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# Boost New Home Sales with Warranty Expertise: *Structural vs. Systems and Appliance Warranties*

When homeowner Michael Miller closed on his \$400,000 home in North Texas, he thought he was buying the house of his dreams. But then the dream started to crumble—literally.

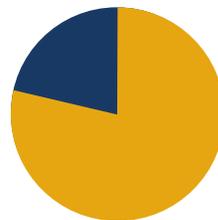
Within two years, his foundation had begun to crack in 50 different places, and some of the doors stopped closing properly.

His situation isn't that uncommon—particularly in Texas, which is notorious for its shifting soils. One out of every four new homes built will experience some structural distress. One in 20 will wind up with a major structural defect. It's a daunting prospect for homeowners considering whether to build a new home.

**“My biggest worry is our home falling apart,” Miller said. “Falling apart while we're in it.”**

Building a new home is a process already fraught with stress for buyers as they weather construction timelines, inspections and a seemingly endless list of tough decisions. One survey found that many people consider buying a house more stressful than bankruptcy, divorce and even bereavement. A large percentage of adults

consider involvement in the property market “one of modern life's most unpleasant experiences.”



**77%**

of new home buyers choose their builder for quality and reputation

New home confidence, therefore, is a powerful driver behind many home buyer decisions. That's why 77 percent of new home buyers choose their builder for quality and reputation; they want a home that will give them the fewest troubles possible. Yet problems often crop up. In one study, as many as 73 percent of new homes had defects that required a call back to the builder to fix.

Since quality and reputation play such a key role in choosing a builder, making good on workmanship defects can be an important factor in a builder's success. Offering a structural warranty for new homes helps builders assure new home buyers of their work quality while maintaining a positive reputation in the community.

Even more than that, it allows builders to capitalize on today's growth in the new home market by offering buyers what they want most: confidence in their new home purchase.



## New Home Demand on the Rise

Thanks to steady economic and employment growth, the housing market is finally back on its feet. Total sales for both new and existing homes are expected to reach \$6 billion this year for the first time since 2006. CNN has hailed 2016 as “the year to buy a home,” with home price increases slowing—they’re expected to grow only 3 percent this year, compared to 6 percent last year—and rent hikes accelerating in many cities.

The demand for homes is helping to fuel new home construction, which is also on the rise. New home sales had their strongest year since 2007 last year, surging 14.5 percent. In February, U.S. builders broke ground on 1,178,000 new homes—a nearly 31 percent increase over the same month last year and a 5.2 percent increase from January.

Overall, new home construction is expected to grow 12 percent this year, while sales of single-family homes will increase by 16 percent.

So who’s buying most of the houses? Surprisingly, that designation falls to Millennials, who had previously seemed committed to long-term renting but who now comprise 30 percent of home buyers. (The next largest home buying group is Gen X, which is responsible for 20 percent of home purchases.) Until recently, most Millennials felt too financially unstable to consider buying a home, but an improving economy and greater access to affordable mortgages have made them more confident.

As a result, first-time home buyers now make up roughly 40 percent of the market for new home construction, and the vast majority of them want single-family homes—prompting many real estate professionals to express concern that the current supply of entry-level single-family homes isn’t enough to meet the demand, said Realtor.com economist Jonathan Smoke.

“We don’t have enough supply of homes to keep up with the increase,” said Jonathan Smoke, chief economist of Realtor.com. “We need more construction.”

It’s a prime opportunity for builders who want to capitalize on the mounting demand for new single-family homes. Many builders haven’t been catering to first-time buyers,

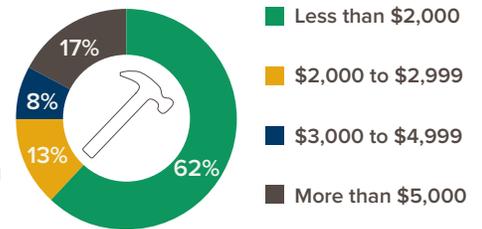
who traditionally purchase only 10 percent of new homes, preferring to focus instead on more cost-effective luxury houses. But savvy builders who understand how to meet the needs of Millennial home buyers will be poised to take advantage of a ripe and ready market.

## Home Warranties: Confidence for Buyers

For Millennials making important decisions about buying their first home, a home warranty can be a big factor in choosing a new home over an existing one. More than half of the buyers who opt for a new home do so to avoid having to deal with problems involving a major home system, such as plumbing or electricity.

In fact, most homeowners are just a few home repairs away from financial disaster. For 62 percent of homeowners, a major home repair of less than \$2,000 would be enough to send them over a financial cliff. Only 17 percent feel they could absorb a repair of up to \$5,000, but more than that would be too much.

