How Supply-Chain, Inflation and Demand are Impacting Corporate Housing

The 5 Elements in the Perfect Storm

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Despite some experts predicting COVID-19's impacts will last through the end of 2025, the United States is seeing a resurgence of both leisure and business travel. However, the U.S. economy and various industries are showing signs of concerning and unbalanced trends, including the corporate housing industry. The industry is experiencing excessive pent-up demand for products and services while struggling to place guests due to a variety of factors such as an underprepared residential rental market and apartment supply shortages. As the American public anxiously seeks a return to normalcy following the shelter in place and lockdowns, the industry now faces challenges in nearly every step of the logistical supply-chain when preparing a corporate housing unit for rental. While the issues are vast in their scope, there are five key factors that make it increasingly more challenging, more expensive, and more competitive to acquire corporate housing units for the American market.

INVENTORY

Lack of inventory in key markets is more than just a product of the post-COVID migration back to major cities. This issue stems from much deeper trends building up for several years. In addition to a lack of inventory due to high demand, Zillow's senior economist reports that since 2007, developers have been radically under-building. While ultra-luxury high rises have been making headlines across major U.S. cities, standard apartment buildings and units have been neglected as an investment opportunity for the past decade. The result is a shortage of the types of units typically used for the corporate housing market. These inventory issues are exacerbated by the desire for normalcy that many American families are feeling, as America is on the move. Many are migrating back to key markets, domestic hubs, and suburban outposts. Offices are contemplating when to open back up and decide which employees will need to be physically in the office.

Moreover, building management companies and individual leasing companies are severely restricting corporate housing leases. They are limiting the total number of units for corporate rentals and, in some cases, completely declining leases all together.

MANUFACTURING AND INFLATION

Overall a key reason for the current supply shortages is that, regardless of industry, many companies did not have an appropriate strategic plan for their recovery and underestimated demand for their products and services when vaccines became available. Most took a wait-and-see approach, and within just a few weeks of the economy showing signs of recovery, were forced to catch-up to demand. For example, one furniture maker in Baltimore was supposed to receive $100,000 worth of inventory in early February and had already presold most of that furniture. He did not receive the furniture until late June. The deep impact COVID has had on the furniture market has been excessive, as 1 in 10 Americans have moved during the past year. Many have upgraded their living situations to larger spaces, others redesigned existing space, some purchased second homes and others purchased housing as investments. These new homes and apartments must be filled, and the furniture industry has struggled to keep up with the demand. Pricing has been impacted by these shortages, with the American consumer now expected to pay an average of 11% more for furniture. On the back end, issues across the global supply chain have plagued the industry. One furniture distributor cites his wholesale prices increasing 26.5% when purchasing inventory from China, noting that some orders jumped in price retroactively during shipping. From the chopping of the trees, all the way to delivering a finished product to a consumer, there are issues across the furniture supply chain that make it hypercompetitive, difficult, and expensive to keep up with demand. This is just one example of the many industries that touch a furnished apartment to deliver what the consumer has come to expect out of a corporate housing unit: a fully furnished, move-in ready unit.

Liz Laird, president of RC Design and River City Furniture Rental of Northern California, explains the complex matter, "A lot of it is out of our control. It starts with manufacturing, but there aren't enough truck drivers to deliver inventory to my vendors. I have manufacturers that cannot procure the foam and lumber and labor to make a couch. It's all out of our control…. We are fortunate, we bought inventory ahead, and we have a host of vendors, but even that may not be enough." The manufacturer might also face a similar situation as the price of raw materials has skyrocketed post-pandemic, most famously in lumber, which at one point this summer rose nearly 670 % in one year. Drywall has also risen 7%, while steel mill products - used in sheet metal, beams, and wiring, are at a record high of 18% more than the prior year. Rising costs in raw materials and inaccessibility throughout the supply chain due to shipping delays (the infamous Suez Canal blockage only being one of many) has overwhelmed the industry when demand is especially high due to market factors. When costs increase, the consumer pays.

LABOR

The current issues surrounding labor in the U.S. and Canada are pervasive and detrimental. Workers had to find different jobs due to the pandemic and now that action has created an excess in available jobs in the service industry. This provides an unprecedented amount of choice for the workforce. Economists warn against merely labeling the current phenomenon as a "labor shortage," as the terminology "wage and benefits shortage" may be more apt to describe what is currently happening across North America. Rob Walter, President of Manilow Suites in Chicago said. "On the most basic level of the corporate housing market, it starts with hiring trusted and qualified people in the warehouse -- drivers, cleaning services and support staff. There is not enough interested talent to take these vital positions. The corporate housing industry has historically managed to operate on thin margins. This labor issue has forced providers to increase wages in hopes to lure workers but are competing with the likes of Amazon who are paying as much as $20 an hour plus benefits, a sign-on bonus and employee stock plans."

