

# UNLEASH THE SWARM



REVIVING SMALL-SCALE DEVELOPMENT IN AMERICA'S CITIES

Daniel Herriges | Strong Towns | October 2021



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*(Source: Sightline Institute's "Missing Middle Homes.")*

## Part 1: Where Did All the Small Developers Go?

In the history of America's cities, there is a window of time that accounts for a staggering explosion of enduringly great places. It extends from roughly the late 19th century to the Great Depression. Take virtually any urban pattern associated with the distinct culture and character of an iconic place, and you can date its mass replication to this era: the brownstones of New York, the Victorian row homes of San Francisco, the workingmen's two-flats of Chicago, the cozy bungalows of a thousand "streetcar suburbs" in places as far apart as Seattle and Atlanta.

Those alive at the time might have disputed the characterization of "enduringly great places." The process of building them was tumultuous. In those years, America was simultaneously urbanizing, industrializing, absorbing huge numbers of immigrants, and violently colonizing the Western frontier. Social unrest, poverty, and inequality were the norm.

We are not required to whitewash the ugly parts of that history, though, to recognize that the walkable, human-scale neighborhoods that era produced have stood up well to time. Many are beloved and sought after today.

And we managed to produce these places at scale. The growth of cities was rapid and chaotic on a level for which there's no modern American parallel. In 1850, Chicago was a prairie village; in 1890 it was a metropolis of one million. By 1930 it was a metropolis of three million.

It wasn't just big cities, either. Even small towns achieved an urbanity and liveliness that is hard to imagine today.

You'd be forgiven for thinking that what produced these places must have been enlightened, careful planning; keen aesthetic sensibilities; a highly ordered process. Actually, what produced them was the opposite: a highly decentralized process in which people did what worked and had been proven to work, and they did it over and over and over again.

The famous New England triple-decker is a case in point. The triple-decker is a beloved housing type in New England because of its early (lowercase "d") democratic appeal. For its owners, many of them working-class immigrants, it was a path into the middle class: You could own the building, live in one unit, and rent out the other two. The many thousands of these built in the late 19th and early 20th century were largely not built by professional developers, but by casual investors, factory, and mill owners, and small-time carpenters.



*(Source: WikiCommons.)*

Pick a building style and find a similar history. The English basements of Washington, DC, proliferated beginning in the 1870s and originally served as semi-separate kitchen and working space for domestic servants and hired day laborers. But as the city grew and housing demand increased, most were adapted into the auxiliary rental apartments that today's planners call accessory dwelling units (ADUs).

Ad-hoc adaptation shaped these patterns. Where a design choice was widely replicated, it was because something worked and was copied and became part of a development vernacular. People talked to each other; people shared know-how. There was an ecosystem: networks of tradespeople, laborers, lenders, and small-scale developers you could plug into and learn how to do the work.

This doesn't mean development wasn't big business. It was. Land speculators carved up subdivisions at the edges of cities, and faced criticisms that would sound quite familiar today. But even the big developers of the time were working on the scale of a few blocks, not a few square miles, and almost always contiguous with the urban fabric around them. This produced a template that you could fit into at any scale: You could subdivide a few blocks, but you could also buy a single lot and build on it. You didn't *have* to be a big-shot developer. And cities under tremendous social stress were able to grow and flex and accommodate rapid change because of that.

## It Takes a "Swarm"

If you want to grow good things that will last, and you want to do it at speed, you need to set in motion processes that will take care of themselves. You can't micromanage it all. I like to talk about small developers and builders as a "swarm," a term I've borrowed (with permission) from planner Kevin Klinkenberg. It's for a reason—and not the menacing one you might associate with a word like "swarm."

What we need are ecosystem builders. We need pollinators. People who will share and transport the seeds of good ideas and help them take root in more places. It's not just about who does the work of pouring cement or hammering nails or placing a pipe in the ground. It's about who is working to grow, share, and keep alive a culture of building the stuff we need. A "swarm" of neighborhood makers does this work separately but together, in harmony but without one guiding hand.

# The Missing Small Developer and the Missing Middle

Who builds your city? The answer to the latter question changed a lot in North America's cities and towns as the postwar suburban experiment took hold.

This was a gradual change. As late as the 1960s, incremental development was still thickening up the urban fabric in places. A 1964 book called *The Low-Rise Speculative Apartment* by Wallace Smith describes this phenomenon as it appeared in Oakland, California. Small-time developers in the 1960s built hundreds of small apartment buildings on scattered lots around Oakland, many of them replacing older single-family homes. At least a third of these developers appeared to have no real-estate industry ties, and by and large these projects did not involve the practices—such as land assembly—typical of corporate developers who build at larger scales.

But the immediate postwar era was the last gasp for the swarm. Since then, the development business has consolidated. There are fewer builders than ever, but they work at larger scales than ever. Urban land costs have skyrocketed, requiring larger projects to turn a profit. Wall Street exercises unprecedented influence in what gets built where. In older cities, a wave of downzonings in the 1970s through the 1990s froze neighborhood evolution, rendering most of what was built there in the past illegal to replicate. No one of these things is The Culprit, nor are these factors independent of each other. They are all deeply interlinked.

In any case, the kind of small-developer activity documented in Oakland in the 1960s is almost unheard of, let alone that which built Boston or Philly or Chicago. Where it happens, it's the province of a rare breed of committed entrepreneurs whom we see as having some almost supernatural combination of hustle, drive, ingenuity, and pride of place.

The phrase "Missing Middle" describes a key physical consequence of the missing small-developer ecosystem. The term, coined by Dan Parolek of Opticos Design, refers to certain building types, such as small apartment buildings, multi-unit houses, simple mixed-use structures with a storefront and a residence, that were the building blocks of those blossoming 19th-century metropolises, but that are scarcely produced anymore. They are not friendly to the business model of production builders and big finance, which Johnny Sanphillippo characterizes as "predicated on vast amounts of institutional complexity and debt."<sup>1</sup>



*(Source: Sightline Institute's "Missing Middle Homes.")*

## Whose Problems Don't Get Solved?

The incremental growth model served cities under the immense social stresses of the Industrial Revolution and the Gilded Age. The prevailing growth model today is failing cities under social stress.

### South Bend

Consider South Bend, Indiana. A post-industrial city known for once being the headquarters of the Studebaker car company, South Bend's population stagnated in the late 20th century as wealth drained to the suburbs. But it was in the Great Recession of the early 2000s that the city suffered what local planner and demographic historian Joseph Molnar calls "the worst decade in South Bend's history."<sup>2</sup> The mid-size city lost 7.5% of its households, or a

total of over 3,000. Neighborhoods in economic freefall saw homes and storefronts abandoned or demolished.

It wasn't long before the good news stories began—if you were in the right parts of South Bend. During the 2010s, the city's downtown underwent a tremendous revitalization, with \$160 million of new private investment. Massive new developments have also transformed the area immediately south of the campus of Notre Dame, where the town-gown wall used to be stark.

But on South Bend's predominantly Black and Hispanic west side, the story has been different. There, residents bear long-simmering resentments over disinvestment and neglect of their neighborhoods, according to Alkeyna Aldridge, the city's Director of Engagement and Economic Empowerment. In the Near Northwest neighborhood, the neighborhood school was demolished and not replaced after a ceiling collapsed in 1966. There is no full-service grocery store, and older residents remember long-gone professional offices where vacant buildings stand today.

Development which serves these neighborhoods and their existing residents isn't going to look like the slick mid-rise apartments and chain restaurants near Notre Dame. It will have to look different. (Hint: It's happening, and it does. You're going to want to read Part 3 of this book.)

South Bend is a stark case of the Trickle vs. Fire Hose dynamic that exists all over America. Developers follow the money, and often exhibit a herd mentality as they look for the next hot neighborhood. Local governments both follow and contribute to this dynamic by targeting specific areas for upzoning and intensive redevelopment. Outside of those areas, it's not uncommon for years, even decades, to go by in which almost nothing new is built at all.

