

Executive Summary

Summer 1998

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

The Washington Center for Real Estate Research analyzed the results of 448 completed questionnaires from recent home buyers throughout the state. The sales which qualified them as respondents to the study took place between late 1995 and late 1996. Approximately 43 percent of the eligible respondents to the survey completed the lengthy questionnaire, producing highly 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 area where regulatory intervention is needed.

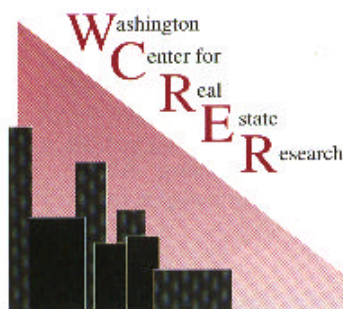
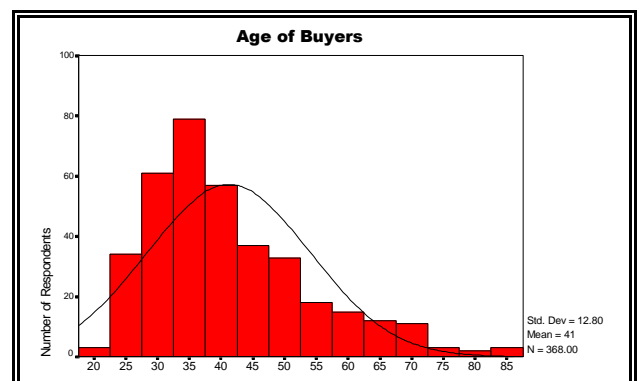
The findings are organized into topics of related questions. First the buyers themselves will be profiled, followed by information about the homes they purchased. The study will then move to questions about the home purchase process. Use of real estate agents during the home purchase experiences will be studied at this point.

The second part of the study will focus on the previous living situation, including information about the former unit. For those buyers who recently sold a home, further questions were asked regarding their experiences as a home seller. The differences in experiences between those sellers who used real estate licensees and those who completed sales without the benefit of professional assistance will be explored.

The Buyers

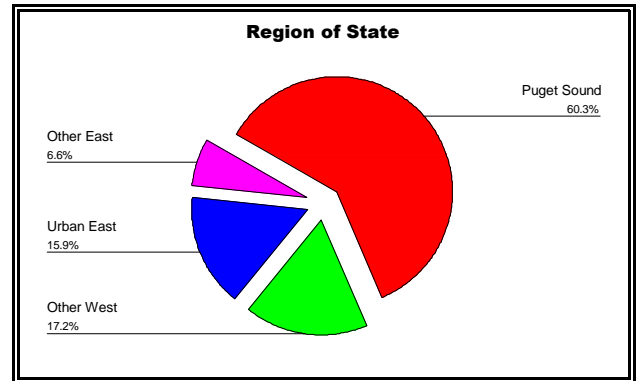
The typical home buyer in Washington during late 1995 and 1996 was a married couple in their 30s, without children.

This generalization represents fewer than half the buyers, however. Just over half the buyers were under the age of 40. While seven out of ten purchaser households were married, fewer than half were couples without children, although households without children were more numerous than those with children.



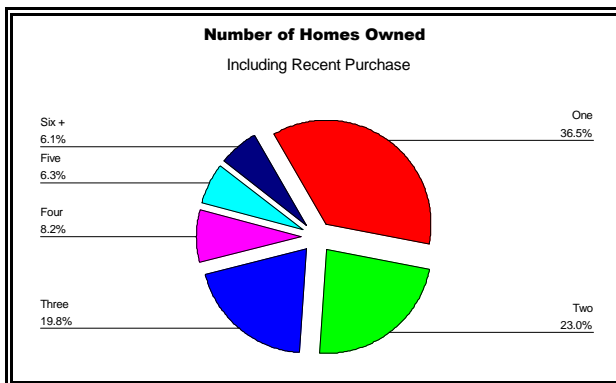
The increasing ethnic diversity of Washington was evident in the profile of purchasers, but Caucasian households continue to be dominant among home buyers, as they were among homeowners in the 1990 Census.

