RESEARCH

Co-Living

RENT A LIFESTYLE

Content

Section *1*

Introduction

Co-living – Concept and renting philosophy

Co-living, the new mantra within the ambit of alternative asset classes is a form of housing which combines private living spaces with shared communal facilities. The idea of co-living is to create a community-centred environment that not only provides privacy in living arrangements but also promotes social contact through community events. As an asset class, co-living seeks to build a community centred around 'real socialising' in a world where social media platforms, such as Facebook and Instagram, are the virtual alternatives for socialising for millennials. The biggest driving force behind the rising popularity of co-living spaces are the young renters moving to new cities for job prospects who are looking to meet and connect with new people.

In India, the co-living concept is gaining widespread acceptance and has brought to the fore some new models in the private rental sector. Though the concept is novel, it's here to stay, as India's millennial population currently accounts for 440 million[1]. The growing interest for co-living spaces in cities such as Bengaluru, the National Capital Region (NCR) and Pune has been instrumental in many investors sitting up and taking notice of this emerging sector to diversify their portfolio and risk.

The renting philosophy for co-living spaces is derived from millennial behaviour where such renters share less utilised areas such as living spaces, kitchen, balconies, etc. in order to make an economical rental decision and be part of a working community. Their willingness to sacrifice these spaces in their individual units, if these options are available in the apartment buildings they stay in, help operators to arrive at different all-inclusive membership packages while accommodating more individuals on a single floor plate. The icing on the cake is the design appeal of these apartment buildings which encourage socialisation. To cater to this sort of renting philosophy, many buildings in prime locations such as city centres, near employment hubs like IT parks, special economic zones or universities are being redesigned, repositioned and rebranded keeping millennials in mind. This trend is giving impetus to an organised rental market in cities such as Bengaluru, NCR and Pune in the same way as co-working spaces did for shared office spaces.

Evolution of co-living

Co-living or 'communal living' is not a new concept invented to cater to the millennial population's housing preferences. In fact, in many countries it dates as far back as the seventeenth century. Medieval villages, religious cults, monks living in monasteries, the hippie movement of the 1970s, boarding houses, Post World War II housing are all examples of co-living solutions that catered to a common belief system while also addressing the economic constraints of its inhabitants. Boarding houses, in particular, served as a transient way of city life, most popular in America where boarders typically included homegrown and foreign-born labourers rushing to cities for employment opportunities. These boarding houses served as a stepping stone for young adults and helped them bridge the gap between family life and independence. As

[1] *Media reports, Livemint news article Feb, 2018*

a vast mobile workforce flooded into cities demanding more independence, boarding houses were gradually replaced by cheap hotels designed for long-duration stays. As people earned more and got richer, they were willing to pay more for 'more' space and 'more' privacy. Reconceptualising the old idea of co-housing of the 1960s is what co-living in today's time is all about. Urban environments attract large scale in-migration putting the limited housing stock under pressure. Coupled with prohibitive rentals and unavailability of micro units in desired locations, co-living in the modern-day world is evolving parallelly with the growing millennial population as they comprise the largest share of workforce globally.

Characteristics Of Co-Living

1.1 **Tech-driven easy living** – Technology is a prerequisite for today's young adults to manage their lifestyle. It has revolutionised the way digital nomads work, live and play. Co-living operators use modern technology to develop mobile apps which create an online platform, giving the residents access and flexibility and smoothens communication between the tenant and operator. The residents can provide feedback or complaints and ask for services like housekeeping through these apps. Modern technology can enable new forms of sustainable living and encourage social interaction between the residents of the same operator but living in different locations or communities. Apart from the mobile app, co-living operators are trying to make the most of technology with surveillance, facial recognition software or biometric or keyless access for the absolute security of their residents and staff.

1.2 **Privacy amidst communality - A niche within a niche -** Co-living spaces draw a thin line between living together but differently. Such service providers supply wider infrastructure of civic participation, community enterprise and the sharing economy. A lot of community-focused social events are organised to improve the social engagement between residents. Many co-living operators organise community-led events such as yoga classes, barbecue nights, laughter mashups, story-telling events and pizza nights for the modern-day city dwellers.

1.3 **'No strings attached' accommodation -** Co-living spaces are ideal for anyone on a non-fixed asset model; people who are looking for complete flexibility and homes that are fully furnished, serviced and managed. These usually operate on a plug-and-play model that saves tenants the hassle of dealing with everyday household chores and also from the burden of paying frequent utility bills. The monthly rent usually includes a host of facilities and utilities like – TV, housekeeping, Wi-Fi, cable, common kitchen and laundry spaces, maintenance and all the furnishings. With no lease contracts, the residents have the flexibility to stay for as long as they need and as their work demands.

1.4 **Co-living's economics for millennials** – With a very vast globalised workforce, today's millennials are travelling and re-locating very frequently, due to which they are looking to cut back on costs. The rentals charged by these co-living spaces are usually inclusive of all added facilities and yet affordable for the average young professional. The lock-in periods for co-living spaces usually vary from two to six months and the refundable security deposit for such short-term lease options are only two to three months of rent.

Other rental models vs co-living

Table:1

Comparison of rental options

CARPET AREA OF A ONE-BEDROOM UNIT IN EACH TYPE OF ACCOMMODATION

	Residential rental unit	Paying guest accommodation	Serviced apartment accommodation	Co-living accommodation
Carpet area in sq ft (in sq m)	125–165 sq ft* (12–16 sq m)	160–170 sq ft (15–16 sq m)	120–150 sq ft (11–14 sq m)	120–170 sq ft (11–16 sq m)

INDICATIVE RENTALS FOR A ONE BEDROOM UNIT ON A PER MONTH BASIS ACROSS SELECT LOCATIONS IN BENGALURU

Location	Fully furnished residential unit on rent**	Paying guest accommodation single occupancy***	Serviced apartment accommodation	Co-living accommodation single occupancy
Koramangala	INR 27,000–35,000	INR 13,500–16,000	INR 75,000–105,000	INR 12,000–17,000
HSR Layout	INR 17,000–25,000	INR 15,000–18,000	INR 42,000–72,000	INR 14,000–19,000
Marathahalli	INR 18,000–27,000	INR 12,000–17,000	INR 48,000–73,000	INR 8,000–13,000
Whitefield	INR 16,000–23,000	INR 10,000–13,000	INR 71,000–93,000	INR 10,000–15,000

APPROXIMATE TOTAL MONTHLY PAY-OUT ACROSS SELECT LOCATIONS FOR EACH TYPE OF ACCOMMODATION IN BENGALURU[1]

Location	Residential rental unit[2]	Paying guest accommodation[2]	Serviced apartment accommodation	Co-living accommodation
Koramangala	INR 35,000–43,000	INR 15,500–18,000	INR 75,000–105,000	INR 12,000–17,000
HSR Layout	INR 25,000–33,000	INR 17,000–20,000	INR 42,000–72,000	INR 14,000–19,000
Marathahalli	INR 26,000–35,000	INR 14,000–19,000	INR 48,000–73,000	INR 8,000–13,000
Whitefield	INR 24,000–31,000	INR 12,000–15,000	INR 71,000–93,000	INR 10,000–15,000

Source: Knight Frank Research
**Derived from an average size of a 1 BHK apartment which is typically around 600 sq ft super built-up area.*
***Includes all available constructions available on rent in different micro markets.*
****Including PG accommodation only in the organised market.*
[1]. Inclusive of other charges in addition to monthly rentals which are not included in indicative rentals
[2]. The above figures are estimated for each type of accommodation located near the major educational and IT hubs, and the above-mentioned figures do not include the expenses on food as that is very subjective.

OTHER PARAMETERS AND THEIR INCLUSION IN EACH TYPE OF ACCOMMODATION[3]

Parameter	Residential rental unit	Paying guest accommodation	Serviced apartment accommodation	Co-living accommodation
Security deposit requirement[4]	10 months' rent	1 month's rent	No deposit	2 months' rent
Common area maintenance charges	Not included	Not included	Included	Included
Meals	Not included	Included	Only breakfast is included	Not included
Electricity/ Water	Not included	Included	Included	Included
Housekeeping	Not included	Included	Included	Included
Internet	Not included	Included	Included	Included

Source: Knight Frank Research
[3] *Indicative of other parameters which add on to total monthly payouts over and above rentals*
[4] *Security deposit is not included in monthly rents or approximate total monthly payout*

It's not Airbnb

Airbnb is an online marketplace and hospitality service that allows people to rent short-term residential accommodations, primarily homestays and the properties listed are neither professionally run hotels nor serviced apartments. Airbnb is targeted towards short-term travellers/tourists who want to experience the bona fide lifestyle options of a place. On the other hand, a co-living space is a form of shared housing that combines private spaces with shared communal facilities and aims to promote social engagement between residents. Co-living operators acquire or lease properties and convert them into homes that are affordable with the purpose of addressing the housing needs of millennials who are migrating to new cities. The average period of stay in an Airbnb accommodation would be about one to two weeks, whereas the average period of stay in a co-living space would be nine to twelve months. Both the concepts exist as part of two absolutely different asset classes centred around different target segments.

In a co-living space, the communal activities that take place promote building relationships and a sense of neighbourhood. While living in a co-living space, people start valuing communality deeply, but can also retreat into their private space, if they like. What separates co-living spaces from an Airbnb apartment are the facilities and utilities they offer and opportunities for civic participation with other residents. The infrastructure requirements in a co-living space would be more inclined with cohabitation and collaboration, whereas the infrastructure in an Airbnb apartment would aim at giving the travellers a comfortable place to stay that is affordable and functional. Co-living operators use technology to create mixed communities, support the well-being of the residents and through 24x7 CCTV surveillance and mobile apps they ensure safety for the residents and staff. On the contrary, Airbnb, an established home rental aggregator, uses machine learning and artificial intelligence to bring more personalisation and ease the end-to-end travel experience for their customers.

Airbnb's aim is to democratise travel for people all over the world by allowing them to belong anywhere, with the flexibility of just packing their essentials and moving from place to place. For the young professionals who are quite immersed in the nomadic lifestyle, co-living spaces are the answer to quality accommodation, since with rapid urbanisation in urban areas, living spaces are getting smaller and housing is becoming more expensive

Types of co-living models in India

1.1 Lease and operation – This is one of the most prevalent co-living models in India, wherein a third party acts as an operator of the co-living service provided to the renters. In this model, the operator does not have any real estate ownership and takes the properties on lease from property owners before subleasing them to renters. There is a revenue sharing arrangement with the property owners, which varies depending upon the state of the property, upgradation requirement, etc. From market interactions with co-living operators, we have learnt that if the property owners invest in redesign and furnishing the co-living space, the revenue sharing arrangement is 50:50. However, if the co-living operator makes a capital investment in the co-living space upfront to redesign the space and add furnishings after leasing the property from the property owner, the ratio changes to closer to 70:30 in their favour.

1.2 Full ownership and management of operations – This is a co-living model in which property owners convert, reposition and manage their existing properties as co-living spaces. In this model, no third-party operators are involved for operations and owners pocket all the profits which are ploughed back into the management of property and expansion of operations. Since the property owners are using their existing properties to convert into co-living spaces there is no capital expenditure at the outset. From market interactions with several stakeholders, we have learnt that owners of old buildings, which were initially set up as guest houses, hotels, beauty salons, tuition centres, etc. are being converted into co-living spaces for better space utilisation and to generate income from these assets. In Bengaluru's central business district, parts of the erstwhile Safina Hotel on Infantry Road have been beautifully converted into a co-living facility called 'The Hub', which has been operating on 100% occupancy for the past 18 months.

