

America Needs Small Apartment Buildings. Nobody Builds Them

Single-family homes and high-rises are all the rage. Meanwhile, the vanishing middle bodes ill for the future.

By Patrick Clark, Bloomberg News, March 30, 2017

Urbanists often lament that developers no longer erect the small apartment buildings that were once a staple of city neighborhoods. Instead, they construct single family homes or large apartment buildings.

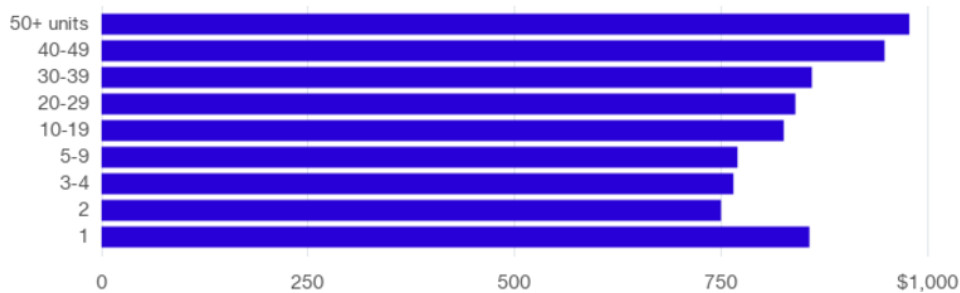
There are [good reasons](#) to revive this “[missing middle](#),” however: Small buildings are a good way to add density without compromising the character of quiet, single-family districts. They also provide a convenient way for older homeowners to downsize without leaving their neighborhoods.

But the best reason is that smaller apartment buildings are often cheaper for renters.

According to new research from Enterprise Community Partners, an affordable housing nonprofit, and the University of Southern California, apartment buildings with between two and nine units offer the lowest prices available to U.S. renters.

Small Buildings, Cheap Rents

Weighted average rents depending on the size of the apartment complex



Source: Enterprise Community Partners; 2013 American Housing Survey

Bloomberg

The chart above uses data from the U.S. Census Bureau’s 2013 American Housing Survey to show average monthly rents based on the number of apartments in a building. The paper categorizes buildings with between two and 49 apartments as “small and medium multifamily housing”—a grouping that makes up 54 percent of the U.S. rental stock.

As noted, America isn’t building as much of this kind of housing as it used to. Small- and medium-size apartment complexes account for a quarter of existing units built in the

1970s and 1980s, according to the report. Since 1990, though, the category has accounted for just 15 percent of new housing stock.

There are a few reasons for that shift, according to Andrew Jakabovics, vice president for policy development at Enterprise Community Partners and [one of the authors of the paper](#). Another author is Raphael Bostic, who was just named president of the Federal Reserve Bank of Atlanta.

Zoning rules have developed to favor single-family construction, making it harder to win approval for larger projects. There are regulatory costs to building multifamily housing, and developers that go through all the trouble to win approvals want to build more than just a few apartments.

In general, there are economies of scale in operating larger complexes. If two units are vacant in an 8-unit building, the landlord is missing out on a quarter of her potential income. In a 100-apartment high-rise, a couple of vacancies are less of a big thing. Those operating efficiencies also make lenders look more favorably on larger apartments, Jakabovics said. It's a virtuous circle for ever-bigger residential developments, though not so much for smaller ones.

Seeing why builders have abandoned the small apartment complex is easier than figuring out how to rekindle interest in the concept. Rewriting zoning codes to favor the missing middle would be a good start, Jakabovics said.

The flip side is that if builders don't develop more small- and medium-sized buildings, an important source of [unsubsidized, affordable housing](#) may dry up. Rental units tend to get cheaper as they age. The trend in recent decades toward single-family homes and high-rise apartment buildings means that there are fewer smaller apartment buildings to age into affordability.

"We need to build stuff today that's affordable today," Jakabovics. "We also need to future-proof ourselves by building stuff today that will be affordable 10 or 20 years from now."