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Central City Association

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About CCA

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Established in 1924, Central City Association of Los Angeles (CCA) is the premier advocacy organization in the region and leading visionary on the future of Downtown Los Angeles. Through advocacy, influence and engagement, CCA enhances Downtown LA’s vibrancy and increases investment in the region. CCA represents the interests of 400 businesses, trade associations and nonprofit organizations that together employ more than 350,000 people in Los Angeles County.

www.ccala.org

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Through advocacy, influence and engagement, Central City Association (CCA) enhances Downtown LA’s vibrancy and increases investment in the region, and we strongly believe that micro-units can contribute to this effort. By promoting the development of micro-units, we will support many of CCA’s top advocacy priorities, including:

- Increasing the supply of housing available to middle-income households, subsidy-free.
- Supporting businesses and institutions by bringing workers and customers closer to employers.
- Enhancing quality of life by filling in underutilized spaces and by offering residents housing choices that reflect the diversity of our community.
- Helping our most vulnerable neighbors avoid sliding into homelessness by providing safe, affordable housing in accessible and opportunity-rich neighborhoods.

Micro-units, while just one component in a comprehensive effort to address the region’s housing crisis, present a win-win solution for residents and developers alike.

Micro-units:

- Are apartment units between approximately 140 and 350 square feet in size, typically offered with full kitchen and bathroom facilities inside the unit for apartments at the higher end of this range, and often with additional amenities and common space shared amongst all tenants.
- Help cities achieve important goals including improved economic performance, lesser burdens on utilities and city services, reduced congestion and driving, improved environmental sustainability, and a more diverse housing stock.
- Offer residents new, more affordable, and more accessible housing options, particularly for singles who prefer to live alone, residents who place a premium on location and transit access, and individuals who spend most of their time outside their homes, whether by choice or due to the demands of work and/or school.
- Are attractive investments for developers, with statistics including: higher occupancy rates than any other rental apartment type, rent premiums of 25 to 100 percent per square foot compared to larger units, and a large but almost entirely untapped market in the LA region, among other advantages.
- Can now be built cost-effectively, with limited parking and unlimited density in DTLA, and with by-right approval as a result of the recently-enacted Transit-Oriented Communities (TOC) Guidelines.
Small apartments are on the rise throughout the country, but they haven’t yet caught on in Los Angeles.

Starting about a decade ago, housing builders in other US cities began recognizing the latent demand for “micro-units,” defined as very small apartments ranging from approximately 140 to 350 square feet in size. Seattle led the way in micro-unit development, building more than 5,500 congregate and small efficiency dwelling units between 2012 and 2015. With rental pressure on traditional multifamily units and demand from first-time renters both increasing, the desire for new, affordable housing options continues to grow in urban areas across the country.

A September 2016 article from the Sightline Institute profiles a typical micro-unit renter:

Micro-housing—dorm-room-sized apartments in desirable, walkable neighborhoods—isn’t for everyone, but it most definitely is for Anna Rogers. Anna is a recent
college graduate who grew up in the suburbs of Seattle and now works a retail job while looking to start a career that harnesses her passion for politics.

Thanks to a building called OneOne6 on Seattle’s Capitol Hill, Anna can afford to live her twenty-something dream of her own private place—no sharing with Craigslist strangers or returning to her childhood bedroom at mom and dad’s. Capitol Hill is one of Cascadia’s most exciting neighborhoods, a thriving center of arts and nightlife, historic home to Seattle’s gay community, and now exorbitantly expensive.

Anna is hooked on the lifestyle: walking around Cal Anderson or Volunteer Park, meeting friends for coffee or happy hour, attending Pride events steps from her door, or frequenting the year-round farmer’s market. “Things pop up on Facebook, turns out they’re just two blocks away, and I can just swing by. I love that,” she says.

“My friends were like, ‘It’s too small; don’t do it.’ But I don’t feel that way. I have my own bathroom, a full bed, a desk, shelves…. I mostly just need a safe, clean place to shower, eat, and sleep…. There’s so much going on. I’m rarely home.”

Micro-units are an untapped market in Los Angeles, commanding rent premiums of 25 to 100 percent per square foot with higher-than-average occupancy levels and only marginally higher costs. They’re the best option for many renters, highly profitable for developers, and can provide outstanding benefits to cities looking to reduce car dependence and promote “naturally affordable” market-rate housing.

