

Executive Summary

Buying or Selling a Home in Washington: 2002 Survey of Recent Home Buyers

The Washington Center for Real Estate Research analyzed the results of 602 completed questionnaires from a random sample of individuals who purchased a home during the last six months of 2001. Approximately 23 percent of the eligible respondents to the survey completed the lengthy questionnaire, producing significant findings.

The study was conducted as part of the Center's ongoing research program for the Washington State Department of Licensing/Washington Real Estate Commission. Their objectives were to monitor consumer satisfaction with the work of real estate licensees and to identify any potential areas where regulatory intervention is needed.

The findings are organized into topics of related questions:

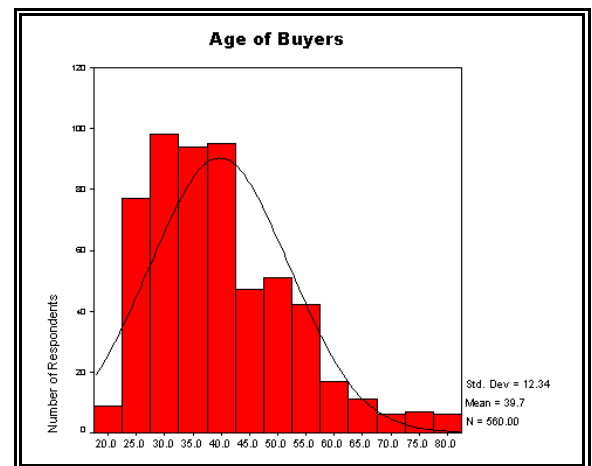
- % Buyer Profile
- % Home Purchased Profile
- % Purchase Process
- % Use of Real Estate Agent When Purchasing
- % Previous Home Profile
- % Home Sales Process with Agent Assistance
- % Home Sales Process without Agent Assistance

The Buyers

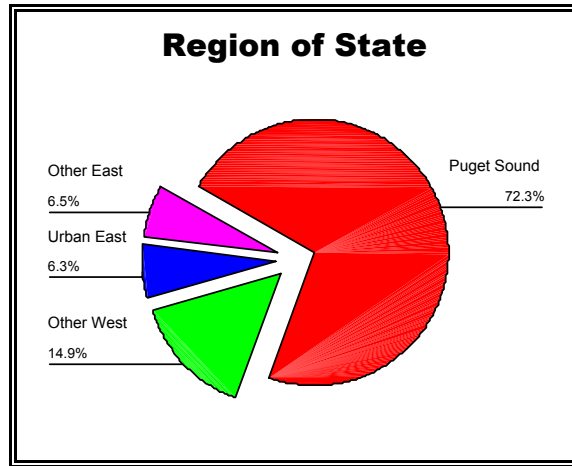
The typical home buyer in Washington during mid-2001 was a married couple in their 30s, without children. This generalization represents fewer than half the buyers, however. Just over half the buyers were under the age of 40. While 65 percent of purchaser households were married, couples were evenly split between those with and without children at home. Single adult buyers were less likely to have children in the household.

The increasing ethnic diversity of Washington was evident in the profile of purchasers, but Caucasian households continue to be dominant among home buyers, as they were among homeowners in the 2000 Census.

While survey responses were received from virtually every county in the state, the concentration of survey data, like the state's population, came primarily from the urban areas bordering the Puget Sound. While the state was divided into four regions for analysis, seven out of ten responses came from the greater Seattle area.



