WHITE PAPER • DECEMBER 2016

Share and Share Alike

Embracing the Sharing Economy creates new value for building owners.

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Executive Summary

The sharing economy, sometimes called the peer economy, has had a significant impact on the expectations and wants of consumers. It continues to grow, particularly among the United States' 83 million millennials who have been much covered in the media. Their influence is reflected in a new socioeconomic system that relies heavily on sharing resources.

Uber, Zipcar and Airbnb are services that have developed in response to this mindset. Buyers are shopping for convenience on a budget, and farsighted sellers are finding ways to profit from this dynamic. "Gone are the days of self-serving ownership," according to Entrepreneur.com. "Community sharing and mass enjoyment are the 'now' trends."

This shift in how consumers shop for goods and services, and how they prioritize their purchasing decisions, is being demonstrated in virtually every consumer centric industry, including residential real estate. And, in what has been recognized as a dramatic shift in that world, the majority of consumers prefer to rent rather than buy. According to Harvard University's State of the Nation Housing 2016 study, the rental market continues to affect housing recovery, with over 36% of US households opting to rent in 2015 – the largest share since the 1960s. Indeed, the number of renters increased by 9 million over the past decade, the largest ten-year gain on record. Rental demand has risen across all age groups, income levels and household types, with large increases among older renters and families with children.

In fact, according to the Wall Street Journal, renters not only make up most of the population in nine of the nation's 11 largest metro areas, including high density areas such as Chicago, New York and San Francisco, but in lower density, relatively inexpensive cities, such as Houston and Dallas.

Changing patterns aside, the primary wants of both parties, owners and renters, remain the same. The former wants to maximize rents with a minimum of investment. The latter wants quality, community and convenience at the lowest possible cost. This inherent tension can, and often does, cost money to both parties, especially owners. A departing tenant pays only for his or her move and security deposits at a new home, but the average cost of replacing a tenant is equivalent to three months' rent – not including the actual rent lost during the vacancy.

The owner who is cognizant of, and responsive to, the amenities and benefits that tenants seek, will strive to achieve the balance between residents' wants and expectations. A recent survey by the National Multifamily Housing Council (NMHC) found that tenants prioritize:

- Location, with easy access to schools, entertainment and grocery stores
- Assurance that delivered packages are securely held for them and available for easy pick up

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- Connectivity for both internet and mobile devices
- Pet friendliness, including community bathing facilities, dog park, etc.
- The ability to pay rent online

Other evolving demographic factors should play into owners' decisions to leverage their properties to create value for both themselves and tenants. Per the Pew Research Center and the New Jersey Institute of Technology and PwC Digital Services:

- 72% of Americans have used at least one kind of shared or on-demand service, and of that number:
    - 86% believe that it makes life more affordable
    - 80% believe that it makes life more convenient and efficient
    - 78% believe it builds a stronger community
    - 89% believe it is based on trust between providers and users

Profit-driven owners would be well advised to take into consideration the changing demographics and priorities of renters in this new, dynamic, shared economy to create win/win scenarios for themselves and tenants. Owners must begin to think about the owner-resident relationship as a partnership that presents opportunities to create value for all concerned.

These opportunities include:

Car/Ride Sharing

Uber and Lyft have become almost ubiquitous both in terms of their presence and business model. According to PwC, 8% of all adults have participated in some form of automotive sharing. While convenience is a significant factor in the growing visibility and popularity of these taxi-like services, another is that of car ownership.

The US Public Interest Research Group (PIRG) reported that between 2001 and 2009 driving by young people decreased by 23%. Michael Sivak, a research professor at the University of Michigan's Transportation Research Institute and who studies the trend, said in the New York Times, "I think that means something more fundamental is going on."

The change presents a mutually beneficial opportunity to both management and tenants. William Fulton, Director of the Kinder Institute for Urban Research at Rice University, writes: "people want and need convenient and immediate access to cars at any time. But the traditional approach to parking supposes that what people want is convenient and immediate access to one car that they own. Car-sharing services operate under the theory that it doesn't matter which car people travel in, so long as one is available immediately."

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Services like Zipcar, Car2Go and Enterprise Carshare are continually seeking parking spaces in densely populated areas, and are eager to make deals with surprising partners. Zipcar has rented parking spaces from a high school and a church in Williamsburg, Virginia. In 2011, the District of Columbia's District Department of Transportation opened public parking spaces to bid, with a minimum of $3,600 per space, eliciting responses from Zipcar, Hertz, Daimler, and Enterprise.

Even in smaller cities without robust public transportation systems or plentiful taxicabs, developers are recognizing that it is to their benefit to partner with car sharing services. Gold Crown Properties in Kansas City, Missouri, for one, is redeveloping a historic hotel and bus station, the Pickwick, into market-rate rentals downtown and have contracted with Zipcar to have cars on the premises.

The opportunity that car sharing presents to landlords and HOAs with available parking, and tenants disinclined to own cars, is obvious:

- Tenants have more disposable income. According to the AAA the average cost of owning a car in 2015 was nearly $8700 a year.
- Trends in tenant characteristics and preferences can be monetized for profit. Dennis Burns of Kimley-Horn & Associates, who lectures and writes about land use issues around parking, points out that in some areas the zoning requirements for parking can be reduced by a building's proximity to transit lines, or by providing space for bike sharing. "That can save a developer $20,000-$40,000 per space," he says. "There's a real incentive there to reduce the amount of parking."
- A valued service that attracts and retains tenants becomes a value add for owners. "Zipcar's presence allows us to go after people that don't have cars and use more public transportation or ride their bikes," says William Hayes of Gold Crown Properties. "They don't want to take on the expense and burden of a car, but if they need one there is one sitting there waiting for you. It's all done through app. Reserve it, walk downstairs and drive away. It's a phenomenal opportunity."

