

# Why Modular Construction Struggles to Scale and What More Durable Models Do Differently

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## A New Policy with an Old Promise

Industrialized construction is often presented as an answer to housing's persistent productivity and affordability challenges. That promise received a new federal boost in July 2026, when the bipartisan 21st Century ROAD to Housing Act (ROAD Act) became law.<sup>1</sup> Yet modular construction remains a small part of US homebuilding despite decades of experimentation and investment. The building methods themselves are not new, and the technologies have been proven in other industries. The unresolved question is why companies using these methods have so often struggled to scale and, in many cases, have failed as businesses. This brief focuses on volumetric modular construction, in which three-dimensional buildings or sections of a building are produced in a factory and installed or assembled on-site. We examine both single-family and multifamily housing, using US Department of Housing and Urban Development (HUD) Code manufactured homes as a comparison for the single-family market.

Almost 60 years ago, HUD launched Operation Breakthrough, named by its formulators to “break through” to new, more efficient systems for producing homes.<sup>2</sup> In today's rhetoric, the program's goal was national housing abundance, and the means were innovative technologies, from precast concrete and wood modules to plastic and metal components.

Operation Breakthrough was ambitious and creative and had the heft of the federal government behind it. But it stalled on its way to scale, stymied by weak cost advantages, dependence on federal subsidy, and variable market demand. Operation Breakthrough never reached HUD's envisioned 25,000-unit volume (HUD 1976). Inspired by aerospace and automobile manufacturing, Operation Breakthrough demonstrated that off-site production was technically feasible, but it exposed the limits of treating homes like cars: Each building remains tied to a particular site, regulatory environment, financing structure, and customer.

Since then, successive generations of off-site construction companies have sought to reduce construction time, labor requirements, and material waste. Many have struggled to turn those potential advantages into a sustainable business. Their experiences raise a practical question: Under what conditions can factory production offer enough value to customers to support a profitable, growing company?

The ROAD Act includes provisions intended to reduce regulatory and financing barriers affecting manufactured, modular, and other forms of off-site housing. But removing those barriers alone may not be enough. What would have to change for this new policy opening to produce a different result than decades of preceding off-site experiments?

Our analysis draws on published research, examples of off-site construction businesses, and interviews with company founders, operators, and other housing industry professionals. It also reflects the authors' experiences evaluating housing innovations through the Ivory Prize for Housing Affordability and working with builders and developers on their innovation adoption. We use these sources to identify recurring business challenges and conditions that may support more durable models.

## Why Factory Production Works Differently in Manufactured Housing

Off-site construction includes manufactured housing, volumetric modular construction, panelized systems, and other prefabricated components. Industrialized construction refers more broadly to standardized, repeatable production processes, whether in a factory or on-site. Manufactured housing and volumetric modular construction—two off-site methods—offer a useful comparison because they operate under different regulatory and business models. Manufactured homes are built to a national HUD Code, use standardized designs and dimensions, and are sold through an established network of retailers, community owners, and developers. Modular buildings, by contrast, must comply with the state and local building codes of their end destination and are generally designed and built for specific developments. Manufactured housing therefore operates more like a repeatable product business akin to manufacturing operations in other industries, whereas modular construction more closely resembles a project-based service business.

Manufactured housing has achieved meaningful, if limited, scale. Over the past two decades, shipments have been equivalent to roughly one-tenth of single-family housing starts and were as much

as a quarter between 1980 and 2000.<sup>3</sup> It also has a demonstrated cost advantage. A 2023 study by Harvard's Joint Center for Housing Studies compared manufactured and site-built homes of similar size and with similar features and found that single-section, double-section, and CrossMod (crossover modern) homes cost 35, 60, and 73 percent, respectively, of what their site-built counterparts cost before land costs.<sup>4</sup>

Modular construction has achieved far less adoption, and its cost advantage is less consistent. According to a National Association of Home Builders analysis of US Census Bureau data,<sup>5</sup> 28,000 single-family homes were completed in 2024 using modular or panelized or precut construction, representing about 3 percent of single-family completions. Of those, only 13,000 were modular. Modular projects can shorten construction schedules because factory production and site preparation occur simultaneously. A McKinsey review found a time savings ranging between 20 and 50 percent and concluded that construction cost savings greater than 20 percent may be achievable but are not the norm (Bertram et al. 2019).

