

Philadelphia's Housing Market Shows Signs of Life in Q2

By Kevin Gillen PhD, 7/29/09

House prices increase, even as sales remain low.

The most recent home sales figures indicate some indicators of stabilization in Philadelphia's slumping housing market.

After seven consecutive quarters of declining house prices, the typical Philadelphia home actually rose in value by an average of 6.8% on a quality- and seasonally- adjusted basis this past spring, according to the latest analysis by Wharton and Econsult economist Kevin Gillen. This is a reversal from nearly two years of price declines. And, when added to previous price declines, Philadelphia house values are down cumulatively by 12% from the local market's peak of two years ago.

Price changes across the city's neighborhoods were almost all positive. From lowest to highest, the price changes by neighborhood are: Center City/Fairmount (+0.9%), Lower Northeast Philadelphia (+3.1%), Upper Northeast Philadelphia (+3.8%), Northwest Philadelphia (+5.8%), South Philadelphia (+6.9%), North Philadelphia (+13.1%), Kensington/Frankford (+14.0%) and University City (+17.1%). West Philadelphia was the only neighborhood to experience a price decline (-1.1%).

With this price increase, Philadelphia has diverged sharply from the average house price decline for large U.S. cities. According to Case-Shiller MacroMarkets' composite house price index, house prices have fallen by an average of 33% in the ten largest U.S. cities since the bursting of the housing bubble, compared to only 12% in Philadelphia. Seventeen cities have experienced cumulative house price declines that are larger than Philadelphia's, while only three cities have experienced cumulative price declines that are smaller.

However, the data remain dismal for the number of homes that actually changed hands. According to the data, 3,398 homes transacted under arms-length conditions this past spring, making the normally-active spring selling season the slowest spring since 1997. That's thirty percent below the historic average of home sales, and nearly sixty percent below the level of home sales that occurred during the 2003-2006 housing boom.

With the most recent price declines to date, Philadelphia's housing is now actually considered to be under-valued. According to the research firm IHS Global Insight, the typical Philadelphia home is under-valued by 3.2%. This is down from its peak of two years ago, when it was estimated to be over-valued by 16%, and the first time it has been considered under-valued since 2003.

The fact that house prices and house sales are moving in opposite directions may be at least partially explained by the current credit crunch in the market. With lenders restricting mortgages to only the most qualified of buyers, only relatively higher-valued homes appear to be being purchased. This not only restricts the overall level of home sales, but also restricts the composition of sales data to disproportionately contain transactions from the upper end of the housing stock.

ECONSULT CORPORATION

• 3600 Market St. • Sixth Floor • Philadelphia, PA 19104 • 215.382.1894 (1895/fax) • www.econsult.com