CORPORATE HOUSING
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Permanent Post-Pandemic Changes to the Short-Term Rental Market, and the Emergence of a New Client Demographic

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If the past year-and-a-half has taught the world anything, it's that there is no telling what will come next. The inconsistency and uncertainty driven largely by the COVID-19 pandemic forced the rental market to adapt quickly to capitalize on new overwhelming demand. The pandemic provided unprecedented challenges to the rental market, particularly for short-term furnished apartment providers. Property managers became less flexible and interested in collaborating with furnished provider partners due to a series of circumstances and turned their efforts to their core demand of long-term renters. Currently, renters are willing to pay more and commit to longer lease terms. With the increase in demand, many landlords and property management companies have limited or eliminated shorter leasing terms and discontinued incentives to attract new customers. With these severe and abrupt changes to the operations of the rental market, one might imagine that a return to "normalcy" is what most property managers, potential customers, and investors seek, but early trends don't see that as the case. Some changes may be here to stay, as the innovative adaptations to operations are more financially viable for property managers, more attractive for the average customer, and more appealing to an entirely new demographic of clients: digital nomads.

A CULTURAL SHIFT

The pandemic shattered the fundamental conceptualization of what it means to work. Traditionally, corporate lifestyle was rooted in the office experience, with employees bound to their desks in professional attire for 40 hours a week. For the past 20 years, companies have been skeptical of employees working remotely. The pandemic forced companies to embrace remote working with an uncertain outcome. This action was treated more like an emergency procedure rather than a welcomed shift in policy by corporate leadership. Recent studies show that remote worker productivity has been higher than anticipated. However, these same studies show that remote workers desire to *stay* remote even if offered the opportunity to safely return to the office. This births an entirely new clientele, one who doesn't see the "home" in work-from-home as a boundary, but as an opportunity and a welcomed lifestyle change. Without the need to be in a certain proximity to a physical office, this workforce is more likely to travel around the country and seek out short-term-furnished rental units to explore life outside their original city. Unconfined by location and eager to travel, these workers have been coined "digital nomads," and their prevalence is on the rise.

The large cultural shift in how people balance their work and their home lives during the pandemic may permanently impact the rental market in a variety of areas, from the way leases are arranged, the change in supply/demand, even in the way future buildings are constructed. These changes can be credited, in one way or another, to the emergence of the digital nomad. **"**We've seen fewer bookings but an increase in nights stayed, which means travelers are spending more time and money during these stays," said Eric Broughton, chief strategy officer at InhabitIQ, at NMHC's (National Multifamily Housing Council) OpTech conference last November. "There are more people working remotely so why not do your work somewhere else?**"** MBO partners, a leading workforce consulting firm, indicates that the number of

Americans who identify as digital nomads has increased to 10.9 million workers, up by 48% since 2019. The impact of this new client base? The need for property management companies to prepare for permanent changes to their operations to attract and embrace these digital nomads.

In addition, we have seen the investment in technological advancements sparked by the pandemic. Many of these advancements were fundamentally rooted in local governments prohibiting in-person interaction. Signs indicate these changes are part of our “new normal,” and will remain long after these restrictions ease. Pre-pandemic, renting an apartment was an experience highly dependent on the ability to connect in the tangible space. From meeting the leasing agent at the property, to touring the building’s units and amenities, and signing the agreement in the office, the industry had to adapt with technology during the pandemic. The market creatively adapted with technology, such as filing all leasing documents online and self-guided tours with virtual check-ins. A recent survey by AppFolio states that 71% of property management companies said their priority for virtual showings has increased dramatically. The study further shows that 64% of these managers believe virtual showings are here to stay, likely to remain in place due to their ease in accessibility and efficiency. For digital nomads uncertain about their next landing spot, the flexibility to explore, tour, and sign leases in an entirely virtual manner is highly attractive.

