MISSING MIDDLE HOUSING: FROM POLICY TO PRACTICE

A Let's Build! Policy Watch Report

Terwilliger Center for Housing

COVER: One of the first completed projects under the Memphis's MI-Pilot program is the first phase of Bellevue Montgomery with 23 cottages, duplexes, and fourplexes around a shared green that opened in June 2026. (City of Memphis)

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About the Urban Land Institute

THE URBAN LAND INSTITUTE is a global, member-driven organization comprising more than 45,000 real estate and urban development professionals dedicated to advancing the Institute's mission of shaping the future of the built environment for transformative impact in communities worldwide.

ULI's interdisciplinary membership represents all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, the Institute has a presence in the Americas, Europe, and Asia Pacific regions, with members in 84 countries.

The extraordinary impact that ULI makes on land use decision-making is based on its members sharing expertise on a variety of factors affecting the built environment, including urbanization, demographic and population changes, new economic drivers, technology advancements, and environmental concerns.

Peer-to-peer learning is achieved through the knowledge shared by members at thousands of convenings each year that reinforce ULI's position as a global authority on land use and real estate. Each year, thousands of events, both virtual and in person, are held in cities around the world.

Drawing on the work of its members, the Institute recognizes and shares best practices in urban design and development for the benefit of communities around the globe.

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About the ULI Impact Lab

The ULI Impact Lab is the philanthropically funded, systems-change arm of ULI. It aligns and amplifies ULI's flagship Centers and Initiatives: the Randall Lewis Center for Sustainability in Real Estate; the Terwilliger Center for Housing; and ULI's Initiative on Real Estate Economics and Capital Markets. The Impact Lab also houses ULI's Advisory Services and Technical Assistance capability and UrbanPlan, which bring multidisciplinary market expertise, stakeholder engagement, experiential learning, and implementable recommendations into community-centered development. Together, these programs share a goal: transforming real estate markets toward decarbonization, resilience, health, and housing affordability at scale. Learn more at uli.org/impactlab.

About the ULI Terwilliger Center for Housing

The Terwilliger Center for Housing works to expand the supply of housing to meet the needs of people of all incomes, ages, and abilities. Established in 2007 with a gift from longtime member and former ULI chairman J. Ronald Terwilliger, the Center's activities include technical assistance engagements, forums and convenings, research and publications, and an awards program. The goal is to catalyze the production and preservation of a full spectrum of housing options. Learn more at uli.org/terwilliger.

About Let's Build!

Let's Build! is a new initiative of the ULI Impact Lab's Terwilliger Center for Housing. The initiative taps ULI member expertise to inform the development and implementation of local and state housing policies that accelerate housing production and improve affordability.

Let's Build! has four main activities:

- Tapping the expertise of knowledgeable ULI members in the United States and Canada to identify promising policies, implementation challenges, and gaps that remain, and then using this information to produce a range of practical tools that help local and state leaders adopt meaningful reforms and avoid common pitfalls
- Facilitating partnerships between ULI district councils and local and state pro-housing partners and other stakeholders to help communities identify the most pressing barriers to housing supply and affordability and implement effective solutions
- Providing technical assistance to local governments to help them address barriers to the production and preservation of housing; ULI will work with cohorts of cities interested in addressing a common challenge, such as expanding the supply of duplexes, triplexes, townhouses, and other forms of missing middle housing
- Providing technical assistance to state governments to help expand the use of offsite construction to produce lower-cost homes

About This Report

This Policy Watch report reflects ideas that emerged through discussion with ULI members and ULI's own research. The findings and recommendations presented here represent a starting point, not the final word. This guidance will be refined as the Let's Build! team works with states, localities, and development professionals to implement these and other ideas.

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Two- and three-story fourplexes at Malone Park Commons in Memphis draw on the porch and balcony traditions of Memphis's historic Uptown neighborhood, adding density at a scale that reads as compatible infill rather than out-of-character development.

Executive Summary

Many communities in the United States struggle to build a critical component of the housing inventory. Duplexes, triplexes, fourplexes, townhouses, and cottage courts—the "middle housing" between a single-family home and a mid-rise apartment building—were once common features of American neighborhoods. Today, they are rarely built, and their absence is one contributing factor among several behind escalating home prices and the record high rates of both renters and owners in the United States who pay more for housing than they can afford.

Many local governments have sought to facilitate the development of missing middle housing via zoning reform. Yet, while zoning reform is necessary, it is not sufficient. Shortages of missing middle housing are not the result of a single policy failure, but a stack of compounding problems. Building codes not calibrated to facilitate this housing type, financing structures that make small multifamily too expensive to build, construction defect liability that has collapsed the condominium market, plus a shortage of developers with the skills and capital to execute scattered-site infill at scale all contribute to inadequate levels of missing middle housing construction.

Building codes are among the most consequential and least understood barriers. Under current model codes, a three-unit building* must comply with the International Building Code (IBC)—the same commercial-grade framework that governs a 50-unit apartment complex—rather than the simpler International Residential Code (IRC) that applies to duplexes.

Risk-adjusted returns. Small multifamily projects face fixed overhead costs, such as design, permitting, legal, and financing fees that do not scale proportionally with unit count, eroding per-unit returns even as variable costs remain comparable to (or higher than) many larger buildings. On the same infill lot, a single-family custom home often delivers a superior risk-adjusted return with less complexity than a missing middle development. In many communities, policy changes will be needed to ensure developers have strong incentives to choose the added complexity of building missing middle housing. Targeted interventions informed by developer input, such as fee waivers, use of publicly owned land, density bonuses, or pre-approved plans, can shift the calculus.

