

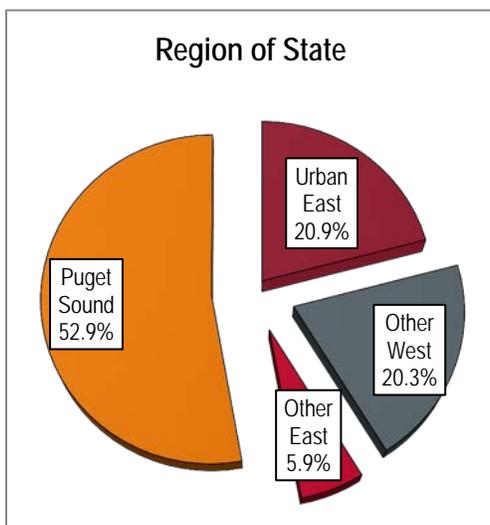
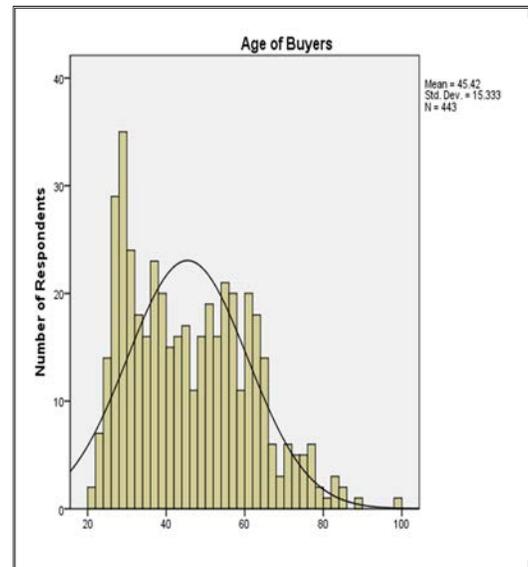
## Buying or Selling a Home in Washington: A 2010 Survey of Recent Buyers and Sellers

### The Buyers

The typical home buyer in Washington during 2009 was a married couple in their 40s, without children. Married couples accounted for 64.1 percent of recent home buyers. Households without children represented nearly two-thirds of respondents. However, there were a total of 265 children under the age of 18 in the responding households.

The age profile of respondents was noticeably different in the 2010 survey compared to 2002. The earlier survey had a traditional one-tail distribution, with those between the ages of 25 and 40 being far more active in the market than the respondents between the ages of 45 and 60, which were consistently half the number of the younger groups. This time, older respondents were encountered far more frequently.

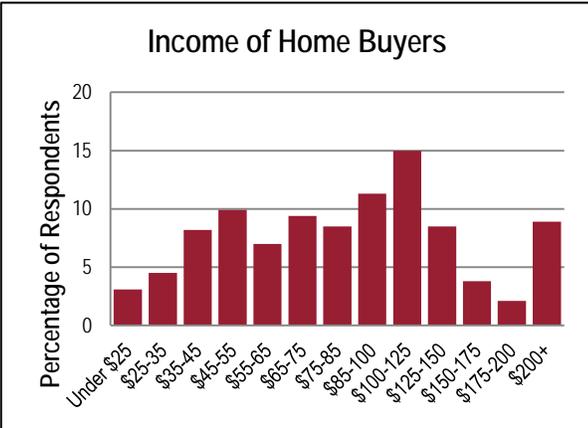
Since the 1970s two-earner households have been dominant throughout the US economy, driven in large measure by the twin objectives of personal achievement and homeownership. The results of the current survey, however, indicates that less than half of home buyers were in two-income households, with the most significant change being an increase in buyer households with no adult earners. This could represent home purchases by retirees, or it could illustrate unemployment which has arisen since the householder purchased the home. Since the proportion of older home buyers has already been noted, retirement appears the most likely cause, and 16 percent of the respondents indicated they were retired, regardless of age.



The first step to ensure that survey results are representative of the population at large is in the selection of the sample, as described in the preceding section. The researchers then hope that the response patterns conform to expectations. A test of the validity of the approach is analysis of the regional distribution of the results. WCRER divided the state into four regions: Puget Sound, Other West (essentially all counties west of the Cascades with the exceptions of the five in greater Seattle), Urban East (Spokane, Benton, Franklin, Chelan, Douglas, Yakima and Asotin counties) and Other East. Fortunately, the distribution of respondents was remarkably close to the distribution of Washington population as published by the Washington Office of Financial Management.

