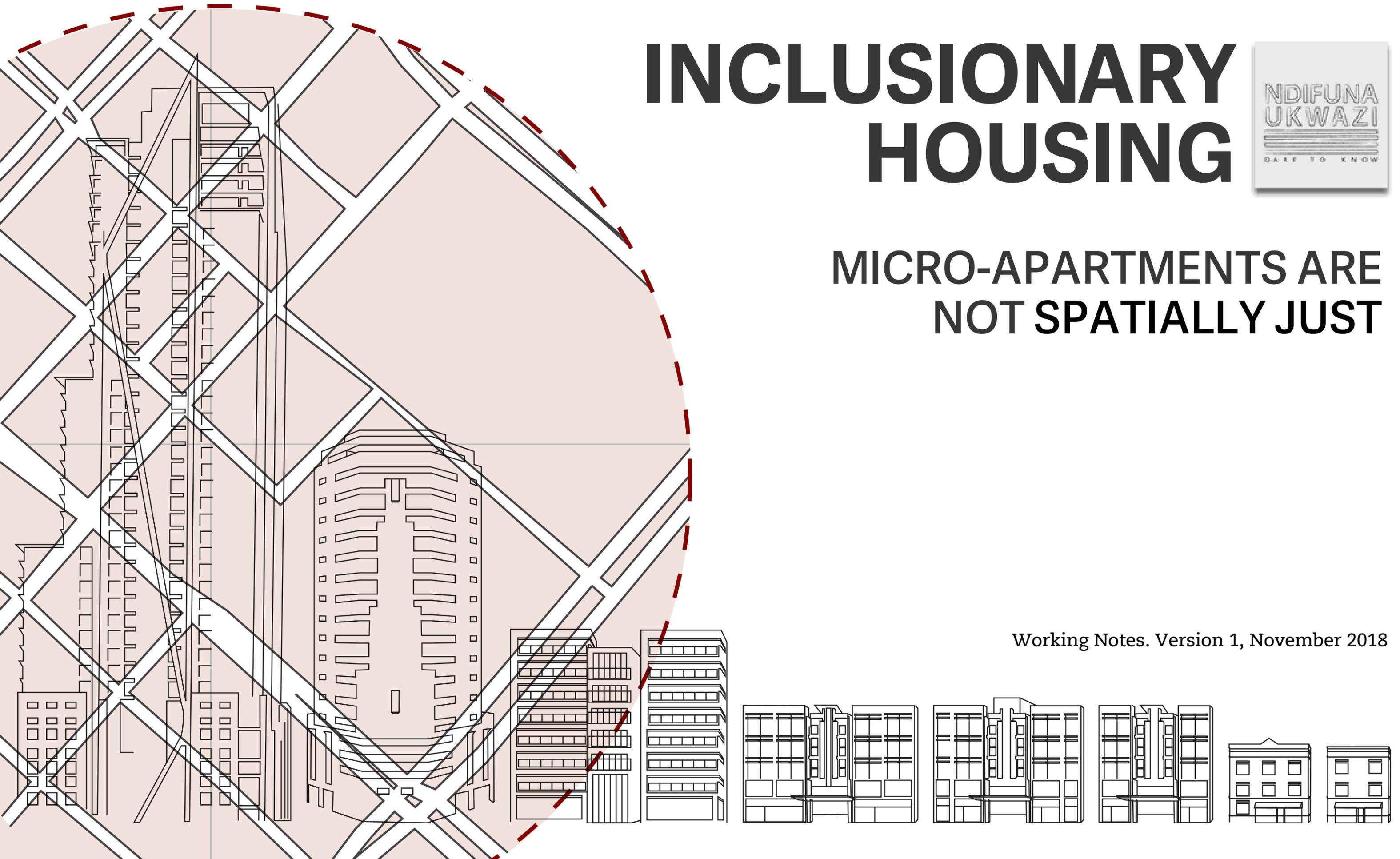


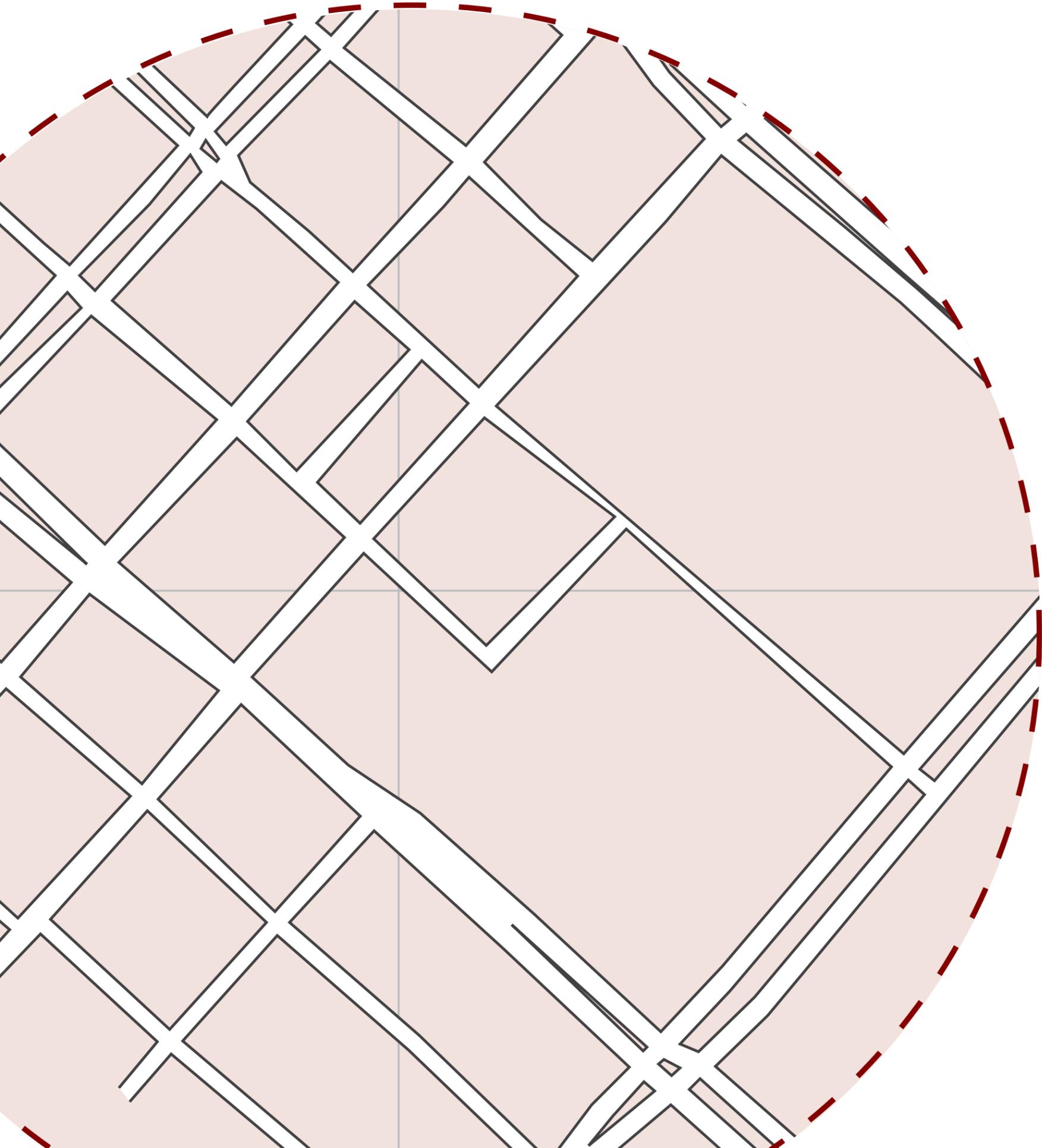
# INCLUSIONARY HOUSING

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## MICRO-APARTMENTS ARE NOT SPATIALLY JUST

Working Notes. Version 1, November 2018





## MICRO-APARTMENTS ARE NOT SPATIALLY JUST

This working note forms part of a series on inclusionary housing to advance a policy grounded in the City of Cape Town context. In each note we tackle a core concept to encourage dialogue and debate between different stakeholders. We want to advance the principle of spatial justice, equitable access to land, and the right to housing, while stimulating density and inclusive economic growth. Rather than being definitive, these working notes are iterative and we would like to re-write, edit and adapt based on feedback.

Many developers have proposed moving to include micro-apartments in their developments to bring the price down. In this working note we argue that micro-apartments are smaller, not cheaper and do not necessarily provide greater access by race and class and therefore can't be considered to advance spatial justice.

# Micro-Apartments

## MICRO-APARTMENTS ARE NOT SPATIALLY JUST

In response to objections that their developments are spatially unjust, some developers have proposed including a large number of Micro-Apartments in their developments. Because they are smaller, these apartments are cheaper than others on the market, but they could not be considered to be spatially just affordable housing. They are not affordable enough and too small to provide significant access to Black and Coloured households. There is no mechanism to retain price affordability in perpetuity.

### Micro-apartments are smaller rather than cheaper.

Micro-apartments are a new term for very small studio apartments between 15m<sup>2</sup> and 30m<sup>2</sup>. They are being promoted in many cities around the world, including Hong Kong, San Francisco, New York, Vancouver, Toronto and London, where land and property prices are very high and there is not enough affordable housing on the market. Developers reduce the floor space considerably, so that the overall unit price is cheaper than anything else on the market, but retain or even raise the high price per square metre to maintain profits.

