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:
  o Lower rent
  o Desired location/neighborhood
  o Reduced utility costs
  o Ability to live alone
- Top reasons for current micro unit renters include:
  o Location – typically urban
  o Price
  o Proximity to work or school
  o Proximity to neighborhood amenities
  o Ability to live alone
  o 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
  o Lack of a separate bedroom
  o Lack of storage space
  o Less living or dining space
  o 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)