The difference is that the system around manufactured housing is better suited to repeatable production. In this respect, it resembles automobile manufacturing: a limited, predesigned family of standardized products is sold through a broad distribution network, allowing factories to match production to aggregated demand. Thanks to the HUD Code, manufactured housing producers can similarly design and engineer a limited catalog of models, produce them repeatedly, and ship an identical or nearly identical product across state lines. Retailers and community owners aggregate demand from dispersed buyers into recurring factory orders. Production is also decentralized, with many of the larger builders operating networks of regional plants, limiting transportation distances and reducing the volume necessary to sustain any single factory.

Modular construction operates differently. Although modules are built in a factory, the buildings themselves must comply with the state and local codes that govern the site where they will be placed. They are usually procured as part of an individual, one-off real estate project, each of which comes with its own design, entitling, contractor, and construction schedule. Instead of repeatedly producing a predefined product for established distribution channels, the modular manufacturer must continually translate one-off projects into something that its factory can build efficiently. Inspections add another complication. States and localities differ in how they approve work completed inside a module, including whether they accept factory or third-party inspections. That variation can add costs and delays when a factory serves more than one market (Maduka et al. 2025).

CrossMod homes are a useful case study into the impact of these systems on adoption of factory-built housing. Developed by the manufactured housing industry to compete more directly with site-built homes, CrossMods combine HUD Code construction with permanent foundations and aesthetic features such as dormers, covered porches, and higher roof pitches. Eligible homes can qualify for Fannie Mae's MH Advantage<sup>6</sup> and Freddie Mac's CHOICEHome programs,<sup>7</sup> whose appraisal rules allow the use of site-built homes as comparables. Although the enhanced aesthetics of these homes does add cost, research<sup>8</sup> shows that CrossMods retain a meaningful cost advantage over comparable site-built homes. Yet they have not reached significant scale. Reaching buyers who would otherwise purchase a

site-built home often means securing a lot and selling a finished home through a builder or developer, a distribution model different from the retailer network that supports traditional manufactured housing.

The comparison suggests that, although a national code makes it easier to repeat designs across markets, turning that advantage into scale requires a distribution pipeline of retailers or developers who can reach buyers and keep orders flowing to the factory.

## A Housing Shortage Can Coexist with Failing Modular Factories

The United States can face a severe housing shortage while individual modular factories lack a sufficient pipeline to remain solvent. Estimates of the housing shortage vary with the method and data used. Freddie Mac estimated a 3.7 million-unit shortfall as of the third quarter of 2024; other estimates range from 2.0 million to 5.5 million (deRitis et al. 2025; Rosen et al. 2021).<sup>9</sup> A shortage measures the gap between the number of homes people need and the number of homes available. A factory cannot operate on unmet need alone. It requires production-ready projects on a predictable, consistent schedule.

The McKinsey report describes the underlying tension as the difference between building products and building projects (Bertram et al. 2019). Manufacturers are set up to efficiently repeat a defined production process; developers work on individual projects at one time, acquiring land, testing designs and feasibility, securing approvals, and arranging financing before production can begin. Connecting these two systems poses challenges.

Creating a reliable pipeline also requires a compelling reason for builders and developers to change how they build. Large production builders are well positioned to provide steady offtake, but they also have established designs, purchasing arrangements, and relationships with subcontractors that can make conventional construction highly competitive. Modular housing's cost savings are often too small or uncertain to justify changing those systems. The relevant comparison is the cost of the completed project, including transportation, installation, and remaining sitework, combined with any savings from schedule shortening. Unless modular housing offers a clear advantage on that basis, the builders most capable of keeping factories busy have little incentive to commit a meaningful pipeline to it.

Even when a developer chooses modular construction, the project may still be years away from being ready for factory production. Letters of intent, preliminary agreements, or early-stage projects can make a company's prospective pipeline appear substantial. But projects routinely change or disappear because of delayed approvals, financing challenges, or evolving market conditions. Until permits and financing are in place, the manufacturer has little control over whether or when a project will reach production.

