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When Value Trumps Price

The next generation of home buyers pay more for what they truly value

Sam Rashkin – Founder, Retooling the U.S. Housing Industry



I have the good fortune to serve on a national advisory board for one of our nation's largest production builders. One of their largest concerns is how can they more effectively engage the next wave of 'Gen-Y' and 'Gen-Z' buyers? Before sharing my response, first some background.

In the movie *"As Good as It Gets,"* a character played by Jack Nicholson, an obsessive-compulsive writer, completely botches his attempts to engage his romantic interest, a character played by Helen Hunt. In frustration, he becomes belligerent and upset with his new friend, Greg Kinnear, who confronts Jack Nicholson with a critical reality he's too upset to see. Kinnear's character says, "Do you know where you're lucky," and then goes on to explain, "You know who you want...Do something about it...Now!"

Back to the large production builder's concern. When I examine the younger generation of homebuyers as a demographic group, there are clearly impressive challenges engaging them to buy a home. They have over a trillion dollars of student loan debt (ouch!), delay commitments (e.g., jobs, marriage, children, homes), embrace a sharing economy rather than acquisitions (e.g., car share, bike share, apartment share, live-in with parents), and they have traumatic crash experience watching the housing market across the country shrink up to 85 percent or more and take years to recover with millions of foreclosures.

But there's a major opportunity with this demographic group that can effectively offset the challenges. Over and over and over again they prominently display their willingness to pay more for a better experience. And not a little more. Lots more. We're talking multiple times more cost for the same product.

Consider some examples. When the smart phone was introduced for \$500, they waited in lines around the block to buy it even though it cost 10X more than the basic \$50 cell phone in order to have a completely different mobile device experience. Lines for Starbucks are present throughout the day for a myriad of coffee options that cost 3X to 5X more than convenience store coffee in order to have a better daily break experience. Lines for Chipotle often extend out the store to buy fast food at 2X the cost of burgers and fries at McDonalds in order to have a healthier and tastier eating experience.

Why is this so significant? Consider that the National Association of Home Builders (NAHB) has frequently cited the statistic that for every \$1,000 increase in the purchase price of a home, over 200,000 more buyers cannot afford to buy that home.¹ I must assume this statistic has contributed to a prevailing builder business strategy focused on minimized first cost. Yet \$1,000 only adds less than \$5 per month to the mortgage; or about the price of one Cafe Latte at Starbucks.

Which brings me full circle to my response to the large production builder. As any builder, here's where you're lucky. You know what your next generation of buyers want, and more importantly, are willing to pay substantially more cost for....a better experience. So please, do something about it...now!

Apply proven innovations for better communities, better landscaping, better designs, better color, better architectural details, better health, better natural comfort, better durability, better efficiency, better quality, better technology, better controls, and I could go on and on.

For now, I'll recommend you read my book, *"Retooling the U.S. Housing Industry..."* for 34 specific innovations. Some might say this is a shameless plug to acquire more readers (okay, maybe a lot of you would). Instead I'll suggest this is a plea for the industry I love, housing, to avoid being a deer in the headlights when it comes to investing 'cost' where

it can deliver a transformative homeowner experience. The great feeling that comes from providing a much more compelling consumer product will just be a bonus.



¹ <http://nahbnow.com/2014/08/new-nahb-study-how-fees-force-buyers-out-of-the-market/>

This article is part of a series on housing innovation based on the author's book, 'Retooling the U.S. Housing Industry: How It Got Here, Why It's Broken, and How to Fix It.' This book examines opportunities to transform the homebuyer experience relative to five key components: 1) Sustainable Development, 2) Good Design, 3) High-Performance, 4) Quality Construction, and 5) Effective Sales. Each article features one innovation or business principle covered in workshops with builder executives. Find out more at www.SamRashkin.com.