* Except for townhouses with a separate egress for each unit

Construction defect liability has effectively stalled the development of for-sale attached homes in many markets. Condominium output in Oregon fell 92 percent between 2006 and 2023.

> Construction defect liability has effectively stalled the development of for-sale attached homes in many markets.

In an effort to restart the delivery of condominiums, several western states—Montana, Utah, Colorado, and Oregon—have enacted reforms shortening the period during which builders can be sued for construction defects. As Colorado's experience suggests, the reforms have not fully solved the problem: insurers continue to price condominium projects using national risk pools that do not yet reflect state-level liability changes. As a result, premiums have not fallen and the practical impact on project feasibility has been limited even where reform has passed.

Developer capacity is an important element in the delivery system for all types of housing. Missing middle production often requires many small developers operating across many scattered parcels.

> Missing middle production often requires many small developers operating across many scattered parcels.

Where all of these conditions are met, **offsite construction** offers a potential force multiplier: in Minneapolis Public Housing Authority's Family Housing Expansion Project, the use of modular construction contributed to estimated 13 to 22 percent lower costs and 33 percent faster delivery, with the added political benefit of reduced neighborhood disruption. Scaling the production of standardized missing middle housing types through offsite construction could offer even deeper savings.

> Scaling the production of standardized missing middle housing types through offsite construction could offer deeper savings.

SIGHTLINE INSTITUTE HOUSING SOLUTIONS PHOTO LIBRARY

A twin-porch duplex in Portland reflects Oregon's move to open single-family neighborhoods to duplexes and other middle housing types.

Introduction

Over the last decade, communities across the United States have found themselves widely undersupplied with housing. Among the most consequential gaps is the near-disappearance of small-scale multifamily missing middle housing: duplexes, triplexes, fourplexes, townhouses, courtyard buildings, and cottage courts. These housing types—larger than a single-family home but smaller than a mid-rise multifamily development—once defined many American neighborhoods but have become conspicuously absent from most of them.

This is the missing middle: housing scaled to fit residential streets, often priced within reach of the teachers, nurses, trades workers, and young professionals who keep communities functioning but increasingly cannot afford to live in them. Roughly half of U.S. renters are cost-burdened, and homeownership has moved out of reach for a growing share of moderate-income households. The near-absence of new two- to 12-unit buildings from most housing markets has removed an important source of attainable ownership and rental options.

Zoning is one important barrier to the development of missing middle housing. Many communities have created residential zones limited to single-family housing that do not allow for the development of other neighborhood housing types. But the reasons for the limited supply of missing middle housing go well beyond zoning. While many jurisdictions have updated their zoning in the last five years to better accommodate a mix of housing types, many are discovering that they still need to tackle an array of other obstacles to the development of missing middle housing.

JUSTIN MIERS

Pedalers Lane in Wheeler District, Oklahoma City, is a cottage cluster made up of 12 single-family cottages on micro-lots along a shared pedestrian lane, priced to meet 70–120 percent AMI affordability targets.

The Barrier Stack: Why Legalization Doesn't Equal Production

Challenges within zoning, building codes, financing, legal liability, and developer capacity can compound, creating barriers that operate as a stack. Legalization opens the door; feasibility determines whether anyone walks through it.

Even the very first question, "Should zoning rules be revised to accommodate missing middle housing?" is not simply about legalization. For missing middle housing actually to be built, it is important for localities to pair legalization with rigorous pro forma analysis, working through what a project actually costs and what it takes to make it financially feasible. Even "permitted" missing middle housing can be effectively blocked by density parameters set too low, parking minimums that consume buildable area, or approval processes that add time and cost that small developers cannot absorb.

Diagnosing and Treating Additional Barriers to Missing Middle Housing

Once a project clears the zoning hurdle, it may encounter additional barriers that most elected officials and planning staff do not fully understand until a developer walks them through the specifics, particularly building codes and financing constraints. Jurisdictions can use a common diagnostic framework to locate their specific barriers, beginning with a development feasibility audit.

Assess the full barrier stack. Map the permitting pathway for a hypothetical three-unit building: Which code applies—residential or commercial? How many agencies are involved? Where does the project touch discretionary review?

Test financial feasibility with real numbers. Model whether missing middle housing can generate returns competitive with single-family infill across several representative building types—a duplex, a fourplex, a cottage court. If returns don't pencil, identify which cost drivers are within municipal control and what changes would be needed to make development financially feasible.

CITY OF MEMPHIS

A rendering of one of six fourplex buildings planned for Leath Quad Community on North Parkway in Memphis, part of the city's MI-Pilot program.

Map developer capacity, experience, and interest. Is there a pipeline of developers with the skills, capital access, and appetite to build missing middle housing? Capacity is one constraint; so is familiarity. See the Building Developer Capacity section for suggestions on how to structure those working conversations.

Building Codes: Calibrating Requirements to Scale

Even when local zoning permits a triplex or fourplex by right, the project must also comply with local building code. Building codes are essential—they protect public safety and establish baseline standards that the market cannot self-enforce. The challenge is one of calibration: ensuring that code requirements are proportionate to the actual risk profile of the building in question.

> Under national model codes, the addition of a third dwelling unit generally shifts a project from the International Residential Code to the more stringent International Building Code.