Factory\_OS, later renamed Harbinger Production, illustrates how difficult pipeline procurement can be even for an experienced operator. During its operational period, Factory\_OS's founders had

considerable housing experience, its customers included established developers, and it completed roughly 4,000 units. Yet the company struggled to sustain a steady pipeline of work in the factory.<sup>10</sup> Under new ownership, the factory paused production to secure a consistent pipeline before resuming operations. But the success of that approach has yet to be seen.

The vulnerability of housing factories becomes more acute in market downturns. Developers can delay construction or even abandon a project when interest rates or market conditions change. Manufacturers, however, have more fixed overhead—facilities, fabrication machinery, and a workforce—and are thus less able to adapt to market ebbs and flows by temporarily shedding costs.

## Premature Scaling—Plus the Wrong Capital—Magnifies the Problem

Because factories carry substantial fixed costs, off-site companies often treat scale as the solution to their early economic challenges. Companies raise capital to build larger facilities, hire staff members, add automation, and enter new markets assuming that higher production volume will allow them to spread fixed costs. But the economics of modular construction improve meaningfully only when increased volume is paired with greater product and process repeatability. If expansion is not supported by a credible path to better unit economics, it can raise the amount of revenue the company must generate simply to survive.

Venture capital can accelerate this mistake. As shown in an analysis of early-stage investment data by AngelList,<sup>11</sup> venture returns are highly concentrated in a small number of outlier investments. That model rewards companies capable of growing quickly enough to become extremely large and profitable. Viewed from the outside, housing appears to offer that potential: The market is enormous, and the need for more supply is obvious. But unmet housing demand and quantity of factory orders are correlated, not directly connected. Demand reaches a modular manufacturer only through one-off developments, each of which must secure land, approvals, financing, and a binding contract before it becomes an order.

The risk is that manufacturers and investors fund capacity based on the potential market's size before the business has shown it can deliver a steady stream of contracted projects at a profit. Kattera, for example, raised more than \$3 billion in equity before filing for bankruptcy in 2021.<sup>12</sup> It had customers and substantial revenue, but its rapid expansion through acquisitions and manufacturing facilities was accompanied by heavy overhead and recurring losses on construction projects.

Rapid scaling can also outpace the rate at which a new construction system earns customers' confidence. Modular construction faces a common early-adoption barrier for disruptive technologies: Nobody wants to go first, or the “penguin effect” (Farrell and Saloner 1986). An initial customer may accept the risk because of discounted pricing, mission alignment, an existing relationship, or a particularly strong project need. But those circumstances are rarely a repeatable path to scale. The first completed project matters because it provides evidence that can be used to win new customers on more sustainable terms. Those projects then create proof points for a broader market. Building that

track record can take several construction cycles, potentially longer than a venture-backed company's timetable for growth.

That process also affects how much of the potential savings the manufacturer can retain. In principle, an off-site company that can deliver the same building at a lower cost could charge a price comparable with conventional construction and earn a higher margin. Doing so, however, requires pricing power. Until the system has an established track record, developers have little reason to assume its additional coordination and execution risks unless they receive some combination of lower costs, greater certainty, or a shorter schedule. Manufacturers—at least those that are not vertically integrated—therefore have to share more of their cost advantage with their customers at the exact time when pressure from factory overhead and investors is greatest.

For modular manufacturers, larger volume can spread fixed costs and improve unit economics, but it does not eliminate transportation, site work, or coordination. And, importantly, although better unit economics may enhance the marketability of a manufacturer's product, they do not guarantee that customers will commit enough work to support added capacity. In short, scale may improve an already viable production system, but it cannot create one.

## What More Durable Models Do Differently

The cases and interviews suggest three features of a more durable off-site model: a specific customer and application where factory production has a clear advantage, a way to turn prospective projects into contracted factory orders, and expansion that is tied directly to demonstrated demand and performance. Critically, builders and developers need to see enough value to commit their projects, and the firms involved need the skills and working relationships to deliver that value consistently.