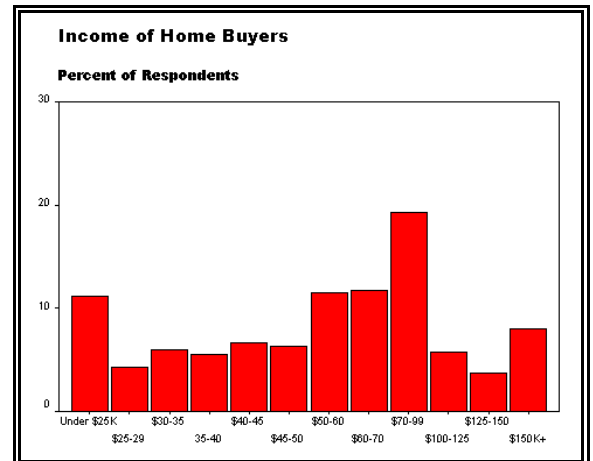
Region of State



The role of first-time buyers in the housing market is always of interest. This, and virtually every other survey of recent home buyers, tends to overstate the role of first-time buyers, largely because of the self-selection by respondents. Households who have just managed to purchase their first home, or who purchased a newly-constructed unit, have greater enthusiasm about the accomplishment than households for whom home ownership and housing purchases are old hat. Even so, achieving progress on Washington's home

ownership rate, which is below national averages, requires attracting significant numbers of first-time home buyers to the market each year. Among survey respondents, 40.2 percent reported that this was their first home purchase.

The median income of purchaser households was between \$50,000 and \$60,000, somewhat below a 2002 national survey of buyers. This is roughly 20 percent higher than the median household income in Washington state reported for third quarter 2001. At the time of the previous WCRER survey there was a much greater disparity, with recent buyer income nearly double the median household measure. The reduced gap is consistent with an active first-time buyer market and an increasing homeownership rate in Washington. The largest group of buyers reported incomes in the \$70,000 - \$99,000 range. A surprisingly large group of buyers reported incomes less than \$25,000.

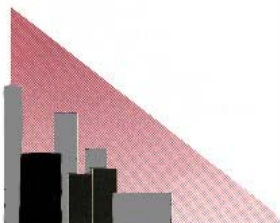
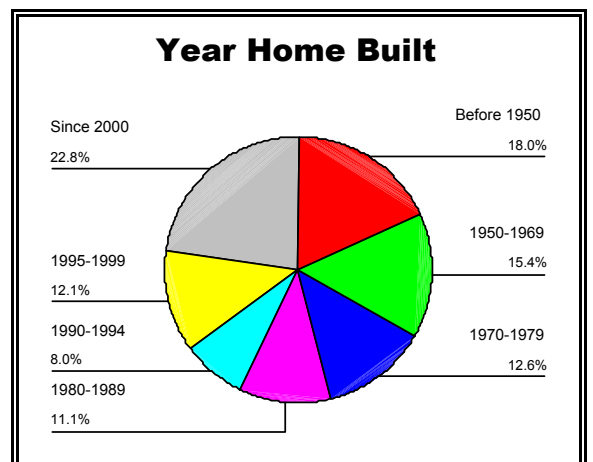


The Homes Purchased

As expected, the majority of homes purchased were resale properties. The survey results were similar to activity estimates throughout the state for the study time period. Unlike the previous homebuyer survey, the proportion of manufactured units was in the expected range. Single-family attached units (townhouses) are less common in Washington than in other parts of the country. Condominium apartments are more frequently encountered, especially in the purchases of first-time home owners.

Among resale homes, newer properties sold more frequently than older units. While this may seem surprising at first, the typical life cycle of housing developments is for frequent sales during the first 10-15 years of a home's life, followed by a period of stable ownership, followed again by a period of more frequent sales.

