

# Huntsville Area Real Estate ECONOMICS REPORT

## Analysis Conducted by

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HUNTSVILLE AREA ASSOCIATION of REALTORS®



THE UNIVERSITY OF  
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# Madison County Residential Real Estate Report

## First Quarter 2018

Created for the Huntsville Area Association of Realtors

### First Quarter Recap

The real estate industry performed at record levels in the first quarter of 2018. Sales of residential properties in the 1<sup>st</sup> Quarter 2018 increased significantly compared to the 1<sup>st</sup> Quarters of 2017 and prior years. New listings of properties for sale has grown at a slower pace compared to sales resulting in a continuing decline in properties listed for sale.

Sales in each of six price bands:

- Less than \$150,000,
- \$150,000 - \$200,000,
- \$200,000 to \$250,000,
- \$250,000 to \$300,000,
- \$300,000 to \$350,000,
- More than \$350,000

grew and maintained the approximate share of total sales. Homes in the less than \$150,000 range comprised the largest share at 30% of all sales during the quarter. The \$150,000 to \$200,000 was the second largest share at 22%. See Figure 1.

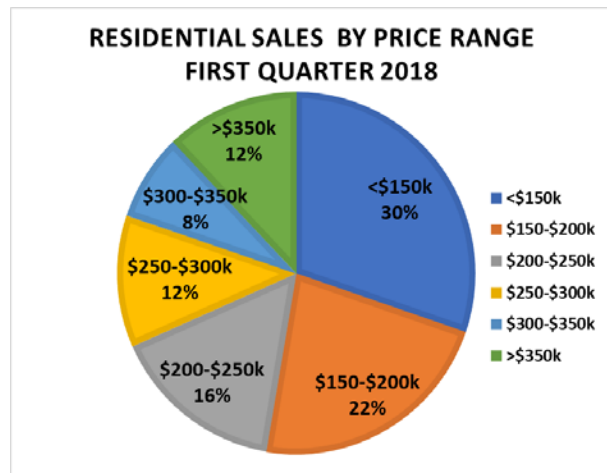


Figure 1

Average and Median Sales Prices continued to rise with the increased number of transactions. The number of pending sales grew at a faster rate to reach 320 transactions pending. More pending transactions is not unexpected, but the 41% increase could suggest closing capacity limitations.

The underlying economic conditions for Madison County are also strong as shown by growth in population, workforce, income, and Gross Domestic Product. With a relatively strong economy, it is reasonable to expect that demand for real estate properties should continue to trend upward. Overall, the 1<sup>st</sup> Quarter of 2018 was a strong period for residential real estate in Madison County.

### Report Content

- |                                 |                             |
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## Real Estate Analysis Feature: Absorption Rate

The absorption rate is the rate at which the supply of homes listed for sale is reduced (absorbed) by sales. It may also be expressed as the number of homes sold in a given period of time, e.g., a month. Observing the absorption rate or homes sold per month over time shows not only trends in the market but also significant changes in activity.

The absorption rate may be calculated for the total properties available and it can be calculated for sub-levels of properties available. Analyzing the absorption rate within a number or price ranges allows the observer to see which price ranges of homes have been in greatest demand relative to the supply of homes in that price range.

Figures 2 – 7 below show the absorption rate/months of supply (red line), the sales volume (blue line) and the ending inventory (green line) of each quarter from 2010 through 1<sup>st</sup> Quarter 2018. The absorption rate/months of supply and the sales volume are calculated using a 6-month moving average to smooth the quarter-end fluctuations.

**Homes priced below \$150,000** – Both the absorption rate and the level of inventory shows a significant drop from 2015. The absorption rate/months of supply dropped to less than 2 months in the first quarter of 2018. The inventory level of properties in 2018 has dropped to about 25% of its peak in mid-year 2015. If sales continued at the current level with no increase inventory, all current inventory would be sold before June.

**Homes priced between \$150,000 - \$200,000** – The absorption rate and the level of inventory both dropped since 2015. The absorption rate/months of supply dropped to about 5 weeks in 2018. The inventory level of properties in 2018 also dropped to less than half of its peak in 2015. If sales continued at the current level, all current inventory would be sold by June.

**Homes priced between \$200,000 - \$250,000** – Both the absorption rate and the level of inventory dropped in the past eight quarters. The absorption rate/months of supply dropped to about 11 weeks in 2018. The inventory level of properties in 2018 also dropped to about half of its peak in 2010. If sales continued at the current level, all current inventory would be sold by July.

**Homes priced between \$250,000 - \$300,000** – The absorption rate and the level of inventory have also declined but at a slower rate since 2016. The absorption rate/months of supply dropped to about 4 months in 2018. The inventory level of properties in 2018 is slightly below its level in January 2010 and about 100 properties below its peak. If sales continued at the current level, all current inventory would be sold before August.

**Homes priced between \$300,000 - \$350,000** – The absorption rate and the level of inventory have not changed as dramatically as in the other price bands. The absorption rate/months of supply is approximately 4 months in 2018 while sales volume has slowly risen. The inventory level of properties in 2018 is at about the same level as in January 2010. If sales continued at the current level, all current inventory would be sold before August.

**Homes priced above \$350,000** – The absorption rate has trended downward since 2010 and is now at about the ideal 6-month level. The level of inventory has fluctuated slightly but remains about the 2010 level. If sales continued at the current level, all current inventory will be sold by September.

