CONNECTING CAPITAL AND COMMUNITY:

Early Learning on Advancing the Development and Preservation of Affordable Small Multifamily Buildings

MT. AUBURN ASSOCIATES

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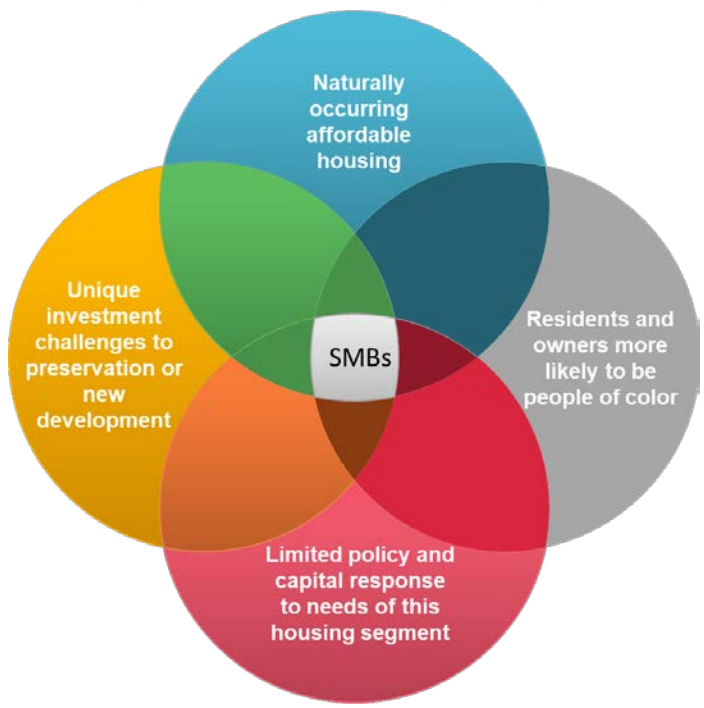
Introduction

This brief examines how cities participating in the Connecting Capital and Community (3C) initiative sought to understand and address the challenges of developing and preserving small multifamily buildings (SMBs) as a strategy to prevent displacement in communities of color. Launched in 2021 by the Center for Community Investment (CCI) with funding from JPMorganChase (JPMC), 3C aimed to address the racial inequities at the core of the housing ecosystem. Five cities across the country applied community investment strategies to advance housing development, preservation, homeownership, and wealth-building. Three of these cities focused some of their work on SMBs, which are often a source of naturally occurring affordable housing.[1]

Background

The 3C teams identified an opportunity to shine a spotlight on and better understand SMBs, which are often overlooked yet critical components of the U.S. housing supply. Buildings with 2 to 49 units provide nearly half, or 48 percent, of the country's rental housing and nearly one-fifth, or 19 percent, of the overall housing stock.[2] Despite their scale and importance, policy and investment discussions rarely center on this segment. SMBs encompass a diverse set of properties with varying characteristics, making them difficult to systematically characterize. However, the 3C teams observed many common features that made SMBs a priority for advancing racial equity in affordable housing.

Why focus on small multifamily buildings?



SMBs are a crucial source of housing for low-income renters. Approximately 87 percent of SMB residents rent, and roughly 80 percent of SMB rental units nationwide are affordable to households earning at or below 80 percent of area median income (AMI), with over 90 percent affordable to households at or below 100 percent of AMI.[3] As a result, SMBs constitute some of the country's most affordable rental stock.

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[1] A companion learning brief focuses on homeownership and more thoroughly highlights the work of Chicago and Seattle, as well as other aspects of Los Angeles' work.

[2] Enterprise Community Partners. Analysis of 2020 American Community Survey (ACS) 1-Year data. In *Preservation NEXT: A preservation toolkit for small- to medium-scale multifamily properties.*

[3] Enterprise Community Partners. Estimates based on 2016-2020 ACS 5-Year Public Use Microdata Sample (PUMS), 2022 HUD Income Limits, and the Missouri Data Center PUMA-to-County Crosswalk. In *Preservation NEXT: A preservation toolkit for small- to medium-scale multifamily properties.*

National analyses of 2- to 49-unit buildings find that SMBs, especially those with fewer than 40 units, charge lower average rents than buildings with 50 or more units, even when comparing properties of similar age and quality. They are also generally more affordable than single-family rentals and larger apartment complexes.[4]

Most SMBs represent naturally occurring affordable housing (NOAH). The vast majority of SMB rental units affordable at or below 80 percent of AMI do not rely on project-based subsidies.[5] Instead, affordability depends on private owners' ability and willingness to maintain relatively low rents. Financial and market pressures on SMB owners, therefore, directly affect the renters who rely on this housing stock.

