

LUMOS View



Rentals, Sharing Economy
and the **Future** of Living

By Joel Finningley

joel@lumosbusiness.com

September 21, 2016

www.lumosbusiness.com

Rentals, Sharing Economy and the Future of Living

The lease. It's becoming the *bane of the existence* of a young, up-and-coming generation that lives for freedom, flexibility and collective experiences.



Since Airbnb came out 7 years ago and changed the rules of the game, we have begun to see a movement towards a more collective and spontaneous way of living. This structural shift often gets buried under the sexier 'sharing economy,' but its importance can't be lost, as we start to transition away from a common societal aspiration to get married and buy a house, to a generational aspiration to live, travel and work together in communities.

We say generational because it is very much the misunderstood and undercapitalized 'Millennials' who are driving this shift. They are generally said to be those who were born between 1981 and 1997 and are the largest generation in history.



Rentals, Sharing Economy and the Future of Living

[Goldman: Data Story - Millennials](#)

And it is becoming increasingly clear as we go along that this generation doesn't want to play by the playbook of the past. As a generation that is fully fluent digitally, they are starting to merge the digital + physical worlds together to create new living experiences.

The launch of WeLive - flexible monthly apartment rentals with a digital community-building app - signals the beginning of a new market that's branded as 'CoLiving.' Many other CoLiving startups are launching - Roam.co, [Be Unsettled](#), etc. - with the goal of reshaping the way we live, work and form families.

When you connect this market in with what's going on in the sharing economy, we start to see a lifestyle revolution where the ability to go deep local or full global can be as simple as finding the right communities on your smartphone. The young generation wants flexibility and to find communities of like-minded people to live with, whether it be in Singapore or Sarasota. It's not so much where you are going, but who you will be there to experience it with.

In the future, we imagine a world where you use your smartphone as a passport to connect to different co-living and hospitality communities via a series of different digital apps. These apps will be linked together by technology (Bots, Voice, etc) and your reputation/social position within the different communities will be aggregated on the blockchain. Living will become much more modular, as the lease in its current format becomes a relic of the past. And it will be about experience over and above anything else. As we deep dive into Rentals, Sharing Economy and the Future of Living, we will look at several important movements that intersect at a point which requires us to rethink everything about the way we live and work.

How Airbnb Reshaped Rentals

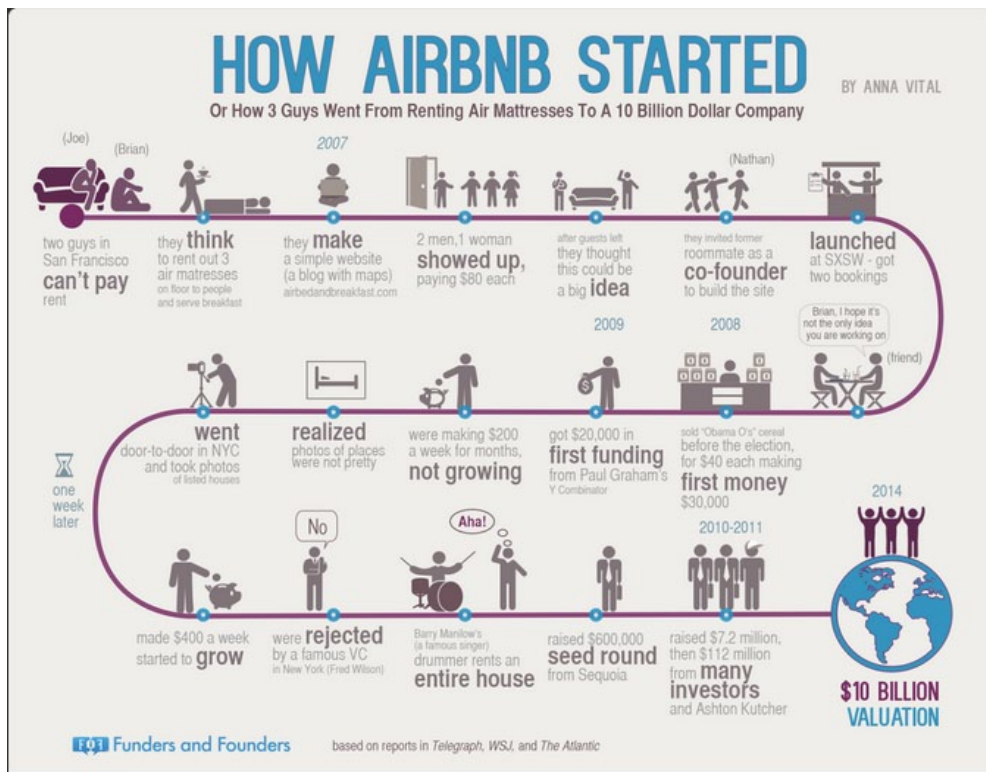
Airbnb didn't exactly light up the skies when it launched. They struggled out of the gates and were rejected in the seed round by [several prominent investors](#). And yet, over the last seven years, since its initial investment, the company has gone [from 0 to \\$30B](#).

