HOUSING DECISIONS OF REPEAT HOMEBUYERS:

EMPHASIS ON THE EFFECTS OF TAXATION

By

JUDITH FINCHER BASKIN

Bachelor of Arts

Lamar State University

Beaumont, Texas

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Thesis Approved:

K. Kay Stewart
Thesis Adviser

Margaret Weber

Kenton Olson

Norman N Durham
Dean of the Graduate College

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CHAPTER I

INTRODUCTION

American people are very mobile. Data indicate that approximately 20 percent of the population moves every year. Of this 20 percent, nearly two-thirds of these moves are classified as residential mobility and the remaining one-third as migration (Current Population Reports, 1978). Residential mobility is defined as a move within a county while migration is defined as a move across a county line (Zimmer, 1973).

Residential mobility has been linked to the family life cycle (Morris and Winter, 1978; Yee and Van Arsdol, 1977; Doling, 1974, Chevan, 1971; Foote, Abu-Lughod, and Mix, 1960; Rossi, 1955). That is, as the family expands, it adjusts by moving to a larger home. Research has also indicated that as family income rises during the life cycle, a family seeks a larger, more expensive home to reflect its increased social-economic stature (Doling, 1976; Chevan, 1971). Once the larger home is achieved, there is little propensity to move to a smaller, less expensive home. Factors in the decision process of the homebuyer who moves within a community have been researched by Rossi (1955). The effect of the Federal tax law upon the decisions of the homebuyer is not included in his research.

Migration occurs most frequently in relation to a job change which necessitates moving to a different housing market area (Morris and Winter, 1978; Rossi, 1955). In this situation the impact of differences in housing costs from one market area to another is felt by the consumer. Many people, who relocate from areas where housing costs are high to areas where housing costs are moderate or low, are having to greatly expand both the size and quality of their homes to reinvest the proceeds from their previous home so that they may defer the gain on their property as they are allowed to do under the present law. In general, tax law requires the taxation of the gain from the sale of a residence unless the proceeds from the sale are reinvested in another residence. Specifically, the 1954 law states:

> Section 1034. Sale or exchange of residence
> (a) Nonrecognition of gain.--If property (in this section called 'old residence') used by the taxpayer as his principal residence is sold by him after December 31, 1953, and, within a period beginning 18 months before the data of such sale and ending 18 months after such date, property (in this section called 'new residence') is purchased and used by the taxpayer as his principal residence, gain (if any) from such sale shall be recognized only to the extent that the taxpayer's adjusted sales price (as defined in subsection (b)) of the old residence exceeds the taxpayer's cost of purchasing the new residence (Internal Revenue Code, Section 1034(a)).

The following is a simplified example of how this affects a homeowner. A couple may purchase a home for $40,000 with a $5,000 down payment and a mortgage on that home of $35,000. Later, they may sell the house for $60,000. They have accumulated $28,000 of equity to reinvest in a new residence. Under current law, they will pay tax on a gain of $20,000 unless they reinvest the entire sum of $60,000 in a new residence. By investing the entire $60,000, tax on the gain is deferred until the "new" residence is sold.

Given this example of how the deferment of the gain operates, there is reason to question whether or not this provision enters into the homeowner's decision process in the selection of housing. Further, if only the homeowner's equity (in this example, $28,000) had to be reinvested in the new residence, the housing decision might be affected in another way. Having the option of investing only the equity of $28,000 instead of being required to invest the entire proceeds of $60,000 has many implications in areas such as home financing, mortgage size, interest rates, energy, neighborhood patterns, and other related areas. Before such possible implications can be explored, it is first necessary to examine the link between the Internal Revenue Code concerning the deferral of the gain from the sale of a residence and the homeowner's decision relative to the price of the subsequent home which he/she purchases.

Purpose and Objectives

The purpose of this research was to examine the link between the homeowner's selection of a subsequent home and the Internal Revenue Code concerning deferral of the gains from the sale of a personal residence. To accomplish this purpose, the following objectives were formulated:

1. to describe factors in the decision process for homeowners who have purchased at least their second home,
2. to determine if homeowners are aware of the Internal Revenue Code provision for the deferral of the gain from the sale of their residence,
3. to assess the effects of knowledge of the deferral provision of the Internal Revenue Code on the homeowner's decision in terms of cost of a subsequent home,
4. to assess the perceived impact on the subsequent housing decision in terms of the cost of the residence in a hypothetical

situation where only accumulated equity would have to be reinvested in the "new" residence,

5. to make recommendations for further research into the impact of the deferral of the gain from the sale of a personal residence.

Research Questions

The following research questions guided this research:

1. What are the factors in the decision process of repeat homeowners when they consider a "new" residence?
2. Are homeowners aware of the Internal Revenue Code's provision for the deferral of the gain from the sale of a personal residence?
3. Does their knowledge of the Federal tax law affect their selection of a subsequent home?
4. Given the hypothetical situation where only the homeowner's equity would have to be reinvested in the subsequent residence, would there be a difference in their decision process?

Assumptions and Limitations

The assumptions for this research included the following items:

1. The researcher assumed that, in general, the larger dwelling units cost more money than the smaller similarly-equipped ones (Maisel and Winnick, 1966).
2. The researcher assumed the respondents were giving answers that reflected their attitudes and preferences, and when they were asked to speculate on their actions given certain conditions, they were able to do so with reasonable accuracy.

3. There were some families in the American society who did not wish to spend the maximum amount they could afford for housing (Paolucci, Hall, and Axinn, 1977). Included in this group were those families who moved from a region where housing costs were high to an area where housing costs were lower (Current Population Reports, 1978), and families whose need for smaller space came earlier than usual in the life cycle.
4. Given rising costs in utilities, property taxes, and home maintenance, families were experiencing higher total housing costs than they expected. To cope with this increased expense, they might choose a smaller residence than they presently owned as a way to deal with these rising costs.

The limitations of this study included the following items:

1. The sample was non-random in selection. It consisted of people willing to be interviewed by this researcher; it was representative of the types of situations described in the research questions. The results of this research were then limited in application to the formulation of hypotheses for research with larger samples.
2. The limitations for the methodology selected for this research are discussed in Chapter III.

Definitions

The definitions given below were included to help clarify their use in this research.

Migration was defined as "intercommunity, intermetropolitan, or long-distance moving, usually for purposes other than housing adjustment"

(Morris and Winter, 1978, p. 81).

Residential mobility was "moving to a different dwelling within the local area. It usually involved adjustment of actual housing conditions to better meet housing needs" (Morris and Winter, 1978, p. 81).

Equity was "the difference between the market value and the amount owed on a piece of property" (Morris and Winter, 1978, p. 122).

Mortgage was "a conveyance of property to a creditor as security for the repayment of the loan" (Morris and Winter, 1978, p. 122). In this case, it involved borrowing money with the house as the security.

Cost of purchasing the new residence was:

> . . . the total amount of all amounts which are attributable to the acquisition, construction, reconstruction, and improvements constituting capital expenditures made during the period 18 months before the date of sale of the old residence and ending either 18 months after such date in the case of a new residence purchased but not constructed by the taxpayer, or two years after such date in the case of a new residence the construction of which was commenced by the taxpayer before the expiration of 18 months (Reg. 1.1034-1(b)7, 1954 Internal Revenue Code).

Old residence was defined as "property used by the taxpayer as his principal residence which is subject to sale by him after December 31, 1953" (Reg. 1.1034-1(b)1, 1954 Internal Revenue Code).

New residence was defined as "property used by the taxpayer as his principal residence which is the subject of a purchase by him" (Reg. 1.1034-1(b)2, 1954 Internal Revenue Code).

Gain realized was defined as the "excess (if any) of the amount realized over the adjusted basis of the old residence" (Reg. 1.1034-1(b)5, 1954 Internal Revenue Code).

Adjusted sales price was the "amount realized reduced by fixing-up expenses" (Reg. 1.1034-1(b)3, 1954 Internal Revenue Code).

Fixing-up expenses were the aggregate of the expense for work performed on the old residence in order to assist in its sale "given certain restrictions" (Reg. 1.1034-1(b)6, 1954 Internal Revenue Code).

CHAPTER II

REVIEW OF LITERATURE

A review of literature pertaining to the objectives and research questions outlined in Chapter I is included in this chapter. A search of the literature pertaining to the different types of mobility experienced by the United States public and the reasons why this mobility has occurred was conducted. Articles and research pertaining to family decision-making and housing selection were reviewed. The Internal Revenue Code's provision for the deferral of capital gains as it pertained to the sale of residences and the special provisions of the law as it relates to special groups of the population were reviewed.

Types of Mobility

Migration

In the introduction to the research, it was stated that there were two types of moves involved in American mobility patterns. The first type of move was migration. It was stated that this type of move accounted for one-third of all moves each year and it was defined as a move across a county line (Zimmer, 1973). In Housing Choices and Housing Constraints (Foote, Abu-Lughod, Foley, and Winnick, 1960), the researchers described this type of move in greater detail. The migration move was called an inter-community move and described as being job motivated and as having a certain attractiveness in terms of location. Elements which were included in this concept of attractiveness included "the economic opportunity, the desire to lead a better life, to escape from undesirable large city conditions, or to live in a healthier climate" (Foote et al., 1960, p. 153). These researchers stated that the higher the education and socioeconomic status, the more likely the above factors would dominate the reasons for moving. The migration or inter-community move was then basically explained by job-related reasons.

Alan R. Andreasen (1966) hypothesized that the geographically mobile segment of the population had distinguishable characteristics. He postulated that geographic mobility for a given household was viewed as a product of objectively determined environmental opportunities and the household's subjective willingness to move. After gathering data from a sample of 148 households who had moved into the Philadelphia metropolitan area during the summer of 1964, he concluded that geographically mobile persons are concentrated in managerial or professional-technical occupations, are above average in education, and receive higher than average incomes. They are also more likely to move between communities of the same type; not change occupation, income, or household status in the course of the move; and possess advance information about the new community before undertaking a move. They have had experience in moving long distance before the present move and are motivated to move by the chance for improved occupations and incomes as well as their own high social class aspirations. They have had little social or organizational involvement in their community, but do have personal sources of potential aid available to them in their new community. They are relatively young and thus more willing to undertake the risks of moving (Andreason, 1966).

Residential Mobility

The second type of move, residential mobility, accounted for two-thirds of the moves within the U.S. each year (Zimmer, 1973). Zimmer defined it as a move within a county; Foote et al. (1960) called it an intra-community move. These intra-community moves were the result of families seeking to better their housing. There seemed to be abundant research on this type of mobility. One of the earliest and most detailed studies of residential mobility was conducted by Peter Rossi (1955).

Rossi's (1955) book, Why Families Move, dealt with a social science approach to the basic idea of residential mobility. The book was the result of an extensive and, at the time, a pioneering research study. His purpose in the research was "to study the moving decisions of different kinds of households residing in areas of contrasting stability and mobility" (p. 12). By studying a sample in this way, the researcher could compare areas with different mobility rates, could contrast the households with different mobility rates, and could analyze the social psychological aspects of moving (Rossi, 1955).

Rossi (1955) used reason analysis to analyze the question "Why did you happen to move?" The results indicated reasons in four broad areas as to why people moved. These four areas were (1) complaints about their previous dwelling which made the family want to move, (2) specifications about attributes which the family desired in a new home, (3) attractions of the new home that made it more desirable than others (4), information sources which the family used to find a new dwelling.

The research indicated there were "successive decision points" in the various stages of the moving process (Rossi, 1955, p. 173). These were the decision to leave the old home, the search for a new home, and the decision on a new home which involved choosing from several the family had considered. In analyzing these separately, the study found three out of five families moved voluntarily and were dissatisfied with the amount of room in their previous residence. Rossi (1955, p. 175) concluded by stating "the decision to move out is primarily a function of the changes in family composition which occur as a family goes through its life cycle."

The findings for this second stage, the search for a new home, indicated that "most families were looking for particular kinds of places" (Rossi, 1955, p. 175). The modal family looked for a particular size of dwelling which had certain essential design features. It also chose a dwelling of lower cost when making a decision between alternatives. The house in general was poorer in accessibility and outside appearance than the alternative (Rossi, 1955).

Rossi (1955, p. 177) concluded this study by stating that "each individual move is not a random event but determined by a household's needs, dissatisfactions, and aspirations." He further stated that mobility was an adjustment mechanism for the family in meeting its housing needs. He noted that families have life cycles that show a rapid increase in family size in the early years and are accompanied by increased housing needs. After this rapid expansion period, the family stabilized in size and housing needs were stabilized. As the family size decreased, there was a surplus of space in the home. This did not frustrate the homeowner into seeking smaller housing; he usually remained in the larger home. Rossi's findings were supported by Foote et al. (1960) in a later study.