Home rental aggregator NestAway, which has recently raised USD 51 million from Goldman Sachs, along with a joint venture of a noted industrialist plans to diversify into creating co-living spaces going forward. OYO, the hospitality company, has announced plans to venture into the co-living market with its brand 'OYO Living' in the latter half of 2018 and plans to enter Bengaluru, NCR, Pune with more than 35 properties and 2,000 beds. With a successful partnership with Embassy Group, WeWork has been able to establish a co-working franchise model in major Indian cities and its co-living venture, WeLive, is expected to make a splash in the Indian market soon. These early trends are indicative of the other models which will emerge in future. Going forward, we can expect:

a) Home rental networks diversifying into creating co-living spaces

b) Global co-living players venturing into the Indian market with franchisee arrangements or partnerships with local players

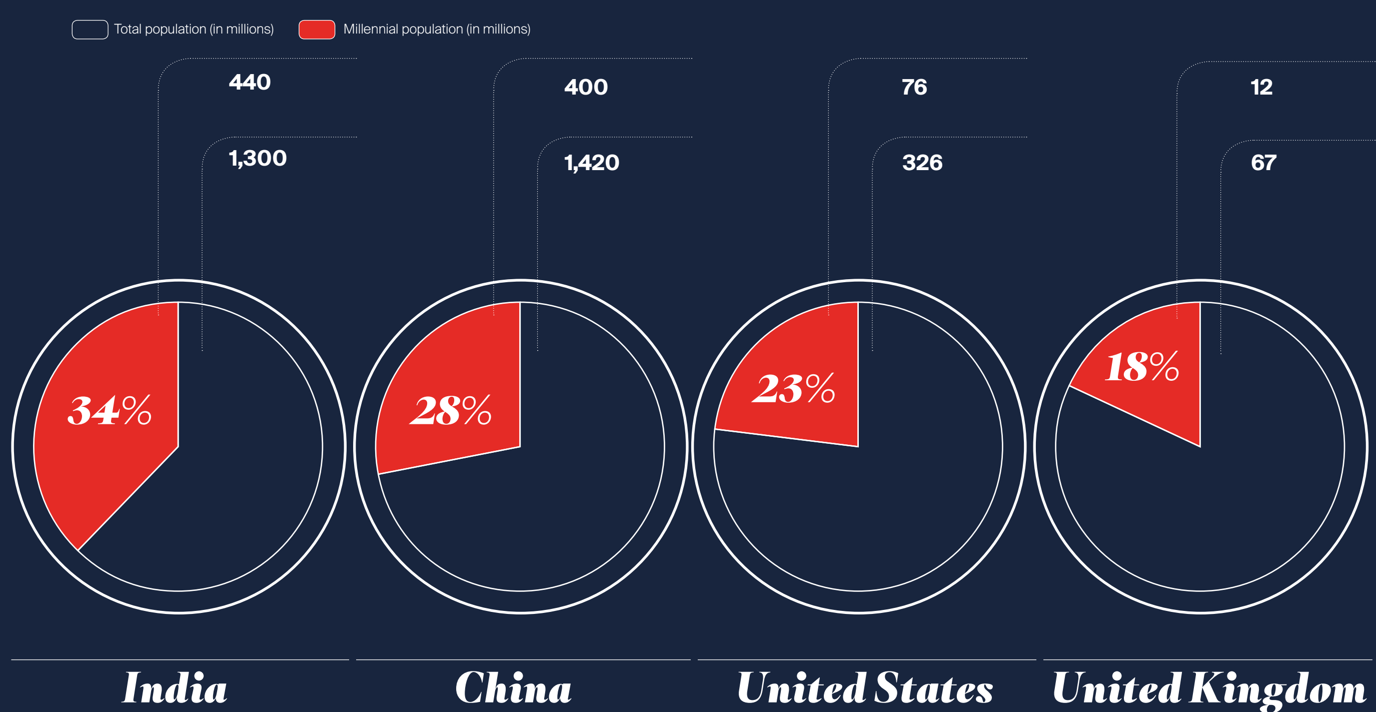
c) Unorganised players in the paying guest accommodation segment learning from their mistakes and venturing into the co-living space in partnership with established operators

Section *2*

Millennials and the world of plug-and-play living

Millennials or *'Generation Y'* are the population group belonging to the 18–35 years of age bracket. Of the total global population of 7.4 billion, millennials account for a substantial 27% forming the largest demographic group worldwide.

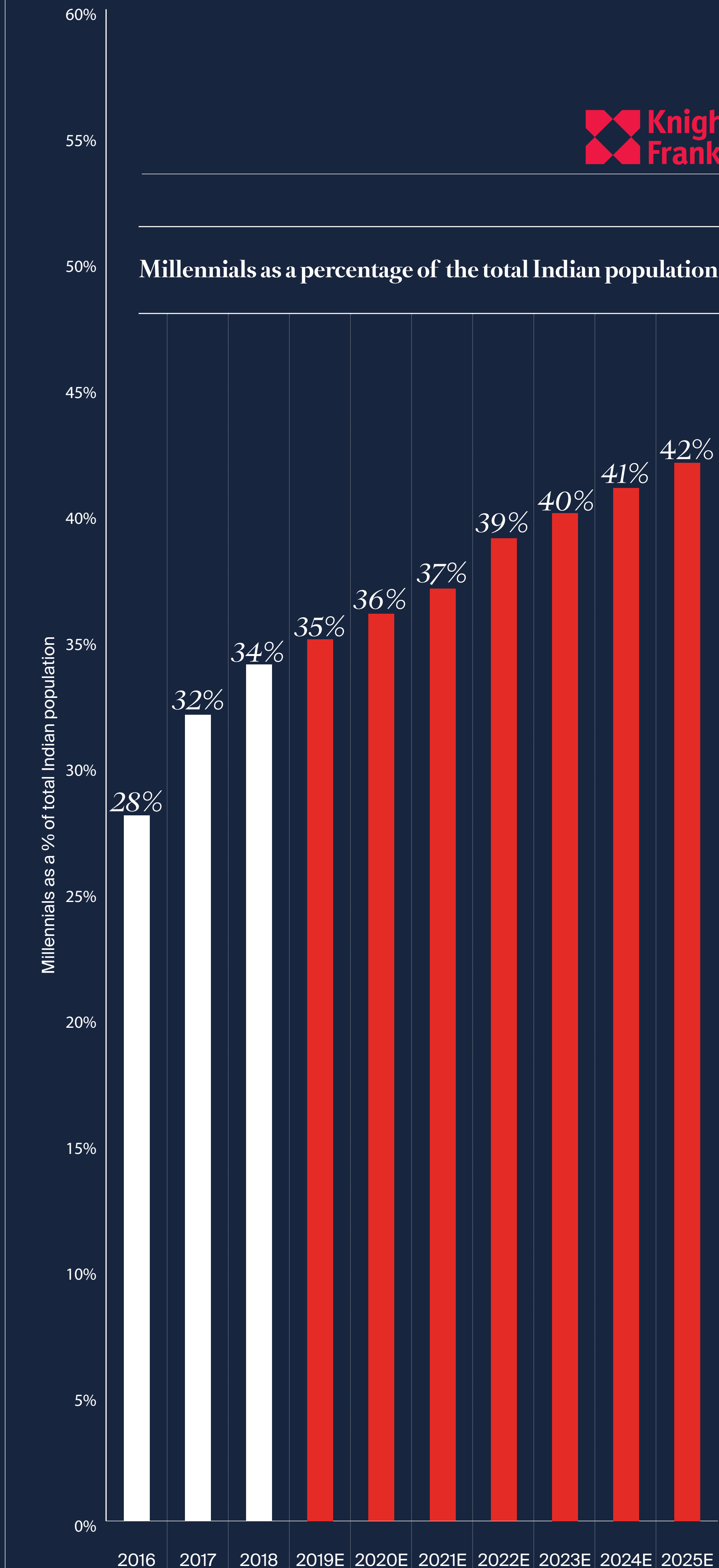
Millennials as a percentage of population across few countries in 2018



Source: Knight Frank Research, media reports

Looking at India, with 34% of the country's population within the age bracket of 18–35 years, it is THIS demographic group, or Indian millennials that already are, and will continue to drive the consumption story across sectors, including real estate. In the context of residential real estate, millennials will not only drive but also redefine the manner in which it is consumed due to their inherent need for mobility, connectivity and tech-enabled living spaces. Creating living environments, with a millennial consumer in mind, will henceforth become a necessity. Plug it and play with it, just like flexible office space environments, is where the Gen Y housing needs are headed. As per a recent research, India's millennial population is expected to grow from 28% of total population in 2016 to an estimated 42% of the total population by 2025.

Millennials as a percentage of the total Indian population



Source: UN, Morgan Stanley Research, Knight Frank Research E = Estimate

The definition of 'living' and 'home' for millennials

For the millennial population, job mobility is the primary priority and home ownership is secondary. Home ownership is a decision post-poned for later stages of life until they are well settled in their jobs and family life. With the median age for marriage in India climbing up for both men and women, need for more options for rental housing for singles is increasing with the deferment of marriage. Unlike Gen X, homes are not the same emotional investments as they used to be. Rather, homes are viewed as a consumption product which suits housing requirements in a particular phase of life. For students pursuing higher education, fresh graduates, single women, bachelors and double income no kids (DINK) couples, homes are transitionary commodities that can be upgraded as they move on in life. A headache-free lifestyle choice comprising of a well-maintained rental property is how the millennial housing requirement has evolved over the last few years. Coupled with the prohibitive costs of purchasing a house in any of the three big metropolitan cities of NCR, Mumbai or Bengaluru, renting is the only affordable option. But the demands from the rental accommodations available have grown exponentially with lifestyle changes and technological disruptions. Those staying in rented accommodations often have to compromise on staying closer to the workplace in order to keep monthly rental payments low as most central locations or apartments near employment hubs have become expensive to afford in key urban centres.

