RIAZ CAPITAL

ARTICLE 6

Technology, the sharing economy, and ownership in culture

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TECHNOLOGY, THE SHARING ECONOMY, AND OWNERSHIP IN CULTURE

For the average middle-income individual, it simply makes more sense to rent things than to own them. From homes to furniture to cars and bikes, many under the age of 30 today opt for the ease and flexibility of renting many of life's essentials.

In the short term, it is more financially feasible for someone with a limited discretionary income to rent things that take up a large portion of their necessary expenses. Housing and transportation, both capital-intensive but essential aspects of one's urban life, are both accessible to the average urbanite without the need to purchase a home or a car. Instead, they may rent an apartment and subscribe to a car sharing service, pocketing the savings and increasing their liquid funds.

Many middle-income people, even if ownership is within reach, will find it to be a burdensome and inconvenient arrangement. If a young, early-career professional changes jobs soon after moving to a new geography, it is far more convenient and cost-effective for them to change their living situation if they are renting their home rather than owning it. The transaction costs and headaches associated with listing and selling alone make ownership simply the wrong choice for many of those who prioritize flexibility in their lives.

Financial efficiency is not the only upside of renting over owning. A 2015 FiveThirtyEight article reported that the average American is expected to move 11.3 times in their lifetime, with the average 30-year-old already having moved 6 times. The younger the individual, the more moves they have ahead of them as their careers, relationships, and spatial needs change. To them, flexibility and ease of movement is paramount. Renting enables this flexibility.

There is an impermanence in the life of single-income urban professionals. With their careers, relationships, and spatial needs changing year to year, it makes little sense for them to commit to the burdens of ownership. Renting an apartment, car, and even furniture is a logical choice for many younger professionals who have many moves and changes ahead of them.

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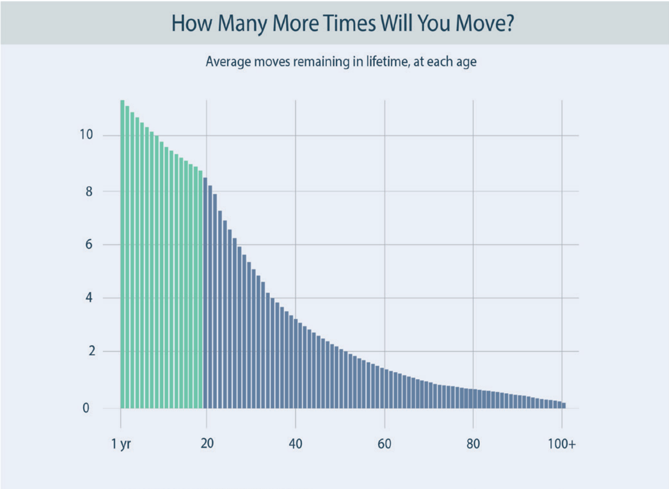
WHAT DRIVES THE NEED TO OWN?

The need to own property is fundamentally driven by one's household arrangement and composition. For an unmarried individual with no children or nuclear family to support, their discretionary income can be directed entirely toward their own benefit. For them, liquid assets are more important than having a financial nest egg; you can't pay a night club cover charge with equity from your condo.

Prior to settling with a partner, career, and location, younger individuals prioritize the flexibility and accessibility of renting expensive assets. Financial security is not top of mind for these individuals: their households often only consist of themselves, and they do not have much wealth to lose at such an early stage in life.



Younger people tend to anticipate moving much more frequently than older people. Flexibility is paramount to younger individuals, making them more likely to rent expensive assets rather than own them.
Source: Census Bureau, FiveThirtyEight

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Those who have settled down in a community, have a stable relationship with a life partner, and may even have kids look for a way to ensure financial security for their family. Hence, they seek the security of homeownership. Assets such as condominiums and houses are often the greatest places to maintain wealth available to middle-class families, and owning the roof over one's head makes financial sense once one is more or less committed to the community they are rooted in. Before that stage of life, however, it makes much more sense for a member of the urban workforce to rent their home rather than own it. To rent is to ensure flexibility, an asset in a life in flux.

