The pros and cons of large-scale, small-scale, and scattered-site development

In funding or developing dedicated affordable housing units, should localities focus on large-scale development or scattered-site development?

Large-scale development dominated the development of dedicated affordable housing for decades. Beginning in the 1970s, problems associated with this approach became increasingly apparent, leading to the demolition of large high-rise affordable housing projects such as Pruitt-Igoe in St. Louis and Cabrini Green in Chicago. Since the launch of the HOPE VI program in the 1990s, there has been a shift toward reducing the concentration of affordable housing. This has often meant developing smaller multifamily buildings. While there are practical challenges involved, some advocate going even further and scattering subsidized units throughout a neighborhood in low-density buildings.[1]

Although massive affordable housing developments containing upwards of 1,000 units are rarely constructed today, questions remain about whether localities should prioritize large-scale development, the development of smaller multifamily buildings or the assembly of scattered-site properties. Each approach has advantages and disadvantages, and in many jurisdictions, there is a role for each.

Today, large-scale development is generally defined as a single site containing 50 or more units, which may include multiple buildings.[2] Other forms of development include small multifamily buildings (21-49 units); very small multifamily buildings (5-20 units); and duplexes, townhouses, and other 1-4 unit buildings (which are typically classified as single-family buildings).

Scattered-site development can consist of a combination of single-family buildings and very small multifamily buildings. Some owners create scattered-site portfolios by purchasing and conducting moderate to substantial rehab of individual units (or buildings with fewer than 5 units) across a neighborhood or city. In some cases, housing authorities now own and manage scattered-site public housing as a result of having purchased newly constructed units in scattered inclusionary developments.

There can be economies of scale in the development of large-scale projects, making these projects less expensive on a per-unit basis. When the needed infrastructure is not already in place, such as in many greenfields (previously undeveloped areas on the outskirts of a city) it may be cost-prohibitive to build the roads, sewers, and other infrastructure needed for small buildings. **Large-scale development can be less expensive to develop and operate than other types of development**

Large-scale projects are also generally less costly, on a per-unit basis, to operate than the smallest projects because of efficiencies in administrative, maintenance, and other operating costs. There is evidence that operating costs for scattered-site developments are particularly high, because operation of scattered-site affordable housing often involves fewer shared features (heating and cooling systems), disparate housing types, perhaps located in several different neighborhoods. Distance between units can add to maintenance costs and impede property managers' efforts to monitor properties and maintain relationships with tenants.

For scattered-site developments, some property managers recommend that properties be in close enough physical proximity that property managers can reasonably visit each site at least once a week. That said, some owners are experimenting with technology to reduce costs, including smart systems that alert property managers to problems on a property, such as damage or a broken washing machine, and metering systems which can help detect leaks, although there is some concern that these systems may be too expensive for operators of affordable housing, including local nonprofits, to invest in them.

Asset management for large-scale developments can also be more efficient than for either very small multifamily or scattered-site development. Real estate asset managers are responsible for tasks including financing arrangements, capital improvement schedules, and reserve funds. They focus on maximizing a property's value for investment purposes and increasing returns to owners. In a scattered-site portfolio, asset managers may need to monitor multiple financing agreements for different properties, which can place a burden on asset management staff. Small and very small multifamily developments and a scattered-site portfolio are probably less likely than large-scale developments to have a full-time, specifically designated asset manager. These functions may instead be performed on an ad hoc basis by the organization's management team. If this leads to a less professional approach to asset management, it could have a negative impact on the portfolio's long-term profitability and, possibly, sustainability.

Large-scale development is typically less expensive to finance than scattered-site or small multifamily development on a per-unit basis

Large-scale development is typically less expensive to finance than scattered-site or small multifamily development. Funding options include Low Income Housing Tax Credits (LIHTC), mortgage financing, and bond financing, all of which can be relatively expensive (sometimes cost prohibitive) financing options for small multifamily and scattered-site development.

The LIHTC program is a common source of equity for affordable housing, but has high overhead costs. Many of the costs of using the tax credit (which include legal, accounting, and consulting fees) are fixed, regardless of the project size. On a per-unit basis, the cost of raising equity through LIHTCs is often prohibitive for both scattered-site and very small multifamily developments. LIHTCs are increasingly feasible for small multifamily developments as the number of units approaches 50, the threshold for large-scale development. In developments of more than 50 units, the large number of units allows the fixed overhead costs to be distributed over a larger number of units, reducing the impact on per-units costs.

Although scattered-site units or very small multifamily developments can be packaged into a single project for purposes of securing LIHTC financing in some states, in practice there are challenges to getting site control on several different buildings within a short period of time. Using short-term financing to purchase and hold properties until a package can be assembled can be risky.