How?

Trust and timing.



Rentals, Sharing Economy and the Future of Living



Convincing people to let strangers into their homes was no easy task. In Airbnb CEO Brian Chesky's TED Talk, he describes how the company learned to "[Design for Trust](#)" in order to overcome these hurdles. They have been the pioneers of the online 'trust metric' built around stars, comments and rating of the experience. And while there is a lot of room for improvement in these metrics, they have helped people to overcome fear and prejudice to welcome people into their home. What is staggering is that, at the time of this video (March 2016), Airbnb would have 785,000 Hosts/Guests using the service in one night!

The travel + short-term rental market is estimated at \$550B globally. Millennials are the [fastest growing age segment](#) in travel spending ([\\$200 billion/yr.](#)) and they continue to search for more experiences. Given that about 58% of Millennials have a positive view of Airbnb, we can see that the company's timing to expand their model was perfectly in line with the rise of experience travel by Millennials.

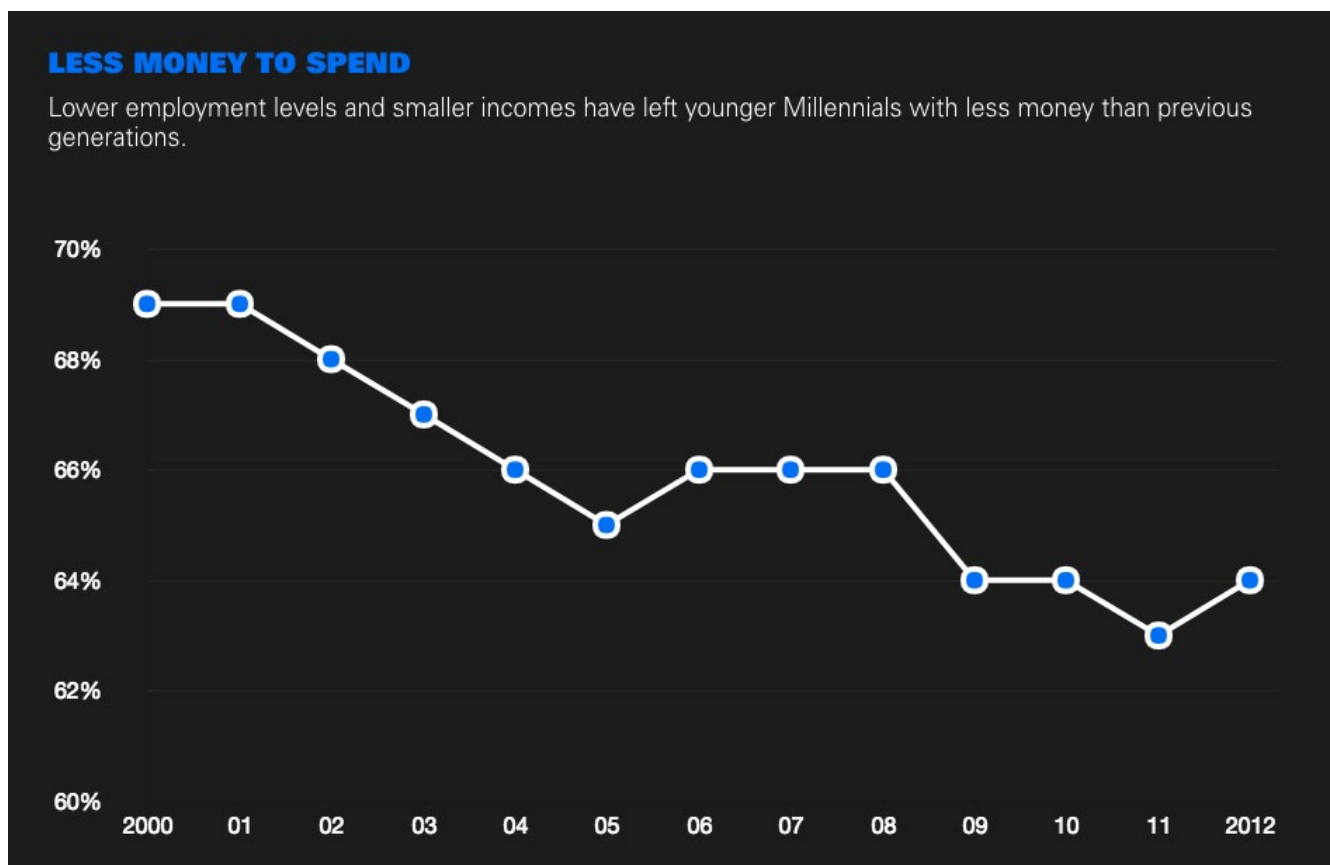
What happens as a result of being able to experience a place through an Airbnb versus a hotel/ hostel, is that it reshapes your view on both tourism and rentals. It makes the process of renting an apartment - search, agent, view, references, credit check, documents, lease, etc. - seem completely archaic. And while short-term rentals is not Airbnb's play, their influence on the market has inspired a slew of new companies to enter the market and reshape rentals for the next generation of consumers