SMBs are also a crucial housing resource for BIPOC renters. National data show that SMB renters are more likely to be people of color than renters in single-family homes or large apartment complexes. Black, Indigenous, and other people of color (BIPOC) are disproportionately represented in this segment of the housing stock. At the same time, SMBs provide an important, though sometimes precarious, pathway to ownership and wealth-building for BIPOC households. Owner-occupant landlords in SMBs are more likely to be people of color than owners of single-family homes, and small rental buildings have the highest share of owners of color compared with other residential building types. Together, these patterns underscore that SMBs are not only a backbone of affordable rental housing for BIPOC residents but also a vehicle for intergenerational wealth-building.[6]

The existing SMB stock is relatively old and often in need of significant repairs. Approximately 55 percent of units in 2- to 49-unit buildings were built before 1980. Many of these buildings predate current energy, health, and safety standards and are more likely to require significant system upgrades along with other replacement and repair work. A recent nationwide survey of owners of 5- to 49-unit properties found that 28 percent of buildings are in fair or poor condition and require substantial work within the next few years. Approximately 25 percent of owners report deferring at

[4] An, B. Y., Bostic, R. W., Jakabovics, A., Orlando, A. W., & Rodnyansky, S. (2017). *Understanding the small and medium multifamily housing stock*. Enterprise Community Partners.
Jakabovics, A., An, B. Y., Bostic, R. W., Orlando, A. W., & Rodnyansky, S. (2017, May 11). *Despite affordability, supply of small and medium multifamily housing declines*. *Housing Matters*. Urban Institute
Manji, S., & Decker, N. (2024). *Ownership and management of small multifamily rental properties: new insights on an overlooked part of the rental market*. Terner Center for Housing Innovation, University of California, Berkeley.
Zahalak, T. (2022, April 19). *Differences in identifying units in small multifamily properties.* Multifamily Economic and Market Commentary. Fannie Mae.

[5] These buildings may still receive state and local subsidies or have residents who receive assistance through the Housing Choice Voucher or other tenant-based assistance programs. Source: An, B. Y., Bostic, R. W., Jakabovics, A., Orlando, A. W., & Rodnyansky, S. (2017). *Understanding the small and medium multifamily housing stock*. Enterprise Community Partners.

[6] Choi, J. H., & Goodman, L. (2020). *Small multifamily units* [PowerPoint slides]. Urban Institute, Housing Finance Policy Center.
Choi, J. H., & Young, C. (2020, August 10). *Owners and renters of 6.2 million units in small buildings are particularly vulnerable during the pandemic*. Urban Institute.
Enterprise Community Partners. (n.d.). *Preservation NEXT: A preservation toolkit for small- to medium-scale multifamily properties.*
Institute for Housing Studies at DePaul University. (2023, March 2). *Recent homebuying patterns for 2 to 4 unit properties*.

least some maintenance, with older buildings and those experiencing serious cash-flow challenges more likely to postpone needed repairs.[7]

Many SMB owners operate on extremely thin margins and struggle to secure capital for property upkeep. National surveys indicate that lenders deny financing to about one in five small multifamily properties. Roughly one-quarter of owners report earning no profit, and between one-quarter and one-third of properties experience moderate to severe cash flow challenges. As a result, a significant segment of the SMB stock is characterized by high capital repair needs and limited owner capacity to invest. These pressures increase the risk of property deterioration, code violations, and eventual loss of units from the affordable housing inventory.

Affordable SMB units often cluster in neighborhoods at high risk of redevelopment, gentrification, or conversion, which can erode naturally occurring affordability, displace residents, and risk erasing the neighborhoods' character and cultural heritage. SMB units are more likely than housing units overall to be in census tracts with rising median rents,[8] lower homeownership rates, and higher rent pressures. In many areas, older and lower-rent SMBs sit in markets where rising rents incentivize owners to raise rents, reposition properties, or redevelop sites, particularly when buildings require significant repairs and owners have limited cash flow.[9] Redevelopment can entail replacing small buildings with high-rises, dramatically altering neighborhood typology. Particularly in neighborhoods with a strong ethnic identity, the loss of SMBs can affect not only the demographic composition of residents but also small businesses and the architecture itself, all of which connect to the neighborhood's cultural identity.

At the same time, new SMB construction lags behind demand. Nationally, 2- to 49-unit buildings accounted for approximately 25 percent of all homes built in the 1970s and 1980s but only 15 percent of new construction today. Demand for modest, lower-cost rental housing continues to grow despite this decline. At the very end of the spectrum, production has nearly disappeared. In the mid-1980s, 2- to 4-unit buildings accounted for roughly 7 percent of new housing; by 2021, that share had fallen to approximately 0.2 percent.

Despite the importance of SMBs to the country's housing stock, policy and capital systems have been slow to respond to the needs of this segment. Public and private actors have made limited efforts to address the growing threats to SMBs' physical and financial sustainability. Most cities and regions lack coordinated strategies and systems-level support to strengthen and preserve this critical housing asset. Preserving the existing aging SMB stock while enabling new small-scale infill construction where appropriate remains central to efforts to maintain and expand deeply affordable, community-anchored housing options.

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[7] Enterprise Community Partners, n.d.
Manji, S., & Decker, N., 2024.

[8] Of all SMB units, 89 percent are located in census tracts where median gross rents increased by at least 1 percent, compared to 82 percent of all housing units. Source: *2020 5-year ACS and PolicyMap calculation of census tract change in median gross rent 2011-2015 to 2016-2020* for all housing units. In *Preservation NEXT: A preservation toolkit for small- to medium-scale multifamily properties*.

