

# Financing Guide for Builders, Developers and Lenders for Missing Middle Housing

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This guide is intended to help builders, developers and lenders better understand how to finance missing middle housing at scale. Although demand for these housing types is strong in many markets, financing structures have not kept pace with evolving land use policies and development patterns.

The National Association of Home Builders seeks to clarify where financing gaps exist, identify practical solutions and provide a shared framework that enables smaller-scale housing to move from concept to construction.

For much of the past half century, housing development in the United States has been dominated by two extremes: large, single-family detached homes on sizable lots and large apartment buildings with up to hundreds of units. The smaller-scale housing types that were commonly built before the widespread adoption of traditional zoning are now often referred to as missing middle housing. This category includes small- to medium-scale residential development such as duplexes, triplexes, fourplexes, townhomes, cottage courts and small multifamily buildings that can fit comfortably within or adjacent to existing neighborhoods.

As land and construction costs continue to rise, a shift back toward missing middle housing allows communities to use land more efficiently while delivering homes at a wider range of sizes and price points. These housing types play a critical role in expanding overall housing supply, supporting workforce housing and improving affordability by providing options that are typically less expensive than homes produced under conventional, low-density zoning. Despite strong market demand, however, missing middle housing remains significantly underserved throughout the United States.

In many cities across the country, land use regulations have explicitly prohibited missing middle housing, or allowed it only under standards such as large minimum lot sizes, restrictive setbacks and low floor-area ratios that make it difficult to develop. Even where zoning reform has opened the door, securing financing to develop missing middle housing remains a major challenge, often preventing otherwise viable projects from moving forward.

As a result, missing middle housing presents both an opportunity and a challenge for builders, developers and financial institutions. For builders and developers, missing middle housing offers a chance to deliver smaller-scale, repeatable projects in high-demand locations, often with lower total exposure and faster timelines than large multifamily developments. For financial institutions, these projects are typically located in established neighborhoods with strong market fundamentals, but they do not fit neatly into traditional single-family or large multifamily lending categories. This misalignment has contributed to financing gaps that stall production, underscoring the need for clearer frameworks that help developers structure viable projects and enable lenders to better assess risk and tailor financing products to missing middle housing.



# Barriers to Missing Middle Housing Financing

## Developer Perspective

From a developer's standpoint, one of the biggest hurdles to building missing middle housing is getting predevelopment, construction and permanent financing in place. Lenders often apply loan-to-value (LTV) and loan-to-cost (LTC) standards that are better suited to large apartment projects, not smaller-scale developments. Because missing middle projects are smaller in size, higher equity requirements can quickly make a project pencil out poorly — even when demand is strong, and the homes are likely to sell or lease quickly.

Another common challenge is how lenders define “equity.” Builder deposits, upfront infrastructure spending and funds tied to special financing districts (e.g., Public Improvement or Tax Increment Financing Districts) are often not counted toward equity requirements, even when those funds are reliable and legally authorized. This forces developers to bring more cash to the table upfront than is truly necessary, increasing financial risk and ultimately driving up the cost of land and homes.

Missing middle housing is also frequently viewed as riskier simply because it does not fit neatly into traditional lending categories. Smaller projects and non-standard unit types can make lenders uncomfortable, even in well-established neighborhoods. On top of that, loan closing requirements are often inflexible, offering little room for projects that are still working through entitlements or engineering. These constraints can require developers to spend significant money before it is known that financing is or can be secured, thereby delaying or derailing projects that would otherwise be viable. These challenges are mirrored on the lending side, where institutional structures, not project fundamentals, often drive risk perception.

## Lender Perspective

For many lenders, missing middle housing does not fit neatly into existing categories; projects often fall into a gray area of being too large for single-family lending, yet too small or unconventional for standard multifamily programs. Loan size requirements frequently fall below institutional thresholds, and the asset types themselves are less familiar to regulators and supervisory reviewers.

These challenges are often reinforced by regulatory and supervisory expectations, which naturally favor standardized asset classes with long performance histories. As a result, smaller-scale projects may be viewed as higher risk by default, even when they are in stable neighborhoods with clear market demand. Builders and developers can often improve outcomes by clearly framing projects around neighborhood stability, absorption speed and repeatability across sites (when applicable).

