gk strategy

strategic research and communications

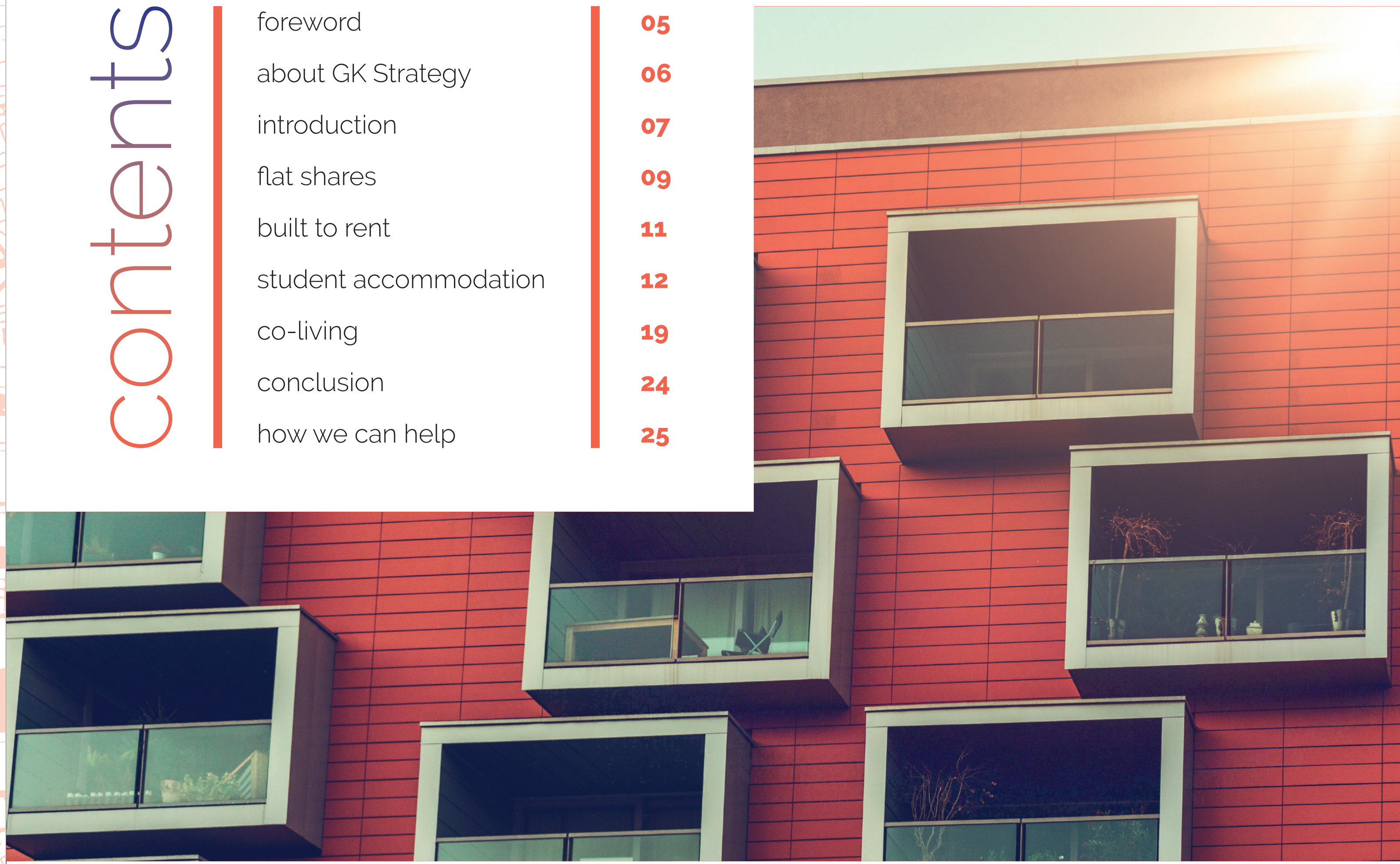
live to *rent*: is luxury renting the **new home ownership** for millenials?

housing report - January 2019

ground floor, 32-34 great peter st, westminster, london sw1p 2db

gk

contents



disclaimer

foreword

stephen byfield

chairman | GK Strategy

"How many workers in the last few years have wished their office was in *WeWork* or another flexible working space? What's not to like? A ready-made community of compatible souls toiling in a super-cool environment, cracking beers together on a Friday evening and sharing ideas over superfood salad and Kombucha. How Hoxton, how hipster, how millennial.

