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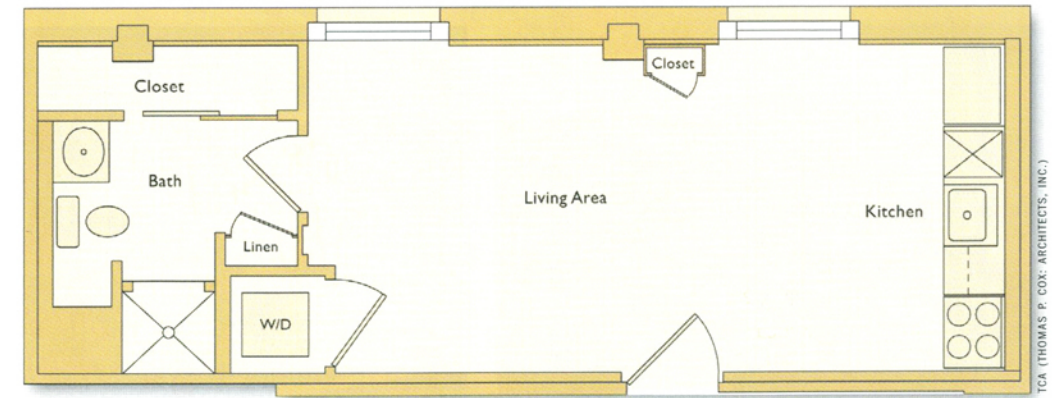
KENNETH CALDWELL
Rising interest rates and a changing multifamily market are driving demand for smaller units, and architects are responding with creative solutions that make more with less.

AS OF LATE, CONDOMINIUM PROJECTS in Las Vegas are being canceled, Florida appears to be overbuilt, and home sales are falling. There also have been reports of young investors becoming overleveraged while trying to flip units for a quick profit. Dallas-based architect Mark Humphreys, who designs multifamily housing in several markets across the United States, says, "The bloom is off the rose. That sentence has an exclamation point, not a question mark."

With suggestions of a saturated market and falling prices, condominium and apartment unit sizes are becoming smaller. As a result, many developers and architects are working to make the new, less roomy condominiums and apartments more appealing.

This trend is attributable to rising construction costs, especially in high-rise construction, and higher mortgage rates. Even in second-tier cities such as Minneapolis and San Antonio and in buildings using wood-frame construction, consumers are buying or renting smaller units. In some affluent areas with retirement-age demographics—where interest rates are less important—or where there are families living in high-density buildings, larger units are still popular. But it seems that, overall, demand for larger units is waning.

"If you look at a pyramid of buyers, I would target the majority, comprising the middle third and some of the top third," Humphreys says. "In a second- or third-tier city, you can build a tower in the nicest part



of town with large floor plans and all the amenities. But you can do only one. This has already been done in the first-tier markets and many of the second-tier ones." Humphreys says he believes that the buyers who remain are either empty nesters looking to downsize or purchase a second unit, or younger first-time buyers who can afford only small units.

Paul Zeger, president and chief executive officer of San Francisco-based Pacific Marketing Associates, concurs on the profile of people starting out. "In general, new housing in urban centers is directed at people who work in the city. In many cities, they can no longer afford 800 square feet—but they can afford 700 square feet. With rising interest rates, we have to shrink the size of the units to maintain prices in an affordable zone." Certain market segments may not be affected too much by interest rates—for example, affluent retirees who are choosing to move into a luxury unit in a downtown where the market is not saturated. Denis Henmi, a partner in San Francisco-based Kwan Henmi Architects, is working on two high rises in Sacramento, California's state capital and an important second-tier city. "It is a somewhat untested market," Henmi says. "But the market research showed people in that area did not want to give up so much square footage as they moved from a suburban house." Two-bedroom units in his Sacramento high rises range from 1,000 to 2,000 square feet. While one-bedroom units in Henmi's new high rise, Watermark in San Francisco, range from 759 to 801 square feet, they measure 880 to 950 square feet in his Sacramento projects. Alan Mark of the Mark Company, a real estate marketing firm with offices in San Francisco and Irvine, points out that Miami is another

market for larger units because there are more families living in high-density high rises, as in New York City.

