

ARTICLE 4

DESIGNING THE MICRO-LIVING
EXPERIENCE

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The casual observer may be baffled by the idea of people choosing to live in only 400 square feet. With partners, children, and high-paying jobs, people with established families and careers will understandably find it difficult to comprehend why living in such a small space would be desirable to anyone.

In recent years, many households in major cities across the country are gladly giving up space for privacy, comfort and location at a price they can afford. These households are opting for a particular lifestyle enabled by small, affordable units. Small spaces can be desirable, comfortable, and livable when designed with the resident's daily needs and wants in mind.

When properly furnished and finished, the perception of comfort makes even small spaces attractive to potential tenants. Some may know this way of life as the "small house, big life" lifestyle. A small, simple and well-located home provides an affordable means to access all the great things urban living has to offer. Young, single professionals making a median income actively seek out such small units. In search of an affordable place to live without the need for roommates, young teachers, nurses and other professionals are a group of people with a particular set of needs and priorities that up to 400 square feet provide very well.

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Riaz Capital, as a firm, has been successfully renting to and building for this demographic for 10+ years. Our company is intimately familiar with the needs and wants of this tenant and have built a successful and proven model for this demographic. We have been on the forefront of this market for years, building and managing workforce housing, student housing, coliving and microunits. We hope to share some of our best practices and lessons learned regarding how to best serve the average member of the urban workforce.

Through our strategy, we have found that price is our best amenity. Potential tenants in our market are price-sensitive and begin their search for a home by establishing a personal price range for the rent they can afford. By keeping our prices comfortably within this range for most individual, middle-income households, our product stands out in the market to our target demographic.

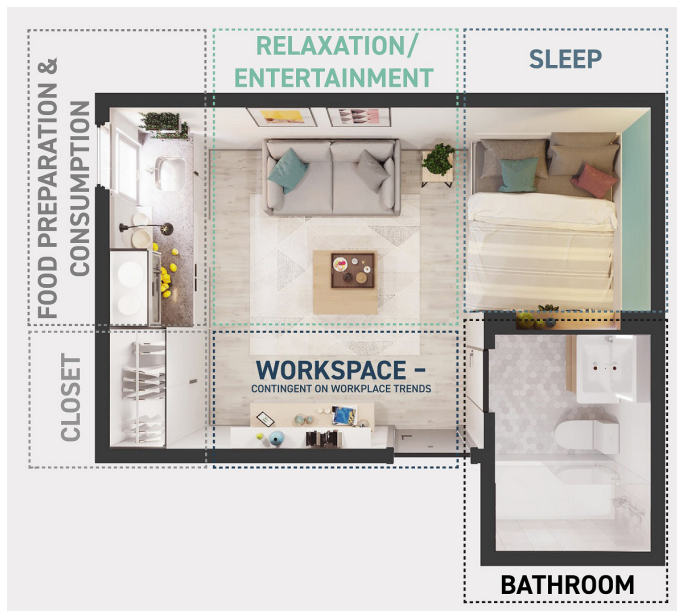
While tenants seeking micro-living are sacrificing quantity in terms of square footage, they are not sacrificing the quality of their space. The urban workforce, made up of middle-income professionals, places an emphasis on style, comfort, and convenience when selecting where to live, and developers who are focused on meeting this demand can provide a quality product in a compact and affordable package. The result is an emerging asset class: urban workforce housing. When well executed, this model is an ideal way to provide dignified, comfortable, and stylish housing that is highly marketable to the single-income urban professional.

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THE FUNCTIONALITY CHECKLIST

The “Functionality Checklist” is a useful tool our company has developed over the years to shape the design of our housing typology. This Checklist is a concept explaining that the core of any marketable housing product is how comfortably it enables daily activities for the target customer. To be marketable, any dwelling unit will need at minimum six functional areas:

1. Food preparation and consumption space (such as a kitchen/ kitchenette)
2. Relaxation/ entertainment space
3. Sleeping space
4. Bathroom space
5. Closet space
6. Workspace – contingent on long-term effects of COVID-19 workplace trends



As studio units, our micro-living units check all six boxes of the Functionality Checklist. A kitchenette allows for light food preparation, a couch and TV act as entertainment space, and a small desk area, closet, private bathroom and queen-sized bed round out the Functionality Checklist. By perfectly optimizing the square footage of each of these functional areas, units optimize the

use of each square foot for what urban professionals value most. This ensures that they do not have to pay for what they do not need. This design produces tremendous value for the tenant and makes the efficiency of the unit a valuable and marketable aspect.

To achieve this spatial efficiency, our units utilize built-in furniture such as a closet rather than a wardrobe and a built-in media console. Built-in features provide both space efficiency and an extra level of convenience for those looking for a seamless move-in experience. As we will explain in the next section, tenant experience is paramount to success in this market.

THE TENANT EXPERIENCE

For a tenant prioritizing convenience in a high-turnover rental housing market, the experience of moving into a new apartment is top of mind when looking for a home. With fully-furnished apartments available at the tenant’s option, residents can experience a seamless and convenient move-in and move-out experience.