Family Life Cycle and Residential Mobility

Yee and Van Arsdol's (1977) research, which was reported in an article entitled "Residential Mobility, Age and the Life Cycle," confirmed the statements of Foote et al. (1960). In studying homogenous aggregates, they found that distinct life cycle stages do appear in the age graph of mobility plans and that individuals choices and their planned resolutions related to moveing were more likely to be influenced by normative events and seemed to parallel the appropriate life cycle for that individual (Yee and Van Arsdol, 1977).

Albert Chevan (1971) has researched the family life cycle approach to explaining residential mobility as a longitudinal research approach. By interviewing 5,844 heads of households, dividing the resulting partial life histories into discrete periods of time, observing the birth of children, and moving behavior, he has concluded there was a relationship between appearance of children, the family life cycle, and moving. Independent influences on moving were birth of children, density of household, and duration of marriage. Two of these three influences related directly to the amount of space within the residence.

In the article "Life Cycle, Housing Tenure, and Residential Mobility: A Path Analytic Approach," C. G. Pickvance (1974) studied housing tenure and its impact on mobility independent of observed age correlation, life cycle, or economic factors. Using a path analysis technique, he interpreted data collected from residents in five small districts in South Manchester. Among other findings, he reported that "life-cycle and tenure have a crucial role in determining both desired and expected mobility" (p. 184).

Decision Making in the Family

In the book Family Decision Making: An Ecosystem Approach, Paolucci, Hall, and Axinn (1977) presented the following ideas as to how families made decisions: wise decision making by families is important if each person within the family is to develop to his or her potential. The total family acts as support for its individual members as they strive for autonomy. This autonomy is defined as the freedom to choose linked with responsibilities. The family's exercising of its options for autonomy can result in experiences of failure or success.

Since families exist in an environment of an infinite number of alternatives in a given time and space, the alternatives they choose in their decision making are enhanced or constrained by their perceived environment. Paolucci, Hall, and Axinn (1977) state:

> No decision is made in isolation, each has a past and a future. To a large extent the values underlying their choices and the alternatives they select, shape the futures of families. Selection is rooted in an understanding of how environment influences the possible alternatives (p. 57).

Four steps were identified in the family decision making process. The first involves each family member's preconscious perceptions of the alternatives open to the family. The family as a whole may never be completely aware of all the choices available to them. The second step is a conscious recognition of the possible alternatives available. At this point, each family member's values are reflected in the alternatives they perceive. The third step is where the goals of the family are compared to the perceived alternatives. Choices that are aligned with goals are made at this time. The alternatives are narrowed further. The last stage is where the decision is made. It is a deliberate and conscious selection between at least two alternatives (Paolucci, Hall, and Axinn, 1977).

The decisions made by the family are influenced by their perceptions, their needs, and their values. Perceptions for each individual within the family and the family as a whole vary due to natural physiological differences, learning, personality factors, and whether the group perceives itself as having control or being controlled by its environment (Paolucci, Hall, and Axinn, 1977). Everyone has a set of needs which must be met at some level for survival. Maslow proposed the following hierarchy of needs which Paolucci, Hall, and Axinn report as an example in their book: physiological needs, need for safety, need for belongingness and love, need for esteem, and at the highest level, need for self-actualization. The family's choice of housing must satisfy needs for each family member at each level of need.

The role of values in decision making is twofold. First, values serve as a criterion for family goal selection. Second, values permit a ranking of alternative goals in order of preference. Values were defined by Paolucci, Hall, and Axinn (1977, p. 63) as "learned beliefs that are internalized; they tend to arouse a strong emotional-intellectual response when something runs counter to them."

Economic decisions involve assessment and allocation by the family. The family must order its alternatives and select means and goals to guide the decision. The family has to know the amount and kind of resources available to it. In making the actual decision, basically, the family has to be aware of the amount of information in relation to the degree of risk it is willing to take. Having made a decision, the family selects one alternative and rejects all others (Paolucci, Hall, and Axinn, 1977).

To summarize, Paolucci, Hall, and Axinn (1977, p. 11) stated that "Family decisions do not occur in isolation; rather, one decision is inextricably tied to another in a continuous means-end chain," and "in general, family decision-makers try to select that alternative that provides them with the largest payoff at the least cost" (p. 126). In light of this knowledge of how families make decisions in general, the next section examines how families select new residences.

Housing Selection

A review of the research indicated that two general theories prevail concerning how people selected an area in which to live. The first theory stated that families base their decisions to reside in an area on economic factors such as the distance from the market (Muth, 1961). Major conclusions drawn from this research were urban population densities decline with the distance from the central business district and cities were more spread out when transportation costs were low (Muth, 1961).

The second theory involving residential selection was based on the social choice hypothesis. Moriarty (1973) analyzed both the eocnomic and the social theories. He studied the Lansing-East Lansing, Michigan, area by dividing it into 45 residential areas and classified each area by its major social group. He determined employment and social accessibility ranking for each area and examined these rankings and the pattern of socioeconomic segregation. He chose Lansing-East Lansing because of the similar income levels of all the residents. He reported that residential areas possessing "high social accessibility rankings for a particular social group are also in close proximity to employment opportunities in the group's occupation category" (p. 459). In Lansing, specifically, individuals could reside close to friends and at the same time reside close to their employment. Moriarty (1973) concluded that both employment accessibility and social accessibility were important attributes to be considered in the selection process of a home. He pointed out that since there was little economic stratification in his sample, "it was the social distance between families belonging to different status classes that is the important factor creating residential segregation of socio-economic groups" (p. 466). This is supported in the research by Duncan and Duncan (1955).

Search Process

Research by Barrett (1976) and Rossi (1955) indicated that the search for a new residence was carried out with minimal effort by the individual. Barrett (1976) reported that a large majority of the population spent less than one month looking at only a few houses. He reported that most people viewed buying a home as a major decision but noted that the search process reported by these homebuyers did not support the idea that it was a major decision. This confirmed Rossi's (1955) finding. He reported that one out of every three households indicated they considered just one place when they bought another home.

The research by Case (1957) supported the idea that families do not view the purchase of a home as a major financial decision. He reported that "the home is often treated as a consumption good whose cost and resale are of limited concern" (p. 36). Thus, families thought of their home from a social and family aspect, they did not focus on the financial aspects of home ownership. Morris and Winter (1978) indicate that the purchase of a home is a major financial decision for the family. The conflict of the two views is resolved by looking at the economic conditions of these times.

Location of Dwelling

In deciding on a new residence, Rossi (1955) considered three aspects in his research. First, what were the specifications of the family as they looked for housing? Second, where did they learn about an available dwelling? Third, what were the most important attractions that made the family choose that dwelling over others they considered?

The research indicated that specifications varied from family to family but that particular space dimensions were specified by 51 percent of the lookers. Second in rank were the particular design features of a home. Costs were ranked as fourth, after specific neighborhood attributes.

In assessing information sources about available dwellings, Rossi (1955, p. 161) reported that "the most effective means for obtaining a new dwelling unit were personal contacts." Real estate agents were used more by persons wishing to buy a home. Renters used the newspaper as a frequent source.

Rossi (1955, p. 172) reported that "attractions, defined as the reasons why a particular unit was chosen over all the units considered, when compared to specifications, showed quite a different distribution." The most important attractions were listed as cost first, followed by space, neighborhood location, and social composition of the neighborhood. The importance of cost was explained by the fact that all the alternatives a family considered met their specifications in terms of size, location, etc., so that when the final decision was made, the alternatives were relatively equal on these criteria. Thus, the final decision was made to take the cheapest of the alternatives offered.

Internal Revenue Code

The initial focus of this review of the tax law concerning the sale of exchange of a residence was on how tax laws in general are made. The process was complex, but a basic understanding of this process was necessary to determine how the applications of the law were made. In the book, An Introduction to Taxation, written by Sommerfeld, Anderson, and Brock (1978), the authors stated:

> . . . the initial major step in the complex taxing process is passage of a revenue bill by Congress and the approval of it by the President. Following this legislative action, the Internal Revenue Service makes and releases its interpretation of the statute--primarily in the form of Treasury Regulations (p. 10).

The revenue bill was the law and was commonly referred to by section, such as Section 1034(a). The regulation was the Secretary of the Treasury's interpretation of the law passed by Congress and approved by the President. They "have the force and effect of the Code, unless they can be shown to be in conflict with Congressional intent" (Sommerfeld, Anderson, and Brock, 1978, p. 13). Amendments or revisions to the regulations or new regulations which were approved by the Treasury Department were called Treasury decisions and were binding on the government (Sommerfeld, Anderson, and Brock, 1978).

The Internal Revenue Code (1979) Section 1034(a) concerning the sale or exchange of a residence stated:

> Nonrecognition of gain.--If property (in this section called 'old residence') used by the taxpayer as his principal residence is sold by him after December 31, 1953, and within a period beginning 18 months before the date of such sale and ending 18 months after such date (in this section called 'new residence') is purchased and used by the taxpayer as his principal residence, gain (if any) from such sale shall be recognized only to the extent that the taxpayer's adjusted sales price (as defined in subsection (b)) of the old residence exceeds the taxpayer's cost of purchasing the new residence (Section 1034(a)).

This was the law as passed by both houses of Congress and approved by the President. The regulations approved by the Secretary of the Treasury were as follows:

> Regulation 1.1034-1. Sale or exchange of residence.--(a) Nonrecognition of gain; general statement. Section 1034 provides rules for the nonrecognition of gain in certain cases where a taxpayer sells one residence after December 31, 1953, and buys or builds, and uses as his principal residence, another residence within specific time limits before or after such sale. In general, if the taxpayer invests in a new residence an amount of at least as large as the adjusted sales price of his old residence, no gain is recognized on the sale of the old residence. . . . On the other hand, if the new residence costs the taxpayer less than the adjusted sales price of the old residence, gain is recognized to the extent of the difference. Thus, if an amount equal to or greater than the adjusted sales price of an old residence is invested in a new residence, according to the rules stated in section 1034, none of the gain (if any) realized from the sale shall be recognized. If an amount less than such adjusted sales price is so invested, gain shall be recognized, but only to the extent provided in section 1034. If there is no investment in a new residence, section 1034 is inapplicable and all

of the gain shall be recognized. Whenever, as a result of the application of section 1034, any or all of the gain realized on the sale of an old residence is not recognized, a corresponding reduction must be made in the basis of the new residence. The provisions of section 1034 are mandatory, so that the taxpayer cannot elect to have gain recognized under circumstances where this section is applicable. Section 1034 applies only to gains; losses are recognized or not recognized without regard to the provisions of this section. Section 1034 affects only the amount of gain recognized, and not the amount of gain realized. . . . Any gain realized upon disposition of other property in exchange for the new residence is not affected by section 1034.

An example of how this affects a typical homeowner was shown:

A taxpayer decides to sell his residence, which has a basis of $17,500. To make it more attractive to buyers, he paints the outside at a cost of $300 in April, 1954. He pays for the painting when the work is finished. In May, 1954, he sells the house for $20,000. Brokers' commissions and other selling expenses are $1,000. In October, 1954, the taxpayer buys a new residence for $18,000. The amount realized, the gain realized, the adjusted sales price, and the gain to be recognized are computed as follows:

Selling price	$20,000
Less: Commissions and other selling expenses	1,000
Amount realized	19,000
Less: Adjusted basis	17,500
Gain realized	1,500
Amount realized	19,000
Less: Fixing-up expenses	300
Adjusted sales price	18,700
Cost of purchasing new residence	18,000
Gain recognized (taxed)	700
Gain realized (from above)	1,500
Gain recognized (taxed)	700
Gain realized but not recognized	800
Cost of new residence	18,000
Reduction in basis due to gain not recognized	800
Adjusted basis	$17,200

(IRC Reg. 1.1034(c)2 [Example 1])

From the above example it could be seen that tax on the gain realized was deferred. If, for example, the new residence was sold the next day for $18,000 and the proceeds were not reinvested, the gain realized (not taxed) and the gain recognized (taxed) would be $18,000 - $17,200, or $800. Tax would be payable on the entire $800.

There has been a large amount of research and writing about deferral of gains and the equity of taxing these gains. Personal residences were but one small part of the Code concerning these gains and their deferral. When the deferral of gain was mentioned in terms of personal residence, it usually was to point out how the Code encouraged the repeat homeowner to buy a more expensive home (Thomassen, 1978). In this time of increasing shortages, perhaps the emphasis should be on allowing a greater freedom within the housing market.

Summary

In summary, there were two classifications of moves a family can make. The first was termed migration and was defined as a move across a county line. The second was residential mobility. This was defined as a move within a county.

