



GOOD TO KNOW

# UNDERSTANDING INVENTORY & ABSORPTION RATE

## ABSORPTION RATE

Absorption rate is the rate at which homes sell in a given area during a given time period. Absorption rate is calculated by dividing the number of sales in a given month by the number of available homes for sale. It is the inverse of months of supply.

For example, if there are 100 condos listed for sale in a certain area, and 10 condos sold over the last month, the absorption rate is  $10/100=10\%$ .

An absorption rate of 20% or higher means that homes are selling quickly and the market favors sellers. Lower absorption rates mean that homes are not selling quickly and supply is much greater than demand, favoring buyers.

## INVENTORY FORMULA

$$\frac{\text{AMOUNT OF ACTIVE LISTINGS}}{\text{HOW MANY LISTINGS SOLD THE PREVIOUS MONTHS}} = \text{MONTHS OF INVENTORY}$$



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