Millennial Mindset - New Rules, No Borders

Millennials are wired differently than any other generation in history. Due to a combination of factors - growing up in a digital world, the '08 financial crisis, prioritizing access over ownership - Millennials have a completely different outlook on the future than their parents. Whereas the Boomers and Gen X grew up in an era when home ownership was affordable for the average family and employment was relatively stable for the average college-educated graduate, now the average young person is saddled with debt in a crumbling economy and unaffordable home prices. It's not just unemployment, which is crippling many youth in countries across Europe, but underemployment in countries with relatively strong macro performance like the US:

“For starters, the underemployment rate—defined as workers with college degrees who have jobs that don't require a college degree—has continued to rise in the years following the recession. The underemployment rate for recent college graduates hit 46% in mid-2014—a level not seen since the early 1990s.” [Millennials - Are We There Yet?](#)

The combination of unemployment, underemployment and asset inflation has left this generation with much less disposable income to spend in the economy.



Rentals, Sharing Economy and the Future of Living

It has also helped spark an entirely new economy, known as the 'sharing economy.' The sharing economy is particularly strong in Europe, where the '08 Financial Crisis had a much bigger impact on most Millennials than their overseas friends. But it is now taking hold across the world, especially now that services such as Airbnb and Uber become household names among those in the young generation. Globally, the sharing economy - which we have talked about in a previous post - is as much a generational story as it is a necessity in our resource-constrained world:

“Millennials resonate with the idea of the sharing economy since it perfectly fits their budgets. Millennials took longer than expected to enter the job market—and at lower wages. Servicing huge student debt is another issue straining their already fragile financial situation. No wonder the technology-driven, asset-light, and low-cost consumption model appeals to millennials. They shun asset ownership and prefer sharing” [How Millennials are Driving the Sharing Economy](#)

This isn't about to change if the economy rebounds either. Millennials attitudes towards work - both how they work and who they work for - are dramatically different than any other generation. [38% of Millennials are freelancers](#) and that number will probably go up before it goes down, as 82% of them are optimistic about the future of freelancing. But this doesn't mean that all Millennials want to be freelancers for the rest of their lives, they just want to experience new places and build flexibility into their lives:

“Consider also that millennials are quick to openly imagine themselves living and working in not just different parts of the country throughout phases of their lives, but in other nations as well. Every single millennial answered “yes” when I asked him or her if they would consider moving to another country for opportunity. A generation apt to move about may not be a generation apt to buy houses, at least not for quite a while.” [Home Ownership Doesn't Make Sense for Millennials](#)

