



## What is Absorption Rate & Why Does it Matter

**Absorption Rate** is how long it will take to sell your market's current inventory of homes at the current rate of sales.

Understanding your area's absorption rate is important because:

- You become an authority on where the market is headed.
- You provide excellent guidance to your buyers and sellers.
- You can clearly explain the market conditions.

The calculation of absorption rate is based on TRENDS rather than an exact science. Therefore, it is advised that you track trends monthly to stay in touch with how your area's market is performing.

## Getting Started

To calculate your area's absorption rate, you will need the following figures:

- 1) Number of listings currently on the market
- 2) Number of listings sold last month

## How to Prepare Your Report

- I. Define your geographic area for report – do NOT be too specific.
  - a. County – good choice.
  - b. Several communities – good choice. An average buyer may be considering several communities that are relatively close together.
  - c. One community or subdivision – bad choice. Challenging to identify trends based on such a small geographic area.
- II. Define the price ranges – depending on market, you may want to use \$10k, \$25K, or \$50K increments/ranges for meaningful results.
- III. **Step 1:** from your MLS, set the search parameters according to the information above. Use today's date to determine how many listings are actively available for sale. Include those listings marked "pending" since those have not yet closed and could potentially fall out of contract.
- IV. **Step 2:** using those same parameters, pull the "closed" number from only the previous month.
- V. As you fill in these numbers on the Absorption Rate Worksheet or Snapshot, the spreadsheet will automatically calculate the number of months of inventory for each price range.
  - a. EXAMPLE – Step 1\*
    - i. Area: Livingston County, Michigan
    - ii. Type of dwelling: Single Family Homes
    - iii. Price range: \$75,000-\$100,000 (the next search would be \$100,001-\$125,000)
    - iv. Status: New, Active, Pending
    - v. Time Period: Today's date
  - b. EXAMPLE – Step 2\*
    - i. Area: Livingston County, Michigan
    - ii. Type of dwelling: Single Family Homes
    - iii. Price range: Same as in Step 1
    - iv. Status: Sold
    - v. Date: ONLY the previous month

\* see example on page 2



Absorption Rate Snapshot				
Insert Your Logo Here		Area:	Livingston County, MI	
		Time Period:	November 2020	
		Prepared by:	Laurie Popp, REALTOR	
Price Ranges		# of Active Listings	# of Sold Listings in the previous month	# of Months of Inventory
\$25,000	- \$ 50,000	2	2	1.0
\$50,001	- \$ 75,000	10	6	1.7
\$75,001	- \$ 100,000	26	9	2.9
\$100,001	- \$ 125,000	38	9	4.2
\$125,001	- \$ 150,000	72	22	3.3
\$150,001	- \$ 175,000	77	21	3.7
\$175,001	- \$ 200,000	103	27	3.8
\$200,001	- \$ 225,000	127	28	4.5
\$225,001	- \$ 250,000	127	22	5.8
\$250,001	- \$ 275,000	89	14	6.4
\$275,001	- \$ 300,000	106	16	6.6
\$300,001	- \$ 325,000	64	4	16.0
\$325,001	- \$ 350,000	84	6	14.0
\$350,001	- \$ 375,000	67	7	9.6
\$375,001	- \$ 400,000	52	6	8.7
\$400,001	- \$ 425,000	22	5	4.4

Enter your numbers in the first 2 columns

The last column will automatically calculate

### Rule of thumb:

# of months of inventory is >4, Buyer's Market

# of months of inventory is <4, Seller's Market

### The Definition of Absorption Rate:

The number of months it will take to sell your market's current inventory of homes at the current rate of sales.