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WeeklyTAKE

BETTER TOGETHER: WHERE AND WHY CO-LIVING IS POISED TO THRIVE
W/ ADINA DAVID, JO WINCHESTER AND TOM MOFFATT [12.08.2020]

Spencer Levy

I'm Spencer Levy and this is The Weekly Take. On this episode, we share time with three guests from around the world to talk about an emerging sector that's changing the way people share residential space. It's a potential revolution in renting known as co-living.

Adina David

It means purpose built at scale developments in cities that can accommodate a growing need for more attainable dwellings and for those seeking authentic and connected communities.

Spencer Levy

That's Adina David in London. She's the director of Flexible Housing for Greystar, a global leader in rental housing.

Jo Winchester

What we're seeing is a breaking down of traditional boundaries between where we work and where we live, what we do in each of those places.

Spencer Levy

And that's Jo Winchester, who also joins us from London as CBRE's, executive director of Student Accommodation, Valuation and Advisory. Jo specializes in student housing and Coligan projects throughout Europe.

Tom Moffatt

From the investor's perspective it's really about that underlying fundamental demand for the space. And I can clearly see that demand as well. So I definitely think that we're going to see more activity and more investors looking for exposure.

Spencer Levy

And that's Tom Moffat, a CBRE executive, managing director and head of Capital Markets Asia, based in Hong Kong. Tom covers cross-border transactions all across the region. Our conversation will paint a picture of this new wave in the rental market. We'll talk about spaces and services, demographics, design and development. We'll look at how the pandemic has created challenges, but also some compelling conditions for a real estate trend like this and more. Thanks for joining our community for a conversation about communal housing, co-living. That's right now on The Weekly Take.

Welcome to The Weekly Take, and I'm delighted to be joined by one of our friends and clients, Adina David. Welcome.

Adina David

Hi there. Thank you.

Spencer Levy

We're also joined in the UK by Jo Winchester. Jo, thanks for joining us.

Jo Winchester

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Thank you.

Spencer Levy

And of course, Tom Moffatt joining us from Hong Kong. Tom, thank you.

Tom Moffatt

My pleasure, Spencer. Thanks for having me.

Spencer Levy

Well, thanks for coming, everybody. So let's start with you, Adina. As I mentioned, co-living is a relatively new trend in multifamily, but it's growing rapidly. Why don't you help us define what exactly is living?

Adina David

It is an emerging segment of the market within Greystar. We actually refer to it as urban living, and we do see it as having evolved from many other emerging concepts within rental housing globally. This is an evolving segment within rental housing. It is aimed primarily at single person households living in cities to provide a more attainable, dwelling type with an activated sense of community and convenience added to that. So you get a private unit to yourself, but also the ability to interact with lots of other people around you as well as work near your place of residence in a large city.

Spencer Levy

I've described co-living or urban living as senior housing for young people because they have small units but big common areas. Is that a fair way to put it or am I simplifying it too much?

Adina David

I think you are maybe oversimplifying it, but it is meant to be all inclusive. We do see this product as appealing most to young professionals, but really being completely open to the market. And actually we've seen many examples in the market of it being truly intergenerational.

Spencer Levy

Jo, you've been a valuation veteran for many years. Why don't you tell us how you go about looking at co-living arrangements or urban living to use Adina's word? See that? Adina, I'm using your terminology now.

Adina David

I really appreciate it.

Spencer Levy

You betcha. How do you value a co-living arrangement versus a traditional multifamily development?

Jo Winchester

Very good question. Co-living or urban living is the latest bed sector to now be traded in the UK. We've had a student accommodation market being traded here for well in excess of 10 years and multifamily has opened up in the UK in the last five or six years. So we have a context where bed sectors have been traded for some time and it's our house view that's co-living concepts would sit in that established range of yields, basically, and that is how we

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look at it for predominantly long-stay schemes. Obviously, if there's an element of short-stay, we would treat that slightly differently. But that in principle is how we look at it.

Spencer Levy

Well, Jo, let me push you on that a little bit, if I could, because there are distinctions putting aside the structural differences between multifamily and co-living, where the units and co-living tend to be smaller, you tend to have more common areas. You also have a slightly different lease structure in many cases, and that lease structure might be shorter term. And you also might have more corporate users who take big blocks of space. How might that impact your valuation of a co-living arrangement?