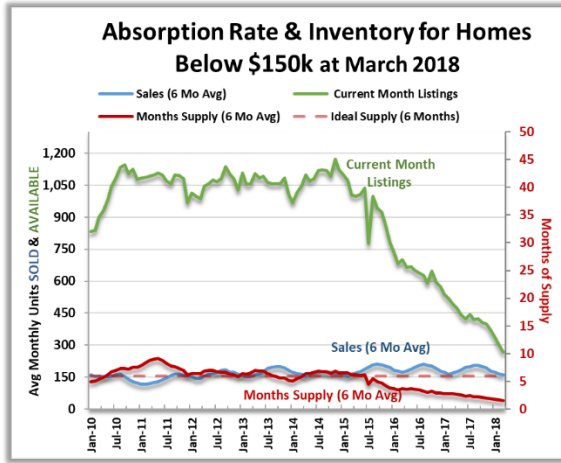


Figure 2

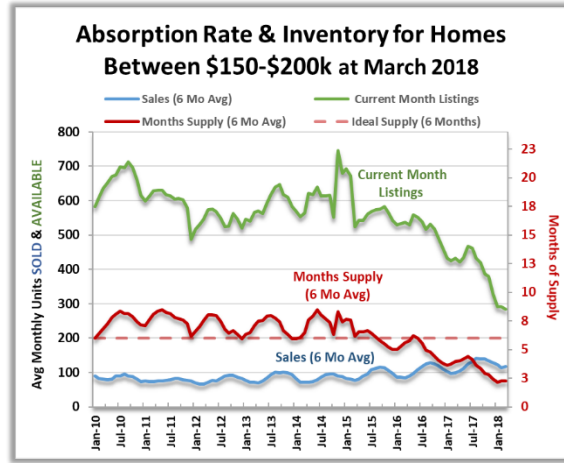


Figure 3

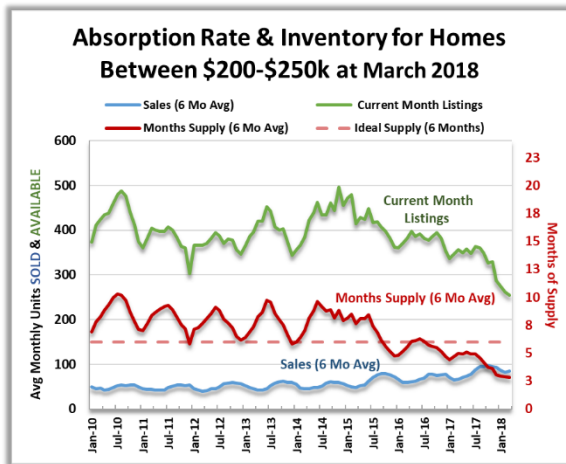


Figure 4

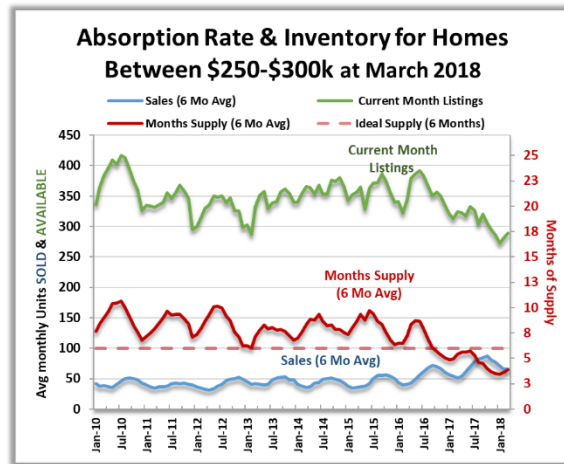


Figure 5

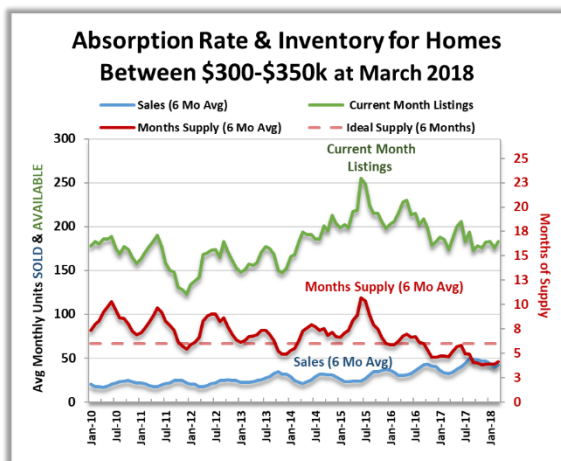


Figure 6

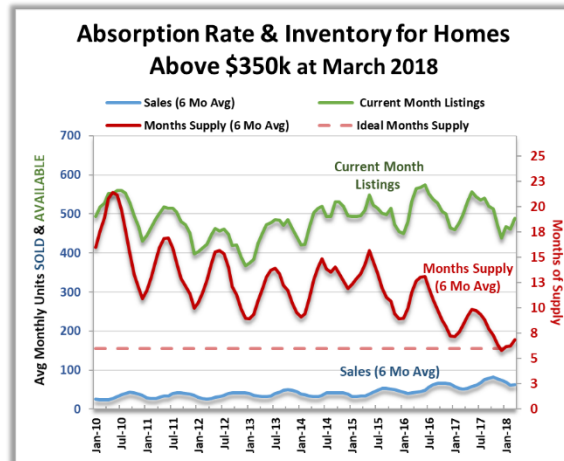


Figure 7

## II. Sales & Price Levels

### Residential Sales

Residential home sales growth continued in the 1st Quarter with 1,524 homes sold. The 2018 sales level was 8.1% higher than 1st Quarter 2017. Total sales was 9.4% below the 4th Quarter of 2017.

First quarter sales volumes continue to trend higher from the low of 879 homes sold (red vertical line in Figure 8) in the 1st Quarter of 2011. The five-year average sales volume for the first quarter was 1,274 units, the blue vertical line. The peak sales volume (green vertical line) was in 2018.