Major characteristics of millennial behaviour

Branding is key to any decision made by millennials

Smartphones are the new sticky notes. Managing literally all aspects of life such as fitness, utility payments, shopping as well as finding homes with a mobile app, mobile phones are the 'one stop shop' for all lifestyle needs

Buying trends are rapidly being replaced from ownership to access with a new 'sharing economy' gaining prominence

Social media content plays a huge role in the lives of millennials. From posting and reading product reviews, customer service experience with different brands, actual pictures of products to understanding their rights as consumers and approaching various forums, they are doing it all and leveraging technology to their full advantage

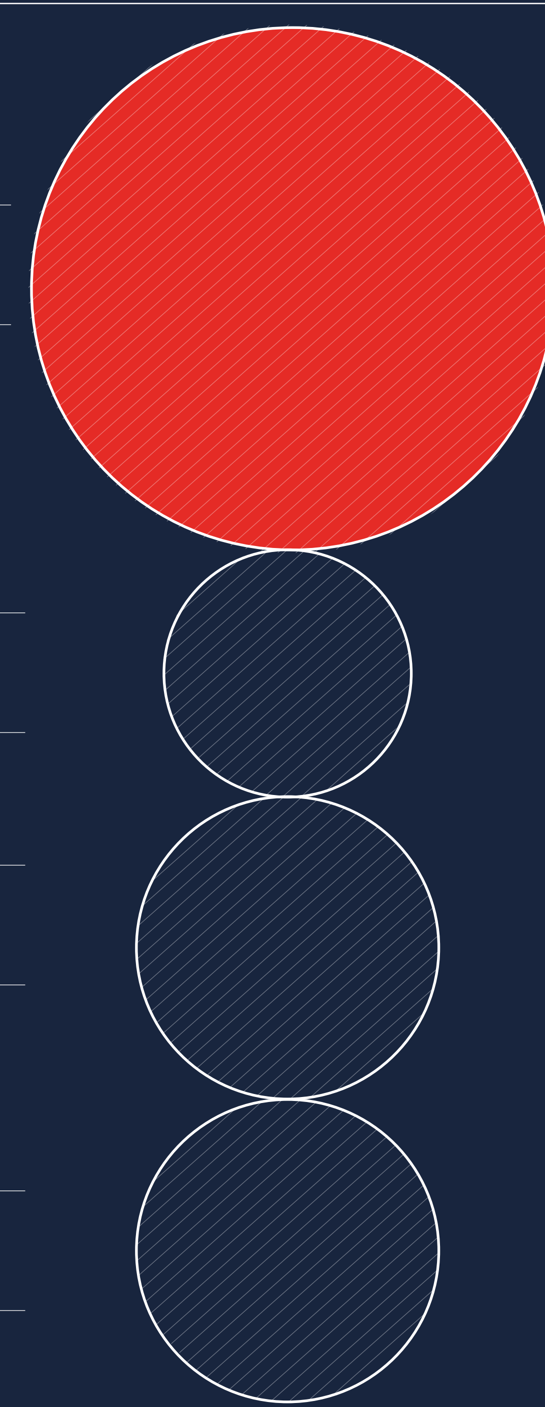
Indian millennials account for a 47%[2] share in the country's working age population. However, not only the young workforce, but students enrolled in higher education[3] form a vast group of millennials on the lookout for hassle-free rental accommodation in urban education centres where they migrate to for under-graduation, post-graduation and doctorate studies.

To assess the end-user propensity to spend on rental housing, Knight Frank India Research conducted an end-user survey. We uncovered some interesting findings from a sample size of 196 respondents spread across the cities of NCR, Mumbai, Bengaluru, Pune, Hyderabad, Chennai and others. Our survey included all income groups and occupation types as well as students. NCR with 37% saw the maximum volume of respondents which was closely followed by Bengaluru with 32%. Of the total respondents, 38% belonged to the annual income bracket of more than INR 8 lakhs followed by 22% respondents in the INR 3 to 5 lakhs annual income bracket.

While most people don't mind spending little more on equated monthly instalments (EMIs) if they decide to buy a house, the sentiment towards renting is not the same which impacts their willingness to spend on rental accommodation despite higher affordability. An interesting trend which emerged through this survey was that irrespective of the annual income drawn, the willingness to spend more than INR 15,000 per month on rental housing remained comparatively low as 37% of total respondents answered in affirmative to be willing to spend only between INR 10,000–15,000 per month on rentals despite 38% of the total respondents in the annual income category of more than INR 8.00 lakhs.

[2]Media reports
[3]As per the All India Survey on Higher Education (AISHE) conducted by Department of Higher Education, Ministry of HRD, higher education is defined as the education obtained after completing 12 years of schooling.

Annual income of all respondents who took the survey



38% More than INR 8.00 lakhs

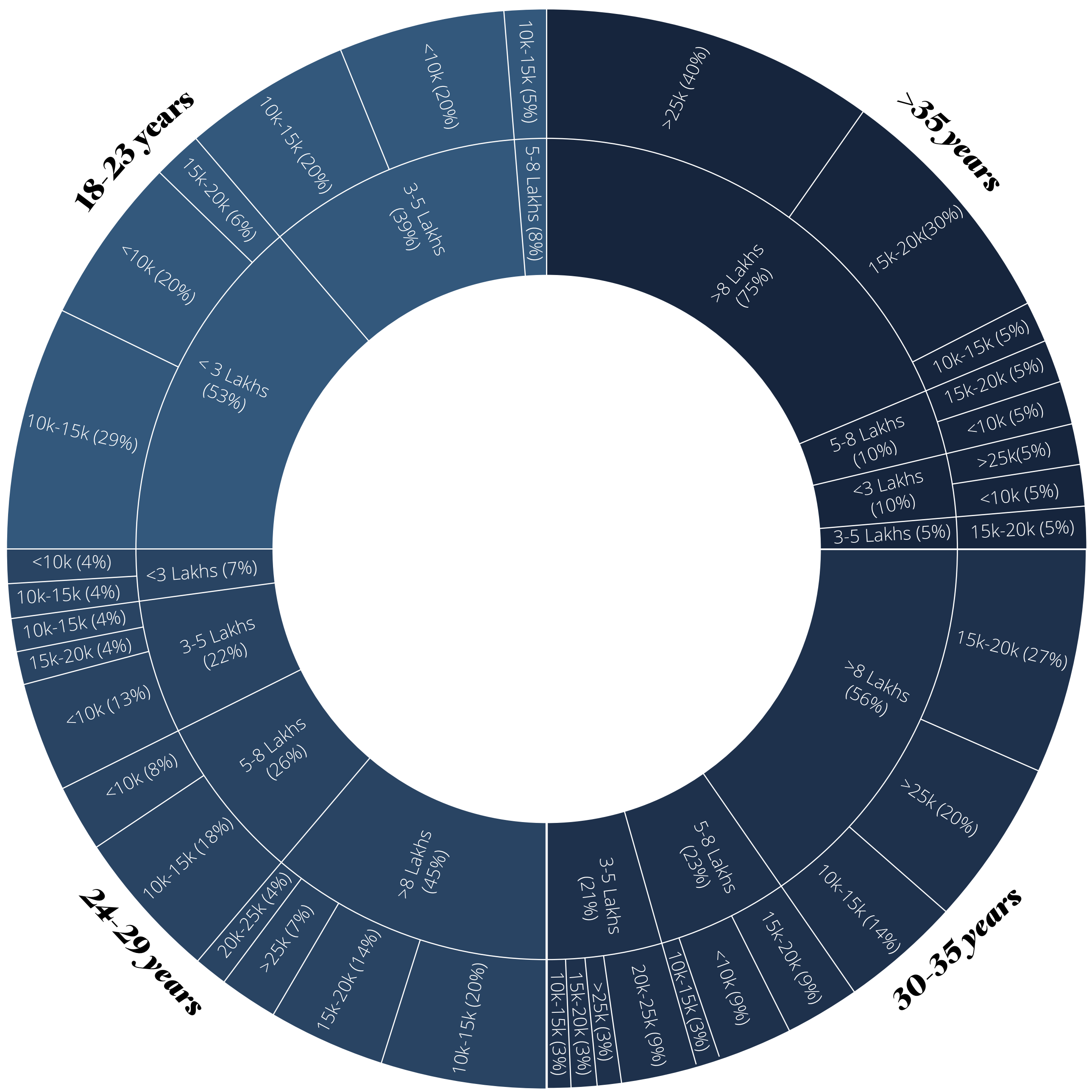
18% INR 5.00 - 8.00 lakhs

22% INR 3.00 - 5.00 lakhs

22% Less than INR 3.00 lakhs

Source: Knight Frank Research
Based on 196 end-users surveyed by Knight Frank across India

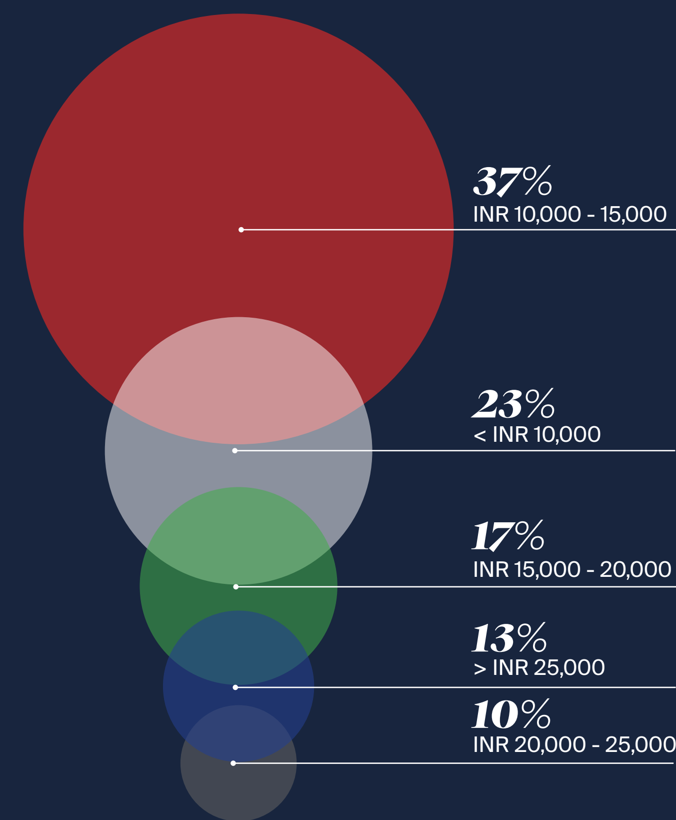
Willingness to spend on rental accommodation across all age groups and income categories



Source: Knight Frank Research
Based on 196 end-users surveyed by Knight Frank across India

Looking at occupation types, for both private service professionals as well as student categories, the INR 10,000–15,000 per month rental category garnered maximum responses with 37% and 45% of the respective populations willing to spend up to this amount monthly for renting a roof over their head.

