

Many young buyers shy away from older houses, foreclosures

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First-time buyers are actively driving the housing market as they tire of high rents, waiting to own or their lack of building equity.

The housing crash that took place about four years ago caused many potential buyers to delay their plans for a significant period of time, but now they are jumping into the market in increasing numbers. And because of a variety of factors, many are choosing to purchase a newly built home instead of an existing one.

"Millennials have witnessed the housing boom and bust, but still believe homeownership is a good investment," said Fred Ehle, vice president for PulteGroup Inc. "We see a lot of young adults who are making financial sacrifices to afford a place of their own."

DJ and Michelle O'Brien purchased a home from William Ryan Homes at Highland Woods in Elgin last spring and moved in once the lease on their one-bedroom apartment in Chicago expired.

While they had not physically walked through many existing homes, they had done extensive Internet searches during the year before their purchase, Michelle said.

"There were lots of houses that would fit our budget, but they all needed work that would have added to the price. We aren't handy people, so we knew we had to buy something that was at least somewhat new. So we started limiting our search to houses built since 2000," she said. "When DJ called a Realtor about a house we saw listed in St. Charles and learned that it had just sold, the Realtor asked him if we had ever considered buying a new house."

He suggested Highland Woods in Elgin and the O'Briens drove out to take a look and fell in love with the neighborhood and the houses. Since they wanted up-to-date features like a master suite and updated kitchen, a new construction home was ideal for them.

The two marketing professionals purchased a 3,200-square-foot home with four bedrooms, 2½ baths, a three-car garage, mudroom, kitchen with breakfast bar and eating area, office, living room, family room, dining room and second-floor loft area. They will soon celebrate their first anniversary of moving into the house.

Ryan and Michelle Suhr will soon close on a townhouse in Des Plaines' Lexington Park community, after four years of looking all around the Northwest and West suburbs for a house to buy.

"We looked at foreclosures, For Sale By Owner properties, everything — probably ten a week over the past year. But we finally realized that while we could purchase a house for a low price, afterward we would have to invest a lot more time and money fixing it up," Michelle Suhr, an actor and model, said. "If we purchased new construction, we could get everything we wanted without having to do a lot of work, and at this point in both of our careers, we don't have much time to spare."

The Suhrs also admit they were picky. They wanted a multilevel home (not a ranch) in a nice area with good schools and close access to transportation.

"We want to start a family in the next few years and all we were finding on the market were 1,300- to 1,400-square-foot ranches," she said.

Ryan also admitted that the couple had a difference of opinion. He wanted a single-family home with a big yard. She wanted to buy a two- or three-flat they could use for rental income.

Lexington Park in Des Plaines gave them the best of both worlds, once they decided to look at new construction, he said. "Four or five years from now when we want something bigger, we can keep this and rent it out and it will remain a great investment for us."

They purchased an 1,800-square-foot, three-bedroom, 2½-bath, three-story townhouse with a two-car garage.

"The rooms are large and breathable and they have a great flow for entertaining and privacy when we want it," said Ryan, an advertising food photographer. "The ceilings are 9-feet and the top floor features cathedral ceilings for a wonderful feeling of space. And there is a great deal of closet space. The only thing we're not getting is a yard. But Lexington Park has set up a nice garden area with a gazebo."

The Suhrs are particularly looking forward to setting up their lower level as a movie theater and being able to set the movie at an appropriate volume, thanks to Lexington Park's dense concrete foundation walls.

"We can't wait to live somewhere where you don't have to worry about your neighbor knocking on the door and complaining that you are too loud. We are sick of living in apartments," Ryan said.

Apartments and rental homes have other drawbacks, too.

"Rental costs in the Chicago market are high. According to the online listing site Trulia, after only three years, a homeowner would pay 33 percent less in housing costs than a

renter and 50 percent less after seven years, said John Carroll, Ryland Homes Illinois division president.

But while high apartment rental rates are driving young people to consider buying a home, they are not necessarily driving them to buy a new construction home. They can avoid rent no matter whether they purchase a new or existing home.

"First-time buyers are flocking to new construction communities for a combination of reasons," said Maria Wilhelm, vice president of sales for the Illinois division of PulteGroup. "People are still seeing low mortgage interest rates as a positive. The rising rental fees on apartments is another factor. And, finally, there is currently a very low inventory of nicer, used homes in the Chicago area marketplace."

Consequently, sales of Pulte properties in the Chicago area are running 45 percent ahead of budget this year, she said.

Chris Naatz, vice president of sales for homebuilder D.R. Horton, agreed. "Because of this shortage of existing home inventory, we have seen many Realtors contacting us. They are wanting to learn more about new construction homes. And we have been very proactive, building additional quick delivery homes this year. We literally have quick delivery homes at every different phase of construction, which works out very well for first-time buyers who need something quickly because their lease is up."

