

# ANALYSIS OF THE 2016 LAS CRUCES REAL ESTATE MARKET

**THE MOST COMMON QUESTION EVERY REALTOR IS ASKED IS:  
HOW IS THE REAL ESTATE MARKET?**

*The most common answer you will say, hear or read is:*

*"It's not bad – or – it's pretty good.*

*There are more sales, but prices have not really increased."*

**IF THAT IS WHAT YOU HEAR... DON'T LISTEN!**

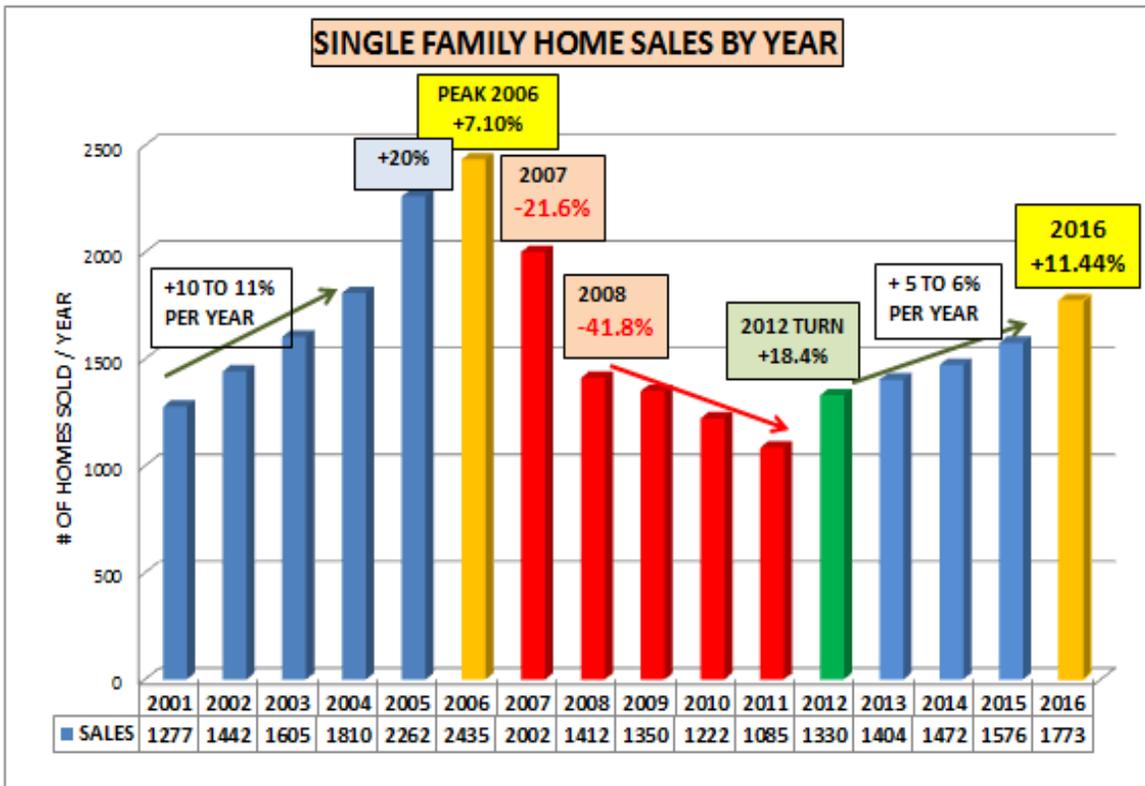
*This Market Analysis shows that when you look at new/current statistics, you will find that the overwhelming majority of the Market is doing **great!***

*Home Sales have had a record breaking year, inventory has dropped to its lowest level ever and, despite some opinion to the contrary, prices have started to rise.*