And now it seems the generation that turned offices into places we enjoy working in is looking for similar solutions to housing.

The UK has had a housing affordability crisis for decades. Successive governments have tried to balance a number of entrenched and vocal political stakeholders, and this has slowed down reform.

So how are millennials reacting to the prospect of never being able to own a home? By coming up with rental options that are affordable and fun, that's how.

This latest GK Strategy report looks at the beginnings of this trend. We examine the buoyant world of student housing. In the past twenty years, student housing providers have gone from strength-to-strength, satisfying a demand for affordability and quality that strikes a chord with foreign and UK students and has provided rich returns for investors. Furthermore, our digital data analysis shows positive consumer trends, which should also be attractive to investors.

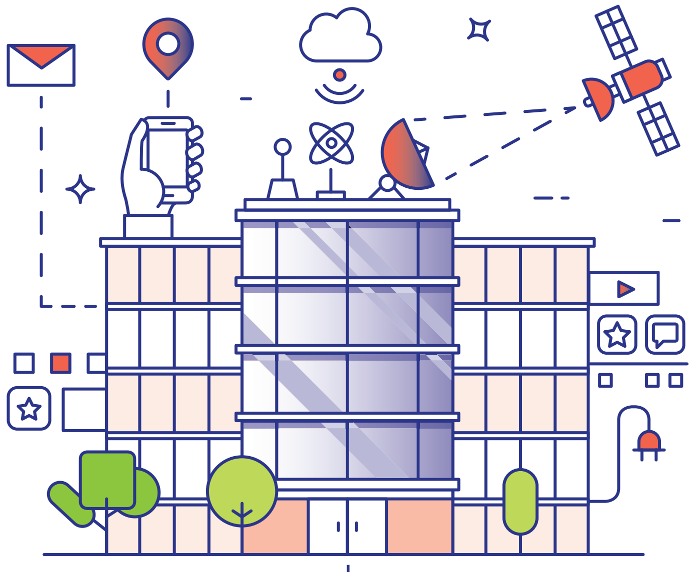
And then we look at the brave new world of 'co-living'. Can't afford your own place and can't stand the idea of a grotty flat share? Well, why not rent a room and bathroom and share communal kitchens and living areas; all delivered to the highest quality with bills and cleaning included in the rental. It's 'We Work' for housing and it looks set to catch on fast.

So clever, so inventive, so investable."

GK Strategy is a strategic communications agency that uses digital data to underpin our research. GK prides itself on its research-led approach. Employing cutting-edge digital technologies, combined with experienced communications and risk management, we are driving change and delivering impact for organisations, investors, brands, member associations and charities. In this report, alongside the expert opinions of leading industry figures and GK experts, GK used digital data to understand customer demand and behaviour

about *GK Strategy* and our research techniques

for the different areas of the purpose-built rental sector. This includes online demand data as well as analysis of posts on social media, review websites and forums. In the modern world, every business is a digital business, and demand data derived from search engines like Google matters more than ever. Given that 81% of people research products and services online before buying, Google's data is a reliable proxy for growing markets, and can indicate changes in consumer preferences and behaviour. To drill down into why demand for purpose built rental accommodation is increasing, we used our suite of social listening tools to analyse online conversations relating to the sector. Considering that on Twitter alone 350,000 posts are created every minute, not only is the data significant, but the prevalence of online commentary is notable by its volume. Therefore, for any investors considering opportunities in the purpose-built rental market, it is important to consider digital due diligence as well as political and regulatory workstreams.



