

# Incentives That Draw Home Buyers Back Into the Market

**Summary Findings of a  
Survey of Potential Home Buyers  
January, 2009**



*Dedicated to improving home building since 1964.*

# Survey Conducted of U.S. Households in January, 2009

- **Objective: Determine what will draw buyers back into the housing market**
- **Web-based survey of 712 U.S. consumers who consider themselves temporarily “on the sidelines” of the housing market**
- **Qualifying participants state they want to purchase a home within 6 months but are keeping themselves out of the market until conditions change, such as:**
  - **Improved housing market**
  - **Economy becomes more stable**
  - **Personal financial outlook improves**

# Other Studies Indicate Why *Home Builders* Think People Aren't Buying Homes...

- 1. Buyers are concerned about economy and jobs**
- 2. Cannot sell existing home**
- 3. Worried about further home price declines**

## Question Series #1:

**“What is keeping you from buying a home now or within six months? Rate the importance of each factor in your hesitating to purchase a home.”**

**Participants were asked to rate eleven factors on a 7-point scale, where..**

**1 = Not an issue at all**

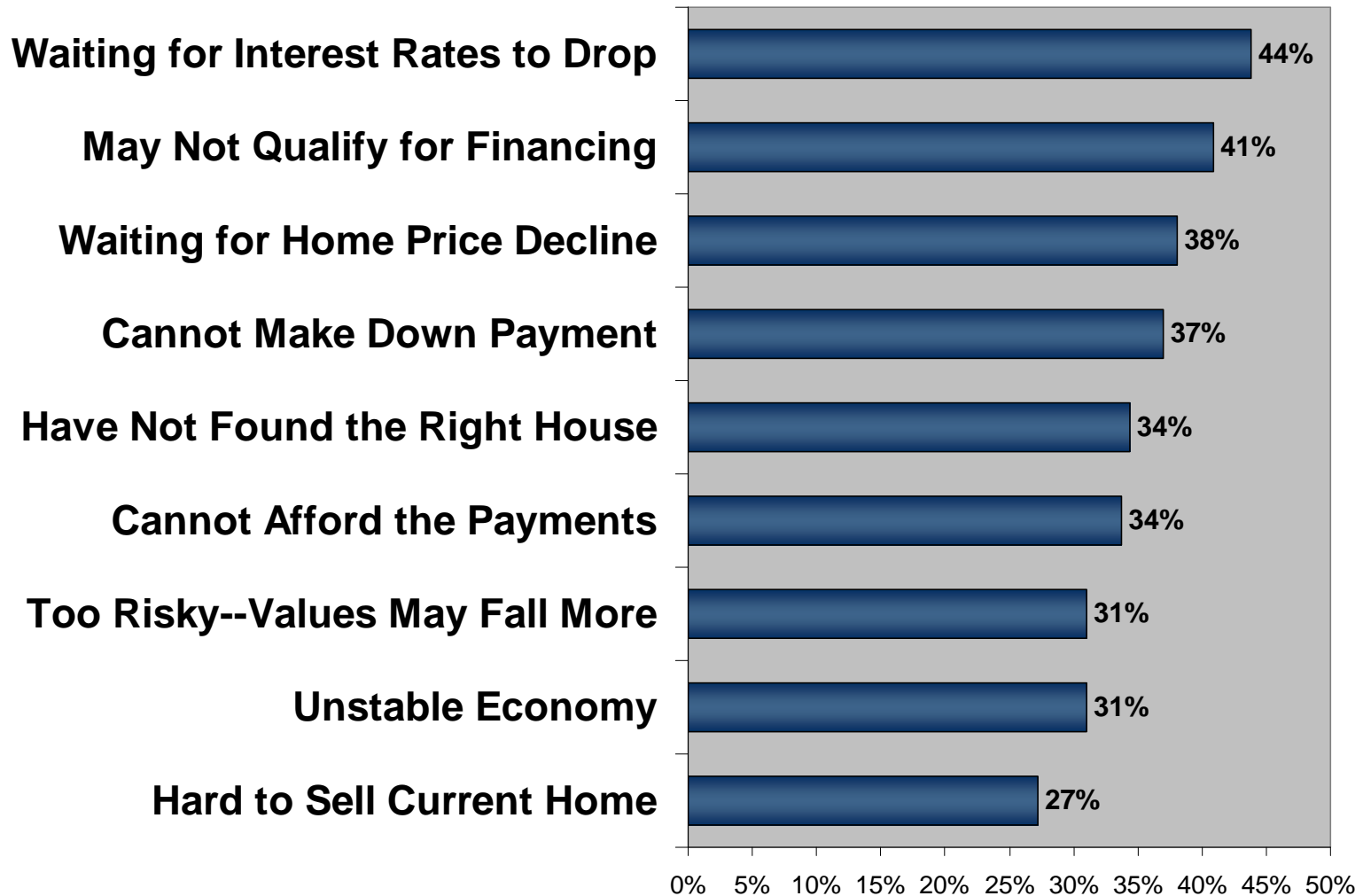
**7 = Major issue**

# The Following Choices Were Provided

- **Can't make down payment**
- **Can't afford payments for the house I want**
- **Don't think I can qualify for mortgage financing**
- **Waiting for interest rates to fall further**
- **Too risky—housing prices may fall further**
- **Don't think I can sell my current home**
- **Waiting for lower prices to get the best deal**
- **Haven't found the right house or location**
- **Economy is too unstable for this commitment**
- **Personal reasons**
- **Another reason not mentioned above**

# Overall Reasons for Delaying a Home Purchase

(Percentage of respondents choosing 6 or 7 on the 7-point scale)

