CO-LIVING:

An Institutional Answer To the Urban Housing Crisis

Brian Wang
The Collective

Emergence of a New Sector

Looking ahead to the next decade, the trends that defined the urban experience in the previous decade persist. There is a critical lack of affordably priced housing, an increasingly digital and nomadic work culture, and a disorienting lack of community. This has led to an influx of investors seeking to fill the value gap and disrupt the status quo. At the same time, according to PwC, revenues from the sharing economy are projected to grow to $335 billion by 2025, up from $15 billion in 2015, as consumers pursue solutions for the same issues.

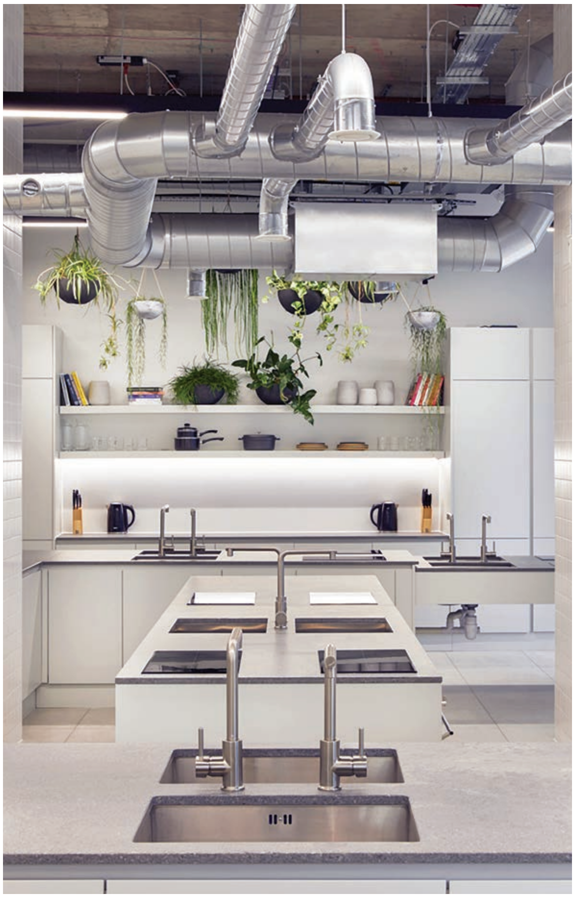
Co-living has emerged in recent years to address all the conditions mentioned, yet it's hardly a short-term trend. Universally, society has always treated the home as a primary source of community, mutual care, and shared resources, ensuring that both fundamental and emotional needs are met by a "village" mentality.

While the principles of co-living have driven an intrinsic understanding of the world, its modern iteration was still very much in its infancy when The Collective's founder, Reza Merchant, first set out to develop Old Oak, the inaugural 546-unit co-living development in West London. Less than a decade later, and in large part because of Old Oak's success, co-living is now a proven commodity, increasingly embraced by renters, developers, operators, investors, and government officials.[1]

The institutional investor community has also caught on and now sees co-living as a tested and resilient asset class that produces stable income streams with significant growth prospects. According to a report by Jones Lang LaSalle, global investments in co-living have increased by more than 210% annually since 2015 and were expected to top $3.2 billion in 2019.

1. Old Oak has been 97% occupied with a 94% member satisfaction rate since its 2016 opening.

Pictured at left: The Collective's future project, designed by Sou Fujimoto Architects, at 1215 Fulton Street in Bedford-Stuyvesant, Brooklyn



The communal kitchen at The Collective Canary Wharf in London

The Collective has raised nearly $1 billion to fund its international pipeline, which now encompasses more than 8,500 units either operational or under development across the UK, the US, and Continental Europe. The Collective recently launched the world's first large-scale co-living fund with DTZ Investors.

Of course, The Collective isn't the only example of the intensifying appetite among institutional investors to bolster the continued growth of the co-living sector. The Singapore-based co-living firm Hmlet announced in early 2019 that it had raised $45 million in capital from several investors, including Burda Principal Investments and Mitsubishi Real Estate. Later in the year, it announced a joint venture partnership with Mitsubishi Real Estate to create 10,000 units throughout Japan. In the US, co-living investor Six Peak Capital recently announced its intention to raise up to $1 billion to fund its US expansion.