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, six out of ten responses came from the greater Seattle area.



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. Those households who have just managed to purchase their first home, or those 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, 37 percent reported on the purchase of their first home.



The median income of purchaser households was between \$50,000 and \$60,000, roughly the same as a 1995 national survey of buyers. This is nearly double the median household income in the state, a fact

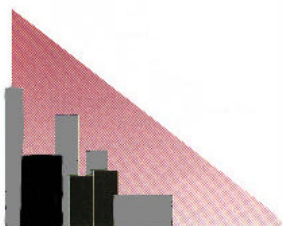
which is disturbing if the state is to maintain its current 63 percent homeownership rate.

The Homes Purchased

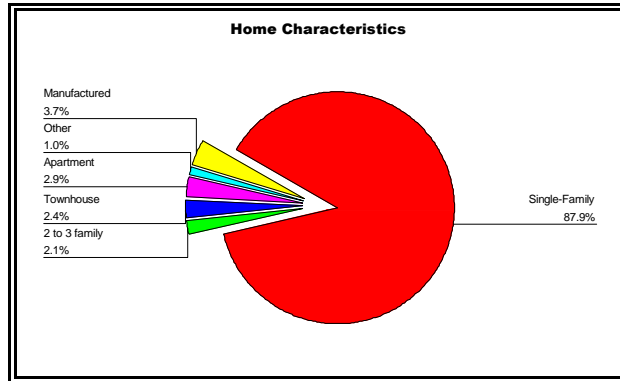
As expected, the majority of homes purchased were resale properties, but new homes and manufactured homes were both encountered more often than expected. Despite the increasing role of condominium apartments and attached single-family homes (townhouses) as affordable alternatives to detached homes, they were infrequently mentioned by respondents.

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. More expensive properties tend to turn over less frequently, however.

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 37% of buyers
 purchased their
 first home
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 Median
 purchase price
 was \$137,250
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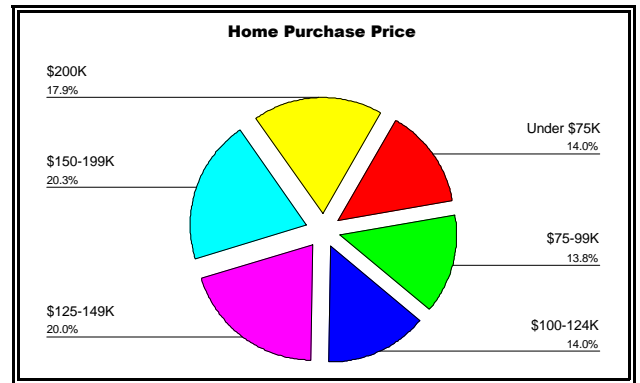


Since the 1950s, the trend in America has been toward suburbanization. This “sprawl” was a driving force in the adoption of the Growth Management Act in Washington. Respondents to the survey indicated continued urban dominance in their residence patterns, with homes within a city and suburban neighborhoods collectively accounting for three-quarters of the sales.

Since these categories were imperfectly described, however, it is difficult to know what each respondent meant. A home in Issaquah, 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 percent of the homes were in cities, 35 percent in suburbs, 15 percent were rural and nine percent were in small towns.

The typical home had three bedrooms and two baths. The typical size was 1,700 square feet (while the average was 1,850 square feet). These are all close to statewide and national figures. The median lot size was 10,900 square feet, or roughly one-quarter acre. Again, this is consistent with state and national averages.

The median price paid for a home was \$137,250. While this was somewhat below the 1996 median price statewide, the difference may be due to the manufactured homes which were reported in the survey, but which are not part of the usual home price reporting. The average price was \$156,840. This 14% differential is consistent with national trends. Homes carried a wide range of values.