Historical surveys—both nationally and in Washington—have concluded that about 40 percent of home sales in a typical year are made by first-time buyers. Since a special incentive, the first-time buyer tax credit, was in place during the prime selling season in 2009, it was expected that at least that proportion of sales would again be to households purchasing their first home. However, only

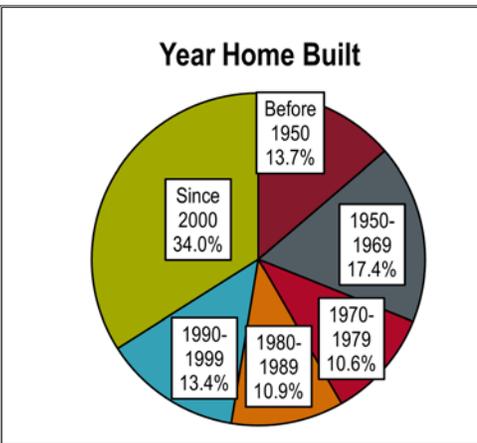
about a third of these transactions were to first-time buyers, a bit outside the confidence range. It must be remembered, however, that the policy definition of “first-time buyer” under the legislation included anyone who had not owned a home during the last three years, but the survey questions were unable to identify repeat buyers who satisfied that criteria.



The final demographic characteristic of buyers included in the Executive Summary is household income. The median income for all respondents to the survey was estimated at \$84,400, significantly higher than the \$58,700 median income which prevailed in the 2002 survey. Comparing this level to the median household income estimated for Washington in 2009 of \$56,645 indicates that home buyers in 2009 came from the more affluent part of the overall distribution, yet they were looking for bargains as illustrated by the declining aggregate prices published in *Washington State's Housing Market*.

## The Homes Purchased

Over 80 percent of recent homes purchases were resale properties. The survey results were similar to activity estimates throughout the state for the study time period. 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 features 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. Thirty-four percent of homes were built since 2000, and the second largest group, 17.4% of purchases, was homes built between 1950 and 1969.

Since the 1950s, the housing trend in America has been moving 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 reason, the results of this study indicated continued dominance of suburbs in their residence patterns. Homes within city and suburban neighborhoods collectively accounted for 80.6 percent of the sales. 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

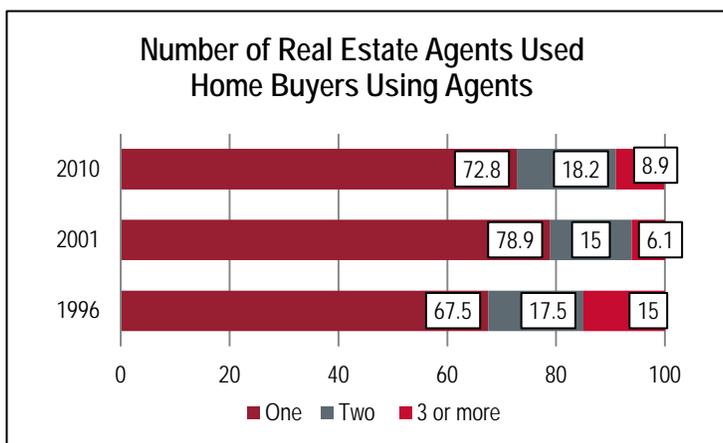
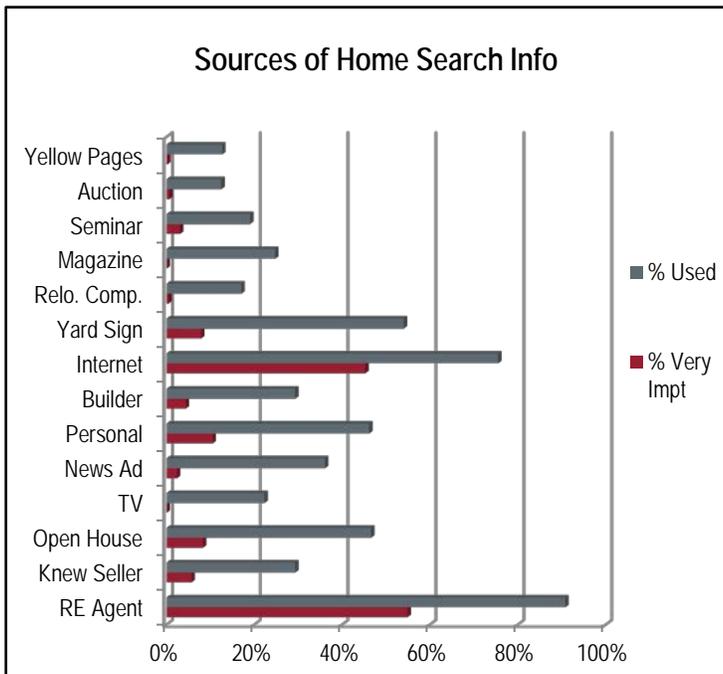
been within a city limit to some respondents, in a suburban neighborhood to some, and even a small town to others. Forty-six percent of homes were in cities, 35 percent in suburbs, 10 percent were rural and nine percent were in small towns.

