



TIM LEACH – Micro Unit Presentation

IEDC Leadership Summit

Jan. 24, 2016

What are micro units?

- No standard definition, but a working definition is a small studio apartment, typically less than 350 square feet, with fully functioning and accessibility compliant kitchen and bathroom.
- Typically urban, small studio or one-bedroom, designed to appear larger than it is.
- Lease at approximately 20 percent to 30 percent lower monthly rent than conventional units, yet at very high value ratios (rent per square foot).
- Sizes vary
 - New York: Minimum of 400 square feet
 - Philadelphia: Minimum of 400 square feet
 - San Francisco: Minimum of 220 square feet
 - D.C.: Minimum of 220 square feet
 - Boston: Minimum of 450 square feet
 - Texas markets: Between 400 and 500 square feet
 - Seattle, Portland: No minimum

Historical trends: (MPF Research)

- Average unit size for U.S. apartments are down nearly 50 square feet between 2002-03 and 2012-13.
- Varies by market, but all regions (Midwest, Northeast, South, and West) have dropped in that time span.
 - Reason: An increase of supply in urban core settings. Micro units are found almost exclusively in urban core settings, in mid-rise and high-rise buildings.
- In general, small units with less than 600 square feet are the top occupancy performers.
 - It is difficult to tell if that is a true trend or if the numbers are skewed to a lack of saturation in the market. Less than 3 percent of apartments completed in 2012-13 were micro units.
- In Des Moines, according to an Operation Downtown survey:
 - 17% of respondents (267) said that they were likely to **live** Downtown within the next 10 years, a 10% increase from 2013.
 - Based on respondents who gave a rating of 4 or 5 on a 5-point scale of likelihood.
 - 10% gave it a “5” for extremely likely.
 - 7% rated it a “4”.



Rent:

- Overall rent is lower, typically 20 to 30 percent
- However, rent per square foot is higher in smaller apartments. \$2.647 for units less than 600 square feet, \$1.723 for units between 600 and 1,000 square feet, and \$1.459 for units of more than 1,000 square feet.
- Therefore, micro units hit a sweet spot of offering a more affordable option for renters but making more money per square foot for developers.
- If the rent for a conventional 500 square-foot studio is \$2,000, the rent per square foot is \$4. If rent for a 500 square foot studio is \$1,500, rent per square foot is \$5. Renters pay less overall. Developers make more overall.

Real world case study: Adam Leach:

- Size: 400 square feet
- Rent: \$770.00
- Parking cost: \$75/mo.
- Utilities: Energy - \$ 25.42 (2015 Average); Internet - \$65.00
- How do these numbers compare to a 1 bedroom? 1 bedrooms are starting out at \$850

Why Micro Units: (Kingsley Associates)

- Top reasons for potential renters (people not yet living in micro units) include:
 - Lower rent
 - Desired location/neighborhood
 - Reduced utility costs
 - Ability to live alone
- Top reasons for current micro unit renters include:
 - Location – typically urban
 - Price
 - Proximity to work or school
 - Proximity to neighborhood amenities
 - Ability to live alone
 - Proximity to public transportation
- Of note, 82 percent of current micro unit renters were not intentionally looking for a micro unit.
- Top reasons for potential renters to NOT rent a micro unit
 - Lack of a separate bedroom
 - Lack of storage space
 - Less living or dining space
 - Lack of amenities such as a washer and dryer



- Satisfaction levels
 - Current micro unit renters are more satisfied than conventional renters with their community location, amenities, and unit features and fixtures.
 - However, they rate the perceived value for the amount they pay and the satisfaction of their floor plan and layout considerably lower than renters of conventional units.
 - Micro-unit renters generally indicate a lower likelihood of renewal than conventional renters do, (41 percent for micro unit renters, 57 percent for conventional renters)
 - The primary factor for why they would not rent again is price, followed by space needs.
 - Micro unit renters are often not looking to stay in their apartment long term, as many are young, unmarried, and earning lower wages while paying student loans.
 - 77 percent would recommend a micro unit to a peer with a similar lifestyle.

Who are Micro Unit Renters?

- The vast majority are young professionals and single.
- First time renters, without much “stuff.”
- Many consider the micro unit a launch pad for new careers and lives in a new city or place. Typically they will stay in their unit for one or two years.
- Slightly more male than female.
- Often paid for by parents.

The importance of Millennials

- The rise in micro units has corresponded with an increase in millennials entering the workforce.
 - Millennials are highly mobile and tend to move frequently to follow opportunities and jobs. Many choose where they want to live first and then look for a job.
 - Unemployment among people under 30 is nearly double the rest of the workforce.
 - Millennials have lower incomes and much higher student loan debts – therefore, less disposable income.
 - Many have delayed marriage.

Selling Proposition for Developers

- Building a micro unit community costs approximately 5 to 10 percent more per square foot because of fixed costs associated with building a kitchen and bathroom
- Typically the value ratio is 25 percent higher for micro units, more than compensating for the higher operating cost per square foot.



Incentives

- Developers in markets such as Des Moines say that they need incentives to keep up.
- Micro units may be in demand enough in larger markets to not need incentives, but in a market like Des Moines, building costs are the same but rent is less expensive than a large city.

Des Moines Building

- State of Iowa Financial Assistance
 - Enterprise Zone - \$1 million (Sales Tax Rebate and Income Tax Credits)
 - Greyfield grant - \$500,000 (Hazardous Material Remediation)
 - State of Iowa Historic Tax Credits - \$5 million
- City of Des Moines Financial Assistance
 - Property Sale - \$150,000
 - Tax Abatement - \$400,000 annually for 10 years (\$9 million valuation)