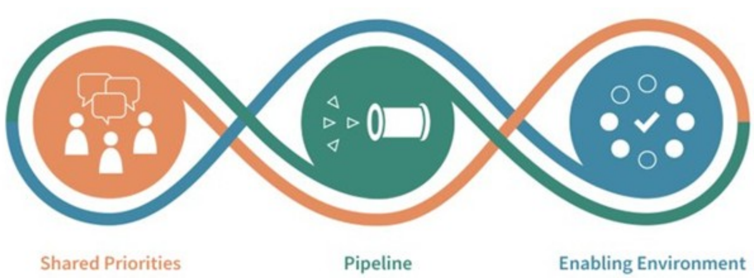
[9] Enterprise Community Partners, n.d.
Manji, S., & Decker, N., 2024.

3C's work with SMBs

Three teams in the initiative—Los Angeles, Miami, and Washington, DC—recognized that SMBs are an often-neglected yet critical building type for advancing racial equity in affordable housing. Each team sought to catalyze the preservation or construction of affordable SMBs through approaches tailored to the unique challenges and opportunities in their local contexts. The teams intentionally experimented to learn which strategies could most effectively support this segment.

LOS ANGELES	The Los Angeles team focused on creating new affordable homeownership opportunities in South Los Angeles, a neighborhood experiencing growing gentrification pressures. The team aimed to leverage new state land-use policies related to preservation and infill development.
MIAMI	The Miami team piloted an alternative approach to the large-scale Low-Income Housing Tax Credit (LIHTC)-funded affordable housing development common in Miami. The team pursued deep community engagement to preserve small-scale NOAH and create pathways for smaller, independent BIPOC owners to develop their own properties.
WASHINGTON, DC	The Washington, DC team focused on preserving NOAH and other affordable housing in SMBs with fewer than 50 units. These properties faced threats from poor building conditions, financial instability, and conversion to higher-cost units.

Central to the 3C initiative is CCI's capital absorption framework, which emphasizes establishing shared priorities, building a pipeline to advance them, and shaping an enabling environment of policies and practices that facilitate effective community investment. CCI encouraged the teams to work across all three capital absorption functions simultaneously while centering racial equity.



Prior to 3C, CCI had primarily worked with communities to apply the framework in the context of new construction, affordable rental housing. Through 3C, the teams expanded its use to address less well-understood components of affordable housing, including SMBs. Rather than prioritizing scale, the teams used the capital absorption framework as a learning tool to identify which strategies could best support this segment. Each team worked across all three components of the framework to understand and advance an agenda tailored to the unique challenges of SMBs.

Establishing **shared priorities** that reflect the city's context

The 3C teams' decision to prioritize the preservation and development of SMBs emerged primarily as an anti-displacement strategy. Through analysis of local conditions, the teams observed how gentrification and displacement were intensifying in lower-income communities of color. They recognized that SMBs in their markets account for a significant share of NOAH and are home to many BIPOC residents. To stabilize these communities and help residents remain in place, the teams identified preservation and development of SMBs as a central priority.

In Los Angeles, the team integrated SMB strategies into its broader goal of expanding homeownership opportunities in South Los Angeles. In formerly redlined communities such as South LA, only 30 percent of households are homeowners. Residents face additional displacement risks from house flippers, real estate developers, and investments tied to transit projects. To increase the supply of units available for homeownership and to offer a path to stabilize existing owners, the team explored options to increase residential density in a city where most residential land is zoned for single-family use. The team identified opportunities created by recently enacted state and local policies and aimed to use pilot projects to test approaches and surface system-level barriers. These policies include California Senate Bill 9 (SB 9), also known as the California HOME Act, which allows homeowners to split a lot and build up to four homes on a single-family parcel. The team also explored strategies related to California Assembly Bill 1033, which permits property owners to construct and sell accessory dwelling units (ADUs) in accordance with condominium rules.

In Miami, the team grounded its shared priorities in extensive prior research on the county's affordable housing crisis and earlier efforts, including CCI's Connect Capital work completed in 2020 and the county's 2019 Preservation Plan developed by Miami Homes For All and Enterprise Community Partners. This work identified approximately 30,000 homes in the city as NOAH as of 2018. Most of these units sat in distressed, aging SMBs and subdivided single-family homes built between the 1930s and 1970s, clustered in legacy Black, Haitian, and Dominican neighborhoods. The team also recognized that Miami was losing affordable units even before the COVID-19 pandemic and that pandemic-era population growth further intensified rental housing pressures. Given the difficulty of acquiring land for infill development, the team relied on existing relationships to identify legacy owners, mission-aligned nonprofits, and developers who owned "off-market" SMBs or land in BIPOC neighborhoods experiencing displacement. The team then delivered a set of financial and capacity-building strategies to support these owners and developers, operating on the hypothesis that these supports would help bring properties up to code or enable new SMB development while maintaining long-term affordability.

In Washington, DC, the city continued to lose BIPOC residents despite having a strong community development infrastructure and progressive policies to support low-income households. The 3C team aimed to retain Black households by preventing displacement due to the loss of affordable housing. Rising housing costs and increased demand from higher-income households fueled this trend, contributing to a decline in the share of Black residents from 60 percent in 2000 to 47 percent in 2020. The team sought to address this problem by focusing on preserving NOAH in SMBs with fewer than 50 units, which faced threats from poor building conditions, limited access to capital for repairs and management, financial instability, and conversion to higher-cost units.

