

REPORT

REVOLUTIONISING URBAN LIVING

INDUSTRY LEADERS SHARE KEY INSIGHTS
ON THE GROWTH OF STUDENT HOUSING
AND CO-LIVING SPACES

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Knowledge Partner



Sectoral Club Partners



SUMMARY

INTERACTIVE TITLES

- » **Introduction**
- » **The Rise of Student Housing & Co-Living Spaces**
- » **India's Co-Living Boom**
- » **High Demand for Quality Student Housing**
- » **Enhanced Amenities for Modern Tenants**
- » **Transforming Operations with AI and Smart Tech**
- » **High Demand & Affordable Solutions**
- » **Business Models & Supply Challenges**
- » **Investor Interest and Financing Strategies**
- » **International Insights from Spain, the UK, and Beyond**
- » **What's on the Horizon for the Next Decade?**
- » **About GRI Club**
- » **Contact**


INTRODUCTION

For more than 25 years, GRI Club's exclusive networking events have been providing unique opportunities for the industry's decision makers to exchange valuable insights and experiences, igniting deal flow and potential using the real estate market.

GRI Club reports provide the key takeaways from these events, including the most valuable insights, the most ardent discussions, and the most intriguing strategies.

This report was compiled following the discussions that took place at **GRI Club India's** online meeting **Revolutionising Urban Living**, which focused on post-COVID transformations in student housing and co-living, exploring diversification strategies from investors and analysing how operators and developers have adapted to changing end-user needs, enhanced customer experiences, and leveraged technology and AI for industry innovation.

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THE RISE OF STUDENT HOUSING & CO-LIVING SPACES

The co-living and student housing sectors are on the cusp of a significant transformation, paralleling the dramatic shift seen in commercial real estate. Just as commercial spaces evolved from non-compliant buildings to co-working and grade-A facilities, student housing and co-living are poised for a similar evolution.

The demand for these flexible living spaces is driven by a diverse demographic, including young professionals, remote workers, students, and even retirees. This demand, combined with the growing recognition of these sectors as viable asset classes offering steady rental income and reliable yields, sets the stage for rapid growth and innovation.

Technological advancements are playing a crucial role in this transformation, enhancing operational efficiency, improving customer experience, and optimising costs. From AI-enabled analytics and comprehensive digital platforms to smart home technologies and ESG initiatives, technology is reshaping the landscape of co-living and student housing.

The focus is shifting towards creating high-quality, community-oriented living environments. With the market ready to embrace these changes, the next few years will be pivotal, setting new standards and meeting the evolving needs of modern urban tenants.

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INDIA'S CO-LIVING BOOM

The co-living sector has emerged as a dynamic and transformative segment within the residential market, analogous to the revolution coworking brought to the office sector. As a part of the shared economy, co-living aligns with the contemporary preferences exemplified by the success of platforms such as Uber and Airbnb.

In India, this trend is notably propelled by millennials and Generation Z, individuals ranging from 18 to their late 30s, who collectively represent a substantial market of over 500 million potential users. This demographic shift is further amplified by migration patterns, with individuals moving from tier three cities to more developed tier two and tier one cities.

CO-LIVING MARKET IN MUMBAI IN 2024

280.000 demand by students & working professionals	+13.000 supply organised co-living beds	95% shortfall
+2.1 million sqft organised co-living area leased	6,500 sqft average area per centre	+50 organised co-living operators
+320 organised co-living centres	165 sqft per bed average bed size in centres	89% occupancy of co-living spaces

Source: CRE Matrix, April/2024.

The employment landscape, particularly in sectors such as IT, also underscores this demographic trend. Approximately 70% of the workforce in the IT sector falls within the 18 to 40 age range, with a significant portion being migratory. Major urban centres like Bangalore, Delhi, and Mumbai are the primary destinations for these individuals, many of whom prefer rental housing solutions.

In the post-COVID era, there is now a pronounced shift towards appreciating quality service. While the Indian consumer remains price-sensitive, there is a growing willingness to invest in premium services that offer enhanced living experiences.

Despite strong demand fundamentals, the co-living sector remains undersupplied. The preference of operators to maintain an asset-light model, relying on investors or leasing spaces from developers, contrasts with developers' inclination to sell residential properties.

This dichotomy presents a challenge but also an opportunity for growth and innovation within the sector, supported by robust demand parameters and the potential for higher rental yields. From a development standpoint, these assets can achieve rental yields in the range of 7-9%, compared to the 2-3% typical of traditional residential properties.

HIGH DEMAND FOR QUALITY STUDENT HOUSING

During the pandemic, there were widespread concerns that urbanisation would decline dramatically, with people returning to their hometowns and avoiding city campuses. However, contrary to these predictions, urbanisation has not only rebounded but has surged, with students and young professionals returning to cities and seeking quality living conditions.