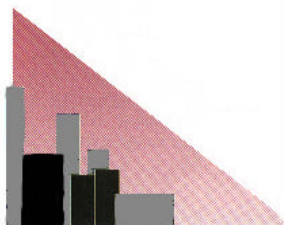


The Purchase Process

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.

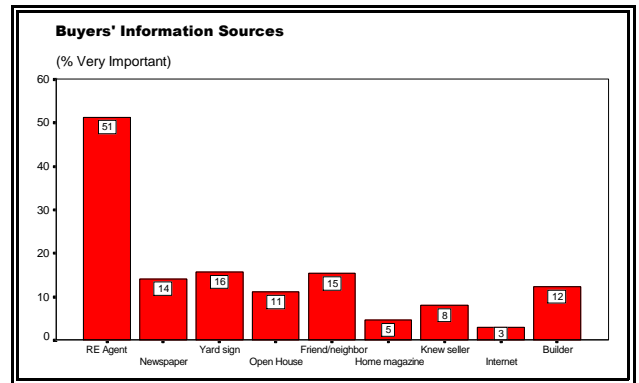
Typical buyers looked for a home to purchase for two months before they committed to buy a unit. While this may seem like a long time, the average was 15 weeks because three percent of the buyers searched for over a year before they purchased. During that search, the buyers actively visited a median of ten homes, while the more active searchers pulled the average up to 17. When you realize that many prospective homes were eliminated by looking at pictures, or by driving by without going in, thorough searches were conducted by most buyers.

Buyers indicated that the price of the home was the most significant factor in their decision to seriously consider a home, followed by 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, a third of the respondents indicated schools were important.



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... real estate
licensees were
very important
source of
information...
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The buyers in the survey were largely upwardly mobile, looking for larger homes and larger yards. By contrast roughly ten percent were looking to downsize, both in terms of homes and yard. Six percent of the respondents indicated they were looking for a change in climate (and Washington surely offers varied 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, 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 51 percent of respondents. Yard signs and friends/neighbors were next, reported as very important by only 16 and 15 percent of buyers, respectively. Despite all the hoopla about the Internet, that tool was judged very important by fewer than five percent of buyers.

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. Recommendations by other agents, either locally or from another community, were rarely cited as significant. General community involvement was also not identified as important to buyers.

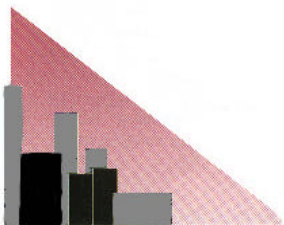
Using a Real Estate Agent When Purchasing

The survey indicated considerable loyalty of buyers to a single real estate agent. Two-thirds of the customers dealt with only one agent. The remainder were evenly divided between those using two agents, and those relying on the services of a larger number. 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.

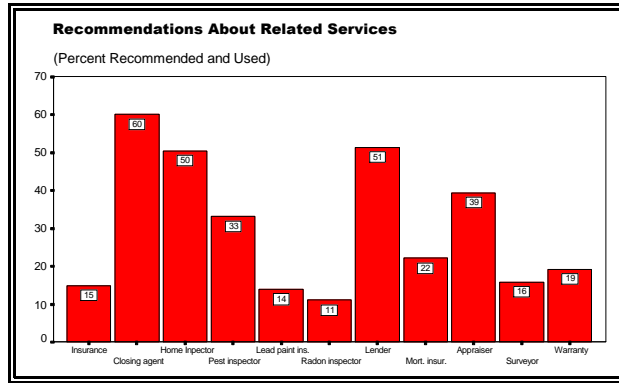
The process of selecting a real estate licensee begins close to home, with prospective buyers considering using their friends/neighbors/relatives (or licensees recommended by those groups). Since many buyers begin their home search by informally visiting open houses in their neighborhood or the community 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 (see graph). 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 for superior service referrals 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 prospective clients.