But Humphreys is keeping his eye on the middle-class market. "The market is two kinds of people—baby boomers and their children," he says. He believes that when many baby boomers sell their house, they might move into a condominium in their primary city and also buy a vacation/resort-type condominium, so the latter unit need not be particularly large. "They just need a master bedroom, comfortable living room, dining area, and kitchen. The extra room is getting smaller and isn't supposed to be comfortable for more than a few days." The boomers' children—known as the echo boomers—are often borrowing the downpayment from their parents and can barely afford the small entry-size one-bedroom units. This means smaller units all around.

Humphreys has observed this trend in Toronto and Vancouver, two of Canada's first-tier cities, over the last few years. "We saw new high rises where the lower floors, often less desirable, were eight units per floor, while the upper floors with better views were four units per floor. The lower units were sold out, but the top floors weren't moving. They are building smaller product because there are so many buyers." In the past few years, Humphreys's firm designed two towers in Minneapolis. While other people were designing units averaging 1,800 square feet, his units were averaging 1,350 square feet. He feels that smaller units give developers more flexibility selling down the road. "There is a perception that everybody wants a big unit, but they are not willing to write the check, especially with homeowners' dues, property taxes, and rising interest rates."



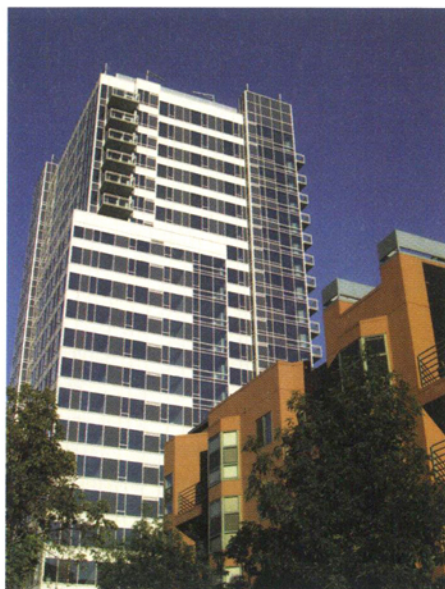
In Metro 417, an adaptive use project in downtown Los Angeles's historic Subway Terminal Building, architect Thom Cox designed two small studios on each floor, carved out of the old bathroom cores, measuring either 345 or 435 square feet. The units lease for around \$1,500 a month.



Architect Mark Humphreys is an advocate for using a large terrace to expand a smaller unit, such as at the Legacy Condominiums in Gulfport, Mississippi.

According to Irvine-based architect Thom Cox, lenders favor smaller units because they want to lower the barrier to access. If the units are too large, they will not rent. "Most residential tenants don't calculate rent per square foot," he says. "If they like it, they rent it. As units have shrunk, due to construction costs, we have been more creative about how to create better floor plans."

Like Humphreys, Cox foresees fewer high rises outside of the most desirable first-tier cities, due to construction costs. There still seems to be interest in renovating office buildings in the downtown cores. His firm has recently retrofitted a never-occupied modern high rise on Wilshire Boulevard (see "Long-Vacant Office Tower Begins New Life," *Multifamily Trends*, spring 2005, page 22) and a historic office building in downtown Los Angeles. He has been watching how tenants as well as owners are looking for different amenity packages. Owners have begun to demand less luxurious packages in many buildings because of



The location of a building is an important factor in unit sizes. One-bedroom units in architect Denis Henmi's new high rise, Watermark in San Francisco, range from 759 to 801 square feet, compared with 880 to 950 square feet in his Sacramento projects.

used to have a lineup of computers for a big business center. They are getting smaller." Bradley P. Griggs, executive vice president and chief investment officer of BRE Properties, a large development company based in San Francisco with multifamily rental and condominium projects across the West, agrees. "People overemphasized the clubhouses. From our surveys, people want a basic fitness center in the public area and the business center within the unit. Many of our renters are

"There is a perception that everybody wants a big unit, but they are not willing to write the check, especially with homeowners' dues, property taxes, and rising interest rates."

the maintenance costs associated with them. With advances in technology, renters are not as interested in shared screening rooms and business centers because they now have the equipment themselves.