Ultimately, the reason for this growth couldn't be simpler: while globalization and technological innovation have completely restructured economic and behavioral systems, the housing sector hasn't evolved to meet today's macroeconomic and consumer needs. Homes that favor individualism, extravagance, and the limited definition of a nuclear family are in conflict with the sense of control, choice, and community support people crave. Fortunately, co-living represents a compelling alternative that responds to the challenges of today's society and is taking root in major cities worldwide.

A New Asset Class Explained

Given the influx of players developing and operating co-living concepts—and their various geographical considerations, project sizes, building typologies, and philosophical approaches to community building—applying a single, all-encompassing definition for co-living is difficult. Some co-living communities house a few dozen units, and others scale up to a few hundred. Some companies convert and operate existing multifamily buildings, and others target purpose-built development.

In almost all cases, day-to-day needs such as utilities, taxes, concierge and cleaning services, internet, events, gym membership, and co-working facilities are rolled up in a single baseline rent model, billed monthly.

To maximize vibrancy and lower the barrier of entry for this alternative way of living, The Collective offers short and long stays, enabling people to try co-living for days or weeks or commit for months or years. The developments, typically designed to house 300 to 700 members, look to support the existing communities The Collective invests in by putting a significant focus on the street level as public amenity. Extending community services to neighborhoods is important so people feel encouraged to come in and enjoy the programs. The Collective also explores the potential for outdoor green space, recognizing the importance of building a connection to the natural landscape.

For co-living to succeed, a member needs to be able to retreat to a private, fully furnished living space with a dedicated bathroom and kitchen at the end of each day. Yet the community really flourishes when it is treated as a forum for the exchange of thoughts, experiences, and perspectives. Communal spaces are designed for constant, activated use, inspiring people to get to know their neighbors and learn from one another.

Exponential Growth

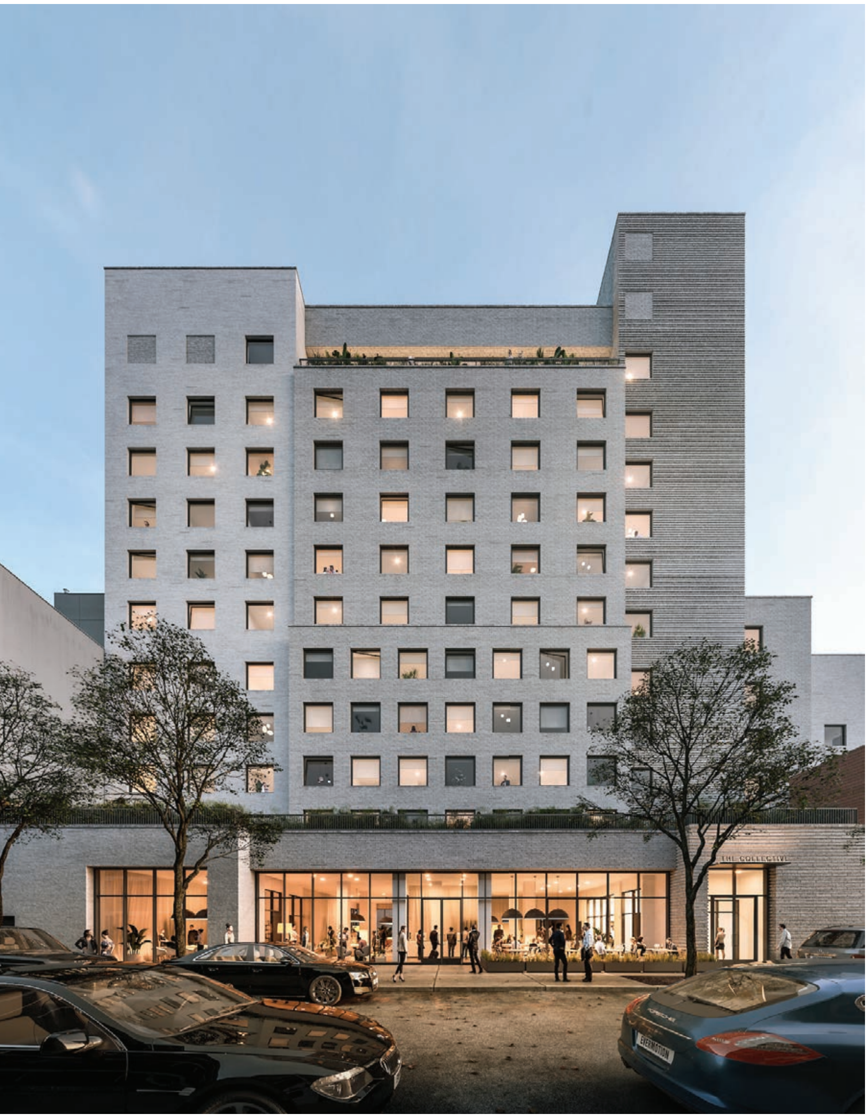
According to a 2019 report by Cushman & Wakefield, the co-living sector has experienced significant growth in both the number and the scale of new developments. More than 52% of all US co-living beds were delivered in the past year alone, and the average bed count in these developments is anticipated to rise from 62 between 2014 and 2018 to 180 from 2019 through 2021. Considering that the desire for community and social interaction transcends all geographies, cultures, and age groups, the co-living sector obviously has only scratched the surface in terms of realizing its full growth potential.