The IRC/IBC Divide

Under current model codes, a three-unit building without separate egresses for each unit must comply with the International Building Code (IBC)—the same commercial-grade framework that governs a 50-unit apartment complex—rather than the simpler International Residential Code (IRC) that applies to duplexes. The practical burden on small projects is disproportionate: fire sprinklers, commercial-grade alarm systems, heightened design load requirements, and commercial utility connections that a duplex would never trigger. Many residential builders will not cross this threshold, causing them to default to duplexes even in cities that have legalized fourplexes.

In the United States, most state and local building codes are based on model building codes developed and maintained by the International Code Council (ICC). The ICC has two principal model codes governing residential development: the IRC, which governs one- and two-family dwellings; and the IBC, which covers everything else. Under these national model codes, the addition of a third dwelling unit generally shifts a project from the IRC to the more stringent IBC. An exception exists in the model codes for townhouse developments, which may remain under the IRC when each unit has its own means of egress. Some states and localities have adopted higher thresholds for triggering the IBC, but most continue to follow the model-code approach. Some states such as California and Massachusetts apply strictures above those generally required by the IRC to townhouses. A fourplex may be treated like a 40-unit apartment in many respects, requiring fire sprinklers, commercial-grade alarm systems, accessibility measures, heightened design load requirements, and more stringent stormwater management improvements. These requirements may be fully justified for larger buildings, but they can be disproportionately stringent relative to the actual risks posed by a small, house-scaled structure.

Utility providers often follow suit: local water utilities typically treat each fourplex as a commercial building, triggering backflow prevention devices costing $3,000–$5,000 per building and higher monthly service rates.

Many residential builders simply will not take on IBC projects. They do not have the staff, the consultants, or the margins. The result: in cities that have legalized fourplexes through zoning reform, builders often default to duplexes rather than crossing into IBC territory.

A Multi-Level Reform Challenge

Code reform for missing middle housing is complicated by how codes are adopted in the United States. The ICC updates model codes on a three-year cycle through an open public process, but the model codes have no force of law—they must be adopted by states and amended by localities. State fire marshals frequently exercise independent authority over sprinkler requirements. This means that advancing code reform requires action at multiple levels simultaneously—local amendments, state enabling legislation, and engagement with the ICC's model code development process.

What Cities Can Do

Cities need to convene building officials, fire marshals, utility managers, and small-scale developers around a real or representative project and walk through what it costs to build under current rules. The goal is a shared diagnostic: what types of development are financially feasible, where are requirements disproportionate to risk, and what targeted adjustments would preserve safety while reducing unnecessary burden and improving financial feasibility?

$3,000–5,000:

estimated increased cost per building with 4+ units for backflow prevention

POLICY IN ACTION:

Malone Park Commons, Memphis

When developer Andre Jones broke ground on Malone Park Commons in Uptown Memphis, Tennessee, the zoning challenge was already solved. Jones Urban Development had approvals for a 35-unit missing middle project—fourplexes, live/work buildings, and a cottage court—on land previously zoned for just six single-family homes. The hard part was everything that came next. As in most jurisdictions, Memphis applied IBC requirements beginning at three units, triggering commercial-scale standards: fire sprinklers, backflow preventers costing $3,000–$5,000 per building, commercial water taps, and stamped engineering plans. Barriers stacked quickly, and the project stalled.

What followed became a model for developer/municipality problem-solving. Rather than absorbing the costs or walking away, Jones documented the barriers in detail and brought them directly to Memphis planning director John Zeanah. Zeanah listened and acted—though the path required working at two levels of government.

Memphis planners first attempted a local amendment to allow up to six units under the IRC. However, that approach ran afoul of the state fire marshal. The City then pivoted to the state legislature.

In 2024, Memphis partnered with Jones and other home builders to advance HB 2787 with the Tennessee legislature. The legislation allowed local governments to permit small residential buildings of up to four units, under 5,000 square feet, and no taller than three stories to be built without sprinklers if constructed with two-hour-rated separations, or to use less costly 13D sprinkler systems instead of the 13R systems otherwise required.

On the local front, Memphis amended its local IRC to permit up to six dwelling units under the residential code rather than the IBC, specifically targeting small multiplex buildings as part of its missing middle housing strategy.

JONES URBAN DEVELOPMENT

In Memphis, the cottage court at Malone Park Commons lines modest two-story homes along a shared pedestrian path in Uptown Memphis, demonstrating how missing middle building types can create an intimate, neighborhood-scaled community where zoning once permitted only six single-family homes.

Memphis utility policy was also revised to classify buildings of up to four units under residential service rates, eliminating the commercial tap penalty.

Jones's documented experience became the primary evidence behind Zeanah's white paper, *Beyond Zoning: Hidden Code Barriers to Middle-Scale Housing*.

What made this work was not just that a developer flagged a problem, but that a planning director was positioned and willing to receive that information and act on it across multiple regulatory bodies and two levels of government. Jones knew where the friction was. Zeanah had the relationships and authority to pursue it all the way to the state capital.

Zoning Reform: Getting It Right

Zoning reform creates the permission structure for missing middle housing, but effective reform goes well beyond simply legalizing new housing types. Cities that stop at legalization often find themselves puzzled when newly upzoned corridors remain unchanged for years. A range of zoning and regulatory reforms can increase the odds that missing middle housing can pencil financially and actually be built.

SIGHTLINE INSTITUTE HOUSING SOLUTIONS PHOTO LIBRARY

This fourplex in Portland, Oregon, fits within a single-family-scaled footprint, distinguished only by separate entries and door colors.