Few micro-apartments have been built in Cape Town so we cannot accurately measure trends. However, a small number of new developments are opting to include micro-apartments, and these provide some indicative examples of the profitability of the micro-apartment model. The average per square metre price of an apartment in the central city is R41,287/m<sup>2</sup>. New micro-apartments in Cape

Town fetch significantly higher prices per square meter. For instance, 25m<sup>2</sup> micro-apartments in 1 on Albert are selling for R46,162/m<sup>2</sup>, while micro-apartments of the same size in The Rockefeller are selling for R57,000/m<sup>2</sup>. This demonstrates that micro-apartments are a business model rather than a contribution towards spatial justice.

### Micro-apartments will be resold and soon become expensive

The graph on the following page tracks the resales of ten small apartments which have been sold in the CBD in the last two years. The graph indicates that these smaller apartments, which are considered to be "entry level" are rapidly increasing in value.

Unit 167 in The Square (33 m<sup>2</sup>) sold in 2016 for R800,000 and again in 2017 for R1,200,000 this represents an increase of 50% in a single year.

The Square unit 161 (33 m<sup>2</sup>) sold for R899,000 in 2016 and for R1,300,000 in 2017 which represents an increase of 45% in a single year.

Unit 903 (31 m<sup>2</sup>) in the Four Seasons was sold in 2016 for R925,000 and again in 2017 for R1,250,000 which represents an increase of 35% in a single year.

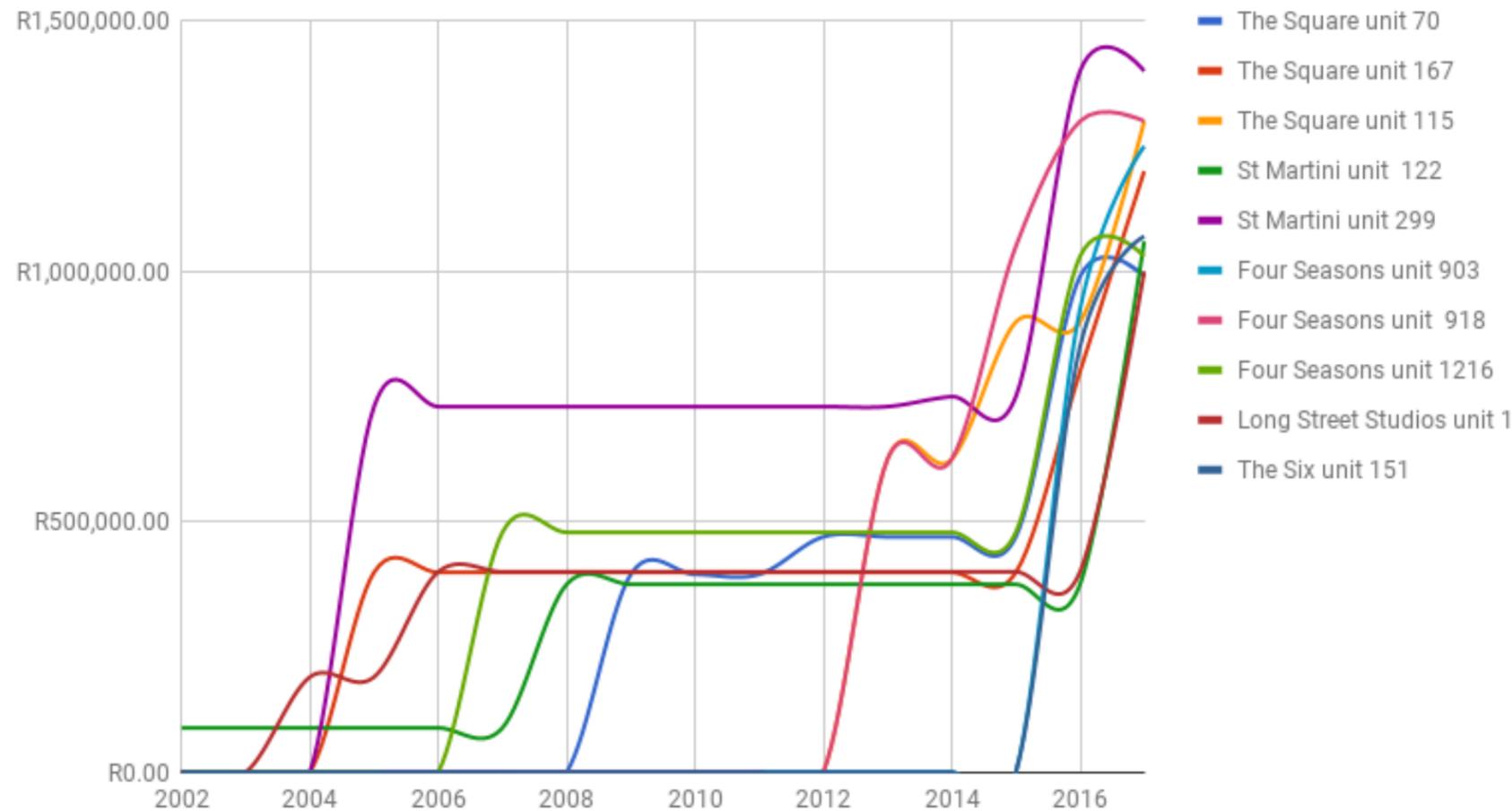
Unit 151 (32 m<sup>2</sup>) in the The Six was sold in 2016 for R850,000 and again in 2017 for R1,070,000 which represents an increase of 26% in a single year.

