

With COVID In The Rearview Mirror, Philadelphia's Regional Housing Market Finally Appears To Be Normalizing.

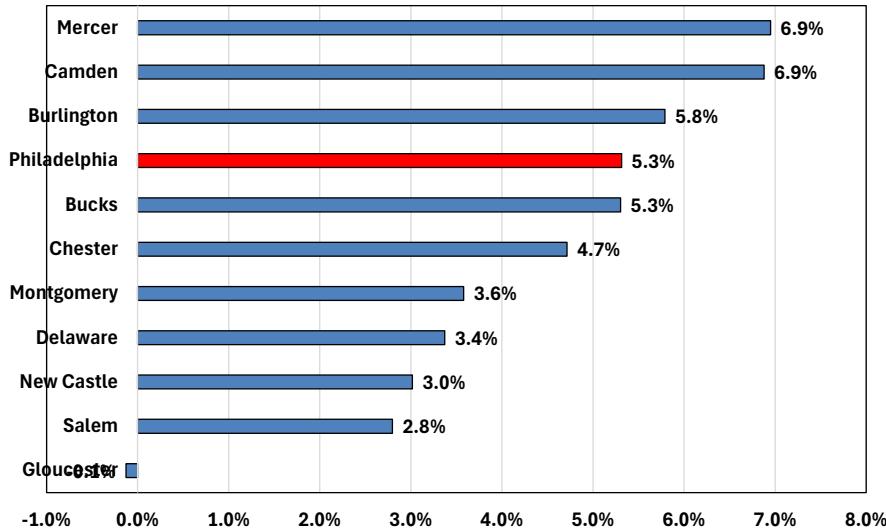
Some interesting disparities in city v. suburban trends persist, though.

December 20, 2024: Here's the latest numbers, from data generously provided by Bright MLS:

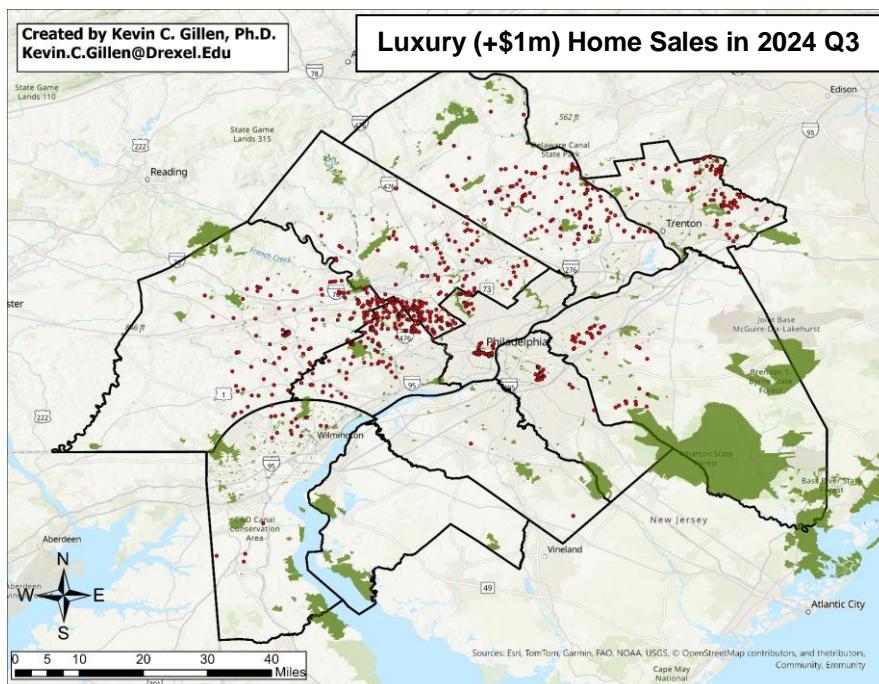
- **In Q3, the average price of Philadelphia homes was up 5.3% from a year ago, on a quality- and seasonally-adjusted basis.** This is a decrease from a 6.9% increase in the previous quarter.
- **In the same quarter, the average price of suburban homes in the Philadelphia region was up just 2.2% from a year ago on a quality- and seasonally-adjusted basis.** Like the city, this is also a decrease from 6.1% in the previous quarter.
- **These latest numbers indicate a continuing regional trend of house price deceleration since their COVID-period peak.** At their crest three years ago in 2021 Q3, house prices were rising 11.9% annually in the city and 20.0% annually in the suburbs. While price appreciation remains in positive territory for both markets, its rate of growth has been slowing down ever since.
- **House price growth in the Philadelphia region also continues to underperform national trends.** While house price growth has been decelerating nationally, house prices in the 10 largest U.S. metros (excluding Philadelphia) are up 7.2% from one year ago¹, compared to an average of 3.1% in the Philadelphia metro area.
- **Individual counties are also showing the same pattern of price changes as the region.** With one very small exception, YoY price appreciation is positive for all counties, but with continued slowing from previous quarters. The following chart ranks each county by their current YoY house price growth:

¹ Source: Case-Shiller HPIs <https://fred.stlouisfed.org/series/SPCS10RSA>

Current YoY House Price %Appreciation by County



- **Home sales volume has reverted from its COVID-driven peaks to its historic average.** 4,412 homes changed hands under arms-length conditions in Philadelphia in Q3. This is down 45% from their all-time high of 7,992 in 2022 Q1, but is fairly close to the city's historic average of 3,380 sales per quarter. Similarly, 14,069 homes transacted under arms-length conditions in the suburbs in Q3, which is down 35% from their peak of 21,516 in 2020 Q3, but is also much closer to their historic quarterly average of 13,333.
- **A notable countertrend is luxury (+\$1m) home sales, which continue to break new records across the region.** There were nearly 900 sales at a price of one million dollars or more in Q3. Although only 7% of them were in the city², both the city and suburbs hit new highs for such sales. Prior to COVID, the region averaged 171 such sales each quarter, whereas it is now averaging 534 such sales each quarter; a more than tripling in volume.



² These sales numbers exclude condos.

- **Consistent with recent market trends, Zillow continues to downgrade its projection of the Philadelphia region's house prices.** The housing analytics firm is currently predicting that the general level of house prices in the Philadelphia region will increase by 2.6% over the next 12 months. Not only does this continue their downward revision from its topmost forecast of nearly 11% in 2020, but is notably below the region's historic annual average appreciation rate of 4.7%.

Summary: Leading indicators point towards a return to a more normal market, but at a slow pace. Not only is price growth slowing and sales activity returning to typical levels, but other housing market metrics support a continuation of these trends: the supply of homes listed for sale (inventories) and the pace of sales (MSI, DOM) appear to have hit this cycle's bottom and are starting to regenerate from the post-COVID lows, while interest rates are expected to be largely stable through 2025. A continuation of these trends would be welcome, as it would help bring supply back in line with demand and restore negotiating parity between buyers and sellers. This would have the added benefit of alleviating the strong upward pressure on prices from the last few years and thereby improve affordability for future homebuyers. In addition, the numbers further indicate a restoration of fairer trading terms between the city and suburbs, as the previously COVID-driven shift in demand towards the suburbs has not only largely abated, but appears to be reversing in the city's favor.

Bottom Line: The unbalanced conditions that have characterized the housing market during the last several years appear to be—thankfully—coming to an end. While 2025 may not see a full return to normalcy, progress towards it should be made. Or, to put it in economist-speak: we may still be far from equilibrium, but expectations are that the market is at least reverting to its mean. Happy Holidays!!

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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.