

Why it seems impossible to buy your first home

By **Emily Badger** March 22 at 6:30 AM

A starter home is supposed to be an entry point into the market: a modest property, maybe a two-bed, one-bath, a place a young couple could buy into before all the pets and kids and seldom-used kitchen appliances come along.

Buy a starter home, if all goes well, and you position yourself later to trade up. A starter home helps make possible a second home, which makes possible maybe a third even grander one somewhere down the line.

But what happens when the most affordable entry-level housing on the market costs \$700,000?

Okay, that's an extreme example (it's from metro San Francisco). But across the country, the list prices of starter homes have been rapidly rising, running away from what would be remotely possible on the kind of incomes that could traditionally buy you such properties. In metropolitan Oakland, the median list price for a starter home is up 104 percent since 2012, according to [a Trulia analysis](#). In Denver, it's up 78 percent. In Portland, 50 percent. In metro Washington, 37 percent.

These prices are soaring, in part, because starter homes are some of the rarer creatures on the market now:

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According to Trulia chief economist Ralph McLaughlin, the number of starter homes on the market in the 100 largest U.S. metros has dropped by about 44 percent since 2012. That inventory has been shrinking at a faster rate than has been the case for mid-tier and premium homes, when you divide a metro's housing stock into these three categories (McLaughlin defines "starter homes" as the bottom third of the stock by home value, not physical size).

After the housing crash, investors bought up many foreclosed homes and converted them into rentals, so that has eaten away at some of the available starter-home stock. And people who currently own starter homes who remain underwater on their mortgages can't sell, which keeps their homes off the market, too. But a big part of the problem here has to do with what's happening further up the housing ladder.

In markets like Oakland, Portland and Washington, the prices for high-end homes are rapidly rising — the rungs of the ladder are moving farther apart — and that makes it harder for people who own mid-tier homes to trade up. And when *they* get stuck, people who own starter homes have a harder time trading up, too.

Rising prices also mean that buyers have to settle for smaller homes. So now we have buyers who could have afforded something nicer five years ago competing for what should be starter homes. We have people in San Francisco shelling out \$700,000 for cramped condos.

Economists generally say you should spend no more than a third of your income on housing. In metro San Francisco, a family with a median starter income (among homeowners in the lower third of the region's income distribution) would have to pay *110 percent* of their income on mortgage payments to afford a median starter home on the market today.

"So obviously starter-home households are not buying starter homes," McLaughlin says of the Bay Area. Richer households are. And this is another illustration of how [different segments of the market influence each other](#). "Who bears the brunt of that downward pressure on the ladder? Well, it's starter homebuyers. They get squeezed out."

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The implications of this ripple out in many directions. Young homebuyers who are really committed to buying their first home may have to move to another region to do so (you can buy in El Paso a lot more house for half the money than you can in San Francisco). Or people who'd like to buy remain renters instead, adding [more pressure to historically tight rental markets](#). In the long-term, renters who can't afford to become homeowners also postpone the ability to create wealth through housing, which could impact other financial decisions later in life.

When starter homes are out of reach of residents with modest incomes in places like Oakland or Portland, that also means those people who are squeezed out of the ownership market remain vulnerable to worsening affordability and displacement. Whether or not you believe in the other virtues of homeownership, it's a better bulwark against rising property values than renting.

Emily Badger is a reporter for Wonkblog covering urban policy. She was previously a staff writer at The Atlantic Cities.

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