Until recently, density limitations and minimum parking requirements made building micro-units in Los Angeles financially infeasible. With the city’s approval of the Transit-Oriented Communities (TOC) Guidelines, LA is finally ready to serve renters like Anna with the housing they’ve been waiting for. These guidelines make micro-unit construction legal and financially feasible on a limited number of parcels in neighborhoods like Downtown LA and Hollywood. With additional revisions to community plans, the zoning code, open space and tree requirements, impact fee structures, and building code requirements, they can be successful in transit-oriented communities across the city.

Since 1999, Downtown has accommodated 20% of the population growth in LA despite accounting for just 1% of the city’s land area. Looking ahead to 2040, Downtown is forecasted to grow by 125,000 residents—again, 20% of the city’s projected growth of 600,000 residents. As we have seen with recent increases in the local residential vacancy rate, this growth cannot be sustained if we rely almost entirely on Class A, 600- to 1,500-square-foot apartments. New, more affordable options must be developed that appeal to residents with different preferences and income levels. Micro-units are one of these options.
There is no standard definition for micro-units, but for the purposes of this paper they can be broken down into two major classifications.

One is Congregate Housing, sometimes referred to as co-housing, where tenants have limited facilities and a small amount of personal space—as little as 140 square feet depending on the market. Larger facilities, especially kitchens, are often shared between multiple households. Modern congregate housing developments typically include private bathrooms in each unit.

The other classification is Small Efficiency Dwelling Units (SEDUs), which are typically between 200 and 350 square feet and include full bathroom and kitchen facilities inside the units. California Building Code section R304 requires that efficiency dwelling units provide 220 square feet of living space plus a bathroom and a closet, so the smallest SEDUs possible in Los Angeles are likely about 250 to 275 square feet in size.

Shared amenities such as gyms, movie rooms, pools, and laundry rooms may be desirable for either micro-unit typology. A key concept behind these developments is that the neighborhood itself is the most important amenity for micro-unit residents.

Although congregate housing and SEDUs both have a place in the LA marketplace, SEDUs between approximately 250 and 350 square feet will be the focus of this paper.
Micro-units offer a number of benefits to cities and their residents. They can:

- Improve economic performance\(^5\) and job creation through increased density and agglomeration in transit-oriented urban centers.

- Reduce the burden on shared public resources\(^6\) (streets, electric grid, water/sewer) on a per-household and per-capita basis, and increase funding for the maintenance and upgrade of such resources.

- Protect the environment\(^7\) by minimizing use of construction materials, heating and cooling costs, and driving, and by reducing demand for sprawl development in environmentally sensitive areas.

- Reduce vehicle-miles traveled (VMT)\(^8\) by bringing housing closer to jobs and other daily destinations.

- Improve health and safety by encouraging greater reliance on walking, bicycling, and transit, and putting more eyes on the street in busy urban neighborhoods.

- Offer a previously-unavailable housing choice to single-person households, reducing the demand pressure on multifamily and single family housing and helping to stabilize rents.

- Provide new housing that’s affordable to moderate income households without a subsidy (rents ranging from $1,200 to $1,600 per month).
For most residents, the decision to choose a micro-unit comes down to two main factors: location and price. In a ULI survey of the motivating factors behind micro-unit renters’ initial lease decision, 97% said ‘location’ was a top priority, with ‘price’ coming in second place at 86%. The next highest priority unrelated to location was ‘ability to live alone,’ with 71% ranking it as a high priority. Importantly, parking was not identified as a high priority for micro-unit tenants. Just 32% ranked ‘assigned parking’ as a priority, and even fewer—21%—were concerned with ‘visitor parking.’ ‘Proximity to public transportation’ was much more important to residents, with 62% identifying it as a priority. Especially in the transit-oriented districts where micro-unit tenants want to live, less parking in exchange for lower rents is a trade many are happy to make.

For those looking to live in the most popular and accessible neighborhoods, at a manageable price and without depending on roommates, micro-units are the clear choice for many city residents. A unit-size and rent table developed by ULI highlights the value proposition offered by micro-units in comparison to other possible living arrangements.