The fundamental idea of convenient housing is to transform the experience of moving into a new apartment from a dreaded chore to something akin to checking into a hotel. There is no need for tenants to buy furniture that may not fit into their next apartment, at which point they would need to dispose of the excess material. Rental housing can easily work as a full-service experience, providing not only the space but the means to live comfortably in it.

Micro-living units are a hospitality experience in an operationally multifamily product. In our own approach, our micro-living units come furnished and stocked with basic kitchen supplies, including pots, pans and silverware. Like checking into a hotel, all a tenant needs to bring with them during their

move-in is their clothes. The properties in our portfolio run the gamut from unfurnished apartments to hotel-like move-in experiences, but we feel that the convenience afforded by the fully furnished micro-living units is core to the micro-living strategy. With 70% of our new pre-pandemic tenants being relocations from out-of-town, we understand first-hand that convenience is key to attracting new residents.

Reducing or eliminating the need for tenants to provide their own bulky furniture has many benefits. Not only is it convenient to the tenant: the provided furniture is guaranteed to be appropriately sized to make the best use of the compact space within the unit. Not having to move furniture in and out with every move also cuts down on wear and tear in the apartments themselves, as furniture can scuff walls and floors as it is moved in and out of the space. This aspect is valuable to the asset owner because it reduces the costs associated with repairs and allows for quick unit turnover.

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QUALITY OVER QUANTITY

Urban workforce housing focuses on providing quality where it matters most. To maximize value for the tenant, our compact units have high-quality finishes in places where tenants can enjoy them. Ceramic tiles adorn the showers, soft-close cabinets and drawers come standard, and tech-enabled door locks make entry easy and convenient. Fast internet is included in a flat community charge, and dimmable lighting enables a variable atmosphere. Minisplit climate control ensures thermal comfort for residents.

The real value in the micro-living model comes from effective segmentation of spatial

uses in a home. Fundamental to every multifamily complex are the conveniences located in three places: the residence, the building and the community. Within the residence, our model has placed everything the average resident uses daily behind the privacy of their locked door. This includes closet, bathroom, kitchenette, living space and bed.

Within the commonly accessible spaces of the building are things that residents may use weekly, monthly, quarterly, or, for some residents, never at all. Within our smaller complexes, these include a full range stove and oven, laundry machines (we encourage our residents to use these at least weekly), large living area, barbecue grill, and outdoor seating area. In larger buildings, shared amenities may include gyms, lounges, media rooms, bike rooms, and package rooms.

The surrounding community rounds out the tenant experience by providing neighborhood amenities. These include transit, jobs, bicycle infrastructure, grocery stores and pharmacies, restaurants and coffeeshops, and entertainment opportunities. By appropriately segmenting spatial uses and amenities, our model effectively optimizes the value of space for residents that place a heavy emphasis on getting a private, comfortable and livable unit for an affordable price.

The goal of developing urban workforce housing is not to simply develop the cheapest new construction housing possible. The goal is instead to focus development expenses on aspects that truly produce value for residents. Residents may not find value in having an in-unit washer/dryer in each unit, but they will place an emphasis on easily meeting their daily needs and having quality materials that they touch and use every day. By reducing the size of each unit, urban workforce housing can provide an uncompromised, luxurious experience to

tenants in a compact and affordable package.

MARKETING A LIFESTYLE

Single-income urban professionals look for homes that enable a rich lifestyle of ample social opportunity, independence from car ownership, and material simplicity. Small, stylish, efficient apartments in prime urban locations enable exactly such a lifestyle.

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As a builder of micro-living units, Riaz Capital is not trying to sell tenants on a particular kind of life. Tenants are perfectly aware of their preferred lifestyle: they already know that they prioritize comfort, privacy, and style over size. They know that they want a convenient, urban location proximate to mass transit and nightlife. As they look for a place to live, they seek out places with bike parking over complexes with unnecessary off-street car parking. When prospective tenants know what they want, micro-living marketing does not need to convince them that 400 square feet is enough space, or that it makes sense to be close to a BART station. Tenants are often pleasantly surprised by the style and quality of the space, and that is what gives micro-living units their edge in the market.

Our approach is one of respect: we are looking to enable the lifestyle choices our tenants have already made at a price they can afford. Micro-living studios provide an opportunity for tenants to live without roommates in well-located areas comfortably and affordably.

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Simple, stylish, and comfortable housing does not need to be spacious to attract and retain tenants. Through thoughtful design and a focus on tenant experience, small units can appeal to price-sensitive tenants who prioritize location, style and comfort over size. With apartments that provide a lot of value to prospective tenants with specific housing needs, micro-living units are a luxury experience in a compact, affordable package.

Of course, micro-living is not for everyone. Families and couples, for example, may find living in such small spaces very difficult. But for the single, young professional, such a space lies optimally at the intersection of their budget and needs. This housing product is the epitome of quality over quantity.

While much of the value of these units is derived from the qualities of their interiors, what exists outside the units' walls is just as important. In the next section, we will explore the power of location and the value of community amenities over property-specific ones.

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