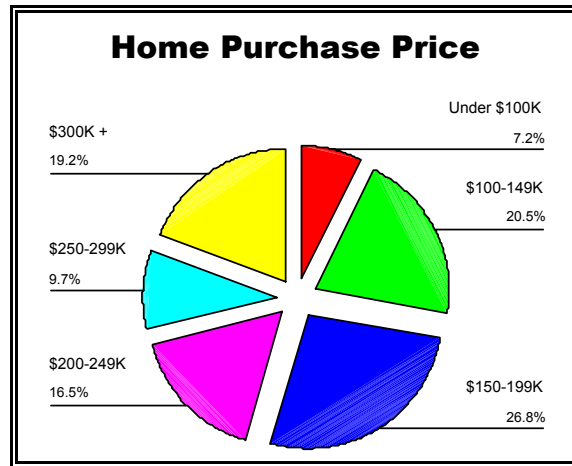
Year Home Built



Since the 1950s, the trend in America has been toward suburbanization. This “sprawl” was a driving force in the adoption of the Growth Management Act in Washington. While other surveys indicate Washington residents oppose sprawl, and cite the related traffic problems as a major priority, the results of this study indicated continued urban dominance in their residence patterns. Homes within city and suburban neighborhoods collectively accounted for 85 percent of the sales, compared to three-quarters of the responses to the last survey. Since these categories were imperfectly described, however, it is difficult to know what each respondent meant. A home in Federal Way, for example, could have been within a city to some respondents, in a suburban neighborhood to some and even a small town to others. Forty-nine percent of the homes were in cities, 36 percent in suburbs, 10 percent were rural and six percent were in small towns.

The typical home had three bedrooms and two baths. The median size was 1,780 square feet (while the average was 1,890 square feet). These are all close to statewide and national figures, and somewhat larger than the homes purchased during the last survey. The median lot size was 10,900 square feet, or roughly one-quarter acre. Again, this is consistent with state and national averages. It is noteworthy that lot sizes for newly-built

homes were smaller than for somewhat older properties, suggesting Growth Management density goals may be reducing sprawl.



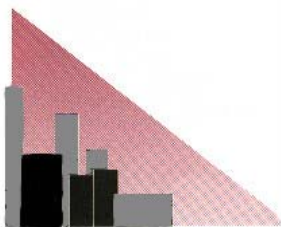
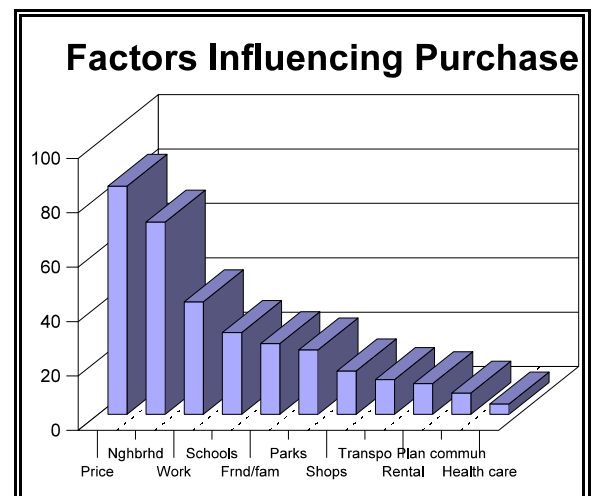
The median price paid for a home was \$190,000, 38.4 percent above the \$137,250 median recorded in the last survey. However, this is consistent with the 2001 median price statewide as estimated by WCRER. The average price was \$232,200. This 22% differential between median and average prices is consistent with national trends. Homes carried a wide range of values.

The Purchase Process

Washington’s home buyers approach their purchase deliberately, investing a great deal of time in the process, bringing several factors into balance as they choose their residence.

Typical buyers looked for a home to purchase for six weeks before they committed to buy a unit. While this may seem like a long time, the average search was 12 weeks since over three percent of the buyers searched for more than a year before they purchased. During that search, the buyers actively visited a median of ten homes, while the more active searchers pulled the average up to 13. When you realize that many prospective homes were eliminated by looking at photographs, or by driving by without going in (too little curb appeal), thorough searches were conducted by most buyers. Ten percent of buyers actively considered more than 25 properties before completing a transaction.