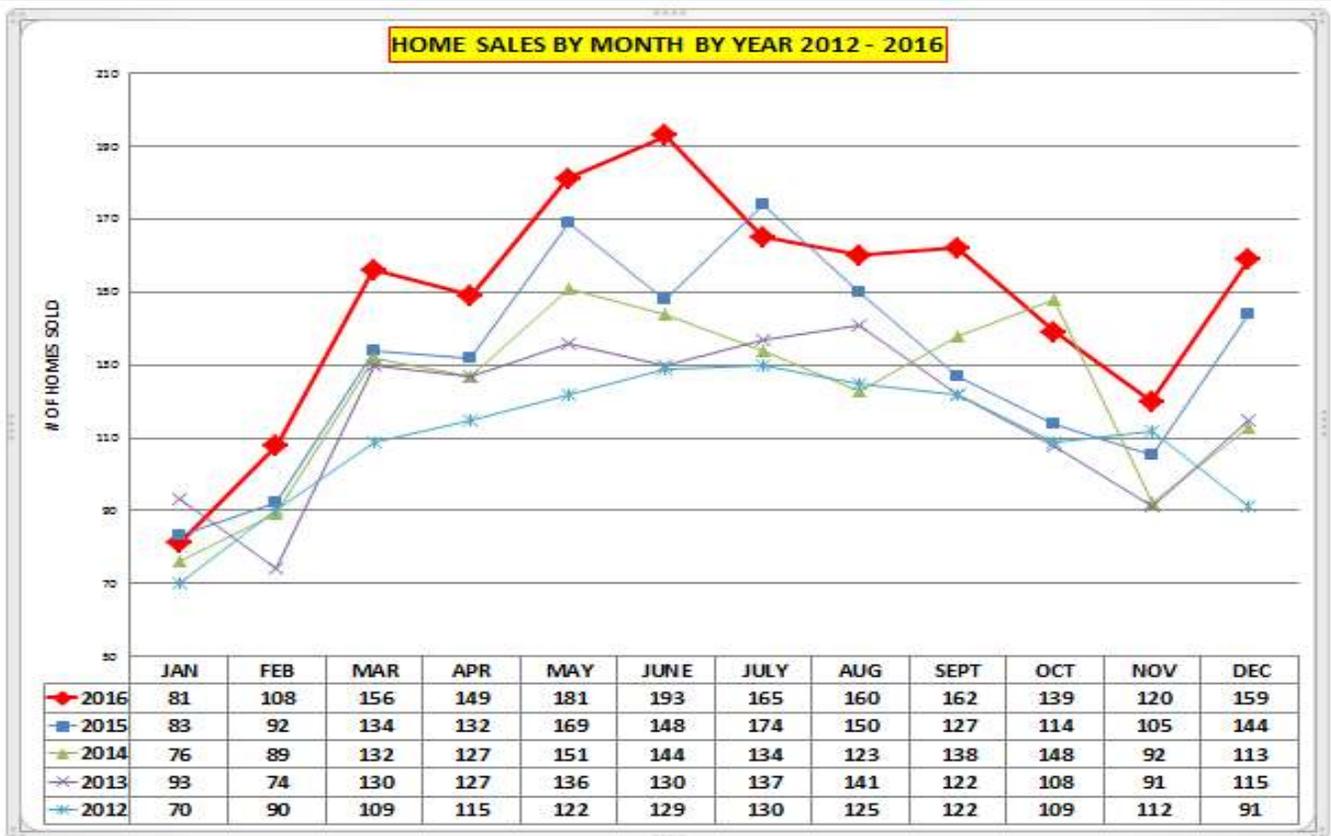
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**2016 was a record setting year for Home Sales.**

The new millennia brought boom (2001-2006), bust (2007-2011), and now recovery (2012-2016). After 6 years of year after year of declining sales, the market has shown a steady increase in home sales every year since 2012, with 2016 being the best year in the last 10-years.