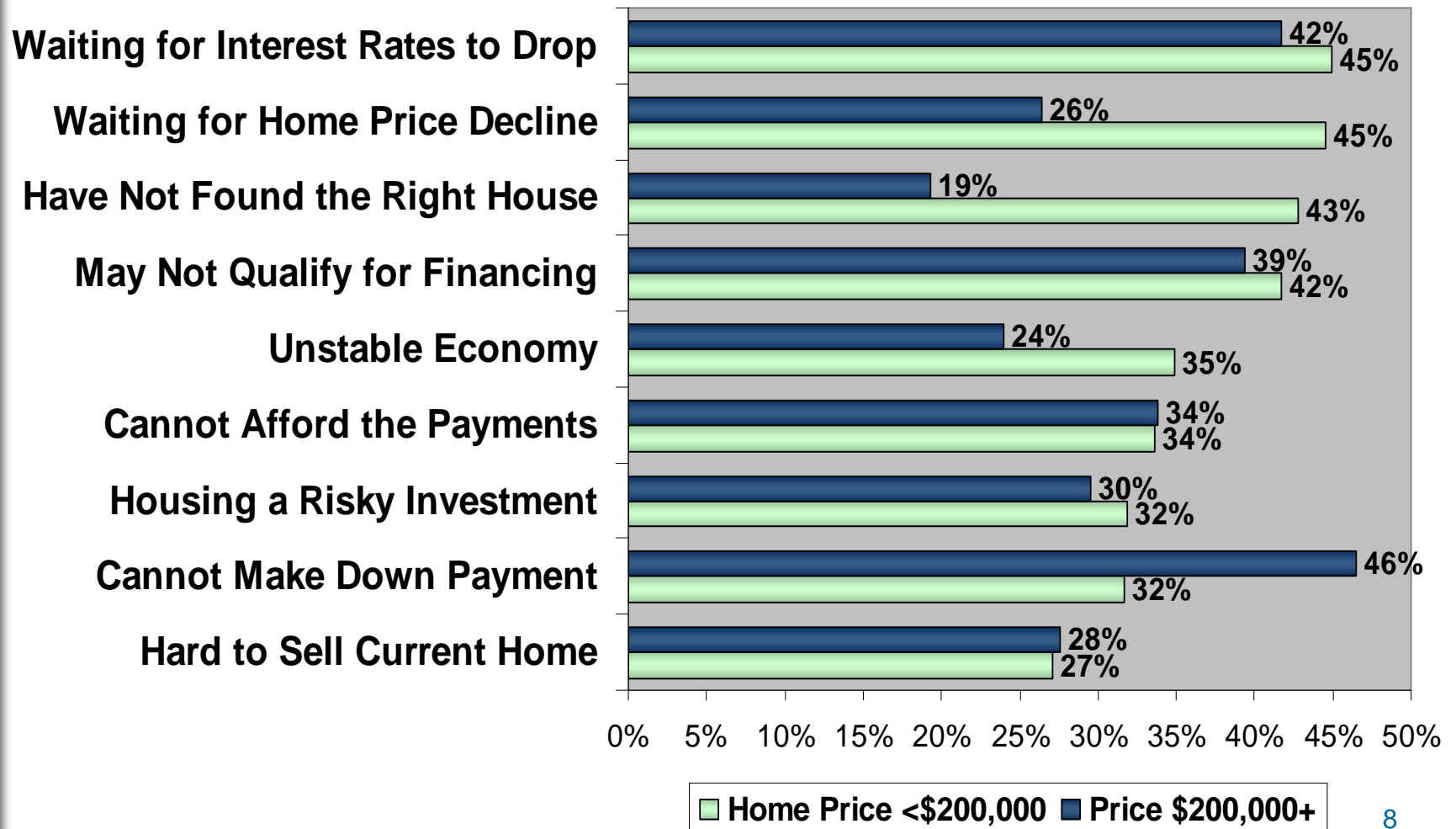


# Summary of Observations

- **First and third responses indicate that there are many opportunists holding out for the best deal**
- **Second and fourth responses indicate buyer apprehension concerning qualifying for mortgage financing**
- **Bottom three responses reflect fear of continued housing and economic crisis**

# Reasons for Delaying by Home Purchase Price

(Percentage of respondents choosing 6 or 7 on the 7-point scale)

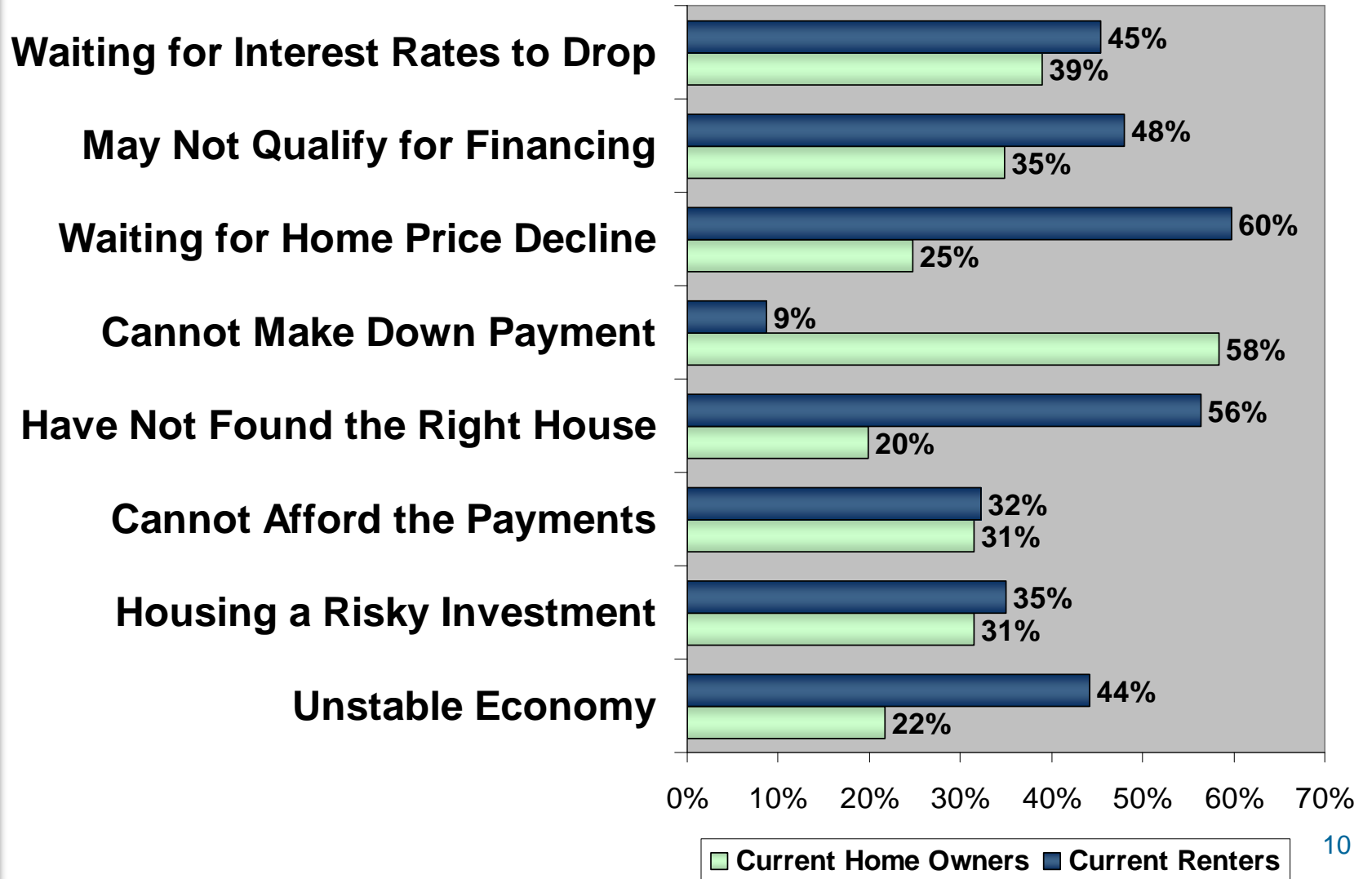


# Differences by Home Purchase Price

- **Higher-end home buyers are:**
  - Most concerned about their ability to make a down payment
  - Concerned about qualifying for financing
  - Waiting for interest rates to drop
- **Lower-end buyers are**
  - Most driven by getting the best deal
  - More picky about finding the right house
  - Also fearful about not qualifying for financing
  - Less concerned about down payment

