MICROUNITS IN ALEXANDRIA

RESEARCH FINDINGS

December 2018

/introduction/

At City Council's request, the Office of Housing undertook a study of microunits in Fiscal Year 2018 to assess the role this unit type could play in expanding housing affordability in the City. Staff completed desktop research, examined market rents across the region, consulted with NAIOP (the City's sounding board for development related issues), and conducted community outreach.

As part of PARK(ing) Day 2017, Housing staff converted an approximately 100 square foot parking space on North Pitt Street into a micro-unit model home and challenged passersby to think "outside the space" to help identify ways to expand housing opportunity in the City.

/background/

A microunit is typically considered to be a compact efficiency with a fully functioning bathroom and kitchen; albeit less common, one and two-bedroom microunits also exist.

Living, entertaining, and sleeping areas are commonly shared in microunits.

The threshold that distinguishes an efficiency from a microunit varies by market. Microunits can range in size from 220 square feet in California (or smaller in Asia) to 400-500 square feet in Texas. For the purposes of this report, microunits are defined as efficiencies smaller than 400 square feet and one-bedrooms smaller than 550 square feet. Several apartment complexes in the City, including older and new construction, offer units that meet this definition, such as the The Bridgeyard Old Town (formerly Hunting Towers), Southern Towers, Linden at Del Ray (formerly Bellefonte Gardens) and Del Ray Tower (formerly The Calvert), as well as the more recently built Notch 8, Modera Tempo, and The Dalton.

/questions considered/

As part of its study, staff considered the following questions:

1. Can microunits help expand housing affordability in neighborhoods with close proximity to transit, jobs, and amenities consistent with the Housing Master Plan's recommendation to enhance housing options in areas of opportunity?
2. If yes, will the market produce microunits in adequate quantities? If not, should the City incentivize their construction?

/findings/

Rents: While staff found microunit rents in new construction to be modestly lower than the rents of more traditionally-sized market-rate units, on a per square foot basis, rents were either on par with or higher than those charged for their larger counterparts (see Table 1). Staff attribute this to heightened design requirements and customer expectations associated with microunits and the buildings themselves (see the discussions on Amenities and Design on pages 2 and 3). As a result, microunits appear to effectively help expand housing options only for households earning between approximately 80% and 100%+ of the area median income (AMI) (see Table 2). Staff notes that while the majority of microunit projects are rental, some for-sale projects have also pursued smaller dimensions. One such example is Moda 17 Condominiums in Washington, D.C. where a 556 square foot two-bedroom, two-bath unit, with one parking space and assigned roof-top space, is currently listed at $579,900.

In older construction that has not undergone substantial renovation (such as the Bridgeyard and Southern Towers), microunit rents are more affordable; staff, however, attribute this affordability as much to the age and condition of amenities, interior features and furnishings, and/or location of the properties as to the size of the units.