The foundation: legalize duplexes, triplexes, fourplexes, cottage courts, and accessory dwelling units (ADUs) by right across residential zones. But legalization alone is not enough if the housing type isn't financially feasible under the accompanying development standards. Before adopting new by-right allowances, jurisdictions should run pro forma analyses across the missing middle typologies they want to encourage to confirm that the combination of land cost, development standards, and local rents or sale prices supports viable projects. When they do not, the applicable zoning policies need adjustment *before* adoption, not after. This means bringing builders and financial analysts into the room while the zoning policies applicable to missing middle housing are still being written. The bullets below highlight key levers.

- **Reduce excessive minimum parking requirements.** In markets where land acquisition costs are high, excessive parking requirements directly reduce the number of units a project can support and erode financial feasibility. Requirements of 1.5 to 2 spaces per unit may sound reasonable, but on a typical 6,000-square-foot infill lot, they can consume land area that could supply housing for people rather than storage for cars. Each required parking space typically claims roughly 300–350 square feet of lot area.

- **Reduce excessive lot size minimums.** Oversized lot size minimums restrict development in two ways. First, when minimums exceed the size of many existing lots, they render otherwise developable parcels nonconforming and limit infill opportunities. Second, larger minimums mean fewer units can be built on a given amount of land, which spreads land costs across fewer units and drives up the per-unit cost.

- **Increase lot coverage and reduce setbacks.** A duplex on a 50-foot lot with a 25 percent coverage limit and 20-foot rear setback may be legally permissible but physically impossible to build at a viable size. Municipalities should model actual building envelopes under proposed standards before adopting them—in consultation with designers and developers who know what a buildable unit requires.

- **Streamline approvals.** For large multifamily developments, approval timelines are a carrying-cost problem. For missing middle developments with two to 10 units on scattered infill sites, long delays can be a dealbreaker. A small developer cannot absorb 18 months of entitlement uncertainty on a $600,000 project.

- **Establish pre-approved building designs.** Cities including Spokane, Washington, Portland, Oregon, and South Bend, Indiana have developed libraries of pre-reviewed plans for duplexes, ADUs, and small multiplexes that developers can adopt with minimal additional review. For smaller and first-time builders, pre-approved designs reduce cost, permitting time, and uncertainty dramatically.

POLICY IN ACTION:

Planning for Middle Housing in the Puget Sound Region

Washington State's path from incentives to mandates offers an instructive lesson in what it actually takes to change local housing policy at scale.

The Puget Sound Regional Middle Housing Toolkit, commissioned by the Washington Department of Commerce and designed by Opticos Design, was an early effort to accelerate middle housing adoption across all four Puget Sound counties and 82 cities. The toolkit's Place Types Atlas identifies distinct residential neighborhood types across the region, helping cities assess infill opportunities and select appropriate zoning tools. Four overlay zones translate that analysis into regulation, ranging from gentle infill within existing building envelopes to more transformative change near downtowns and transit. A companion pro forma tool developed by Cascadia Partners allows municipalities to model the financial viability of different housing types before adopting standards.

The toolkit was well designed, but most communities chose not to adopt new standards voluntarily at a time when the state was actively debating mandatory provisions. Two state grant programs in 2019 and 2021 generated mostly housing action plans, not new codes.

Mandatory legislation followed. A 2021 law required communities to adopt moderate-density policies. HB 1110 (2023) went further, requiring cities to allow two, four, or six units per lot depending on city size and transit proximity, with a model ordinance as the enforcement backstop for jurisdictions that miss their deadlines. With compliance deadlines staggered by city size, jurisdictions across the state are now in the process of updating their zoning codes to permit duplexes, triplexes, fourplexes, and other middle housing types in areas previously zoned exclusively for single-family homes. Middle housing is shifting from a policy goal to an implementation phase as cities work through code amendments and model ordinance adoption.

What cities can take from this: The Puget Sound experience illustrates how technical resources and financial incentives are necessary, but rarely sufficient without a mandate or strong political pressure behind them. States and regions that want broad change may need to follow Washington's path: use the toolkit phase to build knowledge and constituency, then follow with legislation that makes adoption the expectation rather than the exception.

WASHINGTON STATE DEPARTMENT OF COMMERCE

This fourplex in Everett, Washington, is an example of a house-scaled, four-unit building type that HB 1110 requires Washington cities to allow.

Financing Missing Middle

Even where zoning has been reformed and codes updated, missing middle housing often still does not get built. The reason is straightforward: the numbers do not work. In most markets, small multifamily development is financially marginal at best—and that thin margin is where projects die. Closing the gap requires municipalities to understand the specific financial logic developers face and design interventions that address real constraints rather than assumed ones.

Why the Numbers Often Don't Work

Missing middle housing occupies a distinct position in the development pro forma. It is too small to capture the cost efficiencies of large multifamily—no shared infrastructure savings, no bulk purchasing leverage—while also too large to benefit from the simplicity and financing accessibility of single-family construction. A fourplex on an infill site carries similar soft costs as a larger building, such as architecture, engineering, contractor mobilization, permits, legal fees, but spread across four units rather than 50. Construction costs per square foot are often higher as well, and many overhead expenses don't scale proportionally with unit count. The per-unit burden falls disproportionately on smaller projects.

TOM GATLIN

In Nashville, Tennessee, Kirkpatrick Park's 94 units spread across 15 two- to three-story buildings, demonstrating how missing middle-scale infill can replace concentrated public housing and blend into the surrounding neighborhood's historic character and street scale.