### Specific Application

Factory production is best suited to particular construction typologies, building types, and specific components that require limited work after leaving the factory. As buildings become more customized and modules require more complex connections, site work, and coordination, the advantages of producing them off-site diminish. The best starting point is therefore not merely a building type that can be standardized but one in which lower costs, shorter schedules, labor constraints, or greater certainty create enough value to justify the customer's risk of using an unfamiliar system.

In effect, off-site construction is already widely applied in modern homebuilding. Components such as doors, windows, trusses, and even cabinets are prefabricated and assembled, instead of constructed, on-site. Where it makes sense from a time, cost savings, or materials application, off-site construction could be even more deeply applied to niches such as prefabricated kitchens, bathrooms, and mechanical, electrical, and plumbing systems.

## Reliable Pipeline and Coordinated Delivery

The builders and developers who control projects can bring a manufacturer in early, use similar designs across multiple sites, and coordinate approvals, financing, and site work with production. Working with the same designers, contractors, and installers across these projects can help the team build experience with the system and improve delivery. Strategic partnerships, offtake agreements, and even joint venture factories between manufacturers, distributors, and developers can help turn that pipeline into orders. Those commitments still depend on competitive project economics and realistic delivery schedules. A list of possible projects is still not a production schedule; the factory needs to know which projects are approved, financed, and under contract.

Individual factories may build a reliable pipeline through close relationships with a few builders or developers. Established suppliers offer another route to wider adoption. Builders FirstSource, for example, the nation's largest supplier of structural building products, acquired modular manufacturer Pleasant Valley Homes in 2025 and now offers modular construction through that business.<sup>13</sup> Bringing modular housing into an established supplier's customer relationships could make it easier for builders to evaluate and purchase. Whether that access produces sustained demand will still require competitive pricing and sufficient value to justify changing established building practices.

## Expansion Tied to Demand and Performance

Factories are most vulnerable when capacity is built before orders are committed. Expansion is therefore more likely to be durable when it is tied to partners that control a recurring pipeline (e.g., production homebuilders, public agencies, or large suppliers) and when new employees, equipment, and facilities are added only as contracted demand justifies them. These partnerships do not eliminate project risk, but they narrow the gap between a developer's expected pipeline and a factory's production schedule (Sjödín and Chandrasekaran 2025).

Gradual expansion also requires capital tied to operating milestones rather than the size of the theoretical market. A manufacturer can add shifts, equipment, or regional capacity as it completes projects, wins repeat customers, and converts its prospective pipeline into binding orders. Strategic partners may be particularly useful because they can provide both capital and demand. The central discipline is to make each increase in fixed cost follow evidence of repeatable production rather than precede it.

## What the ROAD Act Does and Does Not Change

The ROAD Act, the most significant piece of federal housing legislation in at least three decades, became law in July 2026. This bill is intended to increase the supply of affordable housing, and among its 60 provisions are several that directly affect the modular housing industry.

Manufactured housing can be built to national standards, while modular construction must be built to local standards. This legislation eliminates the requirement that manufactured housing have a

chassis. Implementation of this will take time, as there are several steps. First, HUD is required to revise its construction, safety, and energy efficiency standards to allow for chassis-free manufactured housing. Then each state must certify that it treats manufactured homes without a chassis similar to those with a chassis.

How HUD implements the chassis change will be critical. Removing the permanent chassis requirement could make multistory manufactured homes easier and less expensive to build. It could also create a path that allows a large portion of volumetric modular construction to qualify under a national code. That is, with volumetric modular construction, three-dimensional rooms or sections are built in a factory, trucked to a site, and then joined together on site. If the code is rewritten more expansively, modular construction will shift toward units that are permitted under the national code, as that allows for scaling. That is, there would be no design tweaks to accommodate local building codes. Inspections would be done in the factory. And, most importantly, it could allow for more predictable demand at the national level.

Not only is it currently difficult for modular factories to scale, but current financing tools discourage modular construction. There is a basic timing mismatch between the way traditional construction financing works and modular developers' needs. In traditional construction financing, the lender distributes the money through a series of draws; as the work is completed and inspected, that phase of the work is paid for. In modular construction, the manufacturer wants an up-front deposit to begin the work and wants to be paid the balance at the time of shipment. This requires negotiation between the builder and the manufacturer and discourages the use of modular housing. The ROAD Act requires HUD to do a study within a year, suggesting alternative draw schedules for modular financing, which allows some funding to be released while the modules are in production. The law also directs HUD to begin rulemaking on an alternative draw schedule after its report and then issue a final rule or explain why it will not. A study does not, of course, create a new financing vehicle for modular production, but it does create a recognition of the problem, and potentially allows existing tools to produce more flexibility when used in conjunction with modular construction.

