

Absorption Rates and Sell-by Dates

Determining the appropriate list price for a home or figuring what to offer is equal parts art and science. The “art” has a lot to do with the motivation and level of risk tolerance of the parties, as well as the degree of emotional attachment to the outcome. The focus of the “science” has typically been on knowing overall market and financing conditions, and picking the most “comparable” properties to see how the subject property stacks up. Unsurprisingly, there’s a lot more to it than that.

Among the factors to consider are absorption rates and what we call “sell-by” dates. Absorption rates simply measure the percentage likelihood a property will sell in a given month. Absorption rates above 35% are reflective of a seller’s market, and rates below 20% create more leverage for buyers. Anything in between indicates a more balanced market. Sell-by dates reflect how much of the inventory sells before list price reductions are needed. Generally, when homes sell quickly they sell closer to list price, and the discount from the original list price is greater the longer they are on the market. Let’s look at some specific examples.

We analyzed the contract activity for detached homes with a list price of \$800,000 to \$899,999 from July through October for three communities in the metro area: Great Falls, Virginia, Bethesda/Chevy Chase, Maryland and the Spring Valley/American University Park area of Northwest DC.

**Detached Homes Priced \$800,000 - \$899,000
Last Four Months’ Average**

Community	Absorption Rate	“SB” Date (Sell-By)	Avg. SP/OLP By “SB” Date	Avg. SP/OLP After “SB” Date
Great Falls, VA	19.7%	30 days	99.0%	92.2%
Bethesda/Chevy Chase, MD	32.2%	21 days	99.1%	94.2%
Spring Valley/AU Park, DC	64.8%	25 days	105.5%	94.3%

Great Falls had the lowest absorption rate at just under 20%, meaning that of all the inventory of available homes, only 20% on average sold in a given month. The average number of days a home was on the market before getting a contract was 37. Advantage: Buyers. At the other end of the spectrum, almost two thirds of the available inventory sold each month in Spring Valley/AU Park. The average days on the market was a remarkably low 10 days. Advantage: Sellers.

The “sell-by” date is the threshold for considering a list price reduction. In Great Falls, homes that sold in 30 days or less sold for an average of 99% of the original list price. Those that sold after 30 days on the market sold for an average of 92% of original list, and almost all had to lower their price before receiving an offer. In Bethesda/Chevy Chase, homes selling in 21 days or less sold for 99% of original list; those that took longer sold for just 94% and all but one had to drop their list price. In the hotter Spring Valley/AU Park market, homes on the market 25 days or less sold for 105.5% of list price, but after 25 days the average dropped to just 94.3%. Even in this market, 75% of sellers had to drop their list price to receive an offer after their home had been on the market for 25 days.

Despite very different pricing dynamics in these markets, sellers need to understand there is a critical window of opportunity to sell for the highest price. And buyers understand that if they wait for the inventory to “age” a bit, they might be able to drive a harder bargain.

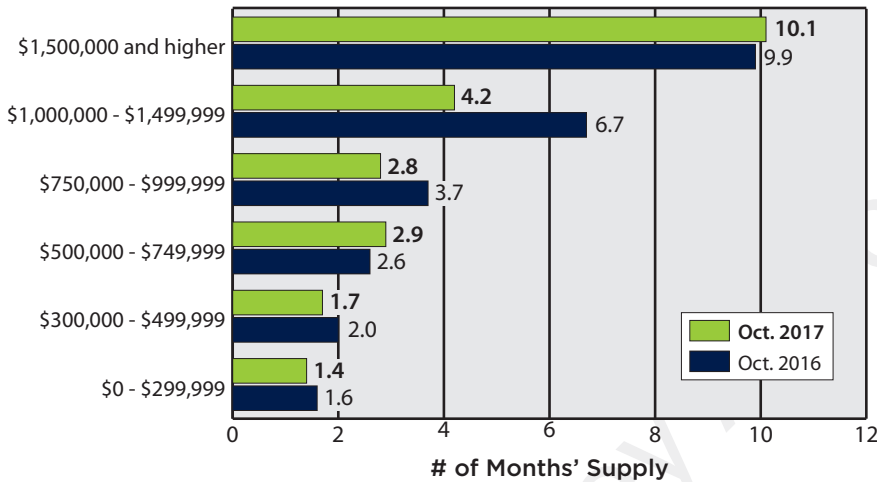
FULLY AVAILABLE LISTINGS

Montgomery County - October 31, 2016 vs. October 31, 2017



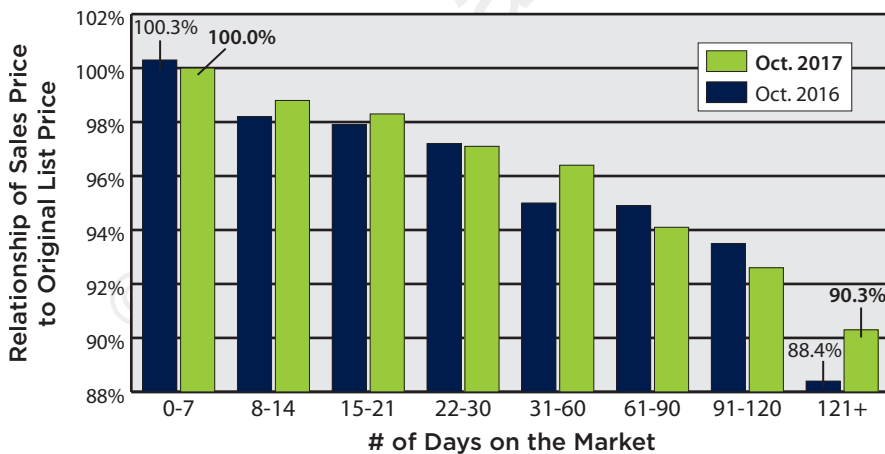
MONTHS' SUPPLY

Montgomery County - End of October 2016 vs. End of October 2017



RELATIONSHIP OF SALES PRICE TO ORIGINAL LIST PRICE vs. DAYS ON THE MARKET

Northern Virginia - Oct. 2016 vs. Oct. 2017 - Resale Properties Sold



FULLY AVAILABLE LISTINGS

- As noted on page 2, the overall inventory **decreased 7.1%** in October 2017 compared to October 2016, but there was a slight 0.1% increase in the number of new listings coming on the market.
- Inventory decreased for four price categories.
- 44.6%** of all homes on the market have had at least one price reduction since coming on the market. In October 2016, 42.5% of all homes on the market had at least one price reduction.

MONTHS' SUPPLY

- The overall supply of homes on the market at the end of October was **2.3 months**, **down 8.8%** from 2.5 months as at the end of October 2016.
- Supply is lower for four price categories.

RELATIONSHIP OF SALES PRICE TO ORIGINAL PRICE vs. DAYS ON MARKET

- Initial pricing strategy is critical to the listing process, regardless of market conditions. The longer a home sits on the market, the deeper the discount to its original list price will likely be.
- Homes settling in October 2017 that received contracts their first week on the market sold, on average, **0.86% above** list price. Those that took 4 months or longer to sell sold at **7.96% below** original list!



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