The Millennial mindset, while typically geared towards urban settings, is global and borderless. They view travel more as a necessity than a luxury and cultural enrichment as a requirement rather than an experience for the wealthy. Mobile devices and social networks have created multi-lingual, round-the-clock conversations and paved the way for new communities to form independent of nationality, race or ethnicity. This is a powerful force that will reshape the social structures of society and business. Millennials will carry these attitudes with them throughout their lives and look to remove barriers in both their personal and professional lives that restrict their growth as individuals.

Because the Millennials are in a different mindset than older generations, and the global economy continues to shift to a more distributed and digital model, we would compare the shift in living and working that we are seeing today to the Industrial Revolution:

“Many young people are following in the footsteps of the “millennials” of the 20th century, the workers who were coming of age as the Industrial Revolution truly kicked in. It was the workers of the 1910s and 1920s who saw the rapidly changing economy and built the labor movement in response.” [Why Millennials Understand the Future of Work Better Than Anyone Else](#)

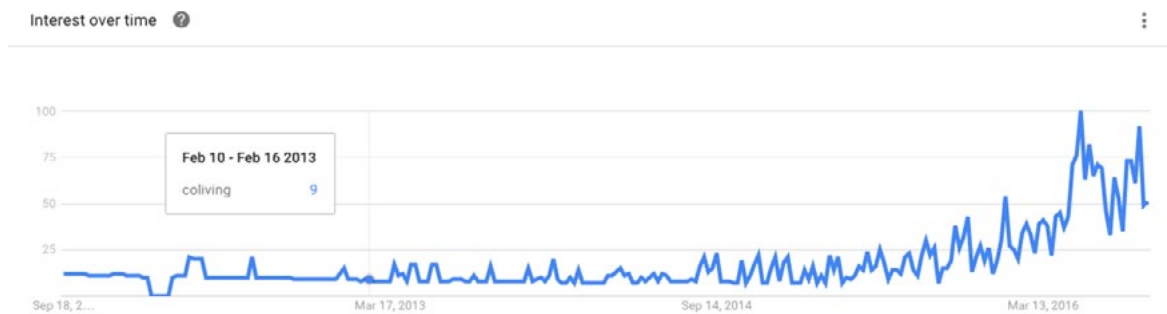


Rentals, Sharing Economy and the Future of Living

Structurally, financial incentives and pay schemes will need to be reworked before most Millennials in the global economy will see the true results of their efforts. But in the interim, there are some exciting new markets emerging to meet the lifestyle ambitions and collective goals of the biggest generation in history.

WeLive and the CoLiving movement

Suddenly CoLiving has become a thing. When we talk about 'new markets emerging,' this could be one of the most exciting and foundational markets in history despite the fact it sounds like another buzzword. Just looking at Google Trends shows an explosion of interest around CoLiving this year.



What is CoLiving and why does it matter?

“housing that includes a philosophy of community, shared space and a built-in social life” [CoLiving Startups - The Commune is Back but For Profit](#)

It matters because what's missing in 'the model' of work/life for the average Millennial is a sense of community, shared purpose and social structure. While on the surface this may appear to sound like College Life 3.0, it has to be placed in the context of the research laid out above - most Millennials can't afford a house, prioritize experience over ownership, and are looking for like-minded people to build their lives around.

“Most importantly, the co-working/co-living movement reflects the Millennial desire for community.” [Millennials are so happy living and working together](#)

This isn't a few preppy tech cofounders getting a house at Harvard. This a movement towards 'the commune.' Which is why it is perhaps ironic that one of the emerging players in the market - WeLive by WeWork - is founded by an Israeli immigrant who lived in a Kibbutz, or commune. And that's why WeWork is pouring money into their WeLive - it is currently launched in NYC and DC:

Rentals, Sharing Economy and the Future of Living



WeWork itself has 50,000 Members, approximately 100 international locations and [a private valuation of \\$16B](#). But as the Founders themselves say, WeWork the company has always had a much bigger vision than just coworking:

“But behind the scenes, as McKelvey tells it, he and Neumann were hatching a bigger idea. “We had a bunch of ‘we’s—a fitness concept, a restaurant concept” McKelvey says. “The first business plan we had included all of them.”