The same lot that could support a fourplex can often support a single high-value custom home that is simpler to finance, faster to permit, easier to sell, and frequently delivers a comparable or superior internal rate of return (IRR) with less risk. Until missing middle offers a meaningfully better risk-adjusted return than single-family infill, many developers will choose the path of least resistance. Targeted public intervention is often what tips the balance.

Public Financing Tools to Jumpstart the Market

Where regulatory reforms—such as reduced parking requirements, streamlined approvals, or pre-approved plans—are not sufficient to close the feasibility gap, public financing tools can make missing middle housing viable. The goal is not permanent subsidy dependence, but targeted public investment to de-risk enough early production to demonstrate viability and attract private capital over time. These tools are subsidies in the sense that they deploy public resources to support private development. The question is not whether to subsidize but whether the public benefit—more attainable housing, stronger neighborhoods, a broader developer pipeline—justifies the investment.

Loan funds and gap financing: Direct municipal lending such as construction loans, soft seconds, or deferred-payment loans can close pro forma gaps on projects that are viable at stabilization but cannot attract conventional financing at the construction stage.

Fee waivers and deferrals: Impact and permit fees can represent 5–15 percent of project cost on small buildings. Waiving or deferring these fees for qualifying missing middle projects shifts real dollars to viability without writing a check. It is a form of public subsidy, but one that requires no cash outlay at the time of award.

Public and surplus land disposition: Surplus municipal parcels and tax-foreclosed properties offer an opportunity to reduce or eliminate land costs—often the single largest component of per-unit development cost on infill sites.

Conveying land at below-market value, or through a community land trust structure, can substantially improve project feasibility.

Pre-development support: Soft costs frequently create a capital barrier before a shovel hits the ground. Pre-development loan funds allow smaller developers to advance projects they could not otherwise carry to a construction lender.

Each of these tools works better when designed *with* developer input rather than *for* developers. Cities that have structured working relationships with local small developers via regular convenings, open-book pro forma reviews, or feedback loops on program design are more likely to offer well-targeted programs and faster uptake.

Land Access and Economy of Scale

Municipally owned land, such as vacant lots, tax-delinquent parcels, or surplus City property, is one of the most powerful tools available for seeding missing middle development. In markets where land costs make infill financially unworkable, transferring City-controlled parcels at below-market prices can change the math. These programs work best when tied explicitly to missing middle goals: specifying housing types, affordability levels, and developer profile. Cities that dispose of surplus property through standard auction processes will get what the market delivers by default, rather than the triplexes and cottage courts they may be seeking.

Rent Control: A Countervailing Force

Any discussion of financing missing middle must address rent control, because its effects fall disproportionately on the small-scale landlords most likely to own and operate this housing type. A landlord with three duplexes cannot absorb rent regulation the way a large institutional owner can. Rent control introduces an income ceiling that may eliminate the investment case entirely.

Rent stabilization tends to reduce rental supply over time as landlords convert units, defer maintenance, or exit the market. The effect is particularly acute for new small-scale rental supply. Cities pursuing both tenant protections and missing middle housing need to be explicit about how they are managing the tradeoff. Exempting new construction from rent regulation for a defined period is a common and well-established approach to preserve the production incentive.

Construction Defect Liability: A Separate Barrier for For-Sale Housing

Even where financing gaps are addressed, for-sale missing middle faces a distinct structural barrier that rental development does not: construction defect liability. Construction defect laws allow homebuyers to sue builders for defects—ranging from structural failures to cosmetic issues—for periods of up to 10 years after construction is complete. For multifamily for-sale buildings such as condominiums and townhomes, the combination of long liability windows, expansive defect definitions, and class-action exposure through homeowners associations has made insurance prohibitively expensive and led many builders to exit the for-sale multifamily market entirely. The result has been a dramatic collapse in condominium development across many markets. Several western states are now pursuing liability reform in an effort to reverse that trend (see Policy in Action: Construction Defect Liability Reform).

> **5–15%**
> impact/permit fees as typical share of project cost

POLICY IN ACTION:

Construction Defect Liability Reform

For-sale missing middle—condominiums and for-sale attached units—has largely collapsed in many markets, and the primary culprit is construction defect liability law. A cluster of well-intentioned consumer protection laws passed in the early 2000s collectively made condos the most legally risky form of residential construction to build, triggering a permanent repricing of the insurance market. Developers now pay three to four times more for liability insurance when they develop condos than for comparable rental projects.

The numbers are stark: in Oregon, condo production fell 92 percent between 2006 and 2023, and in Los Angeles and Orange County, annual multifamily condo starts dropped from a mid-2000s peak to a fraction of prior levels, a collapse documented across California submarkets by the Terner Center for Housing Innovation.

Several western states have shortened the window during which builders can be sued after project completion: Montana cut it from 10 to six years; Oregon from 10 to seven with mandatory moisture inspections; Colorado created a voluntary program in which builders offering tiered warranties and third-party inspections qualify for a six-year window and a higher homeowner association lawsuit threshold; and Utah now requires written notice of defects and up to nine months to repair before litigation can proceed. California attempted similar reform in 2024 but the legislation failed under opposition from plaintiffs' attorneys, leaving its 10-year window intact. Another attempt is underway to pass condo liability reform in California in 2026.

The near-term outlook for missing middle condos remains cautious even where reform has passed: insurers have been slow to reprice their products in response to state-level changes, meaning premiums have not yet fallen in most markets. The wave of state reforms represents the most direct policy lever aimed at reviving for-sale attached supply in a generation, but the market response is expected to lag by several years.

