

transcript

mobility matters, episode 2: what's happening in the U.S. temp living arena?

WITH JACKIE CHARNEY, BRENDA THOENY-JOHNSON, AND CARA PESCHO

jackie:

Hello, and welcome to Mobility Matters, the official Cartus Podcast. I'm Jackie Charney, Director, Supply Chain Management at Cartus. And on this episode, we're going to be looking at today's U.S. temporary living market. What are those key challenges we're all facing at the moment? And if we can't eliminate these issues entirely, what actions do we need to take to help at least alleviate them for relocating employees and their families? I'm delighted to be joined today by a valued Cartus supplier partner and industry expert, Cara Pescho, Vice President, Strategic Alliances, Global Mobility at National Corporate Housing.

And joining Cara is Brenda Thoeny-Johnson, Director of Strategic Business Solutions at Cartus. Welcome, Cara and Brenda.

brenda:

Great, thank you.

cara:

Thank you, Jackie.

brenda:

All right. So, Cara, can you give us a general picture of the temp living market at the moment? What trends are you experiencing across the US?

cara:

Yes, Brenda, I'd be happy to. So, I think we're all aware of what has been going on in the housing market in the US today. And when you look at the last two years, right, when you're looking at the housing market, very low supply, creating that very high demand. And what did that equate to? It equated to higher pricing. And quite frankly, it's been a heyday for landlords, you know, property management

companies can demand higher rental rates, as well as longer lease terms, due to these market conditions.

Now, I know that the market is changing. However, there's still not enough product out in the market to make it a high supply. So along with this, the property management companies, they're looking at minimizing their exposure with corporate housing, they're limiting how many corporate housing leases their property can manage effectively. They don't want short notices; they want to manage stricter lease terms and stricter notices. They can also charge extremely high month-to-month rates and have been doing this. So, the property management companies that we work with for our apartment inventory, they have what they call a lease optimization software (LLS). And it's truly like what the hotels do, where it senses what that supply and demand is, and they can raise and lower their rates based on occupancy.

So, I'll give you an example. When you think about the Super Bowl, right, you go to the Super Bowl, you go to a city where the hotels normally run \$200, \$300, maybe \$400 a day. But during Super Bowl, those hotels go up to \$2000 to \$3000. So, it's pretty much the same as a lease optimization software that really shows them what they can charge.

Another trend is occupancy. Occupancy is still holding strong. Now as newly built apartment buildings enter into our marketplace, that's going to change the landscape. But most likely those rents are going to continue to stay steady. From everything I've read. And I've heard, rates will not be decreasing. I will say though, that amazing growth and the profits that property management companies and owners have enjoyed post pandemic are falling back down a bit and they're starting to normalize overall in the temp living industry.

There's been a lack of options over the last year. With new construction, there are delays and increased cost in rental rates due to product cost incline. So, I do see that supply and demand will be a bit more manageable. Although I think still a bit frustrating.

You know, we've heard about the layoffs right, with some of the large tech companies. And I think people believe this is going to impact the apartment industry and temp living industry. But with interest rates that are higher for example, this creates rental demand. So, buyers are choosing to wait this out and stay in the rental apartment causing yet another reason why supply may be hurting. I do see this turning around Brenda, in 2024. As we know everything is cyclical. Everything comes back around right.

Lastly, I want to talk about rebids because this is a trend that we've been seeing since last year and it's continuing to happen this year. Rebids happen when an employee does not choose any of the original options they are provided. Therefore, they come back and want more options. In the environment we're in, it continues to be a challenge. They're searching for a perfect temporary living apartment that suits all of their specific criteria. So, I'm going to compare this to the rental car industry, right? When we rent a car with our preferred supplier, mine is Hertz. And let's say I'm a member of the President's Club. And when I landed my destination, I expect to walk out and get the exact car that I asked for right? Low mileage, leather seats, heated steering wheel, you know, but instead, I arrive late. And when I get to the car lot, there's very few cars. So, guess what I do, I just pick the best choice at that moment. In temp living, the list of criteria sometimes prohibits that employee, from making that quick decision, right, and getting the apartment that they want, in order not to lose out, they need to look at their criteria, you know, maybe the option fits five of their seven specific requirements, it may be the best fit for a 30 day stay. But they want the ultimate choice with all of their criteria being met. When

they have this plethora of criteria that may not be fulfilled completely in any options they're being given, they want more. But in the challenge in today's market, there may not always be more options that will meet every single criteria, they have to remember this is a short-term stay, it is not a forever home, there may be some criteria they can live without for 30 days, they need to decide what is absolutely necessary in their temp living. And hopefully, they will get the option that meets their ultimate need. Quick decisions and understanding it's temporary, not a long-term housing situation right, will afford the transferee a good option that's going to house them well during their state. No matter the trends that I've just talked about, we must be flexible and adapt quickly to market changes.