Research by Rossi (1955) on residential mobility indicated that there were a series of decision points involved for the family as they progressed through the moving process. He noted that moves were often a reflection of a family's progression through the life cycle. This was supported by research by Foote et al. (1960).

Regarding the family decision process in general, Paolucci, Hall, and Axinn (1977) have said that family decisions do not occur by themselves. One decision made has a bearing on all other decisions the family makes. As a result, families strive to make the alternative which offers them the most in terms of benefits for the least amount of cost. Cost here was used in the broader sense and is not strictly tied to economic costs.

Two theories dominated in the area of research on housing selection. One was based on economic factors such as distance of home from work or market (Muth, 1961). The second was based on social choice theory. This theory stated that both employment accessibility and social accessibility were important in the selection of a home (Moriarty, 1974; Duncan and Duncan, 1955).

Research on the search process by Barrett (1976) and Rossi (1955) indicated that the search was carried out with minimal individual efforts. They reported that homebuyers spend less than one month looking for a home and considered few homes before making a decision. Case's (1957) research indicated that families viewed their purcahses more from a social and family aspect than the financial aspect of the purchase.

Rossi's (1955) research on selecting a home indicated that when families looked for a home, size requirements ranked first with design, neighborhood attributes, and costs ranking after size. When they chose their home, cost became more important, followed by space, and the neighborhood's location and social composition.

The Internal Revenue Code (1979, Regulation 1.1034-1), as it pertains to this research, stated that "in general, if the taxpayer invests in a new residence an amount of at least as large as the adjusted sales price of his old residence, no gain is recognized on the sale of the old residence." Personal residences were but one part of the code concerning gains on investment and their deferral for tax purposes.

CHAPTER III

METHODS AND PROCEDURES

In this chapter the type of research and the population from which the sample was drawn will be described. The sampling procedure will be discussed as well as the instrument used in the collection of the data. The method of data collection and subsequent analysis is also included.

Type of Research

This research study was exploratory in nature; the researcher was unable to locate any research examining the effect on subsequent housing purchase of the provision to defer a gain from the sale of a residence. This effect was explored in this study through the framework of the moving decision and the housing selection process. Because of the exploratory nature of the study, it was felt that the case study approach best fit the objectives outlined in this research and might contribute preliminary information regarding the effect of the provision for deferral of gain on the homebuyer's decision. According to Best (1977, pp. 118-119), the case study "is concerned with everything that is significant in the history or development of the case." He further stated "the case study method probes deeply, and intensively analyzes the interaction between factors that produce change or growth" (p. 119).

Data for the case study were gathered by individual in-depth interviews. These interviews were guided by the Housing Decision Schedule

(HDS) developed by the researcher. Each respondent's answers were evaluated individually, then compared with others in the sample.

There were limitations for any of the methods that might be chosen to research this topic. It was felt that limitations were minimized by the case study method. Some limitations for this type of research included:

1. bias of the respondent due to his involvement with the data that he/she was reporting,
2. distortion or withholding of facts the respondent felt were threatening or destructive to his/her ego,
3. inability of the respondent to provide certain types of information,
4. memory bias on the part of the respondent (Festinger, 1953).

Population

The population for this research was composed of all homeowners in the United States who have sold one house and purchased another residence within the past 12 months. Because this involved approximately one-third of the U.S. population, a smaller population seemed to be more manageable in terms of gathering data for research. For purposes of this study, the population for the study was homeowners within the Stillwater, Oklahoma, metropolitan area who had sold a previous residence and purchased a new residence within the 12 months preceeding the time of data collection. Stillwater was chosen because it was convenient to the researcher and it was representative, in general, of both types of mobility. Due to the presence of Oklahoma State University, the migration movers each year had similar characteristics to migration movers described in Andreasen's

(1966) article. The community was also composed of families representing all stages of the family life cycle and was representative of the mobility type of move.

Sample

The sample to be drawn from the population described above was nonrandom and purposive in nature. It was drawn from the closed files of homebuyers at the Kendall Grindstaff Gallery of Homes Real Estate Agency. This agency was selected because it sells residential property within the entire price range of residential property in Payne County, Oklahoma. During the first three months of 1979, this agency had sold more homes than any other agency in the Stillwater Multi-List service. These sales covered all types and prices of homes. The researcher felt this agency provided an adequate source for the sample due to the volume and range of business done by the agency and the cooperation of its owner, Mr. Kendall Grindstaff.

The real estate closings between June, 1978, and December, 1978, were examined first since it was assumed that recent homebuyers would remember the details of their move more clearly. As records were examined, a list of single family homebuyers was compiled. This list was examined to identify only repeat homebuyers. Buyers were classified according to purchase price of the home as follows: under \$40,000, \$40,001 to \$60,000, \$60,001 to \$80,000, and \$80,001 and above. When homebuyers were screened through this process, they were contacted by telephone to ascertain their willingness to participate in the research. Examination of closed files continued by going back one month at a time until the desired sample size was obtained. It was necessary to include cases which were closed in June, 1978, in order to complete the sample.

At the time of the telephone contact the researcher asked if the homebuyer rented or owned his previous home. Those who owned their previous homes were told that the interview would last approximately one hour and asked if they would be willing to partcipate in the study. When the researcher obtained permission from four families in each of the four price range categories, the sample was complete and the interviewing began. The researcher had some difficulty in finding four families willing to participate in the $40,000 and under category. More refusals were received in this category and there were fewer homes in this category from which to select a sample.

Instrumentation

The procedure consisted of in-depth interviews with the sample of 16 families. An interview schedule, Housing Design Schedule (HDS), of open-ended questions was developed by the researcher according to the guidelines and recommendations suggested by Cannell and Kahn (1953) and in accordance with the objectives of this research.

The interview schedule contained questions designed to discover when the occupants moved into the residence, why they moved, how many residences they had owned in the past, the approximate cost of the previous residence, approximate selling price range of the former residence, and the approximate price of the current residence (see Appendix). The HDS also contained questions indicating the homeowner's knowledge of the Internal Revenue Code's provision to defer the gain from the previous residence, whether this was a factor in deciding on the present residence and the respondent's supposition about his/her actions given the choice of reinvesting only his/her equity from his/her previous residence.

Cannell and Kahn (1953) discussed the major motivations of an interviewer and suggested ways a researcher might appeal to one or more of these motivations in order to encourage the interviewee to permit the interview. People were usually motivated to become involved in research studies because they were paid for the interview, had a personal scientific interest, were influenced by the researcher's prestige, or were simply curious or too polite to refuse. To tap these motivations, it was suggested that the interview begin with questions designed to develop an active interest on the part of the respondent, as well as to relieve any anxieties about the type of response the interviewer desired from him/her. Questions one through four on the HDS were designed with this purpose in mind (see Appendix).

The interview schedule had two purposes. First, it translated research objectives into specific questions. Each question was constructed so as to elicit a response which accurately and completely reflected each respondent's position (Cannell and Kahn, 1953). Second, the interview schedule should assist the interviewer in motivating the respondent to communicate the required information (Cannell and Kahn, 1953). All the questions on the HDS were constructed with these purposes in mind.

The questions asked of the interviewee were at a level of information to which he/she was capable of giving complete answers. Emphasis was placed on the acceptability of a wide range of responses. In the same way, "Questions should be phrased so that they contain no suggestion as to the most appropriate response" (Cannell and Kahn, 1953, p. 347). Cannell and Kahn stated that each question in the schedule should contain a single idea or a single reference; questions should be arranged to appear logical to the respondent; funnel questions, questions which begin with a broad idea and then successively narrow the subject, should be employed to aid the respondent in formulating his ideas and expressing them. This was reflected in the HDS in the sections "previous home" and "present home."

The Housing Decision Schedule (HDS) is provided in the Appendix. It was open in style to permit the respondent to answer in his/her own words and to structure answers as he/she wished (Cannell and Kahn, 1953). Where it was possible, the answer sheet was pre-coded to facilitate recording of the answers.

Data Collection

Data were collected during an in-depth personal interview with husband and wife homeowners. It was felt that both should be present to help recall certain facts and situations as they occurred when they selected their home. The interview was mechanically recorded in part with the respondent's permission. The interview was guided by the HDS constructed for the research and was conducted by the researcher.

Analysis of Data

The HDS forms and recordings of the in-depth personal interviews were summarized individually in terms of the reasons for moving, importance of various factors in the decision process, awareness of the ability to defer for tax purposes the gain from the sale of their previous residence, and respondent's conjecture as to behavior given the alternative to reinvest only the equity realized from the former residence. The data were then analyzed as a whole. This procedure allowed for observations of trends or exceptions in the behavior of the total sample. By stratifying the sample according to purchase price of the home, observations were made regarding the age of the homebuyer, the cost of his/her home, and the awareness level of the homebuyers with regard to the deferral of gain provision of the Internal Revenue Code. The results of the analysis of the sample as a whole are presented in Tables I through VII in Chapter IV.

CHAPTER IV

FINDINGS

Introduction

Presented in this chapter are the results of the 16 interviews which were conducted by the researcher using the Housing Decision Schedule (HDS). The sample was composed of families who had previously owned homes and had moved to another residence in the Stillwater, Oklahoma, area within the past year. The sample was grouped so that there were four families who purchased a home under $40,000, four who purchased homes priced between $40,001 and $60,000, four who purchased homes priced between $60,001 and $80,000, and four who purchased homes priced over $80,000. The sample was gathered in June, 1979.

Case I

Case I was a family with three members. The husband was 35 years old, the wife was 34 years old, and the son was eight years old. They moved into a new home in February, 1979, and they were busy with finishing touches and landscape work. The couple was recently married; both having been married and owning homes previously. This was the first home they have owned together.

Both the husband and wife had each owned one other home prior to the purchase of their present home. The husband described his previous home as it was the most recent ownership within the marriage. He described his previous home as having had four bedrooms, two living areas, and two and one-half baths. He had the house built in 1973 at a cost of between $45,000 and $50,000. It was located to the west of Stillwater, Oklahoma. He sold the house at the time of the divorce for between $65,000 and $70,000.

The current home was described as having four bedrooms, one living area, and two baths. It was newly constructed and this couple purchased it for between $85,000 and $90,000. In comparing the husband's previous home to the present one, the previous home was larger than the present home, it was of poorer quality of construction, and it was located farther from his job. The husband reported that he moved from the previous residence because of his divorce and a temporary job assignment in a distant location.

In tracing back through this couple's house selection and decision process, they reported that they looked and considered fewer than 10 houses. In looking for a home, this couple felt that the design of the home was the most important consideration and included aesthetic elements built into the home, as well as spatial arrangement. Privacy for adults was listed as second most important. The third factor in the process was location, including the immediate neighborhood as well as proximity to his job. He wanted a well maintained neighborhood and some assurance that trees would grow. Cost was mentioned next. This couple stated that they had determined a price range that they felt they could afford and looked only within that range.

Contrary to what the couple reported, this researcher felt that, upon analysis of the interview, cost was even more important than design because the couple mentioned that first they determined a price range and then they looked at homes within that range in terms of design, privacy, and location.

In deciding to purchase the current home, the couple felt this home best met their needs in terms of its design, provisions for privacy, location, and price range. It had additional features like a redwood deck, a separate bath tub and shower in the master bedroom, and some unusual kitchen features which made it the most attractive of the houses they saw.

In attempting to determine the couple's knowledge of the Federal tax laws regarding the sale and exchange of a residence, they were asked to define equity in their own terms. The couple defined it as follows: "Equity--unencumbered share of the market value." This couple seemed very familiar with the Federal tax laws as they apply to sale of a personal residence. They were aware of the need to reinvest the entire proceeds from the previous residence within a given time period. In fact, the time limit for reinvestment influenced the timing of the purchase of their home. The time limit for reinvesting the proceeds from the sale of their previous home was about to expire so to avoid tax they reinvested in a home.

The couple reached a decision on cost of their home by looking at their income and deciding how large a house payment they could afford based on their income. The sales price of his previous home did not seem to be a factor as they bought the most expensive house they felt they could afford.

The couple was asked to assume that the present tax laws were not in effect. They were then asked how their housing decision might have been affected if they had to reinvest only their equity in a subsequent residence. This couple stated that the timing of their house purchase would have been delayed. They stated that this was the only aspect that would be affected for them. They had already decided to spend as much for their housing as they could afford.

In summary, this couple seemed to have determined a definite price range in which they looked for their new house. Once the house met the cost criteria, the most important things to them were design of the home, privacy, and location in terms of area of town and proximity to job. The current home was better built than the previous home, was smaller than the previous home, and was located nearer to his job. They seemed well aware of the Federal tax laws concerning sale of a residence but felt that the time limit for re-investment of the proceeds was the only aspect of the law that affected them in the purchase of this home.