Todd Warshauer, director the sales and marketing for William Ryan Homes, said 30 percent to 40 percent of those coming in the builder's showrooms are first-time buyers. "Most have already seen all of the existing homes that are out there on the market because they were pulled in by the low prices. But the more they look, the more they are finding that these existing homes need too much work," he said.

Natalee Dismuke, a Realtor with Prudential Starck's Algonquin/Elgin office, has been selling many new construction homes in the Fox Valley area.

"When a buyer is not ready to commit to purchasing a home until they see everything on the market, you end up spending a lot of time with them," she said. "After I've showed them short sales and explained the time frame and uncertain outcome, they move on to bank-owned properties. Although there is a heavy supply of bank-owned properties, they are not all in move-in condition and a first-time homeowner usually doesn't have the time or money for sweat equity.

"There have been quite a few occasions when my clients have found a bank-owned property of interest, however there were multiple offers on it," Dismuke said. "I eventually introduce them to new construction. Once my clients know they can build a home within their budget and take advantage of the builder incentives, an existing home doesn't compare."

William Ryan Homes' Warshauer said the company has found its buyers are planning to stay in their new homes longer than buyers even ten years ago. "So they are making choices for themselves more than they are for resale value," he said. "They are having us build the house the way they want it, adding things like an office, loft or fireplace and doing away with a living room."

Jeff Benach, president of Lexington Homes, agreed. "Ten years ago our buyers planned to stay in their townhouse for three or four years and move on. Today, they are planning to stay five to ten years, so they are more interested in the school district and they want things like a den on the main level, which they can use as an office or a playroom, and they are doing away with a formal dining room, instead just having one eating area near the kitchen with an overhang for a breakfast bar."

Today's homebuyer is looking for quality construction, lower maintenance costs, better floor plans and energy savings.

"These desires bring them to new construction. New construction offers lower-cost of ownership, energy efficiency, quality construction designed for better livability and warranties," said Rebekka Koehl, vice president of marketing for Ryland Homes.

"The lower cost of ownership goes further than the savings on mortgage payments with today's interest rates. Lower monthly maintenance costs include not replacing appliances or roofs or remodeling to add a bathroom, closet or bedroom, as well as lower utility bills from energy savings," she said.

A new website, startfresh.newhomesource.com, succinctly explains the difference between buying new construction and an existing home. The average cost of a new heating/ventilation/air conditioning system of \$5,000 could buy seven designer bags. The average new roof costs as much as seven luxury cruises for a family of four. The average bathroom remodel costs \$16,552 while a family room addition, on average, costs \$83,118.

Putting the costs of updating and repairing an existing home in these easy-to-understand, stark terms convinces many first-time buyers that new construction is the way to go.

First-time buyers are also choosy about what they want in their home and many existing homes cannot provide the modern things they want. Open space and flexible rooms are very important to them, for instance. A recent PulteGroup survey of young adults showed that 36 percent want the ability to conduct business from home. Sixty-three percent want a space for outdoor living. Eighty-four percent want ample storage. Seventy-six percent want space for television, movie and sports watching.

So Pulte is now offering "Life Tested" floor plans including a drop zone for briefcases and backpacks, shoes, jackets and phones; an owner's retreat master suite; a planning center near the kitchen for doing homework, paying bills and so forth; and an expanded owner's entryway/mud room that does not double as a laundry room.

D.R. Horton is also building more multifunctional, versatile homes.

"First-time buyers are looking for livability and adaptability over time in their home," said Naatz of D.R. Horton. "They want it to adapt over time as their family grows and changes because most aren't planning to move again soon.

"So we are doing away with the formal living room and instead building flex rooms that people use as hobby rooms, homework rooms, home Internet cafes, etc. We are also building more appropriately sized rooms. A master bedroom doesn't have to be supersized to live well, for instance, and many people no longer want a dining room. Instead, they want a kitchen/breakfast room that can seat eight," he said.

One D.R. Horton plan even has a staircase to the basement from the garage, for ease of movement between the two spaces and more efficient living.

While interest rates are still historically low and prices continue to be extremely reasonable, Andy Konovodoff, president of K. Hovnanian Homes, cautions that the winds are changing.

"The days of builders advertising 'big dollars off' on new homes are past us," he said. "There are a few that still do. However, those deals are on standing inventory, model homes at completed sites or just the least desirable location on site.

"Builders have started raising prices because commodities such as lumber, drywall and roofing have started to increase in price as demand has picked up, forcing builders to pass the increases on to their customers," Konovodoff said.

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