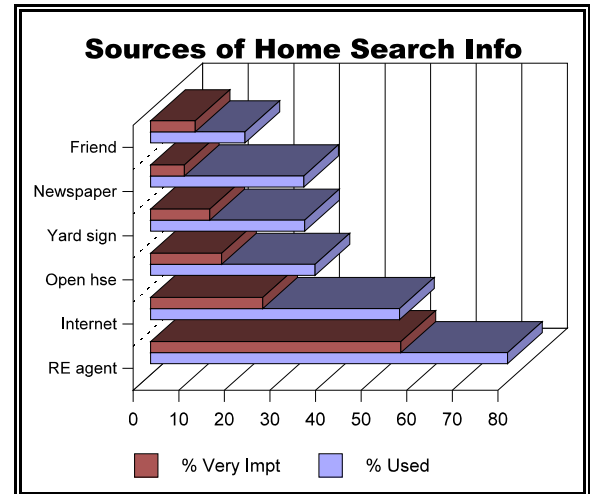
Buyers indicated that the price of the home was the most significant factor in their decision to seriously consider a home, followed by the quality of the neighborhood in



which it was located. Proximity to work was the third most important. Since so many of the purchasers do not currently have children in their households, schools were the fourth biggest factor. Even then, however, nearly a third of the respondents indicated schools were important decision factors.

The buyers in the survey were largely upwardly mobile, looking for larger homes and larger yards. By contrast roughly five percent were looking to downsize, both in terms of homes and yard. Similar proportions were seeking retirement homes or a change in climate.

With these search criteria, the issue of how the buyers locate their information is significant. They clearly used multiple information sources in their search, including real estate licensees, the Internet, newspapers, yard signs, open houses, etc. While they used many sources of information, real estate licensees were identified as a very important source of information by 55 percent of respondents, far larger than any other source. The Internet, which was hardly a blip on the scale for the last survey, surged to the second most important source of information in 2001, cited as "very important" by a quarter of respondents. Open houses and yard signs were the only other information sources cited as very important by more than ten percent of respondents. These results should cause both consumers and real estate licensees to reevaluate their approach to real estate information.

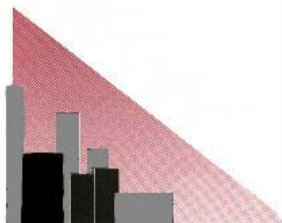


In addition to general sources of information, the survey addressed the details of how the purchasers learned about the specific home they purchased. Regardless of market type, distance moved, or age of purchaser, a real estate agent was the initial source of information about the property for the largest group of purchasers, never quite reaching a 50 percent penetration. For most groups the Internet was a distant second, although in the aggregate yard signs were the initial source of information for slightly more purchasers. This means that prospective buyers continue to drive the neighborhoods they like, and surf the web in equivalent numbers, but the two TOGETHER only represented 32 percent of initial exposures, while real estate agents provided 43 percent of the initial contacts. A savvy agent will build upon the experiences of her/his purchaser client to make the search process as efficient as possible, because as the clients increase their role in the search process it becomes increasingly difficult for the real estate agent to justify commission levels, and consumers frequently mentioned the cost of the professional service as a problem with the current system.

Using a Real Estate Agent When Purchasing

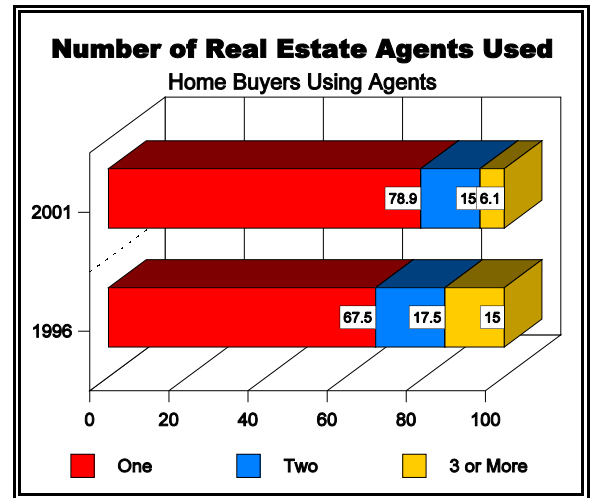
Since real estate professionals are so important to buyers, how do buyers choose their real estate licensees? The most important factor seems to be market knowledge, followed by general real estate skill and knowledge of the neighborhood in which the prospective buyer is interested. Roughly half of respondents indicated each of these factors was important. Referrals from other agents, either locally or from another community, were rarely cited as significant. General community involvement was also not identified as important to many buyers.

