

What Should You Know About Buying a Starter Home?

WRITTEN BY ASHLEY SUTPHIN POSTED ON FRIDAY, 23 JANUARY 2026 00:00



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You may hear the term starter home pretty frequently, but wonder as a buyer, what does that really mean?

When you're buying a home for the first time, you have to not only understand what a starter home is for you but also whether it's best to skip ahead and invest in your forever home.

What's Considered a Starter Home?

A starter home can be a single-family house, a condo, or a townhome. Starter homes are something the average first-timer buyer can afford but will likely outgrow. A starter home, relative to the local real estate market, will be on the lower end of things.

These homes may be older, small, or generally modest. They might also be brand-new but still designed to meet the needs of entry-level buyers.

There aren't going to be all the features you maybe hope to have someday, but you can envision that for the near-term future, a starter home will suit your lifestyle.

You may find that you stay in your starter home forever, for whatever reason. You might, on the other hand, move up eventually to a home that's in a more desirable neighborhood or is more expensive.

What's a Forever Home?

A forever home is one that can be not just larger but may be updated or have more outdoor space. A forever home can have some of those features that are highly desirable and make a property competitive when it hits the market. It may have a big, private yard and be in a great school district, for example.

Of course, a forever home is subjective. For some people, that home may be one where they can envision raising a family. For others, a forever home might be a fixer-upper that needs some TLC but is in a great neighborhood.

A forever home doesn't have to be inherently luxurious, but one defining feature is that they tend to be bigger than a starter home.

The Benefits of a Starter Home

If you're at a point where you weigh whether you should buy a starter home or a forever home, both have pros and cons.

A starter home will be less expensive typically so you can save for a down payment faster. Then you can begin to build equity sooner as well. If you wait to afford a forever home, that's more time you're going to sink into rent and less you're investing in equity. When you're ready for your forever home, you can then use the equity you've gained to buy it.

The downside of a starter home is that you'll likely outgrow it when you enter another phase in your life. For example, maybe you'll get married or have kids, and a starter home will no longer meet your needs.

If you decide it's time to move from your starter home, you have to sell or rent it. You'll have to find another home, get approved for another mortgage, and pay closing costs.

The Benefits of a Forever Home

If you think you might like to skip the starter home and go straight to your forever home, there are benefits. There's a peace of mind that comes with knowing you plan to stay in your home for the long term without having to worry about selling it or moving.

You can take time to settle in and make the home perfect for your needs gradually.

The downside is that a forever home will probably be more expensive, meaning it takes longer to save a down payment and you're delaying building equity.

Which is Right For You?

The most important thing when you're buying a house, whether a starter or forever home, is to spend what you can genuinely afford. The general rule of thumb is to spend no more than 28% of your gross monthly income on anything related to housing costs. You shouldn't pay more than 36% on debt including

not just your mortgage but other loans and credit cards.

If you shop for a forever home, it can be a good move in terms of taxes. When you sell a home too fast after buying it, you may have to pay a capital gains tax if the value goes up. There's an exclusion of up to \$250,000 if you file taxes individually or \$500,000 if you're a married couple filing jointly for capital gains on real estate. You lose that exclusion if you own the home for less than two years.

Along with budget and tax benefits, think about the long-term value of a home before you buy one. You want to look for properties, no matter the price, that have an excellent potential resale value. Sometimes you do also have to remember that what you think is forever right now might not really be forever.

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