Which is why it shouldn't be a big surprise that WeWork is rolling out WeLive. Whether or not it will stick is another question. A US Venture Capitalist with an interest in the space [went and stayed at WeLive](#) and wrote up his thoughts. In sum, the turnkey concept is the value-adder while the premium pricing makes WeLive difficult for the average person to afford, which could detract from its community focus. Anecdotally, it does appear like the people who derive the most value from the service are new to town, which reinforces that ultimately the strategy is leveraged to the community that gets created around the brand:

“For those who opt in, WeLive will also provide one particularly alluring amenity: a community of like-minded people.” [Inside WeLive, WeWork's Dorm Style Take on Urban Housing](#)

And if you start to look at other companies in and around the market - many are springing up - they

Rentals, Sharing Economy and the Future of Living

will all be investing big dollars to try and create that magical ‘family feeling’ where people can feel at home and form friends with complete strangers in a short period of time:

“The big selling point of co-living buildings are the amenities and the friendship that can be formed through sharing them.” [CoLiving Startups Turn Normal in 2017](#)

Other companies, such as Roam.co are adding nuances to the model and trying to create a lifestyle around CoLiving rather than just a landing pad. Whereas with WeLive you can sign a one-month lease for example and live flexibly in a certain apartment building, with Roam.co you can ‘Roam’ across a basket of locations (Bali, Buenos Aires, etc) on a weekly or monthly basis:

“By combining co-living with nomadism, Haid hoped to help alleviate the loneliness of showing up in a new city and culture, knowing no one” [Instead of Renting an Apartment, Sign a Lease that Lets you Roam Around the World](#)



Undoubtedly, there will be several new experiments with different concepts, models and amenities, but ultimately it is all geared towards creating new connections, across cultures, and revolutionizing the way We Live.

A Lifestyle Revolution Powered by the Sharing Economy

While CoLiving is in and of itself a big shift, it's a small part of the whole - a lifestyle revolving around community, culture and connectivity.

The sharing economy will become a huge part of the global economy over the next decade:

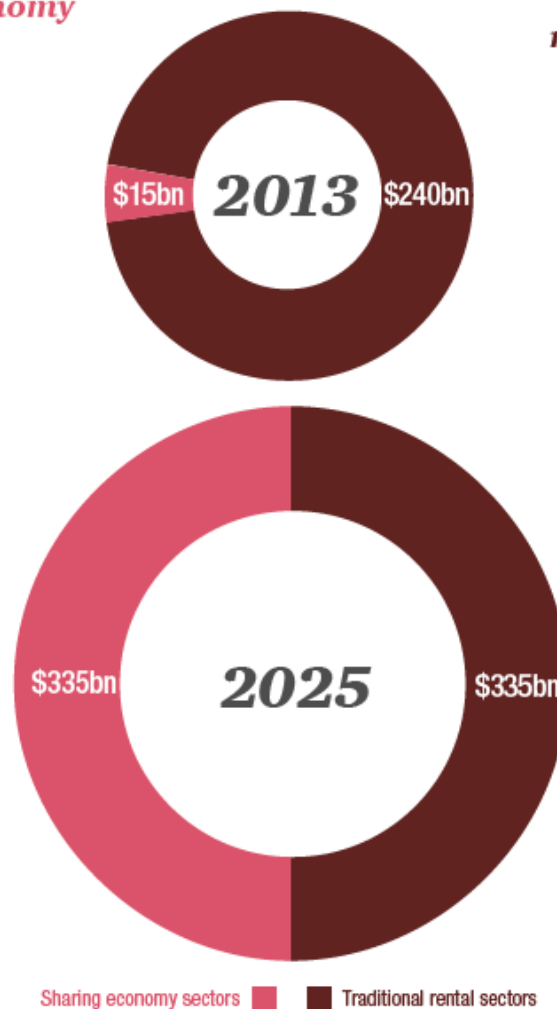
Sharing economy sector and traditional rental sector projected revenue growth