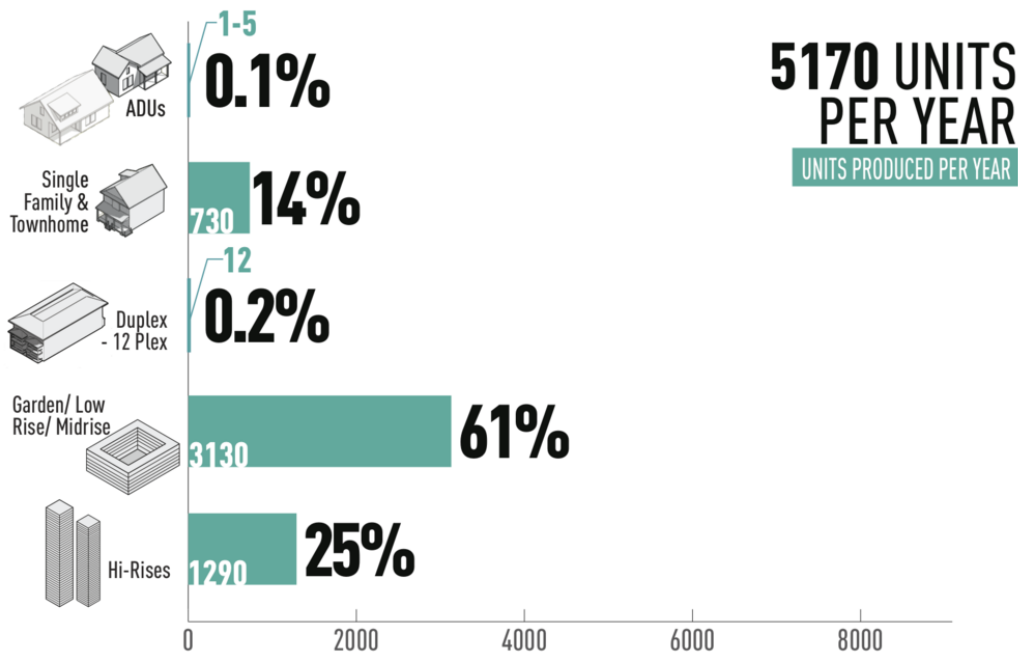
## Atlanta

The dominance of big developers isn't serving redlined, disinvested places what they need. But it also isn't serving places where there's plenty of money flowing. Atlanta, Georgia, is a world away from South Bend. Atlanta is not Rust Belt; Atlanta is red hot. The city has witnessed staggering increases in housing costs in the past decade, including a 22% increase in a single year from 2020 to 2021. The housing shortage is on everyone's tongue, as is the displacement of low-income Atlantans that will follow if it is not resolved.

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## ATLANTA // AVG HOUSING PRODUCTION 2013-2019



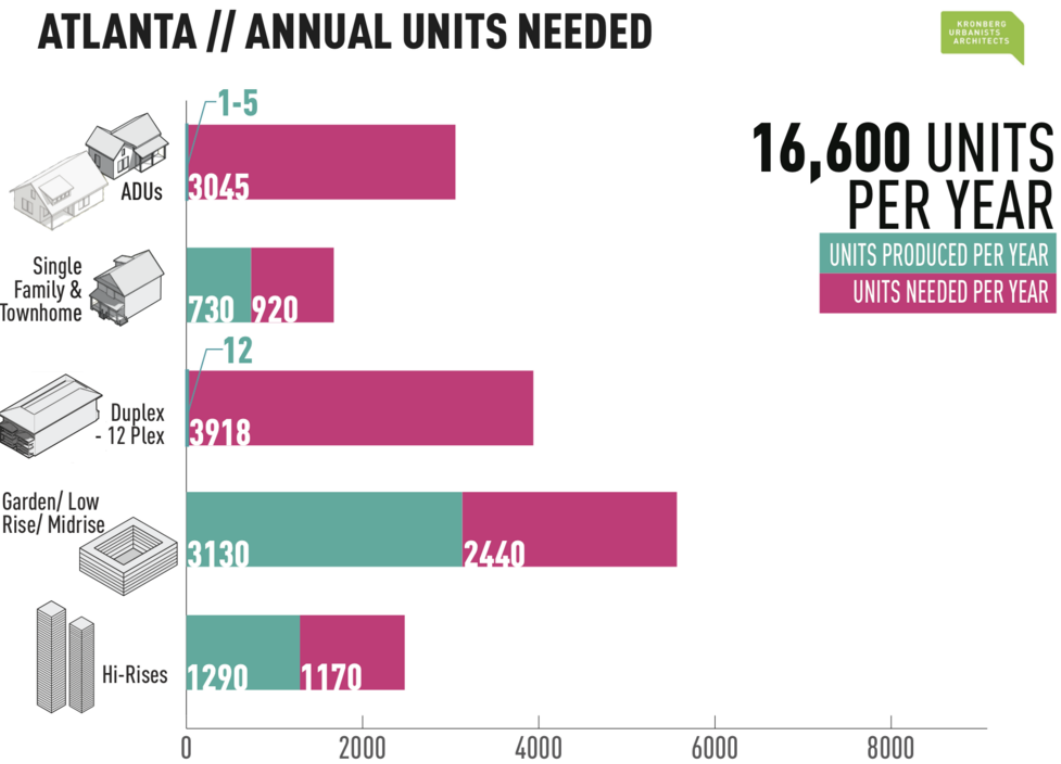
(Source: Kronberg Urbanists and Architects.)

So far, Atlanta has sought to meet housing demand through high-density construction in specific locations, while much of the city remains low-rise, single-family neighborhoods. This suits just fine the large development companies that build large apartment buildings, which account for 86% of new homes built in the city limits of Atlanta from 2013 to 2019. But how big is the housing shortfall, and how much would the production of towers and mid-rise apartments have to increase to meet the demand?

More than is feasible, says Eric Kronberg, an architect and developer who founded Kronberg Urbanists & Architects (KUA). And he has not been shy about sharing this opinion with city leaders and in presentations he gives to a wide variety of industry and policy-maker audiences.

“You can’t build your way out of it” with a big-developer, big-project-driven model alone, says Kronberg. “You literally can’t get there from here. There are only so many towers and multifamily things we can build. There’s a limit to the workforce, permitting, the availability

of cranes. If we double production of all that stuff *and* single-family homes, we're still 40 to 50% shy of unit needs for the City of Atlanta."



(Source: Kronberg Urbanists and Architects.)

Those needs, according to city projections, are for 16,600 new housing units per year, up from a current production of 5,170. You could double the production of single-family homes *and* mid-rise and high-rise apartment buildings and still be far short of the gap. The rest, says Kronberg, must come from missing-middle housing forms: accessory units and duplexes through 12-plexes. Which means legalizing them, and rebuilding the kind of ecosystem of developers who know how to make them happen.

We need people who will build in the places where capital-D Developers won't. We need our swarm.

## How Do We Unleash the Swarm?

The point of this book is to ask, “What do we have to do to get the small-scale developers back in numbers enough to make a difference?” How do we get our urban pollinators working again?

Even a cursory look at this question, and you’re disabused of the notion that there’s one silver bullet. Is it a zoning problem? Is it a lack of access to finance? Is it high land costs? Is it a lack of people with the appropriate training and skills to do this work? The truth is it’s all of these things, and each one exacerbates the others in complex ways.

If there’s a simple answer to the question, “Where did all the incremental developers go?” it’s that incremental development is no longer any sort of path of least resistance to making money in real estate. It requires overcoming unusual, intersecting, and overlapping obstacles to make it work.

And because of that, The One Neat Trick™ policy reforms we’re told are going to fix it all don’t tend to fix it. We should celebrate the cities shedding the straitjacket of single-family zoning, for example—but we also shouldn’t be surprised when the result isn’t a flood of triplexes the next year.

The system is optimized for monocultures from top to bottom. The ecosystem that produced a diversity of small builders and projects is missing. We need to rebuild it.

What does that rebuilding look like? That’s what I’m going to be exploring in this book.

# Part 2: Paths of Greater Resistance

What does it take to do small-scale development successfully today? Words like “grit” and “hustle” are clichés, but you’ll hear them when you start to ask this question. The main reason for the scarcity of these developers, and projects, is that incremental development today is far from the path of least resistance if you’re looking to build things or to make money in real estate. You have to really *want* to do it, and even then, you’re going to find it a challenge to make it work, a puzzle you must solve.

To do this work, you need three things:

- 1. **The ability to navigate regulatory barriers.**
- 2. **Access to knowledge and a supportive network of people.**
- 3. **Access to capital.**

We’ll discuss points two and three in the next parts of this book, but for now, let’s talk about regulation. Many of the small developers I’ve spoken with view their work as a sort of “hacking”: navigating around obstacles put in front of them by a system not designed to make the kind of work they do easy.



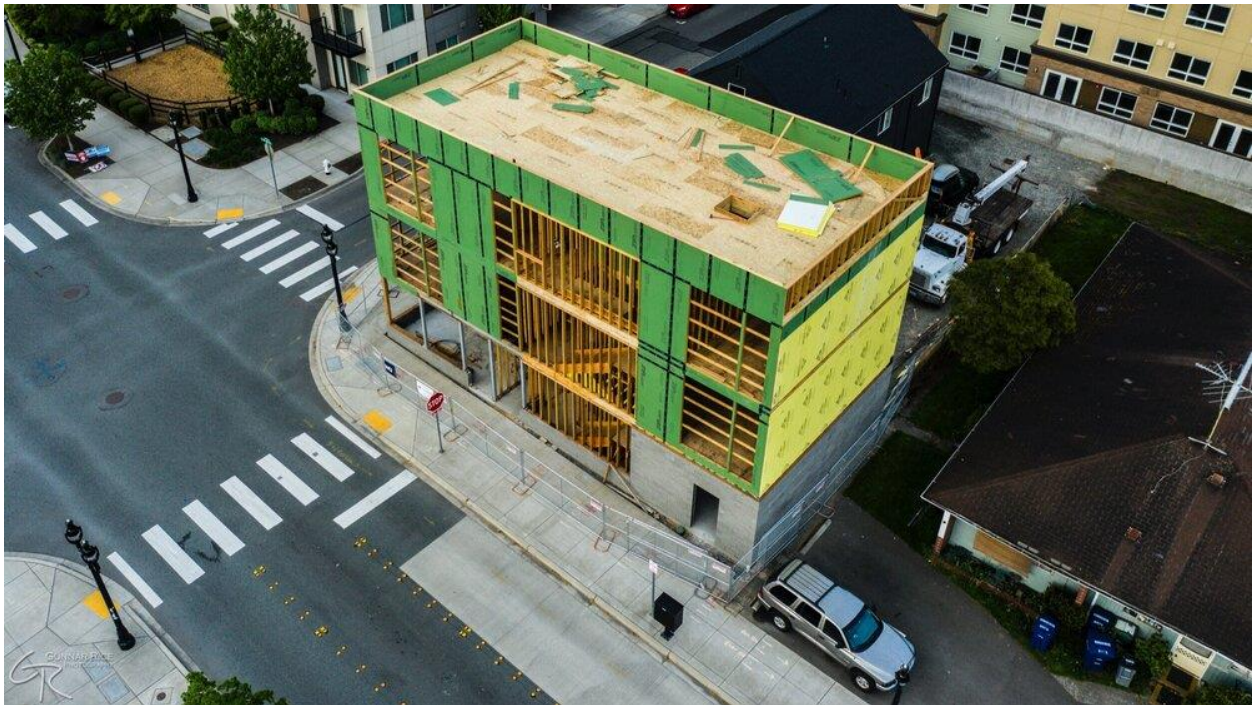
(Source: Mike Keen / Thrive Michiana.)

