

Philadelphia's Regional Housing Market Shows Continued Signs of Cooling , but with a Significant Post-COVID Divergence Between City and Suburban Numbers

September 19, 2022: The local market persists in performing above average, but with increased signs of deceleration, especially when the city is compared to the suburbs. Here's the latest numbers, generously provided by Bright MLS:

- **The average price of homes in the city of Philadelphia rose by 1.0% in Q2 on a quality- and seasonally-adjusted basis.** This is a significant decrease from the previous quarter's growth rate of 3.6%.
- **The average price of suburban homes in the Philadelphia suburbs rose by 1.8% in Q2 on a quality- and seasonally-adjusted basis.** Although this outpaced quarterly house price growth in the city, it also showed some slowing from previous quarters.
- **On an annual (YoY) basis, house prices in Philadelphia are up an average 12.7% from a year ago, while house prices in its suburbs are up an average of 7.3% from a year ago.** These numbers are on a quality- and seasonally-adjusted basis.
- **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 \$240,000; up 9.1% from a year ago. Similarly, the median house price across the region is currently \$325,000; up 7.9% from a year ago. By contrast, the YoY percent changes in median prices last summer were 9.6% and 15.9%, respectively, in each jurisdiction.
- **While the city house price growth has moderated somewhat, suburban house price growth is down dramatically from its COVID-driven peak in demand for lower-density housing.** In 2021 Q3, suburban house prices were up an average of 24.6% YoY. But currently, they are up only 7.3% YoY. By contrast, Philadelphia's house prices were up 13.6% YoY in 2021 Q3, whereas they have only slightly adjusted downward to a current YoY appreciation of 12.7%.
- **House price changes across the region continue to remain both uniformly positive as well as persisting above their historic averages.** From lowest to highest, the average annual (YoY) change in seasonally- and quality-adjusted house prices by county over the course of the past year were: Salem (+9.6%), Montgomery (+9.7%), Chester (+10.3%), Bucks (+10.6%), Delaware (+11.0%), Camden (+11.1%), Mercer (+12.2%), New Castle (+12.2%), Philadelphia (+12.7%), Burlington (+12.9%) and Gloucester (+14.0%).
- **Home sales volume is also showing a sharp post-COVID divergence between the city and suburbs.** In Philadelphia, arms-length home sales in Q2 increased by 43% from a year ago, from 4,958 to 7,080. But in Philadelphia's suburbs, arms-length home sales in Q2 fell by 10% from a year ago, from 19,292 to 17,374.
- **But, overall home sales volume continues to run above its historic average in both markets.** Historically, the city averages 4,517 sales per quarter, while the suburbs average 13,271 sales per quarter.

- **The luxury segment of the market continues to be very hot.** Across the region, there were 752 home sales at a price of one million dollars or more in Q2. That is a 21% increase from 623 home sales in the same price bracket a year ago, and 19% above the previous record of 631 such sales less than a year ago in 2021 Q3.
- **+\$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) through 2019, +\$1m sales averaged 760 per year across the region. Since then, they have averaged 1,918 per year across the region; an amazing 152% increase.
- **But, much like overall home sales, there has recently been a sharp divergence between the city and the suburbs in trends of +\$1m home sales.** In Philadelphia, there were 95 home sales at a price of one million dollars or more in Q2, up a whopping 79% from 53 such sales a year ago. But in the suburbs, there were 657 such sales in Q2, which was a much more modest increase of 15% from 570 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 remain stubbornly low.** There are currently 11,536 homes listed “for sale” across the Philadelphia metro area. While this is slightly above the 11,134 number of homes listed at the same time last year, it still remains 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 18. Although that is the same as it was a year ago, it is substantially below the 55-70 days that are considered to be typical in a balanced market.
- **Due to persistently low inventories and high demand, the local housing market continues to heavily favor sellers over buyers.** At the current pace of sales, there is only a 2.9 months’ supply of inventory (“MSI”¹) in Philadelphia and a 1.2 months’ supply in the suburbs². Both numbers are well below the 5-month threshold that the industry considers to be indicative of a balanced market³. Such conditions strongly favor sellers over buyers in setting both the price and terms of sale.
- **Zillow is also projecting significantly further deceleration in 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 0.8% over the next 12 months⁴. This is substantial a downgrade from its previous annual projection of nearly 11.0% nearly one year ago, and continues its trend of downward revisions over the course of the past year. It is also well below the region’s historic annual house price appreciation rate of 4.5%.

Summary: The Philadelphia region’s housing market continues to punch above its traditional weight, but it also continues to show signs of wanting to take a breather. Despite house price growth and sales volume remaining above average, they continue to show signs of slowing. This is especially

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

² Source: Bright MLS

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

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

pronounced in the suburban numbers, where the transition to a post-pandemic reality has begun to see a renewed demand for city living and a decreased demand by buyers to pay a substantial price premium for suburban living. Going forward, rising interest rates and increased housing unaffordability will exert further downward pressure on house prices. However, unlike during the last housing downturn, this pressure should be relatively modest rather than severe. Finally, keep in mind that a leveling-off of house prices can actually be positive: by letting house prices take a proverbial “time-out”, household incomes can catch up with house price levels. In so doing, both housing affordability and homeownership increases. Those are both good things!

Bottom Line: *Keep paying attention to the market, and expect some continued cooling...but no need to 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.