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 ... home buyers
 were quite
 satisfied with real
 estate agent ...
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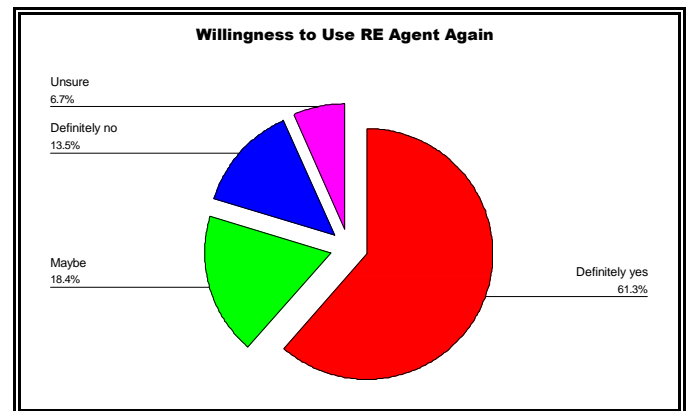


The hot topic in real estate brokerage, especially the relationship between buyers and real estate professionals, has been the issue of agency. A Federal Trade Commission study in 1983 indicated that buyers of homes believed the real estate licensee with whom they had established trust and to whom they 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 15 years the industry has transformed itself, providing in fact the agency protection buyers thought they had all along.

For those transactions covered by the survey, the requirement in Washington was for real estate licensees to disclose their agency relationships prior to the signing of purchase and sale agreements. Buyers indicated that the most prevalent relationship at the time of the survey was as a seller's agent. Even with formal disclosure, nearly 20 percent of buyers did not know whose interest the real estate licensee with which they were dealing represented. Since January 1, 1997 real estate salespeople in Washington working with buyers are presumed to have an agency relationship with those buyers unless otherwise disclosed in writing.

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 same licensee again in the future, and only a small group certain they would not call upon that salesperson. In point of fact, the turnover of real estate licensees is

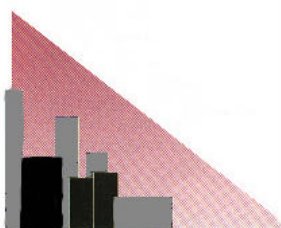


more rapid than the turnover of homes, meaning that few buyers really have an opportunity to use that agent again, but the fact that they were satisfied will probably lead to referrals and more business for the real estate professional.

Those buyers who indicated reservations about using the real estate licensee again in the future were asked to explain their concerns. These comments were studied with an eye on identifying areas of concern to industry regulators. The primary concerns were expressed by first-time buyers who felt the real estate agent had not adequately informed them of their options, or pressured them to make quick offers at nearly full price. Others complained once they signed a purchase and sale agreement, the communication with the licensee basically ended. A few comments about dual representation situations further illustrate the nearly untenable situation dual agency creates.

Consumers clearly felt that using a real estate licensee increased their options in the real estate market, helping 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 fewer than one in five respondents felt the real estate agent suggested they spend more for a home than they thought they could afford.

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 Consumers felt
 using a real
 estate licensee
 increased their
 options
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Regardless of whether the previous residence was owned or rented, it was most likely a single-family home.

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The Previous Homes

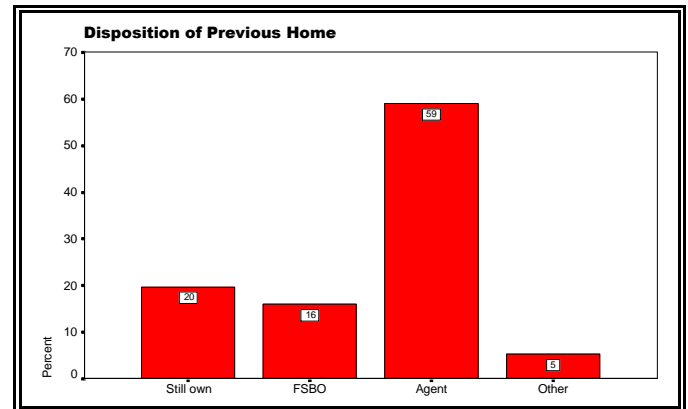
Consistent with the finding that first-time buyers were an especially significant component of the home buyer market during the survey, it comes as no surprise that the largest group of buyers previously rented another home. Meanwhile, a group almost as large owned a home. Most of these owners were trading up. The small remaining group were roughly evenly split between those owning a condo, living with their parents, or some other living arrangement, unspecified.

