

## **Spurred by Tax Credit's Expiration, Demand for Philadelphia Homes Surges in Q2**

### **But leading indicators signal a slowdown for the remainder of 2010**

August 10, 2010: Following a slower-than-usual winter season and motivated by the incipient expiration of the federal homebuyer tax credit in April, Philadelphia homebuyers returned to the market in force this past Spring, with the most recent home sales data indicating that both house prices and sales up-ticked during the most recent quarter.

Consistent with a year of unusual volatility, both house price and sales volume increased in the second quarter of 2010 after declining in the first quarter. The typical Philadelphia home grew in value by an average of 3.8% on a quality- and seasonally- adjusted basis this past spring, according to the latest data from the City's Recorder of Deeds. With this recent increase following a year of up-and-down movements, the average Philadelphia home has now fallen in value by a total of 7% since the bursting of the national housing bubble several years ago.

The increase in house prices was citywide, with price changes across all neighborhoods positive. From lowest to highest, the average change in house prices by neighborhood were: University City (+12.2%), North Philadelphia (+6.3%), South Philadelphia (+5.5%), Center City/Fairmount (+3.8%), West Philadelphia (+3.7%), Kensington/Frankford (+2.9%), Lower Northeast Philadelphia (+1.9%), Upper Northeast Philadelphia (+0.7%) and Northwest Philadelphia (+0.1%).

The news was equally positive for sales activity this past Spring. 4,184 homes changed hands in Q2; a whopping 47% increase from Q1 and a 23% increase from the same time last year. However, even with this recent surge, Philadelphia home sales activity still remains below its long-run historic average of approximately 4,600 sales per quarter.

Consistent with recent quarters, the latest quarter's data continue to indicate that Philadelphia's housing market is significantly outperforming those of most other major U.S. cities during the current downturn. According to Case-Shiller MacroMarkets' composite house price index, house prices have fallen by an average of 30% in the ten largest U.S. cities since the bursting of the housing bubble, compared to only 7% in Philadelphia. Of the twenty largest cities in the U.S., only one (Dallas, -5%) has experienced a lesser decline in average house values than Philadelphia.

The latest data are consistent with the recent trend of continuing volatility. After hitting their all-time peak in 2007 Q2, Philadelphia's house prices declined continuously by an average of 12% before bottoming out in 2009 Q1. Since then, both prices and sales have bounced up and down over the past year, as government intervention has sought to stabilize the housing market and help it to identify its true bottom. Disentangling the effects of policy intervention(s) from those of changing economic fundamentals remains a true challenge in these times, as the level of current government intervention in the housing market is of a level of scale and pervasiveness not seen since the Great Depression. While difficult to directly deduce from the current data, this quarter's surge in sales and prices is as likely due to homebuyers being motivated to take advantage of the federal homebuyer tax credit before it expired at the end of April, rather than any improvements in the market's underlying fundamentals.

Leading indicators currently point to a moderation in this surge of positive news. After peaking in April, sales activity in Q2 waned through May and June. Both inventories and the time it takes to sell a home in Philadelphia remain stubbornly high as well. The 9,948 homes currently listed for sale in Philadelphia are below the all-time peak of just over 12,000 in 2007 Q4, but are still well above the historic monthly average of approximately 6,000. Likewise, the 72 days it currently takes for the average home to sell in Philadelphia is below the all-time high of 81 days in March of 2009, but is still significantly above the 40 day average that prevails in a market which is more balanced between buyers and sellers.

Still, the data continue to strongly indicate that Philadelphia's housing market remains in relatively much better shape than that of many of its peer cities. While another pull-back in prices and sales may lie ahead in the short-term, it does seem safe to conclude that Philadelphia's decision not to engage in the worst excesses of the bubble years will continue to support it in the longer term.

Email for Kevin Gillen: [Gillen@econsult.com](mailto:Gillen@econsult.com)

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#### **ECONSULT CORPORATION**

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