I indict “the system” because there isn’t a single culprit. If there were only one or two pervasive policies or practices standing in the way of good development projects, the call to action would be easy: repeal them. Eliminate them. But often, there are dozens of regulatory barriers—and they interact to cause problems in ways that aren’t obvious until a project idea runs into a particular jumble of thorns.

## Zoning, Land-Use, and Parking Rules

Take the experience of Minneapolis with zoning reform. The city drew plaudits from urbanists and the national media in 2018 for passing a comprehensive plan that eliminated single-family zoning—in theory, allowing a duplex or triplex on any residential lot citywide. Yet since then, there has been very little indication of developers’ willingness to build triplexes in Minneapolis: Only a handful have been approved. And when I spoke to developer Bruce Brunner, who teaches “house hacking” there, it became obvious why. The city’s built form requirements governing the physical shape and size of homes weren’t updated alongside the zoning in a way that made sense for triplexes. The Floor Area Ratio (FAR) requirements were the most obvious culprit: Being limited to a total floor area 50% the size of the lot, in practice, rules out the possibility of larger, family-sized apartments, and makes most triplex designs uneconomical or too physically awkward to build.

A single regulatory requirement can set off snowballing changes to the ultimate form and cost of a project. Parking is perhaps the most dramatic example of this. Seattle-area developer Cary Westerbeck has shared his parking headaches with Strong Towns in the past, but long story short: Parking requirements in his city of Bothell, Washington, reduced the maximum viable project on his 2,500-square-foot lot from 16 units to four.<sup>3</sup> This kind of thing happens not only because of the cost of constructing parking itself, but because of the geometric constraints parking creates for fitting a building on a site (and in a way that conforms to other requirements about height, FAR, or setbacks). In Westerbeck’s case, accommodating parking would have meant an underground garage, and would have pushed his rents up by \$500 a month, beyond the realm of market viability.



*Cary Westerbeck's fourplex in Bothell, Washington. (Source: Westerbeck Architects, LLC.)*

A 2019 study in Portland, Oregon, found that parking requirements would be the determining factor in whether the most profitable thing to develop on a piece of land was 32 relatively affordable apartments or 10 far more expensive townhomes.<sup>4</sup>

## Building Codes

When I began interviewing small developers for this book, I expected to hear about the above issues, as zoning and parking requirements are familiar to me. I did not expect some of the stories I heard about building code requirements, stormwater, fire sprinklers, and financial hurdles. Individually well-intended rules can interact with each other with a sort of Rube Goldberg complexity. Mostly, this happens when you're trying to build something the rules weren't really written for.

Every small developer has their resulting "war stories." Lucas Lindsey is a development manager with Venue Projects, an eight-person firm which specializes in small-scale adaptive reuse of older buildings, mainly in the Phoenix area. Venue recently built a fourplex on land owned by one of their principals, structuring each unit as a detached casita in order to apply the residential, rather than commercial, building code. But the city imposed commercial site development standards, resulting in unexpected costs. The project required close to \$60,000

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in stormwater retention technology, including underground tanks and a dry well—but a civil engineer told Lindsey that had they built the exact same project in the neighboring city, the cost would have been only a \$6,000 payment into a regional infrastructure fund.



*4Square detached fourplex under construction in Phoenix, Arizona. (Source: Venue Projects.)*

Fire suppression requirements are another area where regulations tend to impose a “one size fits all” layer of cost that might be scaled to larger projects but unreasonable for small ones. When I interviewed Monte Anderson, the prolific South Dallas developer and co-founder of the Incremental Development Alliance, he slyly rotated his camera to the left to show me the gargantuan fire suppression apparatus sitting next to him in his office. “This is a \$75,000 system,” he told me. “The same one that would be in a five-story office building. I don’t need this in my one-story, mixed-use building.”

Building codes are an interesting can of worms. They were widely created around the early 20th century for an obviously good reason: to prevent deadly disasters from unsafe construction. The adoption of standardized model codes has been an ongoing process. For a while, these were regional. The first edition of the International Building Code (IBC), published by a non-profit consortium, was not completed until 1997. Although it has no force of law, most cities have voluntarily adopted some version of it and its counterpart, the International Residential Code, as their own requirements. We’re now at a point where virtually every city

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uses the same model codes—which means flaws in the code, where something reasonable to do becomes disallowed or prohibitively complicated, can now take a particular building and render it functionally illegal almost everywhere.

We're not going back to *not* having a model code. But small developers would benefit from a more reasonable sliding scale of code requirements accommodating of small projects and diverse needs.

## Optimized for Monocultures

The problems I've described above sound like a lot of separate issues. To summarize them in a sentence: The regulatory and financial system we have today is optimized for development monocultures. At this point, for most of a century almost *all* of the rules around development have been written in ways that entrench the dominance of a few styles of development, and in turn that has favored continuing to write the rules that way. Organizations like the National Association of Home Builders, for example, have a heavy hand in influencing the IBC's content.

In residential development, monoculture means single-family homes, built to a production builder's cookie-cutter template. In commercial real estate, it means the auto-oriented strip mall, the power center, the chain restaurant or pharmacy: cheap one-story buildings with surface parking. We built a system that was really good at delivering those things at scale, but by extension we've created huge scale diseconomies for anyone who wants to deliver something else. Loans are less forthcoming and the terms are worse. Code requirements that don't hurt the financial feasibility of those suburban forms become brutally costly when applied to a different type of building on an urban infill site.

Larger-scale urban builders have figured out their "hacks" by now. (They have good attorneys to help them do it.) This is the reason those "beige box revival" apartment buildings look the same in every city: They're designed to meet the pervasive requirements of local regulation and, more importantly, building codes and lenders' expectations, in a way that is replicable. But this requires a ton of overhead and a certain minimum scale to pull off. It's not a path available to incremental developers, where every building is going to encounter unique challenges due to its location or situation.



## Applying the “Code Hacker” Mindset

Salvation from a thicket of counterproductive rules isn’t forthcoming. So the advice that nearly every incremental developer gets is to work *around* the rules rather than bash your head against them. In a memorable formulation, R. John Anderson calls this the process of evaluating your “return on brain damage”: If you’re going to go through a painfully confusing and ill-defined process to get your project approved and built, it had better be worth the pain.<sup>5</sup>

This means look for what you can do as of right—avoid needing a variance if you can help it. Do something that works with a standard loan product available with favorable terms. Do something legible to appraisers, and that allows for approaches to plumbing, HVAC, and so forth that are simple enough that local contractors used to smaller projects can handle the work.

Eric Kronberg of KUA in Atlanta provided me with a vivid example. Despite the hype around triplexes and the popularity of older building forms such as the triple-decker, he says, “a triplex is the least efficient building you can do” in Atlanta and many other cities. Why?

A federally-insured FHA mortgage can apply to a building of up to four units and up to 49% commercial space. You can build something at this scale using the same techniques and materials as a single-family house, which is about as affordable as construction gets. The building code, however, has a different cutoff. While one- and two-family residences fall under the International Residential Code, anything triplex or larger, in most places, requires you to build under the commercial building code. “Don’t ask your small builder to learn the commercial code,” says Kronberg.

(One of the commercial code’s requirements, naturally, is fire suppression. In many states, *only* one- and two-family homes and townhouses are exempt from extremely costly sprinkler requirements.)

In light of this, the approach that Kronberg advocates for his Atlanta context—and far more of the U.S. looks like Atlanta than not in this respect—is to use detached accessory dwelling units. “A 30-plex or a triplex, it’s the same amount of engineering,” he says. “We’d rather do a really nice duplex and an ADU behind it. That gives us a 20–40% savings on the cost of delivering the housing.”