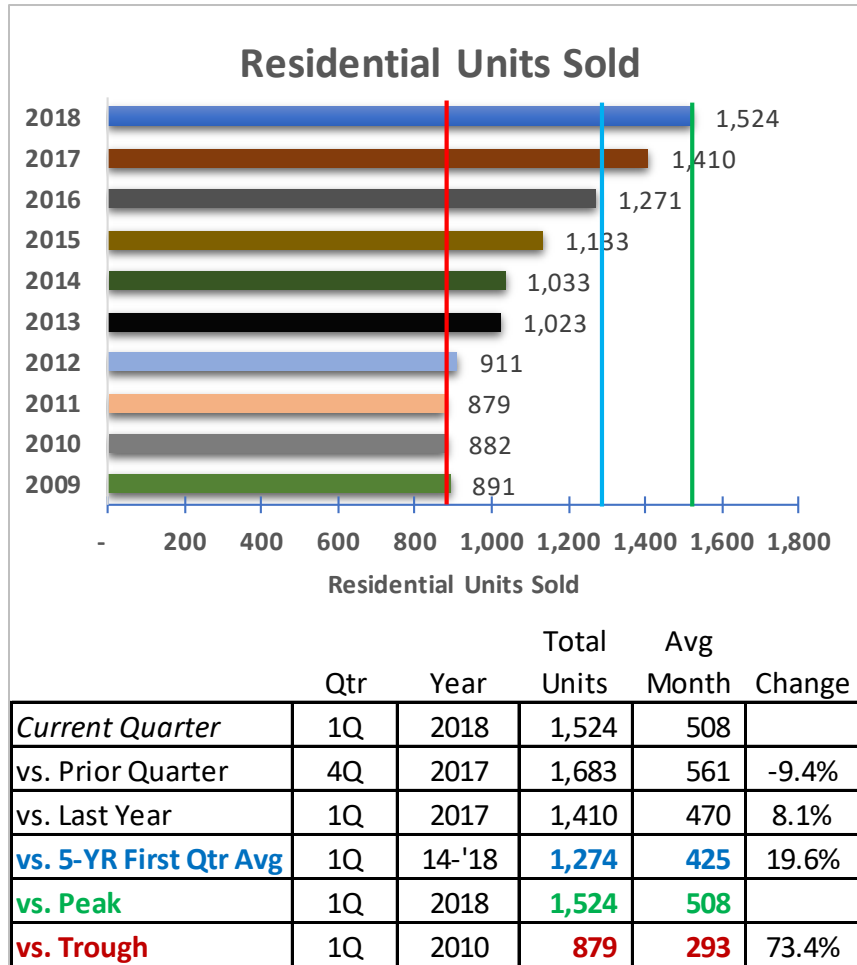


Figure 8

### Sales Volume by Price Range

Examining the sales in the first quarter of each year since 2010 in six sales price bands (Figure 9) shows sales growth in five of the six price ranges in each 1st Quarter of 2016, 2017, 2018. The sales price bands are: (1) less than \$150,000, (2) \$150,000 - \$200,000, (3) \$200,000 to \$250,000, (4) \$250,000 to \$300,000, (5) \$300,000 to \$350,000, and (6) more than \$350,000.

Homes with sales prices below \$150,000 continue to comprise the largest share of total sales but saw a decline from 4th Quarter 2017 to 1st Quarter 2018. The reduction in the number of homes listed for sale in this price range may have contributed to the slight decline in sales volume. The year over year rise in average sales price is also affecting the available and sold homes in this price band. The largest increase in sales was in the \$200,000-\$250,000 range, an increase of over 31% followed by homes above \$350,000, which showed an increase of over 30%.

## Average Sales Prices

The average (Mean) selling price in Madison County continues to rise. For the first quarter of 2018, the average sales price for all homes sold was \$217,503, an 8.4% increase from the 2017 1<sup>st</sup> Quarter average selling price of \$200,682.

The lowest average sales price since 2010 occurred in 2012. From 2012 to 2015, prices slightly fluctuated up and down. The 6.4% increase in the 1<sup>st</sup> Quarter 2016 to \$196,315 was second only to 2018's rise of 8.4% to \$217,503.

Compared to historical data the three-year average price grew by 5.7% in 2018 and the five-year quarterly average price grew by 3.1%. See Figure 10.

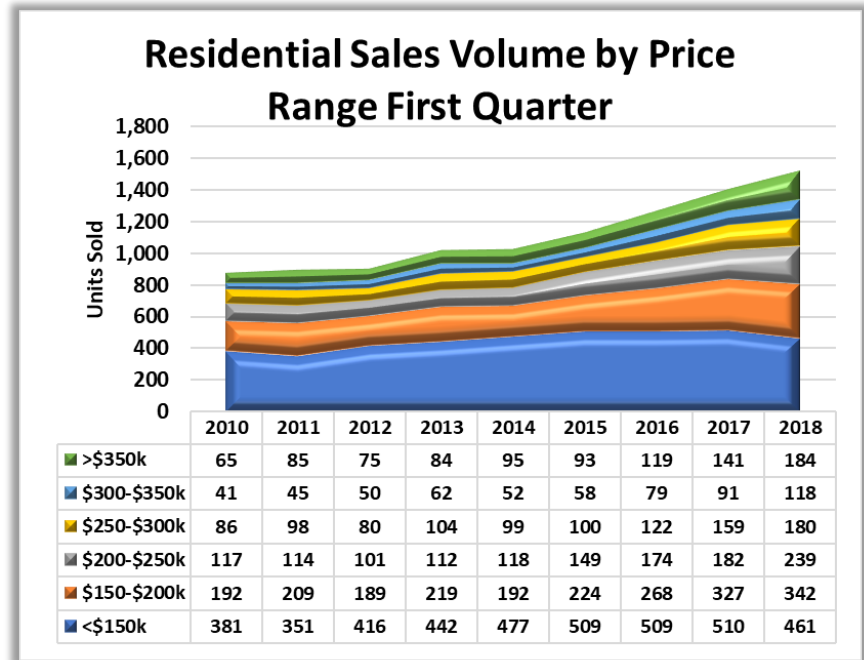


Figure 9

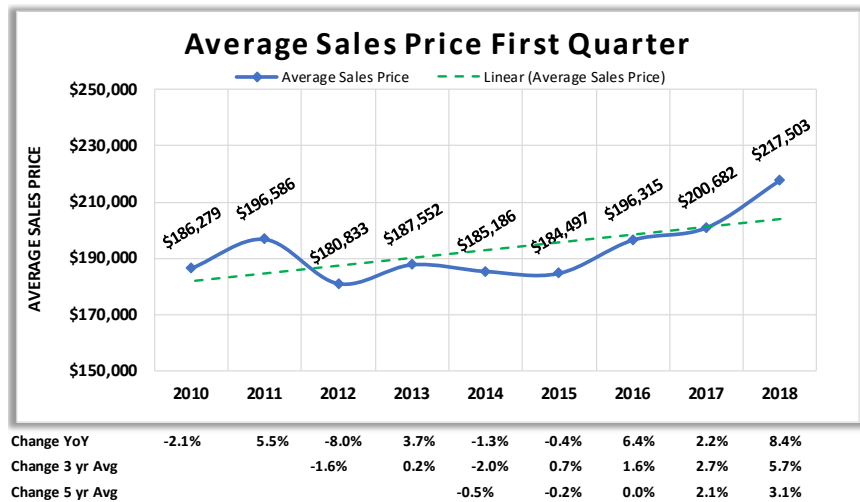


Figure 10

## Median Sales Price

The sales price median (midpoint) price in Madison County for the first quarter of 2018 reached \$191,500 a 6.9% increase from 2017. The median sales price is the point at which exactly half way between the lowest and highest sales prices. Median sales price since 2010, was \$158,544, its lowest point since 2014. Since 2014, median sales price has risen in the 1<sup>st</sup> Quarter of each year. See Figure 11.