On the other side, construction halted during COVID, and new developments now being built in major cities lack qualified and available workers to complete these projects. Today, there exists a lack of workers willing to take low-paying work with few benefits, with the knowledge that they can get other jobs that can offer better incentives. In tandem with the lack of availability in inventory and raw materials, this lack of labor slows the supply chain even further, resulting in longer wait times and higher prices for a prospective corporate housing client seeking a move-in-ready unit.

TRAVELERS

While major news outlets and pandemic specialists initially predicted air travel to be hit hard for years to come, the American traveler is itching to travel again, and the feeling of safety provided by vaccination is getting them back in the air. The recent Fourth of July weekend saw the U.S. return to pre-pandemic levels for the first time with10 million travelers passing through TSA. These numbers do not show signs of slowing soon, as reports indicate that leisure travel is back in full swing. While business travel is not yet returning at such a rapid pace, signs from corporate leadership at major U.S. companies indicate that they are anticipating a return to normalcy as well.

Executives at JP Morgan, Facebook, and Morgan Stanley recently spoke out to thousands of employees making explicit their expectation that they should return to the office soon. Some companies are considering wage adjustments if they do not. Morgan Stanley CEO James Gorman's comments proved controversial to the general public, yet rang through with an undeniable truth, "If you want to get paid New York rates, you work in New York." With income on the line, office work should resume in person at some point. It would follow logically when in-person business returns, the business traveler will return as well, thus increasing the demand for temporary housing options in an already unstable housing market across major U.S. cities. The one sign of relief exists in the international travel sector, where heavy restrictions and inconsistent vaccine rollouts restrict travel to the U.S. Once these restrictions ease and global travel returns, the demand for furnished apartments will only intensify the compressed industry.

DEMAND

It's clear that excessive demand exists across the spectrum of needs for corporate housing. In addition to the issues with demand for furniture, house wares and labor, the demand to merely *live* somewhere new is astronomically high. Where some cities were predicted to struggle for years following the pandemic, the reality is that the desire for a return to normalcy in key areas has prompted major demand in cities across the U.S. According to a study by AirDNA, short-term rental demand skyrocketed compared to last year -- 66.4% higher than 2020 and 5.4% higher than pre-pandemic 2019. Post-pandemic renters know the locations they want to live and are willing to pay above market value to live in them. As the industry is operating at more than 96% occupied with vacancy between leases averaging 21 days, there are just not enough available units to meet the needs. Each of these issues is accompanied by its own specific set of characteristics and the increased costs are passed along to the end user.

CONCLUSION

From the consumer's perspective, acquiring a furnished unit seems as simple as search, pick, and click. In reality, the process is like moving a battleship in a bathtub. When you look at each of the factors that drives demand, it supersedes the ability for the industry to quickly pivot and provide supply. Practical issues exist in the lack of suitable properties, shortage of new property development, and the influx of people flocking back to major cities and surrounding suburbs – all of which squeeze supply even further. Independently, the industry struggles to keep pace with labor trends and provide well-paying service employment positions. Add in inflation, excessive demand and you can see why this problem will continue for the foreseeable future.

Debbie Woodley, CCHP, VP, Global Supply Chain at Dwellworks Living, a global solutions provider for short- and long-term housing and destination services summarized it best, "Currently, our greatest opportunity and duty is educational. With backlogs and shortages in people, material, and housing supply, across the industry travelers and employers will be impacted, and so will building operators and service staff. The impact can be mitigated by planning, updates, open-minded exploration of alternatives and most importantly, partnership. The supply/demand challenges we're experiencing are temporary but they're real, so it makes sense for clients, agents, suppliers, and customers to have a common understanding of the environment and available options."

About The Authors

James Higgins is the founder of Revalant Consulting and Recruiting. Serving as the Senior Partner, Revalant specializes in corporate housing, residential real estate, and the hospitality industry. As a former Vice President and sales leader at BridgeStreet, Oakwood and Convene, he has an expertise in having companies act more strategically, reach their maximum potential, achieve significant revenue growth, and deliver market expansion through sales development, branding, marketing, project management, and talent acquisition. Scott Higgins is the contributing author and head research analyst at Revalant. He is a 2021 graduate of George Washington University with a degree in both psychology and English.

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