**The Newest Cottage Industry**

*by Sara Lin  
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**Buyers Snap Up Small Homes; 1,000 Square Feet for $599,950**

Peter Moon's family of six snuggles into bench seats for dinners together. Their house is 1,100 square feet, a bit smaller than two squash courts. "We really don't need more space," says Mr. Moon, a 46-year-old software designer. "I don't mind being cozy."

Mr. Moon says he and his wife dumped a much larger home in Boston three years ago to seek a simpler, greener life here. Mr. Moon recently persuaded his parents to sell their 2,000-square-foot house on New York's Long Island and retire to a small neighboring cottage. "We've lived in bigger, older houses, but this is by far the most livable," says Mr. Moon. "There's no place to accumulate junk."

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The designers of the Moon family house, Ross Chapin and Jim Soules, think small in a way that is practically un-American. They build tract houses that are half the size of the average U.S. home and cost a lot more per square foot. What is surprising is how quickly they sell them. The men are building their fortunes with buyers willing to pay more for less. Customers, such as the Moons, say they prefer taking up less room and using less energy.

Mr. Chapin, an architect, and Mr. Soules, a developer, met by chance in 1996, when nearly everyone else in the housing market was thinking big. Now, as the surplus of unsold McMansions increases, other developers are starting to lean their way.

In the past decade, the two men have built about four dozen Craftsman-style cottages that range in size from 800- to 1,500-square-feet. The houses are squeezed into five boutique-sized tracts, all within a two-hour drive of Seattle. Some were melded into more spacious suburbs under zoning laws modified to ease density restrictions for small houses. Most were built around a grass commons shared by a dozen or so like-minded residents who boast of their tract's smallish carbon footprint.

Developers in Milwaukee, Boston, Indianapolis and elsewhere are looking to spread the idea beyond the Puget Sound, and for good reason. While falling home prices and sluggish sales have slashed new housing starts by a quarter in the past year, Messrs. Chapin and Soules say they field a dozen calls a week asking, "When's your next project?" They have one house left for sale, a two-bedroom, two-bath cottage of 1,000 square feet in nearby Redmond, the home of Microsoft. At $599,950, it isn't cheap. The median price last month for a single-family home in the neighborhood was $542,500. Residents of the tiny tracts say they don't mind paying a premium for such touches are hardwood floors and custom cabinets because the two men develop more than just housing.

"We walk into each others houses and borrow sugar and do all the kinds of things you did in the 1950s," says Pat Hundhausen, a retired special education teacher. Her Umatilla Hill development, like the others, is a throwback to the bungalow courtyard, a design that appeared in the 1920s, before traditional, single-family tract housing gave form to postwar suburbia. Mrs. Hundhausen and her husband left Waukesha, Wis., their hometown of 40 years, after visiting friends a couple of years ago in Umatilla Hill. It took the couple less than a week to buy a nearby lot.

The small-home buyers are a mix of single professionals, young families and retired empty-nesters. While aspirants to the traditional American Dream seek ever bigger, more secluded homes, residents here say they prefer making do with less. Getting to know the neighbors is a bonus. Todd Staheli and his wife are raising two daughters in a 998-square-foot house surrounded by people they greet by name. "There are a lot of eyes on them as they ride their scooters and bikes," says Mr. Staheli.

The houses are painted in Easter-egg pastels of salmon, yellow and avocado green, adding to the tract's storybook feel. Residents tend thickets of poppies, lavender, catmint, roses and lilies. Their front-yard gardens are surrounded by a knee-high fence, leading out to a sidewalk and the grass commons. Single-car garages are built along an edge of the tracts, which are usually set back from a main street or connected by private road.

"It feels like you're in this oasis when you walk home, even though you're close to a major shopping center, a bus line and a college," says Eileen McMackin, who lives at the Greenwood Avenue Cottages in Shoreline, Wash.

Mr. Chapin, the architect, uses clever design tricks to give the houses the illusion of more space. Corner windows add light and better views. Large skylights in the upstairs loft keep sloped ceilings from feeling cramped. Hollowed-out interior walls provide built-in bookshelves and cubbies for pictures and knickknacks. Every crawlspace is used for storage. He worked with Mr. Soules to give the houses their signature retro look.