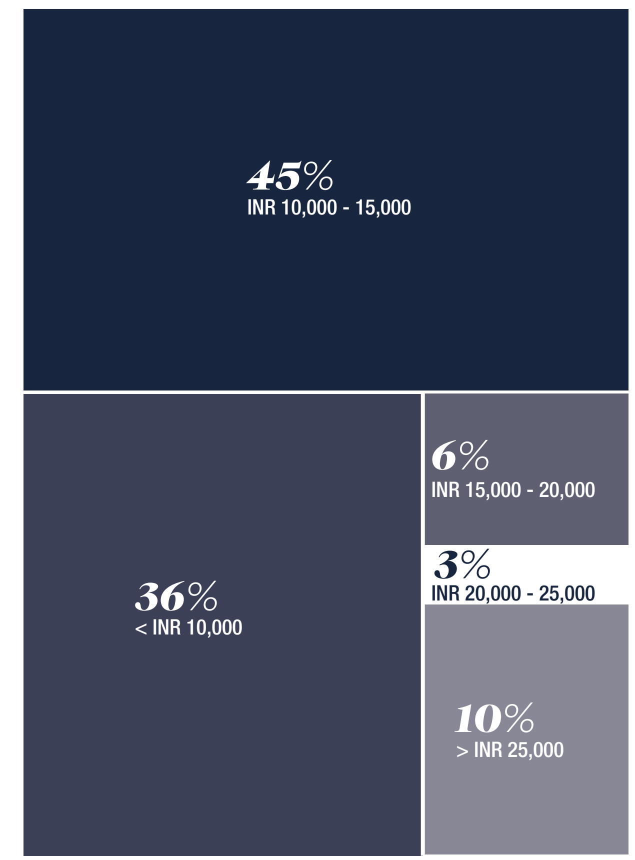
Private working professional respondents' willingness to spend on monthly rentals



Source: Knight Frank Research

Based on 196 end-users surveyed by Knight Frank across India

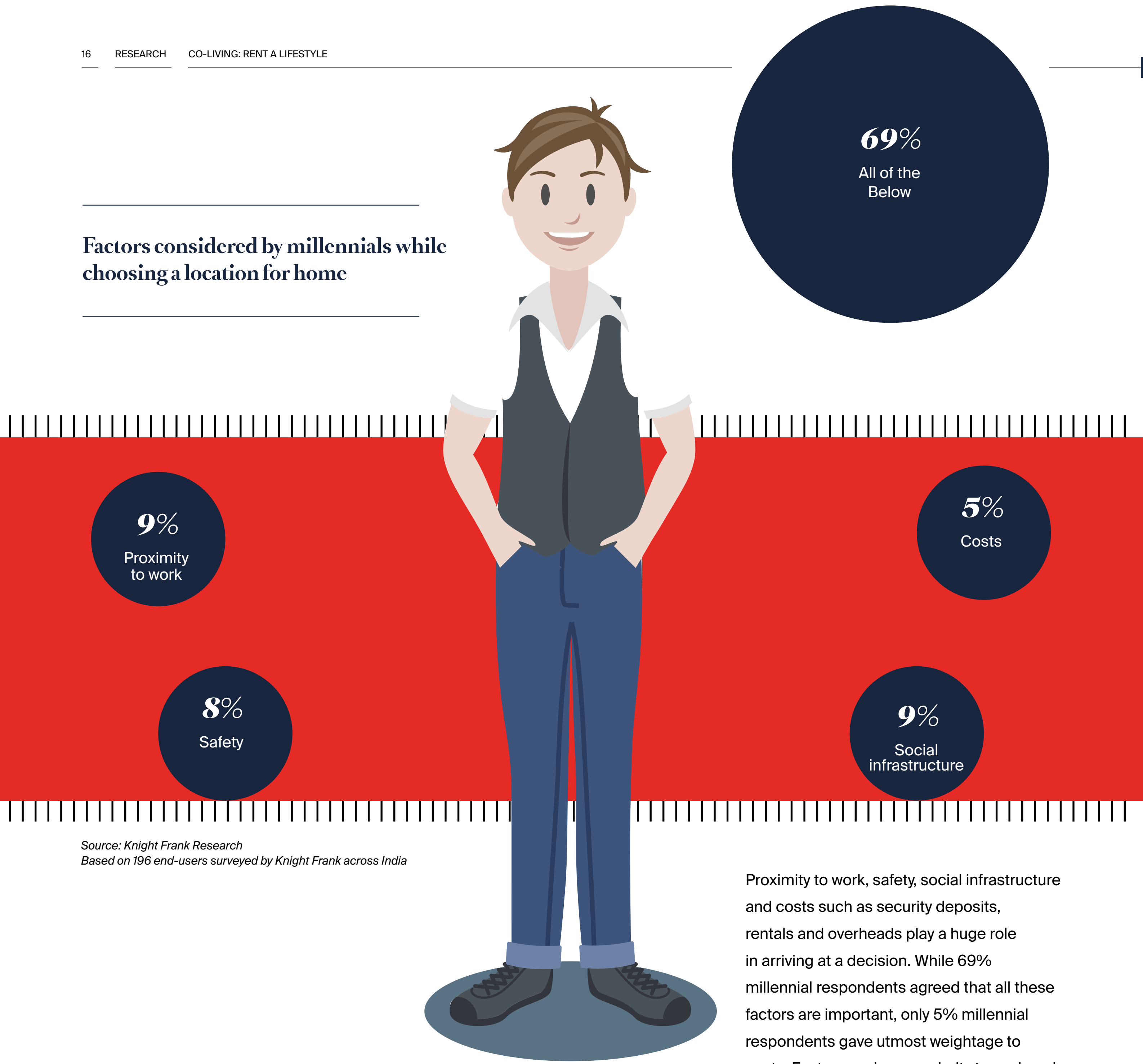
Student respondents' willingness to spend on monthly rentals



Source: Knight Frank Research
Based on 196 end-users surveyed by Knight Frank across India

Of the overall respondents, 90% belonged to the millennial age bracket. Of the millennial demographic of 18–35 years of age, 48% of the respondents belonged to the 24–29 age group. Nearly 69% of the total millennial respondents are currently employed in private employment while 18% are students. Both these categories accounted for 87% of total responses. An interesting trend that emerged from our study was that 34% of total millennial respondents are in the higher annual income bracket of INR 8 lakhs and consider multiple factors while selecting a location for their current accommodation needs.

Factors considered by millennials while choosing a location for home



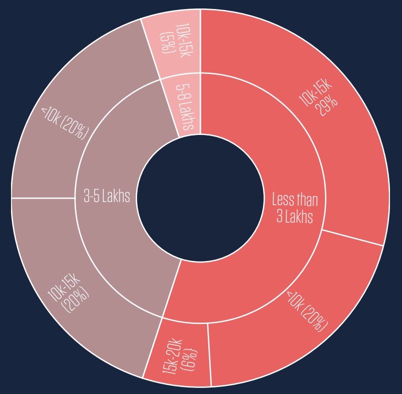
Source: Knight Frank Research
Based on 196 end-users surveyed by Knight Frank across India

Proximity to work, safety, social infrastructure and costs such as security deposits, rentals and overheads play a huge role in arriving at a decision. While 69% millennial respondents agreed that all these factors are important, only 5% millennial respondents gave utmost weightage to costs. Factors such as proximity to work and social infrastructure like malls, hospitals, education hubs or parks ranked higher on the preference parameter with each category garnering a 9% share in total responses. The fact that costs are way down the preference parameter is indicative of the fact that if a location is closer to the workplace and offers social infrastructure and safety, they would be willing to compromise on costs.

Preferences about willingness to spend on accommodation and preference for co-living spaces

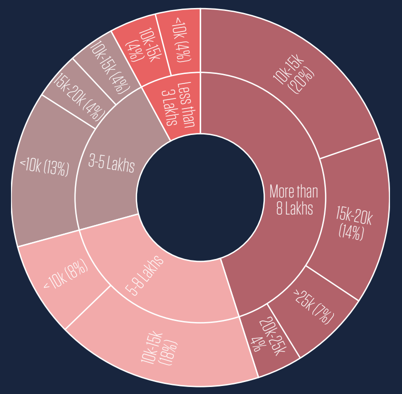
Below figures depict the propensity to spend on rental accommodation across various combinations of age-brackets and income categories.

Less than 3 Lakhs | 3-5 Lakhs | 5-8 Lakhs | More than 8 Lakhs



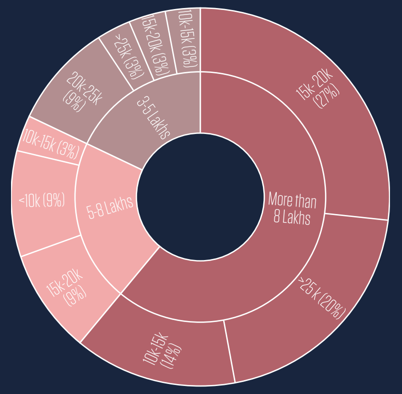
18–23 Years

- In this age group, 54% are willing to spend INR 10,000–15,000 per month on their accommodation.
- 53% of the respondents in this age group earn an annual income of less than INR 3 lakhs.
- 72% of the respondents in this age group are willing to consider co-living spaces as an option for their accommodation.



24–29 Years

- 46% respondents in this age group are willing to spend INR 10,000–15,000 per month on their accommodation.
- 45% of the respondents in this age group earn an annual income of more than INR 8 lakhs.
- 56% of the respondents are willing to consider co-living spaces as an option for their accommodation.



30–35 Years

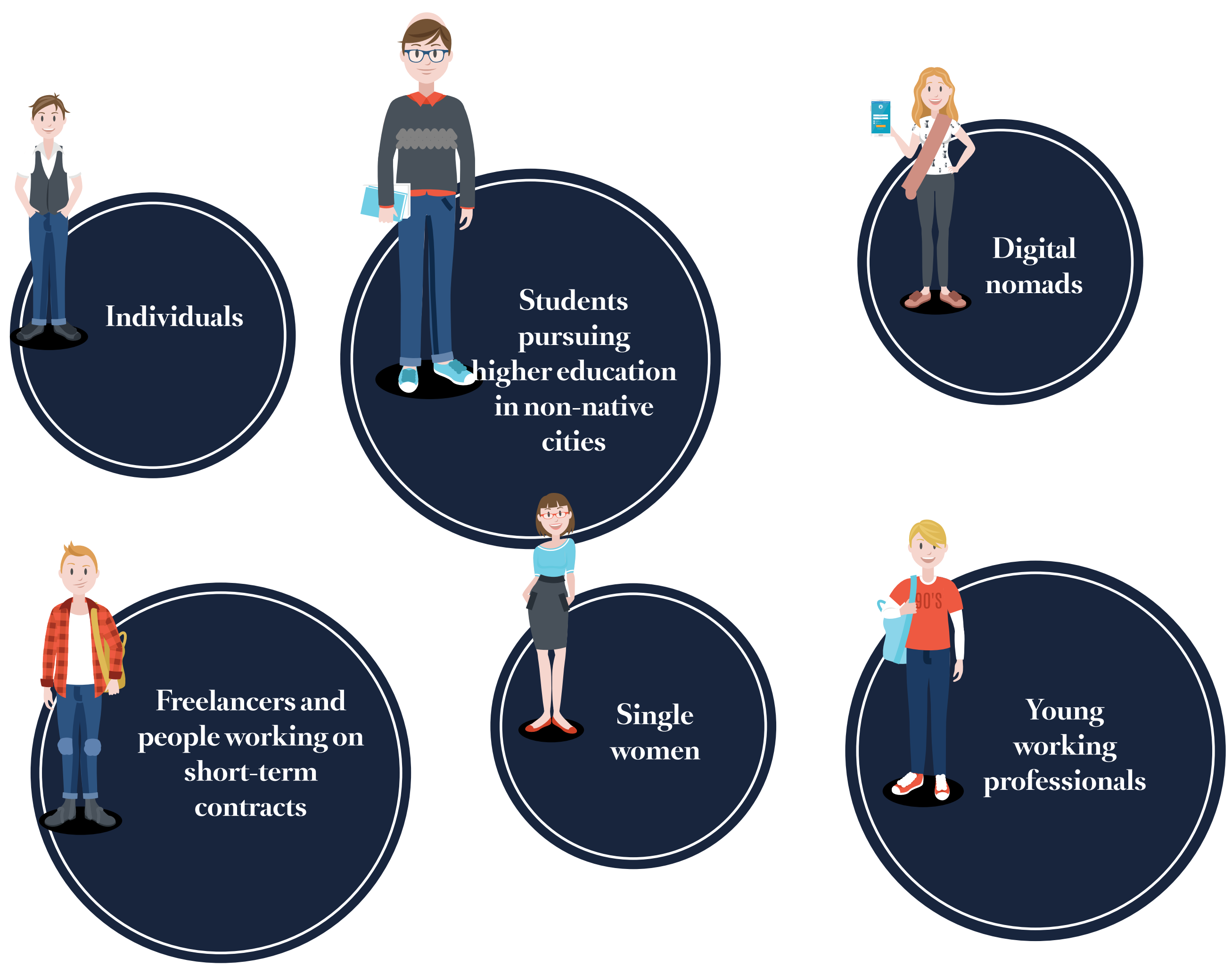
- In this age group, 39% are willing to spend INR 15,000–20,000 per month on their accommodation.
- 56% of the respondents earn an annual income of more than INR 8 lakhs.
- 71% of the respondents are not willing to consider co-living spaces as an option for their accommodation.