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## ZONING // FEE SIMPLE ADUS



## ZONING // FEE SIMPLE ADUS



<https://www.kronbergua.com/post/why-adus-are-so-hard-to-build-and-how-atlanta-could-make-it-easier>

At the top of Kronberg’s policy wish list for Atlanta is the legalization of fee-simple ADUs, meaning that an accessory dwelling unit and the land it’s on could be bought and sold separately from the main house, without a complicated condo arrangement. This would allow infill developers to “feed banks what they eat,” Kronberg says. Major banks know how to issue a mortgage for a standalone structure which will have one owner. They can do that all day. Appraisers also know how to value such a structure for financing. Their lack of familiarity with missing-middle housing forms that are scarce in a mostly suburban city like Atlanta is a huge obstacle in Kronberg’s view. “I don’t know how to fix appraisers. I know how to feed them what they eat.”

Kronberg’s path of marginally less bureaucratic resistance is also a path of greater *political* acceptance. The public is far less wary of ADUs, which have a wholesome image (think “granny flats”), and thus ADUs become a backdoor to a conversation about lot sizes or duplexes.

The state of California has caught on to this. The most noteworthy aspect of the recently passed statewide abolition of single-family zoning, Senate Bill 9, is its lot-split provisions, which allow a small developer to divide virtually any single-family lot into two, and put two homes on each.

Will it be a game changer? That remains to be seen, but refreshingly, this is a regulatory reform aimed at enabling something the “hacker” developers have already figured out.

## Where Do We Start with Reform?

So many different policies conspire to raise the cost and difficulty of small development that we’re unlikely to cut this Gordian knot any time soon. But we can and must make meaningful improvements from the policy side.

The “hacking” approach to small-scale development will likely never scale to a large number of builders, and it has massive costs. It deters many people from attempting incremental development at all, adds cost, and causes projects to never see the light of day. Or, as with Westerbeck’s fourplex that could have been a 16-plex, it causes them to be deeply compromised, ultimately delivering less benefit to the community. Less affordability, less

compatibility, a less ideal space or worse urban design—any or all of these things can be casualties.

I asked every developer I interviewed for their policy reform “wish list,” and the lifting of parking requirements was almost universally mentioned. Beyond that, many cited reforms to single-family zoning, allowing more density appropriate for an urban context. Others mentioned flexibility on issues such as setbacks that can make or break the geometry of fitting a project on a lot. The overall recurring theme was that small developers want simplicity, and they want flexibility. Each site is unique, each project is unique, and it should be legal without so much red tape to design a project around those hyper-specific, local requirements.

(Every developer I spoke with also cited financing barriers, and wanted greater flexibility from banks with loan products for creative projects or unorthodox building types. We’ll talk more about banks in Part 4.)

With certain building code features and with municipal requirements such as stormwater, the best way forward might be strategic relaxation of some requirements tied to project size, to let small things go forward with less red tape than big things.

When it comes to zoning codes, there are two “big bads” that stand out in their ubiquitous, destructive impact on the viability of incremental development. They are exclusive single-family zoning (i.e., apartment bans), and mandatory parking minimums. These should go away. Everywhere. Yet we must recognize that that is a start, not an end goal. Those two policies are the most sound-bite-able, but the other factors that continue to cause headaches are more obscure and hard to mobilize political activism around. They will require really motivated people inside the system to push to fix. The Floor Area Ratio (FAR) requirements in Minneapolis are a good example.

For advocates outside of local government, the near-term work is partially in showing the regulators where the problems lie. The Incremental Development Alliance (IDA) has begun to do this work with city planning staffs, consulting with them on “stress tests.” These are day-long workshops that aim to discover and highlight the specific problems local regulations are creating for small developers.

In South Bend, Indiana, developer Mike Keen brought in the IDA for one of these stress tests. In the morning, they taught city planning and zoning staff some of the basics of small-scale development. In the afternoon, they applied the city's own rules to a development proposal and catalogued the sticking points. As a case study, the South Bend stress test looked at Shetterley Triangle—an unusual half block which had once held 13 houses, but by this time was down to six homes and seven vacant lots. Keen and his partners proposed to build seven new energy-efficient houses on the same block where homes had once stood.

The problem? Try 36 problems. "It turned out we needed 36 variances, at a total cost of \$12,000, to put those seven houses back where they used to be," Keen told me.

This was eye-opening for the city staff. South Bend has since worked extensively to reform its zoning code to make it more legible and simpler for small-scale development. I interviewed planning director Tim Corcoran about these efforts in 2019, when he told me that the city's goal was a code that could be understood with "a high-school education and an hour of your time."<sup>6</sup>

These efforts are paying off. In 2021, South Bend eliminated its parking minimums. This and other reforms won it the 15th annual award from the Form-Based Codes Institute for the best municipal zoning code.



*"The Artists," a pair of completed 460-square-foot small homes in South Bend. (Source: Mike Keen / Thrive Michiana.)*

## If You Want People to Do It, Smooth the Path

If you want more small-scale development in your city, you need to make it attractive. Not the path of absolute least resistance. But a path of lesser resistance, so that those with some gumption will try it.

Even with regulatory reform, development is not going to be a cakewalk. We're talking about idiosyncratic projects in locations where the market isn't a slam-dunk—if it were, the big developers would already have found a way to be there. And so most people aren't going to find this accessible if they have to go it alone.

Every bit as important as the regulatory piece, if not more so, is the cultural piece. This means building a community of incremental developers and development-adjacent professionals who can all help each other. And I've encountered no better model for what that looks like than what's happening in South Bend right now.

# Part 3: A New Generation of Town Makers

Picture a lively open house taking place in a spacious living room on a cool evening in a mid-size American city. It's a networking event of sorts. There are over 50 people there, including the mayor and members of the city council. Everybody is talking about their latest business venture and exchanging ideas on how they can collaborate.

Now imagine almost everyone in that room, aside from the public officials, is some kind of small-scale developer. The majority of them are women and people of color. Most are working in low-income neighborhoods pockmarked with vacancies, the kind where conventional wisdom says it's almost impossible to build *anything* profitably, let alone get the financing to do so. And many of those people live in, and grew up in, those neighborhoods themselves.

Sound like an impossible fantasy? In fact, you can attend just such a gathering in South Bend, Indiana.

Something remarkable has been brewing in South Bend. Belying the idea that incremental development is a sideshow or "doesn't scale," in South Bend a cohort of small developers representing over 100 properties in poor, disinvested neighborhoods are, if taken collectively, the largest developer in the city. And they didn't get there by competing with each other for opportunities, but by creating opportunities for each other.

Furthermore, they've done it essentially without subsidy. In the process, they've often provided below-market rents and commercial space, and space for community-serving activities.

The most important thing to underline is *who* is doing it. Real estate development tends to be an exclusive club for a lot of reasons, the biggest one being that the easiest way to get started is to be independently wealthy or partner with someone who is. And that correlates with race and social capital. But South Bend's upstart developers are a group that is representative of the city's diversity, and many have come to development without wealth,



*Photo from a small developer social event in September 2021. (Source: City of South Bend.)*

connections, or formal training.

Building an incremental development ecosystem and support network is like getting a snowball rolling: It takes a long time to acquire momentum, but once you do, the heaviest lifting is behind you. At that point, a whole different story is possible.

I'm not writing this to be a Pollyanna. South Bend is a Rust Belt city with a 24% poverty rate that still has problems with blight, vacancy, and a long list of community needs. But what's happening with incremental development is an organic response from within the community to a portion of that need, with great potential to accelerate.

How did this happen here? Can the momentum continue? And why South Bend?





*The former Ward Bakery building in the Portage Midtown area, which Mike Keen and partners are redeveloping into an incubator space for up to 60 businesses. (Source: Mike Keen.)*

## “Find Your Farm”

This is not one person’s story, but Mike Keen is as good a person to start this story with as anyone. Until recently, Keen was a professor of urban studies and sustainability who founded the Center for a Sustainable Future at Indiana University South Bend. About five years ago, he decided to walk his talk and, with business partners Dwayne and Corbin Borkholder, become a developer of net zero energy-efficient homes.

Keen and his partners envisioned their project filling a need in South Bend’s Near Northwest neighborhood, which had not seen a new residential development in over 40 years. But they struggled to obtain financing because of a typical catch-22 in a neighborhood that’s been through decades of decline: an appraisal gap. Absent any comparable properties nearby, they could not convince appraisers that their homes would sell for enough to cover their construction costs.

They could wait a generation for the market to catch up. Or they could “work on the neighborhood” themselves. Keen and his partners at Thrive Michiana bought and renovated

nearby properties, and acquired some 20 vacant lots. Soon, they found themselves with a “farm”: an area of several blocks they were systematically working to cultivate. “What started out intended to be one house became a sustainable neighborhood demonstration project” that Keen and Co. have dubbed Portage Midtown.

## PORTAGE MIDTOWN FEATURES



*Aerial view of Mike Keen's development "farm" in the Portage Midtown area. (Source: Neil Heller.)*

And the market is turning a corner. A fully renovated four square in the area, Keen told me, used to be \$125,000; today it goes for \$165,000. Appraisers now have their comps, which will help more aspiring small developers obtain the loans they need, in a virtuous cycle.