The two men met 12 years ago at a builders' meeting where Mr. Chapin gave a talk on small-home designs. Mr. Chapin, age 53, grew up in a 1903 shingled bungalow on a lake in Minnesota. He said he grew frustrated with the ballooning size of American cars and houses. He was looking for a client to build what he called sensible-sized houses. Mr. Soules said he was looking for a novel housing idea.

They teamed up immediately and started work on a project in Langley, Wash., a town on Whidbey Island where Mr. Chapin had lived for nearly two decades. The town had just adopted a housing code that allowed twice the number of houses on properties zoned for single-family homes. The catch: each dwelling had to be less than 1,000 square feet.

Their first cottage development started on the drawing board as a standard tract, but with smaller houses. They tore up the plans, Mr. Soules says, because he wanted the project to echo the 1920s-era courtyard bungalows he'd seen around town while attending the University of California at Berkeley. The men found inspiration at the Pine Street Cottages in Seattle, which were built in 1916 and remodeled in 1991. The 440-square-foot houses were clustered around a grass courtyard. The idea stuck.

Their revised drawings intrigued the manager at a local bank. The man listened to Mr. Soules's pitch and said, " 'I get this,' " recalls Mr. Soules, who is 66. "It was like the stars lined up."

Mr. Chapin said he staked nearly everything he owned to put up his share in the partnership, borrowing from parents, in-laws, aunts and uncles. The first of the Third Street Cottages, all with ground floors measuring less than 650 square feet and a small loft, went up for sale in 1998. The eight-house tract sold out three months later. The partners broke even but banked a surplus of confidence.

In the 10 years since, Mr. Chapin has designed more than 50 houses for Mr. Soules. Their cottage neighborhoods have won industry recognition, including a 2007 housing award from the American Institute of Architects. Last month, they were lauded at the Pacific Coast Builders' Conference.

The men worked without a sales office. They would build, furnish and decorate the first house in their developments, then use the model to sell the rest. At first, Messrs. Chapin and Soules spent a lot of time explaining courtyard living. Now, as word has spread, international tour groups on architectural pilgrimages occasionally stop by the developments for gawking and picture-taking.

Since last year, the two men have embarked on separate projects. Mr. Soules is consulting on a seven-home tract scheduled to break ground next year in Kitsap County, just outside of Seattle. Mr. Chapin wanted to work farther away from the city. He has a 53-house development under construction in Langley, Wash.

Boston-area developer Tony Green plans to incorporate Messrs. Chapin and Soules's courtyard design into a 3,000-home tract planned for Plymouth, Mass. "I like the sense of community they create," he says.

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In Indianapolis, developer Casey Land learned of the small home developments in an industry magazine and hired Mr. Chapin for a 21-cottage project. The houses will range in size from 875 to 1,600 square feet. At first, Mr. Land says, his bankers were skeptical, especially those living in 3,000-square-foot homes. "We're all downsizing," he says. "It's tough to do, but we're all getting there." He predicts the social life will be a stronger draw than square footage. "These days, we drive to the house, open the garage door, go in," he says. "But it's important to get to know your neighbors. I think people miss that."

On a recent Saturday, residents of the Greenwood Avenue Cottages dragged wooden tables and chairs to the grass commons for their first outdoor potluck of the season. Their six-year-old tract is tucked into a 1960s subdivision of single-family, ranch-style houses, tethered by a small private road.

Six of the eight houses are still occupied by the original owners, including Ms. McMackin, a junior high school teacher who named her avocado-green house "Sundown." She and neighbors have contributed tables, chairs, bookshelves and a futon sofa-bed to the tract's common room. Photographs of past potlucks, a baby announcement and a commons cleaning schedule hang on a bulletin board.

When Ms. McMackin's mother turned 80, they had a birthday party joined by neighbors. When her mother died two years ago, they held a memorial reception at the development. Last September, one resident had her wedding on the grass commons.

By 5:30 p.m., eight Greenwood neighbors and four of their guests sat down for a meal of barbecued chicken, Southwestern chili, quiche and salad. They finished with a round of brownies, pie and vanilla ice cream. After cleanup, people went home. There was still an audible hum of activity from four homes, where neighbors kept their front doors open for visitors.

"Living here almost forces you to rethink the traditional idea of being a neighbor and friend," said Brian Ducey, who sold a 2,300-square-foot house to live with his wife in a 986-square-foot cottage. "You really have to become like a family to make it work."

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