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Philadelphia's Housing Market Shows Signs of Deceleration

It's still a strong market, but the latest numbers indicate some cooling.

October 18, 2021: Here's the numbers for 2021 Q3…but don't overreact:

- **Philadelphia's house prices continue to show strong appreciation, but at a decreasing rate.** Philadelphia's median house price is 8.8% higher than one year ago. While this is well above Philadelphia's average house price appreciation rate of 4-5% per year, it is a definite pullback from the 14.5% YoY increase that occurred in the previous quarter of this year.

- **Sales activity remains high, but definitely appears to be decreasing.** Total sales volume remains above its historic average of approximately 4,000 transactions per quarter, but has been trending down for the past two years. The most recent numbers indicate a continuation of this trend. Closed sales are down 4.9% from a year ago, and pending sales are down 2.2% from a year ago. Also, both metrics are down from this past summer, although this is a standard seasonal phenomenon (house prices and sales always decrease as the calendar year transitions from the summer to fall).

- **Other market metrics indicate some softening of the market.** From one year ago, listings of homes for sale are down 6.3%, median days-on-market are up 1% and showings are down a whopping 23.1%. But, homes are still selling very quickly, with a median days-on-market of only 15.

- **There is some significant segmentation of the market.** Demand is currently highest for higher-priced single-family homes, and weakest for lower-priced single family homes. Demand for condos—especially in Center City—also remains soft. These are trends that have persisted since Covid.

Some recent quotes from local Realtors that I was given permission to share anonymously:

> *"Buyers have become exhausted. Many of them have been looking for a home for the past six months or even a year. They've gotten involved in bidding wars over multiple properties, and have repeatedly lost. This has discouraged them and they are tired of it. So, they are rethinking their engagement in what they feel is a rigged game."*

> *"Sellers have had the upper hand for several years now, but I think they are really starting to overplay it. While low supply has definitely exerted upward pressure on prices, sellers shouldn't forget that buyers will balk if low supply limits their choice to their less-than-ideal home."*

> *"People were traveling and were out and about over the summer, and they really enjoyed it. But as Covid seems to become less of an issue and rules continue to relax, they are re-thinking how much time they will be spending in their house, and therefore, how much they should be spending on a house."*

> *"Buyers are becoming increasingly aware that if they are going to pay a Cadillac price, then they want a Cadillac product. But, because supply is so limited, they are becoming less willing to pay a Cadillac price for a Honda product."*

Lastly, many others in the Philadelphia real estate community—including myself—are becoming increasingly concerned about the unintended consequences of Philadelphia's real estate eviction moratorium/diversion program.

While this program has received positive media attention both locally and nationally for the number of evictions it has prevented, anecdotal and empirical data indicate that there are some adverse outcomes.