Jo Winchester

Well, I think that long income is kind of the core income in co-living. What we've seen over the last year is that corporate demand has been impacted by COVID, actually, and this is because office buildings are not intensively occupied at the moment and overseas travel has been affected by COVID as well. So what we've seen is the short term income becoming a less important part, long-stay income being the core attraction for investors. We have also developed kind of a hybrid model. So you have one set of drivers and then you get to a kind of blended value with the two income streams. And that's an approach that we also adopt, that there are many operational models out there in the market and we have to look at them all individually based on their location and how they actually are operated in practice.

Spencer Levy

Tom, you're in Hong Kong. And is it fair to say that while co-living is a relatively new concept in Asia, Asia, specifically Hong Kong, Singapore and some other extraordinarily high density cities have been living with smaller multifamily units for quite some time and maybe is a forerunner to call living. What do you think, Tom?

Tom Moffatt

I mean, people are definitely used to living in smaller apartments in the major cities. The interesting thing is that if you're talking about really institutional multifamily products, Japan is the only market that it exists in today and most of the residential and the other markets is owned by individuals, having said that, a lot of the big investors that we work with across Asia Pacific, US headquartered or European headquartered, and they've had a huge amount of success with multifamily in the US and in European markets. So they're looking for ways that they can replicate that within Asia. And if you see a market like Hong Kong where traditional multifamily doesn't really exist but co-living really makes a lot of sense because of the affordability issues here. There's a lot of appetite just in getting exposure in some way to rental housing products. So it's almost like the local market has skipped that multi-family section and going straight into co-living from the investors perspective.

Spencer Levy

Adina, I want to dig deeper into painting a picture. What exactly does co-living or urban living units look like and how does it differ by country? So be specific types of amenities, sizes of the rooms, those types of things.

Adina David

It will vary geographically and sometimes it is due to market regulations around what you need to provide for residential buildings. You may know in the U.S., one hundred percent of new build rental housing projects have to have units that have a bathroom and a kitchen

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that is fully wheelchair accessible. That's not always true in every market. And again, every market will have its quirks. So we do look to work within those regulations. But we have made the units for our kind of product typologies height efficient and compact for their markets to really drive affordability per unit. Outside the unit we aim to provide a whole lot more amenities, space that is really activated beyond what you may know from more conventional multifamily and even student housing projects, really activating and getting our resident members to engage with each other and really build that long term community. So we've expanded the offering outside the units to include things like communal kitchens, places where people can actually get together and cook together. We've expanded productivity space. That's, you know, your typical coworking workspace areas. And we really think remote working was a happening trend. But it's been accelerated by the pandemic and it will only continue to grow, I think. And then, of course, other leisure areas and health and wellness areas are really important for these. But I would say the overall space offering is much more generous, but it is combined or complemented with expanded activities and experiences for the people who live in the community. But we are also looking to open it up to folks who don't live in the community and want to access the spaces that we provide.

Spencer Levy

How big is the average co-living unit? Just what what's your average size?

Adina David

Private space? I would say it's somewhere between 300 and 400 square feet on the global scale. That would be the average.

Spencer Levy

Right. And then I would just for the benefit of our listeners or Jo, maybe you could answer what's the average size of a typical multifamily unit? About a thousand?

Jo Winchester

In the UK residential studios in C3 residential use would start at thirty seven square meters, upwards. One bedroom apartment are something like five hundred square feet in London, two bedrooms and six hundred and fifty square feet and seven hundred square feet. By comparison, a co-living unit in London, they typically start at around 18 to 20 square meters upwards. So the private spaces in London would be quite small. But we're tending to see communal spaces on a ratio of around four to six square meters per room.

Spencer Levy

And just for the benefit of our American listeners, having gone through the square meter to square feet conversion many times before, you multiply all of Jo's numbers by nine and you get to the square feet equivalent of that, a 20 square foot unit would be 180 square feet.

Adina David

I was just going to jump in quickly on one more point. And I think in the US we tend to think of conventional multifamily as averaging upwards of 600 square feet a unit and then, you know, anything below that sort of falls into your more micro or compact unit space.

Spencer Levy

Well, Tom, go to the typical sizes of units of traditional multifamily and maybe co-living in Asia.

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Tom Moffatt

Yet it sort of depends a little bit on the market. Tokyo and Hong Kong would probably be two of the smaller markets. I would say that for a one bedroom apartment, two hundred square feet to kind of three hundred and fifty square feet is not unusual in those markets. You could go up to in Hong Kong five to six hundred square feet for a lot of families, but that would be with a number of people that were living in this space. So the co-living product it's typically probably 100 to 200 square feet room configuration. But as Adina mentioned, that sort of community aspect, I think is really the attractive feature. And there's a trade off for the private space that people are in and then everything else that comes along with that. And I think when, you know, I've seen the properties here that work really well, it's the physical amenity and then also the events of the operators organize the branding and it almost becomes a sort of an aspirational product. So I think that people are willing to trade a little bit of that size for the other benefits that come with it.