The survey indicated considerable loyalty of buyers to a single real estate agent. Nearly eight in ten of the customers dealt with only one agent. Over two-thirds of the remainder used two agents, while those relying on the services of three or more agents represented only six percent of the total. Significantly fewer buyers used more than one agent in



2001 compared to the earlier survey. Buyers moving a short distance were more loyal to a single agent than those moving from a greater distance (somewhat of a surprise), while those with longer search times were much more likely to use multiple agents, as expected.

The process of selecting a real estate licensee begins close to home, with prospective buyers considering using their friends/neighbors/relatives (or licensees recommended by those groups). Since many buyers begin their home search by informally visiting open houses in their neighborhood or the community where they think they might like to live, agents encountered in those open houses are the third most frequent source of initial contact. Thus who you know does matter in terms of a real estate licensee's getting their foot in the door.



Once the initial contact is established, however, the buyer's concern shifts to knowledge and proficiency. Real estate licensees who think referrals alone are the key to success may be sorely disappointed in the end.

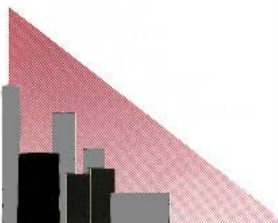
Buyers rely on their agents for far more than just real estate brokerage services. They ask the real estate licensee to recommend professionals in related businesses for services before or immediately after the sale. Real estate licensees who have identified a core group of businesses which provide superior service to their clients will position themselves to receive future referral business from their satisfied customers. They knew their business once and will be given a chance to prove their worth to a new group of prospects.

The hot topic in real estate brokerage, especially the relationship between buyers and real estate professionals, continues to be the issue of agency. A Federal Trade Commission study in 1983 indicated that buyers of homes believed the real estate licensee with whom they had established trust and to whom they had confided extremely personal financial information was an advocate for their best interest. At the time, however, the prevailing condition was an allegiance to the best interest of the seller of the home (seller agency). Over the course of the last 20 years the industry has transformed itself, actually providing the agency protection buyers thought they had all along. Washington law has taken the issue one step further with a legislative presumption that a real estate licensee working with a buyer is that buyer's agent unless there is a written agreement to the contrary.

Washington requires real estate licensees to disclose their agency relationships prior to the signing of purchase and sale agreements. Buyers indicated that two-thirds of the time that disclosure is actually made during the first meeting between prospective buyer and licensee. Fifteen percent of the purchasers indicated the disclosure was made immediately prior to executing the purchase and sale agreement, while an equal number did not remember when the disclosure was made. Two percent of buyers indicated they did not believe a disclosure of agency was made.

Other disclosures, especially regarding property condition and lead paint are typically required. The vast majority of buyers remember receiving the property condition disclosure, and while a smaller proportion indicated they received the lead paint disclosure, limiting the responses to properties built prior to 1978 indicates compliance with that disclosure requirement is equally high. In both cases it is the seller who is making the required disclosure, but real estate licensees help facilitate understanding of the material disclosed. Licensees also typically deliver the documents to the principals. Accordingly, the survey treated the disclosures as if they were being made by licensees.