Comparing multiyear averages shows a 6.1% growth in the three-year average from 2017 to 2018. The five-year average sales price grew by 3.2% in the past year.

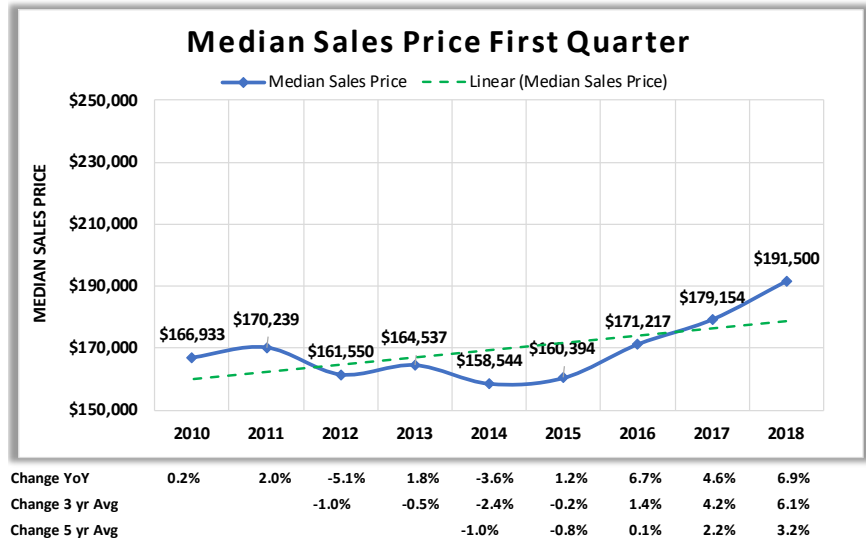


Figure 11

### III. Market Momentum

#### Days on Market

The increasing sales activity is also evident in the Days on Market (DOM) measure...the number of days a property is on the market from listing to sale. The average number of days on the market in the first quarter of 2018 dropped to 73 from 88 in 2017 and from its highest point in the past nine years of 124 days in 2014. See Figure 12.

The lowest DOM level (red vertical line) at 73 compares to the average from 2014 of 99 days (blue vertical line) and to the peak DOM (green line) of 124 days in 2018. The rate of decline in DOM year over year was significant in 2017 and 2018 at -14.6% and -16.7% respectively. The five-year average DOM rate of decline was -6.2% in 2017 and 4.9% in 2018. The current declining DOM trend is likely to continue if the number of homes being listed for sale continues to drop.

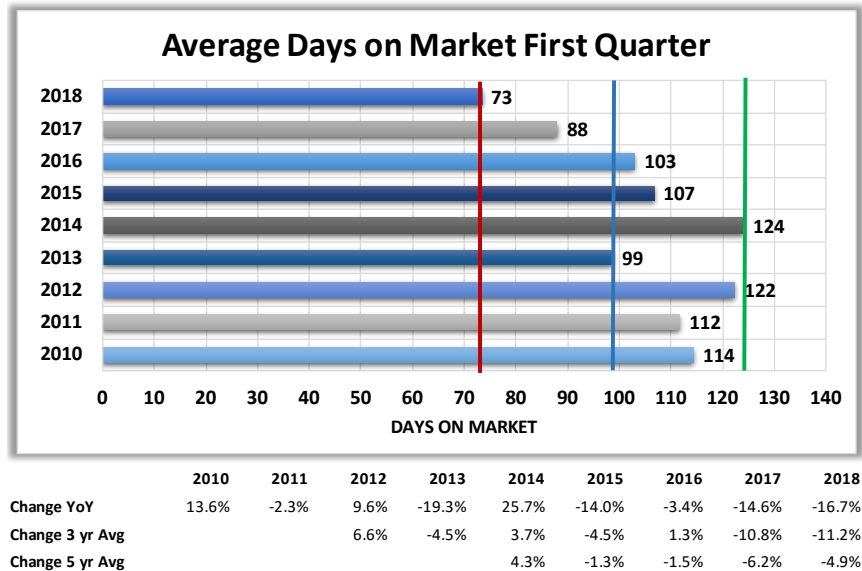


Figure 12

## Months of Supply

The supply of homes available for sale has declined significantly since 2010. After a slight rise in 2015, the Months of Supply has dropped in all six price bands. Homes with sales prices below \$150,000 has the fewest months of supply at 2.0 months. Comparatively, homes with sales prices above \$350,000 had the greatest months of supply at 7.7 months in 2018. See Figure 13.