Case II

Case II was a family composed of a husband, 34 years old, and a wife, 29 years old. They had no children. They moved into this home in June, 1978, and had lived in the house almost one year.

This couple had owned two homes prior to purchasing this home. They lived in their previous home for about one year. The previous home was described as having three bedrooms, one living area, and one and one-half baths. It was located in a city on the east coast. The couple purchased it in 1977 for between $40,001 and $45,000. They sold the home for between $45,001 and $50,000.

The present home was described as having three bedrooms, one living area, and two baths. They purchased it for between $55,001 and $60,000.

The previous home compared to the present home was smaller, of better quality construction, and was farther away from his employment.

This couple decided to sell the previous home because the husband was offered a job in the Stillwater, Oklahoma, area. They reported that they looked at between 12 and 15 homes before making a decision on a home. In looking for a home, they felt they needed a large yard--larger than the normal city lot. This seemed to be an important feature in their search. They restricted their search process to one particular side of town and only considered homes with large lots within this area. In terms of the home itself, they were looking for a home with two baths and, if possible, a fireplace. The couple expressed the idea that the number of baths and the fireplace were negotiable if the yard met size requirements. In the previous home in the East, they had wanted a fireplace. However, when they found a house with the large yard they desired but without a fireplace they bought it. They planned to spend about $45,000 to $50,000 for the home in Stillwater, but as they looked they realized they would need to pay more to get the oversized lot.

In selecting the home they bought, they reported that the present home met all their requirements except for cost. They were willing to pay more than they had planned for the large lot, the two baths, and the fireplace. The present home had one large living area with a massive stone fireplace. It also had added features which appealed to them--such as an oversized garage and a large kitchen. These extra features, plus the couple's basic requirements, made this house outstanding in terms of their needs and desires.

This couple defined equity as "what we've got in the house" and as "the difference in the amount you first put into the house when you buy it and what you build up by owning it." The husband did not consider the amount of increase in value due to inflation as part of his equity until he planned to sell the house.

When this couple was asked if it was familiar with the Federal tax laws as they apply to the sale of a previous residence, they stated they were. When asked for further explanation, they knew general information on time limits, but were unsure about the amount they needed to reinvest to avoid tax. They stated they always spent more for each new home so they knew they were not affected by the law. They determined how much to spend for housing by looking at the price of the home they wanted in relation to the proceeds from their previous home, their savings account, and their income. The husband reported that with each home they had purchased, they had reinvested the entire proceeds from the previous home plus a substantial amount of their savings in order to reduce the monthly mortgage payments. They stated that reinvesting only their equity would have made no difference in their housing decision because they had increased their equity with each home purchase in order to buy the most expensive home their monthly budget would allow. The wife mentioned that her husband cannot stand bills, but he seems to have resigned himself to a mortgage payment.

This couple's decision process was guided by a certain lot size in a particular area of the town. Once a property met this requirement, then the design features such as two baths and a fireplace became important. When one with these features seemed unavailable in the price range they wanted, they paid more to get what they wanted. The present home was larger than the previous home, was of poorer quality construction, and was nearer to his job. This couple was aware of the tax laws generally. They knew they did not apply to them as they bought a more expensive home each time they moved. They did not feel that having to reinvest only their equity would affect them as they usually bought the most expensive house that they could afford.

Case III

Case III was a family composed of a husband, age 36; a wife, age 36; two sons, ages nine and seven; and a daughter, age six. They moved into their new home in April, 1979.

This couple had owned three homes in the past. They lived in their previous home for about one year before moving into the present home. They described their previous home as having two bedrooms, two living areas, and one bath. It was located in the country outside the city limits of Stillwater, Oklahoma. They purchased the home in 1977 for between $30,000 and $35,000 and recently sold it for between $35,001 and $40,000.

The present home was described as having three bedrooms, one living area, and two baths. They purchased the home for between $25,000 and $30,000. In comparing the present home to the previous one, the previous home was about the same size as the present, about the same in quality of construction, and was closer to their employment.

This couple decided to sell their previous home because they felt the monthly mortgage payments were too high for their budget. She also stated that the interior of the home had begun to deteriorate and needed some repair. They rented a home while they looked for a new home. They wanted a small farm with outbuildings for animals and they wanted a less expensive place that was easier to maintain. The cost of the new home was most important to them, but the requirements of land and outbuildings followed the cost factor very closely in importance. Aside from these two requirements, she stated that the family would have taken any house that could have been made livable. The home they purchased was a double-wide mobile home, and they found it satisfactory. Energy was a factor in their decision because this family was striving to become entirely self-sufficient. The farm location was not energy efficient in terms of their gasoline expenses to and from work, but by being self-sufficient in other ways they felt they conserved energy.

In deciding how much they could pay for a home, they stated that they had the money. She told the realtor she wanted a farm with house and outbuildings and gave her a limit of $30,000. They defined equity as "your initial investment in a home." They were "more or less" familiar with the Federal tax laws pertaining to the sale of a residence. When they were asked to explain, they could not tell the researcher specifically about the Federal taxes. She could explain property tax and selling expenses when purchasing a home, but could not elaborate on the Federal tax law specifically.

This family was striving for self-sufficiency. They appeared to have purchased their home with no mortgage. Their main concerns in locating new housing were the cost first, with the amount of land and outbuildings ranking second in importance. The house itself was unimportant as long as it could be made livable. The reason the family moved was a desire for less expensive housing. They did not appear to be aware of the need to either reinvest the proceeds from the former sale or pay tax on their gain, if there was a gain.

Case IV

Case IV was a retired couple who recently moved to Stillwater for their retirement. The husband was 65 years old and the wife was 64 years old. They were the only persons in the household since their daughters had grown up and lived on their own. They moved into their present home in March, 1979.

This couple owned four homes before purchasing their present one. They lived in their previous home for five years. This home was located in a large city in Colorado. They described the house as having four bedrooms, three living areas, and two baths. They purchased it in 1974 for an approximate cost of between $30,001 and $35,000. They sold the home for between $70,001 and $75,000.

They described their present home as having three bedrooms, one living area, and two baths. They paid approximately $35,001 to $40,000 for the home. In comparing the previous home to the present home, the previous home was larger, about the same quality of construction, and was quite a distance from his employment. The couple noted, however, that they always tried to be within walking distance of shopping wherever they have lived. This was especially necessary when considering their new home.

This couple chose to sell their home in Colorado because the husband reached retirement age. They moved to Boulder and purchased their home there five years ago with the idea that it would be their home in retirement. The husband stated that when it came time for retirement, Social Security income went farther in Stillwater, Oklahoma, than it did in Colorado. They felt that they could afford to stay in Colorado only if he worked because the wage scale was higher. They actually wanted to stay in Colorado because they had a daughter living nearby, but the limited amount they drew from Social Security forced them to relocate in an area of lower living cost.

The couple moved to Stillwater to retire. They reported that they looked at approximately 12 homes in the northeast area of Stillwater, Oklahoma. The reason they limited themselves to this particular area was because they had a daughter with her family who lived in Glencoe. The grandson and son-in-law worked nearby and their friends all lived outside the city on the northeast side. By living in this part of town, they did not have to cross town through the traffic to see the people with whom they wanted to be.

The couple, with the aid of their daughter who is employed as a realtor in Colorado, had quite a list of features they wanted in their home. They stated they looked for a home that was priced around $35,000, was of brick construction for easy maintenance, had R-19 and R-30 insulation, did not have the front door facing the north, had a two-car garage, had three bedrooms, was in the northeast portion of Stillwater, had a storm cellar, and was approximately 1,200 to 1,500 square feet in size. They had also mentioned proximity to shopping. Of this extensive list of requirements, they stated that price was the most important to them. They did have to pay more than $35,000, but were comfortable with the decision. The second most important thing to them was the brick construction. The requirements for three bedrooms was third in importance. The wife stated that this was important because she wanted the television out of the main living area. Energy was the fourth most important factor, and they were able to find this one home with insulation which met their requirements. The other factors they mentioned were important as well, but ranking them did not seem feasible.

This home met all of their requirements except for the storm cellar, but they found out they could add it after they moved in. Some of the other homes they looked at would not permit this addition due to drainage problems or lot restrictions. In addition to their first list of requirements, this home was especially convenient to shopping and was located on the corner of a busy street that would be kept clear in bad weather. It gave the wife a sense of privacy and spaciousness because there were no neighbors to the south of them. They also noted that the finish work was especially nice and that the light fixtures were made of glass instead of plastic. This house did not have the drainage problems as did some of the others they looked at. It was also relatively near the hospital which they considered important. This couple had really thought through their needs and had placed priorities. They shopped carefully and report being pleased with their purchase.

The couple defined equity as their savings in the home. She stated it was "what you build in it." When shopping for the new home, they had decided to reinvest only part of their equity from the previous home and to save the remainder for contengencies. They did not want a mortgage because of their fixed income, and they did not want to spend all they had saved. They shopped carefully and they did a lot of the extra finishing work required in a new home themselves. They installed a new fence themselves and have made a patio. They have purchased and hung new draperies as well as landscaped and sodded the yard. They reported that despite all these expenditures, they have less than $40,000 in the home. They were familiar with the Federal tax laws as they apply to the sale of a residence. This law concerned them directly because they were of retirement age. They had planned to move earlier than they did, but postponed it until he was 65 so they could avoid approximately $3,000 in taxes on their gain from the sale of their home. Once he was 65 and the decision to move was made, the law changed to permit homeowners to exercise a once in a life time option of not paying on the gain from the sale of a residence at age 55 instead.

This couple was not asked to speculate about the impact on their housing decision by having to reinvest only their equity in the new home because they had taken advantage of the one time exclusion of up to $100,000 of gain from the sale of their residence. They did tell the researcher they had moved into a smaller residence once their family had grown up and had wanted the smallest space that was livable to them in their new home due to cost and utility bills.

In summary, this couple moved because of his retirement and their desire to live in an area with a lower cost of living that better matched their retirement income. They had extensive requirements for their new home. They were able to locate a home that met most of these requirements. They compromised slightly in the cost of the home. Federal tax laws did not affect their housing decision by causing them to postpone their move into their retirement home until he was 65 years old. The law changed after their move. They had wanted a home they could buy outright and with this once in a lifetime option, were able to do so.

Case V

The fifth case was a family composed of five members: the husband and wife, both 35 years old; a son, 11; and two daughters, 8 and 13.

They moved into their present home in January, 1979.

This family had owned two homes previously. They described their previous home as having five bedrooms, two living areas, and two baths. The home was located in a Wisconsin town of about 22,000 people. That home was purchased in 1976 at a cost of between $40,001 and $45,000, and sold prior to moving to Stillwater for between $50,001 and $55,000.

They described their present home as having four bedrooms, two living areas, and two baths. They purchased it for between $50,001 and $55,000. Their previous home compared to their present home was much larger, of about the same quality of construction, and was farther from his job, but closer to hers.

When they were shopping for a new home, they established a price range. Within this price range, they shopped for usable living space, four bedrooms, a good location for re-sale value, and energy efficiency. They were looking for a home that had extra insulation and gas forced air heat. They did not particularly consider proximity to work as an energy efficiency factor in the purchase of their home.

Once these factors in their decision were ranked, it appeared that their decision was governed by an established price range. After price of the home, the size of the home (described as a usable space) was the next most important. The third most important item was the number of bedrooms, and fourth was energy efficiency in the form of type of heat and added insulation.

The husband initiated the search for their new home as he reported for work before the family actually moved. He stated he looked at about 30 homes and showed his wife between 15 and 20 of these after she arrived.

They narrowed their search to two homes. One was located on two and one-half acres, had one living area, and was all electric. The other was the home they purchased that had two living areas and gas heat. Several factors helped them to make a decision. In looking at both homes in terms of space, the home with two living areas was the more attractive. This was supported by the reasoning that all gas heat was more economical than electric heat. The large two and one-half acre lot also affected the decision because it would require more care with special equipment that would need to be purchased. The wife also stated that she wanted neighbors who would be near enough to visit. In addition to all these aspects of their decision, their present home was made more attractive because of an assumable mortgage.

When this couple was asked to define equity, the husband stated that it was "that amount of my home that I own" or that portion which is not mortgaged. They decided how much to spend on their new home by estimating the sales price of their previous home and their equity in that home. The husband seemed familiar with the Federal tax law as it applies to the sale of a residence. He knew specifically that it applied to him if he did not buy a home of equal value to his previous home within a specified time period. When the couple was asked to assume that the present tax laws were not in effect and that they needed to reinvest only their equity in the new home, they stated that these facts would not have influenced their decision because the price and size of homes in Stillwater was approximately the same as in Wisconsin. He stated that if they had found a home for $30,000 then it would have affected their decision. The researcher noted that they had established a price range when they looked and asked if they had looked at homes under that price range. They stated that they had, but found the homes to be too small for their needs or not in a livable condition.

