

Absorption Rate Pricing and Positioning

Calculating Absorption Rate

If 12 homes sold in the last 12 months, then the market is absorbing, on average, 1 house per month. If there are 10 homes currently on the market there is a 10 month supply.

A 6 month supply is a balanced market, less than a 6 month supply is a seller's market and more than a 6 month supply is a buyer's market.

To Calculate Absorption Rate search the MLS for the following:

1. Determine search area, house size, features, condition, price range and time of search.
 - a. Detailed searches give more accurate results.
 - b. Too much detail will eliminate huge segments of the market and give you false results
2. Find the number of closed properties during the time period in the search parameters defined in # 1 above.
3. The total number of houses closed divided by the number of months to find the average number of houses closed per month.
4. Determine the number of houses for sale today in your search parameters (# 1 above).
5. The number of houses for sale today divided by the average closed per month to determine the month's supply.

A 6 month supply is a balanced market, less than 6 month supply is not enough houses to fill demand. More than a 6 months' supply is not enough buyers to purchase the supply.