The Collective seeks to drive each step of its expansion and development process in-house—from acquisition, planning, design, financing, and development to operations and programming. This purpose-built approach, which emphasizes flexible yet bespoke environments and first-rate communal facilities, is picking up steam. Bond Society reported that just 12% of co-living facilities were the result of ground-up construction prior to 2016. By 2019, however, that number had risen to 27%, including The Collective's purpose-designed projects.


Old Oak, The Collective's inaugural ground-up community

Geographically, The Collective chose to focus its initial US development efforts on large-scale co-living communities in New York, Miami, and Chicago, but the opportunities are far from limited to those three cities. Other co-living companies are already finding success in Los Angeles, San Francisco, Boston, and Washington, DC. Co-living is also taking root outside the major gateway markets, with popular communities currently operating in Pittsburgh, Denver, and Seattle, among others.

While the co-living sector has reflexively been viewed by some outside observers as a play for recent graduates and millennials, co-living can be and already is being adapted in ways that will appeal to a far wider range of urban residents who



The Collective's future project at North 8th Street in Williamsburg, Brooklyn

require flexible living solutions and would rather rent affordably with mobility potential than commit to the permanence of owning homes. Already, specialized co-living communities geared toward young families, aging adults, and women are appearing.

Partnering With Local Governments

One of the continuing challenges with co-living is the relative lack of understanding among local governments about its potential to reduce housing costs and create more-cohesive communities. Greater collaboration and agility is required to craft policies and regulations that will truly enable co-living to bring value to a variety of cities and neighborhoods, meeting demand everywhere it exists.

Until recently, developers and the public sector were focused on increasing the supply of traditional housing typologies. Now, driven by market forces, planning officials are expediting efforts to enable growth in the co-living sector. The innovation and untraditional approach they've been challenged to take is symbolic of a future reality in which the public and private sectors will innovate, test, and partner on new typologies to address the global housing crisis.