This family moved because of the husband's job transfer. They looked for a home by first establishing a price range they were comfortable with, then they shopped for the number of bedrooms, the size and arrangement of living space, the location of the home, and energy efficiency. They chose their present home over another of comparable size because their present home had two living areas, seemed more energy efficient, and had a smaller lot in a neighborhood. Finally, to make the home even more appealing, it had an assumable mortgage. This family was aware of the Federal tax laws, but it did not affect their housing decision because size of home and price were very close to what they were accustomed to in their previous home in Wisconsin.

Case VI

Case VI involved a family with four members. The husband was 53 years old and the wife was 41 years old. They had a son, 17 years old, and a daughter, 11. The family moved into their present home in April, 1979.

The family had owned one home prior to their present home. It was located in a Wisconsin town of approximately 40,000. They lived in the home for 10 years, but rented the home for five years before they purchased it. They purchased it in 1972 for under $20,000 and sold it for between $35,001 and $40,000. They described the home as having three bedrooms, two living areas, and one and one-half baths.

Their present home was purchased for between $55,001 and $60,000. It was described as having three bedrooms, one living area, and two baths. Their previous home was smaller than their present home, was of better quality of construction, and was farther from his work.

The family moved to Stillwater because the husband was transferred in his job. When they looked for their new home, the first consideration to the family was the cost of the home. They were careful to shop in a particular price range. They wanted a home with good resale potential. Next to cost, location in relationship to neighborhood and job were important. The schools that the children would attend were third in importance. Fourth in importance were the energy features in the home. They also wanted two living areas and a formal dining room, as well as a fairly large lot. The size of the home in terms of square feet was not very important. They were looking at the number of rooms in the house. The couple reported that they had looked at between 30 and 40 homes prior to purchasing this one. They chose their present home because it was new, and they felt they were better off financially to purchase a home where the applicances, fixtures, and building were under warranty and in new condition. They had to spend money for landscaping and draperies for the home but still felt they had spent less for what they got in the long run. They also considered location in relation to the job to be very important with the escalation in the price of gasoline.

This couple defined equity in their home as its value. The wife stated that it is "what our money is bringing us." It was the property value. They decided how much to spend on the new house by first deciding to sell their previous home to see how much money they had from it to apply to the purchase of the new home. They also reviewed their income situation to determine how large a mortgage they felt they could handle. The wife stated that they made these decisions after looking at homes in Stillwater during a January visit. They also made loan application at that time so when they had sold their home in Wisconsin, they could purchase a new home within a short time.

When the researcher asked if the couple was familiar with the Federal tax laws as they apply to the sale of a personal residence, they said they were, in a vague way, but they could not explain how the law might affect them. They were very familiar with the way the Wisconsin tax law affected them, however, and were much more concerned about its affect on their financial status. The interview was terminated at this point due to their lack of familiarity with the Federal tax laws.

In summary, this family moved to Stillwater because of a job transfer. When they shopped for a home, they were guided by the price range that they felt they could afford. Location was next most important. The home they selected met their requirements in terms of cost, location, and it was newly constructed which appealed to them. They were not aware of the Federal tax laws regarding the sale and purchase of a home, but were very familiar with the Wisconsin tax laws.

Case VII

Case VII was a family of four: the husband, age 34; his wife, age 33; and their two daughters, seven and five years of age. They moved into their present home in November, 1978.

The family reported that they had owned two homes prior to the purchase of their present home. They had lived in their present home for two years. They described it as having five bedrooms, two living areas, and two and one-half baths. It was located in a small city in Oklahoma and was purchased in 1976 for between $50,001 and $55,000. They sold it two years later for between $75,001 and $80,000.

The family's present home was described as having four bedrooms, two living areas, and three baths. The family purchased it for over $90,000. The previous home, when compared with the present home, was larger, of poorer quality construction, and closer to their jobs.

The reason given for their decision to move was "to acquire this one" meaning their present home. They found this home, decided to purchase it, and then put their previous home on the market.

When this couple was asked what things were important for them to have in a new home when they shopped, they stated they were not actively in the market for a new home. They had visited some friends whose home was in a country setting. They fell in love with the idea of being in the country and mentioned to a realtor friend that they would be interested in seeing some homes in the country. The friend described another property which was for sale and which was near their present home. In trying to locate that property, they literally stumbled onto their present home. It was an accidental find, but they felt that it was their "dream house." They had always wanted a multi-level house in a natural setting with lots of trees. It was smaller than their previous home, but they described it as adequate in size for their needs. It had additional land with a pond surrounding the house. It was professionally landscaped in a setting with privacy. The couple felt it was a good buy, but it was described as an impulse buy for them.

The couple reported that the wife looked at only one other house before their purchase. It was an older, restored two-story home in the town of Stillwater.

The couple defined equity as the "potential profit from the sale of the house" or the "difference between the mortgage outstanding and the fair market value." In making the decision on what they could pay for a home, the husband shopped for the best financing rate he could obtain given the amount of equity he had from his previous home to cover the down payment and closing costs. The husband was familiar with the Federal tax laws as they apply to the sale and purchase of a residence. His wife stated that he is a lawyer with an expertise in tax law. Their decision to purchase this home was not affected by these tax laws. When they were asked about reinvesting only their equity to avoid paying additional tax, they stated it would make no difference in their housing decision because avoiding tax was not a primary motivation in their housing decision at this time. The husband stated that the balance of their assets and liabilities at that time had more influence on their decision to purchase the home. If their financial situation were changed when they were ready to move again, then their decision on housing might be affected.

Case VII was unique because although the couple had in mind what their "dream house" would be, they were not actively in the market for a home. They found their "dream home" quite by accident and considered the purchase an impulsive one. The husband was very familiar with the Internal Revenue Code and laws concerning the sale and purchase of a personal residence. Their housing choice would not have been affected if they had been required to reinvest only their equity or if the present tax laws were not in effect.

Case VIII

Case VIII was a family composed of four members: the husband and wife were both 33 years old and two daughters, ages 8 and 10. They moved into their new home in May, 1979.

The family had owned three homes before buying the present one. They described their previous home as having three bedrooms, two living areas, and two baths. It was located in a smaller city in Oklahoma. They purchased the home in 1975 for between $35,001 and $40,000 and sold it in 1979 for between $55,001 and $60,000.

The family described their present home as having four bedrooms, two living areas, and three baths. They paid between $80,001 and $85,000 for this home. In comparing their previous home to their present home, the previous home was smaller, of poorer quality construction, and was much closer to their jobs.

The family did not decide to sell their previous home until after they had located their present home. They reported that they had looked for a long time because they wanted more land and wanted to avoid income tax by increasing their debt since the wife had returned to full-time employment. In their new home, they felt that cost was important. They needed to be able to make the monthly payments, but they wanted to mortgage as much of the cost of the home as they could to take advantage of the interest deduction allowed on the Federal income tax. By increasing the interest deduction, they could reduce the amount of income tax they paid. Beyond this factor, they wanted more land. Every home they looked at was located on at least one acre of land. Next, they ranked the space allowed by the fourth bedroom. Energy was the next important factor.

They wanted the new home to have storm windows or the capability of having storm windows installed. They also wanted extra insulation but were willing to add it if it was not in the home they selected. Distance to work was a consideration although to acquire the land they wanted they were willing to drive an extra distance and pay more for gasoline due to the increased distance.

In looking for the new home, the husband looked at many more than the wife since his schedule was more flexible than hers. She looked at between 6 and 10 homes before they decided to purchase their present home.

They chose their present home over the others they looked at because the price was within their price range. They also felt it was better built than any of the others they considered and was located on a three and one-half acre tract that met their requirement. They felt the interior was tastefully done and they would have to make no immediate changes in the house or the decor. They would have liked for the home to be closer to their jobs, but were willing to concede this factor for the additional land.

When this couple was asked to define equity, the husband stated that it was the "portion I own versus the portion the bank owns." This couple decided how much they could afford to pay for a new home by trying to estimate the incremental costs of a more expensive home and then estimate how much of this incremental cost could be written off for income tax purposes. The resulting amount was their actual increase in cost. They felt it was to their advantage so they proceeded with the home purchase.

The husband was familiar with the Federal income tax laws as they apply to sale of a personal residence. He stated that one would pay no capital gain tax if replacing the present residence with an equal or more expensive residence. When asked if reinvesting only their equity would have affected their housing decision, the husband stated it would have made no difference in their decision because they would have bought a more expensive home as long as the interest on the mortgage was deductible under the Internal Revenue Code. The capital gain aspect of the Internal Revenue Code did not affect their decision according to the husband.

In summary, this family moved within the Stillwater area and were motivated by the desire to gain a tax advantage as well as to acquire a larger amount of land. The Internal Revenue Code did influence their decision to move by allowing interest paid on a mortgage to be deducted from taxable income. The deferral of gain aspect of the law did not enter into their decision.

Case IX

Case IX was a family of four members. The husband, age 45, and his wife, age 44, live by themselves most of the time as their son, age 20, and daughter, 19, both attend college away from home. They moved into their present home in December, 1978.

This family owned two homes before the purchase of their present home. They lived in their last home for about one and one-half years before moving into their present home. The previous home was located in a small city in Oklahoma and was described as having three bedrooms, two living areas, and two baths. The family purchased it in 1977 for a cost of between $40,001 and $45,000 and sold it in 1978 for between $60,001 and $65,000.

They described their present home as having three bedrooms, one living area, and two baths. They purchased the home for over $90,000. The present home was about the same size as the previous home, of better quality construction, and farther from their places of employment.

This couple had not actively looked for new housing. They reported that when they were offered a chance to see this home, they looked at it and then decided to move. In looking back at their decision, they felt that the location of the previous home was not ideal--especially when compared to the new home. They looked at only this one home, but they both felt that it set the standard for any other homes at which they might have looked. They did not think the other homes would measure up to this home in terms of quality of construction, design of the home, and the age of the home. Size of the home was not especially important to them, but they did not want a larger home. They did not consider energy efficiency when they made their decision. This home represented their "dream home," and they felt fortunate in finding it.

This couple considered equity to be their "value in the home" which was the difference between the market price and the mortgage amount. When they decided how much they could pay for their home, they estimated their incomes, prepared a budget, and shopped for financing. Then they looked at the estimated payments and made their decision as to whether they could afford the home. The husband was very aware of the Federal tax laws as they apply to the sale and purchase of a residence.

When they were asked about the alternatives of reinvesting only their equity in the new home, they stated that it would make no difference in their decision. He stated that there were other things such as the house itself that merited greater consideration than the tax situation.

This family was not actively looking for new housing. They bought this home without looking at any others which were for sale. They considered it their "dream house" and they felt that no other home could measure up to it. They were aware of the Federal tax laws regarding sale and purchase of a residence but they were not influenced by them. They reported that their housing decision would have been no different if they had had to reinvest only their equity. The husband felt that there were more important things to consider when purchasing a home.

Case X

Case X was a family with four members. The husband and wife were both over 45 years old. They had two daughters, ages 19 and 21, who were no longer permanent residents of the household. They moved into their new home in September, 1978.

This family had owned two homes before purchasing their present one. They lived in their last home for 12 years. They described it as having four bedrooms, two living areas, and two baths. It was located in a town of approximately 25,000 people in a mid-eastern state. They had purchased this home in 1967 for between $30,001 and $35,000 and sold it in 1978 for over $90,000.

They described their present home as having three bedrooms, one living area, and three baths. They purchased it for between $70,001 and $75,000. In comparing their previous home to their present home, their previous home was larger, was of better quality construction, and was closer to his place of employment.

Their decision to move was based on a job offer for him in the Stillwater, Oklahoma, area. When they shopped for a new home, the wife was looking for a newly constructed home that was smaller than their previous home and was more efficient in arrangement. Price range for the home was not a major constraint. The couple enjoyed sports so they wanted to be near recreation facilities and his job as well. They stated that energy efficiency was not an important consideration. In ranking important criteria, the wife put new construction as number one. The husband thought availability of the home was number one because they needed to move in immediately. The location near recreation and job were second in importance. The size of the home was ranked third. Price was listed as fourth in order of importance.

They looked at approximately six homes before deciding to purchase their present one. They chose their present home because it met her requirement of being newly constructed and his requirement of being available immediately. It was close to work and recreation and had a small yard with little upkeep so it would permit more free time to pursue their recreational interests.