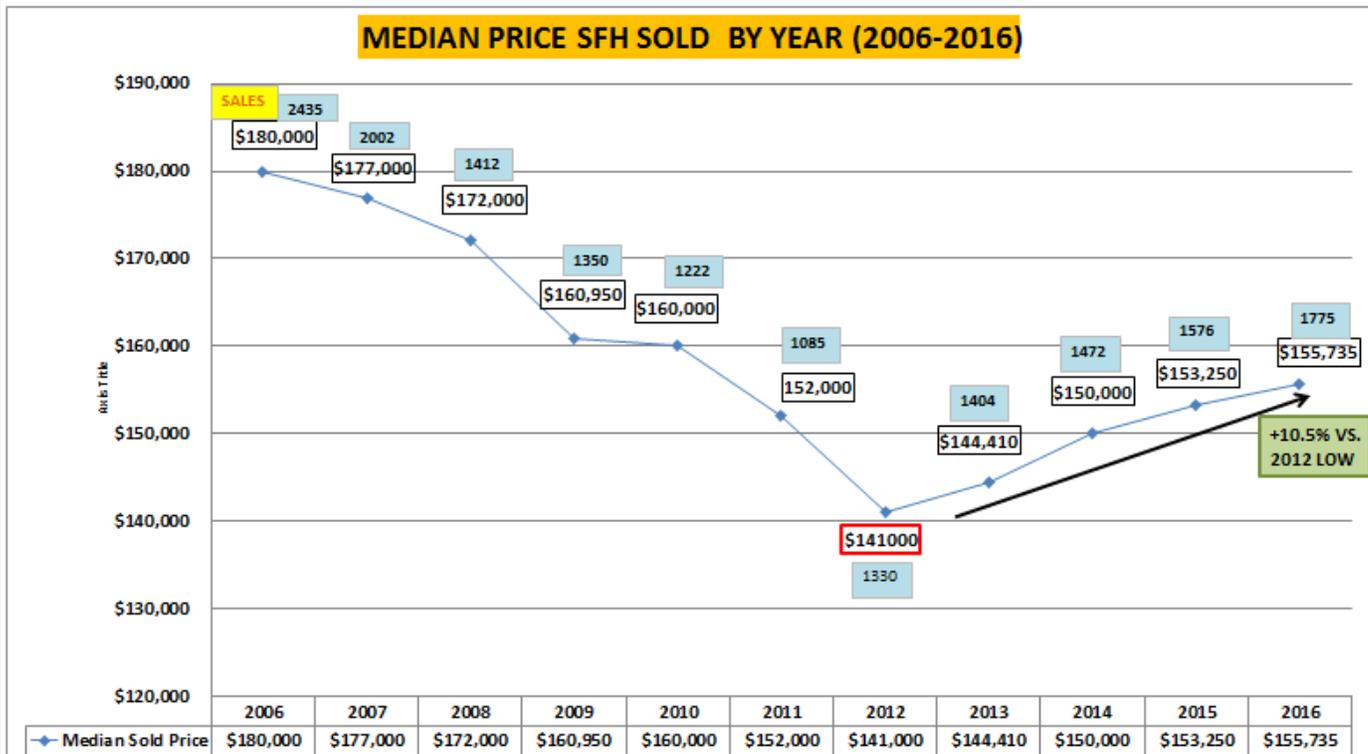


This graph shows 2016 home sales are up from the past 5-years



Home sales are booming.

In this graph of median home prices and sales, we see the steadily declining SFH prices from 2006 to its lowest level in 2012. From 2012, the median price of homes has increased year after year up to the current year.



The overall median price of homes sold has increased 10.5% since its low 2012. This year (2016) the median SFH sold home price for the overall real estate market was \$155,735.

Many people believe that the price of homes has not recovered because, taken individually, each year's increase has been relatively small, **but it is important to note that prices have been steadily increasing since 2012.**

For current sellers who bought their homes at the market's peak years (2006 – 2010), the amount prices have increased in the last 4-years is not sufficient to make up for the value they have lost.

This is the most important factor remaining to convert our recovered real estate market into a vibrant market.

**We will discuss home prices more as this report continues.**

## LOOKING AT THE OVERALL REAL ESTATE MARKET OVER TIME AND 2016 SPECIFICALLY

We have already looked at demand – the number of homes sold each year.

We have looked at the poor response of median prices of homes sold.

Now we look at supply (homes listed for sale), and we will combine it with demand, because market values are a direct result of how supply and demand interact together.

We are going to start with supply and demand as it exists in the overall market, and then we will divide it into the segments that make up the real estate market.

**THIS TABLE SHOWS THE STATE OF SUPPLY AND DEMAND, THEIR INTERACTION,  
AND HOW THEY HAVE AFFECTED HOME PRICES IN EACH OF THE LAST 9-YEARS**

HISTORY LAS CRUCES RESIDENTIAL REAL ESTATE MARKET - LISTINGS / SALES / PRICES							
YEAR	SUPPLY ACTIVE LISTINGS	DEMAND TOTAL SOLD	%-CHANGE	ABSORPTION RATE	%-CHANGE	MEDIAN SOLD PRICE	%-CHANGE
2016	832	1775	12.9%	5.6	-21.6%	\$ 155,535	1.5%
2015	940	1572	7.2%	7.2	-14.6%	\$ 153,250	2.2%
2014	1027	1467	4.5%	8.4	-4.7%	\$ 150,000	3.9%
2013	1031	1404	6.0%	8.8	-18.2%	\$ 144,410	3.2%
2012	1189	1324	22.5%	10.8	-19.5%	\$ 140,000	-9.2%
2011	1206	1081	-11%	13.4	6.9%	\$ 154,125	-3.6%
2010	1271	1218	-10%	12.5	8.3%	\$ 159,900	-1.4%
2009	1301	1350	-4%	11.6	8.9%	\$ 162,150	-8.9%
2008	1250	1412		10.6		\$ 178,000	

