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Identifying the drivers behind housing preferences of first-time owners

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Abstract

Purpose – The purpose of this paper is to provide a rare insight into the motivation behind first-time buyers when looking to purchase their first home. The factors driving demand preferences for detached housing are constantly changing and difficult to measure, and often deemed to be a complex bundle of attributes.

Design/methodology/approach – The research in this paper is based on interviews with purchasers at a series of locations across Melbourne, Australia, who were actively seeking to purchase a home for the first time. The data were analysed using factor analysis to identify the core decision criteria in a new house that were most sought after.

Findings – The findings in this paper confirmed that “financial” issues accounted for approximately 30 percent of the actual decision by first-time buyers to purchase housing, where decisions relating to the timing and choice of housing are dependent on “site-specific” factors.

Research limitations/implications – The research in this paper is aimed specifically at first time buyers only and the influencing factors behind their purchasing decisions.

Practical implications – The paper shows that, if consideration is given to the characteristics that first-time owners are looking for, providers of new housing would be better equipped to meet this demand and maximise construction efficiency.

Originality/value – In the paper the emphasis was placed on identifying and analysing the decision criteria behind first-time buyers, which provided an invaluable insight into their concept of a suitable residence. Rather than analysing sales transactions after they have been completed, this research considers aspects of new houses that first-time owners are actively searching for, prior to making their purchase.

Introduction

The residential housing market has been traditionally acknowledged as one of the major cornerstones underpinning the broader economy, and within this housing market is the important group of first-time buyers. However there are declining rates of homeownership in the traditional first-time buyer cohort, which in Australia is classified as the 25-35 year old age group (Australian Bureau of Statistics, 2004). In addition to changing economic and social circumstances, it has been argued this decreasing homeownership rate for young adults was related to changing house preferences among young adults (Baum and Wulff,
Therefore it is important to examine younger households and identify changing first-time buyer preferences and their order of importance, which is the aim of this paper.

This research seeks to identify preferences of first-time buyers, with the emphasis placed on their main priorities when looking to build a new home. Rather than focusing upon specific demand factors such as location (Theriault et al., 2003) or analysing a time series model (Chin and Fan, 2005), this research considers other factors that are behind the decision to buy a house. This task is accomplished by identifying active purchasers and then surveying first-time buyers who are seeking to buy their first home. This insight should assist decision-makers to meet the changing needs of individual purchasers who collectively are the first-time buyer market.

**Background to home ownership rates**

The contribution of first-time owners to the housing market is a natural and progressive step in the housing lifecycle and the formation of a new household. If first-time buyers are unable to enter the housing market, this can produce side effects, such as placing additional pressure on the social housing framework, which is already under substantial pressure in many countries (Reed and Greenhalgh, 2004). At the same time the level of funding for affordable housing has declined in the 1980s and 1990s, with the largest problem being the lack of affordable housing for extremely low-income households, of which first-time buyers are a component (Sirmans and Macpherson, 2003). Drawing a parallel to the upward trend of the high profile baby boom, Australia's level of home ownership grew rapidly in the post-war period and has since remained relatively stable at 70 percent over the last three decades (Australian Bureau of Statistics, 2004), see Figure 1.

This trend can be partly attributed to a period during the 1970s where housing policy was an integral part of economic and regional development in Australia. Thus, housing was used as a *de facto* stabilisation policy, in that public-sector building programs were often timed to sustain the building industry through the cyclical fluctuations (Wulff, 2001). Australia still maintains a relatively high level of ownership compared to other developed countries, as shown in Figure 2.

Overall, the benefits of housing ownership can be summarised as twofold, being:

1. Providing shelter for the entire household; and
2. As an investment for the owner-occupier (Hutchison, 1994).

Although the need for human self-preservation and shelter is clear, housing also provides a long-term investment and security of tenure. Usually a first-time buyer has the alternative of renting, which also provides basic shelter and exclusive use of the premises, fulfilling many of a household's essential needs. Making the incorrect housing decision can have an adverse effect on the long-term wealth of the household and many first-time buyers are fully aware of the inflationary characteristics associated with property (Hennessey, 2003).

Following the completion of their high school education, most individuals are strongly encouraged to commence a saving plan. This has been a long-standing tradition passed
down by parents in Australia, where it was considered essential to amass financial equity as soon as possible. Being frugal and staying very close to home, spending very little and sacrificing a social life have been proven means of achieving this goal. The undisputed goal was always to save enough for a deposit and commit to a mortgage for their own house, commonly referred to and promoted by the real estate industry as “the great Australian dream”.

