

## Size of New Homes Shrink As Builders Battle Housing Slump

By **Kelly Evans**  
From [The Wall Street Journal Online](#)

The McMansion may be shrinking.

With the nation's housing market in a slump and the mortgage market in disarray, many home builders are putting up fewer supsize homes and offering smaller floor plans. That seems to be what buyers suddenly want in an era of high prices and tougher financing.

"Financing has tightened down so much that many people aren't able to qualify for the larger houses," said Kathryn Boyce, an account executive in Northern California for Boston-based real-estate research firm Hanley Wood Market Intelligence. "Throughout the U.S. people can't afford what they previously did. Floor plans are going to get smaller."

### Related Articles

[Luxury-Home Floor Plans That Are Popular With Buyers](#)



['Small' Book by Architect Makes a Big Impression](#)

Home sales have plunged over the past year, leaving builders saddled with excess inventory, especially of larger, more expensive homes. In July, new-home sales were running at a seasonally adjusted annual rate of 870,000 units, down sharply from 1.3 million in 2005.

More recently, turmoil in the mortgage market has made it harder for buyers to qualify for bigger loans. As lending standards get stiffer, lenders have cut back on mortgages exceeding \$417,000. That's the maximum size loan that lenders can sell to Fannie Mae and Freddie Mac, the government-sponsored financiers that buy mortgages from lenders and repackage them into mortgage bonds for sale to investors.

All this is causing builders to redraw their blueprints. After reducing prices on their current inventories of unsold homes, the next step is to "start building to a new market. That new market is a lower price point at a smaller size. To the extent they can do it, they will," said Kermit Baker, chief economist at the American Institute of Architects.

Over the past three decades, prosperity and a demand for space to accommodate home theaters, offices, gyms and palatial kitchens has pushed up the average size of newly constructed single-family homes by nearly 45% even as the size of the average family has declined. Last year, according to the Census Bureau, the median size of a newly completed single-family home reached 2,248 square feet, up from 1,560 square feet in 1974.

The expansion continued into the first quarter of this year, with the median home size inching up to a near-record 2,302 square feet. But it slipped to 2,241 square feet in the second quarter, and many analysts think a broader decline may be in the offing.

Jeffrey Mezger, chief executive of Los Angeles-based KB Home, said the change has been "driven by data on what our home buyers want and what they can afford in a new home." Mr. Mezger estimates that the average size of a newly built KB Home today is 2,200 square feet, 200 square feet less than before the shift in sentiment took hold.

A spokesman for Centex Corp., which is based in Dallas, said that in some of its developments Centex is scaling down the size of its homes or their amenities to put them within reach of more buyers.

Even Toll Brothers Inc., known for its sprawling suburban "McMansions," recognizes that buyers may want smaller homes. Kira McCarron, the company's chief marketing officer, said Toll doesn't track home size, but she concedes that there "probably is more demand for 3,000- versus 6,000-square-foot," homes.

Ms. McCarron added, however, that for Toll's high-end buyers, the issue isn't so much cost. "It's not that people don't want or can't afford [big houses]. It's that they're afraid of them now -- it's a confidence issue more than an affordability issue."

In some cases, home builders are making the shift to smaller, less costly homes in existing subdivisions, angering homeowners who bought large homes during an earlier stage of the project's development.

David Raidman, 37 years old, moved into his 2,760-square-foot lake-front home in Fort Pierce, Fla., last fall in the first phase of a gated community developed by Lennar Corp. of Miami. Mr. Raidman said he was told that his home would be surrounded by similarly sized and priced homes. But when he heard Lennar was planning to build much smaller homes in his neighborhood, he and other homeowners fought the company's plans.

Although Lennar agreed not to build the smallest of its new models -- at just 1,326 square feet -- next to the larger ones, the home builder has continued with its plans to downsize.

"Our biggest concern is what it would do to the value of our homes," said Mr. Raidman, who doubts he can sell his home today

for the \$300,000 he paid for it last year. Standing on his back porch, he can look out across the lake and see at least six newer, smaller homes. "The garage looks bigger than the house," he said.

Pulte Homes Inc., based in Bloomfield Hills, Mich., is also offering buyers less costly alternatives within its existing communities. "The base price that we start with when we release a new phase might be lower than what the base price was in the previous phase," Pulte Chief Operating Officer Steve Petruska said in a conference call with investors in July.

Pulte said it expects its average selling price for the third quarter of this year to be \$331,000, down from \$335,000 last year.

But while home builders are aware that customers increasingly want smaller, cheaper homes -- and in some cases can't afford anything else -- building those homes eats into their profits, often because of the high price they paid for the land the homes are built on. That leaves them having to hope for higher sales volume to offset their reduced margins.

Some welcome the downsizing trend, including author Sarah Susanka. Since 1997 Ms. Susanka has written several best-selling books extolling the virtues of "The Not-So-Big House," and she says she has recently been attracting more interest from home builders. "I used to be asked all the time why would anybody want to downsize? People thought I was crazy," she said. "Now it's becoming much more mainstream."

Email your comments to [rjeditor@dowjones.com](mailto:rjeditor@dowjones.com).

[Print Window](#)   [Close Window](#)

-- September 13, 2007