Sharing economy sector

-  Peer-to-peer lending and crowdfunding
-  Online staffing
-  Peer-to-peer accommodation
-  Car sharing
-  Music and video streaming

Traditional rental sector

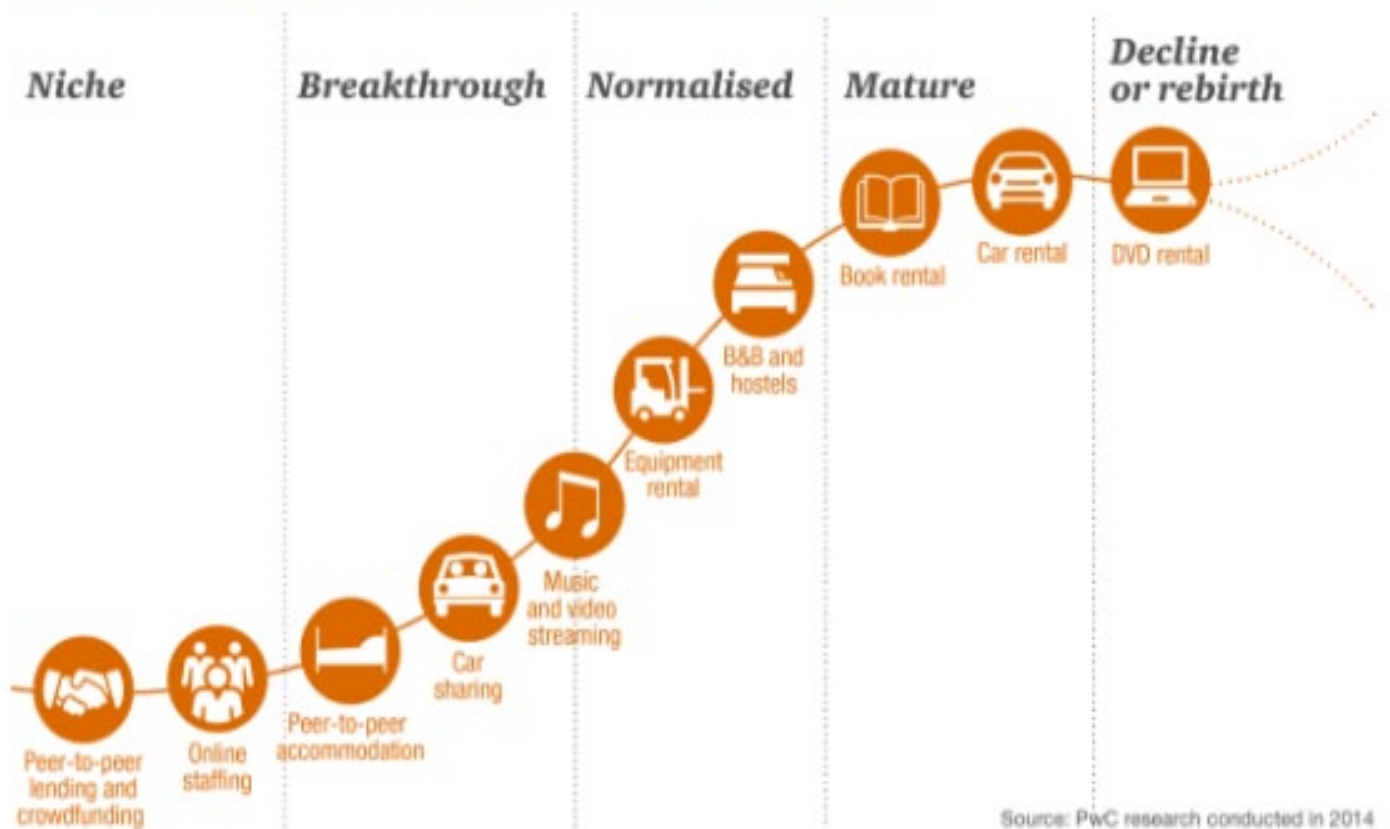
-  Equipment rental
-  B&B and hostels
-  Book rental
-  Car rental
-  DVD rental