The decision to purchase a house is no longer an automatic and progressive step in a household's lifecycle – house purchasers are now faced with an increasingly complex “rent vs buy” decision. The level of housing affordability in Australia has decreased substantially over the last 20 years, as a steady rise in house prices has not been accompanied by an associated rise in household disposable income, see Table I. This data highlights the ratio between:

- Actual housing wealth in the form of residential housing; and
- Disposable income after taxation and other unavoidable expenses, which allows a valid comparison between countries.

A number of reasons can be attributed to these changes, including the deregulation of the banking industry in the mid-1980s and sustained low inflation. Even so, there has been little explanation given as to why the house price levels for Australia, and New Zealand to a certain extent, have increased from the average to now well above international standards (Ellis and Andrews, 2001).

It has been argued that home ownership may be diminishing in importance for those households that have the option of either renting or purchasing (Reed and Greenhalgh, 2002). Renting is generally not more expensive than purchasing in certain localities, and in many instances, it is cheaper (Fishman and Kerson, 2000). Accordingly, this research focuses on the aspect most central to the demand decision of first-time buyers, being their needs and desires. The characteristics that first-time owners seek would vary depending on:

- Location, such as region or city; and
- Timing.

It is this cross-sectional approach that makes research into this area so challenging, but necessitates continual monitoring and updating. This is where surveys are best utilised, as in this research.

**Research design and methodology**

The research component was designed to measure directly the perception of home purchasers, especially first time owners, with the process structured in the following manner. It used a face-to-face qualitative approach via a formal research instrument using a questionnaire survey. During October 2000 there were 95 respondents who participated in personal interviews at eight locations throughout Melbourne. Each location corresponded to the address of an “open for inspection” display village, which are commonplace in Australia and designed to sell the concept of building a new house. Typically, these display
houses are heavily promoted in the media and attract a large number of visitors – there is no entry fee, and an inspection is without obligation. With regards to the parcel of land, it may or may not be included in the discussion. Undoubtedly the focus of potential homeowners attending these display homes was an interest in a new housing product. Therefore, each of the 95 participants had made the conscious effort to visit a display home, which indicated there was a fundamental interest in the new housing product. The surveys were conducted outside these display homes, as the participants were either entering or leaving the display homes.

The survey included eight questions that ranged from a basic “male or female” question, up to multi-graded questions that included 25 varying factors (graded from high to low). The preliminary question in the survey, namely “Have you or any member of your household owned residential property in Australia before?” was designed to identify purchasers that fall outside the definition of a “first time buyer”. Thus, 85 percent of the homeowners indicated at least one person in the household was a first time owner, these 81 respondents were retained for further analysis. The remaining 14 responses were removed prior to undertaking further analysis.

After completing the first question, the balance of the survey questions centred on the drivers behind the buying motivation of these respondents, with reference to the new housing product. An important aspect of this detailed survey, in comparison to many other surveys, was the clarity of the answers due to the personal interview format. The interviewer was able to immediately offer a full explanation about any uncertainties that arose concerning a question, which ensured an accuracy level was retained in the survey. The presentation of the results in the following section commences with the preliminary questions (Questions 1-6), which presents background information about the participants' socio-demographic characteristics. Then, the focus moved onto two multi-faceted questions (Questions 7-8) that relate directly to buying criteria of the households. These two questions each included 25 individual components, where respondents ranked each component in order of importance. To assist in the interpretation of the results, factor analysis was used to identify the underlying drivers behind purchasing criteria of first time owners. Simply explained, factor analysis seeks to do precisely what humans have been engaged in throughout history, that is to make order out of the apparent chaos of the environment (Child, 1990). This technique interprets the underlying structure of a broad data set using a smaller set of underlying dimensions or factors.

Data analysis

This section examines the responses to specific survey questions that relate to purchaser criteria.

**Question 1 – sex of respondents**

The distribution of the respondents into either male or female was recorded at 57 and 43 percent respectively, as shown in Figure 3. This distribution was as would be anticipated, and generally followed the slightly higher participation of males in the workforce. Hence, it
was considered that the remaining responses in the survey were not biased according to sex.

**Question 2 – age distribution**

The respondents were asked to indicate their age category, in accordance with one of six categories shown in Figure 4. These were:

1. Under 18 years age bracket.
2. to 24 year age bracket.
3. to 34 year age bracket.
4. to 44 year age bracket.
5. to 54 year age bracket.
6. years and over age bracket.