Like the previous survey, the typical home had three bedrooms and two baths. The median size was 1,800 square feet (while the average was 1,985 square feet). These findings are all close to the statewide and national figures, and homes are somewhat larger than the homes purchased during the last survey.

The median price paid for a home was \$250,000, 31.6 percent above the \$190,000 median recorded in the last survey. However, this is consistent with the 2009 median price statewide as estimated by WCRER. The average price was \$290,083. This 16% differential between median and average prices is consistent with national trends. Homes carried a wide range of values in this survey, consistent with the volatile housing market as well as well-documented differences in local pricing.

## 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 ten weeks before they committed to buy a unit. While this may seem like a long time, the average search was 20 weeks since over seven percent of the buyers searched for more than a year before they purchased. 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. Nearly 16 percent of buyers actively considered more than 25 properties before completing a transaction.

Buyers indicated greater affordability as the most significant factor in their decision to seriously consider homeownership. Weariness of paying rent was the second most cited reason behind purchasing a home, and tax advantages were cited as the third most significant factor. Relocation to a better neighborhood came in ninth, while proximity to work, schools and transit ranked tenth.

The majority of buyers in the survey were upwardly mobile, with just under half of all respondents looking for larger homes, and over a third looking for larger yards. In contrast, a significant percentage of the buyers were looking to downsize, with over ten percent looking for a smaller house, and over fifteen percent looking for a smaller yard. Those respondents seeking a retirement home or a better climate each hovered around ten percent.

With this long list of search criteria, the method the buyers use to locate their information is significant. They clearly used multiple sources in their search, including real estate licensees, internet sites, newspapers, friends, open houses, yard signs, etc. While the buyers used many sources of information, real estate licensees were the most used source of information, and the source most often identified as "very important" by buyers, with over fifty percent of respondents indicating so. The Internet continues to be an extremely important source of information, used by over 80 percent of buyers, and cited as a "very important" source by almost 50 percent of buyers. Although a large number of buyers saw yard signs, or attended open houses, only a very small proportion of buyers identified these sources as "very important". These results should cause both real estate licensees to reevaluate their approach to assisting buyers and sellers alike. Marketing homes is not a stagnant business.

In addition to general sources of information, the survey addressed the details of how the buyers first learned about the specific home they purchased. For the first time, the Internet served as the initial source of information for the largest group of purchasers, 41.6 percent, surpassing real estate agents who serve as the initial source of information about the property for the second largest group of purchasers, 34.4 percent. Yard signs are a distant third, and provide initial information for less than 10 percent of buyers. As shown by the presence of real estate licensee websites and other real estate related postings, purchasers have the ability to utilize the Internet to facilitate the early searching process. A savvy agent should build upon these experiences of his/her 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 to justify commission levels. Furthermore, consumers continue to mention in their additional comments the cost of professional service as a problem with the current system (Appendix I).

### Using a Real Estate Agent When Purchasing

Given the importance of real estate professionals to buyers, how do buyers choose their real estate agent? The two most important factors, knowledge of the real estate practice and knowledge of the local housing market, show the importance buyers place on skill when selecting a real estate licensee. Slightly over half of respondents selected these traits as “very important”. The next highest factors deal exclusively with the agent’s personality: buyers selected a caring personality as third, and honesty as fourth most important in their selection of an agent. Factors generally not identified as important to buyers were referrals from other real estate licensees, community involvement, or the status of an agent as a friend or family member.