brenda:

So many great points. Let me first just touch on the whole revision process. You know, this is something that I know we spent a lot of time working with our [Cartus] consultants and helping them really manage expectations for transferring employees. And I think that I loved your analogy about the rental car, I think that was absolutely perfect. One of the things that we spend a lot of time talking to transferees about is the fact that this is not going to be their permanent residence, that this is a blip in time, it's a moment in the process of their relocation. And, you know, setting those expectations very, very early on during that initial welcome call, I think really do help manage those expectations. However, it is hard for many people, you know, to understand that, when they're going through one of the most stressful times of their lives that this is temporary by nature, temporary housing, temporary accommodations. But I love what you said, and it sounds like you and your team are doing all the right things.

I did want to ask you a question to a point that you had made earlier, when you were talking about lease terms. I know back in my days in temp housing, even then it was difficult to secure short-term leases. Typically, the shortest-term lease that you could secure would be 90 days, for example. So, are you finding that landlords and property owners are more open to corporate housing? If you're willing to take I know at times, they would even say, can you take a 15-month lease? Is that something that they're offering? Or are they really putting up the guardrails and saying we're not interested in temp housing in our properties?

cara:

That's a great question, Brenda, and I will say this that, yes. Are they interested in the longer-term lease? Absolutely. They are. And they will take those certain properties. Now, this kind of goes into something I'm going to be talking about in a little bit. But it's basically it's the property relationships that you have, if you have those great relationships, you can typically get what you need. But yes, are they willing to take longer term leases. Absolutely. Over short term. The other thing is you know, when I'm talking about how they want to minimize the corporate leases, a lot of that came from the pandemic. You know, when the pandemic happened, everything stopped. And they lost a lot, you know, corporate housing companies pulling out, you know, regular renters in the apartment not paying rent, they went through a very tough time that I think a lot of us looked at and said, "Are we ever going to come out of this?" And quite frankly, I'm surprised we came out of it as quickly as we did. Because within like I said the last two years, they have been reaping the benefits of low availability. And so, to answer your question, yes, well, they take longer term. Absolutely.

brenda:

You know, and another thing that you mentioned was interesting to me was the layoffs, thinking about some of these large metropolitan areas, like the Bay Area, for example. And you know, we've seen people at home now for a couple of years, and now though, we're starting to hear that they're being called back to the office, even if it is a hybrid type situation. So, again, that will be interesting. I think a lot of people probably did, perhaps give up those leases and move to an area where the housing wasn't as expensive. But I think it'll be interesting to see what happens now that companies are starting to say, especially in that tech space, we actually do want you in the office, whether it's two days a week, three days a week. So that'll be interesting to see what happens with inventory. With that return to the office.

cara:

I agree, Brenda, and I just read an article recently talking about how the companies and I think we've all seen this, but the companies are putting more mandates on the employees to come back in.

brenda:

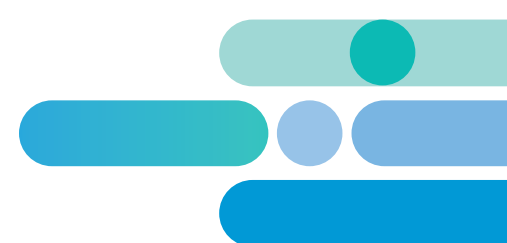
Right, right. Very fascinating. Well, moving on. So, you know, we're certainly hearing from our account management teams here at Cartus, that there is a shortage in areas like, again, Northern California, New York City, Seattle. What is your experience in those markets? What are you seeing? What is National Corporate Housing trying to do to combat these challenges?

cara:

Right, we are seeing the same in those areas, Brenda. Some of the things we're doing to combat these challenges is to take like what we talked about longer term leases, and then backfill those apartments so we can keep those apartments in our portfolio of inventory. It's challenging, though, right? It's challenging, we need the business to be able to keep the apartments full, we're securing interim programs sooner, you know, we're taking out that inventory in January and February timeframe. So, we have that available inventory for the current needs that we may have, as well as holding that inventory for the interim season. Another thing that we're doing is we're reaching out to our clients, we're encouraging them to take block business or to take block apartments for business, which allows them to have that inventory for their current relocating population in key markets such as North California, New York, and Seattle.

brenda:

In case people don't understand what that means that "block business" because, again, not every organization takes that approach. Can you just explain what you're talking about when you say that block business?



cara:

Sure, I'd be happy to. So, block businesses really, when they know that they have a population that's coming in, either it may be a project management, right, it may be a project that they're working on in a specific city, let's say Seattle, and they know they're going to have, you know, 100 or 150 people coming in to work on this project. Or maybe it's 10 people coming in to work on this project, but they're looking at what their future business needs are. And they're going ahead and taking those apartments in advance, because they know that they're going to need them for an extended period of time.

brenda:

Great. Thank you.

cara:

You're welcome. You know, the other thing that we're asking our clients, Brenda, is we're asking for that first right of refusal, because as a corporate housing company, we're taking the risk, right, we're going out, we're taking these apartments, we want to have that availability for our clients. And we also need that commitment from them. So, we're asking for that first right of refusal. We're also seeing that our clients, you know, as I said before, they're taking that inventory, sometimes even before they have a transferee to go in that apartment, because they have the knowledge of, we know we're going to have this move. We know we're going to need apartments; we know this key market right now doesn't have the availability that we're going to need. So, what do we do? So, they're looking at taking apartments in advance. We're also recommending to our clients that they look at the specific key market that they need, and they select preferred properties.

