

SHIFTS HAPPEN

REAL ESTATE IS A CYCLICAL BUSINESS. What goes up must come down. And what is down won't stay there. Shifts are never unexpected but rarely predictable. You know one is coming. You just don't know when. They are, in fact, inevitable—shifts happen.

But we forget. Each time a shift occurs, we act surprised, as if it had never happened before. Once the shift is over, we act as if it'll never happen again. It's like we have amnesia. And that's odd since we deal with something similar every year. It's called seasonality—the seasonal cycle of sales that repeats each and every year. From month-to-month there is an ebb and flow to the real estate business. Within each year, there is a time to make money and a time to save money. It is so natural most simply take it in stride.

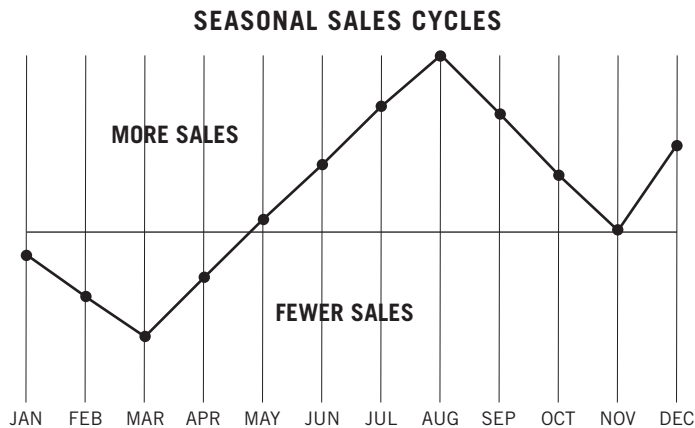


FIGURE 1 The monthly ratio of listings sold to listings taken. The midline represents an equal number of listings sold and listings taken. ¹

¹ Based on a study of over a million closed transactions over a five-year period.

There is a natural buildup of listing inventory from January through April and an offsetting decline in inventory from May through October, with an up tick in sales at the end of the year. This seasonal cycle of sales causes a corresponding seasonal cycle of income.

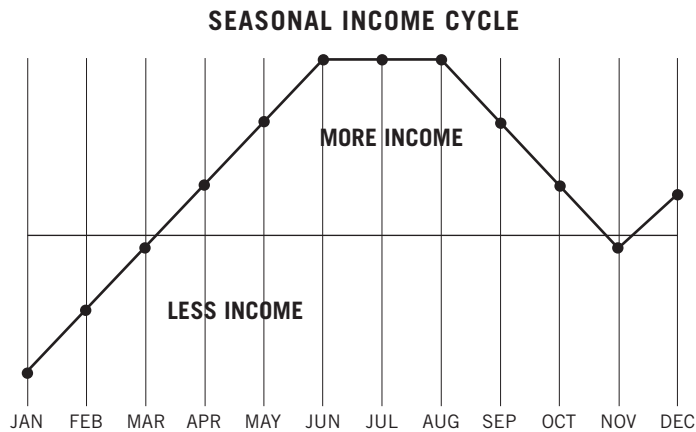


FIGURE 2 The percent of annual income that is closed in each month. The midline represents 8.3 percent of total annual income. ²

For real estate agents, these graphs are a heads-up and give meaning to the phrase “make hay while the sun shines.” The fact is, every year, real estate agents have to deal with the seasonal sales cycle and its impact on their cash flow.

While seasonal cycles occur within a single year, economic shifts happen over several years. Seasonal market cycles are month-to-month and economic market shifts are year-to-year. Just as the seasonal cycles dictate a rise and fall to your income over a period of months, the larger economic shifts create a rise and fall to your income over a period of years. Seasonal cycles feel predictable, short-term, and manageable. Economic shifts feel unpredictable, indefi-

²Based on a study of over a million closed transactions over a five-year period.

nite, and overwhelming. One feels like business as usual and the other feels, well, downright scary.

The real estate industry has learned to live with regular seasonal cycles, but it is always challenged by irregular economic shifts.

THE ANATOMY OF A SHIFT

Shifts are easy to understand. They occur whenever supply and demand move out of balance. When seller supply exceeds buyer demand, it's a buyers' market. When buyer demand exceeds seller supply, it's a sellers' market. A shift occurs when the market moves from one to the other. Think of it this way. If over time more listings are selling, you're moving toward a sellers' market. If over time fewer listings are selling, you're moving toward a buyers' market.

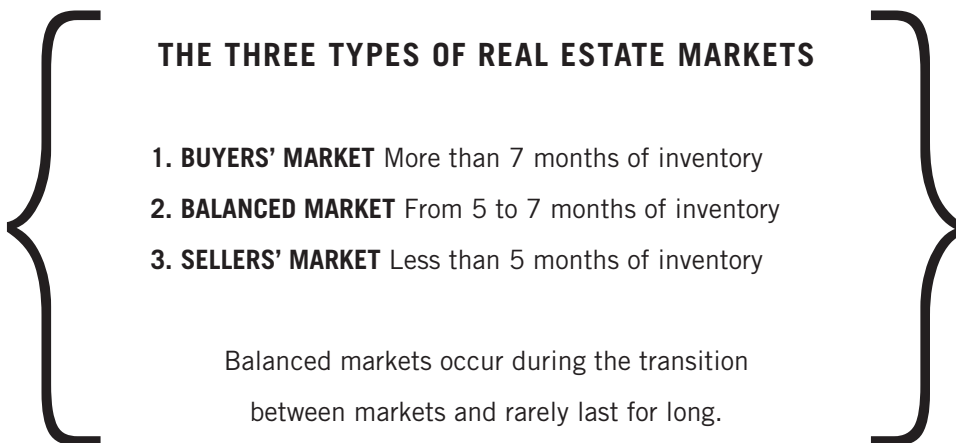


FIGURE 3 Inventory defines the state of your market. At the current pace of sales, how many months of housing inventory do you have?