What Keen considers their broader “small development ecosystem” now includes about 100 properties. About 50 are homes that have been renovated; about 45 are vacant lots picked up in tax delinquency sales. Estimates by Neil Heller of Neighborhood Workshop are that by 2031, redevelopment in Portage Midtown alone will total \$15.2 million in private investment and deliver about \$300,000 in taxes to the city per year—a staggering 2,334 percent increase from before Keen started.<sup>7</sup>

“Find your farm” is a mantra used by the Incremental Development Alliance (IDA) in their small-developer workshops. One recipe for success as a small developer is to pick an area—smaller than a neighborhood, maybe just a few blocks—where you intend to commit for the long haul, and then come to know that area intimately. Live there, if you can. Frequent its

businesses. Get to know every neighbor, every property. Do multiple projects there: You'll find opportunities once you're a known, trusted quantity to your neighbors, and you'll bring them along with you. Keen has helped other developers acquire property and do projects in the vicinity of his own, to the mutual benefit of everyone involved.



*(Source: Mike Keen.)*

## “Intentionally Inclusive”

Keen met Incremental Development Alliance cofounder Monte Anderson in 2016 and began attending the group's programs. In late 2017, he helped get the City of South Bend to bring the IDA team in for a workshop and a stress test of their zoning code. The city kicked in \$4,000, while Keen raised the other \$16,000.

If Keen believed incremental development had the potential to transform Near Northwest and other South Bend neighborhoods, though, it was important to him to engage those neighborhoods from the beginning in an intentionally inclusive way. Keen reached out to community organizations and offered to have them be cosponsors of the IDA events at no charge if they would send the information out to all of their contacts. The result was a diverse group of interested attendees at the first lecture and workshop. Keen also worked to arrange scholarships for participation in the developer workshop.

The goal is real estate development as a form of community organizing. To do this well, deliberate discomfort is a must. “Take a look at what you look like, and whatever you look like, try to find some folks that look different than you and really connect with them,” says Keen.

Keen began to host regular small-developer receptions at his house, as a community formed around the group. “We call it, informally, the Michiana Incremental Development Alliance Ecosystem. But all that is, is a spreadsheet where I’ve got a bunch of phone numbers. There are 15–20 people actually doing development. But we’ve got city officials, financial people, contractors, architects, engineers, community members, nonprofits; we’ve got about 180 people on that list. We can get 20 to 25 to show up for a reception for somebody like Monte when he comes in.”

Paraphrasing Anderson, Keen told me, “We don’t want to have any secret handshakes. We don’t want a situation where you’ve got to be invited to the Christmas Party of a law firm on the 20th floor of a building to know how to make things happen in the city.”

The incremental developer cohort in South Bend has a culture of generosity: They share knowledge and connections, with no proprietary hoarding of trade secrets. You know a contractor? Cool, now I know a contractor. You know a banker who understands mixed-use buildings and is open to issuing a loan for one? Hey, I want to know that person too. You know the mayor? Now I know the mayor.

Connections open doors, especially in small-scale development, where knowing the right lender or the right affordable-but-also-highly-competent contractor is worth its weight in gold, since the mainstream development and finance world is not attuned to small projects.

## “If I Can Do This, Anyone Can”

The result is that a remarkable cross-section of South Bend residents have become small-scale developers in the past few years. I spoke with several of them; still others are profiled on the city’s “Build South Bend” website— itself an indication of how City Hall has embraced this growing movement and tried to nurture it. Multiple developers shared some version of the sentiment, “If I can do this, anyone can.”

Barbara Turner is a longtime South Bend resident who was born in Mississippi to a sharecropping family. She moved to South Bend in her 20s with dreams of owning her own home, and at age 26, designed and built her own ranch house. “I caught the bug,” then and there, she told me; Turner wanted nothing more than to be able

to give that same feeling of home and belonging to others. Once her children finished school, they encouraged her to revisit her dream. So, after a few years commuting back and forth to Chicago to be a project manager for her son’s home renovation company, Turner founded her own: Revive Homes LLC in South Bend. She renovates homes in South Bend and hopes to one day build a subdivision. Financing has been Turner’s biggest challenge—she at one point refinanced her own home to get the startup capital to begin her development work. (This is a not-uncommon story for a small developer.)

Sarah Hill is a public library administrator by day. She founded Penny Hill Homes to renovate historic houses with partner Jennifer Henecke. “The kinds of houses that we approach, these foreclosed historic homes, have so much innate beauty in them, so when they’re done they are just stunning,” Hill said. She would like to branch out beyond single-family renovations to



*Barbara Turner of Revive Homes, LLC.*

do a new build on a vacant lot, perhaps a fourplex. "I don't feel we've quite cracked the nut of commercial financing," Hill said. "We've relied on conventional financing for everything so far."



*Home renovated by Sarah Hill and Jennifer Henecke. (Source: Penny Hill Homes.)*

"Swella's Ville" on Lincoln Way West is the brainchild of Consuella Hopkins, the owner of a local accounting and tax firm. Hopkins has opened what may be the first office building in the corridor in three decades. But her "farm" and ambitions are much greater: a district of commercial and office space and rental homes which can act as an anchor for economic revitalization on the west side.

## Fertile Ground

Nobody involved in this story is a miracle worker, conjuring a whole crop of eager small-scale developers out of nothing. The truth is, the ground was fertile in South Bend for this kind of work. The energy and drive were already present in spades and just needed to be channeled.

Part of this is the cultural scrappiness characteristic of the Rust Belt. There's a commitment to community development and a willingness to try unorthodox things. As Alkeyna Aldridge, Director of Engagement and Economic Empowerment at the city, puts it, that willingness is rooted in the recognition that "our system is so broken, the need is so big, and the cavalry's not coming." In South Bend, this is particularly manifested in the Near Northwest neighborhood, where churches and a very active community development corporation are centers of civic engagement.

The whole concept of a Department of Economic Empowerment is unusual. It was established in early 2019 in response to residents' concern about the huge disparity between redeveloping areas of South Bend and the continuing problems west and south of downtown. Then-mayor Pete Buttigieg greenlighted the concept, but the department is still a work in progress, an upstart counterpart to more traditional economic development activities. "We had this mandate to do neighborhood-level economic development, but nobody knew what that was," said Marty Mechtenberg, an architect by training who is now employed by the department as an Economic Empowerment Specialist. "So we kind of made it up as we went along, and maybe surprised everyone by being more successful than we were expected to be."

The keys were the connection to the IDA, and the realization that South Bend was full of people already trying to improve their neighborhoods. Many of them owned property but didn't know what to do with it—a result of years of abandonment in which things "sort of fell into folks' hands because they cared." Now these residents have opportunities to capitalize on that ownership and develop these sites to help bring back former neighborhood commercial centers. But they need technical support and access to the same kinds of networks that bigger developers have.

South Bend is also rife with entrepreneurship programs, including the SPARK program through St. Mary's College for women and minority entrepreneurs, and the Entrepreneurship

and Adversity Program at Notre Dame. A number of the small developers are graduates of one or more. But these programs weren't talking at all about real estate, said Aldridge.

The Economic Empowerment department is the connective tissue for these disparate sources of community energy and ambition. It serves as the one-stop shop at City Hall for South Bend's small developer cohort. The city's role is twofold:

1. **Technical assistance.** The department holds Build South Bend workshops in which participants can hone their understanding of the basic steps in development—"How do I stabilize my building, develop a rent roll, talk to a contractor or an architect?" They can also share what their "farm" is and connect to neighbors who might be touching it. "Hopefully the technical assistance process helps them get some numbers that they can take to the bank," says Aldridge.
2. **Facilitating networking and peer support.** This is for the people who say, "I've never worked with an attorney before, and I find attorneys to be really scary and intimidating and expensive," says Mechtenberg. The city can help facilitate introductions to bookkeepers, CPAs, contractors, and architects "who we know get how to work with the little guy. We're giving folks access to that ecosystem, peer-to-peer, and peer-to-broader-network. And also to the city itself. People don't know how to work with the city, who to ask questions about zoning, building codes, et cetera. People buy properties because they have an idea, and we don't want them to later find out 'You can't do that.'"





*South Bend looking northwest from near downtown. (Source: Wikimedia Commons.)*

## Not “Does it Scale?” but “Does It Replicate?”

An important question I asked those involved in this progress was, “Is South Bend unique?” Can we do this elsewhere?

South Bend is illustrative of a crucial point about incremental development. The historically depressed economy in South Bend is part of what creates opportunities to do this work. This model would not port in the same way to an affluent place with sky-high property values, or one already buzzing with big-time investor activity.

Incremental developers, because of their deep connection to a place, are able to identify underappreciated opportunities and undervalued property. They can prove the market where the conventional wisdom is that there isn’t one. And the model of development is fundamentally cultivative as opposed to simply extractive. You’re creating value through

patience and commitment to a place. This also means you can't be a lone wolf. You will realize more value—and this includes financial return on your own development projects—if you work to lift the whole community up with you.

This can happen anywhere there's a community and work to be done. But the energy can only come from within. For this reason, Keen told me, the right question is, "not how does it scale, but how does it replicate?"

"I see this as a form of biomimicry, because I come at it from a sustainability perspective," says Keen. "I see the small-scale development approach as a form of DNA. It's a pattern; it's a method. It's going to adapt differently in different contexts. But if you have a dandelion seed, a bird can drop it anywhere, and it's going to create dandelions. Unless something is really wrong with that place, something will grow."