We just did this with a client of ours, actually, in my hometown of Concord, North Carolina, but we just, we did this with a client that we said, hey, listen, we know you're bringing in a multiple group of people for your new facility. Let's look at the properties. Let's look at what you want to be your preferred properties in a designated area. Because what that does is once they say, "Hey, property, ABC, these are the ones we want for our employees," then what we're able to do is the relocation consultant at the relocation management company, they can then decide on the transferee's behalf to secure the housing quickly.

So even though the market may be letting up a bit, it is still important for the transferee to make that quick decision as not to lose a viable option, making those decisions quickly. So, the inventory's still available to book. Also, the other thing that we're talking to clients about is, you know, having the transferee have a second option. I think we've talked about this with Cartus. Right. It's about having that second option, just in case the first option is booked.

Brenda, I know you and I have spoken previously about how companies can also help themselves, right? What are some of the things that Cartus account management teams are advising their clients, with US relocation programs?

brenda:

Yeah, great. Well, first of all, again, so many amazing points, and I'm taking notes here of follow up questions that I have for you. But you know, you've really hit on a lot of the main points, you know, that we counsel our clients on, in specifically, again, making those quick decisions, understanding the temporary nature of the situation, the backup plan when the options are sent out to them. Not just saying, okay, Option A, that's it, it's that option, or there's no option for me. Really helping them understand that we really do need to go as deep as possible. So, if they're presented, you know, with four options, let's rank them because you and I both know, Cara, that especially during peak season, there are times where we may be grading down to those third and fourth options. If they are even that many available, again, back to the supply chain.

I had a question for you, too. I'm curious, you know, we obviously here at Cartus, help our clients with a lot of intern programs. Are you seeing the same? Are you seeing volume picking back up? Again, I know, there was a period there where really interesting things happened with intern programs, you know, organizations went from having their interns, sometimes sleep two to a bedroom, to going to maybe it's a two-bedroom apartment, but everybody has their own bedroom, to single apartments for interns. We've seen reductions in programs, what are you seeing? Are you seeing that intern population ramping back up again, it brings me back to the whole return to work mentality, not just here in the US, but globally. And I'm just curious if there's been a rebound in those intern numbers, right?

cara:

That is a really great question, Brenda. It has rebounded, so I will say that, but I will tell you, things are a little different. You know, when you mentioned about, two people to a one bedroom or whatnot, that has changed. So, people are looking at, hey, we can't put two people in a one bedroom, we put one person per bedroom. So, a couple of things have changed. The other thing too, is I think the reason why it has rebounded, is because companies realize, well before I say that, I will say this, manufacturing companies stuck with the programs pretty much even through the pandemic, you know, your tech firms, etc, that have a huge amount of interim business that kind of went to the wayside, they still did some small programs. So, one thing I've seen is that they have rebounded, they may not be as large as they were back in 2019. But they have rebounded, they are still doing this, because they are seeing the importance of having people in person in the office, creating that team camaraderie, creating those people, letting those people see what their culture is. So, it's important to have the interns where the actual office is.

brenda:

Yeah, interesting. Another question that I wanted to ask you is, you know, with this lack of inventory, I know National Corporate Housing has always been at the forefront of, you know, spearheading any industry trends, new ideas, ground-breaking options. When we're looking at a limited option in terms of traditional apartment communities, are you investigating more that private side, whether it be, single family homes or town homes.

cara:

You know, we do have a division of our organization that actually can do that. And we rent from individual condo owners, actually the owner of our organization, our CEO owns several condos in the Denver Colorado area, for example, and those are for rent. So, yes, do we look outside of the normal apartment community? Absolutely. What we do is as we want to provide housing where our clients need it, and not always is that an apartment community.

brenda:

Right. And I know duty of care is always top of mind for you and your team. So, I know that those private options, I'm certain have been vetted just as diligently as any of the more traditional options.

cara:

Absolutely.

brenda:

Let's talk a little bit about rising costs inflation, that's all we're hearing these days. It might be useful for our listeners, if we outline exactly why relocation costs are rising. Can you give us a little bit of background on that, Cara?

cara:

Yes, certainly, Brenda, there's a variety of reasons as to why costs are rising, you know, most predominantly, are labor and product shortages, as well as supply and demand. You know, again, this is 2023. I do think that we've all seen the housing market, it went crazy. Now, it's kind of normalizing a bit. So that's going to change, [but] I don't think it's going to change as quickly as some people may hope that it does. The cost to build new properties is elevated, as well as the supply for products. So that's created an expense, that slowing down new construction growth. Well, guess what? We need new construction to have more supply.

