

Understanding Segmentation and Absorption Rates Helps You Price More Effectively

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Today's sellers are predictably nervous about the selling process. Giving your clients realistic expectations based on market data can help alleviate their fears through confidence in your expertise. One way to do this is by understanding the absorption rate within market segments. Absorption rates can provide you with clear insight as to approximately how long a particular property will take to sell. It can also help you advise sellers on how to better position their property in terms of price.

Any local real estate market can be broken down into price segments, for example; \$200,000-\$224,999, \$225,000-\$229,999, \$230,000-234,999, etc. Identifying the absorption rate for each price range is an easy three step process:

- 1.) Identify the total number of properties available within the given price ranges.
- 2.) Determine the number of properties sold in the price range over the past six months.
- 3.) Calculate the absorption rate by dividing the number of sold properties by the number of available properties.

Price Range	Total # of available properties	Properties sold within the past 6 months	Current Absorption Rate
\$220,000-\$224,999	27	18	67%
\$225,000-\$229,999	32	9	28%
\$230,000-\$234,999	56	20	36%
\$235,000-\$239,999	45	22	49%

As you can see in the example, properties in the \$220,000-\$224,999 have a significantly higher absorption rate. More simply put, they have a much higher probability of selling in a six month period. By illustrating this analysis to prospective sellers you have a much better chance of convincing them to price their properties accordingly.

Imagine that you are in a situation where you are "negotiating" with a potential seller prior to setting the listing price on their home. Naturally the seller wants to set the listing price a little higher than your market analysis indicates. They want to set the listing price at \$229,000 rather than the \$220,000 that you have recommended. By showing the seller that they can nearly double the chances of selling the home in the next six months by listing in a slightly lower price range, you stand a much better probability of walking out the door with the listing priced more competitively.