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

<table>
<thead>
<tr>
<th>LEASE DECISION FACTORS</th>
<th>PERCENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOCATION</td>
<td>97%</td>
</tr>
<tr>
<td>PRICE</td>
<td>86%</td>
</tr>
<tr>
<td>PROXIMITY TO WORK/SCHOOL</td>
<td>78%</td>
</tr>
<tr>
<td>PROXIMITY TO NEIGHBORHOOD AMENITIES</td>
<td>73%</td>
</tr>
<tr>
<td>ABILITY TO LIVE ALONE</td>
<td>71%</td>
</tr>
<tr>
<td>PROXIMITY TO PUBLIC TRANSPORTATION</td>
<td>62%</td>
</tr>
<tr>
<td>INTERNET/WIFI SERVICES</td>
<td>54%</td>
</tr>
<tr>
<td>QUALITY OF FINISHES</td>
<td>52%</td>
</tr>
<tr>
<td>FLOOR PLAN/LAYOUT</td>
<td>42%</td>
</tr>
<tr>
<td>ASSIGNED PARKING</td>
<td>32%</td>
</tr>
<tr>
<td>COMMON AREAS/AMENITIES</td>
<td>32%</td>
</tr>
<tr>
<td>SUSTAINABILITY PRACTICES</td>
<td>29%</td>
</tr>
<tr>
<td>SENSE OF COMMUNITY</td>
<td>27%</td>
</tr>
<tr>
<td>PETS ALLOWED</td>
<td>26%</td>
</tr>
<tr>
<td>IN-UNIT STORAGE</td>
<td>25%</td>
</tr>
<tr>
<td>VISITOR PARKING</td>
<td>21%</td>
</tr>
<tr>
<td>NEIGHBORS WITH SIMILAR LIFESTYLES</td>
<td>20%</td>
</tr>
</tbody>
</table>

### Unit Size Comparison and Rent

<table>
<thead>
<tr>
<th>SIZE</th>
<th>RENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>MICRO-UNIT STUDIO</td>
<td>$1,500</td>
</tr>
<tr>
<td>CONVENTIONAL STUDIO</td>
<td>$2,000</td>
</tr>
<tr>
<td>ONE BEDROOM</td>
<td>$2,400</td>
</tr>
<tr>
<td>TWO BEDROOM &amp; ROOMMATE</td>
<td>$1,700</td>
</tr>
</tbody>
</table>
Micro-units are great for residents and cities, and also for developers.

Analyzing a database of 7.5 million apartment units nationwide, consulting firm RCLCO found that units under 350 square feet secured average per-square-foot (psf) rents 92% higher than larger units ($2.74 versus $1.43)\(^1\). In high-end markets like San Francisco and Washington, DC, rent premiums reached up to 300% for smaller units. A local analysis in the Kips Bay neighborhood of Manhattan found that a new micro-unit building was able to charge almost twice as much psf as larger studio units in the same neighborhood ($8.89 versus $4.96 psf)\(^1\).

In their expansive 2015 report, The Macro View on Micro Housing, the Urban Land Institute (ULI) found an average rent premium of 54% for units under 600 square feet compared to those between 600 and 1,000 square feet\(^1\). Rent premiums were highest in the Northeast region at nearly 100%, while premiums in the West exceeded 40%.

Why build micro-units?

This graph was adapted from a figure in ULI, The Macro View on Micro Units, 2015
In addition to large rent premiums, small units also have the highest occupancy rates across all markets. ULI found that units under 600 square feet exhibited higher occupancy rates across all 4 regions of the US, with the greatest occupancy boost found in the Northeast.14

ULI estimates that the fixed costs of micro-unit construction can exceed those of traditional multifamily by approximately 5 to 10 percent, in large part because kitchens and bathrooms account for a larger share of each dwelling in micro-unit buildings. Further, higher operating costs can add up to $5 per square foot per year. However, eliminating or reducing parking can cut construction costs by 10% or more, and rent premiums of just 25 to 50 percent—resulting in at least $9 to $18 psf per year of increased revenue, assuming rents of $3 psf per month for larger units in the LA market—can more than offset this additional expense.

The 438-unit One Santa Fe project in DTLA’s Arts District is one of the only new developments in the city to provide micro-units, with some units as small as 343 square feet. Bill McGregor, developer of One Santa Fe, said in an interview with KPCC15 that his micro-units have been very successful and “[t]hey command the highest rental rate psf” in the project—ranging from $1,549 ($4.51 psf) to $1,963 ($5.72 psf) per month. The Berkshire Communities leasing page shows that larger studios are renting for up to $3.84 psf and 1- and 2-bedrooms are leasing for up to approximately $3.25 psf.16 This represents a 20 to 80 percent rent premium for micro-units relative to larger floorplans in the building.

Since the approval of the TOC Guidelines, micro-unit development is now supported by local policy. Projects that set aside some units for low income households can receive significant density and floor area ratio (FAR) bonuses. In many areas within 750 feet of a Metro Rail station, projects may also receive a by-right exemption from minimum parking requirements. For DTLA parcels passed over for redevelopment due to their small size and challenges with parking circulation, the TOC Guidelines open up new possibilities.
The interplay between the TOC affordability requirements and the relatively low market rents of micro-units also favors their development. Following approval of the Affordable Housing Linkage Fee, nearly all large and medium-sized projects in Los Angeles will be required to provide on-site affordable units or pay a fee. Meeting the affordability requirements in the TOC Guidelines exempts a project from the linkage fee, and the cost of providing on-site affordable units in micro-unit buildings will be relatively low compared to developments with larger units.

