

## The Challenges To Building Affordable Housing In Small Cities

By **Charlie Innis**

*Law360 (April 27, 2026, 12:50 PM EDT)* -- The need for affordable housing has spread far and wide across the country, including in rural counties and mid-size towns, but community resistance and inexperience within local governments can create hurdles to development, attorneys say.

Demand for housing is a given, and property values are almost guaranteed to rise in hot, primary markets like New York City, Miami and Los Angeles. That means big cities are a perennially popular choice for affordable housing developers, even if land and construction are expensive, according to interviews.

Pursuing affordable housing in secondary and tertiary markets can be a harder draw for for-profit developers, but the work of moving a project through the entitlement process can be easier.

The federal government's increased attention on affordability, combined with the growing focus among local governments throughout the U.S. on building more homes, has helped make affordable housing a burgeoning asset class, said Dustin Calkins, a real estate partner at Mayer Brown LLP.

Developers are "starting to underwrite more places than they have been, in part because of all the press and discussion around housing affordability and the lack of it throughout the U.S., especially out on the West Coast," Calkins said.

"I think there's going to be a big maturation of this industry, sophistication, even in the smaller towns and secondary markets," he said.

### Profits and Financing

Making an affordable housing project "pencil out," or be financially viable and generative of returns, often requires a mixture of federal, state or local subsidies and tax credits, along with debt.

Large cities can have a big box of capital tools developers can use to make their projects profitable, while in small cities, offerings are not usually as robust, Calkins said.

"On the execution side, on the back end, the financial components and putting capital stacks together sometimes is a little riskier in a secondary market," he said.

Amy McClain, chair of Ballard Spahr LLP's real estate practice, said developers are usually quite

experienced by the time they start considering entering secondary and tertiary markets.

"This isn't their first rodeo," McClain said. "A for-profit developer that's doing their first deal should not necessarily do it in a rural community."

Developers pursuing affordable housing outside a hot market might see the projects as the beginning of a pipeline or an initial investment in a community that may not generate returns right away but could lead to more opportunities later.

"A lot of for-profit developers are also socially minded," McClain said. "They know that they're in this business. It's a hard business. There's a lot of risk, there's a lot of upfront expense, and the returns are not always guaranteed, but the social outcome is beneficial."

In Florida's big cities, such as Miami and Palm Beach, economic growth and the need for affordable housing is enormous, but land and construction costs have become so expensive that developers are looking at Orange County and Osceola County to make a quicker buck, said Keith Poliakoff of Government Law Group PLLC.

"You still have a need for affordable housing, although it's less because there's obviously less jobs there, so less people live there," Poliakoff said. "But when you go to those counties, you can get the land much cheaper, which means that you can hit your margins for profitability much sooner."

California requires cities across the state to produce certain amounts of housing at all income levels by certain dates, and some small- to mid-size cities have not been hitting their targets, partly due to challenges with securing financing, said Scott Buser, a partner in Mayer Brown's real estate practice.

"There just isn't enough capital available in the secondary markets, from what I'm seeing, to fund affordable housing to the extent the state is mandating," Buser said.

### **Execution and Resistance**

While the profitability and financing options for development can be a mixed bag outside big urban areas, projects can be easier to move through the local regulatory processes, especially if the proposed development needs a zoning change, attorneys noted.

Small cities tend to have less "bureaucracy" than major cities, said Alex Sellke, a real estate counsel at Ballard Spahr who focuses on development in the Midwest.

Sellke, who frequently advises nonprofit affordable housing developers, recalled working on a project in a North Dakota town that had one city attorney and one city planner.

"We could just call and email them, and it was really easy from that perspective, pretty flexible dealing with some challenges that came up or some flexibility that we needed," Sellke said. "Still had an elected body that needed to sign off on some things, but there was better, easier access that made the project easier to execute."

Buser, of Mayer Brown, said entitling an affordable housing project in major California cities like San Francisco and Los Angeles is more difficult than in suburban areas, where regulatory hurdles are easier to manage.

"In a smaller city, you're dealing with fewer staff people in the city, and so you know the personalities of each staff member, whether it's the planning commission or the mayor or the city council," Buser said. "Good developers really have drilled down into each individual vote and know who supports affordable housing and who doesn't. That's a little bit tougher to do in a big city."

But the smallness of a secondary or tertiary market can be a double-edged sword for developers.

"Once you fit into the box in a big city, it tends to be less noticed, especially affordable housing tends to be less noticed, in a good sense," Buser said. "Because in the suburbs, in the exurbs, affordable housing tends to have a lot of eyeballs on it."

"Sometimes those eyeballs bring with them the NIMBY attitudes, and that can slow down the execution," he added, referring to the phrase "Not In My Backyard," which is shorthand for people who oppose real estate development in their neighborhoods.

In California, residents opposing housing projects have historically turned to filing lawsuits under the California Environmental Quality Act, although the act has been "watered down over the past few years" through **recently passed reforms**, Buser noted.

Public opposition to affordable housing can occur in cities of all sizes, though it bubbles up more frequently in secondary and tertiary markets, Sellke said.

"Just the idea of low-income housing in the neighborhood or in the area sparks NIMBYism," he said.

In one town, he recalled, public outcry over an affordable housing project he was working on led local officials to try to pull approvals they had already granted, which was "patently illegal," Sellke said.

In addition to a higher risk of NIMBYism, another downside to pursuing projects in small cities is that they may not fully understand the requirements associated with different funding sources often involved in affordable housing development, said Ballard Spahr's McClain.

"It requires maybe a little bit of education or engagement in a way that helps facilitate the deal, without killing the deal," she said.

--Editing by Haylee Pearl and Drashti Mehta.