

Incentivizing starter home construction could help Tennessee homebuyers.

Nationwide, including here in Tennessee, rising land values and construction costs, high interest rates, and onerous zoning regulations are leading to higher home prices.¹ Would-be homebuyers on both ends of the spectrum—first-time buyers and those looking to downsize—are being pushed out of the market.

Greater availability of smaller, more affordable “starter” homes would help both types of homebuyers. It would allow young Tennesseans to buy their first home in the communities where they grew up, help our state’s growing workforce put down roots near new job opportunities, and assist Tennesseans looking to downsize without leaving the neighborhoods they love.

Homeownership for Tennessee families at many life stages is unaffordable.

	SHELBY COUNTY	SUMNER COUNTY	SEVIER COUNTY
	 2 PEOPLE FIRST-TIME HOME BUYERS	 2 PARENTS, 2 CHILDREN RELOCATING	 2 PEOPLE DOWNSIZING
Median Sales Price	\$262,000	\$424,150	\$374,850
Monthly Payment	\$1,569	\$2,540	\$2,244
Minimum Income Required	\$62,751	\$101,588	\$89,780

Assumes a 10% down payment and 7% interest, with a maximum 30% of annual income spent on mortgage costs.

Source: THDA Home Sales Data—Median Sales Price (All Home Sales), 2024.



A challenging market and increased income thresholds impact first-time homebuyers.



The supply of smaller, starter homes is limited—in 2024, just 17% of homes sold in Tennessee were under 1,500 square feet.² Mortgage and interest rates remain high post-COVID, and homeowners who purchased at lower rates are “locked in” and unwilling to sell until rates decrease. At the same time, higher construction costs and zoning requirements encourage construction of larger, more expensive houses.

As home prices have gone up, more than two out of every three Tennesseans (67.7%) can’t afford the state’s median new-home price of \$399,580.³ Tennesseans now need a minimum income of \$74,478 to afford a starter home.⁴

Existing homeowners lack options to downsize within their communities.



Many seniors seek homes that better fit their changing needs—such as those with lower maintenance or single-floor living—without leaving neighborhoods where they have long-standing ties to family, friends, and services. Yet fewer than 4% of homes nationwide include accessibility features like no-step entries, single-floor layouts, or wider doorways.⁵ A more diverse housing stock supports residents across a range of life stages and mobility needs.

Downsizing has become harder as Tennessee starter home prices—defined as those under the 25th percentile of price—rose 74% from 2019 to 2024, reaching \$310,960.⁶ That’s the highest increase of any Southeastern state and the 9th highest nationally.

Greater availability of starter homes can help strengthen Tennessee's economy.



Tennessee's housing shortage has been estimated to have cost the state \$8.4 billion and 74,301 jobs since 2008.⁷ Nationally, the median age of first-time homebuyers in 2025 was 40 (up from 31 in 2014). As Tennesseans are delaying home buying, they also delay the associated benefits of homeownership—from financial equity to better health outcomes.⁸ Older Tennesseans are also struggling financially—an estimated 23% of Tennessee households aged 65 or older are cost-burdened by their housing, including nearly 37% with a mortgage and 50% of those who rent.⁹

Incentivizing construction of affordable starter homes can help more Tennesseans achieve homeownership, reduce housing cost-burden, and strengthen community stability across generations.

Tennessee's proposed Starter Home Revolving Loan Fund would help create more housing options at more affordable price points.

Tennessee's newly proposed **\$30 million Starter Home Revolving Loan Fund** is designed to support the construction of homes that are accessible to first-time homebuyers. The one-time investment creates a self-sustaining program where 0% interest loans are provided to builders of eligible projects, the funds are paid back after the initial sale of the house, and then the funds can be reused to support additional projects.

The Tennessee Housing Development Agency (THDA) would administer the loan fund, partnering with local financial institutions to finance 0% construction loans to build owner-occupied homes that are up to 1,500 square feet.¹⁰

KEY PROGRAM ELEMENTS

HOMES

- Maximum size: 1,500 square feet
- Owner-occupied
- Single family detached, duplex, triplex, or quadplex units

LOAN PROGRAM

- Traditional construction loans financed through local financial institutions
- Principal balance is paid in full upon sale of the property
- The loan fund receives the payment, and the funds are available for another construction project

Several states are similarly using revolving loan funds to support their housing goals.



The Utah Homes Investment Program (\$300 million)⁹

Provides low-interest (at or below 7%) construction loans to builders for starter homes.



Oklahoma's Housing Stability Program (\$164 million)¹¹

Funds 0% interest loans to support single-family home construction and attainable single- and multi-family rental homes.



The Michigan Housing Accelerator Fund (\$75 million)¹³

Provides gap-financing short-term funding for project financing shortfalls for mixed-income apartment projects.

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