key findings

- Between November 2014 and November 2018, UK Google searches for terms related to "co-living" increased by 3708%– and it shows no signs of slowing.
- At peak season for student house hunting, 40% of traffic to UK privately-run purpose-built student accommodation is international in source, despite international students only accounting for 19% of the UK's student population. This goes up increases to 60% of web traffic to certain luxury providers' sites.
- 43% of traffic to websites offering purpose-built shared living accommodation comes from the USA. The Office of National Statistics reported there were around 150,000 US citizens living in the UK in 2017[1] which only makes up around 0.2% of the population.

1. https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/datasets/populationoftheunitedkingdombycountryofbirthandnationality

introduction

Housing is one topic that nobody can avoid. Whether considering where you might move next or complaining about high rental prices, we are conversing frequently about our homes – both on and offline. It is a topic often in the news, and sparking debate in Westminster. Furthermore, in the UK since the start of 2018, "housing" has been mentioned over 2.25million times in online conversations. Comparatively, important policy areas like "transport" created just under 1.75 million conversations.

While it is undeniable that some areas are even more important to the public, for example there were over 8 million posts about the "NHS", housing is certainly something Brits deeply care about. Afterall, an Englishman's home is his castle, or so the saying goes, and this can be extended out across the United Kingdom.

However, the traditional Anglo-Saxon home ownership model is now broken. People are no longer saving their money in order to buy their dream homes, and instead turning to premium housing rental models, such as the ones this report will explore. Instead of buying a home for life, Brits are choosing to live more like our European cousins and living with a more short-term view. By renting for life, as many on the continent do, we offer ourselves more flexibility – but it also has important implications in terms of investment and policy, so the Government may wish to take note of the changing attitudes to housing instead of continuing to push outdated policies which are fixated on home ownership, such as "Help to Buy". Central government could look to new rental providers, as the London Plan does – they might be the vanguard for a systematic shift.

As yet, however, it seems the main political argument around housing remains on the difficulty of becoming a homeowner, especially for young people. Indeed, at the 2018 Conservative Party Conference, the Secretary of State for Housing, Communities and Local Government focussed on the need to broaden access to the housing market for younger people. Politicians of all parties have set housing at the top of the political agenda, yet the challenge for the so-called "generation rent" continues. Furthermore, millennials arguably have a different lens for working and living, which may suit renting better.

This report will explore why exactly renting might be preferable, and if it really is, for young people. The stereotype is that millennials love to travel and hate to be stuck in one place – but is this reflected in the types of accommodation they are interested in? And, thinking to the future, what will Generation Z want? Right now, young people are turning to non-traditional modes of working, for example – in start-ups, freelancing, working remotely, or in co-working spaces. Is this flexibility also something they desire in where they live?