Although still over 70 percent of buyers used only one agent, customer loyalty has changed since the 2002 survey. There has been a significant increase in the proportion of buyers using two agents, and almost nine percent of buyers use three or more agents. Although significantly fewer buyers used only one agent in the 2010 survey compared to the 2002 survey, buyers still tend to be more loyal to one agent now than they were in 1996. Consistent with the 2002 survey, buyers moving a short distance tended to be more loyal to a single agent than those moving from a greater distance, while those with longer search times were much more likely to use multiple agents, as expected.

Although the final selection of an agent is very much dependent on what the agent knows and how the agent acts, initial contact with an agent begins much closer to home. Over half of buyers heard about their real estate agent by word of mouth. Referrals from satisfied clients, friends or family members, or a prior experience with the licensee all contributed to the word of mouth campaign that helps so many real estate professionals secure clients. Websites, signs and open houses have a much smaller impact than word of mouth, varying by location and price range, but tend to be the third or fourth most frequent source of initial contact. Thus, “who you know” continues to matter in terms of a real estate licensee’s getting their foot in the door.

Once the initial contact is established the buyer’s concern shifts to knowledge, proficiency and personality. While referrals introduce interested clients to a specific licensee, they do relatively little to assure success. Thus, 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. For example, almost 75 percent of buyers used a home inspector recommended by their real estate agent. 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- related 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.

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. Over the course of the last 27 years the industry has transformed itself, providing in fact the agency protection buyers thought they had all along. Taking the issue one step further, Washington law holds 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. Given respondent feedback, compliance with this law appears to be lacking. Buyers indicated that this disclosure was made during the first meeting between prospective buyer and licensee just over 20 percent of the time, a significant drop from over 60 percent in 2002. Furthermore, almost 30 percent of buyers indicated that no disclosure was made at all. Almost twenty percent were unaware if the disclosure was

ever made. Many buyers (18.9 percent) indicated that the disclosure was not made until immediately prior signing the purchase and sale agreement, and 11.3 percent said the disclosure was made at another time.

Other disclosures, such as those regarding property condition and lead paint are typically required. The vast majority of buyers, 92.2 percent, remember receiving the property condition disclosure. While a smaller

proportion indicated that they received the lead paint disclosure, compliance with that disclosure requirement is much higher at 95.4 percent when limited to houses built prior to 1978. 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 same licensee again in the future. Only a small percentage of buyers, 5.1 percent, were certain they would not use the agent again. Because the turnover of homes may not be as rapid as the turnover of licensees, clients may not have the opportunity to use an agent they liked again, but their satisfaction will probably

lead to referrals and thus more business for the real estate professional.

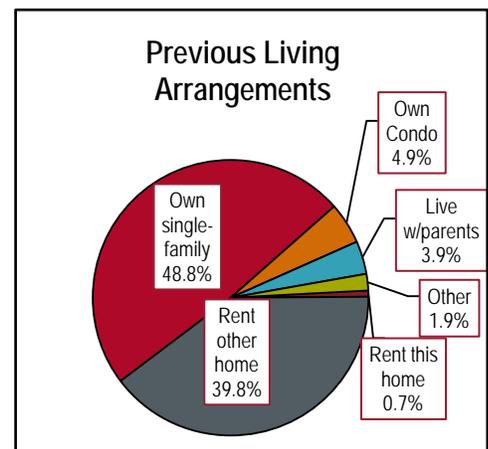
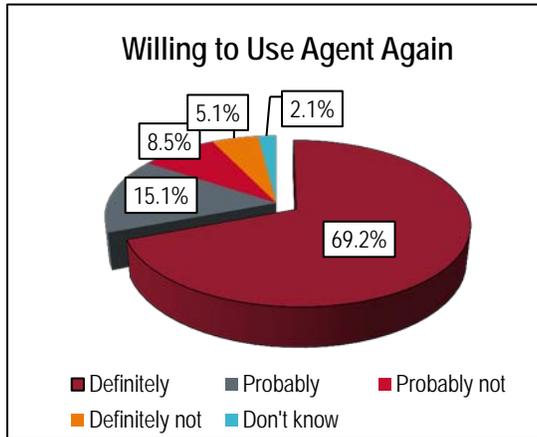
Those buyers who indicated reservations about using the real estate licensee again in the future were asked to explain their concerns. Thirty-one negative comments were obtained from the buyers participating in the survey. For the most part, complaints centered on the feeling that the buyers had to do the majority of the work themselves, and this tied into a feeling that the agent was not earning of the commission. Other complaints focused on real estate licensee ineptitude or personality conflicts. Concerns about an agent pushing for a quick sale or higher price were also mentioned. Given the low number of negative responses, no meaningful statistical conclusions can be drawn, though it is worth noting that approximately seven percent of respondents left a negative comment, which is similar to the percentage of buyers who would definitely or probably not use their real estate agent again in the future.

