



## Why We're Shunning the McMansion

***More home buyers are drawn to accessibility and convenience rather than square footage***

By Meg Handley

An increasing number of Americans are opting to buy smaller homes or even rent, experts say, as uncertainty about the struggling housing market, energy prices, and a lackluster domestic economy persists.

"Despite home prices that have really rolled back about 10 years and historically low interest rates, buyers are cautious for a variety of reasons," says Stephen Melman, director of economic services at the National Association of Home Builders (NAHB). Beyond general anxiety about the strength of the economic recovery and foundering home prices, concerns about rising energy prices and limitations on mortgage interest deductions have would-be home buyers reevaluating their priorities in potential homes.

"Home buyers are thinking, 'Maybe we don't need that 7,000 square foot home like we thought we did in 2004 or 2005 when the market was approaching its top,'" says Paul Bishop, vice president of research at the National Association of Realtors (NAR).

Only 9 percent of consumers surveyed said they wanted a home 3,200 square feet or larger, according to a recent study by the NAR, while the majority of house hunters—about 55 percent—preferred homes in the 1,400 to 2,600 square-foot range. Builders also plan to scale back new home sizes as well, with 9 out of 10 builders expecting to build smaller, lower-priced homes in the coming years, according to a study by the NAHB.

Despite the drop in desired median home square footage, Melman says it's not so much a matter of downsizing as "right-sizing"—forgoing larger homes with unused space for smaller, more efficient and well-laid-out

homes. Americans are reconsidering the notion of financially stretching themselves to the limit to purchase a large home. "The trend here is shelter value," he says. "Affordability is driving the decisions. If you buy a home that's a little bit smaller, that's one way to get some control over energy costs and the overall costs of the home."

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**Mark Meyerdirk  
Urban Brokers, LLC**



Along with increased awareness about energy costs, consumers are putting more emphasis on elements such as a home's proximity to their jobs and accessibility to public transportation. "The recession we've experienced has really made people more in tune with their finances," says Mark Meyerdirk, principal broker at Washington, D.C.-based real estate firm Urban Broker LLC. "They're willing to sacrifice on space to reduce their costs and improve overall quality of life."

Another demographic consists of Americans who might have traded up for a larger house in the past, but are now deciding to stay put and make do with their existing home. A lot of that has to do with the mindset many home owners had prior to the housing bust, when it seemed home prices would always increase, allowing owners to cash out on built up equity and upgrade to bigger and bigger homes. That certainty has been removed in not only home price appreciation, but in the job markets as well—a key driver in the health of the housing market, says Amy Bohutinsky, chief marketing officer at real estate website Zillow. "It became a standard notion that of course, our next home is going to be bigger and of course, we need more square footage and the new truck and boat and everything to go with it," she says. "What's happening now is this psychological shift where more people are staying put. There are fewer buyers on the market."

In lieu of upgrading to a larger home, Bohutinsky says homeowners are getting more creative in figuring out how to make their existing home work for them. "Whether it's remodeling their own home or renting a more appropriate home, there's less of the automatic notion that of course, we're going to sell and go buy a bigger home," Bohutinsky says. "The economy is forcing that psychological shift. People are getting creative and some are just making do with less."

Apprehension about the economy and housing market in general has also translated into increased demand in the luxury rental market, says Jonathan Miller, President of New York City-based Miller Samuel Real Estate Appraisers. "It's not that people aren't looking to buy, but the sense of urgency has been removed," he says. "They want to get more comfortable before they make the commitment."

Getting more comfortable might mean waiting out some of the volatility seen in the housing market over the past couple of years. With tighter credit availability and a plentiful supply of homes for sale, many would-be home buyers are taking a step back and waiting a year or two to get comfortable and familiarize themselves with their market.

"If you were a consumer thinking about buying or renting, at the high end before you didn't have a lot of choices," Miller says. "If you were on the fence, you might have said, 'Oh, we'll just buy.' But now, maybe [they] can delay a year just to get comfortable, then buy."

Despite the increased demand for luxury rentals, Miller says that trend doesn't represent a larger shift away from homeownership. "It's not seen as a permanent retrenchment of people saying 'I'm not going to buy, I'm just going to rent.' It just provides a platform of alternatives for people to delay the decision," he says.

While experts say the fundamental desire to own a home hasn't changed, the conditions under which consumers are willing to purchase homes has shifted. According to the 2011 Community Preference Survey conducted by the NAR, about 6 in 10 adults would rather stay within their budget, even if it meant they could not live in their desired home or community.



"It's partly the view people are starting to hold about whether or not they need to stretch as far as they can and then some to purchase what, in their mind, is their ideal home," Bishop says.

While the allure of the McMansion might be waning for consumers, there's another side to the story, too. Mortgage interest rates are at historic lows—4.80 percent, on average, as of April 21—but tougher underwriting standards and higher down-payment requirements may also have a hand in discouraging would-be McMansion buyers.

Assuming larger homes generally require larger mortgages, nailing down any loan, let alone the "jumbo loans" needed to finance larger, more expensive homes, is tougher than it has been in the past. "The whole McMansion era came about when there was easy access to money and a mortgage. You could get a mortgage with zero percent down, again on the assumption that your home would appreciate," Bohutinsky says. On the other hand, to get a mortgage today, would-be home buyers should expect to put down at least 20 percent. Even tighter credit standards exist for jumbo loans, Bohutinsky says.

Above all, psychologically making the leap of faith this spring may prove to be the strongest deterrent for home buyers. "In thinking about how long you want to hold onto your home, the runway is much longer now. You have to think something around seven years," Bohutinsky says. "When you buy a more expensive home, that's a lot longer to think about having to pay that mortgage every month for seven years. You have to continue to have that good-paying job and not lose that job. It's just a bigger leap of faith to make that commitment than it was before."