



What can be learned from analyzing seasonal factors in the real estate market?

Seasonality charts display the regular and predictable changes which recur every calendar year. Any predictable change or pattern in a time series that repeats or recurs over a one-year period can be said to be seasonal.

Seasonal effects are different from cyclical effects. Seasonal factors occur within a calendar year. Cyclical effects, such as changes in interest rates, unemployment rates or stock market performance may span time periods shorter or long than one calendar year.

Seasonality can be seen in many time series, and it's more common than you might think. For example, if you live in a climate with cold winters and warm summers, your home's heating costs probably rise in the winter and fall in the summer. You would reasonably expect the seasonality of your heating costs to recur every year. Similarly, a company that sells sunscreen and tanning products would see sales jump up in the summer, but drop in the winter.

By comparing today's market performance to typical seasonality factors, we can help sellers and buyers better understand market dynamics. With this understanding, you can help sellers develop appropriate pricing and marketing strategies. Your buyer clients will be better prepared to work with you in negotiating the best possible price and terms for their purchase transaction.

What are we measuring in the seasonality reports we publish each month?

New Listings Seasonality compares the numbers of new listings that have entered the market every month since January of 2001.

Active Listings Seasonality measures the number of listings actively on the market for each month beginning in 2001.

Units Sales Seasonality shows the numbers of monthly sales achieved.

Days of Inventory measures how long it would take this month's entire inventory of listing to sell at this month's current rate of sale. Lower numbers of days of inventory represent a fast market; high numbers are typical in a normally-paced or slow market.

Year end, 2006
This month's analysis

Total Unit Sales Seasonality

- Unit sales are off by 16% compared to last year
- Sales in 2006 were comparable to the levels achieved in 2003 and still well beyond the earlier years of this decade.
- We have had price stability in Tucson, and even modest appreciation in the last half of the year.

What this means

The sales achieved in 2004 and 2005 went well beyond a normal rate of growth. Record-making periods make for tough comparisons. An examination of actual sales in 2006 tells us that we are still in a stable market.

Active Listings Seasonality

- Listing inventory continues at unprecedented levels, with 8518 listings on the market at the end of December. While below previous months' inventory levels, this still represents a very high number of listing.
- A large supply of any product tends to depress opportunities for price increases.

What this means

Listing inventories appear to be declining. This is a sure sign that the market is adjusting and that unrealistic sellers are beginning to make adjustments. If this trend continues, we will return to market more balanced between the interests of buyers and the interests of sellers.

New Listings Seasonality

- New listings entered the market in December at a much slower pace.
- Historical seasonality factors indicate that we can anticipate an up-tick in new listings entering the market in January of 2007.
- New listings must compete with sellers who are aggressively reducing their prices

What this means

There is continued interest in buying and selling in Tucson. Rates are creeping up, but are still historically low. The rate of new listings in January and February of 2007 will set the tone for the year, indicating if we will have a more balanced market.

Days of Inventory

- We now have nearly nine months of inventory.
- A six-month supply of inventory is considered a balanced market.

What this means

Inventories are not being taken down at a very rapid rate. Continuing high supplies of inventory mean continuing downward pressure on prices and appreciation. Buyers will continue to exert pressure for favorable treatment in transactions. In coming months, inventories may drop as some unsuitable properties leave the market. For the time being, sellers are under more pressure than they have been in several years.