Spencer Levy

Let me ask the difficult question right now. I think the number one question in real estate right now has to do with the future of cities, the challenges of high density uses. And when I hear about co-living, it says high density to me in 10 different ways from the unit to the common areas or otherwise. So Adina, at the present, how are you and Greystar dealing with the pandemic related issues to density? And what do you see of any long term changes as a result?

Adina David

Operationally, we have implemented a few measures across our portfolios to manage the communities and, you know, obviously prioritize the safety of our residents. However, we have seen people staying in cities or if they move, they move from city to city. So we do really believe in the city long term. You know, we still see it as the place where employment is still predominantly anchored. You can't really have innovation team building and keeping up morale in large companies without in-person interaction. So we you know, long term, we do still believe in cities and we are looking for sites in city centers.

Spencer Levy

Well, I guess the question is a little bit different than that. The long term question is, will there be any changes in co-living amenities, size of spaces or otherwise as a result of the pandemic?

Adina David

I think co-living or urban living does provide enough, you know, sort of space to stay in your private area, as well as benefit from social interaction. I think with the pandemic, we've seen loneliness and social isolation on the rise, especially for single person households. So, again, I believe that density is not an issue for these developments and actually helps people stay connected and sane in situations like this. That's what we've seen and what we believe will be the future. I mean, we will be making some small tweaks to our developments in terms of, again, expanding the productivity areas and coworking offering in terms of contactless access to the buildings. But I don't see density as being an issue.

Jo Winchester

One of the trends that has given rise to co-living is a long term trend towards urbanization, urban employment, people moving from rural areas to live in cities. And one of the implications of that is the housing market has not kept pace, giving rise to huge housing shortages. And this is something that we've talked about in our recent co-living research

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report. What that means, I think that this is a very long term trend. I think that it would take quite a lot for that to be completely reversed. One of the things I think it's inevitable that some people will elect to move out of big cities, but I don't think that that will be a wholesale trend. I think that, you know, some people, probably the majority are going to stay. One other observation I would make is that the nature of office buildings is changing, so they may be in the future, perhaps slightly less intensively occupied. But CBRE in London is actually going through a complete reimagining of our headquarters, and it's being completely redesigned with, wellbeing spaces, healthy food outlets on site, much greater flexibility of coworking spaces and so on to enable collaboration. And this is very similar to what we're seeing in the co-living market. I think that what we're seeing is a breakdown of traditional boundaries between where we work and where we live, what we do in each of those places. I think that co-living has unique appeal. I think it is an innovative solution for single people, single person households that other forms of rental accommodation just don't cater to as well.

Spencer Levy

So let's go into affordability. And affordability is something that I think in Asia in particular is extraordinarily important in Hong Kong and Singapore and certainly in high density cities like Tokyo. So, Tom, how is affordability driving the demand from both the consumer perspective and from the investor perspective for more co-living units in Asia?

Tom Moffatt

I mean, it's a little bit different in each market, but Hong Kong, you know, I think is the most expensive housing market in the world. And it's been an issue that's been sort of causing a lot of the social unrest over the past 12 months or so. So it's definitely driving demand for the product. And the interesting thing if you look at co-living here, there are expats who are living in the product, but there's a high proportion, as well as people from the local community that are moving in as a sort of a first home outside of their family home and even in some cases moving in as a couple pre-marriage to be able to sort of get privacy and some more affordability. So I think that trend is definitely going to continue in this market. The residential sector for sale has continued to be very resilient, and I think that's going to continue. I think from the investors perspective, you know, it's really about underlying fundamental demand for the space and they can clearly see that demand as well. So I definitely think that we're going to see more activity and more investors looking for exposure.

Spencer Levy

Now, Adina let's talk about one of your projects, if you don't mind. You have a terrific project in Amsterdam called Our Domain. It's award winning. I think it won the best new shared living development. Tell us about that and also talk about the fact that the Netherlands tends to have a somewhat more stringent regulatory environment and how you were able to make that project work within that environment.