Regardless of whether the previous residence was owned or rented, it was most likely a single-family home. This implies a sequence of rental apartment to rental home to homeownership.

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.

While the largest group of previous homes (like the current purchases) were in the Puget Sound region, all parts of the state of Washington and 18 other states and several foreign countries were represented.

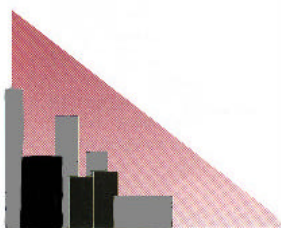
Since nearly half of the previous residences were owned by the respondent, those owners were faced with the decision of what to do with their homes. While many were retained as income properties (either by choice or necessity), most were sold. The remainder of the report focuses on the disposition of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



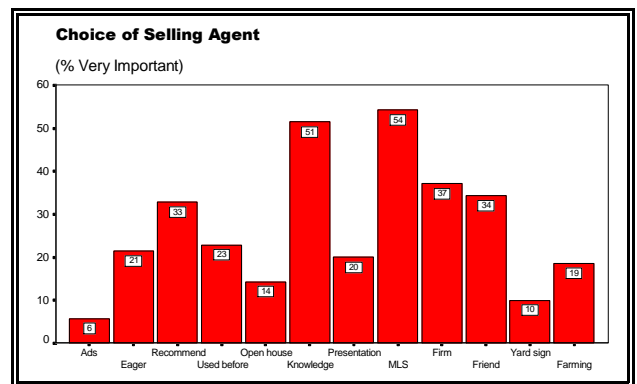
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 77% of previous
 homes were sold
 using services of
 real estate
 professional
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Significantly, 77 percent of the previous homes which were sold used the services of a real estate professional. Even 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 eight weeks, the typical home was only available for sale for seven weeks before a contract was accepted. Only about ten 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 \$129,500, slightly below the median price paid by all buyers, and clearly below the purchase prices paid by repeat buyers. These sellers receive prices remarkably close to their asking prices, since the median asking price was only \$129,950. 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 price paid for these houses was less than \$80,000!

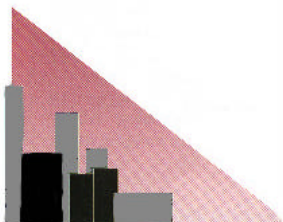
Sellers are theoretically looking for different characteristics in their real estate agents than buyers are, but they have generally the same media upon which to make their agent selection. Agent knowledge, access to the MLS and personal relationships with agents are the most important factors influencing the selection of seller agents. What an agent knows is only slightly 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. Over 60 percent 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. A couple of times a dual agent relationship was cited, with the sellers feeling the agent was too biased toward the buyers. Other criticisms deal with the perception the licensee did not invest enough advertising or time marketing the property. Fortunately, aside from the dual agent issue, there were no issues identified which need 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 and getting the home ready for market, as well as providing a detailed and accurate projecting of proceeds. While sellers generally believe the licensees with whom they were working put their best interest ahead of the interest of the buyers, the sentiment was less strong. 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.

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 ... sellers were
 well-pleased
 with service they
 received from
 real estate
 professionals.
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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 was the primary reason cited, accounting for 35.6 percent of the FSBO transactions. “Other” reasons and selling to friends or relatives were also significant in the decision to skip the dealings with real estate licensees.

Avoiding the commission comes with a cost, however. Those sellers admitted the process took longer than they expected, involved more headaches making appointments, filling out paperwork, arranging financing and appraisers. Those problems were sufficiently severe that only slightly more than half of the FSBO sellers indicated they planned to sell without professional assistance the next time. Even many sellers who did not use real estate licensee services realize those real estate commission dollars are well-earned.

To purchase a copy of the full report contact:

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