Advancing a **pipeline** of new and preserved SMB units

Providing guidance and support for small-scale owners and developers

Why this matters

Renovating or redeveloping SMB properties requires navigating complex financial, legal, and bureaucratic processes that small independent owners and developers often struggle to manage.[10] Larger landlords and developers can rely on established relationships, prior experience, and additional resources to move through this often unsupportive system. SMB projects also tend to generate lower returns than larger buildings, particularly when developed as affordable housing. As a result, developers willing to take on SMB projects typically operate at a smaller scale and have less experience.[11] Advancing preservation and new construction of these units, particularly when the goal is long-term affordability, requires targeted support to help small-scale owners and developers work through complex programs, financing tools, and regulatory requirements.

Strategies the 3C teams pursued

In Miami, the 3C team worked primarily with landowners of lots or small buildings who were pursuing development for the first time. Many had inherited their properties, maintained deep familial ties to their neighborhoods, and expressed a commitment to keeping their neighborhoods affordable. As the team expanded its pipeline, it also supported community-based organizations pursuing development, intending to strengthen organizational stability and increase SMB production in target neighborhoods.

To support legacy owners and new developers, the Miami team provided intensive, customized technical assistance and facilitated peer learning through its developers' network. Pipeline consultants worked one-on-one with property owners to assess needs and guide them through each stage of the development process. Consultants helped owners access public funding, navigate permitting processes, and understand compliance obligations. Interviewees reported that many projects in the pipeline would not have advanced without this high-touch technical assistance.

In addition to providing customized support, the Miami team brought together owner-developers in the 3C pipeline for quarterly "developers' network" meetings. These meetings provided a structured platform for peer learning, where participants shared project updates, exchanged referrals to

[10] Asset Funders Network. (2023). *Small independent landlords: At the intersection of affordable housing and business ownership strategies.*
Ernsthausen, J., & Strochak, S. (2020, October 29). *Owners and renters in 6.2 million units in small buildings are particularly vulnerable during the pandemic.* Urban Institute.
Terner Center for Housing Innovation. (2024). *Ownership and management of small multifamily rental properties: New insights on an overlooked part of the rental market.* University of California, Berkeley.

[11] Herbert, C. E. (2001). *An assessment of the availability and cost of financing for small multifamily properties.* U.S. Department of Housing and Urban Development, Office of Policy Development and Research.
Office of the Comptroller of the Currency. (2015). *Small multifamily rental property financing* (Community Development Investments).
Kling, S., Peloquin, S., Riesenberg, C., & Woetzel, L. (2021, February 23). *Preserving the largest and most at-risk supply of affordable housing.* McKinsey & Company.

contractors and other professionals, and shared lessons learned and best practices. In some cases, peer support continued informally outside regular meetings, with developers offering each other tips and assistance on an ongoing basis.

In Washington, DC, the team focused its navigation efforts on a key housing preservation policy, the Tenant Opportunity to Purchase Act (TOPA). TOPA grants tenants the first right to purchase their building when an owner decides to sell, demolish, or convert it to a nonrental use. The team realized that many SMB owners and prospective buyers lack a clear understanding of TOPA requirements and often fail to engage tenants as partners in the ownership transition. To address this gap, the team developed a Collaborative Development Framework (CDF) to guide owners and developers in working cooperatively with tenants during SMB sales, renovations, and development. The team then developed a training curriculum based on the CDF and conducted an initial workshop. Fifteen developers and SMB owners completed the training, increasing the share of participants who reported confidence in their knowledge of TOPA from 67 to 88 percent. Nearly half of the workshop participants subsequently sought additional assistance from the team on engaging residents. The team plans to offer additional workshops to expand understanding of TOPA and encourage wider use of the CDF.

Reflections on the 3C experience

Effectively supporting legacy owners as well as small and first-time developers requires highly customized, policy-informed technical assistance that is often more time- and resource-intensive than initially anticipated. In Miami, this high-touch navigation not only helped individual developers and landowners maneuver a complex and often unsupportive ecosystem but also surfaced systemic obstacles that informed the team's enabling-environment strategies. Whether these enabling-environment shifts can substitute for the navigation support is not yet known. In Washington, DC, technical assistance was closely linked to TOPA, underscoring that effective support must align closely with local enabling environments and policies.

Structuring financial products for SMB predevelopment

Why this matters

SMB projects, whether new construction or rehabs, often incur significant predevelopment costs for support such as legal, architectural, and environmental services. At the same time, these projects, particularly those centered on community interests, frequently involve legacy owners and/or emerging, community-based, or mission-driven organizations with limited balance sheets and less capacity to assume predevelopment risk or navigate complex capital stacks. Traditional lenders typically view small, affordable projects as too small, too risky, or insufficiently profitable compared with larger development projects. This creates a persistent financing gap, especially when the goal is to maintain deep affordability and preserve NOAH units. [12]

[12] Herbert, C. E. (2001).
Joint Center for Housing Studies of Harvard University. (2024). *America's Rental Housing 2024.*
Poethig, E. C., et al. (2020). *Envisioning a national preservation strategy.* Urban Institute.
Office of the Comptroller of the Currency, 2015.