# Reasons for Delaying by Owners vs. Renters

(Percentage of respondents choosing 6 or 7 on the 7-point scale)



# Differences Between Owners and Renters

- **Current home owners are**
  - **Highly concerned about making the down payment (despite having made a down payment for their current home)**
  - **Somewhat concerned about qualifying for financing (despite having already obtained financing for their current home)**
  - **Less concerned about the economy or home price declines**
- **Current renters are**
  - **Most opportunistic—most are waiting for home prices to hit bottom**
  - **Much more picky about the buying the right home**
  - **More worried about not qualifying for financing**
  - **Much less worried about making the down payment**

# Reasons for Delaying Were Ranked in Each Region

Most Important = # 1

Least Important = # 9

(Highlighted boxes show rankings which vary noticeably from other regions)

	Northeast	Midwest	South	West
Waiting for Interest Rates to Drop	#1	#1	#2	#3
May Not Qualify for Financing	#2	#5	#1	#2
Cannot Make Down Payment	#3	#2	#4	#7
Hard to Sell Current Home	#4	#9	#9	#9
Cannot Afford the Payments	#5	#7	#5	#6
Unstable Economy	#6	#8	#6	#5
Housing a Risky Investment	#7	#6	#8	#8
Waiting for Home Price Decline	#8	#4	#3	#1
Have Not Found the Right House	#9	#3	#7	#4

## Question Series #2: Impact of Incentives on Purchase

**“The seller of your ideal home is offering an incentive package equaling 3% of the offering price of the home, up to \$6,000....”**

**Participants were asked to choose one of the two incentives for this package:**

- Interest rate buy down to 4.75% @ 30 years fixed, or
- Cash or equivalent of up to \$6,000 provided at closing

**“How likely would you purchase this home if it were offered to you with your incentive choice?”**

**Questions were repeated at the 5% and 10% incentive levels, with corresponding 4.25% and 3% interest rates**

# Percentage of Respondents Likely to Purchase at Various Incentive Levels

	<b>3% Incentive</b>	<b>5% Incentive</b>	<b>10% Incentive</b>
Definitely Not	2%	1%	1%
Probably Not	2%	3%	2%
Maybe	38%	34%	18%
Probably	45%	43%	40%
Definitely	<b>13%</b>	<b>19%</b>	<b>38%</b>
TOTAL	100%	100%	100%

# Differences by Buyer Demographics and Geography

- In general, high-end buyers were much more responsive to incentives
- Buyers in the South were more receptive than other regions at all incentive levels
- Buyers in the West were least receptive to the 3% incentive but were 2<sup>nd</sup> most receptive to the 10% incentive
- Renters were much more receptive to incentives than were current home owners
- Buyers in the Northeast were less receptive than other regions at the 10% incentive level
- The cash or equivalent incentive was chosen somewhat more frequently at the 3% and 5% incentive level, while the interest rate buy down was chosen 2 to 1 at the 10% incentive level
- Interest rate buy downs were more popular with older buyers (30+), cash or equivalent incentives were more popular with younger buyers

# Question Series #3

## Trade-off Analysis of Incentives and Sales Features

- **Objective—to evaluate the relative effectiveness of incentives and sales features for homes**
- **Survey method (conjoint analysis) provided realistic trade-off scenarios that home buyers experience in buying a home**
- **Outcome allows sellers to more accurately measure the effect of specific incentives and sales features on home sales**