The Square, Four Seasons and The Six are 11, 9 and 8 years old respectively and are considered to be some of the 'cheaper' apartments blocks available in the CBD catering to a large portion of students.



A rendering of a typical 30m<sup>2</sup> apartment in The Rockefeller

### Small apartments sold in CBD 2016/2017



### Micro-apartments used for short-lets and students are more expensive

In fact, when looking at the price per square metre, micro-apartments are more expensive on average than larger apartments to rent. A 2015 study describes how micro-apartments lease at approximately 20% to 30% lower monthly rent than conventional units, yet at very high value ratios (rent per square metre)."

For example, 106 Adderley Street is a 14 story mixed-use building with approximately 350 apartments ranging from

12m<sup>2</sup> micro-apartments (including an ensuite bathroom and kitchenette) to 50m<sup>2</sup> multiple bedroom (shared) apartments with shared facilities.

These are nearly all institutionally managed as short-lets and student housing. At a rent of R500/m<sup>2</sup> student housing charges more than double per m<sup>2</sup> than premium-grade office space in the CBD which was R185/m<sup>2</sup> in the fourth quarter of 2017.

Students have to be able to pay rental annually or every six months to secure a micro-apartment or room.

Most students cannot afford to pay anywhere near this, so the building caters to wealthier students or students from other countries.

Micro-apartments can sell up to 25% faster than larger apartments because the cheaper entry price allows for a wider range of investors to buy them. Micro-apartments are more prone to property speculation because they are suitable as "lock up and go" lets, student lets and short lets. Wealthy individuals can afford to buy a number and companies can afford to buy whole floors to rent out. This could be beneficial if they were subjected to institutional arrangements to ensure affordability in perpetuity but this is unlikely. This can lead to apartments sitting empty for large portions of the year and removes housing stock available for residents.



106 Adderley Street student housing at R500/m<sup>2</sup>

## Micro-apartments are not a sufficient contribution

Micro-apartments are not a sufficient contribution to offset additional bulk rights. They are simply an alternative business model. Many developments that do not require bulk rights departures are now including micro apartments. The Dogon Group's 1 on Albert building that is being developed in Woodstock does not require any considerable departures, yet is offering micro-units.

The asking price is indicative - micro-apartments in 1 on Albert are selling for prices upwards of R43,750 p/m<sup>2</sup> with 21m<sup>2</sup> units starting at R913,000. Parking bays are optional extras at R250,000 per bay. This higher price per m<sup>2</sup> is indicative of the premium finishes used to make the smaller apartments more desirable. For developers this is a business model that is equally, if not more, profitable than larger apartments.

## Micro-apartments do not provide real access

While they are cheaper than other products on the market, this does not mean that they provide access to Black and Coloured families living in the city. The fact is that when you look at incomes, they only provide limited access to a few people at the very top end of the affordable housing segment. Considering the vast majority of the city cannot afford to buy or rent here, they are not a suitable offering to mitigate the class and race impact of the building, nor do they help the City to meet its spatial justice obligations.

This is predominantly because micro-apartments cannot fit more than one or two people and most people who need affordable housing live in larger households. Micro-apartments are aimed at young upwardly mobile people without children.



This is an example of a 26.3 m<sup>2</sup> micro apartment in 1 on Albert and has a asking price of R1,124,000 or R1,374,000 per micro unit with a parking bay.



Quality finishes are essential for the marketability of micro apartments. Essentially, high land costs mean that space is traded for luxury fittings. This underscores the reality that micro-apartments are not aimed at low-moderate income earners.

# Questions

Many developers sell micro-units at bulk. Even if these were inclusionary, what mechanism could be used to ensure wealthier individuals don't **benefit unduly**?

Outside of the valuation roll, should the City be obliged to **collect baseline data** on sales and rental prices per m<sup>2</sup> to inform inclusionary housing contributions?

Considering the problems with access to this opportunity, under what conditions could a micro-apartment be considered to **advance spatial justice**?

