

## MONTHS SUPPLY WORKSHEET

Example 1: Sunny Brook community. Currently there are 20 homes for sale and 5 sold last month:

$$20 / 5 = 4 \text{ (4 months of supply)}$$

Example 2: Lazy Day community. Currently there are 25 homes for sale and 2 sold last month:

$$25 / 2 = 12.5 \text{ (12 } \frac{1}{2} \text{ months of supply).}$$

This data only gives you a recent snapshot of market activity. To determine a possible trend, find out how many homes sold in the same area over the past three or six months.

Example 1 revisited: 20 homes for sale. Twenty sold in the past 3 months.

$$20 / 3 = 6.67 \text{ (7) homes per month sold on average.}$$

$$20 / 7 = 2.8 \text{ (3 months of supply).}$$

If an average of 7 homes per month sold in the past three months, but only 5 sold last month, it could indicate a slowing of market activity. If the data is unclear, go back six months.

Example 1 revisited: 20 homes for sale. Thirty sold in the past 6 months.

$$30 / 6 = 5 \text{ homes per month sold on average}$$

$$20 / 5 = 4 \text{ (4 months of supply).}$$

Example 1 shows a robust market, doesn't it? Potentially, the owner could ask a slightly higher price with the knowledge that sales have been strong in their area over the past six months. There are no guarantees, of course. The market can change quickly (*as we all know from living through the economic downturn*), so you must pay close attention to the sales activity in the area.

Example 2 revisited: 25 homes for sale. Six sold in the past 3 months.

$$6 / 3 = 2 \text{ (2 homes sold per month on average).}$$

$$25 / 2 = 12.5 \text{ (12 } \frac{1}{2} \text{ months supply).}$$

To double-check your suspicion that this area might be in a sluggish (*buyer's*) market, check sales over the past six months:

Example 2 revisited: 25 homes for sale. Fifteen sold in the past 6 months.

$$15 / 6 = 2.5 \text{ (2.5 homes sold per month on average).}$$

$$25 / 2.5 = 10 \text{ (10 months supply).}$$

While 10 months is an improvement over 12  $\frac{1}{2}$  months, it still indicates a sluggish market. If the seller is truly motivated (*and we hope by now you are working with only motivated sellers*), they will have price the home very competitively or offer terms or other incentives in order to attract a buyer quickly.