*A net zero home project in South Bend, IN, by small-scale developer Mike Keen, in collaboration with Habitat for Humanity.*

## Part 4: Fixing Finance for Small-Scale Development

At the root of any ecosystem you'll find a food chain. Start with the question of what resources are available (i.e., sunlight, water, nitrogen and other nutrients). Everything else, while not entirely determined by that, ultimately has to follow from it.

For development, finance is fertilizer. Most of the developers I spoke with cited access to capital as a significant barrier to the kinds of small infill projects they would like to do—and even more so, to creating more small developers doing more projects.

This isn't because the money isn't there to be had. At any given time there is more money looking for a good project to invest in than vice versa. But development in North America has a "Who" and a "What" problem.

What gets built today? Mostly formulaic buildings adhering to one of several fairly

predictable templates: the monoculture crops of the suburban experiment.

Who builds it? Mostly large to very large development firms. Rarely the people with the most skin in the game: those who live in the neighborhoods they will be developing.

Each of these dilemmas has different answers depending on the scale at which you examine it. It's important to understand the barriers facing, and options available to, an individual developer. But it's also important to interrogate the systems that constrain those options in the first place, and to look at what role higher levels of government might play in removing some sources of distortion, and thus freeing up opportunities for individuals to generate wealth for their communities.

## The “Who”: What Does it Mean to Be Bankable?

There's a huge amount of ingenuity and energy in struggling neighborhoods among people who would love to contribute to their renaissance, but it takes outside support to channel that energy into development. In addition to bank loans, small developers typically work with investor partners who contribute equity up front to the project. At the small scale, this is likely to be someone you know and have a personal relationship with.

This is where building a conscious community centered around incremental development, not just a bunch of go-it-alone entrepreneurs, can be transformative. It's incumbent on those who already have social and institutional capital to help make it so that you don't have to be independently wealthy—or already have a friend who is—in order to get started in development.

Jenifer Acosta of Bay City, Michigan, does historic renovation and adaptive reuse projects, both residential and commercial. She is keenly aware of the access she has, and tries to pay it forward. “It was only 50 years ago that a bank could have denied me a loan as a woman, because the Equal Credit Act wasn't



*Jenifer Acosta.*

passed yet. Cities shouldn't be built by the same 10 white guys." Acosta serves on her community foundation's impact investment committee, and does development consulting locally as well as serving on the faculty of the Incremental Development Alliance—always looking to bring others up with her and help others make the connections they need.

"Access is a big deal in a small town, and poverty is a big deal," Acosta says. "We've spent so long telling people that they don't necessarily belong in this world. How do you make people bankable? A colleague develops 30 minutes from my house; I've known him five years and did his technical assistance, since I knew the local players."

When you come from a background of poverty, it's easy to feel almost traumatized by the experience of trying to deal with financial institutions, and to feel like you cannot advocate for your own self-worth through your life experience, Acosta says. But these are the developers we need. "It'd be faster for me to be like, 'Hey, I've got your backing.' But I teach people how to advocate for themselves, bring in that investor capital and not be ashamed of it. It's just money, right? Money needs to do some sort of purpose."

Derek Avery is a developer in Dallas, Texas, who sees his work building affordable market-rate homes (and, more recently, office space) in neglected neighborhoods as mission-oriented "revitalization without gentrification." Avery is generous with advice and support for others who want to do the work, but he doesn't sugar-coat the difficulties involved. When I asked him what it would take to create 10 times as many Derek Averys, he said, "I like to talk about wins and losses with this, so that it's real. I've been able to successfully complete projects, but it's hit and miss if they're profitable. I have had more projects that are not profitable than are. [Small-scale development] still takes capital that most people don't have, and it takes risk that most people aren't in the position to take on."



*Derek Avery speaking at a Strong Towns gathering in Plano, Texas, in 2018.*

This risk doesn't end once you do your first successful project. Even experienced developers who can get a construction loan are going to have funding gaps, particularly when working in challenging neighborhoods. For Avery, a reliable line of credit allowing for cash flow throughout a project is high on his wish list. "Not everyone can cash out the 401(k) or borrow from friends and family," he says. "I put every dime I've ever saved into it. I was using my own personal money, putting risk on my family. That's the stress you don't need. I've had failures that could have been stopped if I had access to capital that wasn't dependent on me having so much collateral."

This access means gap financing: finding ways to help small developers cover the difference between what a bank loan will pay (often 70%) and the actual cost of a project, without dipping into their personal assets and risking ruin. Governments and nonprofits can be difference-makers here, helping to scale up the principle of bringing someone along and making them bankable beyond personal relationships.

One idea the Incremental Development Alliance has explored is finding a way to guarantee loans or a better interest rate linked to participation in the IDA's boot camp programs. This might involve non-traditional sources of finance, whether impact investing or working with community development financial institutions (CDFIs).

# Fixing the Focus of Economic Development Programs

Local governments aren't investors, but they can lend their own creditworthiness, not by giving away scarce public dollars but by backstopping affordable gap financing, and offering it to small developers through a revolving loan fund. In South Bend, the Economic Empowerment department has discussed whether, partnering with a local bank, the city could chip in to buy down the interest rate, giving developers access to a 2% loan instead of 5% or 8%.

Government-backed loan programs can fall into the trap of having conditions that are too rigid to be useful. For example, a revolving loan fund that already exists in South Bend, with some state funding, is set up for single-entity businesses, but not mixed-use projects. This makes it useless for, say, South Bend developer Maricela Navarro, who is renovating a historic building to contain space for four businesses, two apartments, and four storage units.

While existing programs for the smallest developers don't serve many use cases, local governments have a long history of making capital available to large developers in ways that small ones can't access, such as Tax Increment Financing deals. Simply redirecting conventional economic development resources—tax incentives, pass-through block grants, and one-time things like COVID stimulus money when they come—to supporting small developers could be transformative.

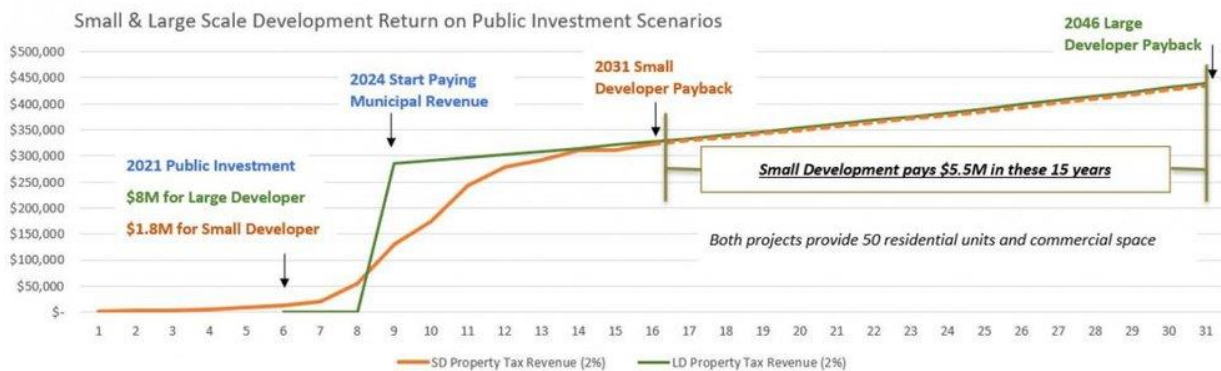
Alkeyna Aldridge, South Bend's Director of Engagement and Economic Empowerment, describes herself as "a nuisance to my peers, because I'm pushing them to ask questions they haven't asked. Like how do we take care of the folks we have, and create mobility for new Americans in our community? In the way they've been trained, [incremental development] is not a growth model. I'll be asked things like, 'Why are you focusing on folks who are not ready to do development?'"

The proof is in the results, though. Incremental development, if anything, creates more enduring value than large-scale projects.

The case study of Mike Keen's Portage Midtown "farm" in South Bend (discussed in the previous chapter of this book) is merely one illustration. A financial analysis by Neil Heller of Neighborhood Workshop estimated that by 2031, redevelopment of these 95 small lots over

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only three acres would produce \$15.2 million in private investment, while generating 50 new homes and 172 jobs. But Heller also contrasted this performance to a hypothetical scenario in which a single large building was built containing the same amount of housing and commercial space. Under that scenario, \$8 million in up-front tax incentives would be necessary to render the project viable in South Bend’s market. As a result, the large development wouldn’t pay off its public investment until 2046: fifteen years later than the incremental approach. (In fact, Heller writes, Keen and his partners were able to acquire the Ward Bakery building “after acquiring mid-size developers joined the ranks of six previous failed attempts at a New Markets Tax Credit application. Mike’s ‘farmers’ have created enough value that tax credits are not needed.”)<sup>8</sup>



(Source: Neil Heller.)

In the real world, the comparison is even starker, because Heller assumed an equivalent level of development intensity for the sake of argument. But in practice, a granular pattern of small lots almost always uses land more intensively, and with more attention to wringing value out of the space, than a large development in the same market context, resulting in the stark contrasts Strong Towns has documented for years. The most financially productive land users in our cities are often small businesses on the most modest of lots: the Jimmy’s Pizzas of the world.