The issue is not that missing middle housing is inherently riskier. The issue is that traditional lending tools were not designed with this scale or typology in mind.

## Underwriting Adjustments for Viable Missing Middle Housing Loans

Supporting missing middle housing does not require abandoning credit discipline, it requires recalibrating how risk is assessed at smaller scales.

These are some of the areas where adjustments can matter:

- Loan size minimums that unintentionally exclude viable projects;



- Fixed transaction costs that weigh more heavily on developments with smaller loans;
- Market analysis that undervalues walkability, neighborhood context and local demand; and
- Projects treated individually instead of as part of a repeatable portfolio.

When lenders evaluate missing middle housing within a broader risk management framework, rather than as one-off exceptions, these projects often begin to look less speculative and more predictable. Clear project packaging, consistent unit mixes and a defined development pipeline can help lenders engage more comfortably with this asset class.

## Conventional Multifamily vs Missing Middle Housing

### Why Lending Standards Often Miss the Mark

Conventional multifamily and missing middle housing behave differently, but they are often evaluated using the same lens. This creates confusion for developers and friction in the financing process.

While individual projects vary widely by market, the comparison in the table below highlights common structural differences that affect financing outcomes.

### Side-by-Side Comparison

Dimension	Conventional Multifamily	Missing Middle Housing
Typical unit count	30 to 200+ units	2 to 20 units per project
Typical loan size	\$15M+	\$1.5M to \$6M+
Underwriting approach	Standardized nationally over several decades	Heavily localized with a smaller sample size
Management complexity	Professional third-party management	Simpler operations, often owner-managed
Absorption	Stabilizes over time	Often faster yet neighborhood driven
Regulatory familiarity	High	Low
Lending fit	Well established	Often falls between categories

For builders and developers, this helps explain why viable missing middle projects can struggle to secure financing. Portfolio-based approaches (e.g., grouping multiple projects or phases) often align better with how lenders assess and manage risk as it more closely aligns with conventional multifamily development.

### **Gap Analysis: Quantifying (& Closing) the Financing Mismatch**

The financing gap for missing middle housing is best understood as a mismatch between project scale and institutional lending thresholds, not a lack of demand or feasibility. In many markets, these projects are viable at the neighborhood level but struggle to align with how conventional construction lending is structured.

As stated earlier, most missing middle housing developments fall within single project cost ranges of approximately \$1.5 million to \$6 million, depending on unit count, construction type and market conditions. Typical multifamily construction lending programs, however, are designed around larger minimum loan sizes, higher upfront equity requirements and transaction structures intended for bigger, longer-term projects. When these standards are applied uniformly, smaller-scale developments can fall outside lender comfort zones, even in strong locations.

Several structural factors tend to widen this gap:

- Fixed transaction costs, such as appraisals, third-party reports and legal fees, which consume a much larger share of total project budgets at smaller scales;
- Equity timing, where substantial equity is required early, before entitlements are finalized or public funds are disbursed;
- Appraisal methodologies that struggle to capture value for smaller or non-standard housing types because of limited comparable sales;
- Limited availability of single loans encompassing the acquisition, development and permanent positions, thereby resulting in additional fees for each loan; and
- Higher equity or other underwriting standards because of the perceived higher risk associated with small projects.

These constraints do not mean projects are infeasible. They indicate where sequencing, partnerships and capital layering matter most. Builders, developers and lenders who identify these gaps early can pursue solutions such as phased development, portfolio-based financing approaches, complementary capital from Community Development Financial Institutions (CDFIs), or public gap financing that reduces upfront equity pressure. Addressing the mismatch directly allows otherwise viable projects to move forward without forcing them into ill-fitting lending categories.

### **Capital and Policy Tools to Close the Financing Gap**

Closing the financing gap requires coordination across capital sources, rather than a single solution.

From the bank perspective, progress comes from:

- Evolving loan structures to better match project scale;
- Evaluating risk in an asset class-adapted way or across multiple small projects or phases; and



- Remaining flexible as zoning reforms and market conditions evolve.

CDFIs often play a complementary role by:

- Providing predevelopment capital;
- Offering subordinate debt; and
- Using credit enhancements to reduce early-stage risk.