Strategies the teams pursued

The Miami team developed a range of financial products tailored to the specific needs of small-scale developers and legacy owners in its pipeline. It provided approximately $1.25 million in grants and $100,000 in bridge loans. The team worked closely with each owner-developer in the pipeline to understand their specific needs and barriers, and crafted financing options tailored to support them at each stage of development. The products included:

- **Site acquisition assessment grant:** Covered assessments and due diligence needed to make informed site acquisition decisions.
- **Code rectification grant:** Funded work to bring properties up to code.
- **Needs assessment grant:** Covered prefinancing assessments, including architectural plans, surveys, title investigation, and legal services.
- **Predevelopment grant:** Supported early-stage costs for new builds, including market and feasibility analyses, appraisals, architectural and engineering services, demolition, and consulting fees.
- **Late-stage gap financing grant:** Provided late-stage gap financing once developers secured a capital stack.
- **Bridge loan:** Offered flexible capital to cover gaps while developers await other funding.

Site acquisition grants provided $50,000 for site selection and due diligence. All other grants provided $100,000 per site. Developers received varying combinations of financial products depending on their unique needs. For example, one owner-developer used a 3C code rectification grant to address code violations in an acquired property and to remedy unpermitted renovations, thereby bringing the property into compliance and preserving NOAH units. Grant funds covered professional fees for architects, electricians, and engineers, thereby enabling the owner-developer to access county NOAH grants to support preservation. For new development projects in the pipeline, the 3C team often provides predevelopment funds for professional fees and needs-assessment grants.

Reflections on the 3C experience

Miami's experience underscored a familiar but consequential point: predevelopment funding is essential for moving SMB rehabilitation or redevelopment projects from idea to execution. In practice, the difference was not just having early-stage dollars available but having flexible funding that could cover a wide range of often unexpected needs. While the use of funds was flexible, the team intentionally documented the uses to demonstrate to public partners and funders the full range of needs that predevelopment funding can address.

Offering financial products to stabilize and maintain SMBs

Why this matters

Targeted financial products are essential for preserving and stabilizing affordable SMBs, as these buildings are often older, require significant repairs and system upgrades, and generate relatively modest cash flow due to low rents. Small-scale and "mom-and-pop" owners, who hold a large share of this stock, typically lack the reserves or dedicated staff to navigate complex, multi-layered subsidy structures. As a result, many cannot access the capital needed to address deferred maintenance, comply with new codes, or make long-term improvements while maintaining affordable rents.[13]

Strategies the teams pursued

Initially, the DC team launched a **Critical Aid Fund to provide emergency grants** to small buildings to address **immediate repairs** or short-term financial issues that jeopardized the preservation of affordable units. The fund provided $25,000 direct grants to support building improvements, fill operating gaps, or complete acquisitions.

Building on lessons from the initial fund, the team created a second, more sustainable funding tool: a recoverable grant program designed to address a broader range of building needs. The program offers 0-percent-interest recoverable grants of up to $250,000 for predevelopment costs and investments to stabilize and preserve SMBs. The larger grant size and deferred repayment, contingent on the building's financial health, allow the program to fund predevelopment expenses, energy and plumbing updates, finish upgrades, and other investments needed to stabilize small buildings. Projects must also include long-term affordability restrictions to ensure that the funding preserves affordable housing. The program aims to revolve its funds over time, enabling it to assist more buildings and support a larger pipeline of building owners and developers than the Critical Aid Fund. As of the end of 2025, total fund assets were $2,105,000, with $1.63 million committed for recoverable grants and $365,000 remaining for future awards.

Reflections on the 3C experience

DC's experience highlighted two linked lessons about SMB preservation. First, there is a clear financing gap for urgent repairs that prevent unit loss. Second, CDFIs can be essential partners in making these tools workable at scale. After early struggles, the DC team gained traction when it engaged an experienced CDFI to help design and manage a more sustainable product, shifting from a one-time emergency grant approach to a revolving, recoverable grant model with clearer underwriting and long-term affordability requirements.

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[13] Herbert, C. E., 2001.
Joint Center for Housing Studies of Harvard University, 2024.
Poethig, E. C., et al., 2020.
Office of the Comptroller of the Currency, 2015.

Testing property management models for SMBs

Why this matters

SMBs are often too small to support on-site staff or achieve the economies of scale that larger portfolios rely on for professional maintenance, leasing, compliance, and tenant support. Yet, the demands can be equally complex: older buildings, tighter budgets, and residents who may require greater stability and support all place significant pressure on owners and managers. In-house or informal property management often results in deferred maintenance, code violations, tenant instability, and strained relationships, thereby undermining both the physical asset and the affordability goals. [14]

Strategies the 3C teams pursued

The DC team identified poor property management as a major impediment to the successful operation and preservation of SMBs. After conducting a study of DC small buildings, their management challenges, and potential solutions, the team worked with an expert building management consultant to design a two-year pilot to test an incentive-based management model. The pilot aims to evaluate whether this incentive-based model improves building management and financial stability, strengthens the capacity of participating management companies, and clarifies the skills and resources needed for effective SMB management. If successful, the DC team expects to see improved property management through more consistent showing and leasing of vacant units; stronger tenant relations practices; increased lease renewals and rule compliance; higher rate of rent collections; more robust financial management; greater oversight of property maintenance and tenant repair requests; and better compliance with DC laws and regulations. Lessons learned from the pilot will guide future program expansion, inform workforce training for property management staff, and support advocacy for resources to establish and sustain effective SMB management.