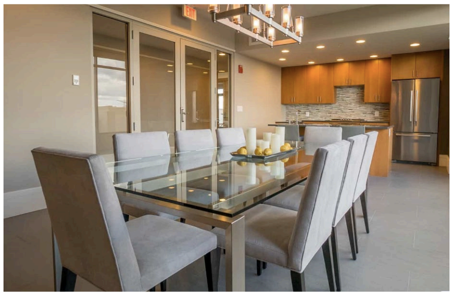
TABLE 1

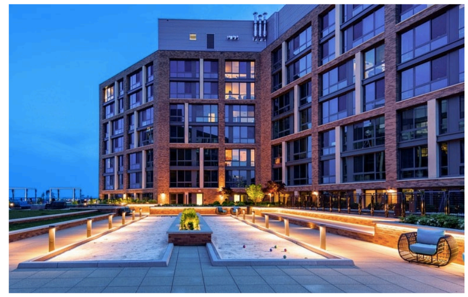
Project Name	Micro-efficiency size	Micro-efficiency rent (per sq ft)	Efficiency rent (per sq ft)	Micro 1-bedroom size	Micro 1-bedroom rent (per sq ft)	1-bedroom rent (per sq ft)
The Harper, DC (new) [includes utilities]	350 sqft	$1,950-$1,995 ($5.57-$5.70)	n/a	500 sqft*	$2,195-$2,375 ($4.39-$4.75)	n/a
The Drake, DC (new) [includes utilities]	310-380 sqft	$1,995-$2,125 ($5.25-$5.59)	n/a	380-480* sqft	$2,075-$2,425 ($4.32-$5.05)	n/a
Dupont Apartments, DC (renovated)	291-392 sqft	$1,495-$1,535 ($3.89-$5.58)	n/a	479-485 sqft	$1,845-$1,985 ($3.80-$4.14)	$1,895-$2,805 ($2.69-$3.29)
The Channel, DC (new)	337-358 sqft	$1,708-$1,903 ($4.99-$5.65)	n/a	529-546 sqft	$2,637-$2,802 ($4.83-$5.13)	$2,920-$3,209 ($3.88-$4.64)
The Sonnet, DC (new)	375 sqft	$2,300 ($6.13)	$2,310-$2,370 ($5.24-$5.37)	519-543* sqft	$2,615-$2,845 ($4.29-$5.42)	$2,840-$3,355 ($4.47-$5.23)
Washington, D.C. Average (RentCafe.com)	**n/a**	**n/a**	**$1,642 ($3.37)**	**707**	**n/a**	**$1,996 ($2.82)**
Del Ray Tower (renovated)	349 sqft	$1,583 ($4.54)	$1,613-$1,648 ($3.80-$3.86)	523-546 sqft	$1,836-$1,906 ($3.45-$3.54)	$1,836-$2,596 ($2.46-$3.35)
Bridgeyard Old Town	380 sqft	$1,245-$1,265 ($3.28-$3.33)	$1,260-$1,360 ($2.68-$3.14)	n/a	n/a	$1,512-$1,648 ($2.29-$2.45)
The Stratford at Southern Towers	391 sqft	$1,165-$1,200 ($2.98-$3.07)	$1,235-$1,255 ($2.40-2.44)	n/a	n/a	$1,410-$1,510 ($2.05-$2.20)
Linden at Del Ray	~350 sqft	$1,225 (~$3.50)	n/a	500~525 sqft	$1,650 (~$3.14-$3.30)	n/a
The Dalton (new)	n/a	n/a	$1,810-$1,880 ($3.77-$3.93)	539 sqft	$1,920 ($3.56)	$1,975-$2,485 ($3.16-$3.90)
Notch 8 (new)	n/a	n/a	n/a	540 sqft	$1,785 ($3.31)	$1,870-$1,935 ($2.69-$3.05)
Modera Tempo (new)	n/a	n/a	$1,609-$1,629 ($2.98-$3.02)	535 sqft*	$1,640 ($3.07)	$1,725-$1,875 ($2.31-$3.00)
Alexandria Average (Office of Housing)	**n/a**	**n/a**	**$1,369**	**n/a**	**n/a**	**$1,708**
2018 60% AMI gross rent [includes utilities]	*n/a*	*n/a*	*$1,231*	*n/a*	*n/a*	*$1,319*
2018 80% AMI gross rent [includes utilities]	*n/a*	*n/a*	*$1,642*	*n/a*	*n/a*	*$1,759*

*junior one bedroom or urban one bedroom (bedroom does not have a window)

Notes: Rents are based on available units or units with listed rents at time of data collection. Properties use dynamic pricing, and rents are subject to change daily. Published rents vary based on length of lease; rents included in the table were based on 12-month lease terms to the extent possible. Sources: Project websites and www.apartments.com, Nov/Dec 2018.

Amenities: New construction microunit projects trade private space for highly-amenitized common areas, such as gyms, community rooms, luxury rooftop entertainment areas with pools, bbq pits, and bocce courts, and fully equipped shared kitchen and dinning spaces. Some microunits come fully furnished. Others offer a range of inclusive services, including complementary breakfast, curated events, fitness classes, and full-service bars.