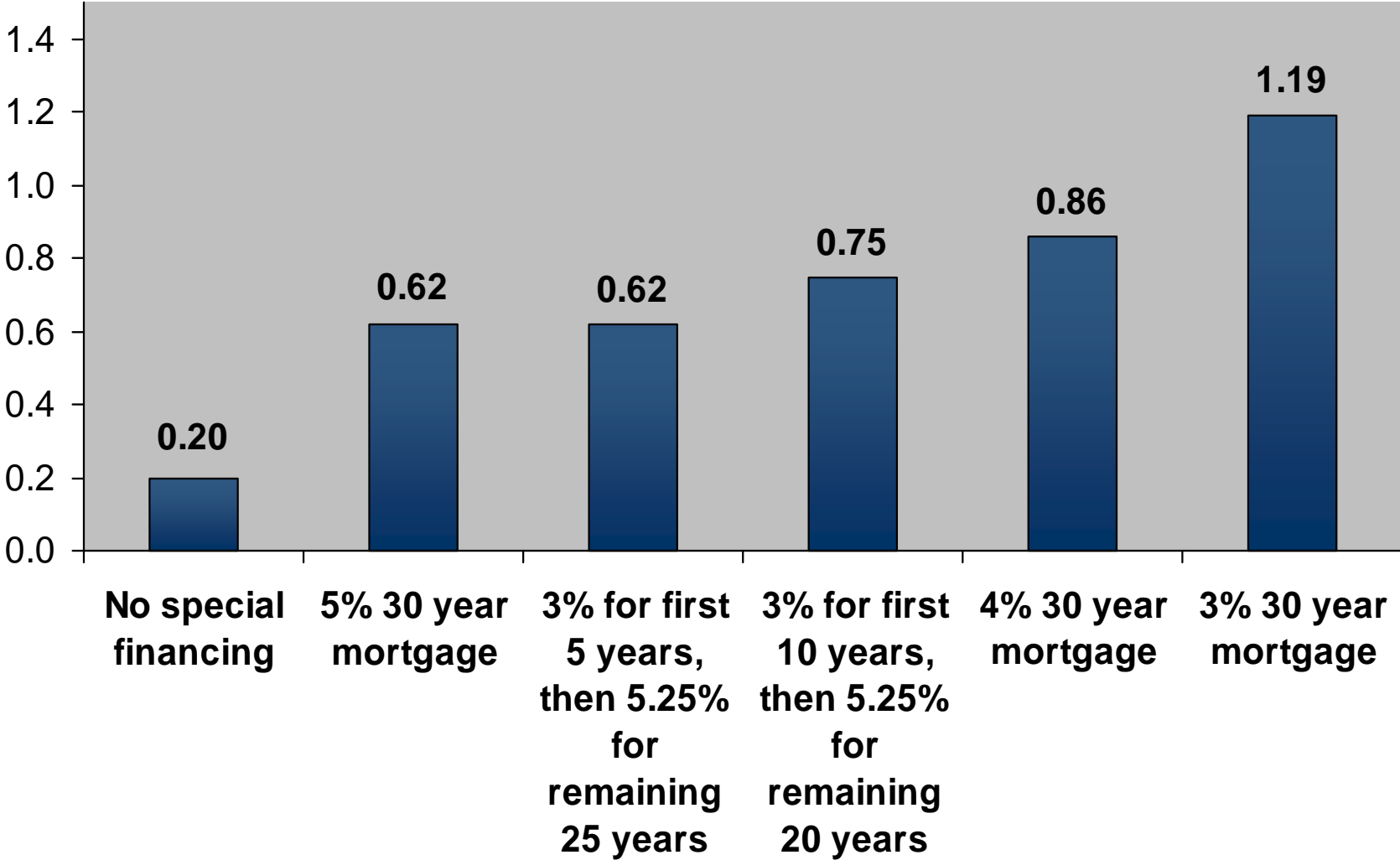
# Incentives and Sales Features Tested

- **Interest Rates**—30-year, fixed-rate mortgage with interest rates ranging from 3% to 5%
- **Home Features**—overall house design and features
- **Down Payment**—ranging from 0% to 20% of purchase price
- **Mortgage Application**—buyers having confidence that their mortgage application will be accepted
- **Price**—home priced aggressively compared to market value, from 0% to 10% below market value
- **Transition Between Homes**—creative ways to help buyers transition between old and new homes including items such as the buyer leasing the new home or using sweat equity for a down payment
- **Free Upgrades**—home features or design changes valued from 0% to 10% of the price of the home, capped at \$20,000
- **Incentive Package**—dollars used for upgrades, closing costs, or cash back to the buyer—up to 10% of purchase price
- **“Green” certified home**—from no extra cost to \$2,000 extra

# Interpreting and Applying the Results

- **The Utility Score of an incentive or sales feature is the measure of its attractiveness to potential home buyers—higher scores are better**
- **Just because an incentive or sales feature has a high Utility Score does not mean it is good value for the seller—the cost should always be taken into account**
- **The best sales outcomes are expected when sellers offer the option or options that sum to the highest total utility score**
- **This analysis is for the National market—how your geographic market or buyer segment may respond to these offerings may differ**

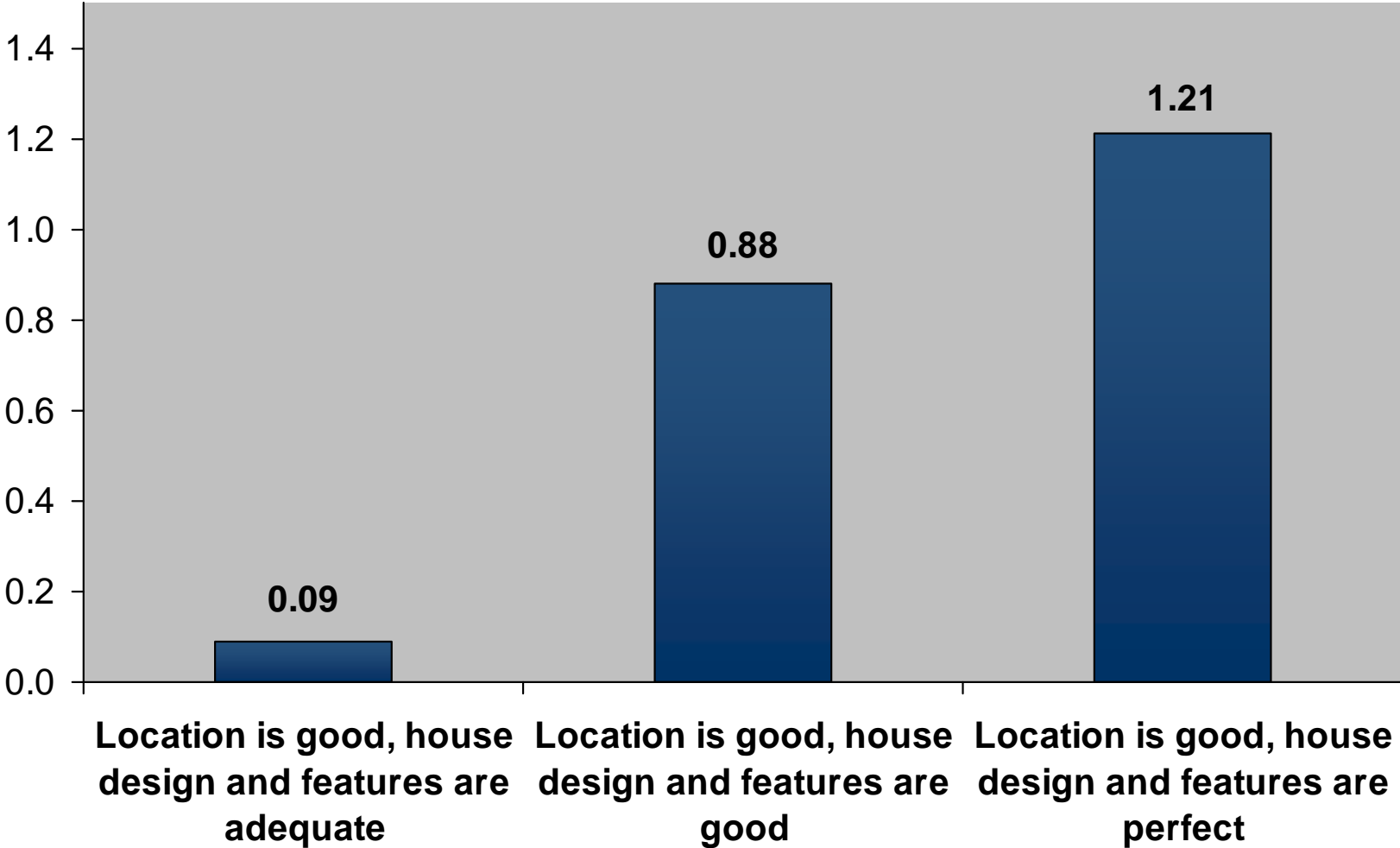
# Utility Scores – Interest Rates



# Observations – Interest Rates

- **Overall, low mortgage interest rates were especially attractive incentives, especially at 3%**
  - **Decrease in rates from 5% to 4% gained .24 points in Utility Score**
  - **Decrease in rates from 4% to 3% gained .33 points in Utility Score**
- **Home buyers may be very attracted to mortgage rate buy downs paid by seller**
- **Mortgages with low initial rates were attractive only when they had longer introductory rate periods (10 year)**

