

STARTER HOMES EVOLVED

ARTICLE BY: BRENNEN THOMAS
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THE OLD PATH IS GONE...

From what feels like only a few short years ago, most people shopped at malls. As technology advanced and consumer behavior changed, fewer people are frequenting malls, and malls are now closing at a rapid pace across the United States. When passing by a closed mall, you'll often notice plans for demolition. More often than not, those sites are being redeveloped into housing.

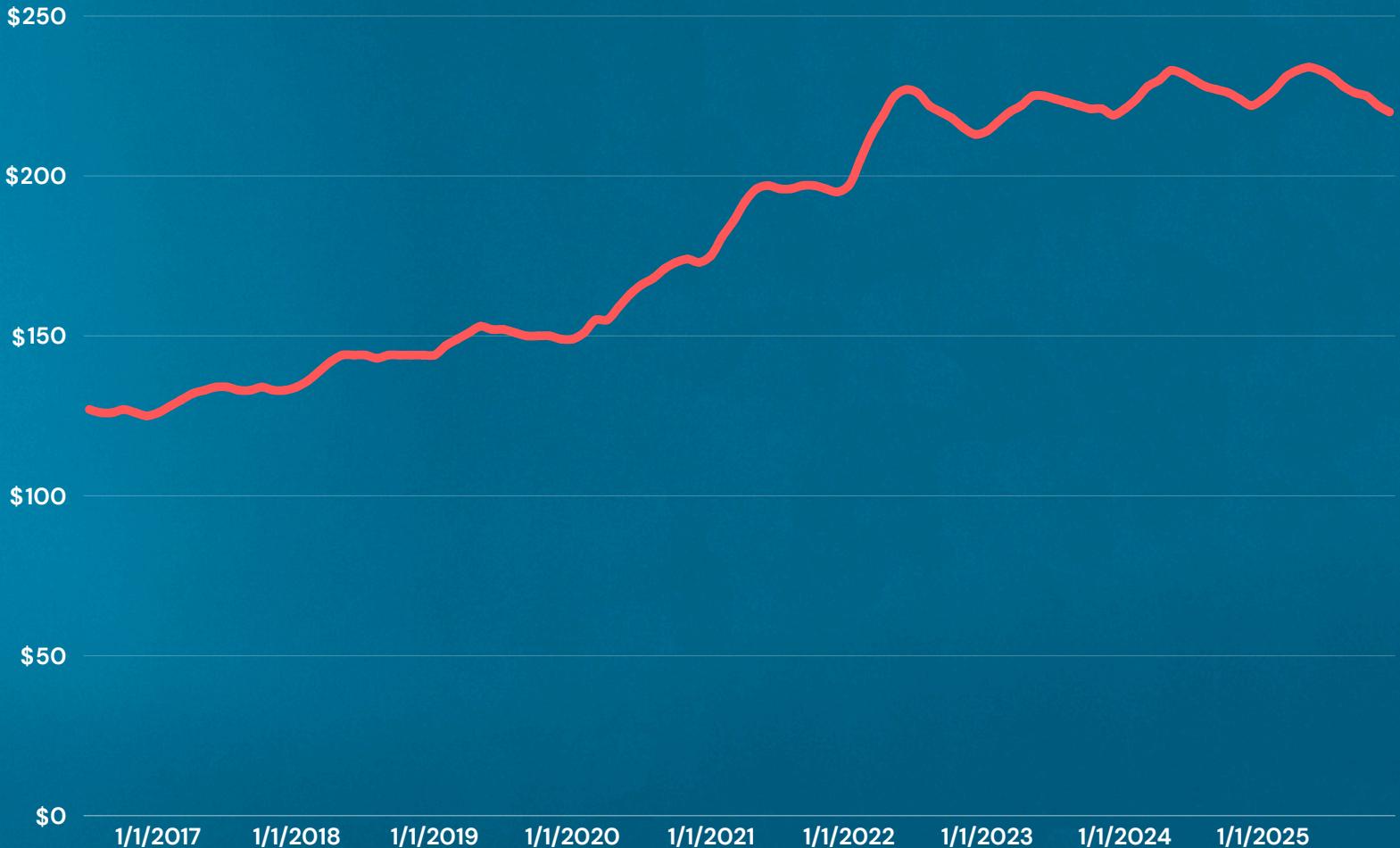
Traditionally, first-time homebuyers would focus on small, affordable homes, known as '**stepping stones**'. This term emerged after builders began producing homes, including starter homes, across the nation at a record pace following the Second World War. Starter homes were small and had simple finishes, which kept prices lower than those of larger, more complex homes. It was affordable and the perfect stepping stone towards a larger home. Over time, land became more scarce, and stricter zoning laws made it harder to add new supply.

Housing has been in short supply since 2012. As each year passed since then, inventory dwindled, and that massively accelerated during COVID. The U.S. inventory hit an all-time low in 2022 and has slowly risen since then. Even with a few years of consecutive inventory growth, the housing supply shortage remains. As in the case of the demolished mall, homes are still being built, but not at a pace that would affect supply.

The Great Financial Crisis of 2008 had lasting effects in the years that followed, one of the most significant being underbuilding. At one point during the financial crisis, the U.S. had 4 million homes on the market, a supply glut. Housing began to heal when the government stepped in with lending reforms. Immediately after the recession, demand did not justify large-scale home construction. Builders instead turned their attention away from entry-level homes and focused on maximizing profits with larger homes, as less land, stricter zoning laws, and higher production costs became deterrents. The lack of land and deterrents didn't just reduce supply; they rewired what was built.

Starter homes did not just get more expensive; rather, they disappeared. According to the U.S. Department of

MEDIAN LISTING PRICE PER SQUARE FEET UNITED STATES



DATA SOURCED FROM: REALTOR.COM VIA FRED ®

Housing and Urban Development (HUD), the median house price was 3.6 times the median household income in 1985. By 2023, the median home price grew to 5.3 times the median household income. Home prices rapidly increased following the COVID-19 pandemic, fueled by record-low mortgage rates. Homes listed for sale would be flooded with buyer activity, leading to multiple offers above the asking price and a severely imbalanced market. Home prices surged during that time, including the lower, more affordable price ranges. The cost of smaller homes soared, while builders continued to develop properties that maximized profits rather than entry-level homes.

Now, in 2026, homes are extremely unaffordable for many buyers. Starter homes quickly shifted from a product or type of home to a price point. Inventory levels, especially in the lower price ranges, have only fallen. According to Realtor.com, the median listing price per square foot in the U.S. was \$126 in January 2016. By May 2025, the busiest time of the year, the median price per square foot reached \$234, an increase of \$108, or 86%, in less than 10 years. Rather than every buyer paying more for a house, as inflation inevitably rises, they are also paying for less of a home, a phenomenon known as shrinkflation in housing. With limited land and zoning laws preventing more developments, smaller houses are the new normal, and former developments are now being torn down or reused to include more housing, a needed adjustment.

Although home prices have soared and the old '**stepping stones**' are no longer around, this does not mean housing is unattainable. Buyers can find deals on smaller-styled condos, townhomes, and single-family properties and still gain equity. Homebuyers who set their expectations properly for what a starter home looks like today are gaining an advantage in the housing market. Real estate has always been an evolving industry, but understanding the trends is crucial to succeeding in today's market.