an unusual uptick in the city.** According to Bright MLS, total home sales volume in the greater Philadelphia metro are down 5.1% from a year ago. However, in the city, sales are up 1.6% during the same period.
- **Regionally, post-Covid home sales activity appears to have peaked.** After generally increasing in every month ever since January 2020 (when Covid first hit), 9,605 houses transacted in June 2021. Since then, the numbers have been declining: in the most recent month's data (March), 6,352 homes transacted; a 34% decline from a year ago.
- **But, million-dollar sales across the region continue to break new records.** Across the region, there were 413 home sales at a price of one million dollars or more in Q1. That is a 28% increase from 323 home sales in the same price bracket a year ago.

- **+\$1m sales have shown a huge increase across all submarkets since Covid.** From 2012 (when local house prices began to recover from the Great Recession) to 2019, +\$1m sales averaged 760 per year across the region. Since then, they have averaged 1,712 per year across the region; an amazing 125% increase.
- **However, there has recently been a sharp divergence between the city and the suburbs in +\$1m home sales.** In Philadelphia, there were 87 home sales at a price of one million dollars or more in Q1, up a whopping 172% from 32 such sales a year ago. But in the suburbs, there were 326 such sales in Q1, which was only a modest increase of 12% from 291 such sales a year ago.
- **The supply of homes for sale (inventories) and the average number of days it takes a home to sell (DOM) continue to hit new lows.** There are currently 6,951 homes listed “for sale” across the Philadelphia metro area. Not only is this down nearly 28% from a year ago, but it is well below the region’s historic average of approximately 20,000 homes available for sale in any given month. Additionally, the average DOM in the Philadelphia regions now stands at 29. By contrast, 55-70 days is considered to be typical in a balanced market.
- **Market conditions in both the suburbs and the city continue to heavily favor sellers over buyers.** At the current pace of sales, there is only a 1.9 months’ supply of inventory (“MSI”<sup>1</sup>) in Philadelphia and a 0.8 months’ supply in the suburbs<sup>2</sup>. Both numbers are well below the 5-month threshold that the industry considers to be indicative of a balanced market<sup>3</sup>. Such conditions strongly favor sellers at the expense of buyers in setting both the price and terms of sale.
- **Zillow is increasingly becoming more bearish on the Philadelphia region’s house prices.** Zillow’s house price forecast is currently predicting that the general level of house prices in the region will increase by 8.7% over the next 12 months<sup>4</sup>. This is a significant downgrade from its previous forecast of 12.7% several months ago, which in turn is also a downgrade from its previous forecast before that of 13.6%.

**Summary: The Philadelphia region’s housing market can be characterized as very warm, but it is no longer as hot as it was a year ago.** Although both house price appreciation and sales volume are running above their historic average levels, the data indicate that they have been tapping the brakes in recent months. While extremely low inventories have been a key factor in supporting aggressive price growth, rising interest rates will begin to put downward pressure on both sales and prices as 2022 continues. In addition, the recent increase in many property assessments in Philadelphia could potentially exert additional downward force on the city’s house values. However, the current market is not likely to really cool until the calendar transitions to the cooler months as well.

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<sup>1</sup> Months’ Supply of Inventory is how many months it would take for the current inventory of homes listed for sale, given the current pace of sales. 5-7 months is generally considered by the industry to be typical of a balanced market.

<sup>2</sup> Source: Bright MLS

<sup>3</sup> Source: <https://realtytimes.com/advicefromtheexpert/item/38353-how-to-determine-if-it-s-a-buyers-sellers-or-a-balanced-real-estate-market?rtmpage=>

<sup>4</sup> Source: <https://www.zillow.com/research/data/>

*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.*