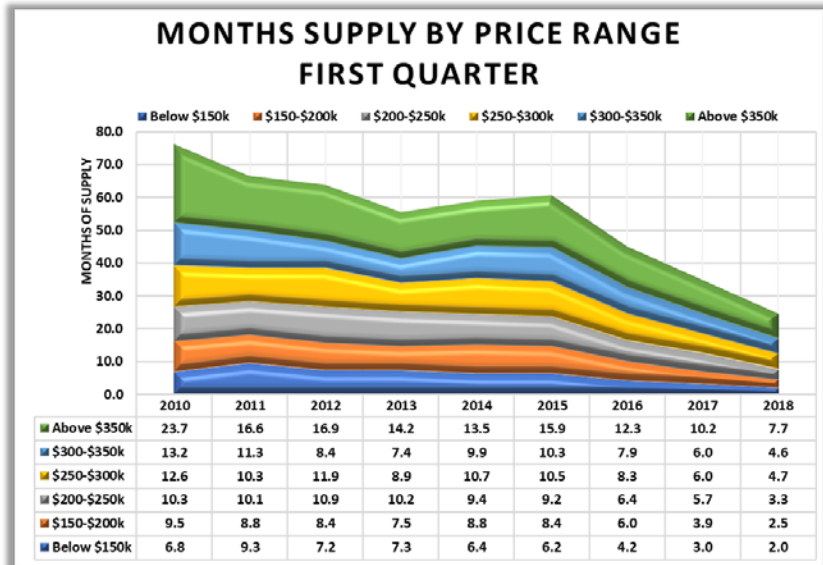
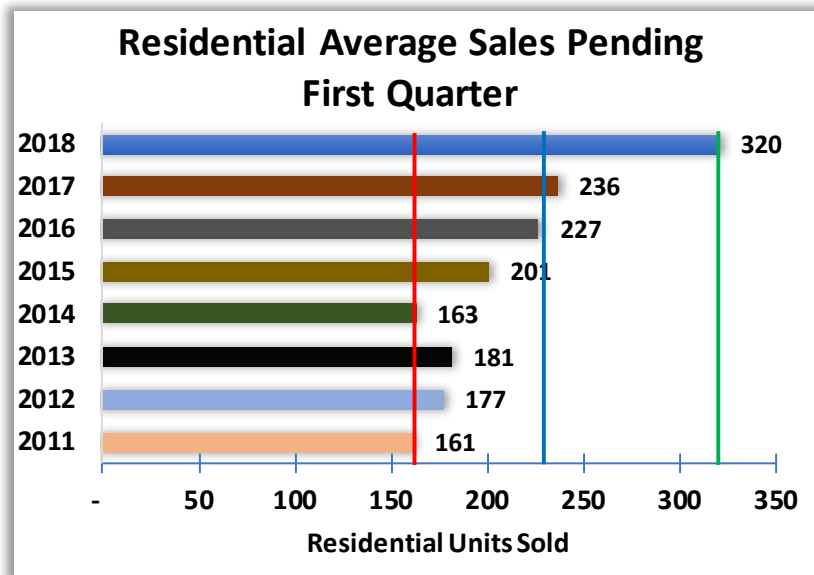


Figure 13

## Pending Sales

The number of home sales pending at the end of each quarter has risen since 2014. At the end of the 1<sup>st</sup> Quarter 2018 there were 320 sales pending to be closed, an increase of 40.9% from the end of the 1<sup>st</sup> Quarter 2017. This is largest number of sales pending since 2011 (green vertical line) and is an increase of 84 pending sales from the 1<sup>st</sup> Quarter 2017.

The lowest level (red vertical line) of sales pending occurred in 2011 with 161 sales pending. The five-year average number of sales pending (blue vertical line) for 2014-2018 was 229 sales. See Figure 14.



	Qtr	Year	Units	Change
Current Quarter	1Q	2018	320	
vs. Prior Quarter	4Q	2017	227	40.9%
vs. Last Year	1Q	2017	236	35.5%
vs. 5-YR Avg	1Q	14-'18	229	39.7%
vs. Peak	1Q	2018	320	
vs. Trough	1Q	2011	161	98.6%

Figure 14



## IV. Homes for Sale Inventory Status

### Total Homes Listed for Sale

The average number of residential units available for sale in the first quarter of 2018 decreased to 1,767. The average inventory of homes for sale has declined in the first quarter of each year since the peak of 3,009 in 2014.

During the same eight-year period from 2011, the number of sales has grown in each year, except in 2014. The rate of increase in sales grew at a higher rate in 2016 (12.9%) and in the first quarter of 2018 (35.6%). See Figure 15.

Figure 16 compares the average number of homes listed for sale in the 4<sup>th</sup> Quarter of each prior year (dark green column) with the 1<sup>st</sup> Quarter of the labeled year (light green). The 1<sup>st</sup> Quarter homes listed for sale dropped from the previous 4<sup>th</sup> Quarter level in each year since 2013. The total number of homes listed has dramatically decreased since 2015 to the lowest level of 1,786 in 2018. See Figure 16.

Examining the number of houses listed by the six price bands shows the greatest decrease in the number of homes with a sales price below \$150,000 (216 or over 41%, below the 1<sup>st</sup> Quarter 2017). The number of homes available with sales prices between \$150,000 and \$200,000 decreased by 141, homes with prices between \$200,000 and \$250,000 declined by 84 homes and homes with prices between \$250,000 and \$300,000 declined 38 homes from the 1<sup>st</sup> Quarter 2017. See Figure 17.