For example: Consider a building of 700-square-foot, 1-bedroom units which rent for an average of $2,300 per month, and another full of 350-square-foot units which rent for $1,500 per month. In either case, in a Tier 4 zone 15% of units are reserved for very low income households renting for approximately $700 per month. The subsidies for the larger building, therefore, would be $1,600 per month on a per-unit basis ($2,300 minus $700), and just $800 per month for the micro-unit building ($1,500 minus $700). Assuming the buildings have the same total square footage, the micro-unit building would have twice as many units, each earning higher rents per square foot than its larger-unit competitor while subsidizing its affordable units at lesser cost.

Smaller units also have a strong competitive advantage in a market saturated with larger high-end apartments, almost all of which are parked at a ratio of 1 parking space per unit or greater. DTLA residential vacancies climbed to 12% in 2017, the result of thousands of new high-end apartments opening within a short time frame. In most buildings, the smallest available units are roughly 500 square feet. Adaptive reuse projects require a minimum average unit size of 750 square feet. Developers able to offer homes in the 250- to 350-square-foot range will offer a unique product with little or no local competition.
Approval of the TOC Guidelines has made micro-unit construction viable in a limited number of areas in Downtown and other transit-adjacent communities, but much more can be done to promote their construction in accessible and high-demand neighborhoods. CCA offers the following policy recommendations:

Parking requirements

Parking requirements are one of the greatest barriers to micro-unit development in Los Angeles. The cost of structured parking construction can exceed $30,000 to $50,000 per space, with all or most of this cost being subsidized by higher rents. The average space devoted to a parking space, including circulation space, is about 350 square feet, which is at the upper end of a typical micro-unit’s entire living area. The higher per square foot rents of micro-units are very unlikely to offset this cost when more than half the built area of a project is reserved for parking. Further, parking requirements eliminate the possibility of developing micro-units on smaller, less expensive parcels, and they don’t align with car-lite and car-free lifestyle preferences typical of micro-unit tenants.

The number of parcels in Tier 4 TOC Guidelines areas (where zero parking is required) is small, greatly restricting the ability to provide parking-free or parking-lite housing in most of LA. Tier 3 zones, which do not require more than 0.5 parking spaces per unit and apply to a significantly larger number of city parcels, may also be viable sites for micro-unit construction but many will be more profitably developed as larger units. Such projects may also be successful as a mix of larger units with parking and micro-units without parking. Many more transit-accessible areas of the city must revise their parking requirements to ensure adequate production of micro-units.

Solutions

• Reduce or eliminate parking requirements wherever possible, especially within a half mile of high-frequency transit such as Metro Rail and Rapid Bus lines. Allow the market to dictate the amount of parking within a project. State Senate Bill 827 would eliminate density limits and parking minimums within a half-mile of transit across the state.

• Where some amount of parking is required, further reductions should be provided for developers that provide transit passes or subsidized car-share services to tenants (transportation demand management, or TDM).

• Create a new category for Section 12.21.A.4.(a) of the Los Angeles Municipal Code that establishes a requirement of 0.5 parking spaces (or less) per dwelling for units of less than 400 square feet with only one habitable room. As with guest rooms, these requirements may be tiered so that per-unit parking requirements decline as the number of units increases.

How can we encourage micro-unit construction in LA?
Density Limits

Similar to parking requirements, limits on unit density disadvantage construction of smaller apartments. For example, a site with 10,000 square feet of development capacity and a maximum density of 10 units could create ten 1,000-square-foot units or five 2,000-square-foot units, but not twenty 500-square-foot units. If the developer chooses to build smaller apartments, they will still only be able to construct a maximum of 10 units and will earn a lower return on their project. More precisely, their pro forma will return a lower residual land value and they will not be able to offer a competitive price for the site, so it will be sold to another developer willing to build larger units. This is a bad outcome for a city in need of more housing choices.

The Greater Downtown Housing Incentive Area (GDHIA) ordinance eliminated density limits in DTLA, making it one of the few locations in the city without this barrier to micro-unit development. (For a map of the GDHIA, see link in the endnotes.) Because Downtown projects are not density-limited, they do not benefit as greatly from the TOC Guidelines density bonus; importantly, however, TOC projects in the GDHIA are still eligible for a 40% FAR bonus, meaning they can secure additional development capacity without making TFAR or linkage fee payments.