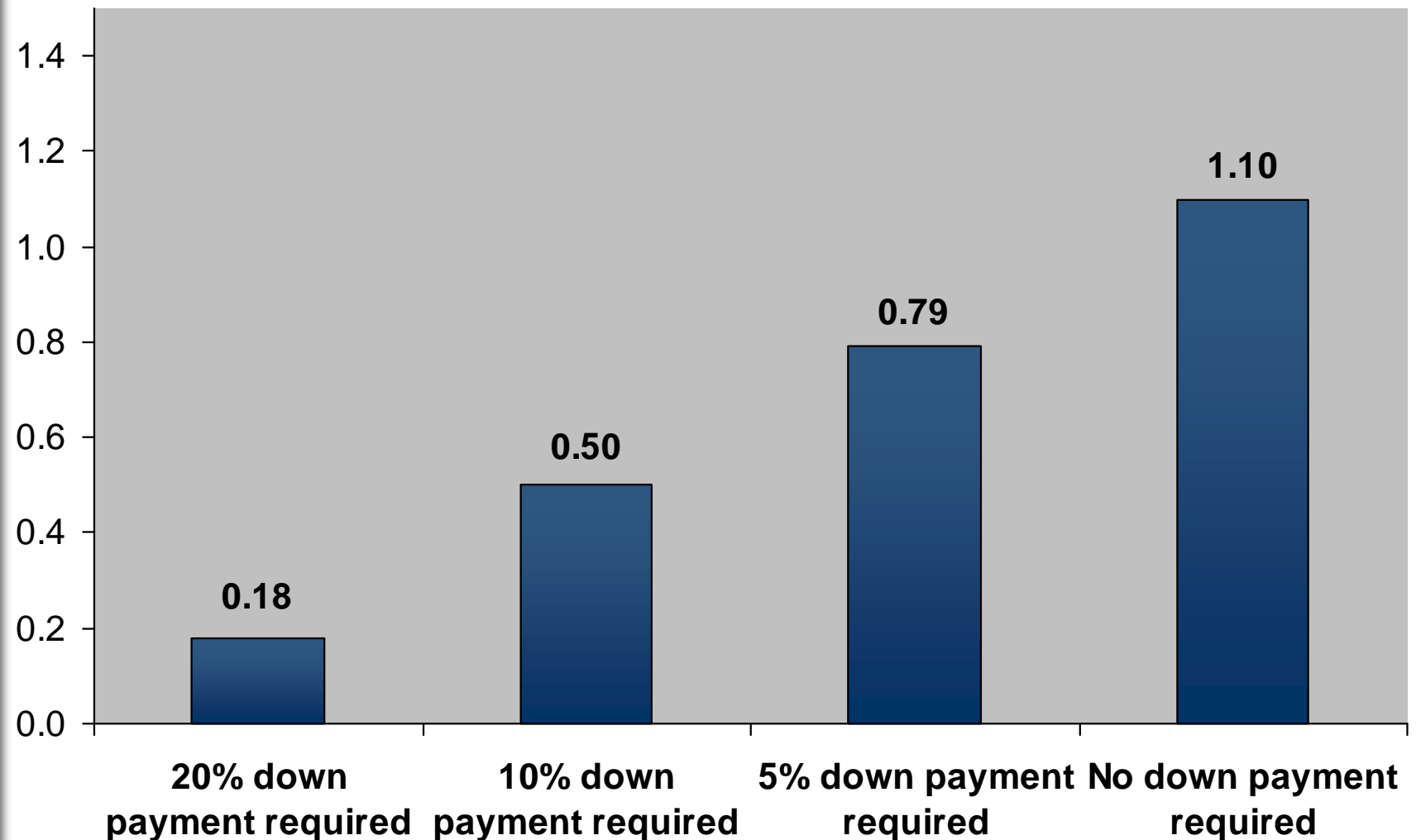
# Utility Scores – Home Features



# Observations – Home Features

- **Buyers in this market have very high expectations of the homes they want to purchase**
- **Buyers are intensely interested in purchasing a home with the “perfect” design and set of features**
- **An understanding of home buyer preferences is of paramount importance**
- **An “adequate” home has very little appeal in this market, even if the location is good**

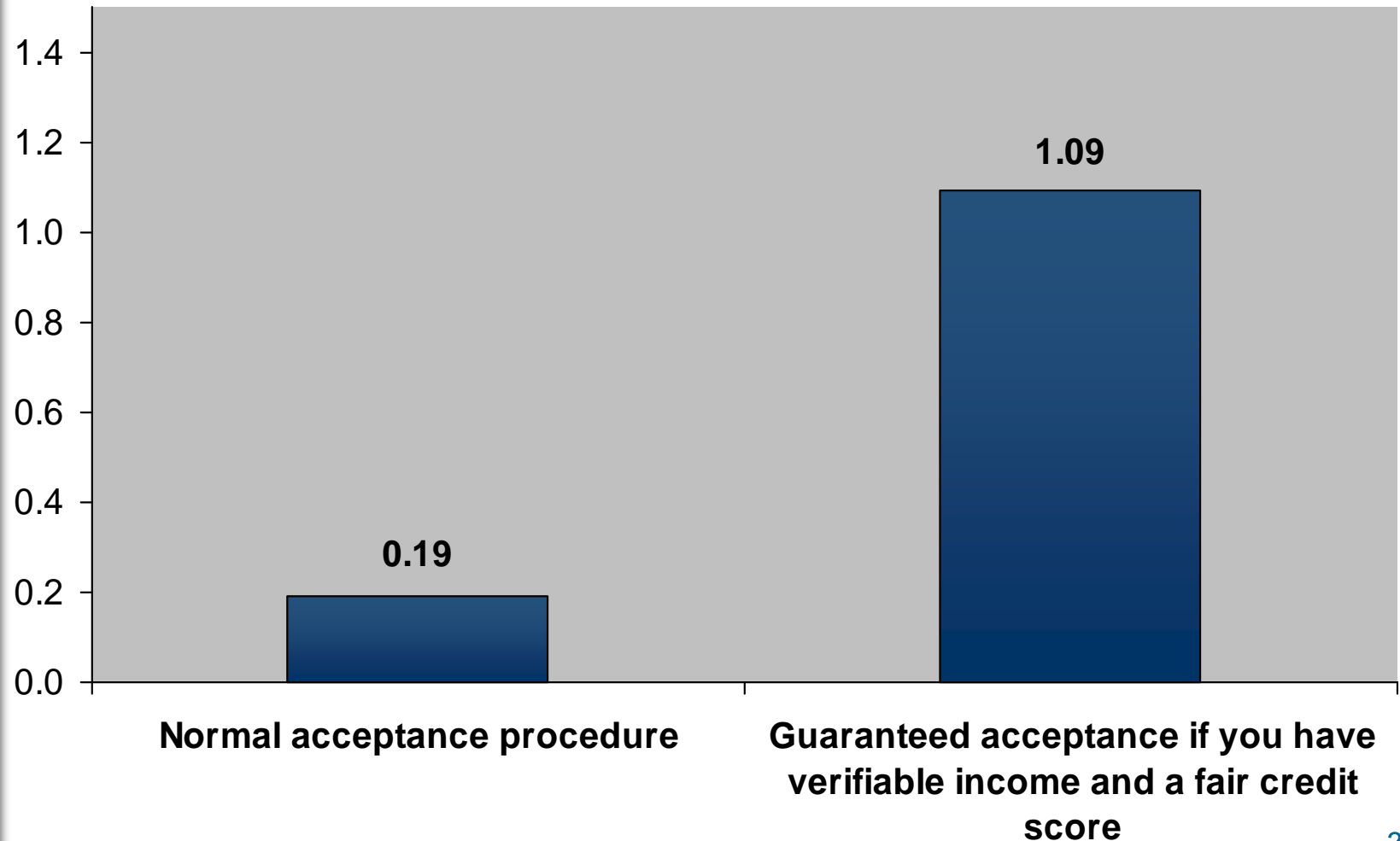
# Utility Scores – Down Payment



# Observations – Down Payment

- **Low, or no down payment home purchases are valued very highly**
- **There is a steadily increasing value associated with lower down payments**

