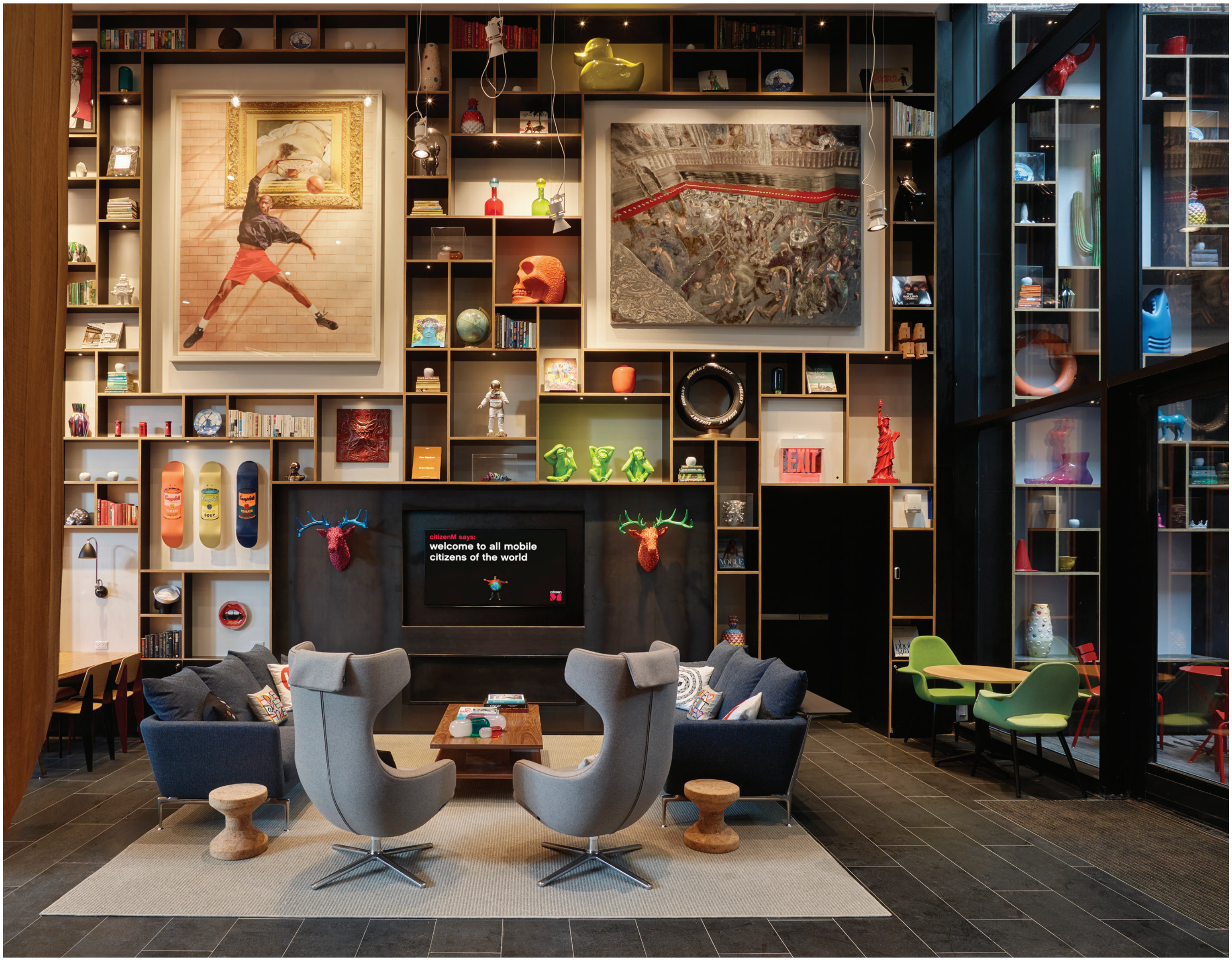
INFLUENCING MULTIFAMILY



By Ernest Lee
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As we come out of the pandemic to a new economy, it seems likely that the creator economy will continue to grow. This will have a major impact on the multifamily sector.

The current way most technology platforms monetize is based on attention at scale. More eyeballs and clicks results in more advertising. This also applies to other media—whether they are tech platforms, record labels, or newspapers—and this construct is almost always disproportionately better for those that control the tracks, not the trains.

But in an era where people increasingly follow people, not companies, the host platform needs to evolve – and the real estate world needs to take notice of how these trends will shift the relationships tenants will have with cities and buildings.

What you see now with the likes of Clubhouse, Patreon, OnlyFans, and Substack is a business model shift from an attention-based ecosystem to one that is focused on the creator.[1] This means consumers can engage and transact with creators directly, leading to a far more equitable structure and sustainable relationship with host platforms.