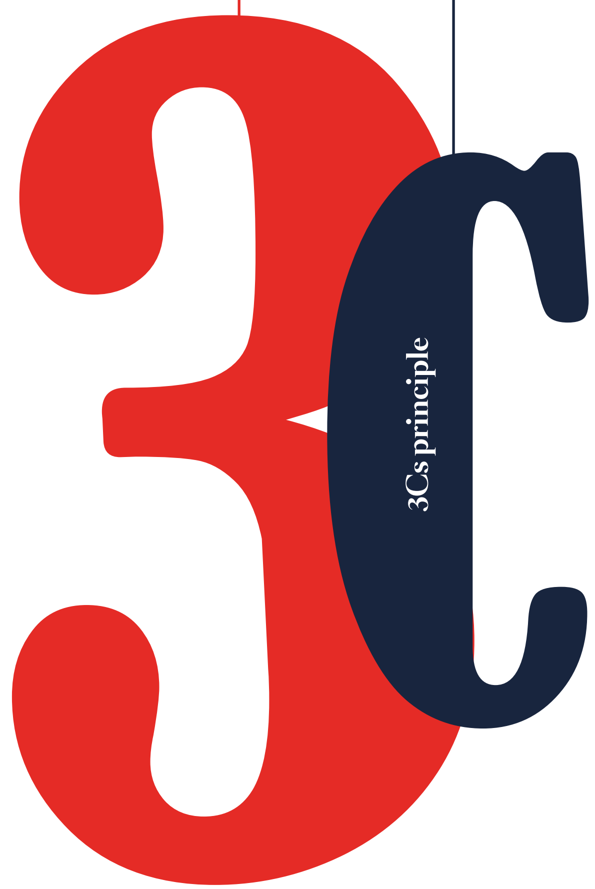
Source: Knight Frank Research

Based on 196 end-users surveyed by Knight Frank across India

Across all the three age brackets, two key findings have emerged about rental housing preferences for millennials. Locations with easy access to work and social infrastructure remain top priority with willingness to spend averaging between INR 10,000–15,000 per month. We also asked millennials if they would be willing to consider co-living spaces for their accommodation requirements and overall 56% responded in affirmative. Due to the novelty of the co-living concept and unfamiliarity of options, almost 44% replied in the negative. As the co-living sector gets organised and more players join the industry on the back of investor support, we expect the percentage of millennials favouring co-living over other rental options to only climb up. If a co-living product within the above price range is available near employment hubs, it would garner a lot of interest from this end-user group.

Types of millennials that it caters to





The 3Cs – Convenience, Community, Collaboration

Co-living is based on the 3Cs principle, which is a major unique selling point for the target population – Convenience, Community and Collaboration. It is these 3Cs that create a home away from home for the young renters and drive higher occupancy.

Convenience

Easy to rent and move in as there are no middlemen like brokers and one does not need to deal with difficult landlords

Co-living properties are coming up near educational and employment hubs with easy access to public transport and social infrastructure. A big comfort factor for a fulfilling lifestyle

Community

Group activities organised by co-living operators ensure you will not feel lonely in a new city

Communal kitchens, modern amenities to make people feel like a family. Flexible use of real estate based on 'sharing economy' take away the monotony of everyday life.

Collaboration

Community-driven events and common areas, such as living spaces and kitchens, redefine the way people live and derive inspiration and creativity

Lifestyle-focussed environment helps meet new people, learn something new every day, innovate and collaborate for work related aspects too

The Appealing Model and Flexible Memberships

1.1 **Pricing is the key –** As per our survey findings, which encompassed 196 respondents, 37% are willing to spend only between INR 10,000–15,000 per month on accommodation per month, which was followed by 25% willing to spend only less than INR 10,000. This starkly points out at the difference between willingness to spend on rental accommodation and the type of rentals commanded in prime areas for letting out apartments in the major cities. Not only Bengaluru, but cities such as Mumbai and parts of NCR also have skyrocketing rentals in micro markets such as Bandra, Nariman Point, Andheri and Powai (prime commercial and residential hubs in Mumbai), and Connaught Place, Kamla Nagar, Gurgaon, Noida, Okhla (prime employment or educational hubs in NCR). Co-living beautifully fits in this price range in many locations and can help tenants achieve rental savings of 15% or more. If the rooms are shared on double occupancy, it further brings down the rentals and is a win-win situation for tenants with all amenities included.

1.2 **Mobility across co-living communities –** Experiences are replacing ownership of assets for the millennials and travel is an important part of their life – be it work-related or leisure oriented. Most co-living operators provide access to multiple facilities within their network along with a keyless access which enables 'members' or 'tenants' to utilise these spaces intra-city or inter-city. Easy availability of a ready pad is an empowering non-tangible element for the youth today which helps them manage their nomadic lifestyle as work and opportunities take them places. Membership with a co-living operator provides an all-inclusive rental accommodation available at their finger tips for which they just need to raise a service ticket. Most co-living operators have a mobile app for its members through which such requests are addressed depending upon space availability.

Knight Frank

Section 3

Global scenario

Locations that lead the pack

As per a study, 25 million Americans[4] live with roommates which has grown by 20% over the past 10 years. Of the American millennial population alone, 88% already have a roommate. In cities such as New York, Washington D.C., Chicago, Seattle and San Francisco, co-living has already become a part of the lifestyle. Large-scale urban co-living centres are now being constructed to meet the needs of a new generation of professionals and are attracting serious cash flow. Open Door, a co-living start-up has an 800+ waiting list in Bay Area alone. WeLive has re-opened its gates in New York and Washington D.C. having shut down operations less than 15 months ago. For China, which accounts for 19% of the world's population, co-living or a modern form of shared housing is nothing new. In China, people have long been living in co-living spaces as housing affordability is a grave concern. You+ which opened in 2012 quickly expanded operations to establish a nationwide network of residences housing more than 10,000 tenants across 25 properties. Whether it is the start-up hub of Beijing or Guangzhou with its large population and proximity to manufacturing hubs of Shenzhen and Dongguan, co-living spaces are widely preferred by the young population over shared rental units. In Hong Kong's exorbitantly expensive housing market, which is out of bounds for many, co-living is an apt housing option as living conditions in the city's subdivided flats are shocking.

In the United Kingdom, there is a huge demand for affordable housing in London, the capital city. Due to growing urbanisation, in-migration and changing demographics, the city is struggling to meet this demand. As per a recent study by housing association Catalyst, 48% of single people in London cannot afford to pay the rent in traditional housing models and many are willing to sacrifice private spaces for a good location and access to amenities. The Collective, UK's biggest co-living scheme, plans to double the size of its portfolio with huge expansion in the US and Germany and are bidding for additional 5,000 apartments coupled with nearly 4,500 in the development stage. The Collective is currently 100% occupied with an annual tenant turnover of around 50%. Long overlooked former industrial hubs in the city are now being repositioned as co-living spaces.

Whether it is the growing urbanisation or in-migration, one thing is crystal clear from these examples, that is, the rapid emergence of co-living spaces in dense urban centres dominated by either start-up, financial sector or expensive residential hubs struggling to solve the housing shortage. As cost per square-foot of space continues its upward trend in global power centres, the co-living trend will only grow and thrive.

[4] *Pew Research Center*

Knight Frank

Table:2

Some key operators and their footprint

Operator name	Country of origin	Started operations in	Footprint	Expansion plans	Occupancy rate
Common	United States	2015	New York, San Francisco Bay Area, Chicago, Washington D.C., Seattle	To cater to 10,000 members by end of 2020	More than 75% of members are on 12 months occupancy
The Collective	United Kingdom	2016	West London	To venture into the U.S. and Germany and continue expansion in the UK with nearly 10,000 apartments which are being developed	Currently 100% occupied
Ollie	United States	2012	New York, Boston, Jersey City, Los Angeles, Pittsburgh	To continue expansion in Pittsburgh, Los Angeles, Boston and Jersey City	Currently 100% occupied
You+	China	2012	Major cities in mainland China	Increase footprint in Chinese cities	Currently more than 90% occupied

Co-living as a step towards solving student housing crisis in UK

With growing urbanisation, immigration and demographics, there exists an acute and pervasive problem of shortage of affordable homes in the United Kingdom (UK) which largely affects millennials, amongst other demographic groups. There has been a decline in home-ownership in the UK over the years because of the rapid rise in rents and poor quality of accommodation. Co-living spaces are the next natural step and the preferred solution for solving the housing crisis, serving a much wider private rental market for the young professionals and students who are struggling to find suitable accommodation. UK has the second largest number of top educational institutions in the world and many of these institutions struggle to deal with the problem of underinvestment in their existing student accommodation stock, forcing students into the private rented sector. The redevelopment of brownfield sites along with new developments for student housing has also been slowing down, leading to the price increase and supply of stock falling behind. The Greater London Authority has recently identified co-living as an alternative form of housing to bridge the gap between low supply and high demand for student housing and since 2016 developers have submitted plans for over 1,000 new co-living units, mainly in London. The supply of shared housing in the country is also quite limited as many places do not have a pipeline of a large-scale built-to-suit (BTS) accommodation model. A standout amongst the other major co-living players in the UK is – The Collective, which aims to create a new way of living focused on a genuine sense of community, using shared spaces and facilities that would in turn offer a convenient, time-saving and hassle-free lifestyle.

Evolving trends

1.1 **More players to enter the industry –** Since co-living as an asset class is evolving globally, many new players have announced plans to venture into co-living to cash in on the trend. Huge millennial population and unaffordability of housing for this demographic has led to a boom for micro housing and alternate rental models. In the United States alone, more than 90 co-living companies exist as of now. Since the market is huge in terms of opportunity, rapid growth for co-living providers is no longer a long shot. With purpose-built shared living spaces becoming the norm of the day, developers are no longer far behind and are joining the bandwagon given the value proposition of the business model. Leading developer, Property Markets Group, debuted its co-living business under the brand name PMGx in 2017 with plans to expand to 3,500 apartments already.