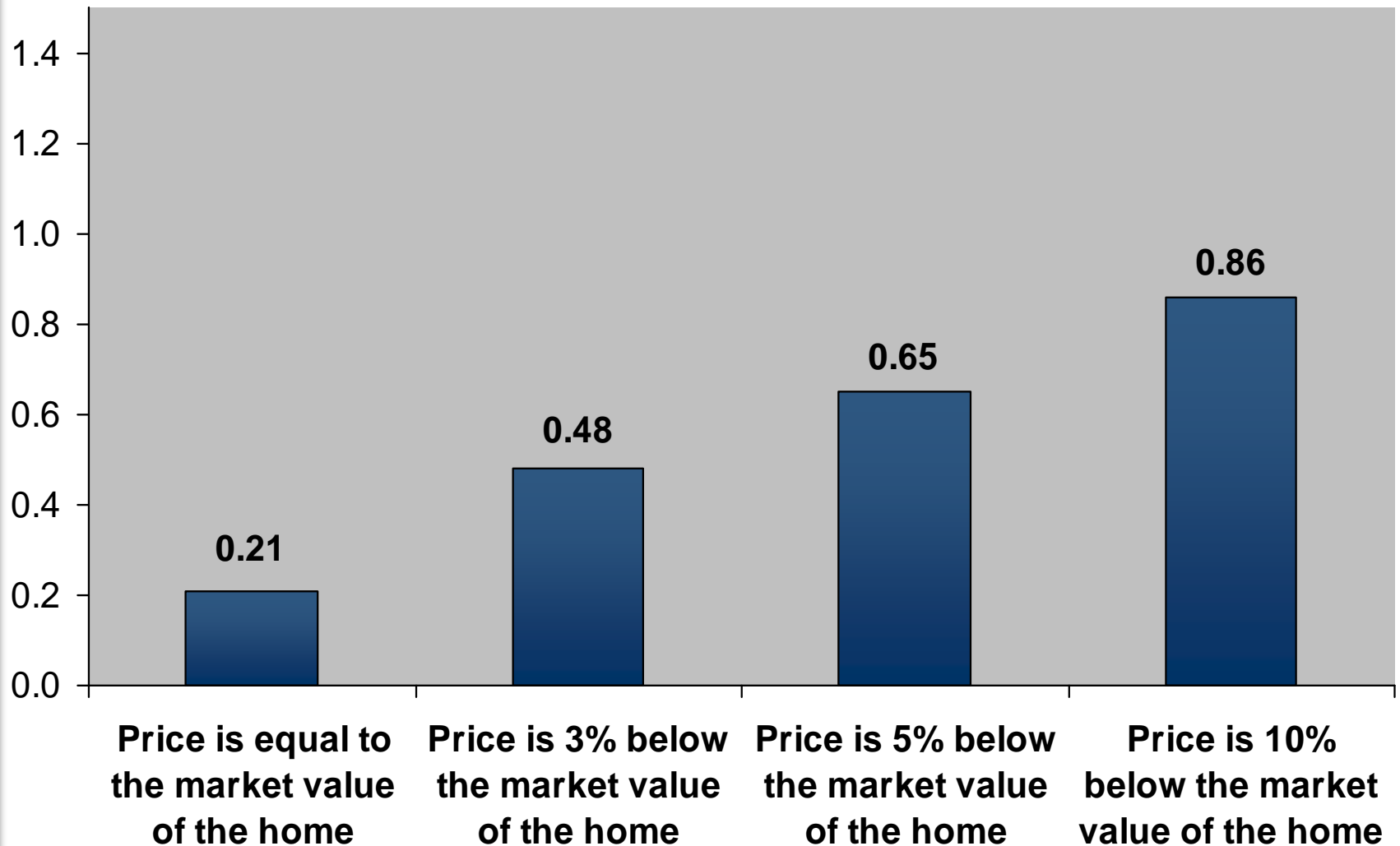
# Utility Scores – Mortgage Application



# Observations – Mortgage Application

- **There is a clear lack of confidence among potential home buyers concerning their ability to obtain financing**
- **This is true among those with Excellent, Good, and Fair FICO scores**

# Utility Scores – Home Price



# Observations – Price

- **Lower prices are obviously more attractive**
- **Lowering prices, however, may not be a cost-effective way to attract buyers**
  - Lowering price by 10% increases utility score by .65 points
  - A similar effect (increase of .61 points) can be obtained by moving from 20% to 5% down payment financing
  - This also compares to .90 points obtained from giving buyers confidence that their mortgage financing will be approved
- **Sellers continuing to lower prices also has the unintended effect of announcing “prices haven’t hit bottom yet”**

