

Quantifying the availability of “starter homes” in Virginia

This analysis estimates the number and share of homes sold in Virginia jurisdictions that could be defined as “starter homes.” The goal is to better understand how options for first-time home buyers vary across the Commonwealth and how the inventory of starter homes has changed over the past eight years.

Data

Home sales:

Data on home sales are aggregated from the 17 multiple listing services (MLSs) throughout Virginia. The data include sales from January 1, 2013 through June 30, 2021. An MLS is a database used by real estate brokers to share information on properties available for sale and is where closed transactions and home prices are recorded. This data is provided by the Virginia REALTORS®.

The combined MLS data include the vast majority of home sales transactions in the state; however, the database does exclude some new construction, for-sale-by owner (FSBO), and other types of off-market sales.¹

Income:

Data on area median household income (AMI) and 80 percent of AMI are from the U.S. Department of Housing and Urban Development. Annual income limits from FY 2013 to FY 2021 are used.

Mortgage rates:

Data on mortgage rates are from Freddie Mac and reflect the annual average 30-year fixed-rate mortgage rate with no points.

Approach

1. Assign income levels for each jurisdiction for each year 2013 through 2021. For this analysis, we assume that the typical buyer looking for a starter home has an income equal to 80 percent of the AMI for a family of two.
2. Determine the home price that is affordable to a household at 80 percent of AMI for each county/independent city and in each year 2013 through 2021.²
 - a. Assume the buyer puts down 3.5%.

¹ The MLS data is updated each month on or about the 14th. Each month, data on past sales are updated and basically the whole database is “refreshed.” As a result, historic data on home sales pulled today will be slightly different than home sales totals pulled earlier.

² This approach does not take into account the costs of property taxes or insurance.

- b. Assume a mortgage rate that is equal to the annual average 30-year fixed-rate mortgage rate with no points.
 - c. Assume a household spends no more than 28 percent of its gross income on a mortgage payment each month.
3. Calculate the number and share of home sales where the closed price was affordable to households at 80 percent of AMI.³

Interpreting the findings

Example 1: In 2021, the jurisdictions with the highest shares of starter home availability include Dickenson County and the City of Emporia, where all sales were affordable to a household at 80 percent of AMI, and Buchanan County, City of Hopewell, City of Petersburg, and Sussex County where more than 90% of homes sold were at “starter home” prices.

Example 2: In 2021, the jurisdictions with the lowest shares of starter home availability include Arlington County, City of Fairfax, Fairfax County, City of Falls Church, and Loudoun County where less than 20% of home sales were at prices affordable to a household at 80 percent of AMI.

Example 3: In Accomack County, in 2020, 58% of all homes sold in the county were sold at prices affordable to households at 80 percent of AMI. In 2021, that share was 45%. Therefore, there was a 13 percentage point drop in the share of homes sold that were “starter homes.”

Example 4: In Madison County, there was a 49 percentage point drop in the share of homes sold that were affordable to households at 80 percent of AMI, from 62% of all home sales in 2013 to just 13% of home sales in 2021.

Example 5: In Alexandria, the share of home sales affordable to households at 80 percent of AMI increased between 2013 and 2021. In 2013, 22% of home sales were at “starter home” prices for the city. In 2021, the “starter home” share was 30% for an eight percentage point gain.

³ The number of closed sales includes single-family and condo/townhome sales. There is limited data for some jurisdictions, notably in southwest Virginia, where many sales transactions are recorded in the Tennessee MLS. Lee, Scott, and Wise counties, as well as the City of Norton, may have very few or no transactions. There is no data at all for Clifton Forge in the MLS since it gave up its independent city status in 2001. The City of Bedford converted back to a town from an independent city in 2013. The MLS still reports out data for the City of Bedford; however, no income data were provided for 2020 and 2021.

Notes

Note 1: The relative number of homes sold that were affordable to households at 80 percent of AMI depends on the mortgage rate and home price, as well as how area median income changes. In the examples above, the 80 percent AMI value in Madison County declined by 8.5% between 2013 and 2021, so the 80 percent AMI household had declining purchasing power over the period. By contrast, the 80 percent AMI value in the City of Alexandria increased by 23.3% over the 2013 through 2021 period.

Note 2: The calculation of the share of home sales that are affordable to households at 80 percent of AMI does not tell us anything about the type or size of the home.

For more information, contact Lisa Sturtevant, Chief Economist, Virginia REALTORS® at lsturtevant@virginiarealtors.org or 703-598-1220.