**The first column** shows that supply has gone through 3 phases with levels around 1,200 home listings during the depressed years, then as the market recovery began supply decreased about 17% to around 1,000 listings. Now as recovery is accelerating, the supply of listings available has decreased another 17% to an all-time low of 832.

This decrease in the supply of homes listed combined with showing the increase in demand (**column two - number of homes sold**) year after year is a very powerful combination and marks a recovered market.

**NOTE: 2016 was a record year for both supply and demand**

**The real measure of the market's status in real estate is: absorption rate.**

**Yearly changes in absorption rates are shown in **column three**.**

- *The absorption rate is the number of months it would take to consume the current number of listings (S) using the current monthly rate of sales rate of sales (D).*
- When there are high absorption rates (> 6-months at a minimum), this mathematical relationship of high levels of supply (listings) and low rates of demand (sales) indicates a sluggish or buyer's market. In this type of market homes linger for a considerable amount of time before getting sold.
- When the absorption rates reverse and are low, this indicates that demand for homes is great, and it is consuming/reducing the available supply of listings. Homes are on the market for a short time before getting sold (< 6-months at a maximum). This is an active booming market.

Our chart shows that the market has been improving and recovering with declining absorption rates since 2012. In 2016, supply and demand made a huge step forward. Inventory (supply) dropped to an all-time low of 832 homes available for sale, and demand (sales) rose to its highest level in the past 9 years. Already moving toward a balanced market, **the relatively huge drop of 21.6% in the absorption rate in 2016 to 5.6 months indicates our overall market is now considered balanced/normalized/recovered.**

The overall market looks good with an absorption rate of less than 6 months, but in the next section of this analysis when we segment the market into the price ranges of homes sold, we will find that a great bulk of the market is actually doing even better than looking at the overall market would indicate.

**In the 4<sup>th</sup> column – The median price of homes sold**, we note that in the past 4 years (2013 to 2016) the market started to behave according to the law of supply and demand – which states that increased demand in the face of decreasing supply (reflected in the steadily decreasing absorption rate) will cause the price of a commodity to increase.

We remain disappointed that, over the 4 years of large decreases in absorption rates, prices have not responded as well as they should have. Like supply and demand, prices should have increased to return to 2006 -2008 levels. Instead, we have had only small incremental increases each year and a total of a 10.5% increase in the median price of homes sold over these 4 years.

