

Micro homes: The answer to a big question?

Affordable Housing, Future Communities,
Economic Growth Driver.

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Insights

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Micro homes have every potential to become a global growth sector, driven by affordable housing capacity issues, rising homelessness and a section of the working population looking to shift their work/life balance experience. Anticipated to surpass US\$25 billion by 2031¹ with 7% CAGR, according to research specialist, Growth Market Reports, a question remains on whether micro homes will ultimately fall into a niche lifestyle choice category and a slow burner from a market growth perspective.

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Regulation, zoning and infrastructure remain barriers to achieving market scale.

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Insurance products and coverage varies in scope, reflecting whether the micro dwelling is mobile (on wheels) or a fixed entity (on foundations)—pros and cons associated with both that need to be fully understood.

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Family size/inhabitant number of desired style of occupation rules out micro homes for a significant percentage of the eligible homebuyer population while offering a cost-effective and sustainable option for first-time buyers, low income groups, second home owners, down-sizers and potential solutions for homelessness.

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Micro home owners statistically have a significantly lower debt level than traditional home owners, with many mortgage / credit card debt-free and using the micro dwelling as a home office.

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Tiny house fans champion the green credentials: With many micro homes requiring ~914 kWh per year, or simply 7% of a median sized home's annual power requirements², a lower carbon footprint and the ability to use sustainable building materials contribute from a general thumbs up from ecologists, climate change activists and those considering a switch to micro living.

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Economical, portable, eco-friendly, community-minded and for many a mortgage-free option. A lot of positives, but an apparent reluctance to step in to the opportunity is dampening broader buy-in from investors and homebuyers that needs to be resolved.³

Introduction

Soaring property prices and an acute shortage of affordable housing have characterized the 21st-century housing market. With rapid urbanization and population growth driving demand, the gap between housing supply and affordability has widened, leaving many individuals and families struggling to secure a stable housing solution. Homeless rates have surged, the social inequality gap is getting bigger and communities are tackling a range of complex issues.

A shortage of affordable housing and the construction sector building new homes at volumes below the anticipated 2022 and 2023 targets, have driven both a capacity issue and a growing rate of homelessness fueled by a cost of living crisis and historic highs for inflation and interest rates.

Out of these challenges, the opportunity to innovate and deliver new housing solutions has emerged.

Micro homes, with their potential to offer affordable and sustainable living spaces, are one example. Built from a range of materials and easily customizable, seasoned developers and new-to-market entrepreneurs are seizing the opportunity to provide a workable solution for individuals and families from all walks of life. And it potentially looks set to become a new growth market for the construction sector as it grapples with burgeoning demand for housing, globally.

The micro homes market size is currently projected to grow at a CAGR of 4.88% from 2022 to 2027¹ equating to a US\$4.2 billion increase and is anticipated to scale up further. Demand is likely to be driven by a combination of factors, including:

- Rising living costs and growing social inequity.
- Climate change and the transition to more sustainable living.
- Government funding and private investment initiatives to grow market scale at an increased pace.

In 2022, the median size of a newly sold single-family home stood at 2,383 square feet.⁴ But micro homes generally range between 100 and 400 square feet, although an agreed size limit has not been set at this time.

By exploring the attached benefits, limitations, and economic feasibility, this article aims to question whether micro homes could become part of a targeted response to tackle social inequality, shifting lifestyle expectations and the affordable housing crisis, including the constrained supply of new build homes impacted by the current inflationary and interest rate environment.

“Roughly 40% of the CPI is based on housing, and the Fed can do little to tame housing inflation. The only way to bring down housing inflation is to build more affordable housing.” Based on his group's data, he reported a 1.5 million deficit in the number of new homes needed to make housing relatively affordable in the United States. **“Just 42 percent of new and existing home sales are currently affordable to a typical household, which is a post-Great Recession low.”**⁵

— **Robert Dietz**, Chief Economist,
National Association of Home Builders (US), 2023



Micro homes, macro dynamics

A question has been raised on whether micro homes could present a longer term solution to homelessness and the affordable housing crisis⁶. The recent growth in popularity and demand for micro homes can be attributed to a combination of social, economic, and geopolitical changes currently reframing the housing market. These changes have created a unique market opportunity for micro homes, making them an appealing option for diverse individuals and communities.