Supply and demand, when I talk about that, you know, the property management companies, they are a for-profit company, that's what they do. They want to make as much profit as possible. And as we all know, everything comes full circle. Their current environment, and this past what two years environment, they made the most money that they could make. They're trying to make up for monies lost during the COVID pandemic. Month to month leases are higher, because there's a lack of inventory, they don't have to let us have a month-to-month lease, they can go and get someone that will take a 12 month or longer lease with them. Negotiated rates in the environment we're in today is not what it used to be because the properties, they don't have to negotiate. You know, if we don't take the apartment, someone else in the blink of an eye is going to take that apartment. So, gaining inventory is key. It's no longer about obtaining less expensive rates.



brenda:

Right. It's all about the supply chain. It's all about what is available at this point. And, again, that kind of brings things back to what we're doing here at Cartus. And how are we educating and keeping our clients up to date on what is happening out there. Why are they seeing those increased costs, and that comes back to supply chain.

Let's bring it all the way back to the shortage of trucks and drivers and the increased cost of cardboard and crate. I mean, the entire process of relocation across the board has increased exponentially in terms of costs. But as you said, it's all necessary if we're going to continue hiring the best of the best. That is why organizations relocate team members, they're trying to keep that key talent, or attract that key.

cara:

Exactly.

brenda:

And, you know, again, kind of circling back on, you know, I've talked a little bit about what we've done to manage expectations with our clients. But I'm sure you're doing similar things with your clients and transferees. And I'm just curious if you have some ideas on how you manage those expectations and why it's so important specifically for temporary living services, which is very different than many of the other service offerings when we're talking about relocation.

cara:

When you think about temporary living, I think, okay, it's temporary, but at the same time, it's where they're living, right. So again, education is so important. The relocation consultant, the company liaison, us as your partner, we need to continue to educate the transferee on the marketplace conditions and cost. Temporary living is just what it says it's temporary. So, if the transferee is in their desired area, or close enough, all other criteria should be considered optional. Our goal together when providing a corporate apartment, is to ensure that that assignee, that they get up and running. That they're productive at work from the get-go, from the first day they're on the job, we need to make sure that their moving is flawless. And they have everything that they need to survive their short-term stay. That's what is most important. This is not their permanent home. So, understanding that is key with ensuring that they're happy in their apartment.

brenda:

And you know, you touch on such a great point. At times, I think companies might look at temporary housing and think, "Is this perhaps an area that I can eliminate?" "Could I cut costs?" We're hearing from a lot of our clients right now that they've been tasked with some pretty significant cost cutting measures within their organizations that for whatever reason, 10% seems to be the magic number this year. Cut your mobility program by 10%.

But truly, I think what you said is so important Cara, and that is that these individuals need to be in that new location, they need to be comfortable, they need to be well rested, they need to be ready to hit the ground running. And to be able to have a space that they call home, even if it is temporary, is absolutely critical to the success of that relocation, or if it's an assignment or an internship, etc. So, I'm so glad that you brought that point up again, because when I hear mobility leaders talking about eliminating temp housing or offering a lump sum, you know, we all know, a lot of times they won't use that lump sum for the temp housing. I cringe a little because they really [need to] understand the importance. I've seen it first hand when those transferees can get to their new location, feel settled, feel as though they've got that safe space. So very great point.

cara:

I agree with you. I do want to touch on that, again, that even though I'm saying, please look at your criteria, and just really go with what's most important that these options that come over may not meet every single criteria on your list, I still want people to understand and to know that it is our job as a corporate housing company to make sure that they are comfortable, that they feel good about their apartment, that they have a great living space that they feel comfortable in. So, they can do what they need to do and put their mind on work and not worry about where they're staying.



brenda:

Absolutely. Absolutely. Listening to you. It's very understandable why we have such a strong partnership with National Corporate Housing. Obviously, there's quite an alignment between our two organizations. And it's wonderful to see. And with that I think we are about at the end here. I will pass it back over to Jackie.

cara:

Thank you, Brenda and Jackie.

jackie:

Wow. All I can say is wow, thank you both for that great discussion, so much information and really informative and educational. And thank you to our listeners for joining us. Be sure to subscribe to mobility matters through your favorite podcast streaming platform. And as always, if you have a question we didn't cover, or would like to request a topic for upcoming episodes, please email us at cartussolutions@cartus.com.

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