

## Micro Housing

'Micro Unit' rental projects began popping up in dense urban areas within the last 4 years. As multi-family market segments go, Micro Unit rental projects are in their infancy. The million dollar question is does this segment have legs to stand on?

### What is a Micro Unit?

Typically Micro Units average approximately 350 SF which is larger than a one car garage but smaller than a 2 car garage. However, the size of a Micro Unit depends on the market which one resides in. For example, Micro Units in New York, Washington DC, San Francisco and dense population areas can be as small as 300 SF versus Micro Units located in the Midwest, Texas or less dense locations, which average around 450 to 500 SF. Micro have units have fully functional bathrooms and kitchens but have no separate bedroom; sleeping space is combined with living space.

### What comes to mind when you think Micro Unit?

According to Merriam-Webster the definition of *micro* is:

- 1 : very small; *especially* : microscopic
- 2 : involving minute quantities or variations

Due to the negative connotation associated with the word 'Micro', some developers are attempting to re-brand these units to 'urban flats', 'nano units', 'launch pads' and the like.

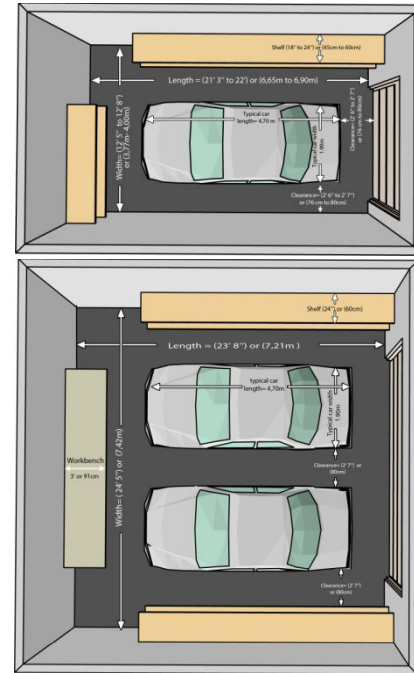
### Who would want to live in 'very small' perhaps 'microscopic' dwelling?

The answer perhaps depends on your age, economic well being, and location according to the ULI study *A Macro View of Micro Units* published on the Micro Unit market segment in 2014. The study identified typical users of Micro Units as single, under the age of 30, income of less than \$40,000 annually, with a slightly higher trend toward males than females. Of the 3,400+/- potential renters of micro units (9% survey response rate) and 110 current Micro Unit renters (26% survey response rate), the majority cited lower rent compared with conventional studios, desirable location, and the ability to live alone as key factors in renting Micro Units. The survey results indicate that location factors are key, i.e. proximity to work, school, neighborhood amenities and public transportation.

### Micro-Unit Renters' Priorities in Initial Lease Decision

Lease decision factors	Percent 4s and 5s
Location	97%
Price	86%
Proximity to work/school	78%
Proximity to neighborhood amenities	73%
Ability to live alone	71%
Proximity to public transportation	62%
Internet/wifi services	54%
Quality of finishes	52%
Floor plan/layout	42%
Assigned parking	32%
Common areas/amenities	32%
Sustainability practices	29%
Sense of community	27%
Pets allowed	26%
In-unit storage	25%
Visitor parking	21%
Neighbors with similar lifestyles	20%

Source: ULI *A Macro View on Micro Units*



Perspective of Micro Unit size

### What attributes are associated with successful Micro Unit projects?

Besides location and price, which appears to be the main factors, successful Micro Unit developments typically offer an extensive array of 'communal' amenities including a club room which host communal tables with wifi akin to a Starbucks atmosphere, bike storage, pet amenities, rooftop decks with barbeques/fire pits, etc. in order to attract their target market of Millennials.

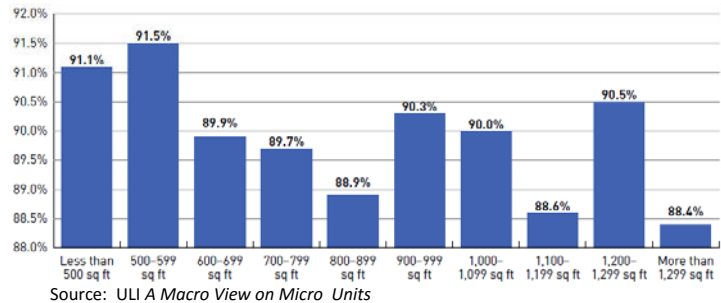
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### Industry Trends

The ULI Study also revealed that average unit size decreased approximately 50 SF when comparing the 2012 - 2013 development cycle to the 2002-2003 and 2008-2009 development cycles. Additionally, average rent per square foot for units with less than 600 square feet in the recently finished developments as of early 2014 was \$2.647, which is 54% higher than the 600 to 1,000 SF category and 81% higher than 1,000 SF and greater.

Occupancy by Detailed Unit Size (2012–2013 Development Cycle), United States



### Micro Housing in Phoenix

While Micro Units have been successful in New York, Washington DC, Seattle, San Francisco and other dense locations, developers have begun identifying opportunities in less dense locations, such as Phoenix, Denver and Austin. One Micro Unit Developer noted that less dense cities are being assessed, specifically in downtown areas with proximity to a University. While multiple developers are in the assessment stage, one project has been approved (with GPLET tax incentives) for 211 units in downtown Phoenix. Roosevelt Row is anticipated to be 19-stories with 211 units averaging 400 SF at an average rental rate of \$1,300 per month. The City of Phoenix approved an \$8.0 million tax incentive in March 2016.

### Everest Insights

While the success or demise of Micro Units remains to be seen, some developers are hedging their bets and making micro units convertible to one or two bedroom units in the future. As with most market segments in their infancy, there seem more questions than answers surrounding the future of Micro Units. While various developers are hoping the industry has ‘a leg to stand on’, it could be years before it is determined. To date, it does not appear that any of the existing Micro Unit developments have traded leading to the question - what is the exit strategy for this market segment? Will Phoenix Millennial’s be willing to pay \$1,300 per month for 400 SF in a prime location when there is a large supply of lower cost/larger alternatives? Will units of this size be in demand 10 or 20 years from now in locations like Phoenix which have typically been associated with urban sprawl and suburbs? Only time will tell.



Example of 300 SF Micro Unit layout

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