Key trends driving this change include:

Economic necessity

- **Rising cost of living:** The ever-increasing cost of living in urban centers has made traditional housing options unaffordable for many individuals and families. As housing prices continue to rise, the dream of owning a conventional home or apartment within these bustling areas has become financially out of reach.
- **First-time buyers and low-income earners:** As property prices escalate, many first-time buyers and low-income earners need help to enter the housing market. Micro homes can act as a stepping stone, offering an affordable entry point to homeownership and providing social housing initiatives with a viable and cost-effective solution.

Reassessing work/life balance

- **Changing demographics and lifestyle preferences:** Societal shifts in demographics and lifestyle preferences have played a significant role in the rise of micro homes. Millennials and Gen Z, in particular, have preferred minimalistic and sustainable living. They often prioritize experiences and flexibility over traditional homeownership, making micro homes attractive for those seeking a more affordable and versatile living arrangement.
- **Downsizing and releasing equity:** Empty nesters and retirees looking to downsize from their large-family homes find appeal in micro homes. Moving into smaller, more efficient spaces can free up significant equity, allowing them to bolster their retirement savings or pursue other interests. Many micro homes are designed with energy efficiency in mind, incorporating features such as solar panels and advanced insulation. This translates to reduced utility bills, helping retirees keep their living expenses under control.

- **Holiday rentals and second home owners:** Micro homes have also captivated holiday and second home owners. These compact abodes are ideal vacation getaways, providing a cozy and functional space without the maintenance and expenses associated with larger properties. The compact nature of these homes makes them easier to locate in picturesque and remote locations, providing holiday homeowners with the opportunity to experience breathtaking natural settings.

Sustainability

- **Climate change considerations:** With growing concerns about environmental impact and climate change, micro homes offer an eco-friendly option. Their smaller footprint reduces energy consumption, promotes sustainable living, and encourages using renewable resources, thus appealing to environmentally conscious buyers.
- **Nat Cat events and construction resilience:** Micro homes made from weather resilient and sustainable materials can provide a viable housing option in areas prone to storms, flooding and earthquake events. Given micro homes are often easier to rebuild or repair, their scale is potentially a safeguard in ensuring communities are able to recover more swiftly following a Nat Cat event.

As urbanization, environmental consciousness, changing demographics, and economic factors continue to define community priorities now and in the future, micro homes could achieve heightened relevance and be a sought-after housing option for those seeking affordability, sustainability, and adaptability in their living spaces.



Communities of the future

Opinions vary on the role micro (or tiny) homes may be in building the communities of the future. Micro home communities present a range of opportunities to drive local economic growth and general prosperity, and the rejuvenation of communities that have experienced a prolonged period of decline.

On one side of the fence, advocates for social inclusion and the availability of affordable housing options for a diverse homebuyer demographic—empty nesters, downsizers, students, small business entrepreneurs, first-time buyers, escape the city pioneers and others. On the other hand, the NIMBY (“Not in my backyard”) population continues to firmly push back on the prospect of micro home communities being located on their doorstep. Whatever the view, there is still reasonable room for optimism and there is a pressing need for the private and public sector to partner in a meaningful way for greater social benefit.

Setting market values to enable the sale/purchase flow lacks a coordinated, cross-market view and it is partly dictated by land values that are often significantly higher than the property’s rebuild cost. Zoning and planning considerations also vary between countries and specific locations, with some local government bodies prohibiting or restricting the construction of multi-micro home developments on inner city plots. Building codes and construction requirements also vary; however, improvements are being seen.

Upzoning

Governments upzoning single-family areas to allow the construction of up to several units per lot and increase social inclusion. The downside of such initiatives is a lack of scale: densifying smaller lots is time consuming and has limited impact. More efficient policies related to upzoning would be to create entire neighborhoods to spur large-scale construction, like the one in Williamsburg, Brooklyn. Here, high-rise, mixed-income waterfront towers were created. However, upzoning needs to be subtle enough to deliver the desired effect. For instance, current Manhattan zoning limits any new building’s bulk much more than its height, resulting in supertall, ‘skinny’ towers. But building such designs is so costly that the sole viable economic use is ultra-luxury condominiums, which led to the creation of ‘Billionaires’ Row’ on 57th street.

The scalability and ease of building micro homes offer natural alignment with a range of leisure and tourism opportunities, creating employment and economic growth opportunities for regional and rural communities that are out of the commuter zone for larger cities and economic centers.