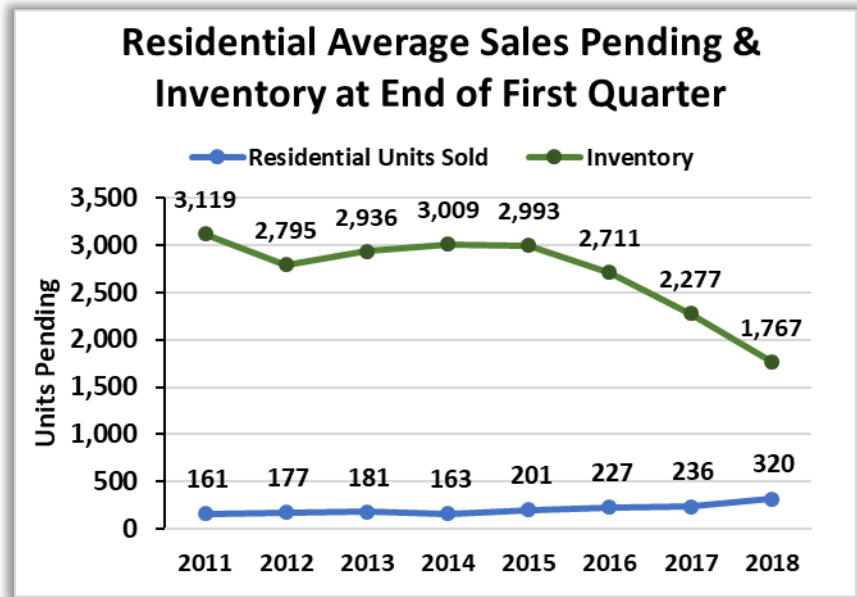


Figure 15

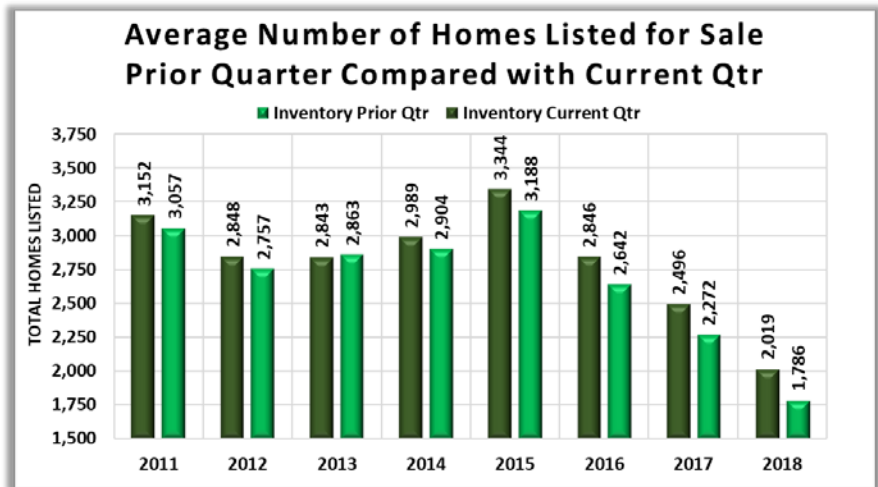


Figure 16

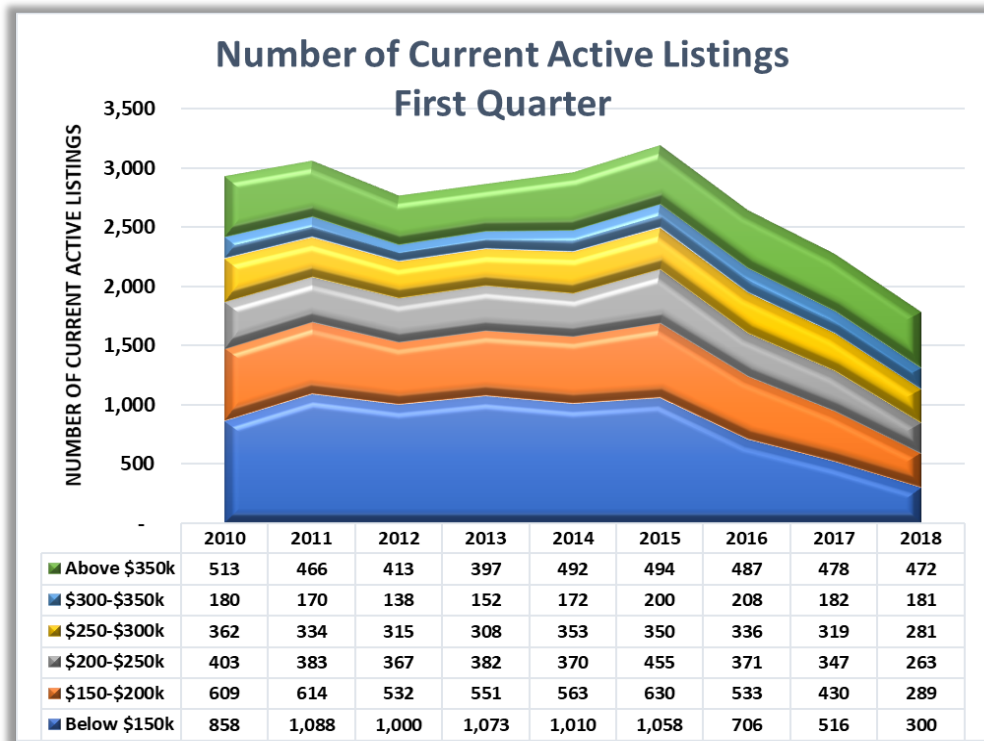


Figure 17

### Inventory-to-Sales Ratio

The quarterly average number of homes listed for sale (inventory) divided by the current quarterly average sales results in a metric representing the number of months required to sell all the current homes listed if sales continues at the current rate and no additional homes are listed for sale. Of course, reaching the point where there are no more homes to sell should never occur because market forces will apply upward pressure on prices which would likely entice more homes to be offered for sale. However, the Inventory-to-Sales Ratio allows comparison of the current housing market supply and demand over time. It is generally considered that the market supply and demand is in balance at an Inventory-to-Sales Ratio of approximately 6 months, indicating that the number for 2018 is well below that ideal number. See Figure 18.

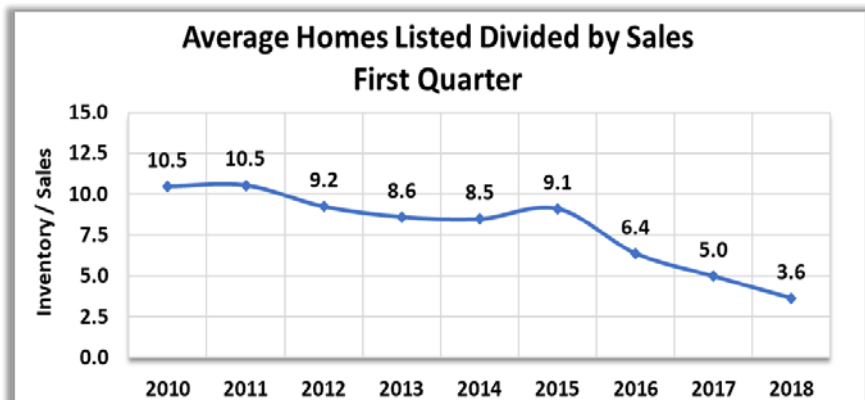


Figure 18

## V. Key Demographics

Real estate activity is subject to many forces including the number of people needing housing, their ability to purchase, and the confidence they have in the stability of their future income. The economic strength of the region represented by the area's Gross Domestic Product (GDP) may also provide insight into the future of the real estate industry.

### Madison County Population & Workforce Trends

The population of Madison County as counted by the U.S. Census Bureau has grown steadily since the 2010 census. The population in 2010 was 334,811 persons. Annual estimates of total population have shown an increase each year to 361,046 in 2017, a 7.8% increase. See the blue line in Figure 19.

The workforce is comprised of the number of people working and looking for work. The annual workforce (green line) has also risen since 2010 by 12% to reach 175,153.