DIGITAL NOMADS

Digital nomads are partially responsible for the instability of apartment inventory across major U.S. cities. As this nomadic group moves less predictably than the traditional client, this shift may prompt property management companies to alter their leasing options and policies for the foreseeable future. A case-study with implications across major U.S. markets has been tracking the rental behavioral shift in New York City. The city was threatened with a major collapse in 2020 when residents fled in record numbers. This exodus signaled to some that this was the “death” of the city. One year later, the city is recovering as vacancy rates in Manhattan rebounded from the staggering 11.6 percent high in May 2020, to less than 3 percent today. People are now more willing to move around more quickly and more frequently, committing for less than the previous 12-month standard lease. As a result, property management companies will be forced to reevaluate their current stand on only long-term leases, as the future will be about more flexible leasing terms. Property management companies will see this opportunity for a bump in revenue growth as dynamic pricing models and lease-terms for the ‘digital nomad lifestyle’ becomes normalized. Experts and industry professionals agree that this is the direction that the rental market seems to be going, with these digital nomads ‘forcing’ the short-term lease option to become a standard offering. “The revenue for short-term rentals is far bigger for owners than the traditional 12-month lease,” said Susan Tjarksen, managing director at Cushman & Wakefield. “Some people will use these to see about neighborhoods they might be interested in but don’t have time to make the choice,” she added. “The demand for short-term rentals is at their highest on record right now, and the flexibility that post-pandemic reality may afford an American worker makes them an attractive option for optimizing remote work.” This transformation of the traditional renter may encourage landlords and property managers to return to the furnished apartment provider community as experts in the management of services, operations and guest experience to capture market share of the digital nomad.

CHANGES IN CONSTRUCTION

Lastly, a macro shift is the construction of apartment buildings with the digital nomad in mind. Towers have been constructed in places from New York to Miami that optimize the mixed-usage format of design and layout, allowing residents to shop, work, and live all under one roof. Fitted with medical facilities, rooftop pools, lounges, and business spaces, Miami's Legacy Tower, for example, offers what post-pandemic development will look like. The area's first project to break ground since the onset of the pandemic, the building will feature residences, hotel rooms, and medical facilities optimized for a walkable experience in the city. This design encourages residents to stay close by with its assortment of amenities. An all-encompassing community is said to be more attractive to a digital nomad than a traditional apartment building as Forbes reports, "a section of remote workers will prefer to stay in co-living spaces rather than apartments or hotels to connect with like-minded people." They also add that while terminology such as co-living and mixed usage is not new, as it was popularized with urban millennials, "it may also become common to talk about housing for remote workers in the near future."

CONCLUSION

All these changes in the market create a Pandora's Box-type phenomenon. The box is now opened to adapt to the circumstances of the pandemic, showing the average American just how flexible their life *can* be. Property managers and corporations must be willing to adjust their policies to this digital nomad lifestyle as the supply/demand of apartments fluctuates with their migration trends. Technological advancements and mixed usage developments will encourage workers to explore a variety of cities for shorter periods of time rather than be confined to one location for 3-10 years. The market will flex to accommodate the changing demands of their renters, and the push towards short-term furnished rental units seems all but certain. This is an opportunity for landlords, property management companies and developers to embrace these budding trends and transform lease terms, offerings and amenities in advance of the coming demand. The digital nomad is real and coming to a town near you.

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.

Revalant works with organizations to successfully sell into the Fortune 1000, vertical markets, and uncover sales and operational advancement. Members of the Revalant team are experts in millennial workforce integration, business development, lead generation and project management. With exceptional leadership and a unique perspective for developing and driving others to fulfill their potential. Revalant delivers results on both the strategic and tactical level by providing executive leadership and direction, targeting sustainable revenue growth and market expansion. Revalant aims to assist businesses that are looking to improve various aspects within their company. Revalant tailors their approach to the company's specific needs and budget, while isolating key areas for development and creating a plan to implement and execute for success.

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