The public sector can further support feasibility by:

- Supplying patient, subordinate capital that fills gaps conventional lending cannot. Oregon's LIFT program is one example of this approach, demonstrating how state-level resources can catalyze missing middle housing when paired with private lending; and
- Implementing policy that allows missing middle housing to exist (e.g., parking requirements, single-stairway reform, setbacks and density, etc.).

Although these tools certainly vary by jurisdiction, developers, builders and lenders can work with local governments to advocate for reforms in policy and public financing to make smaller-scale housing feasible and desirable to build.

### **Solutions to Close the Financing Gap**

From a builder or developer perspective, closing the financing gap for missing middle housing requires a combination of smart public tools and flexible private financing structures. One of the most powerful levers is zoning: When local regulations allow missing middle housing by right, with reasonable lot sizes, setbacks and floor-area ratios, it reduces entitlement risk and makes lenders more willing to engage. Builders and developers should look for communities that have done this kind of zoning research and consider how these regulatory frameworks can support their projects.

Special financing districts, such as public improvement or tax increment financing districts, can also be game changers. These tools can reduce or reimburse upfront infrastructure costs and help make smaller-scale projects financially feasible. To make them even more effective, lenders and programs should recognize funds from these districts even if they are not received at loan closing. Allowing these legally committed but deferred funds to count toward equity reduces the upfront cash burden for builders, improves the project's internal rate of return (IRR), and ultimately can lower lot and home prices. Builder deposits should also be allowed to count toward equity to give developers more flexibility in structuring their capital stack.

Other solutions focus on loan design. For multiphase projects, revolving loan structures allow funding to continue across phases without needing to reapply for new loans each time. Equity can also be contributed alongside loan draws, reducing the need for large upfront equity contributions while improving project returns. Finally, combining land acquisition, development and vertical construction funding into a single loan, rather than splitting them into separate products, simplifies financing, and reduces fees and delays. Taken together, these strategies give builders and developers the tools to make missing middle projects feasible, profitable, and more broadly accessible to buyers and renters.

# Practical Guide for Builders

The following steps provide a practical roadmap for builders preparing to finance missing middle housing projects.

## I. Preparing a Project for Financing

Before approaching lenders, it's critical to have a project fully vetted and organized. This includes clearly defining the unit mix, project scale and phasing, as well as demonstrating market demand through comparable sales or lease data. Make sure entitlement and zoning approvals are documented, and that any special district funding or infrastructure plans are clearly identified. The more organized and transparent a project package, the easier it is for lenders to assess risk.

## II. Identifying Suitable Lenders and Financing Programs

Not all lenders understand or are comfortable with missing middle housing. Builders and developers should explore a mix of options, including local and regional banks, CDFIs, and mission-driven lenders. Public-private financing programs, special district tools and credit enhancements can also be leveraged to fill financing gaps. Understanding which lenders are willing to work with smaller-scale or non-traditional projects is key to securing favorable terms.

## III. Structuring Deals to Meet Underwriting Criteria

Once potential lenders are identified, structure deals to align with their underwriting requirements. This may involve layering public and private funding, adjusting equity contributions, or combining land acquisition, development and construction into a single loan. Timing of equity contributions can be coordinated with loan draws and legally committed special district funds should be included where possible to reduce upfront cash needs. Thoughtful structuring improves the likelihood of approval and can also make the project financially stronger.

## Recommendations for Lenders

Lenders interested in supporting missing middle housing can act without waiting for entirely new products.

Near-term opportunities include:

- Taking a portfolio-level view of small projects;
- Re-examining how fixed costs and equity timing affect feasibility; and
- Increasing internal familiarity with missing middle typologies, markets and feasibility metrics.

Over time, the scale of demand for infill and workforce housing points toward the need for broader innovation. Missing middle housing offers lenders a way to align financing practices with how communities are growing — incrementally, infill-first, and on a human scale.



# Conclusion

Missing middle housing is not a niche product. It reflects how many communities want to grow: incrementally, in established neighborhoods, and at a scale that supports affordability and workforce housing. A primary barrier to production is not market demand, but a financing system that has not fully adapted to these development patterns.

By aligning zoning reform, public capital and asset-appropriate underwriting, builders and lenders can unlock smaller-scale projects that are both financially viable and responsive to local needs. This guide is intended as a starting point for that alignment, helping bridge the gap between policy intent and on-the-ground housing production.