Philadelphia Housing Recovery Sputters in Q3

By Kevin Gillen PhD, 10/26/09

Mixed news on sales, prices.

The most recent home sales figures suggest a slowing in the momentum of the housing market's attempt to recover from its current slump.

Following the first quarterly increase in citywide house prices after two years of falling prices, the typical Philadelphia home rose in value by a scant 0.2% on a quality—and seasonally—adjusted basis this past summer, according to the latest analysis by Econsult economist Kevin Gillen. Following on the heels of a robust increase of 6.8% this past spring, Philadelphia house values appear to still be struggling to regain the value they lost over the past two years. With these losses in value netted against these two recent increases, the typical Philadelphia home has lost 8% of its value since the bursting of the national housing bubble over two years ago.

Price changes across the city's neighborhoods were mixed, with increases in some neighborhoods being offset by decreases in others. Neighborhoods that experienced price appreciation are: South Philadelphia (+7.0%), West Philadelphia (+6.4%), University City (+2.6%), Center City/Fairmount (+0.7%) and Lower Northeast Philadelphia (+0.2%),. Neighborhoods that experienced price depreciation are: Northwest Philadelphia (-4.4%), Kensington/Frankford (-2.1%), Upper Northeast Philadelphia (-0.7%) and North Philadelphia (-0.4%).

But, even with the weakening of the recent surge in house prices, Philadelphia remains in far better shape than most other major U.S. cities. According to Case-Shiller MacroMarkets' composite house price index, house prices have fallen by an average of 32% in the ten largest U.S. cities since the bursting of the housing bubble, compared to only 8% in Philadelphia. Of the twenty largest cities in the U.S., all but one (Dallas) have experienced more severe house price declines than Philadelphia. And, according to the research firm IHS Global Insight, the typical Philadelphia home is now considered to be under-priced by 2%.

However, the market still remains problematic for actual home sales activity. According to the data, just over 4,000 homes transacted under arms-length conditions this past summer. That is 23% below the average for this time of year, making this year's normally-active summer season the slowest since 2001.

Whether the recent upturn in house prices marks a true turnaround in the housing market, or just a false bottom, may have to wait until next spring, after the December expiration of the current first-time homebuyer tax credit and the passage of the usually slow winter months. The tax credit may have been the primary motivation for many potential buyers to get back into the market, rather than the fact that the price declines of the last few years have put many homes back into the reach of affordability. Inventories—the number of homes listed for sale—are down to 10,000 units from their peak of 12,000 units in 2006. But this is double their historic average of 6,000 units. Without a renewal of the tax credit to renew the recent increase in housing demand coupled with a commensurate reduction in housing supply, downward pressure on house prices is likely to remain, even if the worst is indeed behind us.