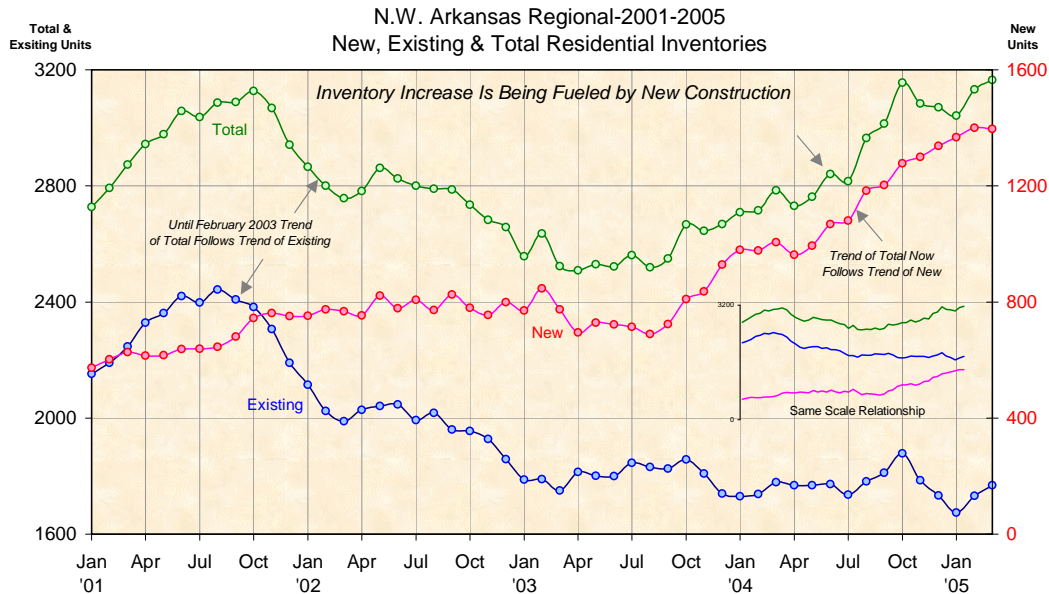


## *Prelude to Folly: Tracking the Inventory 2001-2005*

*This month we take a look at the Residential Inventory of Northwest Arkansas. Knowing of the inventory gives insights into where it has been, where it is, and how it is changing. A fundamental rule of good salespeople is: "Know the Inventory." The following graph exhibits the existing, new, and total inventory changes since January of 2001. It represents all of Northwest Arkansas. Take a look.*



All data taken from the MLS systems database of Northwest Arkansas and indicates all residential properties offered for sale at any given time. Excluded are for-sale-by-owner homes, and other homes not on the MLS system. The database was checked for errors and corrections made, yet no guarantee of absolute accuracy should be expected. The new inventory curve (in red) is indicated by the scale on the right of the graph and is different from the scale on the left for existing and total inventories. In doing so, the total and new inventories are brought closer together to indicate the trend. The small insert in the graph shows the same scale relationship – indicating that new construction inventory lies below existing and may soon meet the existing inventory curve – representing a 50% share of total inventory.

*Inventory is increased and maintained by new homes being offered and re-listings taken. It is decreased by sales, and expired and withdrawn listings. The inter-play of these supply and demand aspects, results in a current inventory.*

*The green curve at the top indicates the total inventory—including existing and new homes. Note the peak in October of 2001 at which point, there were a total of 3,127 homes available. From there it was down hill reaching a minimum value in April of 2003 of 2,509 homes. Here, the trend turns upward again, reaching a peak in October of 2004 of 3,155 homes. So from October of 2001 until April of 2003 we had a net decrease of 618 homes, or a 20% decrease of inventory. What caused this? Demand was out-stripping supply. Our inventory reserves were drying up. In a high growth area buyers demand selection. A fundamental change in the nature of the inventory occurred about February of 2003. New home sales became a major force for*

***inventory increase.***

*The graph indicates this. The blue curve is the existing inventory. Note the steady decline since October of 2001. In January of 2005 it reached a minimum with 1,675 homes offered. The red curve is the new inventory. (Re-scaled on right the of the chart to show trend with total inventory.) Note that after February of 2003 the new inventory grows in proportion to the total inventory, while the existing inventory continues to wane. In January of 2001 the total inventory and the existing inventory follow the same trend until February of 2003. From February of 2003 on, the total inventory and the new inventory follow the same trend. Again this indicates ***inventory increase is being fueled by new construction.****

*Lets probe further. In January of 2001 new construction inventory stood at 574 units (read the red scale on the right of the chart). Total inventory stood at 2,727 homes. Thus new construction accounted for 21% of the total inventory. In March of 2005, Total inventory was 3,165 homes while new construction reached 1,396 homes – about 44% of the total inventory. In 4 years the new construction being offered has doubled! The small insert at the lower right section of the graph -indicates same scale relationships- and shows that new inventory is actually below the total and existing inventories. It is rapidly rising and may soon reach the existing curve –and will represent a 50% share of total inventory.*

*How long will this trend continue? Good question. As new construction is resold and becomes part of the existing home market the ratio between the new and existing inventory should stabilize. But where? Traditionally, the majority of the buying pool prefers existing homes. If our population growth continues and existing homes are not available, buyers will continue to buy new construction, thus forcing a higher market share for new construction inventory.*

*Finally you may be asking: “where did all this new construction come from in February of 2003?” Ah ha! The graph indicates some research is in order. Looking at the number of new construction listings coming on the market shows that the four-month period from January 2003 to April 2003 was the biggest single increase of new construction listings –over 40%– in the four-year history.*

*This called for some MLS sleuthing. Looking on the MLS starting in January of 2003 shows massive amounts of new construction listings from companies either unheard of, or minor players a year previous. Companies such as: ***Dixie Real Estate, Elite Real Estate, Era Eric Duca & Associates, Griffin Co. Realtors, Lazenby Real****

*Estate, Lindsey & Assoc – Rogers, Walker & Associates Realtors, Inc. became major players controlling such subdivisions as: Crystal Springs, Shadow Valley, Walnut Crossing, Steeplechase, Eagles Nest, Carriage Square, Crest Ridge, Pinewoods Estates, Palisades, Centerpoint, Windwood, and a dozen more.*

*Northwest Arkansas had reached critical mass and the big boys with deep pockets arrived! (Actually, they arrived earlier. This is just when the inventory market was the most affected.) Nothing wrong with this. The market has remained viable and strong because of new construction.*

*So what does all this mean to you as an agent? Remember our old adage from basic training: "If you control the inventory, you control the market." Given the current trends it is time to develop your new construction contacts. Learn about builders in the area. Woo them, dine them, and **service** them! Develop marketing plans for new construction. Show them the benefits of letting **you** list their homes. Go on the Internet and find builder sites. Preview new construction. Know amenities and quality of construction. **Know the inventory!***

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