Although micro-unit development may be feasible outside of Downtown in limited circumstances, reducing or eliminating density limits is essential to making micro-units viable in more locations throughout LA.

Solutions

• Expand the Greater Downtown Housing Incentive Area (or something similar) to other transit-accessible locations in the city. State Senate Bill 827 would eliminate density limits and parking minimums within a half mile of transit across the state.

• Allow for higher dwelling unit density for projects where household size is lower than average (i.e., for studios and especially micro-units) and where limited parking is provided (or car-share access is guaranteed). This policy change would recognize that household sizes are smaller for studios and micro-units and therefore the impacts on roads, utilities, schools, and other public resources is reduced.
Building Code Restrictions

In some cases, micro-units can’t be built even when parking requirements and density limits are absent.

One such case is adaptive reuse projects. Credited with catalyzing the revival of DTLA, adaptive reuse projects created thousands of new units of housing in a short time, but small units were prohibited. The Adaptive Reuse Ordinance (ARO) prohibits dwelling units of less than 450 square feet and further requires an average unit size of 750 square feet, which significantly limits the range of housing types that ARO projects are able to provide.

Unfortunately, the city’s proposed Hybrid Industrial (HI) zone would double down on this policy. It would require an average minimum unit size of 750 square feet for all live/work units, preventing the development of micro-units without providing extremely large units as a counterbalance, which is likely infeasible. Each unit also requires a minimum work space of 150 square feet, approximately half of the total space in a typical micro-unit. Live/work units are the only residential use permitted in HI zones, making micro-units effectively illegal in the Arts District and other locations where HI zones are expected to be adopted.

Solutions

• Eliminate minimum average unit size (750 square feet) and minimum dwelling unit size (450 square feet) limitations for adaptive reuse projects from LAMC Section 12.23.X.1.(d).

• Eliminate the provision in Hybrid Industrial zones requiring that all units be live/work units, which require a minimum average unit size of 750 square feet and 150 square feet of work space, effectively precluding micro-units from being built in these zones. Add language to the ordinance allowing at least half of the residential square footage in HI zones to consist of typical, non-live/work multifamily housing. Alternatively, maintain the live/work requirement in HI zones but eliminate the minimum average unit size requirement and reduce work space requirement to 100 square feet—or allow for a shared workspace to satisfy the work space requirement.

Mitigation Fees

Fees based on dwelling unit count unfairly disadvantage smaller residential units, especially micro-units. The city’s park fee, which requires payments between approximately $4,500 and $10,000 per dwelling unit, assumes an average of 2.88 residents for each new unit constructed in LA. In practice, most micro-units have just one tenant, so micro-unit developers (and therefore their residents) would pay a disproportionate share of the cost to support the city’s parks. For example, a 100-unit micro-unit building might have 120 residents, but it would pay the same amount in park fees as a larger 100-unit building with over 250 residents. As currently structured, the fee lacks a fair nexus between cost and added demand for local parks and open space.

Solutions

• Redesign the park fee to be based on square footage of habitable development rather than dwelling unit count, similar to the structure of the proposed linkage fee, LAUSD school fees, and others.

• Identify other dwelling unit-based fees and restructure as square footage-based fees instead, as appropriate.

Other Mitigation Requirements

Other mitigations and community benefits, such as street tree requirements, are also often linked to dwelling unit count. Because of the lower occupancy of smaller units, requirements based on dwelling unit count force tenants of micro-units to shoulder an outsize share of the cost of public benefits, and such tenants are often in the worst position to bear additional costs. While less impactful than parking requirements, density limits, and certain fees, these non-fee-based mitigations also place an undue burden on micro-units and put them at a competitive disadvantage relative to larger unit types.

Solutions

• Redesign the street tree requirement to be based on square footage of habitable development or street frontage rather than dwelling unit count.

• Identify other dwelling unit-based mitigations and community benefits, and restructure as square footage-based or street frontage-based fees instead, as appropriate.
Now that micro-units are feasible in DTLA, it’s up to developers and brokers to lead the way and build them. Micro-units have proven successful in transit-oriented communities across the country, and the first to deliver them in Los Angeles will be rewarded with strong rents, high occupancy, and almost no regional competition.

As developers prove this model locally, we also hope that the City will work to further enable micro-unit development as a way to diversify the housing stock and meet our residents’ wide range of housing demands, from single-person micro-units to family-sized condominiums and townhomes.

Central City Association strongly believes that new housing typologies, building materials, and construction techniques can all help create a more functional and affordable housing market. We look forward to working with developers, brokers, property owners, designers, architects, state and local officials, and any other stakeholders interested in promoting micro-units as an essential component of that effort.
References


2. Ibid


10. Ibid