This couple defined equity as "savings" in the home. When they were deciding to purchase their new home, they reported that they really did not consider a particular price range. They were aware of the amount of equity they had in their previous home. It was a large amount so they were flexible in terms of their housing choices. They were aware of the tax laws regarding the sale and purchase of a new residence, but the law did not influence them in their decision. They elected to use their equity from the previous home to buy this home outright. Since the cost of the present home was less than the sales price of the previous home, he realized that he would need to pay tax on the amount he gained from that sale. He was willing to pay the tax because they had found a home that met their needs. Their housing decision was not based on a desire to avoid paying the tax on their gain. Other aspects (such as being newly constructed, smaller in size, and the home's location) were more important to them.

In summary, this family was composed of the husband and wife. Their daughters were not living in the home on a permanent basis. They moved from a larger, more expensive home in a mid-eastern state to a less expensive, smaller, more efficient home in Stillwater, Oklahoma. While this couple was aware of the Federal income tax laws, these laws did not affect their housing decision. They were willing to pay the tax on their gain from the sale of their previous home. They stated that they were not ready to use their once in a lifetime exemption on the gain at this time in their life. In this move, they used their equity to purchase their home outright because they found a home to suit them which could be purchased with their equity.

Case XI

Case XI was a family composed of three members. The husband was 32 years old, the wife was 35 years old, and their daughter was four years old. This family moved into their present home in June, 1978.

The couple had owned one home prior to the purchase of this residence. It was located in one of Oklahoma's larger metropolitan areas and was described as having three bedrooms, one living area, and one bath. They had purchased the home in 1969 and they lived there for nine years. They purchased the home for between \$11,000 and \$20,000 and sold it for between \$30,001 and \$35,000.

The couple described their present home as having two bedrooms, one living area, and one bath. They purchased the home for between \$30,001 and \$35,000. In comparing this home to their previous home, the previous home was larger, poorer in quality of construction, and farther from their places of employment.

The decision to move was the result of the couple's desire to return to school for further education. They chose Stillwater because they were accepted as students at Oklahoma State University.

When this couple shopped for housing, they had several specific requirements. They wanted an area with children for their daughter. The wife stated that their previous home had been in an area where older couples lived and there were no children. They also required storage space, an attached garage with an entry from the garage to the house, and an all brick home. They wanted an energy efficient home and they were concerned with cost of the home because their income would be reduced. They were looking for a two bedroom home because they thought the rooms would be larger and would have more storage space. The wife also looked for a home that had electrical outlets on more than one wall. When the couple was asked to rank these requirements, the most important to them was the neighborhood. Storage was second in importance. Energy efficiency was third, and the attached garage was fourth. All of these were guided by the cost of the home because of their reduced income.

The couple reported that they originally considered a mobile home and had looked at several mobile home parks and two mobile homes. They decided against a mobile home because they were concerned with its resale potential.

When they chose their present home, they looked and considered all four homes they saw. The first two were rejected because of neighborhood location and poor quality of construction. This narrowed their choice to two in the same neighborhood. The home they did not purchase had three bedrooms with about the same amount of space as the present two bedroom home. The wife reported that this made the bedrooms and closets small. The design of that home was not as appealing to them as the one they purchased. Their home had two large bedrooms with large walk-in closets. It also had an arrangement which she liked. It was not the least expensive home they saw, but it was within a price range with which they felt comfortable. The home met their requirements of location, cost, and design.

The wife defined equity as "the amount we actually paid in" or "the amount we own." Their decision on how much to pay for a new home was based on how much equity they realized from their previous home and the amount they could borrow for the new home. The wife was familiar with the tax laws governing the sale and purchase of a home. The husband knew the specifics of the laws. When asked if they had been required to reinvest only their equity in the new home in order to avoid paying tax, they indicated that it would have made no difference. They would have made as large an investment in their home as they could. The wife also liked this home over any others she saw in their price range.

The family was composed of a preschool child and her parents who had returned to college. The most important things to them in the selection of their new home were cost, neighborhood, and design features of the new home. They were familiar with the Federal tax laws concerning the sale and purchase of a residence. Their housing decision would have been no different given the opportunity to avoid tax by re-investing only the equity.

Case XII

Case XII was a family of four members. The husband and wife were 34 and 33 years old, respectively. They had a daughter who was 12 and a son who was eight. The moved into their home in September, 1978.

The couple had owned two homes before purchasing their present home. They bought their previous home in 1975 and lived in it for three years. They purchased the home for between \$25,001 and \$30,000 and sold it for between \$50,001 and \$55,000. The home was located in a suburb of a large city in Oklahoma. It had three bedrooms, two living areas, and two baths.

Their present home was described as having three bedrooms, two living areas, and two baths and was purchased for between \$60,001 and \$65,000. In comparing their previous home to their present home, the previous home was smaller, was of poorer quality of construction, but was much closer to his place of employment.

Their decision to move was based on the husband's job transfer. His new location was to be 20 miles outside of Stillwater so they wanted a home in town which would be on the same side of town as his job. They wanted a larger home than they had previously owned. It needed to be three bedrooms and approximately 1,800 square feet in size. They wanted two living areas because they did not want the television and piano in the same room. Cost of the home was also important to them. When these items were ranked in importance, the location in Stillwater was first in importance. They felt it would affect them in two ways. First, the area they were considering was a nice area of town, was close to the schools they wanted their children to attend, and it was closer to his job so it was energy efficient in terms of gasoline. Cost of the home was second in importance, with size of the home ranked third. The fourth item was the design of the home in terms of the number of living areas. They reported that they looked at between 7 and 10 homes before they made their decision.

In making the decision to purchase their present home, location played a major part. They could have located closer to his employment, but the wife would have needed to drive into town quite a distance for shopping and activities. They decided it was more efficient for them to live near the edge of a town in the direction of his work. The decision on the home narrowed to two homes on that side of town which were priced about the same. One had two living areas, and the other home had only one living area. Both were in neighborhoods that appealed to them. They made an offer on the home with two living areas only to find it had sold earlier that same day. They then bought the home with only the one living area. The wife reported that they could have purchased a home with two living areas in another part of town, but they felt the additional distance was too great for the husband to commute. There were other finishing features in their present home like built-ins, storm windows, and extra insulation that appealed to them and made their decision to give up the other living area a little easier.

The wife defined equity as the difference between what you paid for it and the value of the home when it is sold. They decided how much to pay for a home by looking at his salary and deciding on how large a payment they could afford to make. She reported that they had decided to stretch their budget a little when they first moved in the hope that salary increases would help in the future. The wife stated that she was familiar with the Federal income tax laws concerning the sale and purchase of a residence because she completed their income tax forms. When she gave an explanation of the laws, she seemed reasonably well informed. When the researcher asked about reinvesting only their equity, they stated it would have made no difference in their purchase at this time because they wanted a larger home. They stated they completely re-invested their equity in each home they had purchased, but had also paid more for each home.

This family moved due to a job transfer. They were able to find housing that met all of their requirements with one exception. They compromised the desire for two living areas in order to obtain the location they wanted. They were aware of the Federal tax laws concerning the sale and purchase of a home, but the laws did not influence their decision. They felt that their housing decision would not have changed if the present laws were not in effect or if they had to reinvest only their equity.

Case XIII

Case XIII was a family of four. The husband was 37 years old. His wife was 33 years old. They had a daughter and son, ages eight and four, respectively. They moved into their present home in June, 1978.

The family reported having owned two homes prior to the purchase of this one. Their previous home was located in a large city in England.

They purchased that home in 1971 for a cost of between $11,000 and $20,000 equivalent American dollars. It was described as having three bedrooms, one living area, and one bath. They sold the home for between $20,001 and $25,000 equivalent American dollars approximately two years ago when the husband was transferred back to the United States. They had rented a home in between home purchases.

The present home was described as having three bedrooms, one living area, and one and one-half baths. The purchased the home for between $30,001 and $35,000. In comparing their previous home to their present home, their previous home was about the same in size, was of better quality of construction, and was farther from his place of employment.

The family sold their home when the husband was transferred back to the United States. Originally, he was relocated in a large city and was told this was a temporary location so they did not purchase a home. He was then transferred to Stillwater so they decided to purchase a home.

When they looked for a new home, they were concerned with finding a home that they felt they could afford. They looked for homes in neighborhoods with children and schools nearby. They wanted a compact house with three bedrooms so that they could afford to heat and cool it. Other than the requirement that the house have three bedrooms, there were no other features listed as important to them. She did report that they had realized that the price range they could afford limited the features which were available. When asked to rank these needs, cost was ranked number one. Size of the home was ranked second, with location in relation to children's activities and husband's job a close third. The energy efficiency of the home ranked fourth, but was closely tied to house size in this couple's mind.

The couple looked at approximately 12 homes before making a decision. They chose their present home because it represented to them the best value for the money. She reported that it was in the best state of repair of any they saw. The location for the children and for the husband's job were ideal, and the house was adequate for their needs at the time.

The wife defined equity as the "money that you have invested." It was the money that was left when the mortgage was paid at the time of sale. They decided on the price range of the home they could afford by looking at the husband's salary and the family's everyday living expenses. They were not familiar with the Federal tax laws as they apply to the sale and purchase of a residence.

This family of four purchased their home after renting for several years. They previously had owned a home in England. When they shopped for their present home, they were concerned with cost, size, and location. They bought their home because it was the best value for the money. She indicated that they were not familiar with the Federal tax laws as they concern the sale and purchase of a home. She was involved in moving again as her husband had accepted a job in an eastern state. Their home was for sale at the time of the interview.

Case XIV

Case XIV was a family composed of three members: the husband, age 48; his wife, age 45; and a daughter, age 14. They had other children who were no longer living in the home. They moved into their present home just a few days after Christmas, 1978.

This family had owned four homes before purchasing their present home. Their former home was located in a town of about 30,000 near a large metropolitan area in Oklahoma. It was described as having four bedrooms, three living areas, and three baths. They purchased the home in 1969 for between $30,001 and $35,000 and lived in the house for between nine and one-half and 10 years. During this time, they added approximately $12,000 in improvements. At the time of the interview, the former home was still for sale and the asking price was over $90,000.

The couple described their present home as having five bedrooms, two living areas, and two and one-half baths. They purchased it for between $75,001 and $80,000. In comparison of the previous home to the present one, they said the previous one was about the same size as the present one, was of better quality construction, but was farther from his employment.

The family moved because the husband changed jobs. When they looked for new housing, they were concerned that the home be located within the city where he worked. They also wanted to be close to the high school. They wanted a large home but felt arrangement of space and built-in conveniences would play a large part in their decision. They looked at homes in a wide price range at first but then decided to stay close to the expected sales price of their previous home due to the tax situation. Energy efficiency in terms of gasoline was important. They wanted their daughter to be near activities. Structural quality and workmanship were important to the husband, while storage space was important to the wife. When they ranked these desirable features, they felt the size and arrangement of the space in the house were most important. Second to size, the location was next most important. Third in ranking was quality of construction. Energy efficiency was ranked fourth.

In looking for their new home, they stated that they saw at least 20 homes. The home they chose was not what they really wanted, but time was running short before the husband started to work in Stillwater. They felt they chose the best alternative available to them. The home they purchased was the one closest to their requirements of location, cost, and size.

They defined equity as what is left after the mortgage is paid when a house is sold. They decided how much to pay for their new home by the estimated market value of their previous home. They were aware of the Federal tax laws concerning the sale and purchase of a residence. They hoped to upgrade the home they purchased in the allotted time period since they had not reinvested in a home of equal or greater value. Their goal was to upgrade their home--not just to avoid taxes. This couple might have considered looking at less expensive homes if they had to reinvest only their equity in their new home. They were uncertain about their ultimate decision to purchase a less expensive home, but they would have at least looked at less expensive homes.

In summary, this family moved because of a job change for the husband. They were concerned with location and size of the home when they looked. They also decided to stay in a price range similar to the amount which they expected to sell their previous home. They did this primarily because of the Federal tax laws. If they had the option to only reinvest their equity from the previous home to avoid Federal tax, they were unsure if their decision would have been affected. They reported that they would have at least looked at less expensive homes.

Case XV

Case XV involved a family with a very recent addition. The husband was 27 years old, the wife was 26 years old, and their son was three weeks old. They had lived in their new home about nine months. They moved into the home in October, 1978.

The couple reported having owned one other home prior to the purchase of this home. It was located in a large metropolitan area in Oklahoma. They purchased the home in 1975 for between $30,001 and $35,000. They described the home as having three bedrooms, one living area, and two baths. They sold the home for between $45,001 and $50,000.

Their present home was described as having three bedrooms, two living areas, and two baths. They purchased it for between $55,001 and $60,000. Their previous home when compared to the present home was smaller, of poorer quality of construction, and was closer to their jobs.

