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HOME

WINTER 2010

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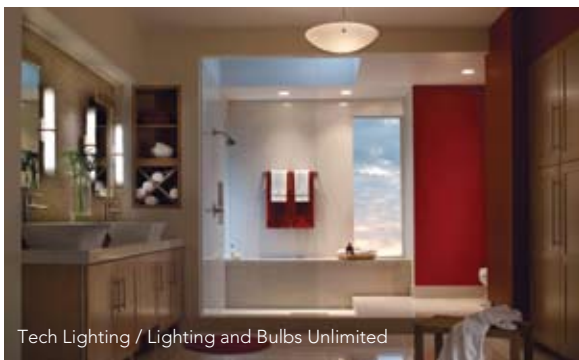
Jim Schmid Photography



Dienst Custom Homes

SMALLER, SIMPLER THE NEW LUXURY HOME

Redefining the Dream Home in a Post-Recession World



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The worst of the recession appears to be over, but a new consumer mindset will linger long after our economy recovers. According to a September 2009 Nielsen Report, the severity of this recession has brought on a change in consumer values, spending habits, and lifestyle choices.

Whether shopping for groceries or a new family car, the post-recession consumer is more cautious about the purchases they make. This new mindset has also impacted the luxury housing market, as consumers think twice about how much house they really need to live and builders re-examine what homebuyers need, what they want, and what they can live without.

In the Wall Street Journal's recent article, "Builders Downsize the Dream Home," one Southeastern homebuilder expressed belief that the market downshift reflects a fundamental change in the way people are going to want to live. Yet the trend toward smaller homes is not impacting all builders the same. Some have noticed that while their luxury customers are more skittish about buying, when they do buy they still want large homes with all the frills.

What is the reality in our housing market? Urban Home Magazine talked with Charlotte homebuilders to discover how the recession has affected our luxury housing market, and what changes they expect to find in a post-recession world.

Long Term Thinking

Kevin Holdridge has been designing luxury custom homes in the Charlotte area since 1994. As owner of his own design firm, KDH Residential Design in Charlotte, Holdridge says he has seen a definite shift in consumer mindset since the recession began.

"Five years ago, our clients wanted a house with tremendous resale value; they were looking to sell within five years," he says. "Today, our clients are looking at the custom homes we design as their long term residence. They want a home designed to fit the property, with timeless appeal that looks great as it ages."

Right Size Living

Gone is the mentality that your home needs to be the largest one on the block. In its place is a new appreciation for a home that is smaller and simpler, yet still has certain luxuries that fit the owners' lifestyle.

Census Bureau data confirms that the average new single-family house peaked at 2,507-square feet in 2007 and has slipped since then to 2,392-square feet. The data also reports that average prices have fallen by 16% to \$269,200.

Jocelyn Dienst of Dienst Custom Homes in Cornelius has been helping clients build their dream homes for more than 20 years. She says the new custom home is less about square footage and more about beautiful luxury products and finishes.

"Because everyone has been impacted by this economic recession in one way or another, the client wants to be practical and not build a project that is going to take all of their equity and savings," says Dienst. "There is a general feeling of wanting a smaller, beautiful home with the items important to them without the financial stress of the larger homes."

Holdridge agrees. "There will always be homebuyers who can afford and will still want a very large estate, but the days of the 'bigger is better' mentality are coming to an end," he says. "Most of my clients want a smaller home with better features, where form follows function and square footage is maximized to make rooms appear larger than they are."

Russell Zavatsky, owner and president of Zar Custom Homes, has noticed a trend toward smaller custom homes. "Many consumers are downsizing their overall square footage," says Zavatsky. "This will allow many people to have the affordability to build a custom home and have upgraded features along with higher quality."

Yet Doug McSpadden, president of McSpadden Custom Homes and a builder of large luxury homes for more than 20 years believes that while the majority of homebuyers are downscaling, there will always be a demand for large, opulent homes.