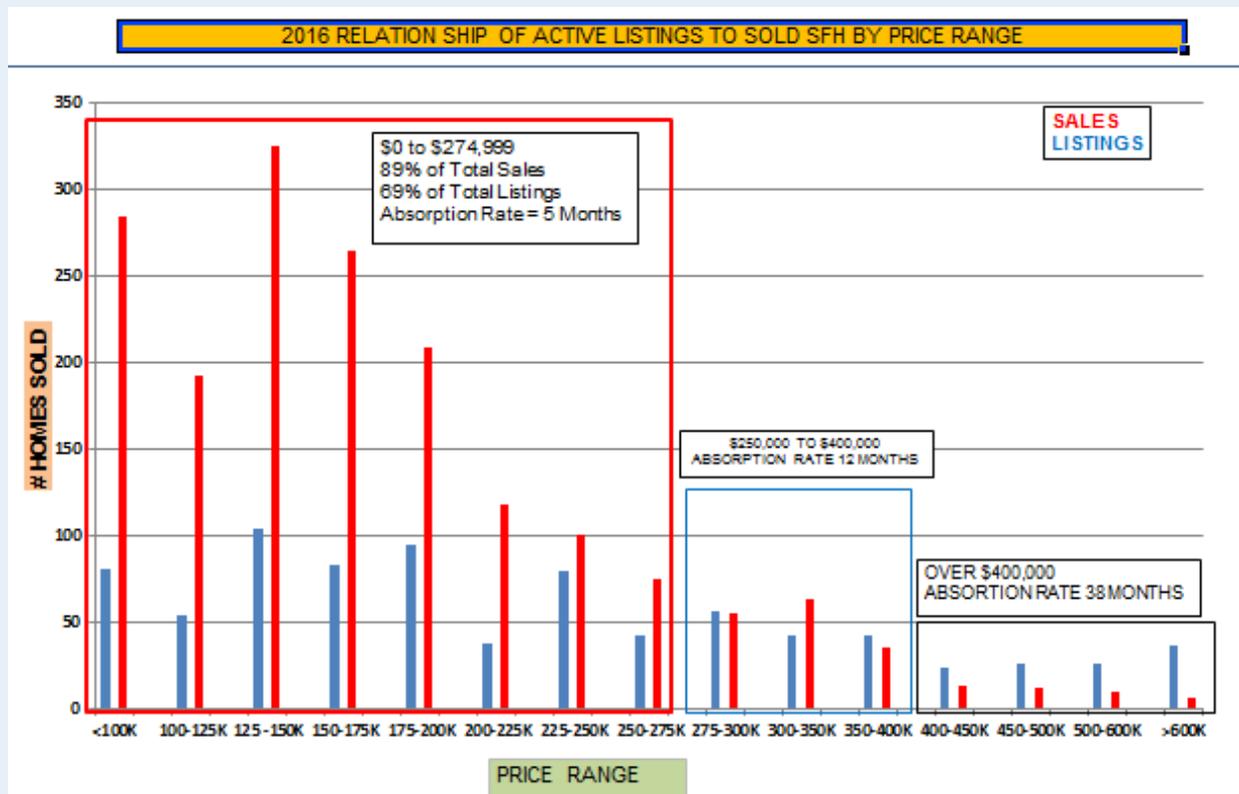
Having looked at the overall real estate market we now need to divide up the market into its natural segments. The most logical first segmentation of the market is by **PRICE RANGE**.

The behavior of buyers and sellers of homes is based first on the price of the home they want to buy or sell.

In this chart, and its graphic representation which follows, we have divided the overall market into logical price ranges. The table looks at supply (listings) and demand (sales) in each price range. Using the absorption rate we can determine status of the market for that price range.

2016 ABSORPTION RATES BY PRICE RANGE			
PRICE RANGE	LISTINGS	SALES	ABSORPTION RATE
\$0 - \$99,999	81	284	3.42
\$100,000 - \$124,999	54	192	3.38
\$125,000 - \$149,999	104	325	3.84
\$150,000 - \$174,000	83	264	3.77
\$175,000 - \$199,999	95	209	5.45
\$200,000 - \$224,999	38	118	3.86
\$225,000 - \$249,999	80	100	9.60
\$250,000 - \$274,999	43	75	6.88
\$275,000 - \$299,999	57	55	12.44
\$300,000 - \$349,999	42	63	8.00
\$350,000 - \$399,999	42	35	14.40
\$400,000 - \$449,999	24	14	20.57
\$450,000 - \$499,999	26	12	26.00
\$500,000 - 599,999	26	10	31.20
> \$600,000	37	6	74.00
<b>TOTAL</b>	<b>832</b>	<b>1762</b>	<b>5.67</b>

The overall market separates itself into 3 groups by price range and consumer behavior. Graphing the number listings (supply) and sales (demand) and the resulting absorption rate shown in the chart above demonstrates clearly how well the market is doing.



The first box in this graph and the peach colored price ranges in the chart above represent the price ranges from \$0.00 to \$274,999. This group of price ranges account for 69% of listings and 89% of all homes sold in 2016. The majority of market is concentrated here.

This group as a whole has an absorption rate of 5 months, because we included some prices ranges with slightly higher absorption rates. Their absorption rate has improved dramatically over the past few years as you will see in a subsequent chart, and they behave like the other price ranges in this group. So, in reality, most of the price ranges absorption rates are only between 3 – 4 months.

**We can certainly say the majority of the market is extremely active.**

Homes in the <math>< \text{\\$274,999}</math> price ranges are being consumed quickly in this large segment of the market, BUT sellers are unhappy with the slowly increasing rate of appreciation (2-3% per year). As you will see later, this price range of homes will play an essential part of getting prices to rise higher and faster.