The couple decided to sell their previous home because the husband was employed in Enid, Oklahoma. He commuted from Tulsa to Enid each day. The wife worked in Tulsa and was well established in her job. They decided to move half way between their jobs to reduce the commuting time for him. They chose Stillwater to relocate because it was exactly half way. When they were looking for a home, they considered only two or three areas in Stillwater which had homes priced in the range that they had identified as their market. They were looking for a particular neighborhood with what she described as character. They also wanted a large yard. The actual layout of the home was not important to them. They had originally thought that they wanted just one living area. She reported that cost was a constraint. They had decided on a price range and had only looked at homes within it. She did say that they had spent less than they expected. Energy efficiency in terms of the house or location were not really considered. When their needs were ranked, neighborhood was most important. The home itself was the second most important. A larger, established yard was third. The size of the home was ranked fourth.

She reported that they had looked at 10 homes prior to making a decision. They chose their present home because it met their criteria in terms of price range and neighborhood. It appealed to them because it was not the most expensive home on the block. Although they had wanted one living area, this home seemed more comfortable. She stated that it reminded her of her parents' home. This seemed to be a very important factor in their decision.

The wife defined equity as "how much of the house we actually own." They decided how much to pay for a home by looking at their income. His income varied quite a bit so they based their price range on her income. She stated that she was familiar with the Federal tax laws as they apply to the sale and purchase of a residence. She knew that they needed to reinvest the same or a greater amount than the sale price of their previous home within a given time period. This did not affect their decision because they wanted a more expensive home, as she stated "to move ahead." When asked about having to reinvest only the equity from the previous home in order to avoid tax, she felt that it would have made no difference in their decision at that time. Reflecting back on the situation during the interview, she felt that they might have spent less if they had known the husband's income would be so irregular.

This couple and their new son moved to Stillwater to be half way between the couple's jobs. They based their house selection on character of the neighborhood and price range. They were aware of the Federal tax laws as they pertain to the sale and purchase of a residence. She felt their decision would not have changed if the law required them only to reinvest their equity.

Case XVI

Case XVI was a family with four members. The husband was 35 years old, the wife was 34, and their two sons were three and five years old. They moved into their home in August, 1978.

This family had owned one home prior to the purchase of their present home. It was located in Stillwater, Oklahoma. They lived in that home for approximately eight years. They purchased that home in 1970 for between $30,001 and $35,000. It was described as having three bedrooms, two baths, and originally had two living areas. The family converted the two smaller living areas into a large one. They sold the home for between $60,001 and $65,000.

The present home was described as having four bedrooms, one living area, and two and one-half baths. They purchased it for between $85,001 and $90,000. In comparing the previous home to the present one, the previous home was smaller, was of poorer quality of construction, but was located about the same distance from his employment.

They decided to sell their previous home because they had purchased their new home. When they looked for a new home, they were interested in a larger home that was affordable. They liked their previous location so they looked at homes as they became available in the neighborhood, but they did not restrict their search exclusively to that area. In terms of features of the home, they wanted one living area, a fourth bedroom, and more storage. When ranked in order of importance, cost was first. The wife reported that they only looked at larger homes that they felt they could afford. Size was next in importance. Location was third most important and the features in the home was fourth.

The couple reported that they looked at five homes over a period of several years. They chose their present home because they liked it the best of what they had seen. It was in the same neighborhood. They had been in the home and admired it. They knew the people who had owned it had taken excellent care of it and nothing would have to be done in terms of repair. They reported that their neighbors would remain the same. All they had to adjust to was a larger space. The same builder had built both homes, and they were satisfied with the quality in both homes.

The husband defined equity as the "difference of market value and debt owed on the house." When they decided how much they could afford to pay for their new home, they decided how much equity they had in their previous home and how large a mortgage they could handle. The husband was familiar with the Federal tax laws concerning the sale and purchase of a residence, but he stated that the law did not affect their decision because they knew they wanted to spend more for the new home. Reinvesting only their equity would not have affected their decision. They could not have acquired the larger, more expensive home merely by reinvesting their equity.

In summary, this family of four moved to acquire a larger home. They were guided in their search by price of the home, size of the home, and its location. They purchased a home from a neighbor because it was a larger home, they liked the design of it, and they knew it had been well maintained. They were aware of the Internal Revenue Code regarding the sale and purchase of a residence, but it did not affect their decision. Since they desired a larger home, they felt their decision would not have been different if they had to reinvest only their equity from the previous home in order to defer any gain.

Summary of Research Findings

Age of Homeowner

A summary of information regarding the age of the head of households who were interviewed as repeat homebuyers in this sample is presented in Table I. One-half of this sample of 16 was in the age bracket of 31 to 35 years of age. These eight people were evenly distributed in the four price categories used in the sample. The age range in the sample was from 27 years old to 65 years old and was fairly evenly distributed throughout the price categories used in the study.

Type of Move

When the sample was analyzed for the type of move (Table II), it was found that in 10 of the 16 cases, the move was migratory in nature. The reason in 9 of the 10 cases was a job transfer or change. The other case involved a retirement and a move to an area where the cost of living was lower. Of the six residential mobility cases who moved within the Stillwater area, one moved to reduce their housing costs. The other five cases moved because of changing housing needs in terms of space, location, etc., and increased their housing cost when they moved.

Comparison of Price Information

When the price of the "new" and "old" homes were compared by case

TABLE I

AGE OF HEAD OF HOUSEHOLD BY PRICE OF HOME

Age	Under $40,000	$40,001- $60,000	$60,001- $80,000	Over $80,000	Total
25-30	-	1	-	-	1
31-35	1	2	2	3	8
36-40	2	-	-	-	2
41-45	-	-	-	1	1
46-50	-	-	2	-	2
51-55	-	1	-	-	1
56-60	-	-	-	-	0
Over 60	1	-	-	-	1
Total	4	4	4	4	16

n = 16.

TABLE II

TYPES OF MOBILITY BY PRICE OF HOME

Price of Home	Migratory	Residential Mobility	Total
Under $40,000	3	1	4
$40,001-60,000	4	0	4
$60,001-80,000	3	1	4
Over $80,000	0	4	4
Total	10	6	16

n = 16.

(Table III), it was found that in four of the 16 cases, homeowners purchased a home for less money than they had received for their previous home. These are marked by an asterisk in Table III. Case III wanted to reduce housing cost, as the expense of the previous home was too much for them. Case IV involved the retired couple who wanted to use their equity to purchase their home outright. They took advantage of the one time exclusion of gain privilege in the Internal Revenue Code. Case X wanted a smaller home which turned out to be less expensive as well. This couple paid tax on their gain from their previous home. Case XIV bought a less expensive home but were planning to re-invest the money from their previous home in improvements to the present home within the allotted time period. It was noted in this analysis that no homeowner in the study had to sell their previous home for less than they had paid for it.

Factors in the Decision Process

The decision process began when the homeowners decided to move. In this sample, the majority of the homeowners decided to move due to job related reasons. In the remaining six cases,the decision to move was based on different reasons. One homeowner wanted to reduce mortgage payments; two homeowners were influenced by the present tax law which allows interest paid on loans to be deducted and requires re-investment of the proceeds from the previous home within a prescribed period of time. The three remaining homeowners had other requirements, such as more land, a larger home, or a better location.

The number of homes that each case in the sample saw before purchasing their home was charted in Table IV. It indicated that 13 of the 16

TABLE III

COMPARISON OF SALES PRICE OF "OLD" HOME AND PURCHASE PRICE OF "NEW" HOME BY CASE

Case	Sales Price	Purchase Price
I	$65,001-70,000	$85,001-90,000
II	$45,001-50,000	$55,001-60,000
III	$35,001-40,000	$25,001-30,000*
IV	$70,001-75,000	$35,001-40,000*
V	$50,001-55,000	$50,001-55,000
VI	$35,001-40,000	$55,001-60,000
VII	$75,000-80,000	Over $90,000
VIII	$55,001-60,000	$80,001-85,000
IX	$60,001-65,000	Over $90,000
X	Over $90,000	$70,001-75,000*
XI	$30,001-35,000	$30,001-35,000
XII	$50,001-55,000	$60,001-65,000
XIII	$20,001-25,000	$30,001-35,000
XIV	Over $90,000	$75,001-80,000*
XV	$45,001-50,000	$55,001-60,000
XVI	$60,001-65,000	$85,001-90,000

Note: No one sold their home for a loss.

*Purchased a less expensive home.

cases looked at between 0 and 15 homes prior to making a decision with four families looking at between zero and five homes, five families looking at 6 to 10, and four families looking at 11 to 15 homes. Sample size was too small to draw any further findings.

TABLE IV

NUMBER OF HOMES VIEWED PRIOR TO DECISION

	Number of Homes Viewed					
Price Bracket	0-5	6-10	11-15	16-20	21-25	Over 25
Under $40,000	1	1	2	-	-	-
$40,001-60,000	-	-	2	1	-	1
$60,001-80,000	-	3	-	1	-	-
Over $80,000	3	1	-	-	-	-
Total	4	5	4	2	0	1

n = 16.

When homeowners were asked to rank the factors which were of greatest importance to them when they looked for a new home, 7 out of 16 reported cost as the first consideration. They had established a price range before shopping for the new home. The other nine cases had ranked various other factors as first. Table V shows these results.

When homeowners were asked why they chose the home they bought, many reasons were given. As a general rule, no one item was more important to them than the others they had mentioned.

TABLE V

FACTORS RANKED FIRST IN IMPORTANCE AS HOMEOWNERS
LOOKED FOR "NEW" HOME

Price Range	Location	Size	Features	Design	Quality	New Construction	Lot Size	Cost
Under $40,000	1	-	-	-	-	-	-	3
$40,001-60,000	1	-	-	-	-	-	1	2
$60,001-80,000	1	1	-	-	-	1	-	1
Over $80,000	-	1	-	2	-	-	-	1
Total	3	2	0	2	0	1	1	7

n = 16.

Impact of the Internal Revenue Code on Decisions

One of the primary focuses of this research was on the awareness of the homeowner of the Internal Revenue Code's provisions for the sale and purchase of a residence. As can be seen in Table VI, the majority of the sample was aware of the provisions of the law. Only three of the 16 families were not aware.

Another research focus was whether the homeowners were affected by the law in terms of their housing selection. Again, Table VI indicated that four of the 16 were affected. The reason for the effect is shown in the table. There were four separate effects from the law. Case IV was affected by the one-time exclusion of gain at age 65. Case VIII was affected because interest paid on mortgages was an allowable deduction for tax purposes. Case XIV was concerned with reinvesting the proceeds of his previous home in his new home. He planned to do this by improving his present home so that the cost of his present home, including the improvements, would equal the sales price of his previous home. The price range that they considered was affected by the sales price of their previous home. Case I was affected by the timing provision of the law. They needed to reinvest in a home because their time limit of 18 months to two years had nearly expired.

There were no effects on the housing decisions of the 13 couples who were knowledgable of the tax when they were asked to assume that the present tax laws were not in effect and that they had to reinvest only their equity in their new home to avoid tax. Three of the homeowners in the sample of 16 were not asked the question because they were not aware

TABLE VI

AWARENESS OF THE FEDERAL TAX LAWS CONCERNING THE SALE AND PURCHASE OF A RESIDENCE AND EFFECT ON HOMEOWNER'S DECISION BY PRICE BRACKET

		Aware	
	Not Aware	Not Affected	Affected
Under $40,000			
Case I			x
Case III	x		
Case XI		x	
Case XIII	x		
$40,001-60,000			
Case VI	x		
Case II		x	
Case V		x	
Case XV		x	
$60,001-80,000			
Case X		x	
Case VIII			x
Case XIV			x
Case XII		x	
Over $80,000			
Case I			x
Case VII		x	
Case IX		x	
Case XVI		x	
Total	3	9	4

Case IV was affected by one time exclusion; Case VIII by interest deductible; Case XIV by price range considered; and Case I was affected in terms of timing of purchase.

of the law. The majority of the sample desired larger, more expensive homes and did not consider moving into a smaller space. Some of the homeowners expressed the idea that one did not select a home just to avoid tax. They felt they bought their homes for a variety of other reasons and considerations. Tax law alone did not affect their decision on housing.

Knowledge of Tax Laws and Number of Homes Previously Owned

The results of this research do not indicate any relationship between knowledge of the tax laws and the number of homes previously owned. Homeowners who were unaware of the tax laws had owned as many as three homes prior to the purchase of their present home. The results are presented in Table VII.

TABLE VII

COMPARISON OF KNOWLEDGE OF TAX LAWS AND NUMBER OF HOMES PREVIOUSLY OWNED

No. of Homes Previously Owned	Aware	Not Aware	Total
1	3	1	4
2	7	1	8
3	1	1	2
4	2	0	2
Total	13	3	16

n = 16.

