There Are Sharp Declines in Home Sales Across the Philadelphia Region, But No Significant Price Declines…Yet.

February 9, 2023: Here's the latest numbers, from data generously provided by Bright MLS:

- **The general level of house prices in Philadelphia declined in Q4.** The average price of Philadelphia homes dropped by 0.9% in Q4 on a quality- and seasonally-adjusted basis. This follows a decline of 1.8% in the previous quarter. This is the first two consecutive quarters of house price declines since 2014.

- **Suburban house prices also continue to decelerate, but are still outperforming city house prices.** The average price of homes in the Philadelphia suburbs grew by just 0.7% in Q4 on a quality- and seasonally-adjusted basis, dropping from an average quarterly increase of 1.4% in the previous three quarters. But, this is still larger than the -0.9% change in the city.

- **On an annual (YoY) basis, house price growth in the Philadelphia region remains positive, but is substantially slowing.** The city's house prices are currently up an average 1.9% from a year ago. But, this is significantly down from the previous year's appreciation rate of 11.9%. Likewise, the suburb's house prices are currently up 4.1% from a year ago, but this is also down from 10.3% one year ago. These numbers are on a quality- and seasonally-adjusted basis.

- **House price growth in the region continues to lag national trends.** House price growth across the country is up 8.2% YoY[1], while house price growth in the 10 largest U.S. cities (excluding Philadelphia) is up 7.5% YoY[2]. By contrast, the Philadelphia region is only up 3.5% YoY.

- **House price changes across the region continue to remain positive, but with continued and substantial deceleration.** 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 are: Philadelphia (+1.9%), New Castle (+6.5%), Bucks (+6.9%), Camden (+8.4%), Chester (+8.7%), Gloucester (+8.8%), Burlington (+9.2%), Montgomery (+9.5%), Mercer (+9.9%), Delaware (+10.6%) and Salem (+13.0%). <u>Across all counties, that is an average annual appreciation rate of 8.5%. But one year ago, the average annual appreciation rate was 16.1%[3].</u>

- **Home sales volume continue to drop sharply across the region.** Q4 arms-length sales in the city are down 34% from a year ago (4,263 v. 6,416), while suburban home sales have declined 31% from a year ago (12,815 v. 18,598).

---

[1] Source: www.fhfa.gov. However, this rate of appreciation is only through November of 2022.
[2] Source: https://fred.stlouisfed.org/series/SPCS10RSA
[3] The reason that the annual regional appreciation rate is 3.5% while the average appreciation rate across all counties in the region is 8.5% is because the latter number is a simple average while the former number is a weighted average. Philadelphia county has both the most sales (and houses) of any county in the region, as well as the lowest appreciation rate. So, it skews the regional numbers downwards.

- **Million dollar sales have also dropped significantly, as well as rapidly**. In Q2 of last year, sales of homes at a price of one million or more hit an all-time high of 752. In Q4, they fell to 460. That is a 39% decline in just six months.

Summary: The latest numbers are consistent with a typical historic pattern indicating a turning point in the market. Sales have dropped sharply while prices have leveled out. As buyers become either more reluctant to buy (due to increased unaffordability) or unable to buy (due to higher interest rates), sellers will begin to reduce their asking prices in response to weakening demand. As a result, sales tend to typically decline before prices do. The current wild cards in the near-term outlook are interest rates and inventories[4]. Recent drops in rates have helped to moderate price declines, but when and how much inventories will increase from their very low levels remains unknown.

Bottom Line: *Expect some improvement in the spring market, but only a modest amount. Unlike the last downturn, the housing market is currently being driven by larger macroeconomic factors rather than the other way around. Be more focused on interest rates, population migration and GDP growth instead of housing-specific factors.*

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.

[4] The number of homes listed for sale.