Several observations were noted from the respondents' responses:

- There were no participants less than 18 years of age. This confirmed that all respondents were typical purchasers of property in Australia, and not inhibited due to legal restrictions. In other words, none of the participants were simply passing time by inspecting a display home, which can occur at times;
- None of the respondents were older citizens, being 55 years or older. Thus, in the absence of exceptions such as unemployment or medical disabilities, all of the respondents were able to be employed in the workforce and had not reached the retirement age of 55 years;
- The majority (56 percent) of the respondents were aged in the prime family formation years, being from 25 to 34 years;
- In total, 21 percent of the respondents were in the 35 to 44 year age bracket, which falls within the important child-rearing bracket. Recent trends show women under 30 years old are having fewer children, as the child-rearing years continue to be associated with older women (Australian Bureau of Statistics, 2004);
- A total of 18 percent were in the 18 to 24 year age bracket; and
- Only 5 percent were in the later 45 to 54 year age bracket.

Overall, the age distribution was as anticipated and concentrated on the prime home-buying years. In addition, all respondents had the economic capacity to repay a housing loan, and were considered to be genuine home purchasers in that respect.

**Question 3 – household type**

Respondents were asked to indicate the existing formation of their household, with five different categories available as follows:

1. Single person household with no dependants.
2. Single person household with at least one dependant.
3. Couple household with no dependants.
4. Couple household with at least one dependant.
5. Other (to be specified by the respondent).
The results are presented in Figure 5, with only one category available for each respondent.

The majority of the respondents (67 percent) indicated they were part of a “couple” household. The breakdown of couples was 44 percent with no dependents and 23 percent with children. One quarter (25 percent) of the respondents said they were part of a single person (no dependents) household, with only 8 percent linked to single person households with dependents. No respondent belonged to a category that was not represented above.

In accordance with the results from the previous “age distribution” question, the high proportion of couple households would be anticipated in typical family formation years. The number of single person households was relatively high, but could represent the long term “family formation” plans of a portion of this sector. Alternatively, the high price of terraced houses (without the surrounding land) in inner Melbourne in recent years, as opposed to the relative cost of building, suggests that single person households are considering the option of building. In any case, it remains that all respondents would be potential new home purchasers.

**Question 4 – housing product sought**

Respondents were asked, “What type of housing are you looking to buy?” (please tick one). There were five categories available as listed below, with the results shown in Figure 6:

1. New house and land on new estate/subdivision (< three years old).
2. Established house (> three years old).
3. Build new house on vacant land within existing subdivision.
4. New apartment, flat, townhouse (< three years old).
5. Established apartment, flat or townhouse (> three years old).

In Australia a “house” is commonly known as a detached house that is fully surrounded by land, and does not directly adjoin another dwelling. Apartments, flats and townhouses are considered to be medium or high residential developments, and directly adjoin another residential dwelling of a similar type.

The responses to this question confirmed the majority of the survey participants (77 percent) were intending to either build a new house on an existing parcel of land (44 percent), or were seeking a combined house and land package (33 percent). Only 3 percent indicated they were looking to purchase an existing house or existing apartment or unit (1 percent). Furthermore, 19 percent were looking to purchase a new apartment or flat and 1 percent were after an established apartment or flat. Although confirmed earlier that all respondents were “first time owners”, this question ascertained that not all respondents were restricted to building a new house. Due to the multiple types of residential housing available in the same marketplace, such as new or established detached houses or units, it would be anticipated that prospective purchasers are conversant with alternative forms of residential property. The responses indicated that this is the situation, where buyers are comparing the cost of constructing a new house with other housing forms.

**Question 5 – timing of the purchase decision**
With this question respondents were asked, “When do you intend to purchase?”. There were five potential responses, namely:

1. months ago.
2. 0-6 months ago.
3. Next 0-6 months.
4. Next 6-12 months.
5. Next 12+ months.

The responses are presented in Figure 7.

The overwhelming majority (89 percent) intended to purchase within the 12 months following the survey, with 75 percent of these within the immediate six months afterwards. A small proportion (1 percent) intended to purchase six to 12 months prior, where 5 percent intended to purchase in the immediate six months preceding the survey. Only 5 percent were working on a timeframe in excess of 12 months after the survey. Clearly those who had purchased prior to the survey date are also first-time buyers in the market, even though they had recently made a purchasing decision. These responses supported the notion that the participants were conversant with the marketplace, and could be classified as “willing buyers” in the broad sense. Nevertheless, caution should be exercised when interpreting the result of this research, as not all purchasers could be termed “willing” within the true meaning of market value.