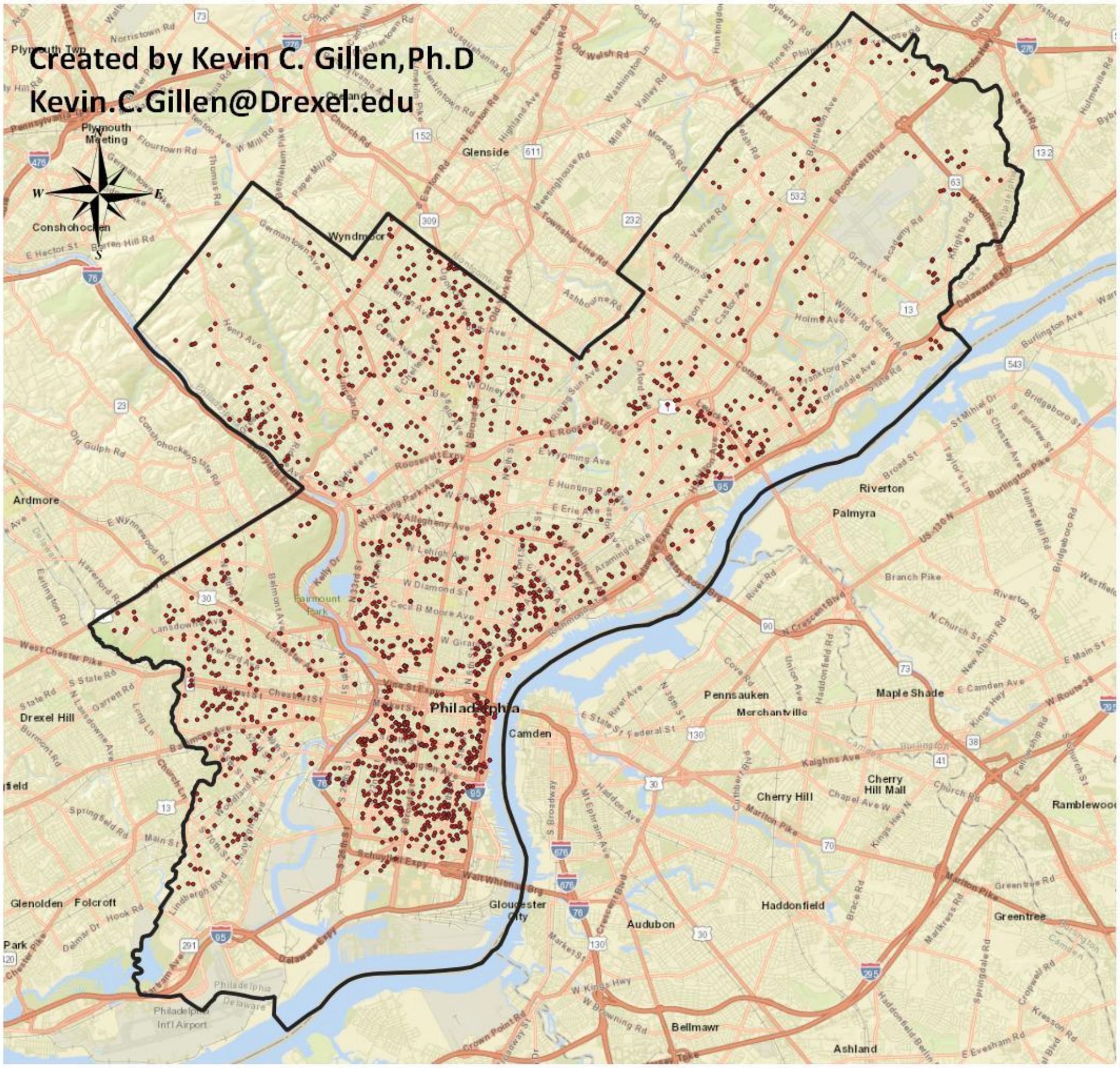
Namely, I'm hearing from a lot of squeezed landlords--most of them small ones. And they are either upgrading their properties to higher-income tenants (who will pay), or selling them at discount prices to larger corporate landlords (just to be relieved of the hassle of managing the property/tenant) or selling them to buyers that will occupy the properties themselves (thus reducing the amount of rental housing stock in Philadelphia).

A recent study by Pew found that while most of Philadelphia's rental stock, is concentrated in the hands of very large full-time landlords, 18% of the City's rental stock is owned by small landlords; e.g. "Mom-and-Pop" owners who own only 1-2 units. However, most of the City's stock of housing units that are rented to low-/moderate-income households—which are the ones most likely to take advantage of the moratorium—are owned and managed by these small landlords.

Therefore, reducing the amount of Philadelphia's rental housing that is available to low-/moderate-income tenants while further consolidating much of the rental stock from independent, local landlords into the hands of national corporate landlords is likely to be an outcome that the moratorium's advocates did not anticipate and likely would not favor.

To investigate this, we examined the number of rental properties (single-family houses only) that were converted from being renter-occupied to being owner-occupied, from January 2020 to August 2021. There were 1,812 such properties that were removed from the City's stock of rental housing during this period. The following map shows their location.

Single-Family Houses Converted From Renter-Occupancy to Owner-Occupancy During Covid



As can be observed, the number of converted units would appear to be citywide, albeit in lower numbers where there is lower housing density. But, while these numbers would seem to require some further investigation and context, they would seem to be large enough to merit such further inquiry.