The concept of “revenge urbanisation” aptly describes this phenomenon, as individuals are flocking back to urban areas, driven by the desire to live in high-quality, modern, and well-maintained environments.

This resurgence is evident in the occupancy rates of student housing, which have not only returned to pre-COVID levels but actually surpassed them, highlighting a robust recovery and growing demand.

STUDENT HOUSING IN INDIA

- **10-15%** YoY growth of student housing rentals post pandemic
- **11 million** relocated students currently in India
- **31 million** relocated students expected by 2036
- **92 million** students enrolled in higher education by 2036
- **7.5 million** beds currently at on-campus accommodations

Source: Colliers, 2023.

Despite this positive trend, the quality of student housing in many areas remains a significant concern. Observations from visits to various universities reveal that the living conditions in many student accommodations are subpar, even in some of the best private institutions.

Parents, who are willing to invest in their children’s education by sending them to top-tier colleges, often find themselves deterred by the poor conditions of on-campus housing. This drives many to consider international education options in countries like the US and UK, where student accommodations typically offer better living standards.

The necessity for improved student housing is clear. Universities need to revisit and upgrade their housing facilities to meet the expectations of students and parents alike. This shift is crucial for enhancing the overall educational experience and retaining domestic talent within the country.

As the sector continues to evolve by focusing on providing high-quality living conditions, the industry can support the academic and personal growth of students, fostering a more conducive learning environment.

ENHANCED AMENITIES FOR MODERN TENANTS

The evolution of customer preferences in the co-living and student housing sectors has been profoundly influenced by the COVID-19 pandemic, resulting in notable shifts in the demand for amenities and accommodation features. This transition reflects broader societal changes, including the normalisation of remote work and hybrid education, which have reshaped the expectations and requirements of tenants.

Pre-COVID, the tenant base for long-stay accommodations primarily consisted of millennials and Gen Z, but the spectrum of tenants has broadened significantly since the pandemic, spanning from students to retirees and young professionals to expatriates, all seeking convenient and flexible housing solutions. Distinct trends have emerged as a result of this diversification.

One of the most pronounced changes has been the increased demand for community-oriented living. Tenants are now seeking environments that facilitate social interactions and a sense of belonging. Operators have responded by organising common activities and creating social spaces that encourage residents to connect and form new relationships, particularly important for individuals who may be new to a city.

There has also been a clear shift towards larger, more private living spaces. Triple-sharing accommodations have become nearly obsolete, as tenants prefer private rooms and the assurance of personal space.

Convenience has become an increasingly critical factor. Tenants prefer accommodations that offer comprehensive solutions, including furnished apartments with all utilities and contracts in place. This “turnkey” approach simplifies the moving process and enhances the appeal of co-living spaces compared to traditional rental arrangements.

From a structural standpoint, amenities have been adapted to cater to diverse needs. For example, high-rise co-living buildings often feature themed floors, each dedicated to specific activities such as productivity (coworking spaces), health and wellness (gyms and spas), and social interaction (dining and communal areas). This segmentation ensures that tenants can easily access facilities that match their lifestyle preferences.

In larger co-living developments, other innovative features such as dance floors have been introduced to foster social interaction and community engagement. These spaces facilitate group activities and have been particularly popular among younger tenants, adding a unique value proposition to the co-living experience.

TRANSFORMING OPERATIONS WITH AI AND SMART TECH

Technology plays a pivotal role in improving operational efficiency. AI-enabled audio-video analytics, for example, can handle tasks traditionally performed by mid-level management, reducing manpower requirements and increasing situational awareness.

As seen during the pandemic, the adoption of AI allowed operators to manage properties with minimal on-site staff while ensuring optimal oversight and safety. This not only lowers operating costs but also maintains high service quality.

Digital platforms have also revolutionised the customer experience. By integrating property management and accounting software with online booking systems, operators can offer seamless, hotel-style booking experiences. This includes executing legal documents and processing payments online, which reduces the need for on-site administrative tasks and enhances convenience for tenants.

Additionally, comprehensive digital cataloguing of apartment units, including photos and detailed description, provides prospective tenants with a transparent view of their potential living spaces, further improving the leasing process.

Hardware integration is another crucial aspect of technological advancement in these sectors. Investments in smart home technology, such as smart thermostats, lighting, and locks, significantly enhance the resident experience.

These technologies not only offer convenience but also contribute to energy efficiency and sustainability. For instance, smart thermostats allow residents to control their home environments more efficiently, leading to energy savings and increased comfort.