How small are some of these units getting? In the landmark Subway Terminal Building, now rebranded as Metro 417, Cox designed two small studios on each floor, carved out of the old bathroom cores. Measuring either 345 or 435 square feet, these units are 10.5 feet wide and lease for around \$1,500 a month. The cachet of living in a restored historic landmark with a spa on the roof probably adds to their appeal.

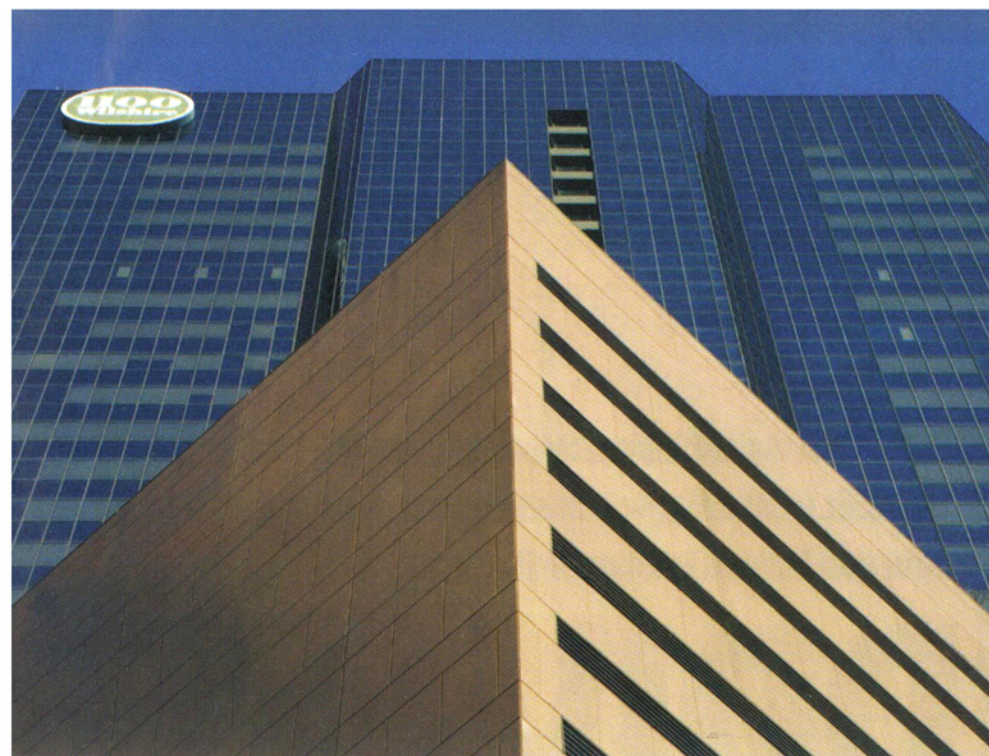
Design Strategies

While spas and pools are still common in large multifamily complexes for various income levels, the nature of other amenities is changing. In suburban locations, for instance, rental units still compete with houses, so a sense of spaciousness and recreation remains important. Cox states, "We used to have community screening rooms that sat 20 or 30; now they seat eight. You

living in downtowns because they want the amenities of the city."

The floor plan of a complex can add to the sense of spaciousness and comfort. In large high rises, Humphreys organizes the elevator cores to give a sense of exclusivity. Instead of grouping several elevators together in the middle of a very long hallway, he creates two elevator cores that serve only four apartments each. The result is less noise, and residents say they enjoy living in a more elegant building.

Architects and developers have several strategies for making each room seem larger. Cox emphasizes a sense of entry, even in small units. He feels that it is important to offset the door so that the kitchen or bathroom is not the first thing people walk through upon entering. He also emphasizes natural daylight in any kind of apartment design. Cox looks for different ways to place the unit windows and has even used interior clerestory windows, a device more common to office design, in walls between living rooms and bedrooms to borrow light. Opaque glass doors between rooms give privacy while bringing in natural light, and at night they glow.



