REAL ESTATE

The Starter Home Is Housing's Unicorn. Try Hunting One.

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In this article

-- DHI

Prospective buyers arrive during an open house in Rancho Cucamonga, Calif. (KYLE GRILLOT/BLOOMBERG)

Key Points

About This Summary

- The typical first-time home buyer's budget, based on estimated 2025 incomes, falls short of the price of a starter home by about a third.
- High prices are forcing first-time buyers to expand their definition of a starter home to include condominiums and townhomes.
- Home builder D.R. Horton reported that 65% of its mortgage companies' closings in its third quarter went to first-time home buyers.

These days in northern New Jersey, the affordable single-family starter home is like the mythic Jersey Devil: dubiously existent, and last reportedly seen a long time ago.

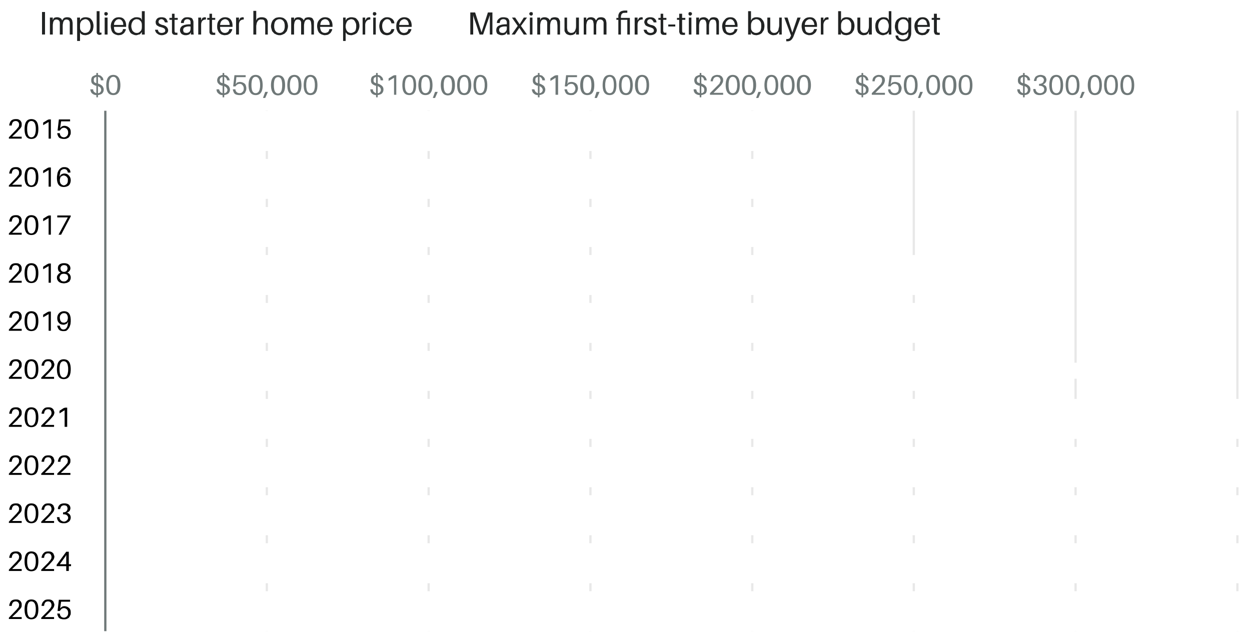
"What used to be the second home is now the starter home," says Michael Read, principal at the Morristown, N.J.-based Bridgeway Mortgage and Real Estate Services, noting that price gains have pushed up the cost of entering the market.

The most affordable houses, he notes, attracts more prospects than just renters looking for a home of their own. "First-time buyers are in competition with everybody; people that are downsizing, people that have taken advantage of their home prices going up."

It's a hurdle for homeownership that stretches beyond the bounds of the Garden State. Home price, income, and supply data explain why starter homes appear rarer than they used to.

Non-Starter

For young renters, becoming a homeowner doesn't pencil out like it used to.



Note: Budget based on income for 25-to-34-year-old renters and mortgage rates. Implied starter home price is 85% of median home sale price. 2025 budget is estimate based on 2024 Census data.

Source: NAR, Census

There is no universally agreed-upon definition of a starter home, which makes tracking their availability tricky. To measure first-time buyers' budgets against the price of starter homes, *Barron's* compared home price data supplied by the National Association of Realtors with the trade group's calculation of the maximum home price affordable to a renter between the ages of 25 and 34.

The trade group's calculation is based on median household income and mortgage rates for any given year and assumes a 10% down payment.

Barron's evaluated this against a rule-of-thumb for starter home prices, which calls for capping the price of a starter home at 85% of the median home sales price.

The results show that the typical buyer's budget, based on estimated 2025 incomes, falls short of the price of a starter home by about a third. It's an improvement from recent years, but falls well short of the surplus for roughly a decade through 2020.

First-time buyers wading into the market today might not lock down the affordable freestanding starter home of their dreams—but they are making do with what is out there, says Realtor.com senior economist Hannah Jones.

(News Corp, which owns *Barron's*, also owns Realtor.com operator Move.)

"The starter home is still a thing, in terms of any home buyer has a home that they start with," says Jones—but the definition has expanded, she adds. "It might have been a single-family home [in the past]. Now, maybe that's a condo or a townhome."

Back in New Jersey, a plethora of condominium options are a bright spot for priced-out first-timers, notes Read, the real estate agent and mortgage lender. "If you weren't open to condos, well, maybe you should be if you're in that price point," she says. "It's becoming a little bit of a better alternative."

New home construction is another avenue for first-timers. The large U.S. home builder D.R. Horton ↑ DHI +3.26% said last week that 65% of its mortgage companies' closings in its third quarter went to first-time home buyers. The builder operates in 36 states, with many of its closings deriving from the Sunbelt region, according to an investor presentation.

"Parts of the country where we're seeing a lot of new construction are really where that starter home dream still lives and is expanding," says Realtor.com's Jones.

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