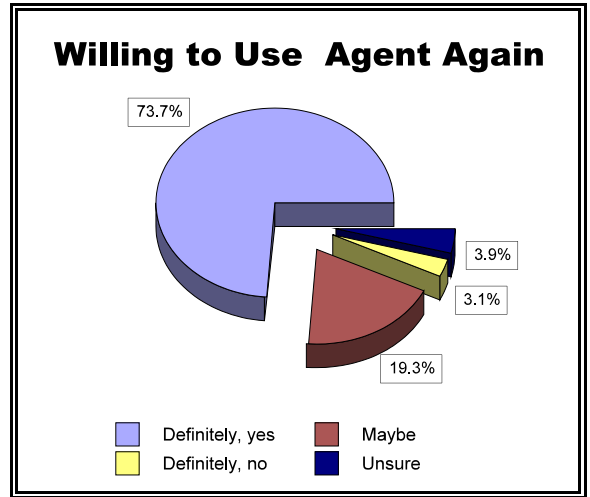
In general, home buyers were quite satisfied with the services provided by the real estate agent working with them, with a clear majority indicating they would be willing to use the



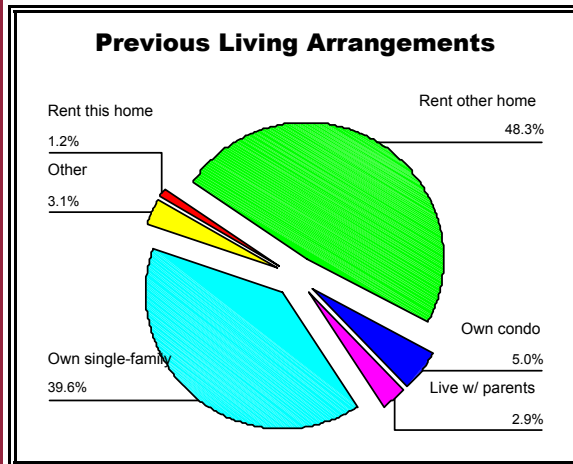
the same licensee again in the future. Only a small group of buyers were certain they would not use that salesperson again. In point of fact, the turnover of real estate licensees is more rapid than the turnover of homes, meaning that few buyers really have an opportunity to use an agent again, but the fact that they were satisfied will probably lead to referrals and more business for the real estate professional.

Those buyers who indicated reservations about using the real estate licensee again in the future were asked to explain their concerns. While very few comments were provided, they tended to portray an attitude that once a contract was agreed to, communication from the licensee to the buyer was significantly reduced. This may be a critical omission since many buyers, especially if they are purchasing for the first time need reassurance and evidence that someone is making certain the transaction is moving forward toward a timely settlement. There were a couple of allegations of misrepresentation and a couple of buyers who felt the real estate agent was too pushy, but the absence of many comments reinforces the general belief that licensees are serving their buyer clients well.

Consumers clearly felt that using a real estate licensee kept them better informed about the progress of the transaction and increased their options in the real estate market. This helped them consider more homes than they would have found by themselves, resulting in a better match to their desires than might have been the case. Since most had a buyers' broker relationship with the real estate licensee, it was encouraging that the buyers felt the licensees were more concerned for their well being than for the seller. It was also a relief that only one in nine respondents felt the real estate agent suggested they spend more for a home than they thought they could afford, a decline from one in five for the last survey. Consumers may be expecting buyers' agents to be a bit more assertive in terms of negotiating lower prices and better terms, and at the time of the survey there was a sense that financing options should have been better explained by the real estate agents.

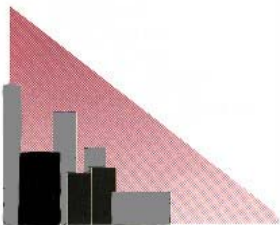


The Previous Homes



Consistent with the finding that first-time buyers were an especially significant component of the home buyer market during the survey, it comes as no surprise that the largest group of buyers previously rented another home. Meanwhile, a somewhat smaller group owned a single-family residence. Most of these owners were trading up. The small remaining group included those who previously owned a condo, lived with their parents, or had some other, unspecified living arrangement.