**Question 6 – tenure type**

This question asked the respondents “Once purchasing the residential property, what are your intentions with the home? Do you intend to? (please tick one):”

There were four categories:

1. Live in the home.
2. Rent the home out to tenants.
3. Own the home as a holiday home.
4. Other (please explain).

The breakdown of the responses is shown in Figure 8.

An overwhelming majority (98 percent) indicated their intention to live in the home. Only 2 percent replied their first home was for investment purposes only, which may reflect their decision to rent rather than live in their own home. The remaining two categories returned no responses. This result would be as expected, considering the “first time owner” status of the respondents, as well as their respective household type and age brackets.

Questions 7 and 8 each contained a high level of detail, and asked the respondents to rank a number of factors in order of importance. The responses for both questions were separated into five categories as follows:

1. low.
Within each question there were 25 different criteria, with the respective factor loading summarised in later tables.

**Question 7 – timing of purchase and choice of housing**

This question requested that the respondents “Please rank in order of importance the factors that affect the timing in which you intend to purchase and choice of housing (1=very low importance, 5=very high importance, please tick one per factor)”.

The results from the factor analysis are summarised in Table II and detailed in Table III.

**Factor 1. Financial**

- Mortgage interest rates.
- House price.
- Ability to save deposit.
- Household income.

**Factor 2. Site specific**

- Proximity to city.
- Range of house styles available.

**Factor 3. Lifecycle**

- Existing house too small.
- Marriage.
- Planning to commence a family.

**Factor 4. Unnamed**

- No high loading variables.

**Factor 5. General locality**

- Proximity to schools, shops and parks.
- Proximity to public transport, major roads, etc.

**Question 8 – decision to buy new housing**

This question asked the respondents:

What impact do the following factors have on your decision to buy new housing? (1=very low importance; 5=very high importance; indicate only one per factor).

The results from the factor analysis are summarised in Table IV and detailed in Table V.
**Factor 1. Financial**

- Mortgage interest rates.
- Household income.
- House price.
- Ability to obtain finance.
- Ability to save deposit.

**Factor 2. Lifecycle**

- Existing house too small.
- Planning to commence a family.
- Marriage.

**Factor 3. Unnamed**

- No high loading variables.

**Factor 4. General locality**

- Proximity to city.

**Factor 5. Unnamed**

- No high loading variables.

**Factor 6. Housing type**

- Types of houses on the market.

**Factor 7. Site specific details**

- Proximity to schools, shops and parks.

**Discussion of results**

The first three questions established the demographic background of the survey respondents. Question 1 confirmed that the survey respondents were generally an even mix of both male and female, which confirmed there was no bias towards either gender identified in this research. Question 2 focused on the age distribution of the participants, where there were no observations under 18 years of age or over 55 years. Notably, over half of the survey participants were in the prime first time owner's age bracket, being from 25 to 34 years – this is as would be anticipated for the purpose of this survey. Question 3 confirmed that the respondents accounted for a reasonable cross-section of household types, representing both single and couple households, with and without children. Overall, the first three questions confirmed that the survey respondents could be generally viewed as representative of society.
Questions 4 to 6 concentrated on the housing attributes, timing of the purchase decision, and the tenure type. Most respondents to Question 4 indicated that they were looking for a new house, either with or with purchasing land in the same transaction – this response accounted for over three-quarters of the total survey respondents. An established house or apartment/unit was not a high priority to most participants, and those in this category were most likely comparing the option of building a new dwelling. Question 5 confirmed that most participants were valid purchasers in the marketplace, and “intended to purchase” within the six months following the survey. This suggests that most purchasers would conform to the definition of market value as “willing buyers”, and in many ways support the knowledge base of these participants in regards to the preferences of first time owners. Question 6 clearly indicated that most purchasers (98 percent) were first time owners. This is an essential component of the research, as housing investors are not always seeking the same attributes in a first time as owner-occupiers.

Question 7 focussed on two particular aspects of the housing decision, namely the timing and choice of housing. Out of the 25 individually ranked elements of this question, there were five separate factors extracted. The Financial factor explained nearly 30 percent of the variance, and included variables such as “mortgage interest rates”, “house prices”, “the ability to save a deposit” and “household deposit”. This was followed by Site Specific (18.91 percent), Lifecycle (7.16 percent), an unnamed factor (6.49 percent) and General Locality (5.97).

