VELOCITY IN THE HOUSING MARKET

REPORTS ON HOUSING
ECONOMICS EXPLAINED

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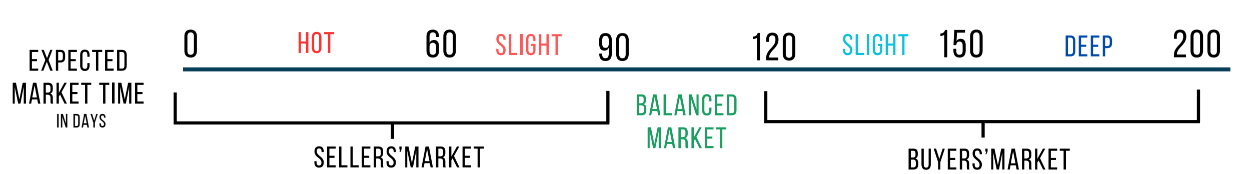
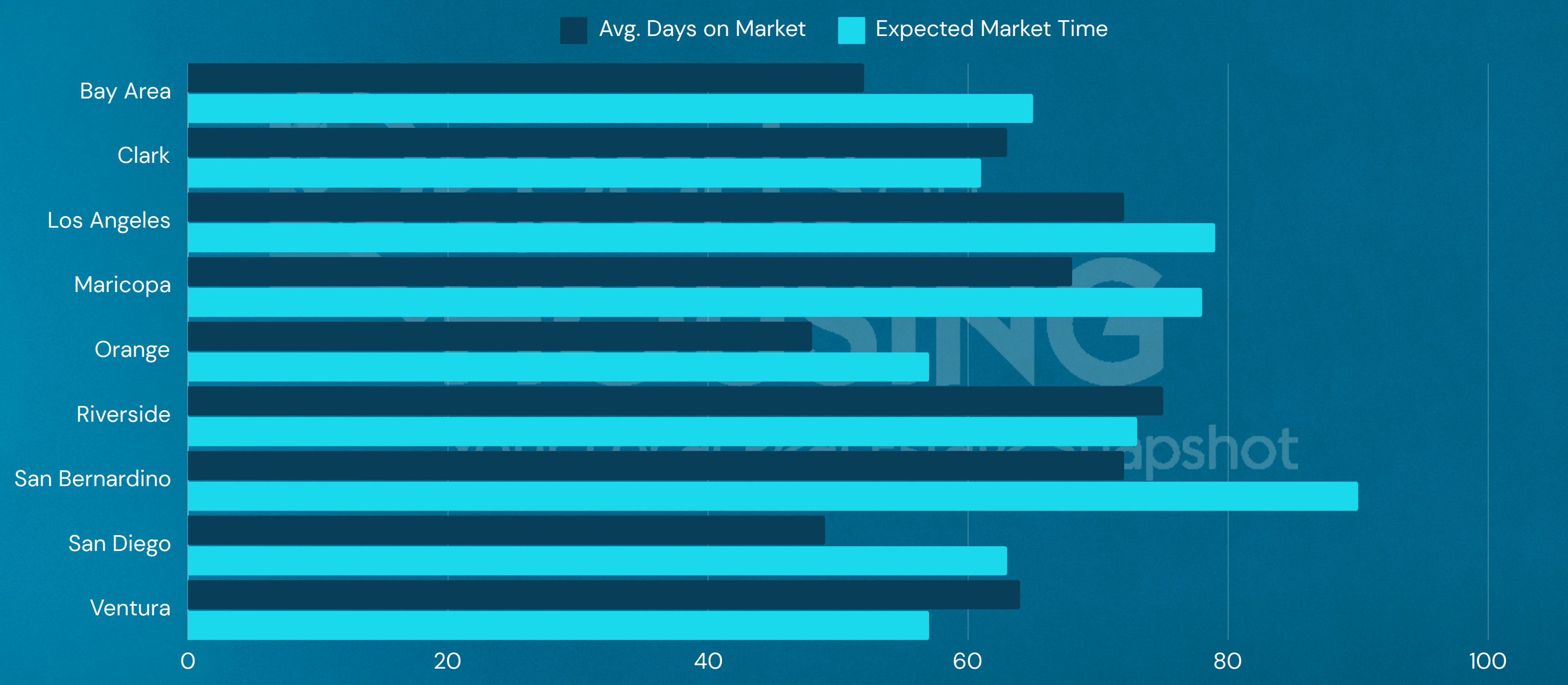
MARKET TIME METRICS

