

Co-living – the *graduation* from Student Housing



The changing dynamics

Student accommodation has evolved. The latest generation have become accustomed to higher levels of serviced accommodation than has been previously accessible.

After graduation, they are looking for the same high quality accommodation that provides them with flexibility as well as consistency – regardless of location.



What is Co-living?

Co-living is a natural next step for student housing. It provides a flexible, purpose built product that is available to the wider residential market.

From a planning policy perspective, the proposed 2018 London Plan identifies large-scale purpose built shared living space (PBSL) as the proposed use for any student housing scheme that does not have a university agreement in place.

By putting this into context – 70% of the 49,000 extra student housing beds in London over the last 10 years were direct let beds with no university agreement, highlighting the potential scale for this market.

PBSL is defined as shared living developments that comprise of at least 50 units. These units “should be appropriately sized to be comfortable and functional to a tenants needs.”

Ultimately, this type of accommodation is a short-term solution, but importantly the accommodation is available to people within the private rental market, as well as students.

Location and affordability are the key fundamentals for any type of housing. Where land values are higher or pressures on land use are greatest, then there is an obvious need to increase the number of people that can live in these locations.

In modern student housing developments, there is a growing emphasis on communal space, whether that is dining space, living areas or supporting facilities such as places to work or a gym.

This is also the standard template for co-living developments. These facilities provide the trade-off for a smaller living space and are features that are unlikely to be present in a house share or self-contained flat.



The Collective Old Oak, The Lobby



The Collective Old Oak, Co-working

Terminology

Term	Meaning
Co-living	Purpose built shared living space (PBSL)
Student housing	Purpose built student accommodation (PBSA)
Shared living	A room in a house share, house in multiple occupation
Compact living	A self-contained studio unit.

What is driving demand?

Co-living has the potential to be a sustainable housing option for a growing number of people living in cities. But what are the key factors that are driving demand for this emerging sector?

Urbanisation: Urbanisation is a developing trend across the world. In Europe, there will be 13 million more people living in cities over the next 10 years¹. Cities will account for 77% of the total population for the continent, compared to 62% just 50 years ago.

But it is not just the major cities where this growth is being concentrated, smaller regional cities are also growing in size, as reflected by our [JLL Global Cities Research](#).

Pressure on land use: Greater pressure on urban land use has had an impact on overcrowding. At an EU level, the number of private rented households that are overcrowded has increased from 18.6% in 2011 to 20.4% in 2016, whereas for owner occupied housing, the rate is relatively unchanged at 7.5%².

Over 90% of Berlin and Inner London households living in residential buildings of three units or more, while for Paris the total is 99%³. In order to meet growing demand and often a finite amount of land resource, density needs to increase further.

Social mobility: The movement of skills and talent has been accelerated by Schengen and the ERASMUS+ programme. The target is for 20% of all graduates to study abroad within Europe by 2020.

European countries have also benefited from the growing pool of internationally mobile students, with a growing number of English Taught Programmes increasing competitiveness with the US and UK university markets.

Private renters in European cities are nearly three times more likely to have moved in the last five years compared to the average household, and more than nine times compared to home owners.

On average, 44% of private city renters have changed residence over this time frame, with this rising to as many as 87% in some countries.

Business creation: The growing number of start-ups and new businesses, particularly in the tech, creative and science sectors is closely linked with the changing role of cities and access to universities.

Much of the innovation in these business sectors is being driven by students. Venture capitalists and major global firms are keen to work alongside and collaborate with graduates, to generate new ideas and business opportunities.

Affordability: Pressure on land means that city living is more expensive. The fallout of the euro crisis has meant that between 2008 and 2015, there was an increase in the number of young people continuing to live at home particularly across the worst affected countries such as Greece, Ireland and Spain, but also in Germany. However, as economic sentiment and growth prospects are improving, this trend is now reversing.

Student participation growth: Across Europe, the number of people attending university as a proportion of the population is increasing. Over 39% of all 30-34 year olds now have a degree, compared to 22% in 2000⁴. This growth is directly correlated to the size of the student housing market, with record levels of investment in recent years and a focus on new development to meet demand.

1 UN World Urbanization Prospects 2014

2 Eurostat Census 2011

3 Eurostat census 2011

4 Eurostat 2016

Despite student housing becoming an established global asset class, many European markets are critically undersupplied. Much of the existing stock is dated and not up to the standard of modern purpose built student accommodation.

The growth of the PBSA sector in more established markets and the globalisation of higher education, means that both international and domestic students now have higher expectations for the quality and standard of their term time accommodation.

