

## **Philadelphia's Housing Market Continues to Show Mixed Signals in Q1**

### **Strong sales, varied price changes and stubbornly low inventories persist.**

**April 18, 2018:** The city's housing market continued to generate contradictory indicators in the first quarter of 2018. Here's the latest numbers:

- **The average price of Philadelphia's housing fell by 1.6% on a quality- and seasonally-adjusted basis in Q1.** This is an acceleration over the 0.5% decline in the previous quarter. It also marks the first time that Philadelphia has experienced two consecutive quarters of house price deflation since 2013.
- **The average price of a Philadelphia home is now 4.3% higher than one year ago.** In the previous quarter, prices were up 12.7% from one year ago. This recent deceleration in price growth places Philadelphia's current annual appreciation rate in line with its long-run historic average of 4.5%. By contrast, house prices in the ten largest U.S. cities (excluding Philadelphia) are up 5.8% from one year ago<sup>1</sup>. For the past two years, Philadelphia had been outpacing this index.
- **The median house price in Philadelphia in Q1 remained constant at \$150,000; the same as in the previous quarter. But the average house price fell from \$188,668 to \$184,390 during the same period; a 2.3% decline.** Declines in house prices in this region are normal during the colder weather months. The reason the drop in the house price index (-1.6%) is smaller than the drop in the average price (-2.3%) is because the regression that computes the house price index adjusts for seasonal fluctuations in house prices. Hence, much of the decline in the average price would seem to be attributable to seasonal—as opposed to economic—factors.
- **House price changes remain mixed across Philadelphia's submarkets in Q1, and were also generally small.** From smallest to largest, the average quarterly change in house prices by submarkets in the first quarter was: University City (-10.0%), West Philadelphia (-2.9%), Kensington/Frankford (-2.8%), North Philadelphia (-2.7%), Northwest Philadelphia (-0.9%), Upper Northeast Philadelphia (0.0%), South Philadelphia (+0.1%), Center City/Fairmount (+2.7%) and Lower Northeast Philadelphia (+4.9%).
- **In contrast to prices, home sales continue to remain very robust.** There were 4,595 arms-length sales in Q1, which is up slightly from 4,375 home sales in the same quarter one year ago<sup>2</sup>. This is the highest level of home sales in any Q1 since 5,171 homes transacted during the height of the previous housing boom all the way back in the first quarter of 2007.
- **Million-dollar sales took a pause.** There were 22 sales of houses at a price of one million dollars or more in Q4. This was down significantly from 49 such sales in the previous quarter, and also down from 30 such sales in the same quarter one year ago. However, it should be remembered that 2017 was an exceptional year for +\$1m sales, hitting an all-time high of 158.

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<sup>1</sup>Source: S&P CoreLogic Case-Shiller 10-City Composite House Price Index

<sup>2</sup> Since sales volume of homes are highly seasonal, it is more common to compare quarterly sales numbers to the same quarter one year ago rather than the previous quarter.

- **Housing inventories (the number of homes listed for sale) continue to remain very low.** This winter, inventories fell to 3,298 units but rebounded back to 4,000 by the end of March. This is a typical seasonal pattern, as sellers de-list their homes for the winter months and re-list them again in the spring. However, this is still a very low overall level compared to Philadelphia's historic average of approximately 6,000 units that typically prevails under more typical market conditions.
- **Zillow has downgraded its forecast of Philadelphia house prices.** Zillow recently lowered its 12-month forecast of Philadelphia's house price appreciation rate to 3.7%. Three months ago, it was projecting an annual appreciation rate of 5%. However, Zillow still characterizes Philadelphia's market as "Hot"<sup>3</sup>.

The winter months tend to see a moderation in both sales activity and price growth. But, strong sales and moderating prices in combination with very low inventories is not only unusual, it is contradictory. Conventional wisdom would seem to indicate that, after six years of expansion, Philadelphia's housing market should be nearing its peak (if it hasn't already passed it). While it would be tempting to interpret the recent consecutive quarters of price deceleration as an indicator that the market is turning, it should be remembered that the data showed a similar pattern last year, only to go on to have one of the strongest years in living memory. Typically, it would be reasonable to expect the next quarter's numbers to indicate what will be the case, but the fact that this winter's weather has extended into the middle of April may delay when we'll know whether the market has indeed turned, or is just taking a normal seasonal pause.

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<sup>3</sup> Source: <http://www.zillow.com/philadelphia-pa/home-values/>