Already by the end of 2020, nearly 50 million people worldwide consider themselves creators, and two million of those derive full-time income from this work.[2] Even pastry chefs are getting in on the game, as barriers between creators and consumers keep falling.[3] At the same time, despite the economic recovery being well underway, millions of jobs, such as those in the service industry or industrial, are predicted never to return.[4] And two-thirds of those who were jobless in the US during 2020 thought about changing their field or occupation.[5]

As we come out of the pandemic to a new economy, it seems likely that the creator economy will continue to grow. Add to this the reality that 59 million Americans[6] already performed freelance work in 2020—a 22% increase from 2019—and overall self-employment is being fueled by younger, higher skilled workers seeking flexible alternatives to traditional employment.[7]

In the worlds I inhabit—hospitality and real estate, mainly—few people are paying attention to this critical demographic and economic shift.

As another way to understand this shift, Pivot podcast cohost and NYU professor Scott Galloway is advancing an idea he calls "the Great Dispersion."[8] This is a belief that a lot of things that have historically been anchored to physical locations—workforce, healthcare, education—will in time become uncoupled from each other and spread out over greater geographic distances. Soon there will no longer be a need for these services to be co-located or even near each other, and, as a result, people will move further away from major cities that have historically been primary employment hubs, and in many cases towards second- or third-tier cities, or even exurbs across the country.

There's good reason to believe the creator economy will have as great an impact on geographic dispersion, and subsequently real estate, as corporate remote work becomes more standardized.

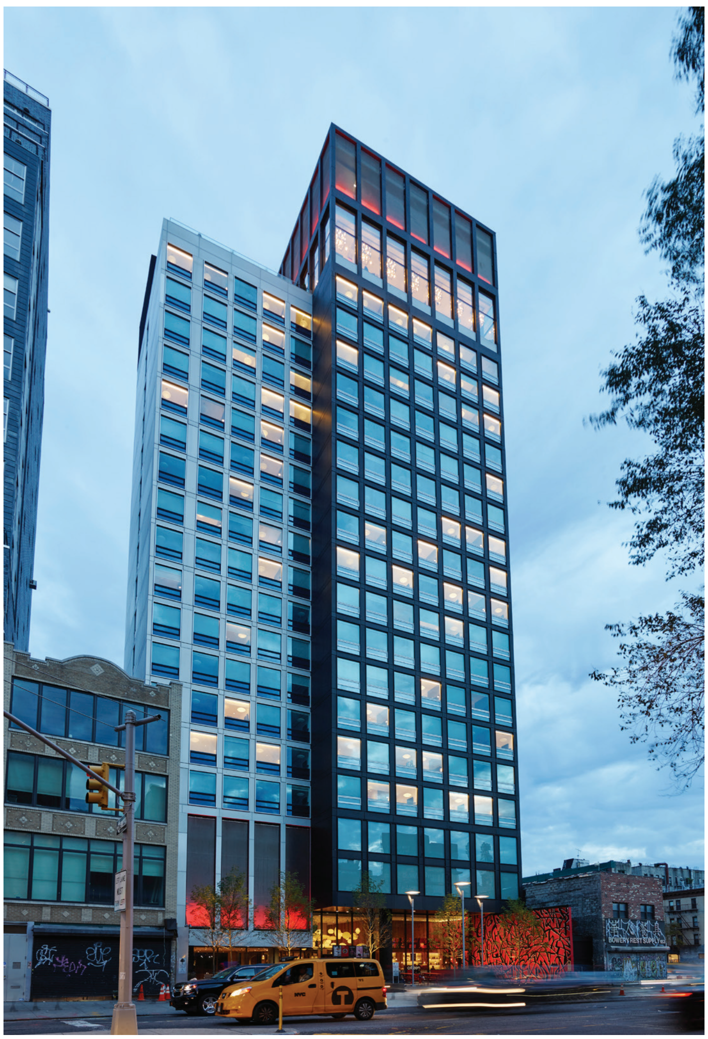
The creator economy is centered on entrepreneurs and the self-employed; those who can unilaterally decide to pack up and work from anywhere. This increase of creators has led to better tools for those in the space to earn a living, and the prospects of earning a better living consequently attract more creators.

The numbers of new creators and newly self-employed will be staggering and will have far-reaching effects on real estate. There are already an estimated 11 million Americans who consider themselves "digital nomads," along with an additional 19 million who say they are planning to become digital nomads—and another 45 million claiming they are considering the shift.[9] While these numbers will undoubtedly come down as more employers call their workers to return, the message is clear: when you can work anywhere, you can work for anyone, including yourself.