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TECHNOLOGY AND THE "SHARING ECONOMY"

The "Sharing Economy" is a broad term for emerging industries that provide services intended to be shared by clients. Uber, Revel, AirBnb and Zipcar are all well-known examples of sharing economy companies serving primarily urban markets.

The sharing economy is a result of two converging trends: a cultural trend toward renting rather than owning, and the development of technology that can pair a service to a customer in need of it. Many have come to realize the capital efficiency of accessing a resource without needing to own it. At the same time, developments in big data processing and mobile technology enable customers to be properly matched to the urban resource they require, be it a ride in a car or an apartment in a city they are visiting. In addition, mobile technology has expanded the reach of these technologies and ease of access, allowing more people to participate in the sharing economy more easily. This is a booming sector. Estimates place the value of the sharing economy at $335 billion by 2025.

Customers of the sharing economy are generally more interested in access to resources and services rather than ownership. To them, the concert they are going to is more important than owning the car, bike, or electric scooter that gets them to it. In today's culture, status is closely tied to the experiences one has and shares with others, and not just the material possessions they own.

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urban experience without the inflexibility of ownership and helps enable the lifestyle associated with living small. No parking space is no problem when you subscribe to Zipcar. If one is moving after a year, why would they commit to buying furniture when they can rent it through the furniture rental service Feather? To be competitive in today's market, urban workforce housing models must facilitate the flexible lifestyle the urban workforce lives.

HOUSING AS A SERVICE

Rental housing is in no way a new concept, but as ideas of ownership and lifestyles change, the idea of rental housing's place in the contemporary economy must change as well. The model of renting housing has always been, in effect, a means of allowing tenants to subscribe to the provision of shelter as a service.

Today, we have come to call this Housing as a Service, also known as HaaS. Many in the tech industry will be familiar with the concept of Software as a Service (SaaS), with companies like Salesforce and Microsoft offering cloud computing systems as accessible, subscription-based services for businesses. Many companies have adopted the strategy of providing Transportation as a Service (TaaS), focusing on providing the efficiency and ease of getting customers from point A to point B rather than selling a vehicle.

Housing as a Service is a paradigm that focuses on the tenant's experience in the rental property from move-in to move-out, marketing an experience of living in a property rather than just the property itself. Hospitality companies are masters at this: from check-in to check-out, the guest experience is top of mind for hotel operators. Adapting the service-oriented housing model of hotels to multifamily properties is no stretch, and doing so can create a highly-marketable and attractive model of living for urban individuals who place a premium on experience and flexibility.

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The traditional model of HaaS is the well-known model of the extended stay hotel. Today, the idea of HaaS is most closely associated with coliving. While this formalized system of living with roommates places a heavy emphasis on the service aspect of HaaS, we believe that it does so at the expense of providing a quality housing product. The community events, cleaning services, and even mobile apps for chatting with neighbors are all emphasized to compensate for the lack of privacy tenants must endure.

Housing can operate as a service by providing a seamless move experience, basic supplies and a fully furnished space and still provide tenants with a private bathroom, kitchenette and living area comfortably behind their own locked door. The micro-living model is really the best of both worlds: it can offer the privacy of a traditional studio with the convenience of a fully-furnished and stocked coliving product.

Such white-glove service has long been common in luxury properties, but rarely has it been employed in housing targeted to middle-income individuals. With lifestyles and consumer expectations trending toward seeing housing as another service in a suite of lifestyle services, it is time for housing to prioritize the tenant experience.

CONCLUSION

Current trends in lifestyle choices and technology have enabled people to live with fewer possessions, focusing more on experience and convenience rather than ownership. Young, middle-income individuals value flexibility and affordability over the security of asset ownership. At their stage of life, it makes the most sense for them to rent rather than own. Urban workforce housing is a response to these trends, promising a “Housing as a Service” experience to prospective tenants.

With the need for transportation being met by services than an excuse for owning a car, does it make sense for our cities to be built around the car like they are today? In the next piece in the series, we will explore the relationship of the car to urban spaces and housing.

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