Buyers, builders going for smaller

Homes with less space sell more

By Stephanie Armour
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From the depths of housing's worst downturn, smaller new homes are a bright spot for some home builders. The trend toward more compact new homes is being driven partly by the fact that more clients are first-time buyers who have less to spend.

Home builders are responding by offering smaller designs with features such as high ceilings and large windows that create a spacious feel and options that let buyers personalize the models they choose.

KB Home's smaller model helped it achieve a 62 percent increase in year-over-year net orders in the third quarter. The trend spans the industry. The median square footage of new homes fell 9 percent from a peak of 2,300 square feet in the third quarter of 2006 to 2,100 square feet in the same period this year, according to data from the National Association of Home Builders.

Housing size drops with each recession, but economists expect the trend toward smaller homes to continue for some time in part because of the severity of the current housing market slump. First-time buyers drive the trend toward smaller homes because that is what they can afford, says David Crowe, chief economist at the NAHB.

A welcome change

Some analysts say the downsizing trend could be good news for builders.

"The appetite for smaller homes may be a welcome change for home builders as new home sales have been challenged in the past few years," says Tom Lydon, editor of ETF Trends, which educates investors.

Major home builders such as KB Home and Pulte Homes respond to the shift in demand by offering smaller properties.

Getaway option

Smaller homes also appeal as vacation homes.

Nancy Coronado, 55, a retired art framer, has a large home in Whitehall, Mich., and bought a second Pulte home in Florence, Ariz., in March. The new home is about 1,400 square feet. "I have a big home in Michigan and didn't want another big home," she says. "I wasn't looking for that."