Home Sharing

Home sharing services, such as Airbnb and VRBO, continue to grow in popularity, especially with those under age 45 and over 60. Another survey by the NMHC found that more than a third of the leaders of the nation's largest apartment firms are open to cooperative, codified partnerships with residents who want to list their homes on short-term rental sites. That same survey showed that 43% of those leaders have residents who are doing so.

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Conflict between tenants and owners around home sharing needn't be a given. Many such tensions grow out of tenants' reluctance to broach the subject with owners. Entering into active partnerships with tenants who want to participate in these services can eliminate stress for landlords, HOAs and tenants, and solidify relationships all around. Airbnb has created a property management tool called the Airbnb Friendly Buildings Program designed to support the community rules and execute a profit share that benefits the building owner, neighbors and resident hosts.

Owners who appreciate that participation in home sharing services will continue to grow can manage home sharing as an amenity, including establishing frequency caps and keeping a portion of those fees in exchange for the security, extra income and convenience enjoyed by the tenants. In addition, fellow tenants may be more receptive when they know that the process is being handled with respect for the needs of all parties involved, and they know which units will be occupied, when and for how long. They may also be more comfortable knowing that there is a limit on how many units may be occupied by travelers, and more receptive to business travelers who will stay from a few weeks to a few months, as opposed to the weekend guest.

Proactive engagement with tenants around home sharing benefits owners. Taking ownership of home sharing activities recognizes that:

- It can be a win/win for all parties.
    - In September 2016, Fortune.com reported on the Airbnb Friendly Building Program, in which building owners work with Airbnb and tenants to allow home-sharing per rules set by owners who will share the revenues with participating tenants.
- Home sharing is happening on a large scale, with or without permission from owners.
    - Work-arounds are being sought and developed, including lease amendments that address tenants' assumption of liability, including insurance; advance written notice; additional security deposits; pre-screening of guests by owner; and a percentage of profits shared with the owner.

Community Gardens

According to the National Gardening Association more and more people are growing their own food. Between 2008 and 2013 the number of households that grew food at home increased 17%, from 36 million to 43 million, and participants have been estimated to save $75 to $380 in food costs every season.

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Properties with available green space can capitalize on this growing interest by offering plots to tenants for a nominal monthly fee, or participate even more actively by providing seeds, tools, water hoses, etc. And the benefits go beyond convenience for the tenant and goodwill toward management. They include:

- Improved property values. GardeningMatters.org reports that community gardens have a positive impact on property values within the immediate vicinity - an average of $24.77 per square foot in Milwaukee, for instance.
- Developing and maintaining garden space is less expensive than landscaping, in part because gardens require little land, and 80% of a garden's cost is labor, presumably provided - for the purposes of this report - by tenants.

Workspace

The growth of the gig economy is outpacing hiring overall, with work and living spaces converging to meet the needs of professionals, and not just millennials. A Gallup study in 2015 showed that baby boomers are twice as likely to start a business than millennials. What both demographics have in common is that they seek, and are willing to pay for, housing and amenities that enhance a lifestyle that blends home and work in such a way that's convenient for them.

With nearly half the population working from home, owners looking to proactively bring value-add to their tenant relationships would be wise to address the needs of these workers. Providing office space, a conference room, a fax line, internet access, etc. to those tenants on either an as needed/fee per use basis, or unrestricted access for a monthly fee that would be well below the market rate for conventional office space, while it significantly enhances the work/home experience for the tenants.

In fact, Forbes reports that some developers, such as Boston-based Beacon Communities and New York–based WeWork, have built live/work communities specifically for business owners and entrepreneurs and, says Caitlin Walter, senior research analyst for the Washington, D.C. based National Multifamily Housing Council (NMHC), "residents are definitely driving the trend to provide business-support services in apartment communities." She even cites an example of a developer adding a business center to a recently built property "because the residents wanted one."

Statistics support the viability of live work space and the value proposition it presents to owners:

- 45% of American workers work from home, according to the New Jersey Institute of Technology
- The number of full-time independent contractors and freelancers increased by 12% over the last five years.
- MBO Partners projects that 40 million Americans will be self-employed by 2019.
- Almost 500,000 Americans will work from home at least one day a week by 2018, according to a study by the Telework Research Network.

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Etsy, eBay and Craigslist

The business of selling online will only continue to grow. Owners who recognize an opportunity in that space may offer support and services that range from providing a communal space for craftsman and artists who utilize Etsy, or other similar services. That space may include storage lockers for materials, cleaning supplies and sinks, and work areas that allow tenants to move their "business" out of their living spaces.

Craigslist and eBay provide opportunities, as well. A dedicated space for items for sale by tenants provides value, not only in terms of storage, but as a secure space for tenants to meet buyers and complete transactions. Critical issues to be resolved are insurance company regulations and issues of liability. This new economy requires creative and open input from the insurance carriers in partnership with landlords and tenants.

Statistics alone warrant that owners consider embracing peer-to-peer buying and selling services:

- 60% of home-based businesses in the US are selling products through eBay.
- As of March 2015, Etsy was one of the top ten most popular retail websites in the United States, ranked by average number of monthly visitors and, as of 2014, in the top five leading web-only merchants in the US ranked by e-commerce sales.
- More than 60 million people use Craigslist each month in the US alone.

Conclusion

Whichever tactics an owner may decide to pursue, it is imperative that the benefits to the tenant be tangible and obvious, whether it be in terms of convenience or added value for nominal fees. The multi-family building owner's acceptance of the new paradigm around lifestyles, work practices and the peer economy will facilitate the creation of policies and amenities that, in the end, support the owners' real goals: fewer move outs, longer and more congenial relationships, brand loyalty and referrals.

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