**NOTE: To completely cover all the price ranges, we will comment on the next two boxes.**

In the second box are those homes that are listed and sold in the price range of \$275,000 - \$400,000. We call these “move-up” or “upper entry level homes.” These homes represent 17% of listings but only 9% of sales. Even though the absorption rate of this segment has been improving over the last 3 years (not shown in this report), its absorption rate is still 12-months which is much higher than desirable. It appears the problem is a failure to acquire buyers (stimulate sales) for these more expensive homes. Though a small part of our problem in numbers, this segment’s lack of sales is definitely a part of what keeps median prices from rising.

The third box is the “luxury homes market” listed and selling for over \$400,000. These homes represent a real problem that has persisted despite the overall market recovery. This has become a bigger problem in the last couple of years. Supply in all the rest of the market has decreased resulting in this segment representing a greater percentage of the market (13% of listings). This is very high at a time when these luxury home sales only account for 2% of all the sales. This is a strongly depressed portion of the overall market at an absorption rate of 38 months. Sales in this high price range would go a long way to increasing the median home prices.

It is important that we look at our largest group of price ranges in an additional way. This chart now adds even more data by tracking the performance of each price range over time. It is important and impressive to note that in every one of the price ranges that comprise this bulk of the market, the absorption rate has dropped year over year. We are no longer looking at static statistics, this is now a trend.

	2012	2013	2015	2016
	NOTE →			
\$0 - \$99,999			4.80	3.42
\$100,000 - \$124,999	6.90	5.50	3.20	3.38
\$125,000 - \$149,999	11.96	8.20	6.20	3.84
\$150,000 - \$174,000	16.67	12.16	6.00	3.77
\$175,000 - \$199,999	14.00	10.38	8.50	5.45
\$200,000 - \$224,999	10.80	6.01	5.60	3.86
\$225,000 - \$249,999	15.50	21.24	8.10	9.60
\$250,000 - \$274,999	17.10	12.60	10.20	6.88

### ABSORPTION RATES BY PRICE RANGE 2012-2016

The steady absorption rate decrease is a direct measure of the law of supply and demand which says that for any commodity, increase demand in the face of decreased supply MUST result in an increase of the market price for that commodity.

Let us segment the market one last way to see if we can answer our question:

## Why are prices not rising higher and faster?

**Consumers purchase not solely on the basis of price, but they also decide whether they are looking for foreclosure homes, very low priced homes, new construction homes, or resale homes. Let us look at what has been happening in these markets over the past 10 years.**

By subdividing the market into housing types we can narrow down to the homes we are looking for to help us understand what is causing our problem with current home prices and possibly come up with a solution for the problem.

*The years 2007, 2009 - 2011, and 2015 have been skipped for space reasons only – the trend is the same.*

	TOTAL	REO	% TOTAL	MEDIAN	AVERAGE	< \$100,000	MEDIAN	PRICE/SF	
YEAR	SALES	#		PRICE	PRICE/SF	#	% TOTAL	PRICE	AVERAGE
2006	2438	0			0	227	9.3%	\$ 80,000	\$ 84.00
2008	1412	0			0	146	10.3%	\$ 77,800	\$ 65.83
2012	1330	276	20.8%	\$ 123,776	\$ 64.12	148	11.1%	\$ 79,500	\$ 60.00
2014	1473	223	15.1%	\$ 110,000	\$ 64.97	176	11.9%	\$ 76,000	\$ 60.99
2016	1775	218	12.3%	\$ 95,000	\$ 58.98	170	9.6%	\$ 79,900	\$ 62.29

	TOTAL	NEW	% TOTAL	MEDIAN	PRICE/SF	RESALES	% TOTAL	MEDIAN	PRICE/SF
YEAR	SALES			PRICE	AVERAGE	SOLD		PRICE	AVERAGE
2006	2438	848	34.78%	\$ 217,125	\$126.36	1363	55.9%	\$ 175,500	\$ 111.25
2008	1412	402	28.47%	\$ 185,750	\$120.90	863	61.1%	\$ 182,000	\$ 111.27
2012	1330	172	12.93%	\$ 165,585	\$ 104.15	734	55.2%	\$ 160,000	\$ 104.07
2014	1473	144	9.78%	\$ 189,003	\$ 107.78	928	63.0%	\$ 165,000	\$ 97.50
2016	1775	205	11.55%	\$ 192,500	\$ 112.34	1182	66.6%	\$ 167,300	\$ 98.53

**Let us start with the bank-owned properties (REO).** This has been a very troublesome segment of the market. During the depressed market, this segment represented a large percentage of the total sales (> 20%) and the price of these homes was very low in comparison to their competition in the regular resale home market and was definitely responsible for a large part of the low price of homes sold and the failure of median prices to rise.