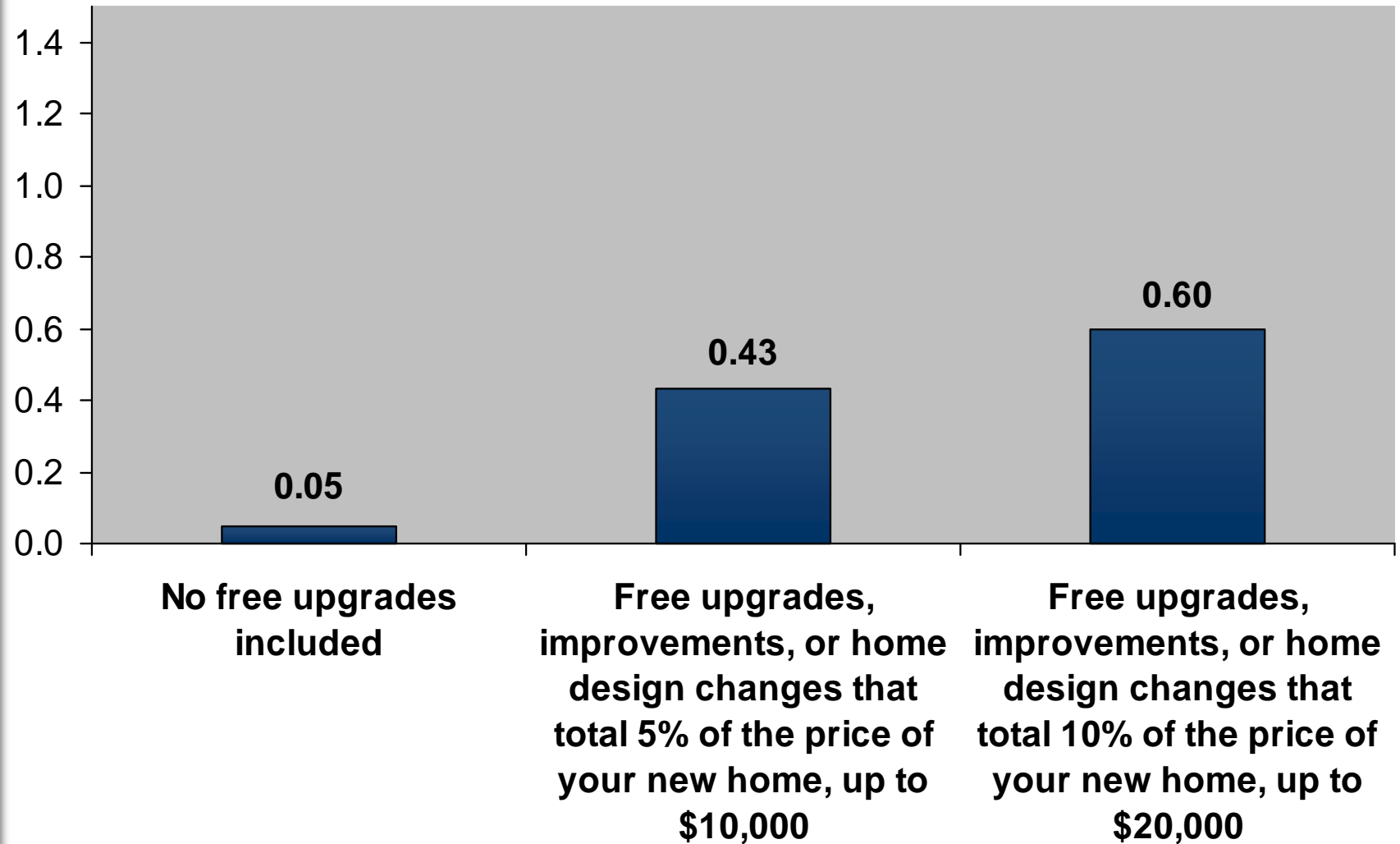
# Utility Scores – Transition Between Homes

Transition Between Homes Options	Utility Score
No transition options offered	<b>.09</b>
Builder or seller will buy my current home at 5% less than its current market value as a trade-in for the new home.	<b>.37</b>
Seller leases me the new home while my existing home is on the market.	<b>.40</b>
The home is offered through a rent-to-own program	<b>.46</b>
The builder rebates any loss in the appraised value of my new home in at the end of three years, and if they offer the same model I purchase for less after I sign the purchase contract, they will rebate the difference to me.	<b>.48</b>
Down payment of up to 5% paid for by your sweat equity for a new home (homebuyer may do landscaping, painting, final cleaning, etc.)	<b>.49</b>
The builder/seller will help me sell my old home by providing (at no cost) house-wide cleaning, some repainting, and interior furnishings for staging and provide a free temporary residence while the new home is under construction	<b>.53</b>
Seller will make my mortgage payments for first ten months.	<b>.60</b>

# Observations – Transition Between Homes

- **On average, these creative incentives didn't have strong appeal, but some may come at a modest cost**
  - **“Sweat equity” is potential low-cost incentive with moderate value to builder or seller**
  - **Lease and rent-to-own programs may solve some seller short-term cash flow problems**
- **Perhaps the most costly option—mortgage payments made by seller—finished only slightly above the lower-cost options**

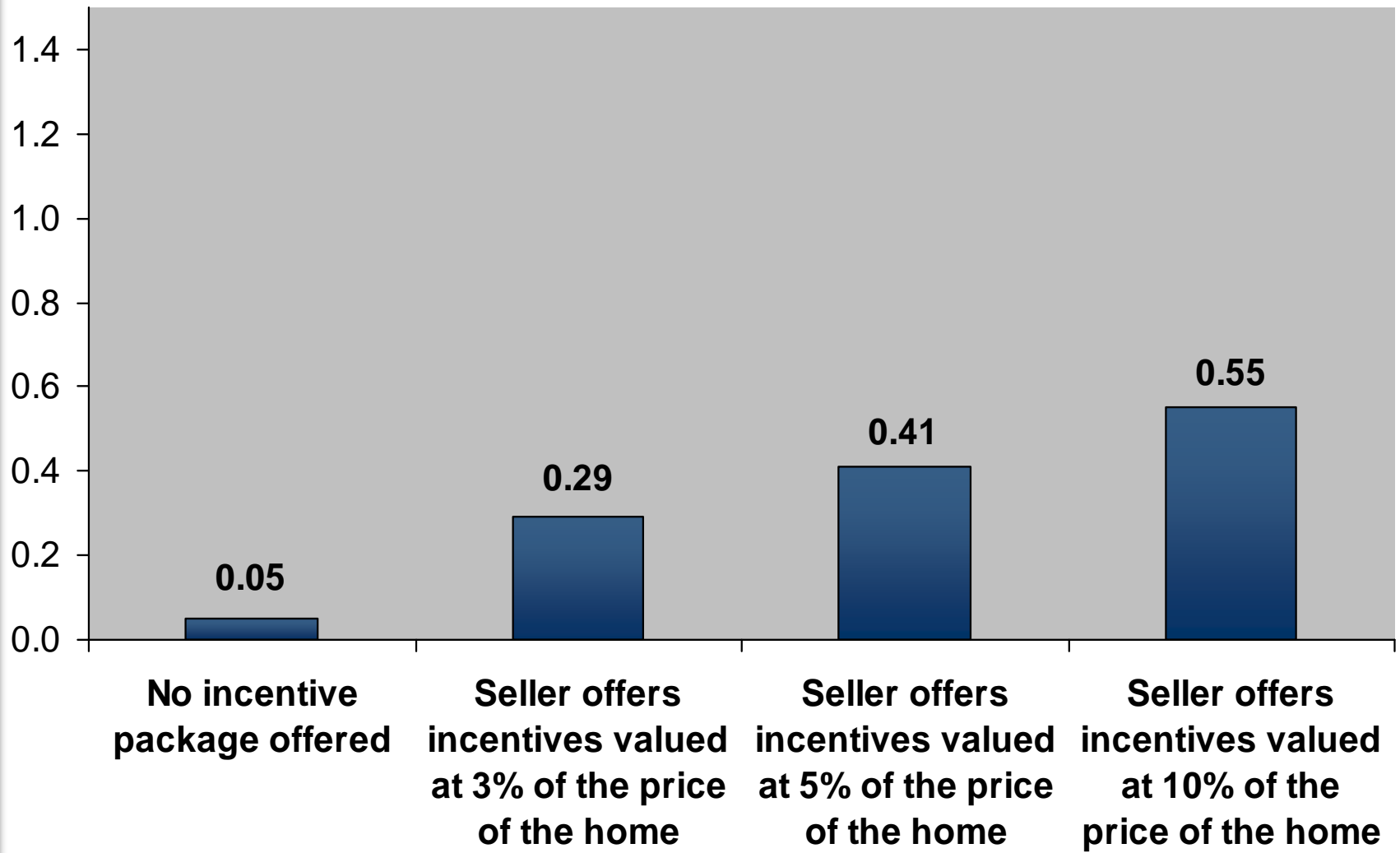
# Utility Scores – Free Upgrades



# Observations – Free Upgrades

- **Traditional home upgrades have a low benefit-to-cost ratio**
- **As the level of upgrades increases, their value to the seller has a diminishing return**
  - **When increasing from 0% to 5% in free upgrades, the Utility Score increases by .38 points**
  - **Increasing from 5% to 10% in free upgrades earns an increase of only .17 points**
- **Free upgrades at 10% of the home price (.60) is valued less by home buyers than a 5% reduction in price (.65)**