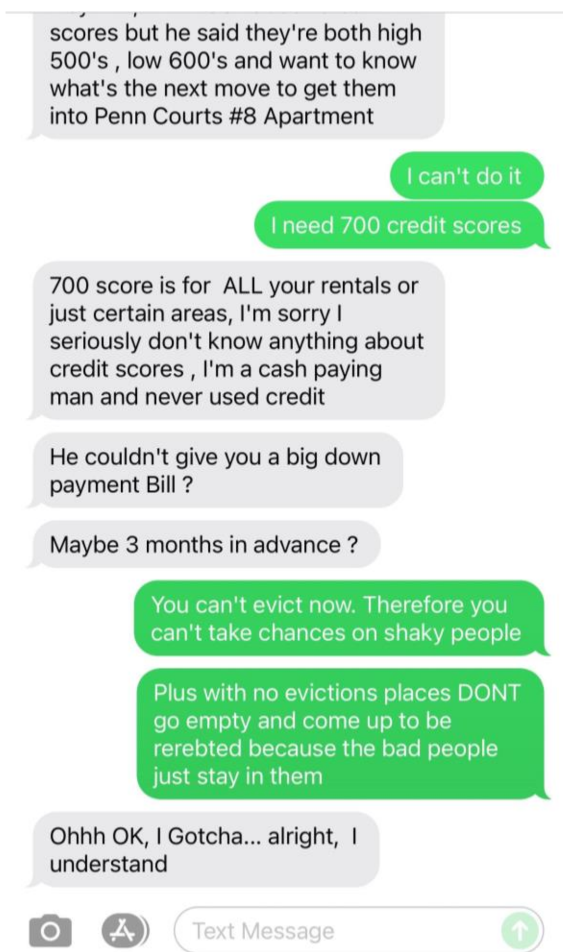
But, I did consult with some fellow economists on this issue. Here are their comments, offered anonymously:

> *"My thought much echo yours! I too have heard about and read about small-time landlords throwing in the towel and selling their units to a bigger corporate firm with large holdings of rental properties. And yes, those mom-and-pop landlords were not perfect profit maximizers and they often allowed the units to slowly filter into cheaper stock. But, the institutional guys use algorithms to set the rent as high as they can and keep raising it relentlessly. This eviction moratorium was a huge gift to deep pocketed multifamily investors. In the past, I was always against buying industrial space as if your tenant that rents the warehouse goes belly up, you are in deep trouble. But, now owning rental property can be just a scary as it is now possible that a large number of your tenants all stop paying their rent at the same time. Yikes! And, of course, the best*

way to avoid that is to improve the quality of your tenants by upgrading the units and charging more rent. And that exacerbates the housing shortage. The Law of Unintended Consequences indeed! The other thing to think about is that as the rental stock becomes increasingly owned by Wall Street, will politicians start to regulate it more in some way? It is hard to fight mom-and-pop investors but easier to go up against Wall Street private equity funds run by BlackRock."

"The moratorium is an interesting study of potential unintended consequences. In order to save lower/middle income families from being evicted and losing their housing, the owners of those units are being harmed financially. The logical conclusion for landlords is to get out of the business, if they can. There are two ways of doing that: Going out of business/selling out, or restructuring the usage of the property so it is no longer subject to future moratoriums. That could be getting out of residential real estate or upscaling. Either way, the longer-term impact of saving renters from being displaced is to lower the supply of lower/middle income housing stock. The question this raises, though, is to what extent is the upscaling or reuse possible? The magnitude is unclear, though it is likely be positive. It is likely to be greatest in housing tracts bordering on gentrifying neighborhoods. Property could be repurposed for either higher income residential and/or commercial/retail. Thus, the moratorium could accelerate gentrification."

Lastly, I offer the following text message exchange that was shared with me from a landlord in Germantown whose portfolio includes approximately 40 properties. It is between him and an applicant for one of his properties.



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