In the past few years, as the market has been improving, they represent a smaller percentage of sales. This decreased supply has been good for the market overall. Even though their pricing is getting lower, these two trends are good because their price is so low and there are so few available that they are not as much competition in the regular resale home market.

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**The next segment is the homes selling for under \$100,000.** This segment is a steady 10% of our market and median price level in this group has remained stable over the years. These homes appeal to a different buyer type than we are interested in to help us raise median prices.

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**The new home market is very important to our discussion.** You will note at the time of the market's peak in 2006, MLS reported 846 new home sales, representing 35% of sales at relatively high median price and price per square foot. As the market and the economy in general got depressed during the years 2008 -2011, we see a very significant steady decline in the sale of new homes.

The number of new homes and price of the homes supplied dropped steadily to its new low in 2012. When the market turned around and overall homes sales began increasing year after year the number of new homes reported for sale began increasing steadily along with an increase in the median price of these homes.

*The number of homes reported by MLS probably represents a little less than half of all the new homes sold that is documented by outside reliable sources. This is due to pre-sales, in house sales, and many other reasons. But, even with these extra homes taken into consideration, the overall percentage of the market is probably not much higher (+/- 15%), and both the median price and price per square foot are the same or very close to the prices reported by the MLS.*

**The numbers in this segment are important to note.** The new home market does compete directly with the remaining bulk of the market – resale single family homes. The median home price for new homes is \$192,500, and they are constructing and selling new homes at \$112.34 per square foot.

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**Now we come to the resale home market.**

This segment of the market represents 67% of the homes sold in 2016. If we were to repeat all of our previous segmentation this segment would match exactly the active recovered market we have been describing. There is the same high demand (sales) and low supply (listings) for the bulk (89%) of these homes. We would find the same trend for last 10 years of a steady decrease in absorption rates year after year. This would verify the law and demand the last leg of which would be rising prices.

**Unlike all the other segments, since the market turned around in 2012, the median price of homes sold is up only 4.5% (160,000 in 2012 to 167,300 in 2016) and the price per square foot has actually dropped from its 2012 low of \$104/SF to \$98.53/SF.**

YEAR	TOTAL SALES	RESALES SOLD	% TOTAL	MEDIAN PRICE	PRICE/SF AVERAGE
2006	2438	1363	55.9%	\$ 175,500	\$ 111.25
2008	1412	863	61.1%	\$ 182,000	\$ 111.27
2012	1330	734	55.2%	\$ 160,000	\$ 104.07
2014	1473	928	63.0%	\$ 165,000	\$ 97.50
2016	1775	1182	66.6%	\$ 167,300	\$ 98.53

**IN SUMMARY:**

2016 was great. Demand was at a peak level and supply was at its lowest. 2016 was our best in the overall market absorption rate since 2008. We had reached our target goal of an absorption rate below 6 months.

Activity in the great bulk of the market, in the price ranges from \$0.00 to \$274,999 (89% of sales) was vibrant and active. We achieved absorption rates below 4 months.

We changed from a long buyer's market to a new seller's market.

By all that is right, the law of supply and demand should have responded to this dramatic change with a significant increase in the median price of homes sold.

We saw that for every one of the price ranges that comprise the bulk of the market, the absorption rate has dropped continuously year after year. **AR change is not a statistic this is now a trend.**

For the real estate market absorption rate decrease is a direct measure of the law of supply and demand. The increase demand in the face of decreased supply should result in an increase of the market price for homes. **But it did not.**

Looking at the new home market we find it follows all of the above plus an increase in the median price and price per square foot for homes built and bought.

Resale home market, which makes up 67% of all homes sold, behaved like all the other segments of the market, in terms of supply (listings) and demand (sales) have increased.

Unlike all the other segments, since the market turned around in 2012, the median price of homes sold is up only 4.5% (160,000 in 2012 to 167,300 in 2016) and the price per square foot has actually dropped from its 2012 low of \$104/SF to \$98.53/SF.

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