Reflections on the 3C experience

DC's work highlights that preserving affordability in SMBs depends on strong ongoing property management; however, solutions to this challenge have not yet been fully established in the field. Achieving strong small-building management is complex and multifaceted and will likely require addressing systemic issues related to financing and management incentives, program regulations, workforce development, and management company capacity.

[14] Asset Funders Network. (2023). Small independent landlords: At the intersection of affordable housing and business ownership strategies. Asset Funders Network.
Ernsthausen, J., & Strochak, S., 2020.
Terner Center for Housing Innovation, 2024.

Enabling environment approaches

Addressing ongoing capital needs for SMB development and preservation

Why this matters

Addressing long-term financing needs and gaps for the preservation and development of affordable SMBs is critical, as conventional financing systems were not designed for such projects. Transaction costs and underwriting requirements for SMBs are not substantially different from those for large-unit projects, as the same level of due diligence is required regardless of the number of units in a property, which makes small deals unattractive to many lenders. Financing needs do not end after closing. Long-term financing is needed to sustain these buildings—and their affordability—over time.[15] After development or renovation, owners still face rising operating costs, including insurance, taxes, utilities, and ongoing repairs. In addition, aging SMBs will eventually require major repairs, such as roof, boiler, or system replacements, and will need to comply with new codes or energy requirements. When rents are intentionally kept below market, SMBs often start with thin operating margins, leaving owners unable to absorb these long-term costs. Without access to patient, long-term capital, developers avoid building affordable SMBs, and owners are often forced to defer maintenance, raise rents, sell to higher-rent investors, or exit altogether.

Strategies the 3C teams pursued

The DC team is developing a below-market permanent financing fund for SMBs to address challenges in securing long-term debt financing. Large affordable housing projects can access HUD and Housing Finance Agency loan products with 20- to 40-year terms, high loan-to-value ratios, and, in some cases, below-market interest rates. SMB developers and owners often must rely on commercial banks, which offer less stable and less favorable financing terms, such as five-year loans (or interest resets every five years), higher interest rates, and loan-to-value ratios of 60 or 70 percent. The permanent financing fund aims to provide a new source of permanent loans with longer repayment terms, fixed below-market interest rates, and more flexible underwriting standards, enabling owners and developers to secure larger loans, fund a higher percentage of project costs, and improve long-term financial stability.

Reflections on the 3C experience

DC's work highlights that preserving SMBs and keeping them affordable for low-income households depends on permanent financing that is tailored to small properties. When owners must rely on short-term, higher-cost commercial mortgages, refinancing risk and debt service can crowd out maintenance and repairs. Longer-term, fixed-rate, below-market loans with flexible underwriting can stabilize building finances and make sustained affordability more feasible.

Affordability in SMBs depends on strong ongoing property management; however, solutions to this challenge have not yet been established in the field. Achieving strong SMB management is complex and multifaceted and will likely require addressing systemic issues related to financing and management incentives, program regulations, workforce development, and management company capacity.

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[15] Herbert, C. E., 2001.
Kling, S., et al., 2021.
Office of the Comptroller of the Currency, 2015.

Advancing local policy change

Why this matters

Local government policies and regulations largely determine whether affordable SMBs can be preserved and developed or are instead lost to disinvestment and displacement. Zoning rules dictate where SMBs are permitted; building and rehabilitation requirements shape the cost and complexity of preserving older buildings; and local subsidies, fees, and tax policies influence whether small projects can pencil out for BIPOC, community-based, and mission-driven developers. In many cities and regions, these systems in practice tend to favor larger, more profitable projects and new large-scale construction over the preservation or development of SMBs. Advocacy and regulatory change are critical to creating an enabling environment in which preserving and building affordable SMBs becomes a viable, repeatable strategy for stabilizing communities and reducing displacement.

Strategies the 3C teams pursued

The 3C teams pursued three approaches to strengthen local policies for SMB preservation and development.

1. Tweaking existing policies

Throughout the initiative, the Miami team worked closely with county officials to advance its project pipeline. This collaboration contributed to changes in county programs, making them more accessible to small-scale developers, including adjustments to funding criteria that allowed the county surtax program to support smaller projects. The 3C team's work also influenced the county's NOAH grant program, at least temporarily, to include set-asides for small-scale development. These changes allowed 3C pipeline projects to access county funding.

The DC team identified the need for changes to the Small Buildings Program early in the 3C initiative; however, it deferred action on this issue as it worked to determine the best way to engage with the city government. After the team expanded and completed a study on the importance of SMBs for affordable housing, team members engaged with the Department of Housing and Community Development to advocate for a grant component and simplified processes to reduce funding delays.