Infrastructure, zoning and regulation

Infrastructure for micro homes, including essential utilities, is crucial to making these compact living spaces functional and comfortable. Micro homes enable the owner to explore and adopt eco-friendly power generation. Given that they are designed to be energy-efficient, this makes them well-suited for renewable energy sources.

Illustration of Projected Utility Costs for a Standard Built Home (Big House) Versus a Micro Home (Tiny House).

	Big House	Tiny House
1 month	\$186.14	\$20
6 months	\$1,116.84	\$120
1 year	\$2,233.68	\$240
5 years	\$11,168.40	\$1,200



Electricity

Connecting to the electrical grid allows micro home residents to access traditional electricity when needed. However, incorporating solar panels, wind turbines, or other renewable energy systems can supplement or replace grid electricity, reducing cost and environmental impact. Smart energy management solutions can also optimize power usage and storage within the limited space available.

Gas

Gas supply for heating, cooking, or other appliances can be sourced from local utility providers or portable gas cylinders.

Micro home dwellers should consider installing energy-efficient appliances and practices to minimize gas consumption and manage associated costs within the required household budget.

Water

Clean and reliable water is essential for any living space. Micro homes can be connected to the local water supply, similar to traditional homes. To enhance water conservation, residents can install low-flow fixtures, collect rainwater, or use water filtration systems to reduce consumption and reliance on the municipal water supply.

Sewage disposal

Micro homes, whether mobile or fixed foundation, need a reliable sewage disposal system to manage waste responsibly. Depending on the location and local regulations, options may include connecting to the municipal sewer system or using on-site solutions like septic tanks or composting toilets. Composting toilets can be particularly beneficial for sustainability, as they transform waste into nutrient-rich compost for eco-friendly disposal.

Renewable energy and off-grid considerations

While connecting to the grid is a common choice for micro-home owners and developers, the freedom of off-grid living is attractive for some. Off-grid micro homes can be developed to provide solar power with battery storage, rainwater harvesting, filtration and other grey water systems can be used for a range of household tasks, and composting toilets are another option, although can be challenging to install. Efficient water and energy management are the critical concerns in off-grid setups, and may be subject to planning permission and the availability of specialist skills to implement.⁷

Biomass is a relatively new concept providing you with a renewable gas power source derived from food and human waste. There are a number of considerations: 1) Biomass requires a continuous temperature of around 25 degrees which is generally challenging to attain. 2) A heat pump is required that benefits from a permanent base such as a shed or container positioned next to the main dwelling, to pump heat and maintain a stable temperature.

Zoning, codes and regulations

Before setting up infrastructure for a micro home development, it is essential to understand local zoning laws, building codes, and regulatory frameworks. Different regions may have specific rules governing the size, design, and utility connections for micro homes. Compliance with local regulations and build codes ensures a smooth (and compliant) integration with existing infrastructure.

Zoning law compliance and readiness for micro homes. One of the challenges micro home enthusiasts encounter is complying with zoning laws. These laws dictate how land usage within urban, rural and regional locations, including construction and occupancy types. In some cases, existing zoning codes do not permit tiny homes or micro-housing units within city limits, creating barriers to building micro home communities in the places where they are needed most.

A common challenge is the minimum square footage specifications required with zoning codes, particularly for residential structures, along with some codes prohibiting multiple dwelling units on single plots and limits to the number of bedrooms per home.



Do property taxes apply to micro homes? This generally reflects whether it is a fixed foundation or mobile/RV home and the intended occupancy of the property, for instance, a residential home versus a holiday rental or home/ business premises. However, if the property is located in a state that collects personal property taxes for motor vehicles, then you still might have to pay it. Micro homes on wheels are often classified as a recreational vehicle (RV) and likely to be subject to a road tax.

Micro homes have also become a political agenda. In May 2022, UK Prime Minister Rishi Sunak pledged to ban small homes without suitable storage space.⁸ The ban will take the form of an introduction of mandatory design regulations setting out national standards for new-build homes, an update from previous guidance published in 2015 that provided non-mandatory space recommendations, enabling developers to obtain planning permission to squeeze as many homes as possible onto a plot of land. The 2022 pledge means that buyers purchasing a new-build home will not unknowingly opt into a micro home transaction.