**Percentage of homeowners who feel a major home repair would send them over a fiscal cliff:**

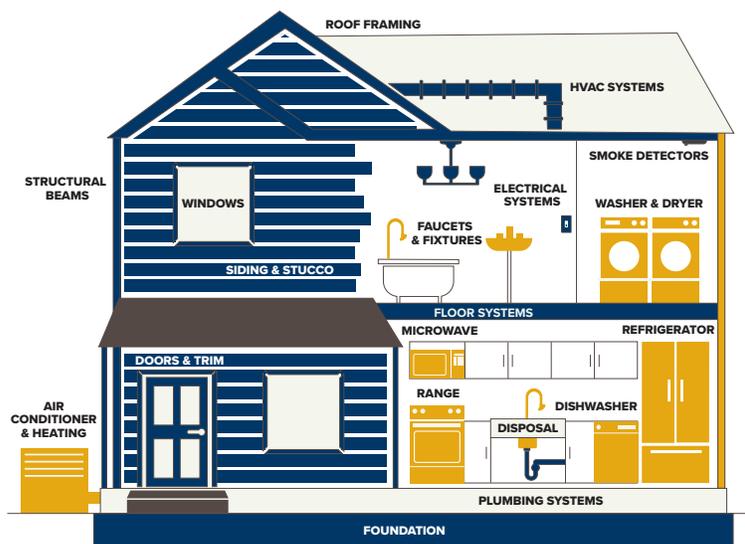


That’s bad news, considering that 65 percent of homeowners have had to repair or replace a home system or major appliance in the past year, and 35 percent have had to do both. With an average home repair cost of \$840 or more and an average replacement cost of \$1,200, it doesn’t take much for most homeowners to hit their limit.

It’s no wonder that 94 percent of prospective buyers are more likely to purchase new homes if they come with structural warranties. For builders, it’s especially important to keep in mind that eight in 10 buyers prefer a warranted home. Homes with warranties sell up to 50 percent faster than those without—and often for up to 3 percent more. As a result, 36 percent of home sellers now offer incentives such as home warranties to entice buyers.

Today, home warranties represent a \$2 billion market that’s growing by 4.4 percent each year. More than 8 million new homes have been covered under U.S. warranties since 1977, and homeowners have made more than 55,000 claims totaling \$1.4 billion in repairs.

There are two main types of home warranties: structural warranties and systems and appliance warranties.



## How Systems & Appliances Warranties Work

A systems and appliances warranty protects with repair or replacement in case of a home system or appliance failure. Given that replacing the electrical system on a home can cost up to \$2,000 and an HVAC replacement can run upwards of \$6,500 or more, a systems and appliances warranty can be a huge stress reliever for new home buyers.

Items commonly covered by a systems and appliances warranty typically include:

- DISHWASHER
- GARBAGE DISPOSAL
- RANGE
- WASHER AND DRYER
- REFRIGERATOR
- MICROWAVE
- AIR CONDITIONER AND HEATING
- FAUCETS & FIXTURES
- SMOKE DETECTORS
- PLUMBING ELEMENTS, OUTSIDE THE WALLS
- ELECTRICAL ELEMENTS, OUTSIDE THE WALLS
- AND MORE

## How Structural Warranties Work

A quarter of all new homes will experience structural distress, costing an average of \$42,500 to fix. A structural warranty covers the workmanship and materials related to the integral components of a home. Most states require builders to cover all defects for at least 1 year, but each state has its own Statute of Repose for which a builder is held accountable for their construction; in some cases, up to 10 or 15 years.

Around 80 percent of all structural claims concern the home's foundation—a common problem for homeowners, given that active soil causes more property damage than floods, earthquakes, tornadoes and hurricanes combined—and most occur within 4 to 7 years of building the home.

A typical structural warranty covers defects in workmanship and materials for one year; defects in wiring, plumbing, heating, cooling and other mechanical systems for two years; and major structural defects for up to 10 years. Coverage generally encompasses:

- WINDOWS
- SIDING AND STUCCO
- DOORS AND TRIM
- HVAC SYSTEMS
- ELECTRICAL SYSTEMS
- STRUCTURAL BEAMS
- PLUMBING SYSTEMS
- ROOF FRAMING
- FLOOR SYSTEMS
- FOUNDATION
- AND MORE

Builders aren't the only ones who may capitalize on the sales potential of home warranties. They're also a powerful sales tool for agents. For example, real estate professionals selling new homes covered by a PWSC builder's structural warranty can also offer a trusted HomePRO systems and appliances warranty to homeowners looking for extra assurances.

With demand for single-family homes outpacing supply, and with more first-time home buyers considering new home construction, it's a great time for builders to tap into this growing market. By understanding the needs of buyers who are making the most home purchases, builders and professional real estate agents can strategically leverage home warranties to increase new home sales.



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*Confidence You Can Build On.*

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