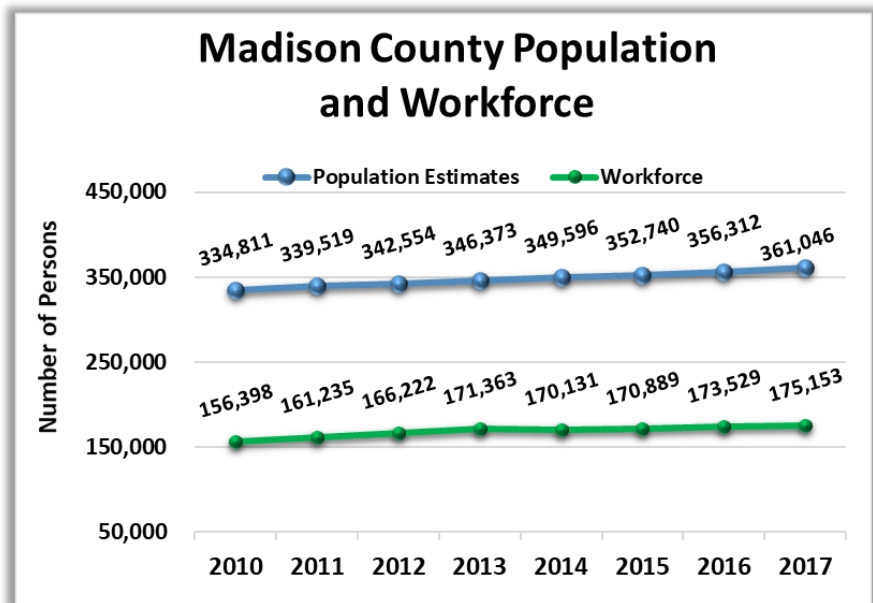


Figure 19

Stated simply, the blue line in Figure 19 shows the number of people needing housing and the green line suggests the number of people working to afford housing.

### Households

The number of households represents the number of housing units of all types needed in the area, Madison County. Households may be comprised of nuclear families, extended families, individuals living alone as well as housing for unrelated roommates. Housing units should generally move in relation to population but not necessary at the same rate.

The number of housing units in Madison County, Alabama grew from 141,483 in 2010 to an estimated 154,710 in 2016 (the most recent year data is available) per the U.S. Census Bureau. This is an increase of 9.3% over the seven-year period. See Figure 20.

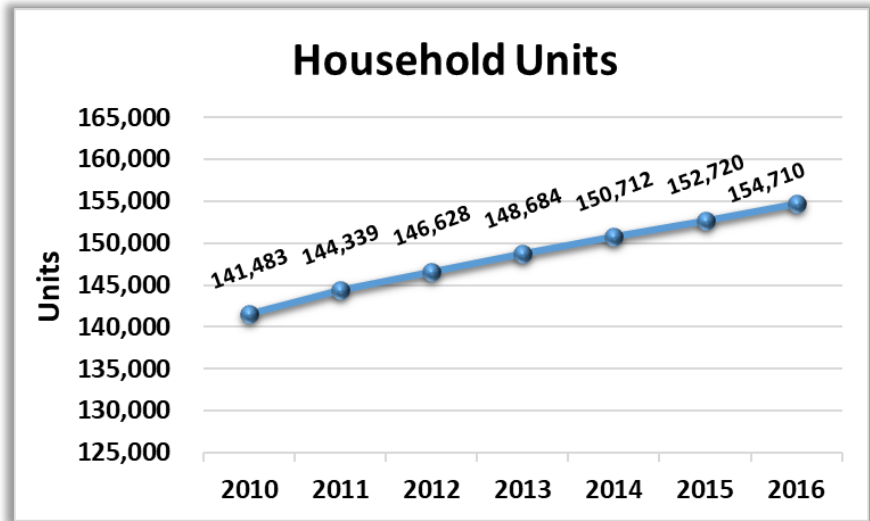


Figure 20

### Average Household Income

The Average Household Income suggests the price of home the households in the region may be able to afford.

Overall, the Annual Average Household Income has grown significantly (9.5%) since 2010. A slight drop in 2015 more than recovered to \$81,399 in 2016 (the most recent year data is available). See Figure 21.

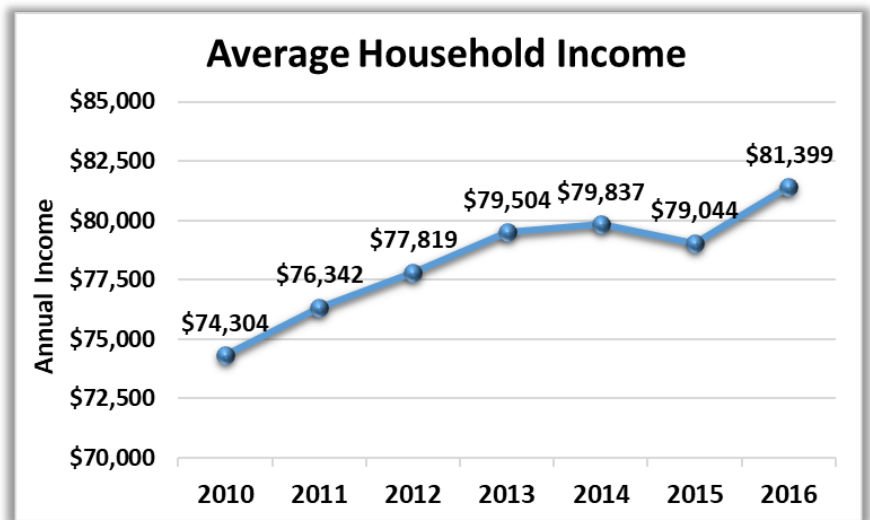


Figure 21

### Gross Domestic Product – Huntsville Metropolitan Statistical Area

Gross Domestic Product is the sum of all goods and services produced in the region. The Huntsville Metropolitan Statistical Area is comprised of Limestone and Madison Counties, Alabama. Although the MSA is larger than Madison County, its GDP growth is relevant as Madison County serves as the economic center for the region. Additionally, a significant number of people living in Limestone County earn and spend dollars in Madison County.

Gross Domestic Product for the Huntsville MSA has grown by 13.2% since 2011. A number of factors contributed to this growth such as local industry expansions as well as growth in Redstone Arsenal. Inflation affects the total growth.

Gross Domestic Product reached \$24.8 billion dollars in 2016 (the most recent year data is available) which is a growth of 2.1% from 2015. See Figure 22.