2. Testing policies

Over the four years of the 3C initiative, the Miami team's work focused on testing and pilots. The team is drafting a document that distills insights from the newly created financial products and the technical assistance and navigation services offered to SMB owners and first-time developers to better inform and shape future advocacy efforts. The team is refining and prioritizing its proposed policy solutions and will then develop an implementation plan to pursue those recommendations. Over the course of the initiative, the team sought to leverage the Greater Miami Housing Alliance as a platform for policy advocacy on 3C learning; however, the coalition's broad interests and policy agenda limited its effectiveness in advancing the 3C focus on SMBs.

In Los Angeles, the passage of SB 9[16] and related state-level reforms, including policies that allow cities to authorize ADUs for separate sale, created a significant opportunity to add small-scale density, particularly through lot splits and ADUs on existing single-family parcels.

Although SB 9 took effect in 2021, the Los Angeles team noted that most projects taking advantage of the new rules have been built in the San Fernando Valley, where lots tend to be larger and incomes higher than average. In response, the team launched SB 9 pilots, including ADU clusters and a split-lot approach, to test the feasibility of developing affordable units and generate actionable lessons. Projects such as Fourth Avenue and Figueroa revealed risks, including subdivision-triggered street improvements, extended permitting and entitlement timelines, lengthy ADU review periods, and CDFI loan constraints. The team is actively documenting these barriers, sharing early insights with city planners, and compiling materials to inform future process and policy recommendations.

3. Responding to emerging crises

In Washington, DC, the team responded to a citywide rental arrears crisis, driven by COVID-era policies and a backlog of eviction cases, which threatened building operations, financing, and long-term affordability. The loss of rental income jeopardized the viability of multifamily properties, increased foreclosure risk, and made it extremely difficult to secure financing for existing and new affordable housing developments.

In response, the team advanced policy proposals to address rental arrears while maintaining tenant protections, including restoring most pre-pandemic eviction timelines and shifting from automatic stays of evictions based on emergency rental housing applications to judicial discretion. The 3C team collaborated with its convening organization, the Coalition, to advocate for adoption by the District Council and to increase city resources for housing preservation.

Reflections on the 3C experience

Across 3C sites, teams learned that policy influence cannot be treated as a discrete deliverable/action that occurs only after a pilot or project concludes. Piloting a project and compiling lessons takes time, but some insights are clear and actionable well before the ribbon-cutting. Teams found they could start shaping guidance, implementation fixes, and stakeholder decisions in real time by sharing early barriers as they emerged rather than waiting for completion. Furthermore, policy change rarely happens through a single organization; it typically requires a broader coalition of public agencies, intermediaries, advocates, and other implementers. DC's ability to advance responses during the rental arrears crisis, for example, was strengthened by team members' prior engagement within an existing ecosystem and coalition. This experience underscored the importance of mapping who needs to be at the table and engaging those stakeholders intentionally from the outset.

[16] SB 9 permits owners of most single-family-zoned parcels in California to build up to two dwelling units per lot or to split a parcel into two lots—each eligible for up to two units—subject to objective standards and ministerial review rather than discretionary approval.

Empowering community to shape development and preservation

Why this matters

SMBs are disproportionately located in lower-income neighborhoods and communities of color, areas historically affected by disinvestment, exclusionary planning, and development decisions made without resident input. For decades, policies such as urban renewal, redlining, highway construction, and aggressive code enforcement removed homes, displaced residents, and reshaped neighborhoods without community consent. Empowering residents to shape SMB preservation and development is therefore not only a matter of inclusion but also a means of repairing past harm and ensuring that new development does not trigger additional displacement. When residents have a meaningful role in decision-making, the strategies used to preserve or produce housing tend to better reflect local needs, community priorities, and cultural context.

Historically, residents of disinvested places across the country created community development corporations (CDCs), land trusts, and tenant associations precisely because they lacked influence over the development decisions that directly affected them. These community-led organizations have become effective developers, stewards of affordable housing, and trusted neighborhood institutions. Yet, not all cities or regions have a strong community development ecosystem. This creates a gap: local residents may be deeply affected by SMB preservation or redevelopment decisions but have limited formal avenues to participate in shaping them.[17]

Strengthening resident influence within SMB preservation and development, therefore, requires intentionally broadening participation. Neighborhood-based nonprofits that provide youth, health, senior, tenant, or cultural services often maintain strong relationships and trust within the community but may not be engaged in housing or development. Bringing these organizations into the conversation, supporting them to build development literacy or partnership capacity, and creating formal roles for them in planning and implementation can widen access to the process and anchor decisions in lived experience. In places without strong CDCs, this approach can help create new pathways for community voice and leadership.

Strategies the 3C teams pursued

The Miami team recognized the city had relatively few community development organizations influencing the development process in alignment with the community vision. To engage the community in shaping the 3C team's SMB pipeline, the team placed significant emphasis on its community engagement strategies, known as the "ground game." In each 3C neighborhood, an organization with close ties to the community served as a trusted bridge between the 3C work and residents.