In real estate, **Days on Market** (DOM) holds significant importance for both buyers and sellers. Homes usually attract the most interest when they are newly listed. After the initial few weeks, the volume of calls, showings, and open-house visitors typically decreases. Once the current pool of buyers has seen your property, the attention shifts to the smaller group of new buyers entering the market. Many real estate professionals often use data that fails to accurately reflect the current market landscape when setting expectations for clients. Commonly used metrics like "Days on Market" and "Sold Data Indices" frequently misrepresent the actual state of the market. **Understanding the current market velocity is essential for setting realistic expectations.**

Let's use one of the counties we track to help set the scene. In Orange County, the average days on market for the active inventory is 48 days. The **true** Expected Market Time for Orange County is 57 days. At first glance, both metrics seem almost identical to each other. The disparities between the two metrics are more difficult to see in the lower price ranges, however the slight difference is indicative of a much larger change happening within the market. Average Days on Market does not adjust as swiftly and thus fails to accurately identify market changes and new trends. The Expected Market Time reveals evidence of a slowing market while the Average Days on Market has yet to exhibit that change.

When the housing market is behaving under normal conditions, meaning a market operating without any severe shortages or surpluses, the Expected Market Time falls within a set of ranges which act as guidelines for assessing the current balance within the market. It is important to note that the current supply shortage and elevated rates aimed to help tame inflation inhibit this market from behaving as normal. The typical ranges are as follows:





EXPECTED MARKET BY COUNTY : JUNE 2024

Expected Market Time is calculated based on how long it will take to deplete the current supply of active listings, given the past month's pending activity. For example, if your city has 100 homes on the market and 25 became a pending sale in the past 30 days, the market time is 120 days ((100/25)*(30 days/month)). This metric provides a precise snapshot of current market conditions. If the number of listings suddenly increases while demand remains constant, Market Time will rise. Conversely, if demand increases while the inventory remains unchanged, Market Time will decrease.

For homes priced above $2 million, Expected Market Time reveals a vastly different scenario compared to Average Days on Market. The higher the price range, the greater the discrepancy. Luxury sellers often misinterpret a "hot" market to mean their home will sell quickly. They might be misled by the Average Days on Market, which does not reflect the market reality. For instance, homes priced between $4 million and $6 million have an expected market time of 167 days, over 5 months, vastly different from the average of 87 days.

Opposition to the Expected Market Time metric argues against using pending sales data, citing that many homes fall out of escrow. While this does occur, it is not at an alarming rate. Despite some pending sales not completing, Expected Market Time remains an accurate and powerful gauge of the current market. Sold data, in contrast, is not a reliable indicator of present demand. It reflects what happened 45 to 60 days ago, while market movement is based on current conditions. Pending sales more accurately indicate buyer behavior right now. Having a real-time metric to gauge market velocity allows you to give the most accurate advice when advising a potential seller.

This data provides a forward-looking perspective, akin to looking through a car's windshield to determine the correct path. In contrast, utilizing Sold Data Indices is akin to driving while looking in the rearview mirror. Overall, Days on Market and Sold Data Indices often fail to depict the true, current state of the housing market. Expected Market Time captures the ongoing changes and trends as real estate evolves seasonally or in response to economic shifts, interest rate changes, or local and global events.