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Thom Cox foresees fewer high rises outside of the most desirable first-tier cities, due to construction costs. However, there is still interest in renovating office buildings in downtown office cores, such as 1100 Wilshire, a never-occupied modern high rise that Cox's firm recently retrofitted. His designs incorporate natural daylight and emphasize a sense of entry, offsetting the door so that the kitchen or bathroom is not the first thing people see upon entering an apartment.



RAJ MARKETING LA

Perhaps one of the most significant changes has been the advent of flat-screen televisions. In some new properties, BRE has already installed wiring behind the wall for the future market acceptance of plasma TV. Cox says, "The TV profile has shrunk from three or four feet to 18 inches or less. Technology gives us back that space." Humphreys adds, "It used to be that 12 feet was the minimum in a living room. It may go down to 11. The flat screen has made this possible." The influence of wireless technology is less clear. While some architects are seeing computer niches disappear, others are convinced that people still want a separate place in which to stash all their technology gear so it is not out on the dining-room table. But the extra den area is no longer as large as a full bedroom. It may just be a small inboard room, as compact as seven feet square.

One important element, according to Humphreys, is a fireplace in every unit, especially in high rises. His reasoning is that high rises typically have a lot of glass and, while the clean lines and contemporary look are favored, the units can also feel cold. "The fireplace warms it up," he explains. Depending on the market sector, he specifies either gas or electric fireplaces. Humphreys says that the new electric fireplaces are very realistic in appearance and are less expensive to install than gas because there is no need for exhaust. They are also narrower. He also specifies fireplaces in the lobbies of his buildings. His favorite place to put them is outdoors on the terrace or patio.

That requires gas, but then residents can have heat outside on chilly evenings.

Humphreys is an advocate for using a large terrace to expand the shrinking unit. "The balcony is another room, so we are making them larger. Four feet by six feet is not another room. You need a table for six and two lounges." He argues that balconies are relatively inexpensive, with only the cost of the concrete and the railing, and are most popular in warmer climates like southern California and Florida.

Architects in multifamily housing have also done away with the closed-off galley kitchen. "People want a more interactive space where they hang out," says Henmi. As kitchens become central to entertaining, there have been some changes there as well. In the two-bedroom units at the Watermark, for example, Henmi moved the kitchens to the perimeter of the building next to the window wall. "Since the kitchen is open to the living and dining areas, it makes sense for [it] to have a great view," he explains. Other simple strategies that Henmi, BRE, and others employ are to design an L-shaped kitchen and include a movable island. These measures give the occupant flexibility to create different kinds of configurations.

Henmi, whose work is mostly in the West, is using European kitchens such as Studio Becker because of their clean look and the palette of color laminates. Generally, he sees palettes getting lighter as units shrink in size. Likewise, there also seems to be a preference for lighter-colored stones for countertops. While China's

demand for steel has driven up the price of high-rise construction, Chinese manufacturers are producing a wide variety of less expensive granite that is precut. Cox says, "In the middle and upper ranges of the market, granite countertops are a minimum expectation."

Another recent shift as units have gotten smaller is the placement of the washer and dryer. Instead of demanding side-by-side placement, many owners and renters are willing to accept a stacked arrangement. In Metro 417, for instance, most of the apartments have stacked units.

The master suite seems to be sacrosanct. Renters and buyers still want a spacious master bathroom. But as Humphreys points out, it is important to determine whether the complex is going to be oriented primarily toward vacation rentals or permanent residences. With a resort developer client in Florida, he suggested splitting a large master closet in half, since many owners rent their units out. That way, one side can be locked to store golf clubs, wine, beer, and a small fridge.

While there may not be consensus on what will happen in the multifamily market with regard to the housing bubble, there does seem to be consensus that the remaining market is targeted mostly at the middle class and that rising construction costs, more expensive financing, and rising property taxes will mean smaller units in the future. **MFT**

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