Likewise, mortgage financing is easier to obtain for large-scale development than for scattered-site or small or very small multifamily development. Like the LIHTC, there are fixed costs associated with originating and underwriting a multifamily loan. These costs, which do not vary with the size of the loan, mean that many lenders focus on larger loans; as a result, financing for smaller properties is limited. Where available, it tends to have higher rates and fees than larger loans.

Financing options for non-owner-occupied 1-4 family developments often used in scattered-site development are particularly limited. Fannie Mae and Freddie Mac, the Federal Housing Enterprises, are the primary source of capital for these mortgages, but restrict their investment in non-owner-occupied single-family housing so financing is not universally available. The Enterprise CDFIs also have restrictions on the number of loans for single-family investor properties to the same owner, although they sometimes make exceptions for financially sound nonprofits. In some locations, community banks also offer financing for investor single-family housing.

Large-scale projects have the additional financing option of issuing a bond to borrow the money needed for development. This financing option is generally not available to scattered-site portfolios and small and very small multifamily developments because of the high fixed costs involved, unless several developments are bundled for financing purposes. Smaller localities, however, may not have the resources or land area available for to facilitate large-scale development projects without regional or state support.

Different types of development fit better into the existing character of the neighborhood than others

In some high-density neighborhoods, large-scale development may fit well with the character of the neighborhood. Developers can also use design principles to promote compatibility between new and existing structures.

On the other hand, large-scale developments are likely to change the character of the neighborhood in many places, and may have sizeable impacts on local school systems and other city services. As a result, these developments may face more vocal and organized community opposition than scattered-site 1-4 family or small multifamily development.

Scattered-site and small multifamily development is better suited for certain locations than large-scale development. For example, scattered-site development is often composed of the same type of housing stock that already exists in a neighborhood, and may therefore be more acceptable (and face less community opposition), particularly in low-poverty neighborhoods, than a large development. Even in primarily single-family neighborhoods, a small multifamily building can integrate well with the existing housing. It may also be more easily located than large-scale development in city centers and gentrifying neighborhoods where land is scarce and expensive. Particularly in smaller localities, there may be fewer opportunities appropriate for large scale development, which may make smaller or scatter-site development more feasible.

Scattered-site development can offer a wide range of types of housing

Scattered-site development that includes single-family buildings offers an advantage in that it can expand the housing choices available to tenants to include duplexes and single-family homes with yards that offer more private space. In addition, if located in low-poverty neighborhoods, both scattered-site and small multifamily development can provide affordable opportunities for lower-income households to live in low-density, higher-income neighborhoods.

Scattered-site development can contribute to community revitalization

In some neighborhoods, scattered-site development can be an effective neighborhood revitalization method. For example, blighted properties or vacant lots can be acquired and converted to attractive and well-maintained affordable housing. This type of development is most effective as a revitalization strategy when it is part of a larger plan for the block or neighborhood. Among other things, the neighborhood revitalization plan should include policies that help developers gather a critical mass of small properties to redevelop and also provide tools to prevent new properties from becoming distressed or abandoned,[3] as well as other community services that can help stabilize the neighborhood and improve residents' quality of life. In soft or softening housing markets, coordinating scatter-site development with other community revitalization programs or investment strategies can help maintain the supply of affordable housing while improving housing quality conditions neighborhood-wide.

Tenant-based rental assistance can be an alternative to scattered-site development

In many ways, a scattered-site portfolio achieves the same outcomes as tenant-based rental assistance. They both provide access to a variety of housing and neighborhood types that are scattered throughout a town or city. Given the challenges to financing and operating scattered-site housing, cities, towns, and counties may want to consider investing in tenant-based rental assistance as an alternative. In many markets, tenant-based rental assistance can be less costly than acquiring and managing a scattered-site portfolio.[4] On the other hand, if the scattered sites are located in resource-rich neighborhoods, a well-located scattered site portfolio may be more successful than tenant-based rental assistance in facilitating moves to such neighborhoods.

1. The term “scattered-site housing” does not have a universally agreed-upon definition. In practice, it is generally used to refer to housing that occupies multiple non-contiguous sites in buildings of up to about 20 units. _
2. What is considered large scale depends on the context. In New York City, a residential development is not considered to be large scale unless it contains more than 500 units. _
3. Anderson, Bendix, “Developers Help Fill Pressing Need with Scattered-Site Affordable Housing,” *Multifamily Executive Magazine*, 2017. _
4. See, for example, Deng, Lan (2005): The cost effectiveness of the low income housing taxcredit relative to vouchers: Evidence from six metropolitan areas, Housing Policy Debate, 16:3-4,469-511. _

See also:
Taking a balanced approach to new development: the importance of creating and preserving dedicated affordable homes as well as allowing for new housing for all income levels
Balancing trade-offs between the quantity, quality, and location of affordable housing
Gauging development feasibility: An introduction to financial modeling using a real estate pro forma