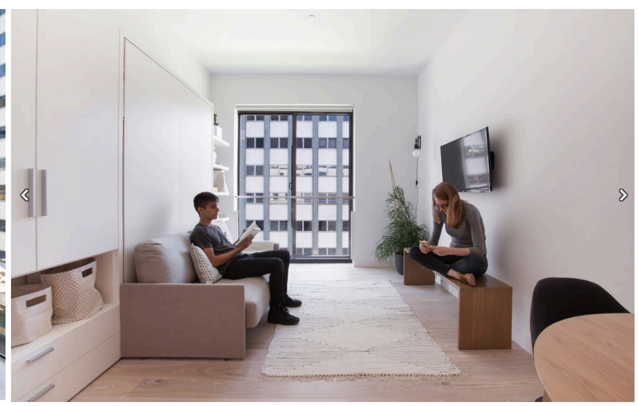
Amenities at The Drake and The Channel in Washington, DC

Design: To compensate for limited livable area, new construction microunit projects pursue creative design solutions. These include providing tall ceilings up to nine or ten feet high, incorporating glass partitions, and featuring large windows to create the illusion of space. Clever, floor-to-ceiling built-in storage maximizes the use of available space, and signature furniture pieces are multifunctional. Advanced soundproofing ensures noise from adjoining units does not disrupt neighboring residents.


Interior walls cease to be stationary. Built-in TVs pivot between rooms.

Furniture frequently serves two or more roles; sofas convert to beds and dinning room tables into desks.

Sleeping areas are suspended from the ceiling or are elevated, and beds disappear during the day.

/NAIOP feedback/

NAIOP members made a strong case that the market would accelerate the construction of microunits in Alexandria at its own volition if and when local rents and housing demand justified their construction. They noted the need to think about how a building could potentially revert to more classic unit sizes should demand for microunits wane in the future; for example, ensuring efficiencies are built in pairs, side-by-side could allow for easier conversions to one- or two-bedroom units. If the City were to decide to incentivize the construction of microunits, members recommended waiving or substantially reducing parking requirements; not counting the units towards density caps; and/or providing credit against any voluntary affordable housing contributions.

/implications for affordable housing partners/

The City's affordable housing partners rely on one primary source of equity funding—Low Income Tax Housing Credits (LIHTC). LIHTCs are granted annually through a competitive process guided by the state's housing priorities identified in its Qualified Action Plan (QAP) and administered by the Virginia Housing Development Authority. Currently, the State's QAP does not incentivize building microunits; moreover, VHDA's scoring system intentionally assigns a higher weight to larger, family-sized units to counterbalance the market's propensity to build units targeting one- to two-person professional households.

Some affordable housing developers may opt to trim the size of their units to maximize land values, to address a specific population's housing needs (such as the chronically homeless or individuals with intellectual or developmental disabilities), and/or to attempt to offset recent steep increases in construction costs; however, it is unclear whether they would adopt microunits on a large scale without regulatory or financial incentives, such as reduced parking requirements or modified QAP scoring criteria.

While there is only anecdotal information on the following, microunits appear to have higher turnover rates which suggest that their tenants, on average, consider them convenient, but short-term living arrangements. If this were found to be a widespread trend, it brings into question the desirability of such units to income-eligible households; such households are more apt to seek stable and affordable housing for the mid- to longer-term in order to improve their quality of life, health and wellness and/or to meet financial, educational, and/or employment goals.

/recommendations/

Microunits are expanding options for renters seeking highly-amenitized housing, particularly in urban centers. While monthly rents are, at face value, lower than the market rents of more standard-sized units, they fail to create opportunities to meaningfully expand housing affordability to households earning below 80% AMI. It is not recommended at this time that the City provide financial or regulatory incentives to encourage the production microunits; however, the City should not preclude or disincentivize their construction in the presence of market demand.

Staff will review these recommendations as local market conditions evolve and more information becomes available.

/appendix/

TABLE 2—ANNUAL MAXIMUM HOUSEHOLD INCOME BY HOUSEHOLD SIZE FOR WASHINGTON, DC METROPOLITAN AREA

% AMI	1 Person	2 People	3 People	4 People
60%	$ 49,260	$ 56,280	$ 63,300	$ 70,320
80%	$ 65,680	$ 75,040	$ 84,400	$ 93,760
100%	$ 82,100	$ 93,800	$ 105,500	$ 117,200

Source: Department of Housing and Urban Development, 2018