INTEGRATED PROPERTIES

A duplex in Denver, Colorado. Construction defect liability reform primarily affects condominium-form product, but not all attached units.

Building Developer Capacity

Missing middle housing often requires many small builders and frequently involves many scattered parcels—a fundamentally different delivery system than large apartment complexes or subdivision development. In many cities, a supply of capable small developers has to be built deliberately.

Communicate, Then Build Capacity

A recurring pattern in many cities that have legalized missing middle but still are not seeing production: developers have entitlements but are not using them for the housing types the City wishes to see. Zoning reform creates permission, but it does not by itself create new housing supply. Cities that want different housing outcomes need to actively recruit developers to build them.

NATE STALLINGS FOR DECHASE MIKSIS

Ash + River brings 34 townhomes and flats to a infill site in downtown Boise, activating a pedestrian corridor while complementing adjacent historic structures and neighborhood context.

Practical first steps:

- **Host structured listening sessions** with local builders, developers, and lenders; explain the City's housing goals and hear directly what is making missing middle hard to finance, permit, or build.
- **Publish clear development targets**; not just what is permitted, but what the City wants to see built, where, and at what scale.
- **Assign a dedicated point of contact** in planning or housing for small-scale developers navigating two- to 10-unit projects. The friction of working through a system designed for larger projects is itself a barrier.
- **Create feedback loops** so that when developers identify specific obstacles, there is a process to act on that information.

This two-way communication infrastructure is the precondition for everything else. Capacity-building programs without clear municipal direction often produce developers who are trained but not deployed toward the City's actual goals.

Building the Developer Pipeline

Scaling missing middle production often requires scaling the number of capable and interested small developers. In many cities, small developers are more open to considering missing middle housing than larger developers who want to take on larger projects or development types (such as single-family) that are more easily scaled. Several cities have invested in structured developer training cohorts that combine technical instruction, mentorship, peer networks, and access to financing or City-owned land. The most documented programs cluster around Capital Impact Partners' Emerging Developer Initiative (EDI) and the Incremental Development Alliance (IncDev).

Effective programs share common features. They recruit intentionally, with outreach to women- and minority-owned firms that are significantly underrepresented in the industry. They address the specific friction points of missing middle development: code thresholds at the two- to three-unit boundary, utility reclassification, construction defect liability, and deal structuring on scattered sites.

The Core Lesson

To accelerate progress on missing middle housing development, treat developer capacity not as a market function that will emerge on its own, but as infrastructure requiring deliberate public intervention with recruitment and training.

POLICY IN ACTION:

Memphis Middle Income Housing Pilot Program

Memphis offers a model for cities willing to move beyond regulatory reform and directly address the financing and land access barriers that constrain small-scale developers. Memphis Middle Income Housing Pilot Program (MI-Pilot) illustrates what it looks like when a City develops genuine problem-solving capacity alongside developers and communities. With this program, Memphis identified the specific points where housing production breaks down, convened the people who understand those barriers firsthand, and built tools designed around what it actually takes to get small-scale infill built and kept affordable.

MI-Pilot provides loan-based financial assistance to nonprofit and for-profit developers building or rehabilitating two- to 10-unit multifamily and infill housing for households at 80–120 percent area median income (AMI), a range underserved by both market-rate and subsidized development. Both for-sale and rental projects are eligible.

The program is a direct municipal engagement with a problem developers have been naming for years: missing middle often does not pencil on scattered sites without some form of subsidy or below-market capital. The first application window opened in early 2026, and results are not yet known. But the program's design reflects something important: MI-Pilot did not emerge from a top-down policy exercise—it grew from sustained engagement with local developers who documented exactly where and why small-scale infill stalls. That feedback loop between City staff and development practitioners shaped a tool calibrated to real project economics, not theoretical ones.

JONES URBAN DEVELOPMENT

From above, Malone Park Commons in Memphis shows how live-work fourplexes and residential fourplexes framing the street edges can wrap a cottage court at the block's interior, all part of an Uptown Memphis block within sight of downtown.

The Role of Offsite Construction

Offsite construction methods including volumetric modular, panelized construction, and manufactured housing offer missing middle housing a rare combination: lower costs, faster delivery, and reduced neighborhood disruption. For cities serious about moving from policy authorization to actual production, offsite methods deserve a prominent place in both procurement strategy and developer conversations.

Cost and Speed Advantages

The efficiency gains from offsite construction are real but they materialize only with repetition and predictable volume. To capture cost savings, buildings need to be optimized for offsite construction from the beginning and developed at sufficient scale so that a factory can build multiple standardized units at the same time. Municipalities can help by aggregating demand across multiple parcels to place a single larger order or by using pre-approved plans to facilitate greater standardization.

Neighborhood Acceptance as a Political Asset

Construction disruption—whether noise, traffic, blocked parking, or debris—is one of the more underappreciated sources of community resistance to infill housing. Offsite construction moves most of the work off site, compresses onsite timelines, and reduces the sustained presence of heavy equipment in residential neighborhoods. For cities trying to build political tolerance for missing middle housing, shorter, quieter construction is a tangible benefit that neighbors can see, and one that City officials can point to when managing opposition.

What Cities Can Do

Offsite construction works best when built into the design process from the start—not retrofitted after design guidelines are already set. Cities that wish to increase the development of missing middle housing through offsite construction should consider the following steps:

COURTESY OF THE MINNEAPOLIS PUBLIC HOUSING AUTHORITY

This six-unit multifamily building is one of 16 scattered-site infill structures delivering 84 deeply affordable housing units across Minneapolis.