If the previous residence was owned, it was most likely a single-family home. First time buyers, however, typically moved from apartments. This is a shift from the prior survey when even first-time buyers came from rental single-family homes.



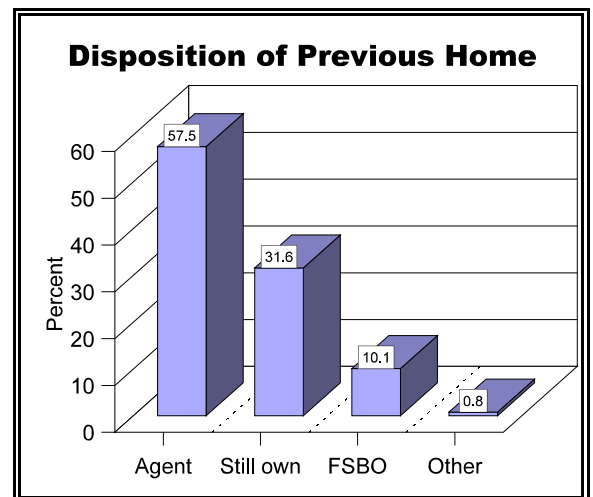
Both previous renters and previous owners were choosing more space and more land after their move than they had before. This was true for square footage in the home, number of bedrooms and number of baths, as well as lot sizes. They were also choosing newer units than the ones they rented or owned previously. Some of the “newness”, however, is due to the high volume of newly constructed homes in this sample.

Since nearly half of the previous residences were owned by the respondent, those owners were faced with the decision of what to do with their homes. While many were retained as primary residences or income properties (either by choice or necessity), most were sold. The remainder of the report focuses on the disposition of those formerly owned homes.

The Sales Process With Agent Assistance

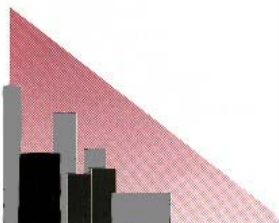
Since so many survey respondents purchased their first home, and some former owners moved from rental quarters or did not sell their previous home, the number of sellers was somewhat limited, and not all of the sales took place in Washington. Nonetheless, study of the experiences of sellers helps complete understanding of the home sales process.

Sellers are faced with a real financial dilemma – whether or not to list their homes for sale with real estate licensees. Despite an industry which has transitioned from one where all real estate professionals represent the sellers who are technically footing the bill, to one where most licensees working with buyers have the financial interests of those buyers firmly in mind, the compensation continues to be provided by the sellers. In the minds of some of those sellers, this is a conflict of interest, e.g., they are being asked to compensate a real estate professional whose fiduciary responsibility lies with the purchaser who wants to purchase a home for the minimum acceptable price while the seller wants to maximize the return from his/her previous purchase. Sellers often believe there isn't much to the real estate agent's role – entering the listing on the MLS, writing a couple of ads, arranging an open house and waiting for the offers to come in. Unless they have carefully observed a previous real estate transaction, or have tried to sell a home without professional assistance, the appreciation for the value added by the real estate licensee must be taken on faith. Significantly, 79 percent of the previous homes which were sold used the services of a real estate professional. Even so, this is a somewhat higher incidence of For Sale by Owner (FSBO) success than is normally observed, owing to the strong market in most parts of the state at the time of the survey.

