

How Do You Calculate Absorption Rate?

[The Realtor.com Team](#)



What does it mean when people talk about the absorption rate when it comes to real estate? More importantly, how do you calculate the absorption rate for a geographic area?

Absorption rate is the rate at which homes are selling in a specific area

There are three pieces of information you will need to determine absorption rate:

1. The specific time frame

2. The number of sold homes during that time frame
 3. The number of active homes right now
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Here is how to calculate the absorption rate for the entire Metro Denver area, based on October 2011

Residential/Condo Town Homes Market Data (provided by Metrolist):

The data

- 1. Time frame = **304 days** (total days from January 1, 2011 to October 31, 2011)
 - 2. Number of sold homes = **33,163** (from January 1, 2011 to October 31, 2011)
 - 3. Number of active homes = **14,156** (at the end of October 31, 2011)
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Calculations

- Rate of home sales = **.00917** – 1 home is sold every .00917 days. This number is found by taking $304/33,163$ (time frame divided by number of sold homes)
- Absorption rate = **4.32 Months**. Found by taking $14,156$

x .00917 (number of Active Homes multiplied by the rate of home sales)

What does absorption rate data tell us?

If market conditions do not change and if *no* new listings come on the market it will take 4.32 months for the current inventory to sell at the current pace of the market. A balanced market's absorption rate is typically between five to seven months.