Adina David

That was a really special project. Our Domain in southeast Amsterdam opened up this summer and it has about 1500 units. It is a mixed use project in that it does have student units as well as young professional units, as well as more conventional type units within the same development. And it has come together in a community that was traditionally more of an office park. So it really brought kind of new life into an area. You are right to point out the Netherlands, they do have a regulatory environment that's quite specific and it has resulted in some interesting different types of thinking about managing the project overall. But what we've seen was, you know, again, we opened during the pandemic this summer and it

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leased up almost immediately. So the student and young professional units went immediately. I mean, I think we're close to 90 percent occupancy on this project, again, open during the pandemic. So it's been a very successful project, I think welcomed because of the diversified offer there. And you did point out that the regulated unit, they have helped the project kind of gain occupants early on, secured the initial tenancies and create that initial community that then attracts even more people to it. Yeah, it's a really interesting project.

Spencer Levy

I was actually stunned, Adina, when you said you had fifteen hundred units in your job in Amsterdam, which is an enormous number of units for a typical multifamily building.

Adina David

We like scale.

Spencer Levy

Scale is good, if you can get it, if you can get the get the units in there and go for it. But my question is this, given the shortage of the number of units out there, given how high density all the cities that we're talking about, from Amsterdam to London to Beijing to Tokyo, are, is conversion an option, taking some of these very same struggling hotels or other types of real estate uses? Can they be converted to co-living? What do you think?

Adina David

I think there are a lot of opportunities to do that for Greystar, at least it does come down to scale. And obviously that does change market to market. If you know where to look at hotels, we need a hotel that already has 300 plus rooms in which we can add kitchenettes to and, you know, reposition then the communal areas. And oftentimes it gets a little more expensive than we would like. So it's an option, but it's probably not the most efficient one in a lot of the markets. We looked at office conversions. You know, a lot of the projects that do work for conversion, I think have already been converted again at scale. It's certainly an option. But again, with offices, you need to look at how deep the floor plate is. Does it really lend itself well to residential units, which need daylight in sort of a more narrow, less deep space? So it really depends on the building. We're not really looking at conventional multifamily moving into co living. We think that just creates more operational complexities. And, you know, maybe in kind of isolated cases, but again, not really a scale play. We do really like modular construction. We do like building ground up, using modular technology. And we think that unlocks project and brings them forward very quickly.

Spencer Levy

Tom, let me stay on that same question. Are you seeing any conversions throughout Asia to collecting living arrangements from hotels, office or otherwise?

Tom Moffatt

Yeah, 100 percent. That's really the play here in Hong Kong. And when you were asking the question, I was thinking back even pre-COVID. And I think all of the product here has been converted rather than been purpose built. Adina mentioned some of the planning issues. And, you know, obviously the building needs to be able to be reconfigured, but it's the route that most people have taken. And it's been a mixture of some offices, but predominantly hotels and existing residential buildings that have been converted. Think about Hong Kong as a market. It's so reliant on inbound tourism and inbound business travelers. And even for the second half of last year pre-COVID, the city was largely shut down to a lot of travelers

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because of the protests. The hotel market is the one part that's really been hurting. And if you look at some of the prices now versus 12 months ago to acquire hotels, you can buy them at a 30 percent discount. So that's definitely a play that a lot of people pursuing. I think the other thing that's appealing, if you can do that here, it's a relatively short period from acquisition to be able to start generating income and certainly much quicker than demolishing and building brand new buildings. So that's the other thing that that's attractive about it.

Spencer Levy

Let's turn to that topic now, the ESG topic, which is now a new buzzword, but it's an enormous amount of capital that is growing in the space. As a matter of fact, I was on the phone the other day with an investor and they were saying that they expect that right now there's about two or three hundred billion dollars of ESG capital out there. It could grow to five trillion by the end of the decade. So, Tom, let's start in Asia and then we'll go around the horn. How important is ESG capital today to the overall capital markets and specifically in the multifamily context?

Tom Moffatt

It's becoming more important. It's sort of led predominantly by the the US investors. But it's a very different standard, I would say, than sort of Western markets to the extent that in places like Japan, there are different energy ratings and you don't have the same sort of global standard about the physical product. It is becoming more of a discussion. But I would say it's not a driving force for the majority of investors.

Jo Winchester

In the UK, ESG is a bit more than a buzzword. It's actually central to most investor strategies now and co-living ticks a lot of boxes. So on the environmental front, it can be built to high energy efficiency standards. It lends itself to modular, which reduces wastage on site, for example. The S, Social it is possible to create diverse community that can be affordable rents and affordable housing contributions in London, which are very welcoming. Also catering to the wellbeing agenda. So it's possible to prove an S factor for ESG in a way that other real estate sectors struggle. And actually a strong risk management response to COVID-19, for example, would count as a good governance factor. So co-living really does take a lot of ESG boxes, which is one of its attractions for investors.