The role of these ground-game organizations has evolved. Early in the initiative, neighborhood leads coordinated with developers, residents, and tenants or potential tenants/owners for pipeline projects. Community organizations had a voice in determining which owners'/developers' projects entered the 3C pipeline. In some cases, neighborhood leads met directly with tenants and neighbors to share development plans, hear concerns, communicate renters' rights, and foster relationships.

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[17]Von Hoffman, A. (2012). *The past, present, and future of community development in the United States* (Working Paper No. W12-6). Joint Center for Housing Studies of Harvard University

Over time, the ground game evolved into a deal-spotting strategy in which lead organizations and residents identified potential projects for the 3C pipeline. Community-based organizations and residents leveraged local knowledge to identify owners interested in developing affordable housing that preserves community wealth and provides attainable housing for existing residents. In interviews, stakeholders reported that future pipeline batches will include projects identified directly by residents.

Some community organizations engaged in the ground game are also becoming housing developers themselves through their work on 3C, acquiring property and developing plans for office space and housing in their neighborhoods. While the ground game has been a programmatic effort directly funded through the 3C initiative, the 3C team sees potential for it to influence community engagement norms for other developers.

Reflections on the 3C experience

Miami's "ground game" demonstrates how a sustained, on-the-ground partnership with CBOs and residents can embed neighborhood priorities in core development decisions, rather than treat engagement as a check-the-box step. Through close listening and iteration, the team has incorporated practical, culturally grounded needs into building concepts. Although it is still too early to fully assess outcomes, the work already underscores the wider range of roles communities can play in the development process. Beyond informing design, CBOs can serve as long-term stewards of the neighborhood and help to spot specific development opportunities that align with community priorities. In some cases, these organizations can become affordable housing developers themselves, expanding local capacity and shifting greater control over development to community-based institutions.

Lessons for the field

While the impact of the 3C teams' work will not be fully understood for some time, and new learning will continue to emerge as teams gain more experience and adapt to new challenges, several valuable lessons for the field are already evident from the 3C work to date.

1 Advancing SMB projects requires pairing tailored capacity support with flexible capital.

Small building owners often have limited balance sheets, thin margins, and little experience with complex capital. Technical assistance reduces risk and builds readiness, while flexible capital fills gaps that conventional finance avoids. When paired, they unlock projects, surface system bottlenecks, and create a practical foundation for later enabling-environment and policy change.

Both Miami and DC illustrate the effectiveness of pairing customized technical assistance with flexible, right-sized capital tools; neither works on its own. In Miami, intensive, one-on-one support for legacy BIPOC owners and emerging developers, combined with predevelopment, code rectification, and gap-financing grants and loans, enabled many projects to proceed. In DC, a CDFIadministered, recoverable grant program underwrites deals and provides hands-on guidance to small developers throughout the process.

2 Expanding small-scale density through policy reforms works best when tested through implementation pilots and shared through feedback loops.

LA's experience with SB 9 and ADU-for-sale policies demonstrates that changing state law is only the first step. Implementation pilots reveal hidden barriers, such as subdivision-triggered infrastructure requirements, slow or unclear permitting processes, and misaligned financial underwriting.

3 Building community-anchored approaches strengthens resident power for community-led development.

Miami's neighborhood-based "ground game" shows that trusted local organizations and residents can shape development in ways that go well beyond outreach or sign-off. When community partners help identify opportunities, determine which projects enter the pipeline, engage directly with tenants and neighbors, and weigh in on project goals, they move from deal-spotters to co-developers and, in some cases, to developers themselves. As a result, SMB preservation and development can serve as an explicit strategy for building local development capacity and ownership by equipping residents and community-based organizations with the skills, relationships, and tools needed to originate, shape, and ultimately lead projects that preserve community wealth and reflect neighborhood priorities.

4 Preserving and developing SMBs requires a purpose-built ecosystem and sustained high-touch investment.

3C teams found that equitable SMB preservation and development cannot fully succeed within systems designed for large multifamily projects. SMBs have distinct economic, risk, and operational characteristics, including thin margins, aging structures with significant repair backlogs, smaller, often BIPOC owner-operators, and emerging community-based developers. In practice, SMBs function as a distinct asset class, not simply "smaller versions" of conventional multifamily deals. Treating them as such has concrete implications: they require different underwriting assumptions, different scales and blends of subsidy and debt, and different expectations around returns, timelines, and transaction costs.

At the same time, the work itself is inherently time-consuming and resource-intensive. Supporting legacy owners and first-time BIPOC developers requires patient relationship-building, repeated hands-on navigation of permitting and code issues, complex capital-stack assembly, and ongoing engagement with property management and tenant-related challenges. This high-touch work costs more than traditional investors or public programs typically budget for and does not lend itself to "scaling" in a low-touch, high-volume way.

Rather than viewing this intensity as inefficiency or excess, teams reframed it as the necessary cost of doing development differently, grounded in a clear commitment to anti-displacement, cultural continuity, and the preservation of long-standing residents, small businesses, and neighborhood identity. For the field, the lesson is clear: small buildings will remain vulnerable unless systems both (1) recognize SMBs as a distinct asset class that merits its own tools, programs, and management models, and (2) resource the higher-touch ecosystem they require. Only with this dual commitment can SMB preservation and development become a reliable, community-centered strategy rather than a series of exceptional, hard-fought one-off deals.