Courtesy citizenM Hotels.

This seems to be fundamentally at odds with real estate, which is by nature fixed in place. It's also highly fragmented and very local. Different owners have different stakes, often focused on particular markets or regions. And through time immemorial, these owners have rested easily because the tenant pool was typically married to a city, and it was only a matter of pricing in order to ultimately get a tenant through the door.

But what happens when significant portions of the population are no longer married to cities? What is driving a creator to sign a twelve-month lease? As the creator economy builds on the momentum that digital nomads have started, new waves of creators could be just "dating" these locations—a few months here, a year there. When nothing particular is holding these people down anymore—when, in other words, they become transient like hotel guests—the basic business model of apartments will need to shift, just as they are already doing in the office sector.



HOSPITALITY DOESN'T ONLY MEAN AMENITIES—IT ALSO MEANS FLEXIBILITY

The amenity wars that defined most of the previous multifamily development cycle were driven by apartment owners looking to make their buildings more "hotel-like.[10] To a large extent, that tactic worked, as it drove leasing and rents, but quickly, amenitization became less of a competitive advantage as newer buildings offered the next best thing. In an environment where the self-employed make up a larger part of the economy, especially in urban markets, tenants will become increasingly transient, and being hotel-like will take on new meaning.

Reharnessing the energy and capital spent in amenities towards flexibility, with furnished accommodations and medium-term leases, will allow a more hospitable setup to this new creator class. The reason companies such as Airbnb were[11] (and still[12]) focusing on stays shorter than a year, but longer than a vacation, is because of this white space that traditional multifamily operators are not filling. This is a category that property owners and operators should be taking on directly. While some see operational risk, there is a certain inevitability this is where the market is headed.

OWNERS NEED TO SELF-ORGANIZE, BEFORE TECHNOLOGY DOES IT FOR THEM

There are lots of innovative elements multifamily assets can carry over from the hospitality world, but there are also a lot of lessons the sector can learn from hospitality. One of the biggest recent mistakes for the hotel sector was its inability to take back control from online travel agencies (OTAs) after the GFC. What started in the late 1990's and early 2000's as a better way to sell rooms, quickly became a duopoly[13] in the 2010's, where companies such Priceline were collecting 17 cents from every dollar booked.[14]

As creators continue to compress standard lease length, the sales cycle is likely to get shorter and Internet aggregators will play a larger role in controlling the leasing motion. What was the operator's greatest advantage—tenants' need to physically see space—becomes less critical when there is less commitment and need to buy furniture, fixtures, and assets.

In order to aggregate and be more attractive to creators, property owners should consider creating partnerships, affinity groups, and cross-sales with owners and operators in different cities that have similar tenant profiles. Consider loyalty programs and reward frequent tenancy. Invest in community, hospitality, and experiences, not just design, amenities, and services. And with a substantial portion of America's rental properties still owned and managed by individuals or small, generally local ownership groups, it may pay to be open to franchise or management models that will allow better geographic offering and connectivity.[15]

METRICS NEED TO EVOLVE, AS MINDSET CHANGES FROM PROJECTS TO PRODUCTS

In order to keep up with the changes caused by the impending mass dispersion of the workforce, apartments will need to start reinventing how they measure themselves. As author and chair of ULI's tech and innovation council Dror Poleg put it in a recent AFIRE Podcast, real estate can no longer be considered a safe, passive investment product.[16] The operational risk associated with changing lifestyle preferences will increase operational risk and the KPIs once held sacred need to be reevaluated.

When creators rent an apartment in an owner's portfolio for four months, then another in a different city for five months, it also makes sense to take a page out of the hospitality playbook. Focus on metrics such as customer lifetime value, customer acquisition costs, churn rate, and net promoter score alongside the standard real estate measures of rent per foot, vacancy, and IRR. The level of analysis required when pricing becomes much more dynamic, involves different skill sets and levels of stress testing. Hospitality talent such as revenue managers and loyalty-plan specialists may become as important in multifamily as they are in hospitality.

What we are witnessing today with housing and furnished apartment startups such as Common, Starcity, and Sonder is just the beginning of increased operationalization in real estate. There will undoubtedly be more risk, but greater rewards.

As a hospitality professional, I've seen the transformational power of hotels viewing themselves as consumer products, and its effects are not only felt in guests but asset values in the long run.

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ABOUT THE AUTHOR

Ernest Lee is Managing Director of Development & Investments for citizenM Hotels in North America. In this capacity, he is responsible for leading new development efforts, managing the company's principal investments, business activities, as well as implementing strategic initiatives within that region.

NOTES

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Courtesy citizenM Hotels.