1.2 **Big money, serious play –** Just like nobody knew what an iPod was when there was a CD sitting next to it, the co-living concept too will take time to go mainstream. But until then, the co-living sector is growing energetically. The real estate industry, institutional investors and major corporate players are embracing this sector as the growth potential in urban housing markets is humungous. Investor enthusiasm has translated into big deals with millions of dollars of capital flowing into the co-living sector for fast growing brands. According to a study by TechCrunch, co-living start-ups in New York and San Francisco alone have raised USD 78 million in the last one year. Bungalow, a new co-living operator, threw its gates open for business in September 2018 with USD 64 million funding. Given below are some significant examples of funding obtained by co-living operators:

Table:3

Various major global co-living players and funding obtained by them

Operator name	Country of origin	Total funding raised so far	Key investors
The Collective	United Kingdom	USD 420 million	Jonathan Teklu – early backer of Airbnb, undisclosed investors
Common	United States	USD 63 million	Norwest Venture Partners, LeFark, Solon Mack Capital, Circle Ventures
StarCity	United States	USD 20 million	Alrai Capital, Invest AG, Vander Capital Partners
You+	China	USD 20 million	Lei Jun – Founder of Xiaomi
Ollie	United States	USD 15 million	WME Ventures, Canaan Partners, Primary Venture Partners

Source: Crunchbase, Media reports

1.3 **Co-working + Co-living as a combo –** Live, work and create. Isn't that the motto for a healthy life? In the past few years, online entrepreneurship has increased dramatically, and local independence has emerged as a most significant trend. As the co-working movement is entering a new phase of growth, the growing attention from corporations and investors has created new opportunities for these spaces to grow their revenue. A co-living element as part of the co-working space, as well as vice versa, has proven to be an effective way to expand member base and revenue. While many co-working spaces cover the utilities with membership payments, many spaces struggle to break even. Additional income for co-working spaces boosted by a co-living space could be used to fund more community events, upgrade amenities and hire new staff. From coders, coaches, editors, designers, project managers, freelancers, bloggers, vloggers, Instagram influencers, software engineers, social media analysts to all kinds of entrepreneurs, a new living and working environment is something they are looking forward to. One where they do not need to compromise on either work or life.

1.4 **An important shift, not a momentary fad –** As per 'Freelancing in America' report by Upwork and Freelancers Union, 57.3 million Americans are freelancing, accounting for 36% of the total US workforce contributing approximately USD 1.4 trillion annually to the economy. The freelance workforce growth is accelerating, outpacing the overall US workforce growth by 3x between 2014 to 2017. By 2027, the freelance workforce will increase to 86.5 million, forming majority of the US workforce. The rise of the 'gig economy' enabled every 1 in 10 Americans to earn income in the past one year using a digital platform. In China, nearly 110 million people are driving its gig economy accounting for 15% of its workforce. The rapid expansion of short-term contracts and freelance work in China is a result of the government's vision to transition from a manufacturing to a service-based economy in light of slowing economic growth. Similar trends are emerging in other developing countries and with them is also emerging a need for dedicated lifestyle options for this workforce. Co-living is going to become indispensable going forward as freelancers, entrepreneurs and remote workers frequently struggle with isolation and loneliness when sitting and working behind a screen.

1.5 **Occupancy and renewal rates on annual leases –** While the co-living sector is evolving globally, early estimates indicate a positive trend on two important parameters which vouch for the feasibility of the business model – occupancy and renewal rates. Common, one of the early movers in co-living, boasts of a vacancy of only 1% and renewal rate of 60% for 12-month leases. The fact that most co-living operators offer membership with access to the brand's spaces in other cities and countries is a big plus point and encourages members to keep renewing. The Collective, in the UK, is currently 100% occupied with an average annual tenant turnover of 50%.

"The real estate industry, institutional investors and major corporate players are embracing this sector as the growth potential in urban housing markets is humongous. Investor enthusiasm has translated into big deals with millions of dollars of capital flowing into the co-living sector for fast growing brands."

Section 4

Co-living landscape in India

Challenges associated with traditional renting models in India

Unorganised rental market – As per NITI Aayog, a well-developed rental housing market in India could have been instrumental in addressing the housing shortage from various demographic groups. Unfortunately, even after 71 years of independence, various states are following their own version of the archaic Rent Control Act with many landlords and tenants unaware about their obligations, rights and legal recourse options in case of disputes. According to the National Sample Survey Office (NSSO), as per the total census households in urban India, 31.6%[5] are rented dwellings, all of which are not even used as residences. NSSO also reported that 71%[6] of the total rental households fall within the informal rental sector with no contracts in writing. Most tenants in India do not even have a rental agreement in place. The Draft Model Tenancy Act, which was outlined with the objective of creating a conducive legal environment to unlock the potential of existing vacant homes to develop a rental housing market and facilitate in driving investments towards new rental housing stock is yet to be finalised by the housing ministry. So is the National Urban Rental Policy. In the absence of a new age law that can regulate the tenancy of residential and commercial properties in India, the rights and responsibilities of tenants and landlords through rental contracts are not balanced, rental contracts go unregistered, there are no dedicated Rent Authorities and repossession of premises by landlords is not uncommon. Looking at the private hostels and paying guest accommodation market in India, there is no regulation to govern the operations of players in this space. The Regulation of Private Hostels and Paying Guest Accommodation Centres Bill was only introduced in the Lok Sabha in 2017.

Difficult landlords and illegal properties – To add to the mayhem, in case of young working professionals and students, landlords are often wary of letting out premises for the fear of commotion, damage to furnishings, loud noise, delay in monthly rents and short periods of stay. Single men and women migrating to new cities must deal with difficult landlords and housing society members who put forth conditions related to food and drinking habits, smoking, lifestyle preferences as well as privacy, which are stifling for Gen Y. Single employed women and the divorced populace, especially, have to undergo uncomfortable questioning and screening by landlords before they can rent an apartment. Similarly, people with alternative lifestyle preferences are being shunned day in and day out due to the social stigma associated with their presence in housing societies meant for families. Landlords often prefer to miss out on income generation opportunities for their properties to avoid this section of society if they do not like them. Many landlords are often renting out illegal properties or structures created years ago that are not compliant according to the city's planning guidelines. Tenants staying in these properties often have the sword of untimely eviction hanging over their head.

Unorganised players' offerings not up to the mark – Due to these problems, people have to resort to finding accommodations far away from their employment or education hubs or chose to live in paying guest houses or hostels which come with their own set of challenges as the quality of such unorganised players' offerings does not meet expectations. Gone are the days when individuals were happy staying in paying guest accommodations, guest houses or private working men or women's hostels where only the 'basic' accommodation needs were taken care of. With unhygienic living conditions, broken furniture and bad food, these places have gone off the radar of many despite being cost effective.

There is a huge opportunity arising out of this mismatch that has ushered in co-living. Millennials desire living environments which enable them to focus on their careers rather than being burdened with hefty monthly rental payouts and catering to the hassle of housekeeping, finding handymen, electricians or plumbers for routine domestic chores.

The demand side factors

Multiple facets of India's huge population and its impact on education, urbanisation and employment bring forth some very optimistic trends for the future of the co-living sector. These factors mentioned below will act as push factors to disrupt the private rental sector and set the stage for organised co-living operators to consolidate and for developers to sit up and take notice of the co-living play.

[5] Selected Socio-economic statistics report 2017 by NSSO
[6] Based on latest census data

1.1 **Workforce trends –** The Indian workforce is expected to increase to 600 million by 2022[7] from the current estimated 473 million. Though 10 million youth join the workforce every year, job creation in India is pegged far below this need with the government focussing on coming up with a National Employment Policy in the near term to tackle unemployment and under-employment. This policy is expected to act as a directive for employers and help in job creation, the impact of which is likely to be visible in big organisations in the short term. As these policy reforms take shape, we can expect more jobs being created, increased inter-state and intra-state migration. Evolving almost parallelly with the government's planned push to job creation is the rising trend of freelancing in India and the rapidly growing gig economy. One in every four freelancers is from India with India contributing almost 50% of global freelancers in the software domain[8] . As per a recent PayPal report, the average annual income of a freelancer in India is INR 20 lakhs with web/mobile development, web design, data entry and internet search as top freelance work categories. Due to manpower rationalisation by most Indian IT companies in the wake of automation and slowdown in growth, the number of freelancers is expected to pick up going forward and some industry reports predicting the size of the Indian gig economy to be in the range of USD 20–30 billion by 2025. With the growing number of freelancers and overall job creation, living environments with a readily available professional network and opportunities to grow businesses by collaboration will become the norm of the day going forward.

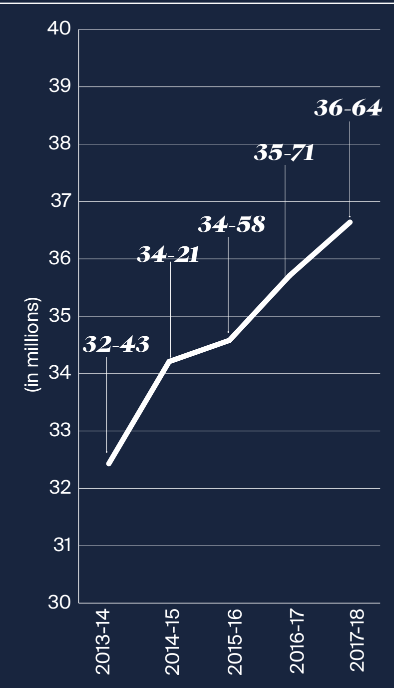
1.2 **Migration trends –** As per the Economic Survey of India 2017, the interstate migration rate doubled between 2001 and 2011, compared to the previous decade growing at 4.5% annually. Annual interstate migration in the country averaged at nearly 5–6 million migrants per year. Between 2011 to 2016, interstate migration in India touched 9 million annually. This is a significant numeric indication of the additional population pressure in urban centres. Of these migrants, white-collar and pink-collar employees will form part of the care-oriented and professional environments who will require flats on rent or transitionary accommodation as the immediate next step after moving to a new city. The major destination / in-migrant states are Delhi, Maharashtra, Karnataka, Tamil Nadu, Gujarat, Andhra Pradesh and Kerala[9] . India is also identified as home to one-fourth of the 100 fastest-growing cities in the world with Delhi, Mumbai and Kolkata identified amongst the top 10 most populous worldwide.

1.3 **Student population trends –** As per the AISHE 2017–18 by the Ministry of Human Resource Development, the number of universities listed on AISHE heightened by 25% between the 2013–14 to 2017–18 period at a compounded annual growth rate (CAGR) of 5%. Of the total number of listed universities, 25% belong to the NCR[10] region followed by Karnataka at 7% and Maharashtra, Tamil Nadu and Madhya Pradesh comprising 6% each. These five regions stated above comprise half the total number of listed universities in India by the virtue of which these states attract higher enrolment of students across under graduate, post graduate, diploma, PG diploma, certificate, integrated, M.Phil. and Ph.D. courses. Being major education hubs in the country, these states will also act as magnets for future development of student housing or alternate rental housing models like co-living, as accommodation provided in universities and colleges does not suffice to meet the vast demand. The student enrolment has grown by 13.3% during this time and stands at 36.64 million students as of 2017–18 for all India.