Audit design standards for provisions that inadvertently preclude repetition and offsite construction methods—setback requirements, unit mix ratios, and facade variation rules are common culprits

- **Develop pre-approved designs** optimized for both modular and panelized offsite construction methods
- **Engage offsite manufacturers and modular developers** in pre-policy conversations—before design guidelines are finalized
- **Aggregate demand** through land acquisitions, phased procurement across multiple sites over time (giving manufacturers enough forward demand to price competitively), or partnerships that assemble sufficient scale to unlock competitive pricing.
- **Use reduced construction disruption** as an explicit public message when building neighborhood support for infill development

Education and Political Conditions for Success

Zoning reform, code change, and financing tools matter only if the political conditions exist to enact and sustain them. Education is the barrier that underlies all others. Not because decision-makers lack information, but because the connection between housing supply and broader community goals is rarely made explicit. Residents who support workforce retention, environmental sustainability, and neighborhood stability often oppose new housing because no one has connected those goals with the need for more units.

Messaging matters as much as policy design. Framing housing as critical infrastructure to meet the needs of the local workforce builds broader coalitions. Property rights arguments reach audiences that tune out density arguments entirely. Economic pragmatism works with business communities and fiscal conservatives. YIMBY organizations provide energy and earned media; environmental groups bring credibility on infill and transit arguments; property rights organizations anchor the case in values already embedded in local political culture.

> Two duplex units were priced at 43% less than the single-family home next door on adjacent, equally sized lots in East Austin's Holly neighborhood.

Austin's breakthrough came when advocates reframed legalization as removing government barriers to what property owners should already be allowed to build, a message that aligned directly with Texas political culture. The economic case reinforced this idea: in East Austin's Holly neighborhood, a new construction duplex under reformed rules was priced at roughly $800,000 per unit compared to $1.4 million for conventional single-family development on a comparable adjacent lot.

Oregon's HB 2001 demonstrated that state-level reform can move faster than city-by-city advocacy when political leadership is aligned. The 2019 law was the first in the nation to effectively prohibit single-family-only zoning statewide and passed with bipartisan majorities. The measurable results: middle housing reached 11 percent of Portland building permits, up from 3 percent pre-legalization, with smaller cities seeing sharper proportional gains after compliance deadlines passed.

Political will erodes when reform concludes with authorization rather than buildings. Jurisdictions need early, tangible examples of projects that actually get built, at a scale visible to neighbors in order to sustain momentum. Developer capacity, financing tools, and code reform all feed into whether those wins materialize.

Recommendations

The following is an illustrative set of potential reforms to accelerate the development of missing middle housing. More experimentation is still needed to find the right mix in each state, but this list illustrates the potential of policy reforms to make missing middle more feasible.

State Level

MANDATE MISSING MIDDLE AUTHORIZATION AND FUND IMPLEMENTATION.
Enact legislation requiring cities to allow two to six units per lot, scaled by city size and transit proximity as in Washington's HB 1110. Pair the mandate with a per-jurisdiction grant sufficient to cover a pro forma feasibility study, a public outreach process, and one round of developer working sessions before new standards take effect. Include a model ordinance as a default for jurisdictions that miss compliance deadlines.

ESTABLISH A RESIDENTIAL CODE PATHWAY FOR SMALL MULTIFAMILY BUILDINGS.
State-level building code reform is often a faster pathway than waiting for changes to national model codes. For example, Tennessee HB 2787 created a distinct code tier for buildings up to four units (or six under local option), under 5,000 square feet, and no taller than three stories. Tennessee's change permits two-hour-rated fire separation in lieu of sprinklers, residential-grade utility connections, and single-stair egress. Similar legislation in other states could lower the costs of missing middle housing development. Direct water utilities to apply residential service rates at the same threshold, eliminating the $3,000 to $5,000 per building commercial backflow premium.

SET 90-DAY JUDICIAL REVIEW DEADLINES FOR APPROVED HOUSING PROJECTS.
Require courts to rule within 90 days on challenges to housing projects that meet applicable development standards. Prohibit injunctive relief halting permitted projects mid-construction absent a showing of irreparable harm beyond delay alone.

CAPITALIZE REVOLVING CONSTRUCTION LOAN FUNDS FOR TWO- TO 10-UNIT PROJECTS.
Seed state-level construction loan programs directly or through community development financial institutions with demonstrated small-developer lending experience, modeled on the Memphis MI-Pilot. Consider including an evaluation trigger—if uptake is low after 18 months, states should assess whether underlying regulatory conditions (code thresholds, approval timelines, parking requirements) are suppressing returns before adding more capital.

SHORTEN CONSTRUCTION DEFECT LIABILITY WINDOWS AND REQUIRE PRE-LITIGATION NOTICE.
Modeled on Montana SB 143 and Utah §78B-4-513, reduce the statute of repose for residential construction to six years and require written notice of defects plus a defined repair period before litigation can proceed. Engage state insurance commissioners to ensure premium pricing reflects reformed risk profiles—not national risk pools that ignore state law.

Local Level

ADOPT A FULL ZONING REFORM PACKAGE.
Authorize two- to six-unit buildings by right across residential zones; reduce parking minimums to 0.5 spaces per unit within a half-mile of transit and eliminate them for projects under six units on lots under 7,500 square feet; align minimum lot sizes with existing lot sizes in the neighborhood; and align lot coverage and setback standards with the actual building envelopes of the desired housing types. Conduct a pro forma analysis across at least three representative sites before adoption. Adjust the standards as needed to ensure feasibility.