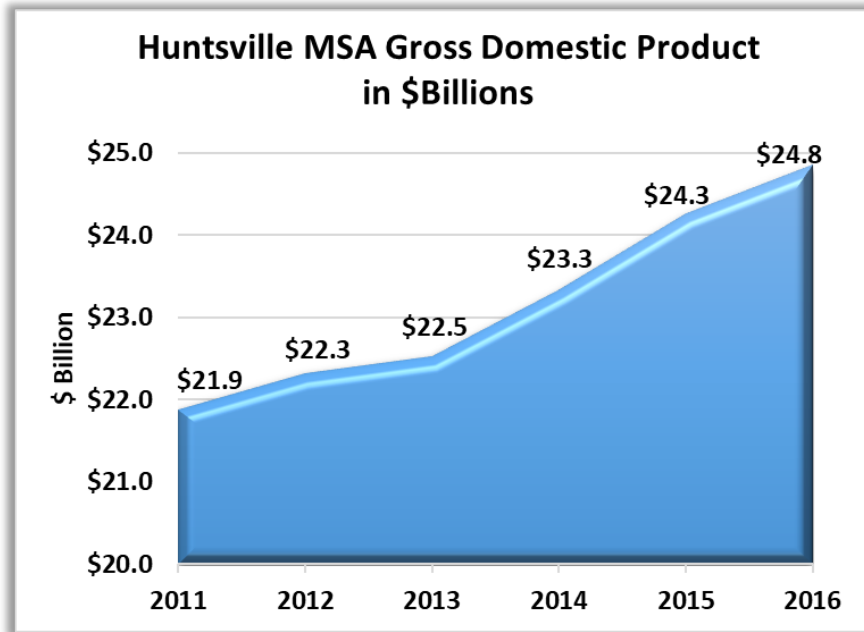


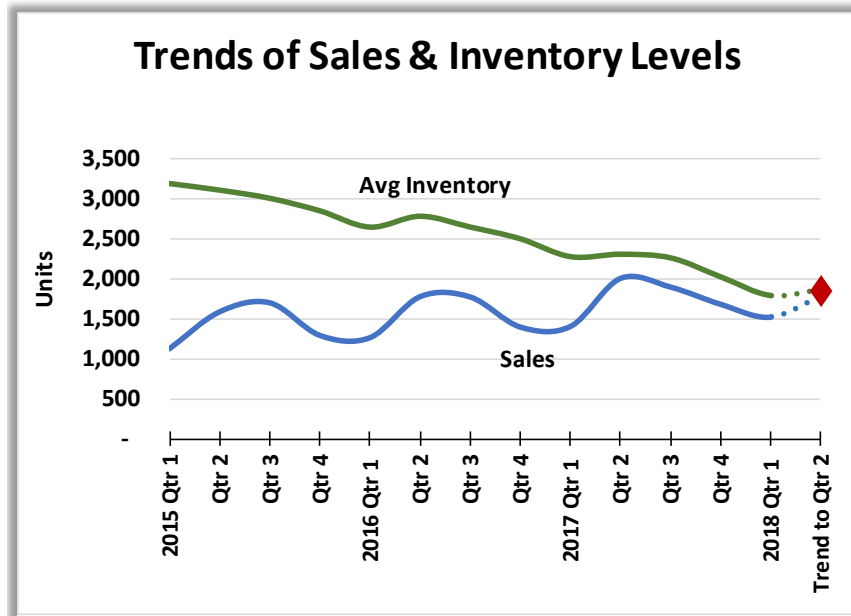
Figure 22

## VI. Local Area Outlook

### Sales & Average Inventory Trends

Given the real estate sales momentum of the 1<sup>st</sup> Quarter 2018, the growth in population, workforce, households, household income and the accelerating rise in the region’s gross domestic product, it is reasonable to expect the real estate momentum to continue into the 2<sup>nd</sup> Quarter 2018.

If average inventory of homes available for sale (green line) continues its downward trend and if the number of units sold (blue line) also continues its



	(Thousands)														
Sales	1.1	1.6	1.7	1.3	1.3	1.8	1.8	1.4	1.4	2.0	1.9	1.7	1.5	1.8	
Avg Inventory	3.2	3.1	3.0	2.8	2.6	2.8	2.6	2.5	2.3	2.3	2.3	2.0	1.8	1.9	

Figure 23

upward trend then there will be upward pressure on prices if demand for homes continues to rise at its current pace. The red diamond on Figure 23 suggests a point toward the end of the second quarter where real estate sales could be noticeably affected by a declining inventory. Note that a shock to the economy could occur on any given day and would affect demand or supply or both. A simple growth trend calculation suggests that sales could reach 1,800 on inventory of 1,900 if all conditions theoretically remain constant.

## VII. Other Economic Insight

### Local Area Job Announcements

Economic development announcements of new and expanding industry are the result of the local community working to grow the local economy. It should be noted that the number of jobs announced may be realized over several years as the new or expanded plant is built and employees hired. The economic development announcements for 2017 and one major announcement made in 2018 is shown below.

#### **Job Announcements 2017**

ADTRAN (23 Jobs)	Science and Engineering Services (10)
Advanced Aerospace Tooling (18)	Science and Engineering Services (80)
Aerojet Rocketdyne (AM)* (120)	Science and Engineering Services (50)
Aerojet Rocketdyne (HQ) (642)	Simple Helix (25)
Artic Slope Technical Services, Inc. (20)	Sumitomo Rubber USA (8)
AZ Technology (-)	Teledyne Brown Engineering (30)
BASF Corporation (10)	Torch Technologies (40)
Dynetics (30)	Toyota Motor Manufacturing (156)
Dynetics (100)	BOCAR (84)
GATR (225)	GE Aviation (147)
High Sec Labs (65)	HDT Expeditionary Systems (123)
Kord Technologies (110)	Polaris Industries (935)
Kord Technologies (-)	Woodbridge (164)
Line-X (112)	
McAllister Tool and Machine (21)	(Total 2017 3,527 Jobs)
Mesker Door (50)	
Novocol Healthcare USA (11)	
PARSONS (100)	<b><u>2018 Announcements To-date</u></b>
Raytheon Company (8)	Mazda-Toyota (4,000 Jobs)
Ridgeview Industries (10)	

## **VIII. Data Sources**

- Alabama Department of Labor
- Chamber of Commerce of Huntsville/Madison County
- Huntsville Area Association of Realtors Quarterly Reports
- U.S. Bureau of Economic Analysis
- U.S. Census Bureau
- Valley MLS System

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