Viewing buyer-licensee relations as a whole, the survey respondents showed an overall sense of satisfaction with their agent. Over 90 percent of consumers felt that using a real estate licensee kept them better informed about the status of the transaction, and almost 80 percent said that using a real estate professional allowed them to see homes they may not have found themselves, a service which ultimately led to finding a house that met all of their housing needs. Although only a quarter of buyers knew they had a buyer's broker relationship, 86.9 percent of buyers felt their licensees were more concerned for their well-being than that of the seller, further proving the turnaround in buyer representation in real estate transactions since the last survey. Further declining since the 2002 survey, only 8.8 percent of respondents felt the real estate agent pressured them to spend more for a home than they thought they could afford, down from over 11 percent in 2002, and approximately 20 percent in 1996. Given the soft market at the time of the survey, this absence of pressure to spend more is reduced across the board.

### The Previous Homes

Almost half of buyers owned a single-family home prior to their recent purchase. Many of these buyers were looking to upgrade, and took advantage of the lower housing prices to do so. 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 second largest group of buyers previously rented another home. The 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.

Both previous renters and previous owners were typically looking for more space, inside and out, in their new home than they had



before. This was true for square footage in the home, number of bedrooms and bathrooms, as well as lot sizes. Also, over 60 percent of first time homebuyers and over 65 percent of repeat homebuyers purchased newer units than the ones they had previously lived in.

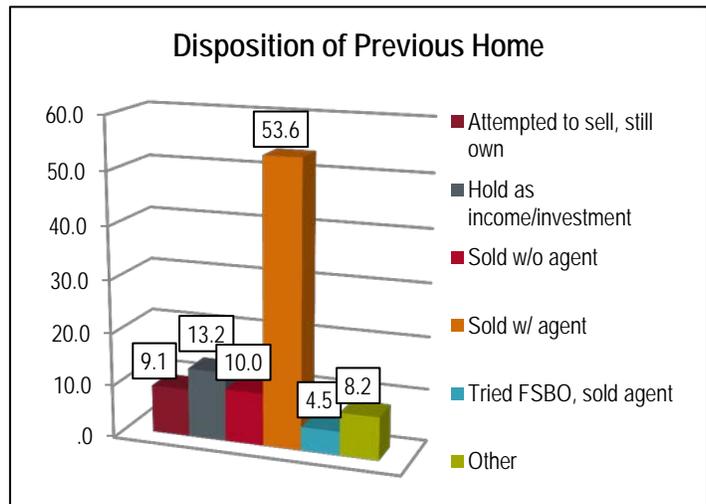
While the largest group of previous homes (like the current purchases) were in the Puget Sound region, all parts of the state of Washington and 26 other states and two foreign countries were represented.

Since almost 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 some were retained as primary residences or income properties, most were sold. The remainder of the report focuses on the disposition of those formerly owned homes.

### The Sales Process with Agent Assistance

Approximately half of all buyers owned their previous home, and this section of the report seeks to study their experience selling their homes. There are fewer responses for this section of the report since not all respondents owned a previous home, and a number of owners chose not to sell their old residence. However, a study of the experiences of sellers helps to complete our understanding of the selling process.

Sellers are faced with a real financial dilemma when deciding 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, as they are being asked to compensate a real estate professional whose allegiance lies with the purchaser who wants to purchase a home for the minimal 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. Nearly six in ten (58.1 percent) sellers ultimately sold their home with a real estate licensee. It should be noted that despite the bad economy, 10 percent of sellers sold their homes For Sale by Owner (FSBO). This level of success is comparable to that of the 2002 survey, when the market was much stronger.