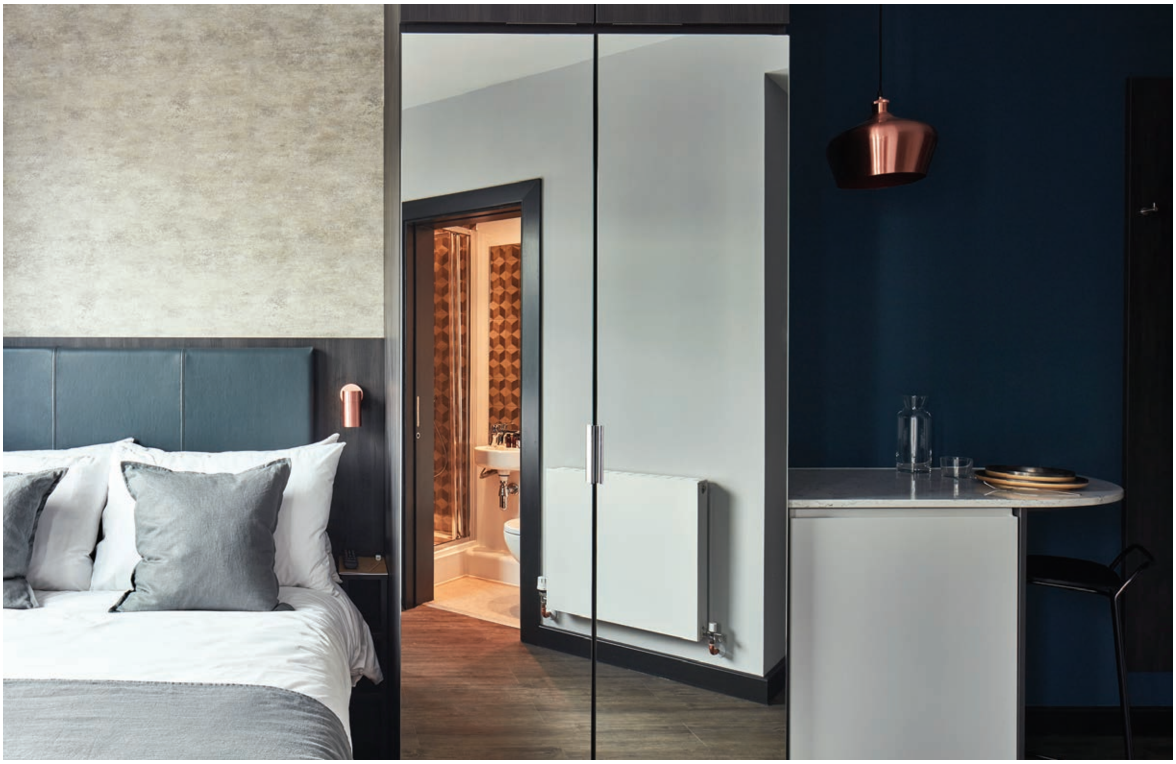
In London, a new generation of city planners has proactively partnered with thought leaders in the industry, such as The Collective, to craft and enact a new co-living policy that specifically enables the development of alternative room sizes and rent models.

In response to the city's growing housing crisis, government officials in San Jose, CA, modified their zoning ordinances to encourage co-living communities. Shortly thereafter, an 800-unit co-living facility was announced in the heart of the city's downtown district.

New York City also recently introduced a groundbreaking program to demonstrate its intent to integrate co-living into its housing ecosystem. ShareNYC, a publicly issued competition that challenged shared and affordable housing developers specifically to propose creative solutions, yielded three projects aimed at providing low-income New Yorkers with affordable housing and support services. This is welcome news for the entire industry; such public-private partnerships have the potential to address the affordability crisis and help foster supportive communities tailored to a range of vulnerable populations.

Extending Community Outward

The ability of co-living providers to cultivate incredible environments where people can stay, work, create, and socialize has led to concerns that



A typical unit at The Collective Canary Wharf, with en suite bathroom and kitchenette

they are essentially creating insulated communities that have no interaction with—and derive little inspiration from—the neighborhoods and residents that surround them. As co-living continues to grow and evolve, it will be imperative that developers and operators think about their responsibility to contribute to the society that exists beyond the four walls of their real estate.

At its newest location, The Collective Paper Factory in Queens, NY, local artists, musicians, and others from the surrounding Long Island City community have collaborated on an extensive cultural program, including the conference series Be More Together, which asks these questions: What do New Yorkers want from a co-living experience? How can we continue to explore that together? How can our first community generate immediate value?

These forms of community engagement are gradually becoming the rule rather than the exception as co-living providers come to understand the important role that social belonging and activism play in members' lives.

Conclusion

With its emphasis on convenience, community, and resource sharing, co-living has earned a permanent and increasingly prominent role in the residential ecosystem. How quickly and thoroughly it becomes part of the solution to the modern housing crisis will depend in large part on the ability of co-living providers to collaborate effectively with governments, investors, and their surrounding communities. ■

Brian Wang is Director of Acquisitions at The Collective.