Summary

Briefly, the majority of this sample moved because of job related reasons. The sample was composed of heads of households who were over 27 years of age with a majority being between 27 and 40 years of age. In all but four cases, the homeowners bought homes which were more expensive than their previous one. No one in the sample sold a previous home for a loss. In looking for a home, the most important item to seven of the families was the cost of the home. The remainder of the sample listed other items such as location, design, and size as items of greatest importance. Four families looked at fewer than five other homes prior to purchase; five families looked at between 6 and 10 homes. Another four families looked at between 11 and 15 homes.

Thirteen families were aware of the tax law while only four decisions were affected by the law. Three families were unaware of the law's requirements. Of the 13 who were asked what they would have done if they had been required to reinvest only their equity in order to avoid tax, no one felt it would have affected his/her decision.

CHAPTER V

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Summary

The purpose of this research was to examine the link between the homeowner's selection of a subsequent home and the Internal Revenue Code concerning the deferral of gains from the sale of a personal residence. Research focused on identifying the factors in the decision process of repeat homeowners when they considered a "new" residence and the repeat homebuyers' awareness of the Internal Revenue Code's provision for the deferral of gain from the sale of a personal residence. If homeowners were aware of the Internal Revenue Code, the law's effect on the selection of a "new" home was also investigated. Also investigated was the affect on the housing decision given a situation where homeowners had to reinvest only their equity.

Previous research of the selection process indicated that homeowners have been treated as one group with no special study of repeat homebuyers. Rossi's (1955) research indicated that size requirement ranked first as a factor in housing selection, with design, neighborhood attributes, and cost ranking after size. Research on the search process indicated that the search was carried out with minimal individual effort (Rossi, 1955; Barrett, 1976). The Internal Revenue Code (1979, Regulation 1.034-1), as it pertained to this research stated that "in general, if taxpayer invests in a new residence an amount of at least as large as the adjusted sales price of his old residence, no gain is recognized on the sale of the old residence."

Because of the exploratory nature of this research, it was felt that the case study approach best fit the objectives. The sample selected for the research was non-random and purposive in nature. The sample involved 16 families who had purchased homes through the Kendall Grindstaff Gallery of Homes Real Estate Agency in Stillwater, Oklahoma. Real estate closings between June, 1978, and June, 1979, were examined to obtain the sample of repeat homebuyers. The sample was grouped in order to have four families in each of four housing price ranges. The data were then analyzed individually and collectively.

One of the focuses of this research was on the factors of the decision process of repeat homebuyers. Evidence gathered from this limited sample indicates that repeat homebuyers had specific items in mind when they looked for a new home. Among these items were the cost of the new home, location of the new home in terms of proximity to employment and perceived quality of the neighborhood, size of the new home, design of the new home, size of the lot where the home was located, and whether the house was newly constructed. For seven out of the 16 cases, cost was the most important item when looking for the new home. Three out of 16 ranked location as most important; two out of 16 ranked size of the home first; and two of 16 ranked design of the home as most important. Rossi (1955) found that 51 percent of his sample of homebuyers were most concerned with the size of the new home. While cost was ranked third in Rossi's (1955) study, the present research seemed to indicate that repeat homebuyers were concerned first with cost and narrowed their housing choices within a cost constraint. This difference might be explained by the repeat homebuyer's sophistication in home buying or different economic or market conditions.

Rossi's (1955) research also ranked reasons why the homebuyer purchased a particular home and suggested that homebuyers were able to rank correctly the reasons why they made their purchase. Paolucci (1977) indicated in her research that family decision makers tried to select that alternative, in this instance, a house, that provided them with the largest payoff at the least cost. This sample supported Paolucci's statement. There was no single reason why people bought their home, but rather a synthesis of reasons. Families weighed various wants and needs against available resources in order to make a decision. Often they were able to satisfy their initial requirements. Other times, they were required to trade off one item such as price, size, or features offered for another.

In searching for new homes, Rossi (1955) reported that one out of three families looked at one other home prior to their purchase. This research, with a small sample, indicated that the majority of the cases (nine) saw between 6 to 15 homes. Four cases in the sample saw fewer than six homes. One case reported seeing over 25 homes. With such a small sample, conclusions could not be drawn, but there were indications that repeat homebuyers saw more homes prior to making a decision than homebuyers in general included in Rossi's research study.

The findings from this research generally supported findings by Chevan (1971) and Doling (1976) which stated that a typical family moved into a larger, more expensive home. In 12 out of the 16 cases this was true. Only four cases moved to less expensive and smaller houses. One case involved a retired couple. Another case was a couple whose children had moved into homes of their own. The family in the third case wanted to reduce its housing costs. The fourth case involved a family who purchased a less expensive home, but planned to spend money to improve its new home so as to avoid the payment of tax on the gain realized from the sale of the previous home. In the majority of the 12 cases that purchased a more expensive home, the families felt that they had taken "a step up" in their housing.

Another focus of the research was whether or not repeat homebuyers were aware of the Internal Revenue Code's provision to defer gain from the sale of a previous home. Thirteen of the 16 cases were aware of the provision. These 13 cases were aware of the general requirements of the law such as the amount that needed to be reinvested and the time limit for this reinvestment.

How this information affected their housing decision was also within the scope of this research. Of the 13 cases that were knowledgable about the law, four cases reported that their housing decision was affected by the law. A different aspect of the law was involved in each of the four cases. The homeowners in the remaining nine cases bought a more expensive home and knew that because the home was more expensive than their previous home, the law did not affect them directly at this time.

The last focus of this research was based on a hypothetical situation. Homeowners were asked to assume that the present laws regarding the sale and purchase of a residence were not in effect. Instead, they were asked to assume that the only requirement in terms of purchasing a new home was that they reinvest their equity from the previous home. They were asked if this would have affected their choice of their present home. Thirteen homeowners were asked this question. They all stated it would have made no difference in their decision. The retired couple's decision would still have been to reinvest their equity in their home. The couple whose children had left home still would have purchased the smaller space, but they would not have paid the additional tax if the law were different. The couple who were to reinvest the proceeds from their previous home's sale by purchasing and improving their present home reported they might have looked at less expensive homes, but doubted if they would have bought one.

Conclusions

Based on the findings of this research, the following conclusions were drawn:

1. Homebuyers do have a number of factors which they consider in selecting a home. They are able to rank these factors in order of importance to their search.
2. Repeat homeowners do have an awareness of the Internal Revenue Code's provision for the sale and purchase of a personal residence.
3. A change in the Internal Revenue Code's provision for the sale and purchase of a personal residence would not affect most buyers in the middle-age category who are "moving ahead."
4. A change in the Internal Revenue Code's provision for the sale and purchase of a personal residence might affect those in the 45 to 55 age range who are desirous of reducing the size of their housing, but are not ready to retire.

Recommendations

This researcher would recommend several things in view of her research experience with this project and the results from the study. Some of the recommendations are:

1. A study with a larger sample should be conducted for comparison of housing selection process between repeat and first time homebuyers. Rossi's (1955) research combined these two groups. This research has dealt only with repeat homebuyers.
2. A study dealing with the awareness of repeat homeowners of the Internal Revenue Code's provision concerning the sale and purchase of a residence and its effect on their housing decision should be conducted with a larger sample using appropriate statistical analysis.
3. If this research were replicated, the researcher would recommend the inclusion of the educational and occupational variables in the research.
4. Pending the results of further research, the Internal Revenue Code should be changed to allow more flexibility in people's housing choices. This flexibility could be obtained in several ways. One of these ways would be to require homeowners to reinvest only their equity from their previous home in the new one. Any equity left after the purchase of the home (i.e., not reinvested in the home) would then be subject to tax. This would give homeowners the freedom to purchase smaller, less expensive homes at any time during their lives. The law at present gives this freedom only once in a life time and the homeowner must be 55 years of age or older.

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APPENDIXES

Housing Decision Schedule

Introduction

Introduce myself. Thank the respondents for agreeing to be interviewed. Explain briefly the purpose of the research--a master's thesis that will explore how people decide to buy the house they have selected. State again the confidentiality of this interview. Ask permission again to record part of the interview. If yes, proceed with the interview.

1. Are you enjoying your new home? ________________________________
2. When did you move into this home? Date: ________________________
3. How many homes have you owned in the past? _____________________
4. How long did you live in your last home? ________________________
5. How many members are in your family? ____________________________
6. What is the age of each member of your family?

   Husband __________
   Wife _____________
   Son(s) ___________
   Daughter(s) ______
7. Does anyone else live here with you?

   Relationship _________________ Age ____________
8. Do they all live in this house? _________________________________
9. Describe your last home in terms of number of rooms in it.

   Bedrooms ______________
   Living areas __________
   Baths _________________
   Where was it located: City _________________
   Size of city _________

10. What was the approximate cost of your last home, including the lot, when you purchased it?

$11,000-20,000	________	$55,001-60,000	________
$20,001-25,000	________	$60,001-65,000	________
$25,001-30,000	________	$65,001-70,000	________
$30,001-35,000	________	$70,001-75,000	________
$35,001-40,000	________	$75,001-80,000	________
$40,001-45,000	________	$80,001-85,000	________
$45,001-50,000	________	$85,001-90,000	________
$50,001-55,000	________	Over $90,000	________

11. In what year did you purchase it? ________________________________

12. For what amount did you sell this previous home?

$11,000-20,000	________	$55,001-60,000	________
$20,001-25,000	________	$60,001-65,000	________
$25,001-30,000	________	$65,001-70,000	________
$30,001-35,000	________	$70,001-75,000	________
$35,001-40,000	________	$75,001-80,000	________
$40,001-45,000	________	$80,001-85,000	________
$45,001-50,000	________	$85,001-90,000	________
$50,001-55,000	________	Over $90,000	________

Present Home

13. Describe your present home. How many of the following does it have?

Bedrooms ___________
Living areas _______
Baths ______________

14. What was the approximate cost of this present home, including the lot?

$11,000-20,000	________	$55,001-60,000	________
$21,000-25,000	________	$60,001-65,000	________
$25,001-30,000	________	$65,001-70,000	________
$30,001-35,000	________	$70,001-75,000	________
$35,001-40,000	________	$75,001-80,000	________
$40,001-45,000	________	$80,001-85,000	________
$45,001-50,000	________	$85,001-90,000	________
$50,001-55,000	________	Over $90,000	________

At this time I would like permission to turn on the recorder. We will be discussing different aspects of how you chose your home and I may not be able to keep track of all the important things you will mention.

15. Let's compare your previous home to your present one.

    a. Was the size of your previous home larger, about the same, or smaller than your present home?

    b. Was the quality of construction in your previous home better, about the same, or poorer than in your present home?

    c. Was the location of your previous home closer, about the same, or farther from your job?

Decision Process

Let's trace back through your decision to move into this home. What were some of the things you thought about when deciding to move and in selecting your new home?

16. Why did you decide to sell the previous home? Job, other.

17. When you looked for a new home, what were the things that were important to you to have in the new home?

    If they do not mention any or some of these items, the researcher will ask about location, size, cost, features, energy.

18. Of the ones you have listed, which would you say was the most important to you? Which was the second most important? The third? The fourth?

19. How many homes would you say you looked at before you bought this home?

20. Why did you choose this particular home over the others you considered.

    If they do not mention any or some of these items, the researcher will ask about location, cost, size, features, energy, others.

21. Which was the most important consideration in buying this particular house? The second? The third? The fourth?

Concerning the Internal Revenue Code

22. When you looked for this home, how did you make the decision on what you could pay for a home?

23. What does the term "equity" as it is used in relationship to your home mean to you?

24. Are you familiar with the Federal tax laws as they apply to the sale and purchase of a personal residence?

    If yes, ask them to explain. If no, go to question 25.

25. Assuming the present tax laws were not in effect, how would your housing decision have been affected if you were only required to invest your equity in the new house?

    If they say it would make no difference, ask why.

VITA 2

Judith Fincher Baskin

Candidate for the Degree of

Master of Science

Thesis: HOUSING DECISIONS OF REPEAT HOMEBUYERS: EMPHASIS ON THE EFFECTS OF TAXATION

Major Field: Housing, Design and Consumer Resources

Biographical:

Personal Data: Born in San Diego, California, December 3, 1945, the daughter of Mr. and Mrs. E. H. Fincher.

Education: Graduated from R. R. Paschal High School, Fort Worth, Texas, 1963; received Bachelor of Arts degree in Sociology from Lamar University in 1967; completed requirements for the Master of Science degree at Oklahoma State University in December, 1979.

Professional Experience: Disability Examiner, Department of Rehabilitation, State of Michigan, 1967-1969; Adult, Family, and Dependent Children Case Worker, Department of Social Services, 1969-1970; Graduate Teaching Assistant, Department of Housing, Design and Consumer Resources, Division of Home Economics, Oklahoma State University, 1978-1979.