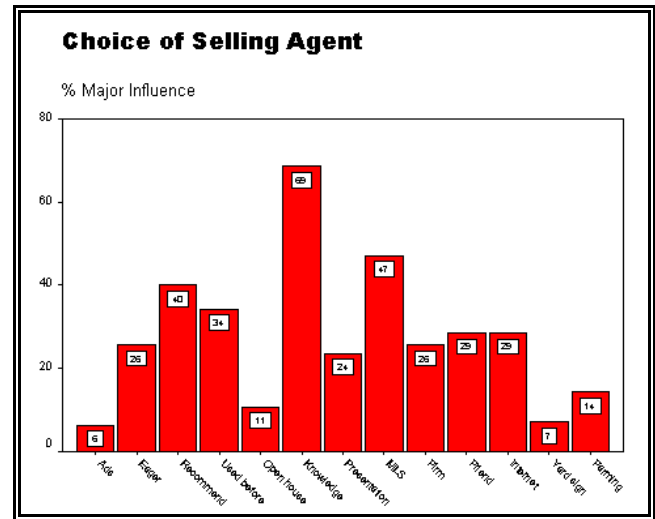


While the typical buyer searched the market for six weeks, the typical home was only available for sale for four weeks before a contract was accepted. Only about four percent of the homes were on the market as long as six months.

Consistent with the earlier observation that many recent buyers were moving up the housing ladder, the median price at which the previous homes were sold was \$205,000, slightly above the median price paid by all buyers, and somewhat below the purchase prices paid by repeat buyers. These sellers receive prices remarkably close to their final asking prices (and only modestly below initial asking prices. Of course, a few sales took place at prices higher than the asking price, while most were transacted at a slight discount. In addition, these buyers had ridden the inflationary market to a significant degree. The median gross profit (excluding improvements and sales commissions) was \$58,500.



Sellers are theoretically looking for different characteristics in their real estate agents than buyers are, but they have generally the same information sources upon which to base their agent selection. Agent knowledge, access to the MLS and personal relationships with agents are the most important factors influencing the selection of seller agents. What an agent knows is somewhat more important than who he/she knows.



As in the case of the agents working with buyers, sellers were well-pleased with the services they received from the real estate professionals. Two-thirds of sellers using agents indicated they would be willing to use that licensee again. Significantly, many of the comments explaining why sellers would not use the agent again revealed they no longer were in the same market. Others claimed agents were incompetent, lacked market knowledge or did not have the desire/enthusiasm required to be successful. Fortunately, there was no pattern of response which needs to be addressed by the Real Estate Commission.

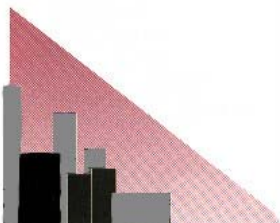
Sellers were also asked to respond to a series of questions which addressed their attitudes toward the services received from a real estate licensee. Sellers largely felt the agent was especially valuable in setting an asking price, preparing disclosure statements and getting the home ready for market, as well as providing a detailed and accurate analysis of offers. Sellers generally believed the licensees with whom they were working put their best interest ahead of the interest of the buyers'. There was relatively little agreement with a statement implying the selling agent was willing for the client to accept a lowball offer to close the transaction. Significantly, three-quarters of sellers who used agents reported feeling that the agent earned their commission.

The Sales Process Without Agent Assistance

A few sellers chose to sell their homes without using the services of a real estate licensee. Avoiding the commission or selling to someone with whom the seller had a prior relationship (friend, relative, etc.) were the primary reasons cited, accounting for 65 percent of the FSBO transactions.

Avoiding the commission comes with a cost, however. Those sellers admitted the process was more complicated than they expected, that negotiating an acceptable selling price was challenging, and that the process is surprisingly time consuming. Those problems were sufficiently severe that only about one-third of the FSBO sellers indicated they planned to sell without professional assistance the next time. This is a significant decline in expected future FSBO sales compared to the 1997 survey. Even many sellers who did not use real estate licensee services realize those real estate commission dollars are well-earned.

Glenn E. Crellin
Director, Washington Center for Real Estate Research



To purchase a copy of the full report (\$20) contact:

Washington Center for Real Estate Research
Washington State University
P.O. Box 644861
Pullman, WA 99164-4861
1-800-835-9683
wcrer@wsu.edu
<http://www.cbe.wsu.edu/~wcrer>