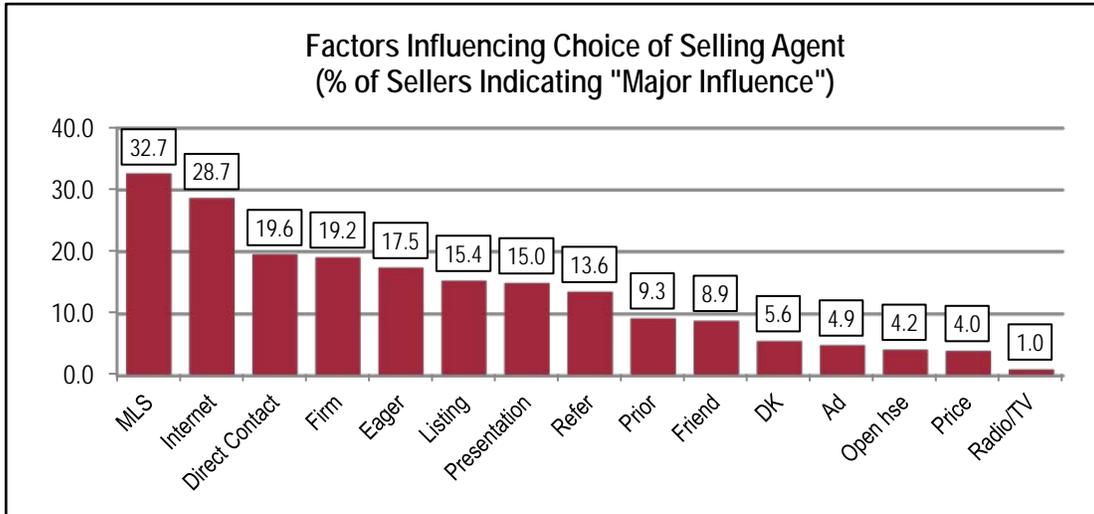


The typical buyer searched the market for a median of 10 weeks (mean 20 weeks), closely mirroring the time that the typical seller had their house on the market (median of 10 weeks, mean 18.5 weeks). Over a fifth of homes remained on the market for six months and longer.

Although buyers claimed to be looking to move up the housing ladder, the median purchase price of the new property is only 8.0 percent higher than the previous home. The previous homes were sold for a median of \$255,000 and an average of \$286,100. The purchase price for the new property was a median of \$275,500 and a mean of \$329,700. Due to the soft housing market, sellers were forced to take significant hits to their initial asking prices in order to secure a home sale, a discount that on average amounted to 10 percent. Although sellers were facing a tough market for home sales, due to inflation, the average gross profit was \$95,000.

Sellers are theoretically looking for a different set of characteristics in their real estate agents than buyers are, but they have generally the same sources of information upon which to base their agent selection. Access to the MLS and use of the Internet to list property were the two most important factors influencing agent choice, and were cited by well over a quarter of sellers as a major influence. This shows that the most important factors to sellers when selecting an agent still focus on agent skill, and not necessarily agent connections.

Almost two-thirds of sellers said they would definitely use their agent again. A little over eight percent of buyers said they definitely would not use their listing agent again. Many of the comments explaining why sellers would not use the agent again had to do with displeasure about the tactics used by the selling agent, or more specifically a “sit-and-wait” strategy that sellers had little to no confidence in during the poor economy. Other comments discussed a general lack of interest on the part of the agents.



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 that the agent was especially valuable in setting an asking price, analyzing offers, handling the disclosure statements and providing helpful hints about the process. Sellers also generally believed that the licensees with whom they were working put their best interest ahead of the interest of the buyers. However, about a third of sellers felt that there was pressure to accept a low offer on the home to close the transaction. Despite all of this, four in five sellers believed that their agent earned the commission.

### The Sales Process without Agent Assistance

A few sellers chose to sell their homes without 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, and accounted for two-thirds of the FSBO transactions.

Avoiding the commission comes with an opportunity cost, however. When asked about the problems encountered during the sales process, many FSBOs cited time constraints, pricing issues, paperwork complications, and a timely sale as pitfalls. These problems were sufficiently severe that about 30 percent of FSBO sellers indicated they planned to sell with an agent in the future. However, almost 40 percent of FSBO sellers indicated that despite these problems they would sell FSBO again. Despite the economy, this figure is higher than the number seen in the 2002 survey. However, even many sellers who did not use real estate licensee services realize those real estate commission dollars were well-earned.