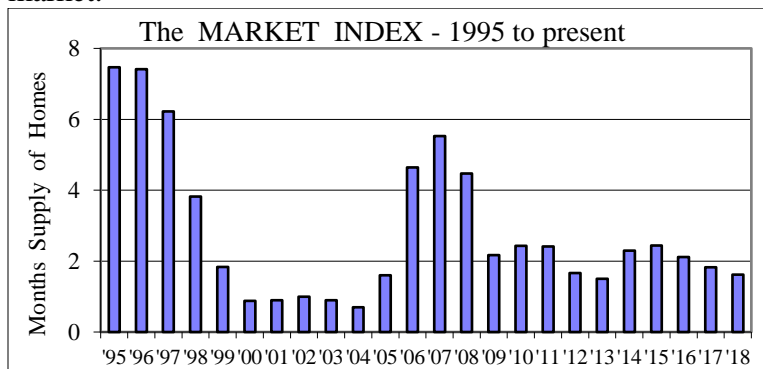


## Market Strength

The single most important real estate statistic is the Months Supply of homes on the market. A number greater than 5.0 indicates that buyers have the upper hand. A number lower than 3.0 favors sellers, and less than 1.5 indicates a hot market.



To obtain this figure, the number of homes on the market is divided by the number of contracts entered (sometimes called pending sales) for the previous month. Only resale homes are included in the calculation.

Home sellers can use the information as a measure of:

- how to price their home
- how long their home might be on the market
- what pace is best when negotiating an offer
- how likely they are to obtain multiple concurrent offers.

Home buyers can use the information as a measure of:

- how soon they need to view homes new on the market
- how long they can "think about" a property of interest
- whether other offers might appear during negotiations.

Months Supply is the most important statistic because it incorporates both supply, demand, and the effects of home prices, interest rates, and local economic conditions into a single real-time indicator. A monthly reading can be immediately available with essentially no delay or distortion by using the number of contracts entered, that is pending sales, *not* closed sales. Nearly all pending sales proceed to closing. More importantly, pending sales represent actual contracts; whether they close or not is irrelevant.

One way to view the Months Supply of Homes: With a 4 Months Supply, if buyers kept buying at the current rate and no new homes entered the market, after 4 months there would be no homes left on the market. Of course, this never happens, but merely serves to illustrate the concept.

\*\*\*\*\*

**Caution:** Most information in the media is 2 to 4 months out-of-date: Media reports are generally based on closings, not contracts entered, and there is an additional lag before publication. If you want to sell when buyers are writing contracts, rather than months later, act on up-to-date information. For example, reporting of strong "sales" (closings) for June (usually reported in August) is probably due to contracts entered in April.

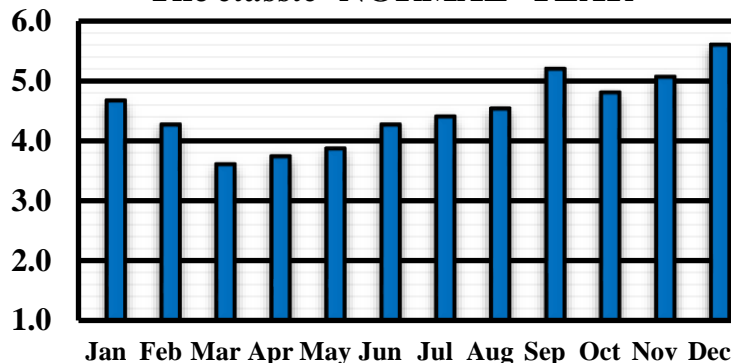
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*This series is excerpted from David Rathgeber's **SELLING YOUR HOME in the Washington, DC Metropolitan Area**  
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## Market Seasonality

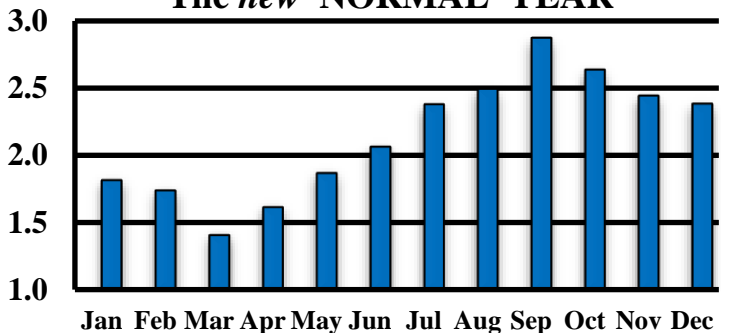
### *The classic NORMAL YEAR*



The graph above incorporates supply and demand into a single number and shows the seasonality of the real estate market. This is the classic case of how the market *should* behave. It shows sellers' best market to be in March, not June and July as you often hear. It shows buyers doing best in December. Note the September "slump."

The graph below shows the seasonality of our real estate market for several recent years. Sellers still have their best market in March, not June and July as you often hear. But buyers now do best in September and then months supply decreases for the rest of the year.

### *The new NORMAL YEAR*



What has changed? The seasonal pattern and shape of the demand (number of homes sold) chart has not changed with peak sales usually occurring in April. The seasonal pattern and shape of the supply chart has flattened. There is now very little change in supply from May to October. Both supply and demand are decreasing in the final months of the year as always, but the supply decrease has become the controlling factor.

Further, the average number of days on the market is much lower than before, so a home spends a month or two less on the market. This tends to flatten the increasing supply trend earlier in the year, and steepen the decreasing trend later in the year.