

Size of New Homes in U.S. Shrinks by One Closet

By Kris Hudson



ENLARGE

A builders group estimates first-time buyers will be a bigger proportion of purchasers this year. Above, construction on a new home in Denver. Photo: Kris Hudson/The Wall Street Journal

Aug. 18, 2015 5:26 p.m. ET

The median size of U.S. homes built in the second quarter declined from the record set in the previous quarter, suggesting builders are starting to shift toward producing more entry-level homes.

Of the 206,000 homes that went under construction in the second quarter, the median size was 2,479 square feet, according to Commerce Department data released Tuesday. That was 40 square feet smaller—or about the size of a walk-in closet—than the high set in the first quarter.

The National Association of Home Builders estimates that first-time buyers, who tend to purchase entry-level homes, will account for 18% of new-home sales this year. That is up from 16% last year but still well short of their share of 25% to 27% from 2001 to 2005. Then, quarterly median sizes for new homes ranged from 2,051 to 2,263 square feet.

Entry-level buyers tend to purchase smaller homes. In recent years, many younger people who otherwise would buy a home have opted to rent due to stringent mortgage-qualification standards, relatively sluggish job and wage growth, mounting student debt and preferences for living near city centers, where land and homes are more pricey.

The relative absence of entry-level buyers is a primary reason that, even though new-home construction has posted strong gains of late, it remains on a pace amounting to only 78% of its average annual output from 2000 to 2014. Home construction accounted for only 3.1% of U.S. gross domestic product in this year's first quarter, well shy of its typical 5% contribution, according to the home builders trade group.

ENLARGE

Several economists and builders foresee a gradual leveling off or decline of the median size of newly built homes. Builders such as [D.R. Horton Inc.](#), [KB Home](#), [Meritage Homes Corp.](#), [PulteGroup Inc.](#) and [Century Communities Inc.](#) have reported early signs of first-time buyers returning to the housing market in the past year.

Some, such as Meritage and D.R. Horton, have started divisions to cater to the anticipated wave of first-timers seeking starter homes. In its fiscal quarter that ended June 30, D.R. Horton completed sales of 1,577 of its Express starter homes that average 2,000 square feet and \$188,000. D.R. Horton started its Express division in early 2014.

Meritage has said it intends to expand in the higher end of the entry-level market. Whereas that market now accounts for 20% to 25% of Meritage's sales, Chief Executive Steven Hilton sees that increasing to 35% in the coming years. "We think that's where growing demand is going to be," Mr. Hilton said on Meritage's July 29 conference call to discuss its second-quarter results with investors.

Advertisement

David Crowe, chief economist for the National Association of Home Builders, foresees a "moderation" of the median size of newly built homes as more first-time buyers come into the market. But he added that it will take a long time for the shift to be reflected in the national median-size figure, because the factors buoying first-time buyers—a loosening of mortgage-qualification standards and growth in jobs and wages—are progressing slowly.

"It probably will take the rest of this year and next year before the first-time buyer share is sufficient to affect the median size of all new homes in a sustained manner," Mr. Crowe said.

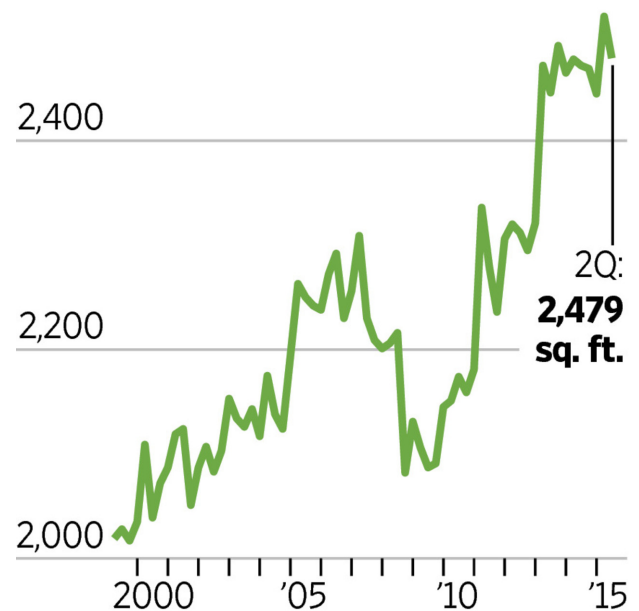
That the median size continues to hover near its all-time high indicates that, despite the slow increase in the number of first-time buyers, the new-home market continues to be dominated by better-heeled buyers who have bought homes in the past.

"If anything, we're seeing people trying to get into the largest home they can afford," said Marcie DePlaza, a division president at GL Homes, a Florida builder that anticipates selling 1,000 homes this year at prices ranging from about \$200,000 to \$2 million. "With interest rates as low as they are, people can push to buy the biggest [home] in the

Slimming Down

For new homes under construction*, the median size dipped in the second quarter, as builders shifted attention to entry-level buyers.

2,600 square feet of floor area



*Privately owned housing units

Source: Commerce Department

THE WALL STREET JOURNAL.

group” that they are considering.

Write to Kris Hudson at kris.hudson@wsj.com