

Philadelphia's Housing Market Throws Off Mixed Signals in Q3.

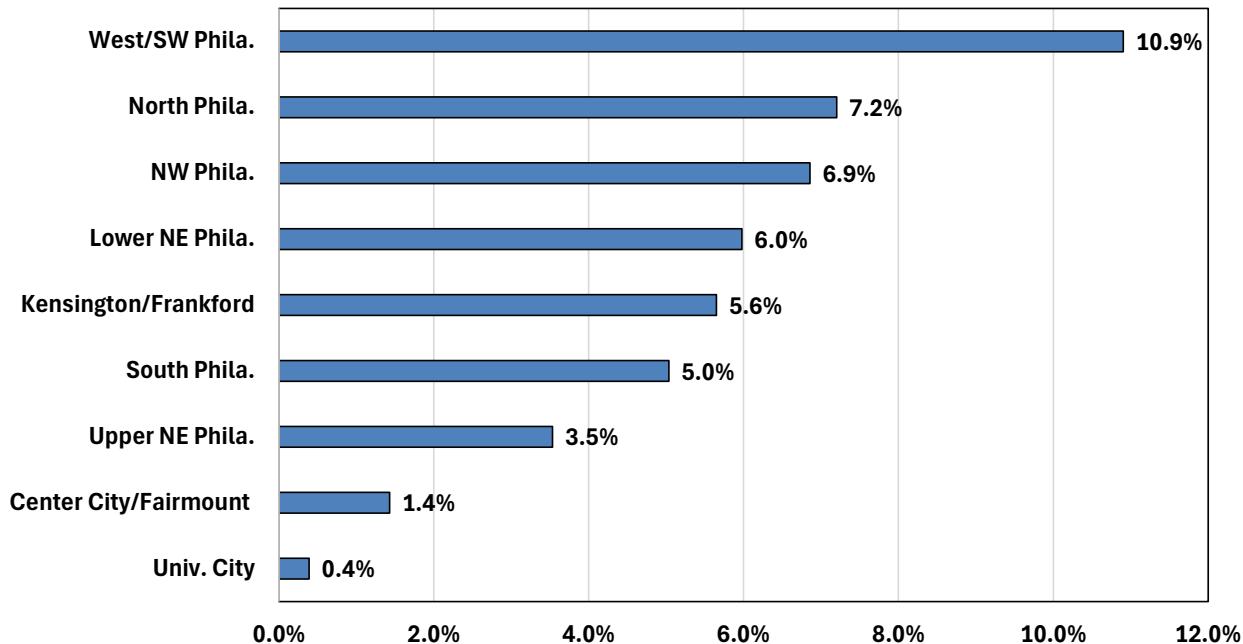
Prices continue to decelerate, but sales hold steady.

December 10, 2024: The market's indicators may be moving in different directions...but that could actually be a good thing. Here's the latest numbers through 2024 Q3:

- **The average price of Philadelphia homes increased by a tepid 0.3% in Q3 on a quality- and seasonally-adjusted basis.** This is a deceleration from the previous quarter's increase of 1.6%.
- **Comparing current prices to those of one year ago, a similar pattern of deceleration is evident.** The city's general level of house prices is currently up 5.3% from one year ago (YoY). In the previous quarter, house prices were up an average of 6.9% YoY.
- **But, despite a slowing in their growth, Philadelphia's housing is still appreciating at a rate that is in line with their historic average.** Since 1980, the rate of general house price growth in Philadelphia has averaged ~5.0% per year. But the current annual rate of house price appreciation is 5.3%, which is very close to the city's traditional average.
- **A simple look at the raw data indicates a similar pattern.** Currently, the median¹ house price in Philadelphia is \$230,000, which is up by 4.5% from \$220,000 one year ago. This is reasonably close to the regression index's calculated YoY increase of 5.3%.
- **Individual submarkets are also showing the same pattern of price changes as the city.** YoY price appreciation is positive for all submarkets, but there was some slowing from the previous quarter. The following chart ranks each submarket by their YoY house price growth:

¹ The median house price is the exact midpoint of the distribution of house prices. So, it is that price at which 50% of homes sold for more, and 50% sold for less. The median price is often considered representative of the "typical" price of a home (or other assets).

Current YoY House Price %Appreciation by Submarket



For context: annual house price growth in Philadelphia has historically averaged 4.5% per year.

- **Home sales volume remains near their historic average.** 4,412 houses transacted under arms-length condition Philadelphia County in Q3. Although this is a nearly 45% decline from sales' post-Covid peak of nearly 8,000 in the spring of 2022, current sales activity is still above the city's historic average of 3,380 per quarter. Moreover, home sales activity has been hovering just above its historic average for the past two years.
- **Million dollar+ home sales in Philadelphia are also down from their peak.** There were 63 home sales at a price of one million dollars or more in Q3 of this year. And like all other home sales, they are currently reflecting a similar pattern: although they may be down 34% from their peak of 95 in the spring of 2022, they are still above their historic level. Moreover, they are also starting to proliferate in neighborhoods outside of core Center City.
- **Inventories continue to remain historically low, but are trending upwards.** According to Bright MLS, there are currently 4,597 houses listed "for sale" in Philadelphia. Although this is still below Philadelphia's historic average of approximately 6,000 listed homes, it is up 43% from the city's all-time low of 2,910 homes in February of this past year.
- **The average number of days that it takes to sell a home (DOM) finally appears to be rising.** It currently takes an average of 25 days to sell a home in Philadelphia. While this is still well below its historic norm of 40 days, it is finally trending back to this average after hitting a bottom of 10 days back in 2021. If this continues, it would not only be the first sustained rise in this metric since the 2000s, but would also likely indicate a return to parity between buyers and sellers after a lengthy period in which market conditions favored sellers over buyers.
- **Homebuilder sentiment is indicating a very different picture than homebuilder stocks.** The NAHB Index of Homebuilder Sentiment is currently 59 for homebuilders in the northeastern U.S., which indicates that 59% of these builders are optimistic about their near-term outlook while 41% are pessimistic. The Index has been floating around this value for roughly the past

two years. However, during this same period, shares in homebuilding companies (and their suppliers) have been moving in only one direction: up. From a low of \$416/share in 2023, the index has increased 89% to \$787/share. This current peak even exceeds their peak of \$289/share in 2005, during the last housing boom.

The Big Picture: While the housing market's signals may appear mixed, they are likely—and hopefully---indicating a return to traditional normalcy. The post-Covid rapid appreciation of house prices and above-average volume of home sales was not only unsustainable, but also undesirable. Short-term profits and gains in housing wealth were likely to suffer serious reversals if these trends continued. Rather, the current change in these trends would suggest a “cascade effect back to moderation”: as inventories continue to rise and interest rates remain reasonably stable, balance between buyers and sellers should be restored, and this will lead to further price moderation and then increased affordability. In the end, this will improve both home sales and homeownership. That is not only good for the industry, but for the economy and even society as a whole.

Bottom line: Expect more of the same in the short-to-intermediate term, However, this is simply a healthy reversion to the mean, rather than an unpleasant market correction. Fingers crossed!!

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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.