The bottom line is that the ROAD Act will not solve all the issues with the lack of scalability of modular construction. It will help. To maximize its impact, we would urge HUD to be as expansive as possible when considering its update to the HUD Code. Allowing more factory-built homes to be produced under national standards could broaden the market, though a consistent pipeline would still depend on offering builders and developers a compelling cost or schedule advantage. And addressing the financing issues constraining builders from using modular technology would be a huge help.

# Notes

- <sup>1</sup> [21st Century ROAD to Housing Act](#), Pub. L. No. 119-101, 104 Stat. 4079 (2026).
- <sup>2</sup> “Operation Breakthrough,” US Department of Housing and Urban Development, Office of Policy Development and Research, accessed September 28, 2026, <https://www.huduser.gov/portal/Operation-Breakthrough.html>.
- <sup>3</sup> Catherine Koh, “Top Posts—Manufactured Homes: An Alternative Means of Housing Supply,” *Eye on Housing* (blog), National Association of Home Builders, December 26, 2025, <https://eyeonhousing.org/2025/12/top-posts-manufactured-homes-an-alternative-means-of-housing-supply/>.
- <sup>4</sup> Chadwick Reed, “Comparing the Costs of Manufactured and Site-Built Housing,” *Housing Perspectives* (blog), Joint Center for Housing Studies of Harvard University, July 10, 2023, <https://www.jchs.harvard.edu/blog/comparing-costs-manufactured-and-site-built-housing>.
- <sup>5</sup> Danushka Nanayakkara-Skillington, “Market Share for Modular and Other Non-Site Built Housing in 2024,” *Eye on Housing* (blog), National Association of Home Builders, August 11, 2025, <https://eyeonhousing.org/2025/08/market-share-for-modular-and-other-non-site-built-housing-in-2024/>.
- <sup>6</sup> “Manufactured Home Financing,” Fannie Mae Single-Family, accessed September 28, 2026, <https://singlefamily.fanniemae.com/originating-underwriting/mortgage-products/manufactured-home-financing>.
- <sup>7</sup> “CHOICEHome Mortgage: Conventional Financing for Premium Factory-Built Homes,” Freddie Mac Single-Family, accessed September 28, 2026, <https://sf.freddiemac.com/working-with-us/origination-underwriting/mortgage-products/choicehome-mortgages>.
- <sup>8</sup> Reed, “Comparing the Costs.”
- <sup>9</sup> See also “Housing Supply: Still Undersupplied by Millions of Units,” Freddie Mac, November 26, 2024, <https://www.freddiemac.com/research/insight/housing-supply-still-undersupplied>.
- <sup>10</sup> “Assembly Select Committee on Housing Construction,” CalMatters Digital Democracy, January 6, 2026, <https://calmatters.digitaldemocracy.org/hearings/278391>.
- <sup>11</sup> Abe Othman, “What AngelList Data Says About Power-Law Returns in Venture Capital,” AngelList blog, June 17, 2020, <https://www.angellist.com/blog/what-angellist-data-says-about-power-law-returns-in-venture-capital>.
- <sup>12</sup> In re Kattera, Bankr. S.D. Tex. 2023, [https://www.docketalarm.com/cases/Texas\\_Southern\\_Bankruptcy\\_Court/4-21-bk-31861/Kattera\\_Inc\\_and\\_Official\\_Committee\\_of\\_Unsecured\\_Creditors\\_of\\_Kater/1939/](https://www.docketalarm.com/cases/Texas_Southern_Bankruptcy_Court/4-21-bk-31861/Kattera_Inc_and_Official_Committee_of_Unsecured_Creditors_of_Kater/1939/).
- <sup>13</sup> “Modular Construction,” Builders FirstSource, accessed September 28, 2026, <https://www.bldr.com/services/modular-construction>.

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