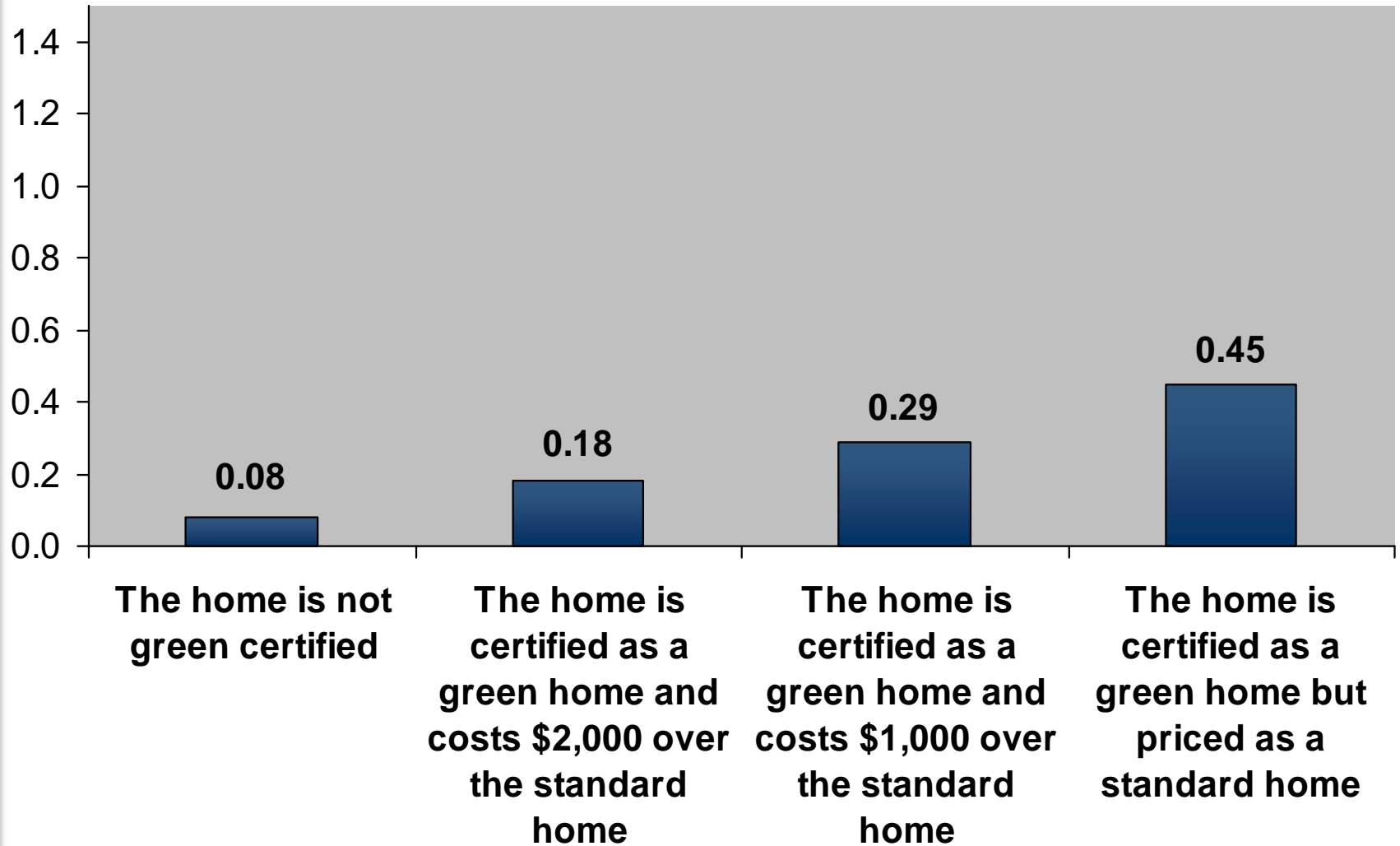
# Utility Scores – Cash or Equivalent Incentive



# Observations – Cash or Equivalent Incentive

- **This incentive was not a particularly good value to sellers**
- **The trend of diminishing value appeared again, with larger incentive packages having relatively little additional effect**

# Utility Scores – Green Certification



# Observations – Green Certification

- **Green home certification has nearly the same value as 5% in cash-equivalent incentives**
- **For many builders, the additional cost of green certification can be much less than 5%**
- **Green certification may be a significant distinguishing factor between homes once buyers have made the decision to purchase**
- **The biggest boost in Utility Score for “green” certification (.29 to .45) came from reducing the additional cost from \$1,000 to nothing**
  - **This fact may indicate that offering homes with green certification as a standard feature may benefit a builder more than offering it as a low-cost option**

# Overall Conclusions and Recommendations

- **Financial incentives seem to have more draw than many traditional incentives**
- **Builders/Sellers should understand & communicate current eligibility requirements for mortgage financing**
  - **Affirm that mortgage financing is not impossible**
  - **Line up mortgage providers & programs that accommodate needs & expected shortfalls**
- **Communicate that interest rates very likely have bottomed out, or offer to pay for mortgage rate buy downs**
- **Given the current state of the market, optimizing home design and sales features is crucial**
- **Offer incentives carefully—beyond a certain point, additional incentives are not effective in motivating buyers.**

# Recommendations for Market Segments

- **Response to incentives will vary significantly by region and market segment—know your markets!**
- **For current home owners & move-up buyers:**
  - **Seek ways to help minimize down payment through appropriate financing programs (FHA, VA, etc.)**
  - **Consider ways to assist with down payment**
- **For current renters & low-end buyers:**
  - **Where possible, convey that prices are approaching bottom—now is a great time to buy. This is especially important in the West**
  - **Offer incentives that allay buyer fears of home value decline**
  - **This segment is the most difficult to convince that they have found “the right house,” so sharpen your understanding of their preference**

# Consider Sponsoring This Study for Your Market

- **NAHB Research Center can tailor this study for your organization. You choose:**
  - Range of incentives that are viable for your company
  - Geographic market(s)
  - Buyer demographics
- **The results remain confidential**
- **Contact us to investigate this opportunity**

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