ESG initiatives are also gaining traction, with technologies for collecting live data from buildings and reporting on ESG standards being integrated into many assets to monitor consumption and living quality criteria. This focus not only aligns with global sustainability goals but also adds value to the properties by promoting environmentally responsible living.

Green certifications are becoming a must-have for investors, made to ensure that projects meet the highest sustainability standards, which is essential for investor engagement and project viability.

In high-volume operations, managing numerous properties and units efficiently is critical. Tools designed for smart operational management demonstrate how technology can streamline customer service.

Shona operates through popular messaging platforms like WhatsApp, resolving queries and connecting customers to the right personnel via click-to-call mechanisms. This reduces the need for extensive manpower and ensures quick and efficient service delivery.

Dynamic pricing modules, inspired by practices in the airline and hotel industries, are another innovative application of technology. These modules automatically generate discount coupons based on real-time occupancy data, optimising pricing strategies without manual intervention. This not only maximises yield for investors but also ensures competitive pricing for tenants.

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HIGH DEMAND & AFFORDABLE SOLUTIONS

One of the key factors influencing demand is the efficient design of co-living spaces. The concept of shared living leverages the power of the shared economy, where facilities such as swimming pools, gyms, and dining halls are collectively used by a large number of residents. This approach not only enhances the lifestyle of tenants but also makes these amenities more affordable, as the costs are distributed among many users.

Tenants, particularly those aged 20 to 30, are increasingly seeking lifestyle upgrades when they move out of their family homes. Co-living offers a unique combination of real estate and lifestyle services, providing amenities that would be unaffordable in a private residence. This appeal is particularly strong among young professionals and students, who benefit from the communal and social aspects of co-living.

In prime urban areas where land costs are high, co-living offers a solution to the affordable housing problem through densification. By developing projects with a large number of units, operators can achieve economies of scale, making it feasible to offer affordable housing options in expensive markets.

In major metropolitan areas like Hyderabad, the demand for affordable options is driven by the influx of IT professionals and other mid-level employees who seek convenient, cost-effective housing near their workplaces. These individuals prefer co-living arrangements over traditional housing due to the proximity to urban centres and the communal living experience.

While the term “affordable” is relative, it generally implies the ability to provide housing solutions that meet the financial constraints of a broad spectrum of tenants. With the rise in real estate prices making homeownership increasingly difficult, co-living, with its flexible lease terms and shared amenities, offers an attractive option for those looking to enjoy the benefits of urban living without the financial burden of owning a home.



BUSINESS MODELS & SUPPLY CHALLENGES

The co-living and student housing markets in India face several notable challenges, which need to be addressed to ensure sustainable growth and success. A main one is the prevalent business model.

Currently, many operators rely heavily on a purely lease-based model. While this approach has worked to some extent, it is not considered sustainable in the long term. For a more robust and enduring business model, it is essential to attract partners or investors, mirroring the international structure where operators collaborate with investors, for financial stability and support in scaling and quality improvement.

Another significant challenge is the constraint on supply. The focus of many large developers in India remains on residential and office asset classes, which have been performing exceptionally well. Consequently, the co-living and student housing sectors are often overlooked by major developers, leaving the development of these asset classes to smaller tier two developers or individual owners.

Without the participation of larger developers, it is difficult to achieve the scale and quality necessary to meet market demands. However, there are emerging interests from larger developers, which is a positive sign for the future.

Investor interest in the student housing space is growing, but, despite the availability of capital, opportunities remain limited. The key issue investors face is scalability—after making an initial investment, the challenge is to scale up and build a comprehensive platform. This scalability concern creates a “chicken and egg” situation, where the demand is strong, but the supply is insufficient to attract significant investment and growth.

Additionally, branded players, who are active in acquiring office and retail assets and investing in residential properties, are hesitant to invest in co-living and student housing due to the lack of established opportunities and platforms. This hesitation further limits the growth potential of these sectors.

Despite these constraints, the demand for co-living and student housing in India is robust. Most of the challenges can be addressed by creating the necessary supply to capture and meet this demand effectively. Solutions require a concerted effort to attract larger developers, foster partnerships between operators and investors, and develop scalable platforms that can sustain long-term growth.

INVESTOR INTEREST AND FINANCING STRATEGIES

Investor interest in the co-living and student housing sectors has been steadily increasing, presenting significant opportunities for operators, developers, and institutional investors alike. The market's growth potential, combined with attractive yield prospects, has captured the attention of those looking to diversify their portfolios and capitalise on emerging asset classes.

Comparing co-living to the build-to-rent (BTR) sector, co-living offers potentially higher returns. The yield on co-living investments can be two to three times greater than that of BTR, making it an appealing option for investors.

