

## **Philadelphia House Values Hit New Low in Q4**

### **House prices currently back to 2003 levels.**

January 24, 2011: The Philadelphia housing market continued its downward trend this past quarter, as both home sales and prices hit new lows. The typical Philadelphia home fell in value by an average of 4.2% on a quality- and seasonally- adjusted basis this past fall, according to the latest data from the City's Recorder of Deeds. This most recent decline adds to the 4.6% decline from the previous quarter, which has seen house prices resume their downward trajectory following the expiration of the Federal homebuyer tax credit this past spring.

With this most recent decrease, the average Philadelphia home has now fallen in value by a cumulative total of 15% since the bursting of the national housing bubble several years ago. This is a new low for the Philadelphia House Price Index, and it indicates that Philadelphia's house values have now reverted back to 2003 levels.

The decrease in house prices was citywide, with no area of the City being spared. From largest to smallest, the average decline in house prices by neighborhood were: West Philadelphia (-10.1%), North Philadelphia (-9.8%), Kensington/Frankford (-8.5%), South Philadelphia (-7.3%), Center City/Fairmount (-5.4%), Lower Northeast Philadelphia (-5.4%), University City (-3.5%), Upper Northeast Philadelphia (-2.7%) and Northwest Philadelphia (-0.8%).

The news was equally negative for sales activity. 2,817 homes changed hands in Q4; a 15% decrease from Q3 and a 33% decrease from the same time last year. Although sales activity typically shows a seasonal decline during the cold weather months, this was the lowest level of Q4 home sales activity and third-lowest level of any quarterly sales activity since data began being tracked in 1995.

However, even with the latest downbeat numbers, Philadelphia continues to weather the current housing downturn much better than most other major U.S. cities. According to Case-Shiller MacroMarkets' composite house price index, house prices have fallen by an average of 31% in the largest U.S. cities since the bursting of the housing bubble, compared to only 15% in Philadelphia. Currently, only two cities—Dallas and Denver—have experienced smaller total declines in average house values than Philadelphia. Even with this quarter's significant price drop, Philadelphia remains in third place of the twenty largest cities in the U.S. for the least house price declines.

These latest data continue to provide mounting evidence that not only is Philadelphia's housing devaluation part of a national—rather than local—trend, but that the elimination of the Federal homebuyer tax credit has removed significant, and critical, government support for the housing market. While the tax credit was intended to stabilize house values, these latest data seem to confirm that it provided only a temporary relief from falling house prices, rather than a more permanent stabilization of them.

However, some leading indicators do point towards some reason for optimism in 2011. First, the rate of price declines slowed in Q4 compared to Q3. Secondly, the relatively modest devaluation experienced by Philadelphia's housing stock has helped to keep the percentage of homeowners who are "underwater" (owing more money on their mortgage than their house is worth) relatively small. And indeed, foreclosure rates in the Philadelphia area continue to remain well below National levels. Lastly, the latest housing market metrics, such as Philadelphia's price-to-rent ratio and inflation-adjusted house price index, indicate that Philadelphia's house prices are indeed close to being back to where their long-term fundamentals indicate they need to be, which should eventually act as a brake to further house price declines.

Whether 2011 is the year the local housing market finally hits bottom is something that we will continue to monitor.

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