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State of the Market 30: The flexi-force and multifamily rental

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The Great Recession, as it has been hopefully dubbed, has permanently altered the structure of the American workforce, and in so doing has increased the importance of multifamily residential rental, and the appropriate housing configuration mix going forward. However we recover from this situation, and however long that recovery takes, on the far side we will be confronted with the flexi-force – a permanent supply of flexible workers who no longer pursue the 9-to-5 Mon-Fri office full-time job.

Though many in the nascent flexi-force are homeowners today, as the decade unfolds they will increasingly embrace rental as their preferred tenure. As the decade unfolds, we will come to see the flexi-force as a secret strength of the American economy – and with them, permanent professional multifamily rental as a component of national economic infrastructure.

To attain this optimistic intermediate-term vision, however, the nation must plow its way through our current economic penance, with statistics both grim and undeniable. The nation has undergone a sudden shocking socio-economic disruption, triggered by the financial disruption, that's happened much faster than our housing inventory has been able to react. Here's the direction it needs to react in.

The changing American workforce and the flexi-force

The American economy – and, I suspect, the global developed-world economy – is undergoing a sea change. So many are out of work, and will remain out of work for so long, that the work force to which they

Give me flexible workforce rental housing!

return will differ fundamentally from the one they left.

In June, 2010, 6,800,000 Americans were long-term unemployed, with another 2,600,000 'marginally attached to the workforce' (meaning they were looking for work but had not done so in the preceding four weeks), and another 8,600,000 working part-time 'for economic reasons' – meaning that they need work and their employers are offering only finite or part-time situations, not permanent jobs.

Companies hire workers full-time when they know that the position is essential to the doing of their business, believe that their business is stable and growing, and have found a candidate in whom they are willing to invest training and startup resources. Conversely, employers like part-timers because of:

- ***Uncertainty about the future.*** A part-timer is a risk-mitigant: rather than layoffs and severance benefits, one simply lets the arrangement lapse.
- ***Cost containment and task-matching.*** A business whose volume flexes likes to add people when

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business is booming, and then subtract them when it wanes. One does this only when the business has inherent activity volatility and where the additional tasks are definable and performance-auditable.

- ***Health-care, retirement, and other employee benefits.*** Full-time employees expect a wide range of non-salary benefits – health-care plans, retirement plans, employee discounts, and more – to which part-timers are not necessarily entitled.

On the people side, some workers – especially the ½ worker in a 1½-income family – value the flexibility, variety, freedom of scheduling, reduced oversight, telecommuting and home-based work options, and time availability for children that comes with being a contractor at will. Some of those involuntarily induced into being part-time workers will decide, if they can afford it, that they prefer it.

None of these socioeconomic forces seems likely to abate, as evidenced by the dramatic growth of Manpower, Accountemps, and similar aggregators of flexi-force workers.

On the property side, some flexi-force workers have moved back with their parents. Some have 'retired early.' Some are principal breadwinners out of work and in severe financial distress. Many are the second earner in a two-income household, now become a one-income household. All these mean housing change, for disruption in employment usually signals disruption in housing consumption.

Rental as the preferred tenure of the new flexi-force

Imagine yourself a member of the flexi-force. (Perhaps you already are one.) You're home a lot and intermittently, so need accommodation convenient to both your personal life and your work life, recognizing that your work life will undergo periodic changes of locale. That makes you an urbanite (better job prospects with a deep pool of potential employers) with public transportation readily at hand. With variable income, you'd like to keep fixed housing expenses low, but you don't want to sacrifice security of tenure (so you can shift jobs without shifting homes) or controllable occupancy costs.

In an ideal world, you'd be a renter by choice. Renting gives you:

1. *Lower occupancy cost,* which enables capital accumulation (including personal household reserves against uncertainty).
2. *Lower capital requirements,* so that moving house is not a major capital event.
3. *Easier landlord credit decision*. Previous credit troubles (even bankruptcy) are no bar to rental – a hefty security deposit and a last month's rent take care of that.
4. *No maintenance/ upkeep requirements,* so you can work when there's work.
5. *Flexibility of household composition,* to take in or expel roommates/ children as finances and opportunities change.

Presence and variety of high-quality rental will therefore figure in your decision of city in which to base yourself.

Prevalence of permanent professional multifamily rental, including workforce affordable rental thus becomes a comparative advantage for American cities competing for knowledge workers with other American (and global) cities. As Richard Florida (he of Creative Cities) put it in a recent *Wall Street Journal* op-ed, *Homeownership is Overrated:*

> Owning a home may actually be a drawback given the economic flexibility required to power long-lasting recovery. With fewer residents locked into mortgage payments, there is a greater degree of flexibility. Workers can downshift as needed or move to take advantage of new opportunities. When the economy rebounds, it's easier to attract new workers to the area if there is an abundance of high-quality, affordable rental housing.