Thus, although there is a moral, fairness component to the question of, “Who develops our cities?” the problem or the solution need not even be framed in moral terms. The *financial* logic—behind thickening up neighborhoods already served by infrastructure, bringing life back to old buildings in places like South Bend, and getting energy and talent off the sidelines by allowing people in low-wealth communities to participate in this process—is rock-solid.





*The Davidson, a historic rehabilitation completed by Jenifer Acosta in downtown Bay City, MI.*

## The “What”: the Monoculture Chicken-Egg Problem

There are a handful of standard loan products that offer low interest rates, preferential terms, and a straightforward, streamlined process to qualify. These tend to exclude the kinds of projects that many incremental developers want to do—urban infill buildings that are often mixed use, usually rental properties, and often denser and with less parking than has been the norm for the last 70 years.

A key reason is the lack of a secondary market in such loans. The secondary markets are where banks resell loans they have issued to third parties. There is a massive secondary market for home mortgages, dominated by Fannie Mae and Freddie Mac, which buy home mortgages and bundle them into mortgage-backed securities. There is no equivalent for mixed-use loans. A report called “The Unintended Consequences of Housing Finance,” published in 2016 by the Regional Plan Association, explains the significance of this fact:

In practice these projects would be good investments, but require time and openness from the lender, and an interest in supporting the local community. Yet as there is no secondary

market for mixed use loans, they are held on the bank's balance sheets, keeping the bank from "reusing" the funds for other loans and collecting more fees. Including these opportunity costs, the loans are notably more expensive for the bank, and thus expensive to the developer. Banks prefer "cookie cutter" conforming loans and sell them easily, but non-conforming loans are relatively rare, expensive, and unsalable. Generally the loans simply are not made, and without financing opportunities many mixed-use projects, especially in older areas, aren't conceived.<sup>9</sup>

How did it get this way? One interpretation, offered by Stephen Smith, is that "finance issues are actually zoning issues."<sup>10</sup> Because land-use regulation restricts the vast majority of urban land in the U.S. to single-use structures, and in the case of residential areas, typically 80% or more to single-family homes, banks don't find it worthwhile to create loan products for building types that are uncommon.

On some level, though, the problem is almost certainly a chicken-egg one. At times, it's lenders, not regulators, restricting development practices. Accessory dwelling units (ADUs) are often poorly served by existing loan products, even in cities where they are allowed and encouraged by the planning department. And for commercial buildings, it's not uncommon that a loan officer will insist on more parking than the zoning itself requires. Banks have acquired their own ideas about what is high or low risk in development.

These ideas may have little empirical grounding, but they have a long history. Many date to the Federal Housing Administration's original sin, in the 1930s, of defining mixed-use buildings and apartments, and urban areas with many of them, as "hazardous" for the purpose of insuring loans, a key component of mortgage redlining. This belief was baseless at the time, let alone now, yet its legacy is still present in our banking system.

There is some momentum for federal reform. 2016 changes to FHA loan guidelines allowed up to 49% of a property to be commercial, up from the previous 25%. More work needs to be done to democratize these standard, easy-to-access loan products, though. One low-hanging possibility is to adjust the 203(K) program, which provides a loan for rehabilitation of a home that then becomes a conventional mortgage, to more easily finance the construction of ADUs, by letting borrowers borrow against the future rental income stream from the ADU. Combined with Kronberg's suggested policy of allowing fee-simple ADUs (essentially dividing a residential lot in two), there would be a straightforward source of financing to take virtually any single-family home to the next increment of development: two homes.

## Two Paths for Developers: Form Follows Finance, or Find a Better Bank (If You Can)

From the perspective of an individual developer, you can't do much to fix the system, but you can work within it in one of two ways.

One is to embrace the principle of "Form Follows Finance," a catch phrase I learned from the Incremental Development Alliance. This is another way of saying what Eric Kronberg told me: "Feed the lenders and appraisers what they eat."

For a small developer, there are a few templates that fit within the strictures of well-established loan products—*if* your situation and goals are compatible. One is a standard FHA loan which converts to a federally insured, 30-year mortgage upon completion of the building. You can use this on a house of up to four units, as long as one of them is your primary residence. Up to 49% of the building can also be commercial space, but a number of other issues surrounding appraisal can still present roadblocks. Another option, pointed out to me by Monte Anderson, is a Small Business Administration (SBA) loan, which can cover the construction of a building in which your business occupies at least 60% of the space. The remaining 40% can be turned into rental apartments providing an income stream.

The other path is to find a lender who "gets" it and build a good working relationship with them. Here, local banks and CDFIs shine. This has been a big part of the story in South Bend's small developer ecosystem. I spoke with Gary Benedix of Northwest Bank, which has been a key factor in that ecosystem. Benedix told me it's common for individual banks to specialize in certain kinds of loans or refrain from others. In the case of Northwest, the small business program is particularly flexible, and the bank has a longstanding commitment to working with neighborhoods to promote local investment.

Benedix's biography, in some ways, illustrates why he is the exception rather than the rule. "I worked my way through college as a county commissioner up in Michigan," he told me, "and the liaison to the regional economic development commission, so I learned things through osmosis. My senior VP was the director of a downtown development corporation in Buffalo." Northwest Bank has sponsored a local arts fair, and talked with the Near Northwest Neighborhood about a revolving loan fund to help home renovators overcome appraisal gaps.

The knowledge required to evaluate the strength of a small development opportunity is often hyper local. It includes not just the usual factors like the presence of experienced developers on the team and an investor backer with some collateral, but also things like the relationship the developers have with the city and the neighborhood, and context about other in-progress efforts that might affect that neighborhood's trajectory. (This is the whole "farm" concept again.)

This is one of many reasons that consolidation in the U.S. banking sector is a worrisome long-term trend; very often it takes a local bank to even entertain working with a small local developer. It will be very difficult to scale up the number of lenders who "get it," and thus small developers who get the loans they need, without robust local banks.

Even with the Gary Benedixes of the world playing a vital role, educating bankers about community development is hardly a comprehensive answer to the system's tilt in favor of large enterprises and standardized development products. Reform at that broader, systemic scale—likely starting with the FHA, Fannie, and Freddie, is beyond the scope of this essay or my expertise, but it starts with recognizing the role that federal mortgage policy and the derivatives market have played in putting a very, very heavy thumb on the scale.

The IDA's Monte Anderson has a plea: for federal changes that would allow for more flexible terms on smaller loans—under, say, \$2 million. "I'm not saying no regulation. But it's very rigid right now. If you want to build a mixed-use building, it's 30% down."

"It's a double whammy on small developers: financing is strict, the code doesn't work, and you can't get any of the incentives that you get as a big developer. Cities create these complicated capital stacks and tax credit nightmares that cause odd things to be upon the earth. All we're asking for is cheap equity and cheap finance."



*(Source: Johnny Sanphillippo.)*

## Part 5: Love, Money, or Desperation

I began putting together this book by posing the question, “What would have to happen to *really* scale up the impact of small-scale development on our cities? How do we get there to be 10 or 100 times more small developers than there are now?”

I’m not going to lie: I still want a satisfying answer to that. It’s nice to imagine that there is some miraculous policy blueprint. But that’s not how a movement premised on incrementalism is going to grow. It will need to be nurtured, encouraged, nudged along by many people in many places. We’re going to have to plant a lot of seeds. That messy, bottom-up work is likely to bear more fruit, ultimately, than any attainable tweaks to public policy will in the absence of that work.

Gracen Johnson worked for years as the “R&D Department” at the Incremental Development Alliance; she is now with Canada’s national housing finance agency, CMHC. So she has done a lot of thinking about the most important question with incremental development: Who is actually going to do the work?

“My personal conviction, which has been validated by on the ground experience, is that people have three reasons,” says Johnson. “Love—of place, of community, of a business, or of the people they’re trying to provide shelter for. Enterprise—the desire to make money. Or desperation. And I think most of the incremental scale stuff going forward is going to come from desperation. There’s just very few people who have any incentive to do this otherwise.”

That isn’t the rosy conclusion we might wish for, but nor does it have to be as depressing a conclusion as it sounds.

## Who Will Do It for Money?

The likely answer is, under current economic conditions, not a tidal wave of people.

We can learn a ton from the beloved, resilient, scalable incremental development forms I discussed in Part 1: the triple-deckers, brownstones, row homes, cottage courts, etc. that formed the backbone of North America’s pre-automobile cities. We can admire that they were built by entrepreneurs following a path of least resistance to making money in real estate while delivering something their community needed.

But we also have to recognize that those patterns were products of an economy that is gone and will not return. It was one in which labor was much cheaper than today, and capital much less mobile and more rooted in specific communities. It was also one in which far more people built things with their hands; today, we have a generational shortage of workers in the skilled trades. It was also one in which cities genuinely needed to grow their borders; today, almost every city is far too large, geographically, and the messier challenge we face in growing is to thicken up and make better use of what we’ve built.

What happened to all the people who used to make money building missing-middle housing and small business space? One answer I’ve heard more than a couple times is, “They’re house flippers now.” The ones who are in real estate at all, that is. Flipping creates no net new housing or other space for the community; it just raises the price of an existing home. But it’s one sort of path of least resistance, because the regulatory burden is light and financing is easy.



