



How Townhome Developments are Solving Challenges for Builders, Planners and Buyers

As Consumers Seek Affordable Housing, Developers and Builders Focus on New Solutions to Stay Profitable

The Big Picture: Demographic and Economic Overview

Entering 2023, the home construction industry is facing an interesting set of challenges and opportunities.

On the positive side:

- Texas is experiencing a population boom, reaching more than 30 million in 2022 – making it and California the only states to surpass that mark.^[1] This is fueled in part by migration to Texas from other states, as well as international migration and natural growth. This is in contrast to the national population slow-down that occurred during the pandemic.
- In addition to population growth, there are demographic shifts in home buying: more young adults (Millennials) are interested in buying vs. renting, and older generations (Baby Boomers and Gen X) are looking for smaller and lower-maintenance spaces.
- In addition, Texas is seeing a strong economic resurgence following the 2020 pandemic. Gross Domestic Product (GDP) rose faster in Texas in 2022 than the national average.^[2] Unemployment is declining and the state has set new employment highs for more than a year as of December 2022, according to the Texas Workforce Commission.^[4]



In opposition to these dynamics, several factors are putting pressure on home builders and buyers.

- Mortgage interest rates doubled to more than 20-year highs in 2022. Some experts believe we’ll see a decline but others disagree – but the recovery will be slow regardless.^[5] Higher rates mean higher payments for borrowers, making home-buying a daunting prospect for many consumers – especially young or first-time buyers.
- Construction costs remain high even though several inputs including lumber and steel had small declines in the final months of 2022. Given the extreme highs since early 2021, the downward trend isn’t exactly a recovery. And, costs of other materials including water, sewer, storm pipe, and concrete – continue to climb.^[6]
- Supply chain constraints also continue, namely in materials availability, freight and transportation costs, difficult demand forecasting, changing technologies and shifting consumer attitudes and preferences.^[7]
- Finally, general inflation continues to put pressure on all industries as well as consumers. Raw materials costs lead to smaller margins for producers and retailers and force consumers to change buying, spending and saving habits.

The Challenge

What does this mean for the home construction industry? Builders, developers and city planners are looking for ways to meet increased needs for housing with options that are profitable to build while serving changing consumer preferences and budget constraints.

What can developers build profitably, but at an affordable price for consumers?

What range of housing options are needed to meet consumers’ needs at an affordable price?

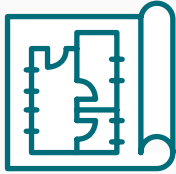
How are changing consumer habits and preferences affecting their home-buying choices?

The Townhome Proposition & Advantage

As developers rethink what they can build profitably and consumers reset their priorities and budgets, townhomes have emerged as a smart solution for all. Townhomes typically range from 1,000 – 3,000 square feet, with smaller lot sizes than typical single-family detached construction. Townhomes can be designed for sale or rent.



Townhome Advantages



Developers and builders:

- Better profitability: A townhome's smaller footprint means lower construction costs and higher density. Higher-density projects also typically spread out infrastructure costs.
- Buyer appeal: Townhomes appeal to a broad range of buyers – from first-time homeowners to those wanting to downsize or decrease maintenance.
- Development opportunities: Adding townhomes to a development plan allows for preservation of more open space and areas for amenities. The higher density of projects also brings added efficiency to broader neighborhood redevelopment plans.



City planning departments:

- Available affordable housing: Townhomes help address the need for affordable, single-family housing, with the higher density translating to more available units. This serves needs of younger or first-time homebuyers, other lower-earning buyers and those looking to downsize.
- Neighborhood development: Townhome construction is a more affordable way to redevelop the urban core or underserved neighborhoods.
- Visual appeal: Townhome developments can incorporate rear or front entry product types which can provide a unique aspect to a neighborhood.
- Preservation: Higher-density townhome communities can often help with preservation of open space, existing trees or other natural or historic elements.



Consumers:

- Affordability: Townhomes present a single-family housing option at more affordable costs than traditional large lot single-family homes.
- Low maintenance: Townhomes are typically less costly to maintain than traditional single-family homes based on smaller square footage and lot sizes.
- Shared amenities: Developers typically include shared amenities in townhome neighborhoods. Examples may include community spaces, dog parks and outdoor spaces, rails, seating areas, etc.
- Visual appeal: Townhome developments can incorporate rear or front entry product types which can provide a unique aspect to a neighborhood.
- Open space and preservation: Higher-density townhome communities provide residents with added open space while preserving existing trees or other natural or historic elements.
- HOA are used to facilitate home and community maintenance. This ensures a development maintains a consistent look as it ages and property values are preserved.



Case Study: The Preserve on Kelly Elliott

In 2018, Double Eagle Real Estate (Developer) came to mma with a single-family detached infill development project. mma facilitated the planning and construction documents phases of the development through the City of Arlington. The planned home builder backed out on the development due to rising costs and changing economic and market conditions. Double Eagle saw an opportunity to rethink the concept and partnered with mma to develop the area with single-family attached townhomes.

mma guided Double Eagle in partnering with the City of Arlington to rezone the area plan and create new construction plans which incorporated a new townhome product created by John Houston Homes. The design includes 52 single-family attached units averaging 2,200 square feet, typically with three bedrooms, at least two baths and two attached garage spaces. Average listing price was \$350K, compared to \$500K for traditional single-family homes in the area. The smaller lot sizes, minimum of 2,250 square feet allowed the development to incorporate more common open space which included a dog park. The development incorporated front and rear entry products which allowed for unique a streetscape internal to the development and along Kelly Elliott Road.

The result? Units at the Preserve sold...

“The Preserve ended up being a better overall product for the community than if we had stayed with a traditional single-family detached construction plan. The units have a high-end look that’s consistent throughout the development with more open outdoor space and amenities. Our buyers appreciate the amenities along with the lower cost, and we moved the units quickly – so it’s been a win-win.”

- Gary Knott, Managing Partner Double Eagle Real Estate



The Bottom Line

Builders, developers and city planners are getting creative in solving the affordable housing dilemma for homebuyers. But they also need to stay profitable by building what buyers can afford. Facing high mortgage rates and construction costs, along with supply chain constraints and changing consumer preferences, developers are finding success by thinking outside the box of traditional single-family detached homes.

Townhome developments present a range of benefits for builders, city planners and buyers – providing the perks of new construction at affordable prices and with desired amenities and lower maintenance, while serving builders' needs to stay profitable and sell units quickly. And for city planning officials, the developments deliver economic growth by providing attractive, affordable housing options to meet the needs of a range of buyers.

For all – the bottom line is the bottom line ... profitability for builders, community growth for municipalities, and affordability for buyers.



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[1] <https://www.texastribune.org/2022/12/22/texas-population-growth-30-million-census/>

[2] <https://gov.texas.gov/business/page/texas-economic-snapshot>

[3] <https://www.investopedia.com/terms/g/gdp.asp>

[4] <https://gov.texas.gov/business/page/texas-economic-snapshot>

[5] <https://www.forbes.com/advisor/mortgages/mortgage-rates/>

[6] <https://www.nahb.org/blog/2022/10/building-materials-down-in-september>

[7] <https://www.extensiv.com/blog/supply-chain-management/challenges>