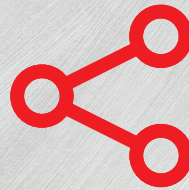
There are a limited number of private providers and institutional grade stock but with the growth of investor appetite for PBSA and strong demand fundamentals across Europe, new platforms are being developed.

In a number of European markets such as Germany and the Netherlands, student housing is classed as a residential product. This makes it easier for it to be opened up to the wider market as a co-living space, reducing risk and spread on yields. In other markets where planning use is more differential, co-living can act as a hybrid asset type to bridge this gap.

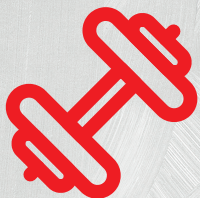
Key components for Co-living



Location: Cities provide the greatest opportunity for driving locational change, either through gentrification, regeneration or new development. However, cities are also a leading factor in attracting talent, with universities playing a central role in this. The level of innovation, collaboration and relationships with universities in key growth sectors such as TMT, science and research, will have a direct impact on the need for new types of residential accommodation to satisfy demand.



Connectivity: City living reduces the need for car ownership. Many cities are now introducing policies to discourage individual car ownership, putting greater emphasis on bicycles, public transport and car share schemes to move around locally, regionally and further afield. In addition, the scale of digital disruption from TV and film, to food delivery, retail and personal services means that high speed Wi-Fi and telecoms infrastructure are required to underpin the ever-growing reliance on smart devices across all aspects of life.



Amenities: Lifestyle and leisure have become an essential feature of city living. The growing number of options for eating out, entertainment and leisure have all contributed to the growth of the sharing economy. This has reduced the need for traditional, self-contained household functions like a large kitchen or dining room.



Education and innovation: Universities help attract global talent and encourage innovation. From a business perspective access to talent and a highly skilled workforce is also important. The sharing economy is highly reliant upon the collaborative and co-working environment generated by the clusters supported by universities.

Brand and serviced management

Brand and service management are key elements for success. Serviced offices have similar fundamentals to Co-living. Last year, this kind of co-working space accounted for 26% of central London office take up. This is therefore reflective of a wider trend towards more collaborative and flexible uses of real estate.

Part of the appeal of operators such as WeWork, is their clients know that the type of office, the facilities available and service they receive in one location, will be accessible and replicated in other sites or countries.

WeLive is the residential division of WeWork and so far has two established sites in the US but is actively seeking new sites in a number of countries. Roam offer both co-living and co-working in London, Tokyo, Bali and Miami, with a site in San Francisco under development.

The pending sale of The Collective's Old Oak scheme in London is the first major deal for this type of asset in the UK. Recently proposed planning conditions for student housing in the UK capital mean that co-living will become a more prominent feature of the market.

A number of leading student housing operators who have a cross border presence are also expanding into the co-living market. International Campus's The Fizz brand provides accommodation to young professionals alongside students in Germany, the Netherlands and Austria.

The Student Hotel also provides short-term accommodation to non-students in its schemes and is looking to develop sites in a number of countries across the continent, outside of its core operations in the Netherlands, Spain and Italy.

The experience that student housing operators have developed in managing high density living space with frequent levels of occupational turnover, is an ideal starting point for moving into the co-living sector.

Another key benefit of this evolution is that student housing operators will be able to retain customers after graduation as they start work or visit new locations, as well as increase the size of potential demand by expanding beyond the student market.



What is the investment opportunity?

With student numbers set to increase and an additional 13 million people set to be living in cities across Europe by 2025, student housing and co-living have an important role to play.

While there are still some hurdles in the UK, the Old Oak scheme attracted considerable interest. In addition, there is recognition from policy makers and the market of the key role this type of asset can play in providing a high density housing solution, while reducing pressure on family housing.

In Europe, the closer alignment between student housing and residential in a number of core markets means that the potential for growth is even greater.

Co-living represents a natural evolution of the student housing market. From an operational perspective, management experience is easily transferable.

The scale of Greystar's exposure to student housing in Europe compared to its multi-family focus in the USA is evidence of this.

However for investors, the key benefit is its ability to spread risk and diversify income. Rather than being reliant solely upon students (and their parents as guarantors), investors gain additional exposure to higher earning young professionals and entrepreneurs, who want quality, flexible, serviced accommodation in good urban locations.

The spread between yields for the different uses highlights the potential for arbitrage. Yield compression can also be achieved through management efficiency and rental income growth as the co-living market matures.

It is clear that across Europe, there is a growing need for more student housing to meet demand. JLL estimates that the six key markets including France, Germany, Spain and the Netherlands need almost 2.3 million more student housing beds to reach the same level of market share as an established market such as the UK.

Contacts

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so please get in touch to discuss.*

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