"The 'old' luxury home has not completely disappeared," says McSpadden. "There are still those with the means and desire to have their 10,000 to 15,000-plus-square foot McMansions and there probably always will be. As the economy shifts, we may actually see that the most elite homes become even more opulent than their predecessors. For the majority, however, this economic shift will play a significant role – a paradigm shift."

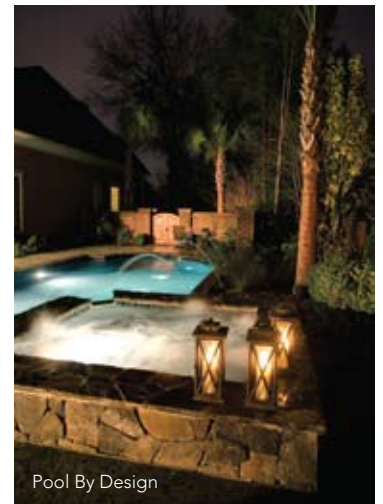
All builders agree that energy-efficiency, traffic flow, and livability are of the utmost importance these days, with more emphasis placed on family dining and gathering rooms, recreation rooms and outdoor living spaces.

Many builders have found that homeowners, taking advantage of a hungry labor pool and lower material costs, are choosing to remodel rather than re-build.

"In the second half of 2009 we have started to see a greater interest in both renovations / remodeling as well as new home construction,"



Walker Zanger



Pool By Design



Simonini Builders

says Zavatsky. “The confidence among the buying public is definitely gaining strength month over month.”

Dienst says their company has always done remodeling for their clients, but they have expanded their remodeling and renovations business since the recession began.

“People are reevaluating whether they can actually afford a new home with all the bells and whistles and are deciding to remodel and renovate their existing home,” says Dienst. “We are doing everything from adding screen porches and redoing kitchens and baths to building additions to existing homes. Whether in a new home or a remodel, screened porches, pools, fireplaces, gazebos, pergolas, improved landscaping and outdoor lighting have all become very important.”

Green is The New Luxury

Energy performance is also increasingly important in home building and home improvement. According to the U.S. Green Building Council, green building products and services grew from \$7 billion in 2005 to \$12 billion in 2007. The green building industry is expanding so rapidly it is expected to soar to \$60 billion in 2010.

Holdridge, a Certified Green Professional, explains that homeowners’ new long-term thinking has them re-considering the effects on their home’s design on our planet. In addition there is a new understanding that the initial investment in renewable energy systems is a small price, considering the lifespan of the home and the energy usage over the years.

Zavatsky has also noticed the change in homebuyers’ attitudes toward eco-friendly energy efficiencies.

“Cost conscious buyers want to know that their new home is going to save them some money over time by operating more efficiently,” Zavatsky says. “They also want to know that the materials and processes used to build their home are good for the planet. New homes can have these capabilities without having to spend a fortune; many of our materials and methods can make a huge difference.”

Affordability

As the square footage of today’s custom built home shrinks, so has its price tag.

“A custom home we built just three or four years ago started around \$600,000 and went up quickly from there,” says Zavatsky. “Today we are building homes with upgraded features and specifications starting in the high \$200s and low \$300s. Materials and labor for many items and services are available at discount prices that we have not seen in over a decade.”

He explains that price has always been an important part of the entire homebuilding process, but never to this extent. “In the past there were certain upgrades, custom designs, or exotic materials that many customers had to have regardless of the cost. Today, the customer wants to understand every cost before they make any decisions so they know that their budget will not exceed what they are willing to spend.”

McSpadden defines the mindset of the new luxury buyer by their demographics. He believes that the X/Y generation is going to be limited by less income, higher loan-to-value ratios, and tighter lending standards. He also sees this generation as having a great advantage in the current real estate market.

“For new luxury home construction, this will likely equate to a reduction from a typical 4,500 to 6,500-square foot home down to a 3,500 to 4,500-square foot home for the X/Y generation homebuyer. Wasted space is not an option,” McSpadden says. “They have a real opportunity to find great value in the current ‘Boomer’ real estate. Because of the existing inventory, we may see more of a shift to the purchasing of the



secondary luxury market rather than the construction of new ‘Mini-McMansions.’”