Question 8 was centred on the decision to buy new housing and produced slightly different factors than Question 7, which was based on the timing and choice of housing. Once again, Financial represented nearly 30 percent of the variance – this was followed by Lifecycle (17.66 percent), an unnamed factor (7.10 percent), General Locality (5.93 percent), another unnamed factor (5.43 percent), Housing Type (5.02 percent) and Site Specific Details (4.53 percent).

**Conclusion**

This research identified and prioritised preferences of first-time owners, particularly first time owners, with the survey questions identifying the prime drivers behind the decision-making process. Quite clearly, Financial issues accounted for approximately 30 percent of the variance in the decision by first time owners to buy housing. This related to timing, the choice of housing, and the decision to buy new housing in both questions. In many respects these results were as would be anticipated, since the ability to purchase housing is dependant on affordability and the ability to meet repayments. Thus, it is the balance of factors that differentiated between these two questions.

Decisions relating to the timing and choice of housing are dependant on Site Specific factors, indicating that purchasers in this bracket are seeking the correct product, and will purchase a house when the correct location is identified. This was supported by aspects relating to General Locality, being the fifth factor. It appeared that Lifecycle was only a minor factor in the whole decision about “when” and “what type” of housing to buy. However, the decision to buy new housing is dependant on Lifecycle factors, such as the family formation, marriage or the size of the existing house. It seems that these two factors, namely Financial
and Lifecycle, accounted from nearly half of the variance in regards to the actual decision to buy new housing.

This research confirmed that although measurable factors are important, such as housing type and site specifics, housing policies must place a higher emphasis on demographic factors, such as the distribution of the age cohorts (Australian Bureau of Statistics, 2004). It appears that Lifecycle and Socio-economic factors play an important role, and are some of the central drivers behind the decision of first time owners to purchase. Accordingly, additional emphasis should be placed on the demographic characteristics of the population. For example, if the fertility rate in Australia continues to decrease, it appears that the housing product should change to suit this change market – once again, housing policies should address this situation by closely monitoring these trends. A short-term remedy may be to encourage immigration, although this would change the housing package required due to the different needs of this group. The decision by first-time buyers is not based purely on housing characteristics and the purchase cost, but is linked to demographic characteristics that drive the demand for this product.

**Further research**

This research was relatively broad and considered all prospective new home purchasers. Further research should focus on recent home purchasers, and identify the factors that influenced their decision to buy, both in regards to the timing and actual decision. Thus, interested bodies, both private and government, would be interested in supporting this type of study, although its relevance to different regions outside the study area could be debated. It would also be of use to monitor these factors on a regular basis, although complications with constantly changing home purchasers may complicate this area. It is envisaged that repeat home purchasers would be difficult to locate.
Figure 1: Changing home ownership rates in Australia, 1975-1997


Figure 2: Comparison of home ownership in developed countries

Source: The Economist
Figure 3: Sex of survey respondents
Figure 4 Age distribution

Figure 5 Household type
Figure 6 Household product sought

Figure 7 Timing of the purchase decision
Figure 8 Tenure type

Table I

<table>
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<td>243</td>
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</table>

Table I: Housing wealth as per cent to household disposable income

Notes: a 1998 data refer to 1997; b Figures refer to non-financial assets, which include consumer durables as well as dwellings.

Source: Bundesbank, Mylonas et al. (2000), OECD, RBA, RBNZ as cited by Ellis and Andrews, 2001
Please rank in order of importance the factors that affect the timing in which you intend to purchase and choice of housing

<table>
<thead>
<tr>
<th>Factor name</th>
<th>Financial 1</th>
<th>Specific 2</th>
<th>Lifecycle 3</th>
<th>Unnamed 4</th>
<th>General locality 5</th>
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<td>0.1260</td>
<td>0.2114</td>
<td>0.0248</td>
<td>0.0446</td>
<td>0.8176</td>
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<td>0.8920</td>
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<td>-0.2275</td>
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<td>0.0864</td>
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Table III. Factor loadings – timing of purchase and choice of housing

Table IV. Factor loadings – decision to buy new housing

<table>
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<th>Factor number</th>
<th>Factor name</th>
<th>Eigenvalues</th>
<th>Total variance (%)</th>
<th>Cumulative variance (%)</th>
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<td>General locality</td>
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Table II. Factor analysis – Question 7
### Table IV

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<th>Cumulative variance (%)</th>
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</thead>
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**Table IV**  
Factor analysis – Question 8

### References


**Further Reading**