ADOPT LOCAL BUILDING CODE AND UTILITY REFORMS.
Amend local building codes to extend IRC coverage to six-unit buildings. Direct local utilities to apply residential service rates at the same threshold. Where state fire marshals block local amendments, document the specific cost impacts of the override (as Memphis did with Zeanah's *Beyond Zoning* white paper). Bring that evidence to state legislators with a specific bill request, not a general ask for code flexibility.

ADOPT AN EXPLICIT PUBLIC LAND DISPOSITION POLICY PRIORITIZING MISSING MIDDLE.
In cities with surplus municipal parcels or tax-delinquent property, establish a formal criteria that prioritize two- to 10-unit development, specify affordability targets (e.g., a minimum share of units affordable at 80–120 percent AMI), and score developer proposals on capacity, design quality, and diversity of ownership rather than the highest bid.

LAUNCH STRUCTURED DEVELOPER COHORTS AND MEASURE OUTCOMES.
Invest in training programs to run cohorts of 10 to 20 small developers, with recruitment targets for women- and minority-owned firms. Capital Impact Partners' Emerging Developer Initiative and the Incremental Development Alliance offer documented models. Cohort curricula should teach participants how to navigate the specific obstacles that missing middle projects face: IBC/IRC thresholds, utility reclassification, construction defect liability exposure, and deal structuring on scattered sites. Cities should track cohort graduates by projects completed, units built, and AMI levels served. Use that data to calibrate future program design and funding levels.

CAPITALIZE A LOCAL MISSING MIDDLE LOAN FUND.
Establish or partner in a revolving fund structured for two- to 10-unit construction and rehab projects, targeting households at 80–120 percent AMI—the underserved moderate-income range that neither low-income housing tax credits nor conventional financing reliably reaches in many cities. The Memphis MI-Pilot is a transferable approach for legacy cities pairing regulatory reform with targeted financing.

AUDIT DESIGN STANDARDS AND PROCUREMENT PROCESSES FOR OFFSITE CONSTRUCTION COMPATIBILITY.
Review setback requirements, unit mix ratios, and facade variation rules that inadvertently preclude modular or panelized methods. Develop pre-approved designs optimized for offsite production and engage manufacturers before design guidelines are finalized. Where scale is limited, consider demand aggregation strategies—bulk purchase commitments or phased procurement across multiple sites—to make volume pricing feasible.

Conclusion: From Authorization to Implementation

Across the country, many jurisdictions that have updated their zoning codes are discovering that building permits do not automatically follow. Challenges related to building codes, risk-adjusted return, legal liability, and developer capacity compound one another and need to be addressed along with zoning in order to make missing middle housing financially feasible.

Memphis offers a replicable model of what this can look like in practice: a developer who documented barriers in detail, a planning director who listened and acted, and a reform process that moved through local code amendments, utility policy, and state legislation. Planning departments that develop the institutional capacity to diagnose implementation failures and negotiate practical solutions will be better positioned to convert zoning authorization into housing production.

CREATIVE REVOLVER, CHATTANOOGA, TENNESSEE

Chattanooga Neighborhood Enterprise's 182 units distributed across 50 scattered vacant parcels in two neighborhoods incrementally increases density while preserving neighborhood character and expanding affordable housing access.

Appendix: 2026 Let's Build! Housing Policy Forum

Baltimore, Maryland; March 16, 2026

This Policy Watch report draws on discussions from the 2026 Let's Build! Housing Policy Forum, hosted by the ULI Terwilliger Center for Housing at the Baltimore Marriott Waterfront. The forum convened a multidisciplinary group of ULI members, housing practitioners, and state and local policy officials to examine two policy areas with direct implications for housing production: expanding missing middle housing and advancing state and regional support for offsite construction.

The 2026 forum is the third in an annual series.

- The 2024 forum produced *Building the Future: Innovations in State and Local Policies to Boost Housing Supply*, which organized effective practices around three themes—reform, connect, and leverage.
- The 2025 forum focused on federal housing policy and lessons from the National Housing Crisis Taskforce and produced *Building the Future 2025: Transformative Trends in State, Local, and Federal Housing Policy*.
- The 2026 forum built on that foundation by turning to construction innovation and the regulatory and financing conditions necessary to scale it.

Many thanks to the participants in the 2026 Let's Build! Housing Policy Forum, whose deep expertise across real estate development, finance, design, and housing policy shaped the thinking behind this Policy Watch report. The active, candid discussion throughout the forum surfaced many of the on-the-ground realities and policy opportunities reflected in the analysis and recommendations in this report.

Speakers

Introduction and framing: Jeffrey Lubell, ULI Terwilliger Center for Housing

Moderator: Sharon Wilson Géno, National Multifamily Housing Council

Missing Middle Housing:

- Dan Parolek, Opticos Design
- John Zeanah, City of Memphis
- Andre Jones, Jones Urban Development
- Amy Love Tomasso, Ivory Innovations

Offsite Construction: *

- Keith Harris, Avanath Capital Management
- Jonathan Moore, State of Colorado
- Steve Waldrip, State of Utah

* See *Building Smarter: State Strategies to Scale Offsite Construction* on Knowledge Finder.

The Cottages on Vaughan fits eight micro-cottages ranging from 250 to 492 square feet onto a half-acre lot one block from downtown Clarkston, Georgia, showing how pocket neighborhood development at its most compact can achieve natural affordability through small-scale design alone.

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