Financing

Even with lower average home prices, financing the construction of a new custom home might seem daunting in the aftermath of the banking crisis. David Woldman, mortgage specialist with SunTrust Mortgage, explains that while construction loans are being made, homeowners can expect to see major changes.

Loans now require more money down (lower loan to values) and maximum loan sizes are now lower. Higher credit scores are required, as well as lower debt ratios and the customer must qualify for the loan based on both current house and the new house payment if the current home is not sold prior to the construction loan.

“The good news is that rates are excellent,” says Woldman. “The build rate is as low as 4.25% and permanent rates are from 4.25% to 6% depending on the loan and other variables.”

He advises homebuyers to have their paperwork in order for an easier loan process. “It will help to remember 2, 2 and 2. Two years tax returns and W-2s, two months asset statements (all pages) and two months of your most recent pay-stubs, plus the contract, specs, plans and cost-breakdown. This is a good start, but be prepared to provide any follow-up documentation as it’s needed.”

Woldman also recommends choosing a mortgage banker who is experienced and has a commitment to the bank for the sake of continuity. “You will be dealing with this person for 12 months or so,” he says. “Choose a bank that does mortgages in-house and get a one-time close



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construction perm loan. Getting the whole loan done at once will not only save you money, it can protect you from guidelines and rates that could change during the process.”

Smarter Buys. Better Deals. Higher Quality.

History shows us that past recessions have merely slowed the trend for larger and larger homes rather than eliminating the desire to build big. After every recession including the Great Depression, homes have been built larger than before, with increasing sales prices and more elaborate amenities. The average home today is fifty percent larger than those built 25 years ago.

“As individual Americans gain strength so will the homes they build and live in,” states Zavatsky. “Real estate will become a good investment again as it has been in the past. Homebuyers will be a better-educated group going forward. They will look for smarter buys, better deals, and expect the quality standards to be high.”

Dienst believes that we are and will experience a lasting change in today’s luxury custom homebuyer. “For the first time in many people’s lifetime, everyone has experienced in one way or another the impact of this recession and it will remain on their minds for a very long time,” she says. “It is often said that Americans have a short memory and that in a few years, life will resume as it was, but I don’t believe that Americans will return to the wealth and overspending of the late 90s and early 2000 years.”

McSpadden sees this as a buyer’s market and an opportune time for those who can afford to build. “Homeowners with the means and desire to build a new custom home are living in one of the most opportunistic times of the last quarter century,” he says. “With inflation looming in the future, home sites available at huge discounts, contractors and trades more eager and available than ever before, and mortgage money at an all-time low, now is the time to reach out to a trusted, established, reputable luxury home builder and begin this most incredible journey.” ❖

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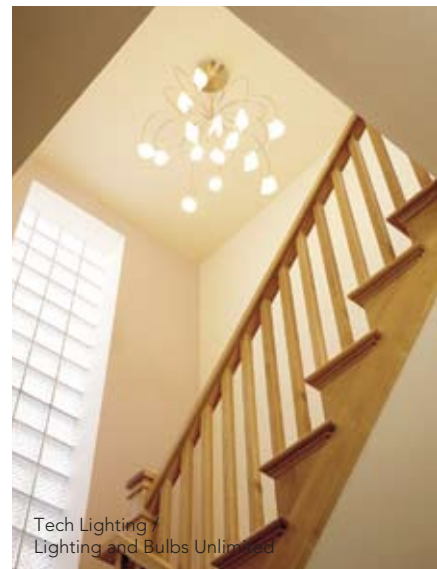
David Woldman is SunTrust Mortgage’s Top Producer company-wide. His specialty is renovation and construction to perm loans. He has been in the mortgage industry for over 23 years. He can be reached at 704-651-8377.



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