*Case-Shiller Index of U.S. single-family home prices over time.*

Another path of least resistance is simply the passive ownership of real estate. In San Jose, California, a homeowner collects \$100 in equity for each hour spent at the office. There are a lot of reasons for this, but suffice it to say that, in the words of Alan Durning of the Sightline Institute, U.S. housing policy is about real estate, not housing. (Canadian too, though the specifics are different.) Owner-occupied homes enjoy preferential tax benefits that drive up the price and encourage households to treat them as investment vehicles. Exclusionary zoning, by design, locks places in amber and creates artificial scarcity (and price inflation) of homes in desirable locations. Everything about the system is geared to assure property owners that, if values ever do fall, they won't be allowed to fall for long.

Under these conditions, says Johnson, why be a landlord? "Property management is miserable, a horrible job, and on a small project you can't afford to hire it out." Among those who want to do it anyway, an increasing number of small-time profit-motivated landlords opt for AirBnB, while the big players, including corporate investment funds, provide rental housing for the growing share of the population that is shut out of any prospect of buying a house.

## The Crippling Effect of High Land Costs

Land values are so high in many parts of the U.S. and Canada that incremental developers cannot profitably acquire a property and do *any* project at all. The only way to do it is to partner with an existing landowner, and relatively few of them have any strong incentive to

become redevelopers of their own land. If, for example, California’s statewide legalization of residential lot splits and ADUs fails to produce much incremental development, this—not financing or zoning difficulties—will be the reason why. Because most California homeowners simply don’t have any need to build an extra home on their lot, and won’t want to.

The exception to this rule is in the most deeply disinvested neighborhoods, where owners do have compelling incentives to redevelop their own property—a rental income stream, a decent home for a relative, a space for their business—but rarely have the means.

Where the “means” can be worked out, small-scale development often works best in those marginal places, like the poorer side of South Bend. When the small developers in a place get too successful, they tend to put themselves out of business. This, says Monte Anderson, is exactly what happened in the Oak Cliff area of Dallas, Texas, where Anderson worked as part of a crop of early revitalizers. Once the area became trendy, the city zoned it for seven stories, causing a speculative feeding frenzy among big developers who assembled whole blocks for large developments. Dallas got growth in Oak Cliff, but it lost much of the ecosystem of committed locals who had made it possible.

Cities can and should push back on this destructive status quo, using their power to shape the market through control of land use and public investment. They can change zoning to allow every neighborhood to grow to the next increment of development intensity. They can intentionally spread public investment around to “small bet” initiatives in the marginalized neighborhoods that need the most help, instead of undertaking the kinds of transformative infrastructure investments that create a localized development Gold Rush. They can make life harder for idle property speculators by taxing them: Many should consider switching to a land value tax instead of a conventional property tax, which penalizes building improvements.

Local authorities can also tap into an often-underutilized source of public wealth: the land they own. When municipal governments acquire land for reasons such as condemnation or tax forfeiture, this becomes an asset they can dedicate to small developers for the pursuit of public policy goals such as affordable housing, or targeted revitalization. Charles Marohn of Strong Towns has proposed that such a policy could be a form of locally led reparations for decades of redlining and disinvestment in poor and often nonwhite communities.<sup>11</sup>





*(Source: Johnny Sanphillippo.)*

## Who Will Be Desperate?

We don't need imagination to ask who will be desperate in the future. Just look at who already is.

You can't build a triplex in most American suburbs, but you can find "stealth triplexes" in hundreds of them, where large collections of people—often multigenerational immigrant families—crowd together in a single-family home not designed for it, as the only way to afford rent. It's no surprise that California, the state with the most out-of-control housing costs, has the third-highest average household size. People adapt the ways they can.

I've spoken positively of the Near Northwest neighborhood in South Bend, Indiana, earlier in this book, but the good things happening there are born of desperation. The area has the state's highest levels of childhood lead exposure. Lead paint, mold, poor plumbing: Millions of Americans live in unhealthy homes for lack of a better option. Desperation.

When people do become desperate, they can have better or worse options in front of them. A lot of the point of mainstreaming incremental development is to put “better” on the table, by creating options where the prevailing system won’t. An accessory unit to create more housing in a prohibitively expensive place; a decent renovation with some room for a neighborhood-serving business in a place where the big money won’t go.

The best thing we can do for the desperate is decriminalize better options. Including better versions of the ones people are already doing—the stealth triplex, the illegal basement unit, the unlicensed home-based business. Change zoning codes, financing rules, even building codes, so that people can hack their way to the built environment that works for their needs instead of the one that has been handed down to them.

“Decriminalize” here is a less ambitious goal than “institutionalize,” if a less satisfying one to those who believe that the right public policy can sculpt a better future. It is exceedingly unlikely that our status quo systems of development will execute a wholesale shift away from the suburban monoculture and toward incremental infill. There just aren’t enough people with power invested in that change, and the change is a hell of a Gordian knot of vested interests and interlocking rules.

Instead, what we can do is work to make incremental development more and more viable in places that are under the radar of institutional capital. Where capital-D Developers don’t or won’t work. Places where the most meddlesome rules cannot practically be enforced anymore, because there are simply bigger problems.

## Who Will Do It for Love?

Much of the advice I’ve catalogued in this book is aimed at those doing small-scale development for love of a place, community, or even building. That’s who dominates the incremental development world right now—but it’s maybe the group with the least potential to scale exponentially, inasmuch as it requires a rare combination of personal traits to be that person.

Incremental development is full of people with a do-gooder zeal who see it as one (patchy) way that less desperate people, motivated by love of a community, can serve the desperate. Monte Anderson explains with a hypothetical. “If I’ve got two apartments in the back of my business, I can rent them out. I’m not trying to report to a board of directors, so I can rent to

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the bus boy down the street, who I like because he mows my yard. The lady's daughter, my friend down the street, who's come back to her hometown and is a single mom. I can rent it to the kid down the street with schizophrenia who drinks too much but he's not dangerous. The adult with Down syndrome."

What the "love" crowd can do, in addition to directly providing space by building it, is be catalysts and leaders. They can seek to bring others along with them and grow a community. That community may not reach the point where it accounts for more than a small fraction of the buildings going up in a city. But they can have a transformative impact in specific neighborhoods. And they can create a body of know-how and wisdom that ports to other places—the "DNA" Mike Keen in South Bend talks about. The incremental development *model* translates from one community to another: it's the individual developer's reasons that don't. You can't give someone their "why."

But the "love" crowd can be ready to lead the much larger "desperation" crowd to solutions, as those solutions become more broadly available because the existing systems that prevented them have simply cracked under their own weight.

That need not be as depressing a conclusion as it may sound. Desperation is, historically, how great places have usually started. A row of pioneer shacks; a business run out of somebody's garage. Desperation is the grasses colonizing the lava field after a volcanic eruption. Desperation has forever been the thing in the air and the water that gives birth to innovation in art and music: the blues came from sharecroppers, hip-hop from young men on street corners in the Bronx. Comfortable success comes later, complacency after that.

Desperation is motivation. Marty Mechtenberg at the City of South Bend told me, "I have to be in neighborhoods full of people of color who don't think the city has done anything for them in decades. Generations. And I always tell people they're here for me, for the city. I'm not here for them. I flip it around, 'We're desperate for you. We need you, so badly, to be successful.'"

# More Information and Support

## StrongTowns.org

Strong Towns produces daily articles, podcasts, and videos that ask hard questions about how we build today, and shine a spotlight on a better way forward. We aim to educate, excite, and inspire citizens of all backgrounds to get involved in the conversation about how we build our world, and advocate for a Strong Towns approach.

Visit [strongtowns.org](http://strongtowns.org) to start exploring.

## Academy & Coaching

The Strong Towns Academy offers in-depth courses that will help you, your neighbors, and your local leaders learn to take action now. These courses go deep on a range of topics from housing to transportation to urban design. We also offer customized coaching and executive education, tailored to your group or community's needs.

Visit [academy.strongtowns.org](http://academy.strongtowns.org) to learn more.

## Action Lab

The Strong Towns Action Lab provides you the tools and resources you need to take action in your community. On the Action Lab, you'll find:

- A directory of toolkits, how-to guides, e-books, web broadcasts, and more
- Case studies and examples of people taking Strong Towns-oriented action
- Opportunities to connect to people who are gathering for Strong Towns conversations across North America, plus information on how to start your own.

Visit [actionlab.strongtowns.org](http://actionlab.strongtowns.org) to dive in.

For more information and resources about small-scale development, please check out **the following organizations** featured in this book:

- [Opticos Design](#)
- [Kronberg Urbanists and Architects](#)
- [Incremental Development Alliance](#)
- [Thrive Michiana](#)
- [Build South Bend](#)
- [Acosta Real Estate and Development](#)
- [Revive Homes](#)
- [Penny Hill Homes](#)

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- <sup>11</sup> "The Local Case for Reparations," by Charles Marohn, *Strong Towns* (September 2020): <https://www.strongtowns.org/journal/2020/9/18/the-local-case-for-reparations>.