These five states mentioned above top the gross enrolment trends for higher education across India and are major hubs for transitionary accommodation requirements for young adults. Though decisions of accommodation for students are largely driven by their parents who screen accommodation providers carefully before choosing the abode for their children, students enrolled in higher education form a very important target segment for co-living operators as student housing is a much-neglected asset class in India. With few developers catering exclusively to constructing student housing stock, an organised student housing market in India is yet to develop. As per the current environment in Indian real estate, only few developers are taking nascent steps in understanding the student housing market in India, exploring

[7] NITI Aayog
[8] As per a recent PayPal report
[9] World Economic Forum Migration and Cities Report
[10] NCR includes the entire National Capital Territory of Delhi and several districts surrounding it from the states of Haryana, Rajasthan and Uttar Pradesh

Student enrolment trends

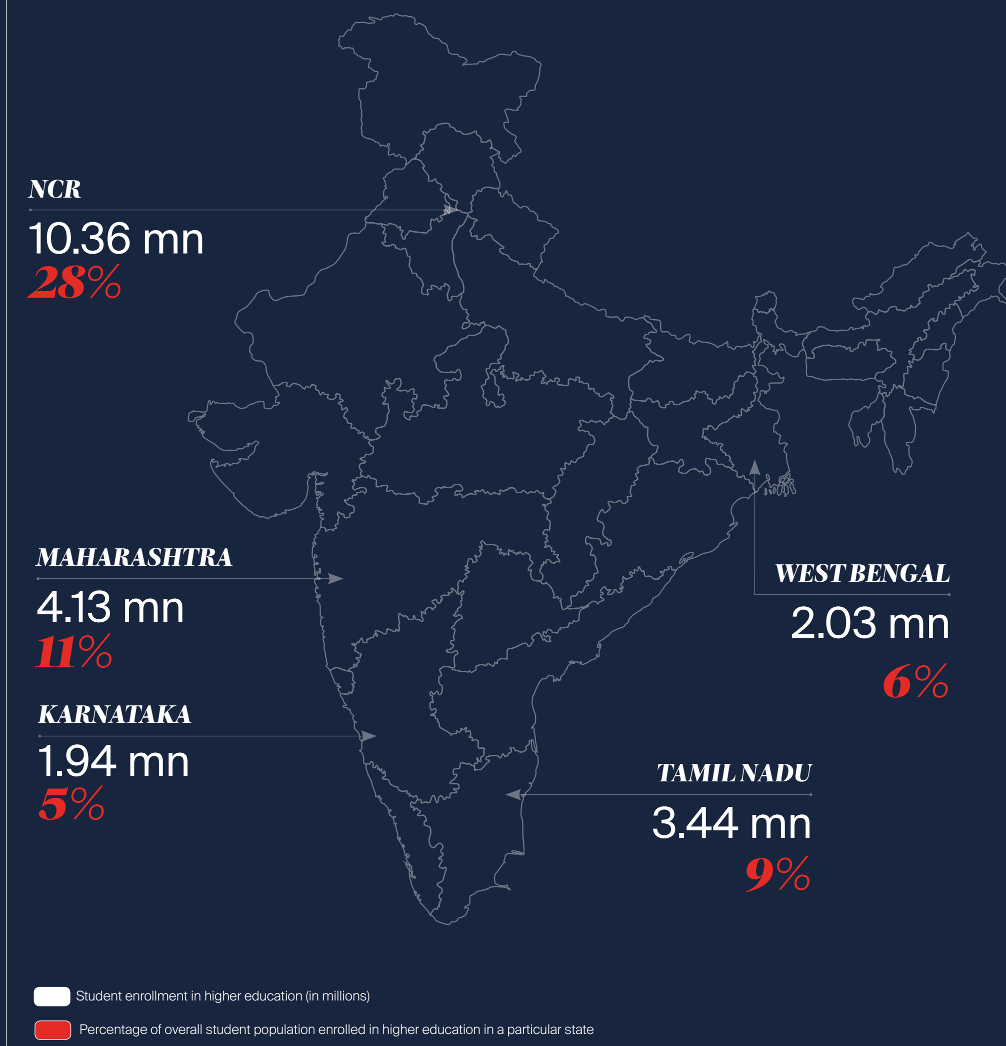


Source: All India Survey on Higher Education 2017–18

59%

of the student population enrolled in higher education that will likely require accommodation near the campus across five major states

The below five states comprise 59% of the student population enrolled in higher education that will likely require accommodation near the campus.



Source: All India Survey on Higher Education 2017–18

NCR includes the entire National Capital Territory of Delhi and several districts surrounding it from the states of Haryana, Rajasthan and Uttar Pradesh geographies, learning from past mistakes and tying up with universities to come up with student housing projects. Lack of student housing in India has forced many students to live in unsuitable PGs or share flats with roommates, which is again an expensive proposition. This gap in supplying usable real estate for this target group is where a huge opportunity lies for co-living operators.

To meet the significant unmet demand potential of this mobile population, a cost-effective, flexible and asset light lifestyle solution is required, which the co-living spaces provide. A step up from the basic paying guest accommodations in favourable locations in metropolitan cities wherein increased real estate efficiency and economies of scale create a high-quality shared housing experience.

On the supply side

Table:4
1.1 Major co-living operators in India and their footprint

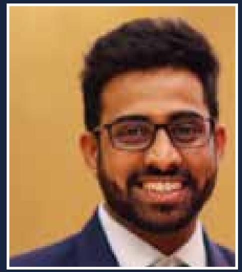
Name	City of origin	Started operations in	Footprint	Number of beds	Expansion plans	Occupancy rate
CoHo	NCR	2015	NCR	2,500+	To expand to top 8 cities of India over next 12–18 months and to have 10,000 beds by the end of 2019	Occupied at more than 90%
CoLive	Bengaluru	2016	Bengaluru, Chennai, Vellore and Coimbatore	8,000+	To venture into Hyderabad and continue expansion in Bengaluru and manage 50,000 beds or 10 million sq ft under management by end of financial year 2020	Currently occupied at more than 85%
StayAbode	Bengaluru	2016	Bengaluru	750+	To venture into cities like Pune, Hyderabad, Chennai and Mumbai	Currently 95% occupied
Stanza Living	NCR	2017	NCR	2,000+	To launch its services in Pune, Jaipur, Hyderabad, Bengaluru and Indore	Occupied at 90% across all its locations
Square Plums	Bengaluru	2016	Bengaluru	1,000+	To launch its services in cities like Chennai, Pune, Hyderabad, Mumbai and Delhi	Currently occupied at more than 80%
Zolostays	Bengaluru	2015	Bengaluru, Pune, Chennai, Kota and NCR	10,000+	To expand to around 50,000 beds by end of 2019 and venture into Mumbai and Hyderabad	Occupied at more than 80% across all its properties
Homigo	Bengaluru	2015	Bengaluru	500+	To venture into cities like Hyderabad, Pune and Chennai	Occupied at 86% across all its properties in Bengaluru

Source: Knight Frank Research, media reports

StayAbode

Year of starting operations	2016
City	Bengaluru
Occupancy (%)	95%
Average duration of stay	10–10.5 months
Current stock (in million sq ft)	1.0
Number of properties	15
Number of rooms	750+
Presence in micro markets	Koramangala, HSR Layout, Mahadevapura, Marathahalli, BTM Layout, Malleshwaram, Bellandur, Indiranagar, Whitefield, Arekere, Nagawara
Upcoming stock (in million sq ft)	2.0
Cities identified for future expansion	NCR

Source: Knight Frank Research



Viral Chhajer
Co-Founder and Chief Executive Officer, StayAbode Ventures

"As our cities continue to grow, we're now seeing increasing urban migration, so much so that, over 70% of our population is expected to live in cities by 2030. This migration is largely driven by millennials moving to the cities to find employment opportunities requiring them to move away from their families and live on their own. This cultural shift has been a major driver for the rental economy, which already is a way of life for 65% of the millennial population living in our cities. Co-living spaces are the answer to the housing crisis of this increasing mobile population that prefers a cost effective, flexible and asset-light lifestyle. Co-living spaces, on account of increased real estate efficiency and economies of scale are enabling a new plug-and-play lifestyle for the urban millennials while increasing rental yields of the underlying asset. While operators today continue to re-design existing supply to create a high-quality shared housing experience, with increasing validation of the market and opportunity, we're now expecting more greenfield developments which will pave the way for a new asset class in real estate investing."

CoLive

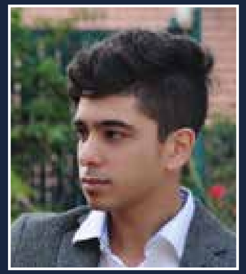
Year of starting operations	2016
City	Bengaluru, Chennai, Vellore and Coimbatore
Occupancy (%)	More than 85%
Average duration of stay	9–12 months
Current stock (in million sq ft)	2.0
Number of properties	120
Number of rooms	4,000
Presence in micro markets	Bengaluru – Whitefield, Marathahalli, Silk Board, Nagawara, Hebbal, Hennur Road, HBR Layout, Banaswadi, Manyata Tech Park, Thanisandra, Koramangala, Domlur, Indiranagar, Ejipura, Vivek Nagar, Richmond Town, Sarjapur, Bellandur Chennai - Porur, Old Mahabalipuram Road, Vadapalani Vellore - Katpadi, VIT Coimbatore - Malumichampatti
Upcoming stock (in million sq ft)	2.0
Cities identified for future expansion	Hyderabad and further expansion in Bengaluru

Source: Knight Frank Research

Suresh Rangarajan
Founder and Chief Executive Officer, CoLive

"Co-living trend is on the rise and the millennials are embracing the culture because it is flexible and a cost-effective way of living with a strong sense of community. The millennials will make up for 50% of the global workforce by 2020 and these dynamic individuals believe in creating memories and value experiences more than creating assets and possessions. They place no importance in pride of property ownership and need the flexibility to move as their work demands. With the growing dependency on technology for solutions and digital media for socialisation, co-living offers an easy option where they can do away with the hassles of daily chores and challenges around house maintenance while also having access to a community. The technology enablement in shared living spaces also removes human bias and allows individuals with common interests to come together in a community that is inclusive and free of any malice over personal choices. CoLive homes are furnished with all modern amenities, fully managed and services ranging from housekeeping to laundry are available at the push of a button. Co-living is the new way to live in urban hubs where space, location and cost of living are major concerns and comfort with personal space is a basic need."

The Hub



Azaan Feroze Sait
Founder, The Hub

"We've been averaging 98% occupancy over the last 14 months. In business, it is important to be at the right place at the right time and every piece of data we have collected over the last year tells us that this space is ready for a lift off. India is home to one of the youngest populations in the world. Half of its population is under the age of 25. Two-thirds are less than 35. Indian millennials want to live and work in a new environment. Access is more important to our generation than ownership. Another reason co-living is on such a tear is because it offers flexibility for a mobile generation. With the globalisation of technology and rise of freelancing, 9-5 decade long careers are a thing of the past. Low deposits and one month notice periods make it easy for our members to hop around the country and world to find the best opportunities."

Zolo Stays

Ajay Singh
Chief Growth Officer, Zolo Stays

"Co-Living in India is emerging as a new asset class in residential real estate, which provides a unique investment opportunity for retail and institutional investors. Asset creators and asset managers hold the potential to offer sustainable and affordable rental housing solutions through co-living. Its success would largely depend on the living experience it provides to its customers and the returns it brings to its investors."