Currently, operators have developed platforms with substantial unit counts, reaching up to 6,000 in a notable example, which have garnered significant interest from co-investors. These platforms, similar to BTR products, cater to short to medium-term stays and have proven to be lucrative. In markets like Spain and Europe, institutional investors have shown strong interest in this concept and asset class.

In India, the sentiment among investors towards co-living and student housing is evolving. Traditionally, the biggest drawback in residential rental housing has been the relatively low yields. However, co-living and student housing promise higher yields through value-added services and amenities, potentially reaching 8-10%. In some tier 2 cities, yields have even surpassed 10%, entering double digits.

Ownership of assets in this sector varies, but institutional ownership is crucial for scalability. Globally, co-living and student housing businesses typically involve institutional investors. Operators often collaborate with investors or funds to manage and scale their operations. For example, in Europe, operators work closely with investors and developers to build and manage large projects, ensuring institutional control over the assets.

The Indian market, however, has been slower to adopt this model. Many projects have been sold on a strata basis to multiple investors, which is not sustainable in the long term. Institutional ownership, where investors provide the capital and operators manage the assets, is necessary for the sector to achieve scale and sustainability.

In Spain, for instance, platforms have been developed through joint ventures involving institutional investors, operators, and developers acting as asset managers. These projects, often large-scale with 600 to 1,200 units, are challenging to develop without institutional backing. The goal is to achieve yields on cost between 5% and 6%, with value-added investors further optimising returns through rent increases.

INTERNATIONAL INSIGHTS FROM SPAIN, THE UK, AND BEYOND

International players have shown a keen interest in the co-living and flex living markets, bringing diverse perspectives and experiences from European regions. These insights reveal both similarities and differences in how co-living and student housing are evolving globally, particularly in response to changing demands and economic conditions.

In Spain, the development of flex living and co-living over the past five years has been influenced by the legal framework and evolving market needs. Initially focused on medium-term hotels, the sector has seen positive demand from customers. However, affordability remains a significant driver.

High construction costs and interest rates have made it difficult for young people to buy or rent homes, leading to a broader demand for different living asset classes. These include not just high-end or affordable options, but a range of accommodations that cater to various locations, volumes, and qualities.

Interestingly, the demand has become more diversified than initially expected. While young professionals and remote workers were anticipated to be the primary market, the actual demand includes divorced individuals, retirees, and a wider range of people moving to urban areas.

In the UK, the co-living sector experienced significant changes during the COVID-19 pandemic. Many co-living platforms disappeared, and the sector is now primarily driven by equity investors and some high-debt players. The focus remains on providing high-quality accommodations for a diverse age group, primarily those aged 18 to 40. However, there is a notable demand from older demographics as well.

The UK market faces similar affordability and supply challenges, particularly in large urban cities. The constrained supply environment makes it difficult for young people to find affordable housing.

In response, some developers focus on creating single studios with private amenities, offering a higher quality living experience than shared flats. This model has proven popular, with leases averaging just over 12 months, contrary to initial expectations of shorter stays.

The international perspective highlights the importance of adapting to local market conditions while leveraging global trends in technology, community-building, and sustainability. The successful integration of these elements can enhance the appeal of co-living and flex living spaces, making them viable solutions to the affordability and housing challenges faced by urban populations worldwide.

WHAT'S ON THE HORIZON FOR THE NEXT DECADE?

The coming years are expected to bring about a remarkable shift in the landscape of student housing and co-living. In a country like India, the demand for flexible living spaces is virtually limitless, driven by a young, mobile population seeking quality and convenience.

The perception of these spaces as alternate asset classes is solidifying, creating a more robust market foundation. Investors and developers who understand the long-term potential of these sectors are beginning to invest more heavily, recognizing that the supply must meet the surging demand.

The comparison to the coworking industry five to six years ago offers one way of forecasting the future. Co-living is at a similar inflection point, ready to undergo substantial growth and change. The next seven years will likely see an accelerated adoption of higher standards and more sophisticated offerings in student housing and co-living, driven by technological advancements, changing lifestyle preferences, and increased investment.

As the sector matures, we can expect a move towards more standardised, high-quality living spaces that cater to the diverse needs of urban populations. The focus will be on creating environments that offer not just accommodation but a holistic living experience, incorporating community-building, social activities, and state-of-the-art amenities.

The journey from basic, fragmented offerings to sophisticated, well-managed living spaces is underway. Those with the vision, patience, and perseverance to invest and innovate in these areas will find themselves at the forefront of a rapidly evolving market, ready to meet the demands of a new generation of urban dwellers.

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Founded in 1998 in London, GRI Club currently brings together more than 16,000 senior executives spread across 100+ countries, operating in both real estate and infrastructure markets.

GRI Club's innovative discussion model allows free participation of all executives, encouraging the exchange of experiences and knowledge, networking, and business generation.

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