EXPECTED MARKET TIME VS. DAYS ON MARKET

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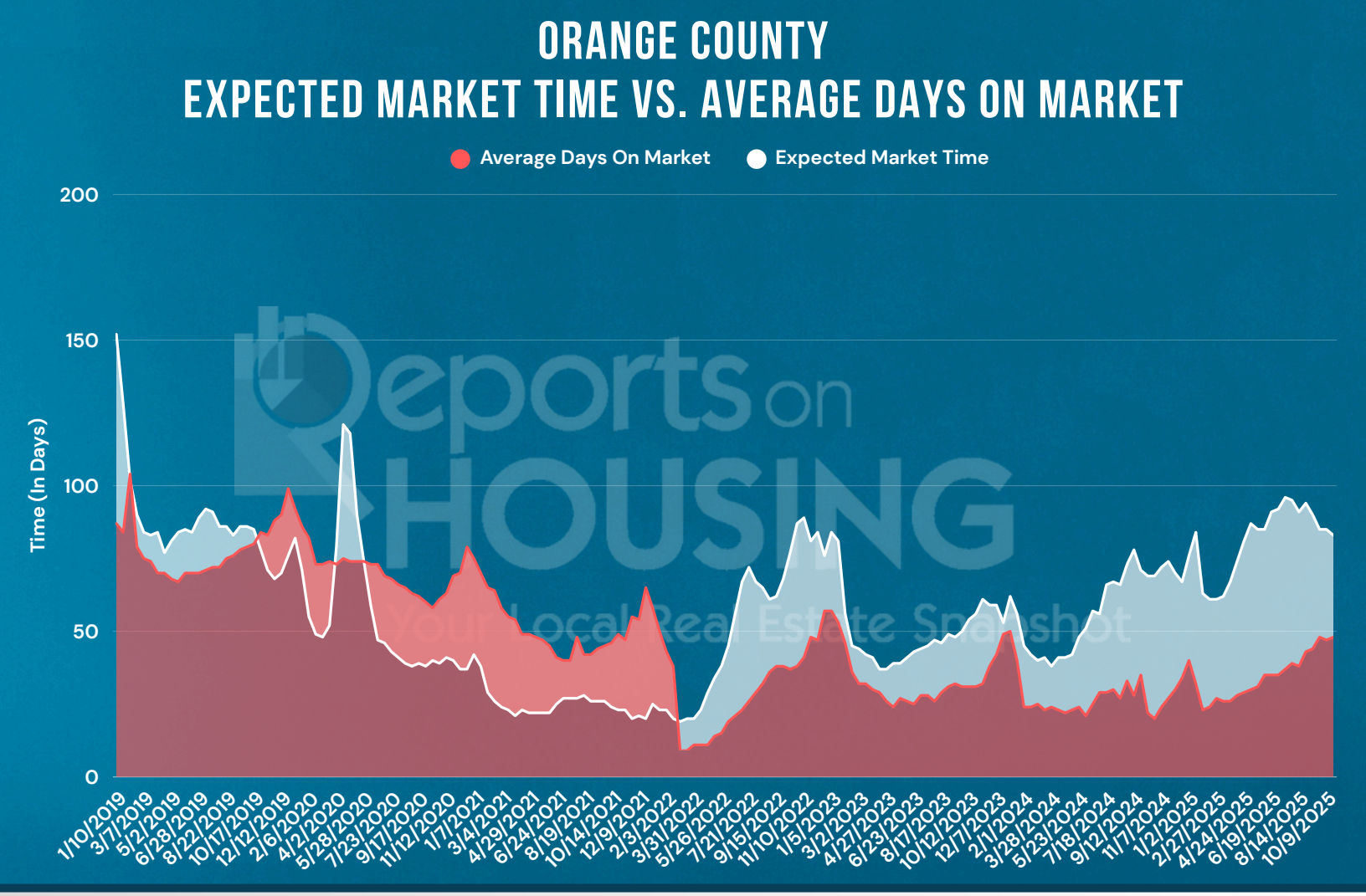
MARKET SPEED: KNOW THE DIFFERENCE

The weather varies across the nation, even from city to city. One prominent exception is Southern California, as most days are warm and sunny. However, rainy, gloomy days do sometimes arrive. Southern Californians who check the weather daily are prepared for the changes and can plan ahead.

Likewise, understanding the velocity of a market is crucial to planning ahead effectively. In real estate, one of the most commonly utilized statistics is **Days On Market (DOM)**. DOM is the number of days a property is listed for sale in the MLS. DOM is a valuable metric that can illustrate the difference in speeds of a smaller set of listings. The primary flaw in using DOM on a larger scale is that averages and medians are artificially skewed lower.

The flaws with DOM on a macro-level are easiest to comprehend through two different examples. First, a flaw arises when taking the average or the median for the active listings in an area. Homes placed on the market on the same day the metric is collected are valued at zero. Similarly, when calculating the average or median of closed sales in a given area, homes that were sold off the market are assigned a value of zero. While these zeros are accurate for individual properties, they pull the overall averages down, giving a misleading impression of a faster market. DOM remains valuable, but primarily at the micro level, when evaluating specific listings.

Recognizing these limitations, something had to change to give agents a better view of market velocity. That is why Steven Thomas, founder and chief economist of Reports On Housing, created what is known as **Expected Market Time (EMT)**. EMT is a function of both supply (active listings) and demand (a snapshot of the last 30 days of pending sales activity). The formula calculates an absorption rate, the number of days it



would take to sell all listings in a specific area. By doing so, EMT removes the distortions that skew DOM, making it a more reliable indicator at a macro level.

In Orange County, for example, the average DOM has consistently been lower than EMT by roughly 21 days, dating back to 2022 when rates soared higher. The difference between the two metrics is most evident when comparing two differing periods, 2021 and 2024.

In 2021, mortgage rates remained at historically low levels. The low rates brought an inordinate level of demand, coupled with limited supply. Bidding wars ensued, and homes flew off the market. Orange County's Expected Market Time stood at a rapid 21 days on April 1, 2021. The average Days On Market was 54 days. Although the DOM was slowly declining over time, it did not accurately represent the velocity at that time. Homes were selling at breakneck speeds, and only EMT reflected that reality.

By contrast, for two-thirds of 2024, mortgage rates were stuck above 7%. The 2024 housing market was characterized by homes lingering on the market, rising supply levels, and muted demand. A combination of these factors displays a sluggish market velocity. From late March to mid-September in Orange County, the Expected Market Time rose from 37 days to 78 days. During that same period, the average DOM rose from 24 days to 28 days. A 41-day rise versus a 4-day rise illustrates the stark difference. EMT captured the slowdown clearly, while DOM barely shifted, masking the market's actual state.

Knowing the difference between the two indicators, the **context** matters, and choosing the proper tool ensures you are interpreting the market accurately, not just observing it superficially.