The metropolitan comparative advantage of a non-owning flexi-force works only if the quality housing is *rental in perpetuity.* Rental that is merely transitory – say, condos being rented short-term – fails to provide security of tenure or controllable occupancy cost. Rental that loses its quality – because it has an amateur landlord, one too poorly capitalized to renovate the property, or a reluctant owner merely seeking to shed the property – will lose its residents posthaste.

Implications for multifamily residential

1. **Plan on a decline in homeownership.** At the height of our easy-money exuberance, US homeownership briefly exceeded 70% before falling back to about 67%. Roughly 4,000,000 households moved from ownership to something else, as the subprime first-time buyers were revealed never really to have been true economic owners. We will not return to that homeownership level for at least a decade. Nor should we want to.

2. **Encourage conversion of suitable new-entry ownership properties into permanent quality rental.** With several million households downshifting to rental, several million dwellings constructed for occupant ownership should be assisted to become permanent rental. Aside from condos into rental , we may see the return of the intermediate-term furnished-flat lease, or the American adaptation of London's market in tradable leasehold interests. We may re-innovate the investor-landlord model through hybrid financing approaches, such as rent-to-buy or shared-appreciation hybrid ownership-rental financial vehicles.

3. **Zone for high-density residential near mass transit.** Facilitate the mobile workers' mobility.

4. **Professionalize, strengthen, consolidate and scale affordability-compatible landlords.** There can be no renters without landlords. Being the landlord is no popularity contest, as it involves constantly making choices to hurt a little or a few now rather than hurt more or worse later. While REITs have demonstrated the effectiveness of scaling market-oriented landlords, where client service is enforced through resident mobility and choice, in the affordable arena choice is intrinsically impaired by the economic power imbalance between the lower-income renter and the well-capitalized owner – so we need to strengthen larger-scale mission entrepreneurial entities as preferred owners of permanently affordable quality rental housing.

5. **Incorporate multiple sizes and price points within a development.** Renters tend to have more fluid household composition (people coming and going) and more fluid spatial consumption (needing more or less room as household and economics dictate). To maximize retention within a development, zoning changes can encourage diversity of apartment configurations – rooms and square feet and layouts – for diversity of price points. A range of choices within one development increases capture rates and retention rates, for it is always easier to move to a larger or smaller apartment within one complex than to schlep about seeking a new location entirely. One can further envision combining this with earn-to-own financial products (¶2 above) that allow households to shift their tenure configuration without moving house.

6. **Reconfigure floor plans to go +1 home office and -1 bedroom.** Flexi-force households need space to work from home, either in off hours or in off-employment or contractor periods, with the accoutrements of communication (broadband, computer workstation, printer, and quiet businesslike environment). To

obtain that, they must either share the living/ dining area with the rest of the family, or convert a small bedroom into a true home office. The latter is better, especially with plummeting broadband costs and rising commuting costs (both personal and external). To maximize the utility of such semi-dedicated home office rooms, wire them with extra plugs, coaxial or broadband cables, and wi-fi nodes.

7. **Revisit per-bedroom affordable rent structures.** We are locked into a view that the only change justifying a low-income household consuming more space is more children. Affordable rent structures such as LIHTC are predicated on equating household occupancy with bedrooms – but that's not how the flexi-force works. Unfortunately, if a LIHTC owner reconfigured a 3-BR into a 2-BR + 1 home office – which would be a better usage for the flexi-force householder-renters – that owner would have to cut the rent. Conversely, under HUD programs, two adults with one child could not move into a 3-BR lest they be deemed to be over-housed, whereas that same family could rent a 2-BR … and have no home office from which to grow their income.
8. **Rethink leases and security deposits to allow greater flexibility of multiple signers who can add or drop to the housing configuration.** No longer do multi-person tenancies merely mean students shacking up, now they reflect shifting consumption patterns attendant upon being in the flexi-force. As a landlord, you want all residents on the lease, but if they are making and un-making household configurations, you want to enable this consistent with maintaining a sufficiency of wallets on the liabilities so their changing status does not mean you face changing creditworthiness.

Conclusion

Within ten years, the flexi-force will be so thoroughly established into our national employment that it will be difficult to envision a time when 9-to-5 was the only 'real' employment. The structural shift in employment patterns compels a matching shift in tenure and housing consumption alternatives. Because housing is a long-lived asset, jobs and people have a faster response cycle, leaving us with too many single-use residences.

We enter a recession with the housing inventory we have, rather than the housing inventory we want or need. We will have to reconfigure them into flexi-force compatible apartments that make changing how we use our residential space little harder than changing jobs.