The Sharing Economy - Sizing the Revenue Opportunity

Currently, we can see that the 'Peer-to-Peer Accommodation' sector is but one of several - we see sharing economy sites popping up around food, music, books, fashion and an assortment of other cultural areas. But 'P2P Accommodation' is the main sector that is about to enter an exponential growth phase:

The sharing economy life-cycle

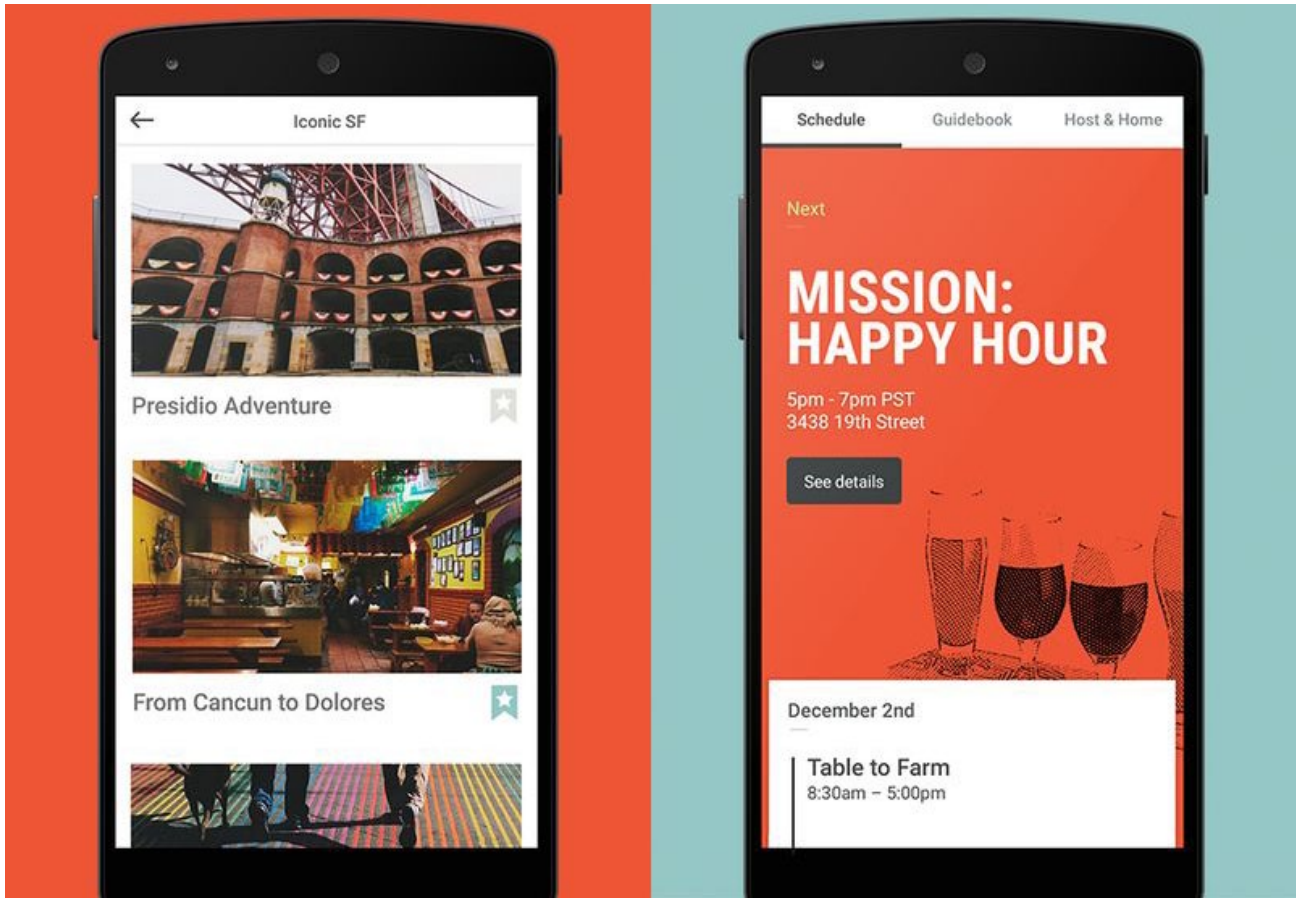


As you start to add the pieces together, you see how digital-savvy youth will soon be able to manage all the elements of their life through a host of apps, services and communities all connected to the sharing economy. Where this becomes a powerful force in society is when these services become interconnected:

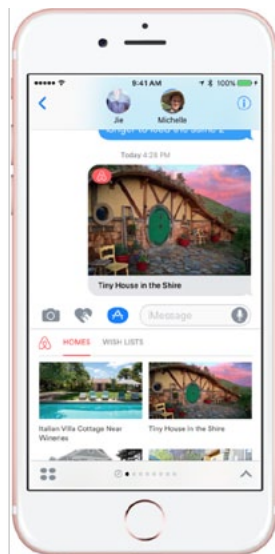
- Move to a new city and build a community of friends through your CoLiving space
- Work at the local coworking space and meet a new business partner
- Go on a vacation to a local village in a P2P car service
- Get inspired to launch the business while on vacation, come back and launch a crowdfunding campaign
- Invite all your newfound friends to the launch part of your new sharing economy business for music!

Clearly, this is hypothetical, but the potential of interconnected services is already being explored by many major sharing economy players, mainly Airbnb. They are currently testing an app that allows Hosts to recommend local restaurants and cafés to Guests. [Airbnb Trips is expected](#) to be released in November:

Rentals, Sharing Economy and the Future of Living



Furthermore, the company has just released a new app for iMessage that will allow groups of friends to plan trips together:



Rentals, Sharing Economy and the Future of Living

Because Airbnb has **a)** a lot of cash in the bank **b)** mindshare with Millennials **c)** visionary design-based leadership - we expect them to be a beacon in this market going forward. Even though we have some issues with their 'Metrics of Trust' that were discussed in a previous post on 'Blockchain and the Sharing Economy' we still expect them to be the dominant sharing economy player:

[Blockchain and the Real Sharing Economy](#)

Airbnb's big play will likely be on the blockchain and using their extensive library of 'trust data' to develop new 'metrics of trust.' Since their [acquisition of ChangeCoin earlier this year](#) and open discussions by their CTO on the potential of blockchain, we see them as being the first player to start to tie the pieces of the sharing economy together into a reputation passport:

"I think that, within the context of Airbnb, your reputation is everything, and I can see it being even more so in the future, whereby you might need a certain reputation in order to have access to certain types of homes. But then the question is whether there's a way to export that and allow access elsewhere to help other sharing economy models really flourish. We're looking for all different kinds of signals to tell us whether someone is reputable, and I could certainly see some of these more novel types of signals being plugged into our engine." [Airbnb Cofounder Talks Blockchain](#)

Already there are a host of other firms that see the extension of blockchain into the travel industry as a whole, and the opportunities that it opens up:

"Just like a credit file, companies could check the reputation of users when they access services. In particular, third-parties could determine whether an Airbnb guest paid on time or a host provided a five-star service" [The benefits of Blockchain for Airbnb and the Travel Industry](#)

The opportunity for a true 'Lifestyle Revolution' comes when seamless reputation sharing between services is enabled, facilitating access to new services and people based on how trustworthy you are. For a generation that has vastly less financial resources than they would like, yet an unlimited amount of experiences they want to explore, the idea that *who you are* can become a type of **social currency** in the future economy is a powerful one. For the younger generations, it will progressively become about optimizing the blend between life and work, friends and coworkers, money and time. The sharing economy can power this revolution by connecting the dots and enabling individuals to create their own blend for how they want to live their life.

Imagining Life without a Lease

Life untethered. It's a bit difficult to imagine in the current world with all of the strings attached - immigration, financial services, public services, all depend to a certain degree on where you live.



Rentals, Sharing Economy and the Future of Living



How can a government, bank, hospital or public servant determine where you live without a lease?

The point is that the future generation won't care what they think. They want what they want. For a generation that has witnessed perpetual political chaos, a global financial crisis, and an inability of the state to solve social problems, they start to place their trust in the people around them and the brands they love. They are looking for ways to experience life with 'their people' across cultures, ethnicities and nationalities.

Fast forward 10 years - on the back of movements like CoLiving and the sharing economy coupled with technology like the Blockchain, we expect to see a full-scale revolution in the way we live, work and form families.