

Micro Apartments Reflect Macro Trends

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Household sizes have been decreasing while increasing mobility (both length of stay and their transportation as a tenant) yet wanting a central location. These factors all combine to make micro-apartments a viable proposition for new development. While smaller units have existed and have the lowest vacancy rates, they've been targeted as minimal housing. Demand is changing and apartment developers need to look at the external factors driving this trend, what this population has in common and what attracts them.

External factors driving micro-apartment design

Cities have been returning to more central growth. This means proximity of entertainment and amenities (valued as much as living space), short commutes to jobs which minimize the need for cars (and parking) and an increased reliance on mass transit.

A paucity of this prime space reinforces the importance of site choice and application for micro-apartments and density issues. Micro-housing operators can receive more rental \$/square foot while offering tenants a lower rent in a central location.

What do micro-unit tenants have in common?

Most of the audience for micro-apartments will be single-person households. Growth of this sector is driven by skilled new workers who want central locations, yet are income-challenged. Retirees are part of this slice also and share the same traits with fixed incomes as a limiter. Both depend less on private cars and more on bikes, walking and mass transit. Other potential tenants are those looking for 2nd homes while working and who rent residence hotels on shorter-term leases (cf. AirBnB).

For the majority of potential tenants, income limitations come from establishing careers, taking on non-conventional jobs or being older and depending on retirement funds. This pressures them to seek the lowest rents. In spite of this, they stay close to off-work destinations (lifestyle outside of their units is an important item) and work which is worth a premium. Another factor to contend with is higher turnover due to career instability with younger workers.

What motivates micro-apartment tenant demand?

A builder faces unique design challenges making smaller dimensions appealing to tenants. He must balance efficient use of space, contending with handicapped accommodations, zoning regulations still being formed and energy-efficiency of units.

Standard design features for any size should include using monochromatic color schemes dissolves lines between rooms and gives the illusion of space. While glass makes an expensive wall, lots of window space brings in natural light and connection to the outside world. In-unit storage hides clutter to makes units look

larger and taller ceilings allow more loft storage.

Beds are problematic since they not used during waking hours and can take 60 square foot out of an already small space. The ability to hide a bed (cables or Murphy bed) or convert (a la sleeping sofa) helps. Standard noise abatement like thicker walls, acoustic mats and insulating electrical outlets keeps peace among tenants. Acknowledging (and advertising) eco-consciousness) should be the goal of the best LEED practices.

Upgrades are being driven by the compression of entertainment and communication services make high-speed networking (fiber or Wi-Fi) a requisite for higher rent and demand. In addition, large displays need careful placement for long sightlines. Another consideration is the need for food preparation and storage. While dry and cold storage along with potable/hot water and wet disposal do not take much unit space, the ability to place these in commons or in-unit depends on zoning, space constraints and the availability of outside retail food venues.

Development Impediments

Developers need to work with neighborhoods on any new [construction](#). For micro-units, two recurring issues are parking impact (i.e. more tenants and no new parking spaces) and look/scale issues.

Small households in central locations need a lower parking load, based on tenant profiles and their reliance on mass and alternate transit compared to private autos. For look & scale, neighborhood aesthetics may require plan adjustments due to different facades and heights of existing surround construction.

Another benefit is infill high-density housing which can slowly grow a neighborhood without government attempts to “place-make” with major projects and upheaval. Neighborhoods should realize that new construction adds value by providing more demand and inducement for local amenities which benefit all.

Rehabilitation may be another avenue worth investigating. While anticipating micro-apartments zoning issues (and their fluidity) and with soft costs are pushing \$25,000 per unit on new construction, an alternative may be rehab of existing units which avoids a lot of planning, approvals, delays and saves money. It also means less neighborhood disturbance and resistance.

Street level space should be treated separate from residences. The need for alternative uses besides living space comes from privacy/disturbance issues in high traffic areas. Options can include out-of-unit storage (low-cost and low-maintenance income) and common meeting areas (demand may depend on external options).

If an optional street-level use is commercial space, consider exposure. If space isn't facing a high traffic street, rent potentials (especially for retail) will diminish. Being around the corner from traffic (even in the same building) makes a difference. Moreover, the effect of tenant disturbance from lessees (food prep or alcohol service) should be anticipated.

Conclusion

Micro-apartments rental should flourish with multiple trends driving growth. To re-state:

- Household formation skewed toward the growth of 1-/2-person households
- Financial pressure leading the search for lower rents
- Constant demand for well-serviced and eco-conscious units
- Not much competition for up-market micro-units as of today

- An ability to take advantage of infill with density and maintain higher \$/square foot incomes

The benefits to tenants are a well-connected location at a low rent while the operator can make more rental \$/square foot than larger units nearby. Owners providing services up front like high-speed [data](#), out-of-unit storage, while not bound by dead space like parking, enhance appeal. However, priority should be given to the two most important factors:

- A good location (most tenants put a higher value on external amenities) and
- Being aware of your competition, surrounding vintage stock, SROs and senior housing since micro-units are a limited part of the market.

An investor should always be aware of the environment he is building in. Neighborhoods can get over-built and any type of commercial development has limits. However, good design, forethought and anticipation of location and construction can pay-off with higher incomes and greater values for micro-apartments.

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