1.2 **Robust funding helping creation of supply -** In India, many co-living operators have been raising seed funding from early 2016. CoLive, an early entrant in the co-living business raised USD 1.6 million from Ncubate Capital Partners and plans to expand its presence in 25 Indian cities and scale up inventory to a total of 50,000 beds by 2020. StayAbode, which raised an undisclosed amount of funding from Japanese gaming company Akatsuki Inc. and a group of other investors too, plans to utilise the funds for scaling up, venturing into other cities and also taking a deeper dive in Bengaluru's micro markets. ZoloStays raised USD 5 million from Nexus Venture Partners last year while NestAway has recently raised USD 51 million from Goldman Sachs and a joint venture of a noted industrialist and plans to diversify into creating co-living spaces going forward. With institutional investor backing, these co-living operators will gain more visibility, expand inevitably and create quality supply and will be able to take the co-living concept mainstream.

Section 5

Not just a start-up story

As an asset class and business model, co-living has a lot in store for each stakeholder group and it offers a unique opportunity to investors, developers, property owners and operators in addition to bridging the gap between what the urban millennial consumer segment want and what they get.

Institutional investors

In the Indian real estate sector, the office real estate market has seen strong demand from investors and good quality rent-yielding office assets have been lapped up by institutions. As ready rent-yielding assets became scarce, investors started looking for retail assets which garnered huge interest since 2016. But the underlying higher risk in retail assets and longer gestation periods coupled with best performing retail assets already having been acquired again poses the problem of lack of quality real estate to invest in. Due to low rental yields and stagnant property prices, the residential sector is no longer an attractive investment choice. With the Indian home renting market estimated at USD 32 billion[11] , investing in the co-living sector presents a new asset class for investors to diversify their risks. Since the co-living model allows sharing of lower utilisation areas such as kitchen, living rooms, the design of these products is such that it allows more people to be accommodated on the same floor plate and generate more rental income from it. The co-living sector is at a nascent stage, with low entry barriers a higher rental yield between 10–13% can be achieved. From an investor's perspective, structuring of agreements and upkeep of assets are crucial parameters to consider before investing.

Real estate developers

Globally, real estate developers have started venturing into the co-living sector with greenfield developments planned for the next few years in locations like Chicago, New York and London as changing an existing real estate product is extremely expensive and time consuming. Also, reverse engineering the vision for real estate buildings is a painful process. To venture in the co-living market with small or mid-sized greenfield developments rather than huge apartment developments or as part of an upcoming integrated township or mixed-use development would be a better way to explore untested waters. Co-living spaces use high-spec design and technology to create a home for millennials, which provides better space utilisation and fills the gap in the traditional residential supply. The macro trends defining the modern young professionals' expectations from a rental building highlight the need for a co-living format as structural design of residential buildings hasn't evolved since time immemorial in Indian cities. Instead of micro units or 1 BHK formats where costs of less utilised areas are loaded on to the final product, co-living inventory should be the next thing developers should think about as target end users for both products are the same. Also, it is a huge revenue opportunity for developers as cost of shared spaces such as kitchen, living rooms, etc. is amortised over a greater number of bedrooms than in a traditional residential development. It makes economic sense over traditional 3 BHK apartments despite higher cost and the business model will work on unit economics and early revenues. In India, no such products are available which are branded or co-branded with developers and we have provided below a possible build-to-suit (BTS) model for developers where the rentals charged do not exceed INR 15,000 per month

[11]Media reports (Livemint news article)

A typical 1 BHK layout with one kitchen, drawing room and balcony with a bedroom and toilet

- In such a layout, the cost of low utilisation areas (highlighted in blue) such as drawing room, kitchen and balcony is borne by the individual buyer or tenant.
- In co-living spaces, the cost of these areas where a millennial spends less than 40% of the time on any given day is amortised over a greater number of bedrooms leading to cost efficiencies for the end user.
- For developers, an alternate use of constructing such a high cost asset, if the co-living model fails to garner the desired occupancy, would be eventual conversion into a serviced apartment or budget hotel or rebranding as student accommodation.

Table:5

Return economics for a stable co-living asset

INVESTMENT REQUIRED		
	In INR per sq m	**In INR for total area**
Cost of Land (FSI)	16,146	448,859
Development Cost	29,063	807,951
Finance Cost	3,229	89,766
Total Cost (without taxes)	48,438	1,346,576

REVENUE CALCULATIONS		
	INR per month	**INR per year**
Gross Revenue (2 persons per apartment)	15,000	180,000
Maintenance Cost	1,000	12,000
Insurance and Property Tax	450	5,400
Net Revenue	13,550	162,600
Yield		**12.08%**

Notes

A typical co-living home is 300 sq ft (27.8 sq m) (super built up area)
GST hasn't been included as its impact on costs will be squared off after input tax credit
Cost of land (FSI) is approximate cost for locations near IT parks in Whitefield in Bengaluru
Development Cost includes cost of structure, approval costs, architect fee, labour cost as well as cost of furnishing and white goods, sales and marketing expenditure
Maintenance cost per sq ft includes housekeeping, internet and cable connection which is passed on to the end-user.

Landlord/Property owners

Vacant buildings or to-let premises have traditionally been advertised on property portals or via brokers. With higher rentals quoted for properties near education hubs and employment-dominated micro markets, tenants have been wary to commit to long-term leases, mainly due to the large security deposit requirements. This results in many such properties lying vacant for months before they go off the market leaving property owners helpless to find any alternative use of the properties and generate income from the underlying asset. Co-living provides a better use of such available space for an economic trade-off if property owners lease properties to co-living operators for sublease to young students or working professionals. That India has a huge population and a young workforce demographics on the lookout for affordable and flexible living solutions only adds credence to the co-living business model and its potential to make such assets a return generating asset class. Typically, if the rooms are let out on a double occupancy basis, the rental cost in a high rental micro market is split for bedrooms and helps the operator achieve higher rentals than in a traditional let-out scenario, the benefit of which can be passed on to the property owners. From market interactions with co-living operators, we have learnt that if the property owners invest in redesign and furnishing the co-living space, then the revenue sharing arrangement is typically 50:50. However, if the co-living operator makes a capital investment in the co-living space upfront to redesign the space and add furnishings after leasing the property from the property owner, the ratio changes to closer to 70:30 in their favour. Similarly, property owners of guesthouses, hostels, tuition centres, old hotels, commercial plazas, etc. can partner with operators for alternate use of their buildings and generate higher rental yields through flexible use of real estate.

Co-living operators

Co-living operators typically take properties on long-term lease from property owners, bear the makeover costs, load the properties with amenities and invest in creating a tech platform for residents. They make 'moolah' by charging on per bed basis from renters and for managing the premises. After co-working, co-living as a model promotes flexible use of real estate and has brought a lot of 'real estate entrepreneurs' on the realty scene in India that can help unlock the hidden potential of low usage real estate categories and vastly unorganised Grade B structures. There is a high growth market opportunity for co-living businesses that aims to organise the market and improve service standards for residents. Since there are no entry barriers, many players have already entered this space or gearing up for it. For co-living operators to thrive in the market, it is essential that they scale up responsibly and evaluate risks associated with short-term tenancies and local licensing laws in different cities while expansion. Co-living operators are pocketing as much as 30% on total rents in few cases where property is fully furnished by them after deducting costs for managing the property.

Corporates

Multi-national corporations across sectors such as Information Technology/Information Technology and Enabled eServices (IT/ITES), Fast-Moving Consumer Goods (FMCG), Banking, Financial Services and Insurance (BFSI), travel, telecom and media, etc. have prime real estate assets in major business districts of the country. Companies not only have multiple offices but also regional headquarters as well as company-owned guesthouses for employees in various cities. With companies liquidating real estate in prime locations and maintaining an asset-light model and increasingly consolidating their workforce under a single roof instead of multiple offices spread across the city, sale of such underutilised assets to developers for redevelopment into co-living or leasing them to co-living operators can be a suitable option to monetise these assets. Alternatively, corporates can also look at sales and leaseback of these properties and eventual conversion into co-living exclusively for their workforce. Instead of age-old guesthouses, a modern co-living habitation with a vibrant design can help corporates in attracting and retaining millennial workforce as well as also serve as a short-term stay option for visiting executives. Employer-owned co-living accommodations can be an innovative perk and can be added to the employees cost to the company. Millennials will definitely find such an accommodation perk interesting as it will take care of a big pain point associated with moving to a new city.

Consumers

For urban millennials, who move on to new jobs every 18 to 24 months, on an average, co-living provides not only easy living but also an economic benefit wrapped in community-styled living. Modern design, simple colours and textures, natural wood and access to modern day home appliances creating a homely yet chic atmosphere give new-age renters the swanky pad they want to be stationed in without having the trouble to own an asset or look for an apartment in overcrowded and overpriced prime hubs. Operating on a plug-and-play model, co-living is well suited for the urban workforce who are always on the move. Safety is not compromised either as women only co-living hubs are equally popular, especially in the NCR belt. Co-living offers a perfect harmony of privacy and socialisation and easy stay-and-switch options which make them a hard to resist solution for modern day living for young working professionals and students alike. Spending an additional premium in lieu of convenience and comfort takes priority in decision making and costs, as we have seen from our survey findings also, are not the sole criteria while selecting a living space.

Section *6*

Way forward

There's no place like home. But unfortunately, as job opportunities take today's young workforce to new cities, the unfamiliarity with the environment and emotional isolation from family and friends can take a toll on many. Gone are the days of work-life balance. We live in the era of work-life integration. One where millennials are actively driving the 'sharing economy'. Sharing of office spaces and transport has given rise to co-working and carpooling already. Born from a similar school of thought is co-living with access to a social life coming complimentary with other day-to-day amenities. Unlike gated communities, where families come together as religious groups; eating habits, hobbies, travel interests, choices for recreation act as 'bonding' parameters for today's youth. Today's millennials want it all. Not just a place to crash in but the entire social eco-system as part of the package deal. And they are happy to pay a premium for it as long as the facility is a better managed set-up. They want to 'rent a lifestyle' not just an apartment. The lure of metropolitan cities, whether it is for higher education, job opportunities or the cosmopolitan culture will remain paramount for millennials who will either chose co-living as an economic necessity given higher rentals in desired locations or as a matter of personal preference. Either way, co-living is not a passing fad. It's here to stay!

The unorganised nature of India's home rental market offers great scope for disruption in the form of co-living. The bait of a built-in social life will push the co-living culture and a hub model for co-living and co-working spaces is on the cards to make an entry in India's dynamic real estate sector as it evolves into an organised market. What the various stakeholders need to ensure is that expansion of co-living spaces is done gradually while keeping the products within reach of the millennials. The co-living market is largely service-oriented, and execution is a big parameter to be considered while creating co-living environments. Cities such as Pune, Bengaluru, NCR, Hyderabad and Chennai are well-positioned to venture in as evident from the gross enrolment ratios of students and job opportunities created as a result of expansion by occupiers across IT, BFSI, FMCG, telecom and media and other sectors. However, it would be best to avoid presence in towns or cities which are heavily dependent only on education as a hub to attract millennials. That said, the unmet demand for student housing is also a huge opportunity for the co-living sector as the end-user segment for student housing is also a subset for the co-living sector's overall demand universe. Though they do not form the entire end-user pool, until India's student housing inventory develops, co-living as an alternate to student housing is also a way for operators to increase occupancy and renewals.

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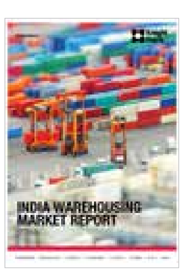

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