Building code compliance. Safety precautions such as installing smoke detectors, security systems, and proper tie-downs (for mobile micro homes) may help reduce insurance costs. Another issue arises when it comes to building codes and safety standards. Some municipalities may require specific building materials or engineering certifications that can increase construction costs significantly. Additionally, restrictions on utility connections such as water and sewage can make the choice of living off-the-grid more challenging.

Despite these challenges, opportunities are emerging at both local and national levels to address zoning barriers for tiny homes and micro-housing units. For example, some cities have implemented “pocket neighborhoods,” where several small houses are grouped together around shared green spaces or courtyards. Others have created “accessory dwelling unit” ordinances that allow homeowners to add small rental units onto their property. Both are promising developments and may open the door to broader opportunities, longer term.



Risk management and insurance

Micro homes fall into two categories: those built on wheels (mobile/RV) and those on fixed foundations. The classification and intended use determines the scope of insurance requirements and connected risk management, and the definition of what constitutes mobile, temporary and fixed foundation home may vary between jurisdictions. Despite progress being made towards developing a micro home insurance product, it is still generally regarded as a specialist / niche line of risk underwritten by specialist agencies.

Scenario 1 – Micro homes on wheels (RV, mobile)

Insurance products and policy wordings for a mobile micro home differ from insuring a fixed foundation dwelling. Mobile micro homes have a specific set of characteristics given that they may be regularly on the move and located in a variety of scenarios – city, rural, industrial, and may require either RV insurance or tailored mobile home insurance depending on the occupancy type and scope of the expected locations, including length of stay. The micro home’s construction also needs to be considered roadworthy and comply with current safety legislation.

Given the unique nature of micro homes, not all insurance companies may offer coverage. Liability coverage is crucial, as it protects you in case someone is injured on your property or if accidental damage occurs to another party’s property. Theft, vandalism, fire, falling objects, weather-related incidents, and animal collisions are other considerations that can be found within policy wordings.

Scenario 2 – Fixed foundation (THOF)

Standard homeowners insurance may be applicable and, depending on the size and features of your micro home, you may be eligible for a standard homeowners insurance policy. Traditional homeowners insurance typically covers property damage, liability, and personal belongings. However, not all insurers may cover micro homes, so it is essential to check with insurance providers that offer coverage for non-traditional homes.

Mobile home insurance is offered by some insurance companies for fixed location micro homes that are technically classed as mobile homes, tailored to the unique characteristics and risks associated with mobile and/or manufactured homes. Specialty micro home insurance products are available providing tailored coverage for specific construction characteristics and a non-traditional property valuation.

Are micro homes the answer?

“Everybody’s talking about living in tiny houses, but very few are doing it.”

— **Chris March**, Founder of *Tiny Eco Homes (UK)*⁶

Micro homes offer a workable solution to societal change and economic reality. Offering numerous benefits from tackling homelessness and affordability issues through to promoting sustainable living and building communities of the future, having a balanced perspective is helpful when assessing the pros and cons for investors, home buyers, construction companies, and property developers.

Early indications suggest that micro homes have the potential to evolve beyond offering a niche lifestyle choice, to become a commercially viable growth sector and a commercial response to the global housing crisis.

Regulatory obstacles, market valuation and zoning classification challenges remain. These need to be addressed to unlock the full potential of micro home communities. Instilling confidence amongst buyers and investors, and as land values continue to rise, it is crucial to strike a workable balance between prioritizing land use and recognizing the value of these compact yet innovative living spaces.

Today, homebuyers from Baby Boomers to Gen Z are reframing their priorities—evaluating the role and purpose of a community and the drive for environmental preservation. Micro homes illustrate the shifting perspectives of future communities, and their appeal looks set to grow over time.

With their significantly lower carbon footprint, sustainable and energy efficient construction methods compared to traditional homes, micro home efficiency is further elevated by integrating renewable energy generation, such as solar panels and wind power, enabling self-sustaining off-grid living. Being designed for mobility and affordability, micro homes offer an escape from the city and work/live from anywhere opportunity (in theory), building socially inclusive communities that prioritize residents and their surroundings.

With continued innovation, collaboration, and government policy enablement, micro homes could play a noteworthy role in shaping the future of housing and urban living. As we continue to navigate the evolving need for housing to cater to new and existing lifestyle choices, it is clear that micro thinking might be the key to solving bigger problems.

Citations

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