Adina David

I think ESG it is very important. As an institutional manager we obviously take it very seriously and are very influenced by our investors globally. But because we are global, we can share best practices and quickly implement them. Across our platforms, we are certainly looking at adding in new technologies that make our buildings more sustainable. We've already talked about modular construction, environmental benefits of that, but we're seeing lots of other influences, again, on a global scale.

Spencer Levy

Let me bring up one more issue here with respect to the investment question as it relates to demand. And when I say demand, I mean demand for subletting. Some of these are co-living units or multifamily units through third party groups like Airbnb, VRBO, Bungalow and other short term rental companies. How does Greystar how do you look at it from a co-living standpoint?

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Adina David

You know, so we actually quite like Airbnb and we do allow it in our buildings or support it in some of our buildings where it is allowed by the local market. So it is a bit market specific in that some markets are really against it, but where we can offer that as we sort of see it as an additional service to our residents.

Spencer Levy

Tom, let me ask you the question. How deep has Airbnb, VRBO, Bungalow or other sublet services for multifamily penetrated the different Asian markets?

Tom Moffatt

Airbnb has been the group that's had the most traction and there's sort of face challenges, regulatory in some markets, and then also, I think some resistance from residents within the building. So I've certainly seen the product, but never in institutional or institutionally owned assets. It's always in, you know, units that a privately owned. So I don't sort of see it being part of the co-living offering in Hong Kong in particular. And the buildings here I think with the sort of security and access and things like that, it would be very hard to do it without the support of the operators.

Spencer Levy

So let's wrap this up now with some final thoughts, some crystal ball questions. Jo, let's start with you. What is your 2021, 2022 outlook look like for the co-living space? Are we going to see a lot more of it, more demand? What's your point of view?

Jo Winchester

I think that co-living definitely has its market and it's an innovative way of catering for single person households. And I think it's offering a modern and safe alternative to traditional flat shares. And so, in my opinion, I think it's only going to grow.

Spencer Levy

Tom, your final thoughts?

Tom Moffatt

You know, definitely market specific, but I think there's more demand for the product. We're going to see more growth from the residence and then also demand from investors. The other point, just to make in a market like Hong Kong, when you don't have institutional multifamily, the alternative is to lease from individuals. And I think one of the attractive things is to have a professional operator, to have the security, to have consistent building maintenance, things like that. We didn't touch on it. But I think that's another one of the reasons that it's going to continue to be popular and more popular.

Spencer Levy

Let me just push that just a little bit. You started today's conversation suggesting that the only market that has any type of scale in institutional, multifamily and or co-living is Japan. Does your crystal ball foresee markets like Hong Kong, markets within broader China having more co-living over the next several years?

Tom Moffatt

I think so. And just to be clear, Japan has a very large institutional multifamily market, but it hasn't really embraced co-living. Co-living so far has been in markets like Hong Kong and Shanghai, and I think particularly where you see the biggest affordability issues. So I think

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those markets are going to continue to grow and you will see it, you know, in markets like Japan and potentially Korea in the future. But I think places like Hong Kong and Shanghai are going to continue to be the most active.

Spencer Levy

Great and Adina, last thoughts to you, what is your crystal ball look like for the next couple of years for co-living throughout Europe? Is it going to blossom and where?

Adina David

We're very excited for the next couple of years for this product globally, not just in Europe. We have several sites secured again in global markets around the world. So as soon as we have more of that product operational, I think it's going to be really exciting to unlock even more of it. And, you know, we're really looking to scale it up as quickly as possible. I think once renters see the quality and evolution of the product, it will be really embraced around the world. So we're very excited about it.

Spencer Levy

Well, on behalf of The Weekly Take I want to thank our three guests. First, Adina David, director of flexible housing at Greystar. Adina, thank you for joining us.

Adina David

Thanks so much, it's been great.

Spencer Levy

Second, I want to thank Jo Winchester CBRE's, head of Co-Living Valuations, based in London. Jo, thank you for joining us.

Jo Winchester

Thank you so much. Great to be with you.

Spencer Levy

And last but not least, Tom Moffatt, executive managing director of Capital Markets Asia for CBRE. Thank you for joining us, Tom.

Tom Moffatt

My pleasure, Spencer. Thank you.

Spencer Levy

To learn more about today's topic, read CBRE's new co-living report. You can find it on our website along with more information on our show. Check out [CBRE.com/TheWeeklyTake](https://www.cbre.com/TheWeeklyTake). We'd also love your feedback. So if you found us on Apple podcast, Spotify or another platform, please subscribe, rate and review us wherever you listen. Thanks for joining us. Until next time. I'm Spencer Levy. Be smart. Be safe. Be well.