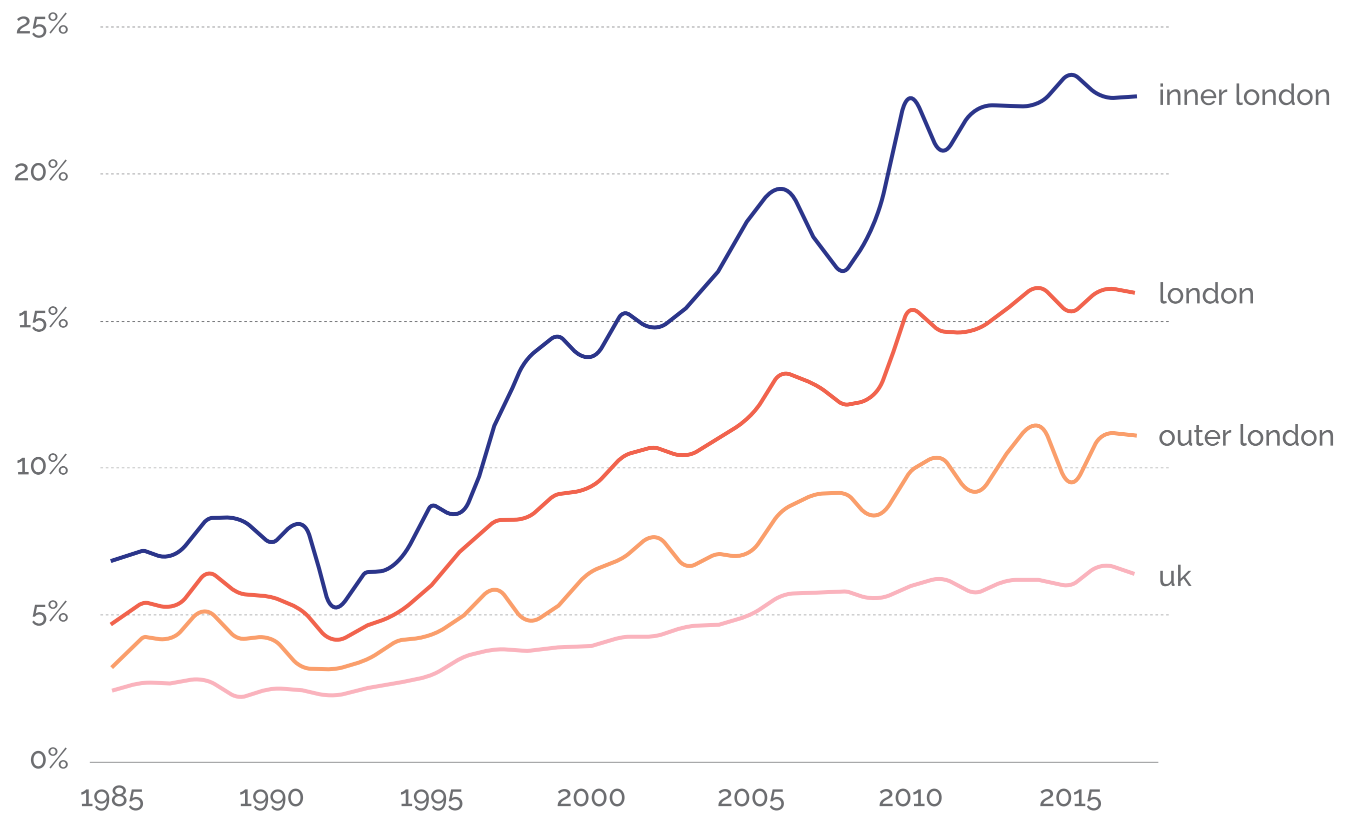
However, for many young people, the biggest issue around housing is the cost and value for money, as over two-thirds as Britain's rental housing market is classed as unaffordable (over 30% of pay) for a 20-something year old on a typical salary in that area. If a developer can create an interesting place to live at an attractive price, this could become a great investment, as traditional options such as flat sharing no longer are a cheap alternative, with 12% of postcode areas in Britain remaining 'unaffordable' for two people in their 20s sharing a two-bedroom home. The recent report by the BVCA entitled 'Guide to Property Investment in England and Wales' supports this notion that housing aimed at young people could be a great investment, such as "supplying an undersupplied student market".

This report also explores other options in the rental market for young people, and opportunities for value creation for investors. In particular, we focus on how the built-to-rent sector is evolving. This report examines the exciting investment opportunities in the purpose-built student property sector, which has boomed in recent years and shows no signs of slowdown. Crucially the report answers what is driving different parts of the rental housing markets, why they are attractive to investors, and what the future trajectory may looks like.

flat shares

Traditionally, young people living in cities have chosen to share their homes with friends or strangers, renting a room while having a communal kitchen, lounge and bathroom. As the chart below shows, since the early 1990s, this mode of living has been growing exponentially across the UK, but particularly in London.

proportion of benefit units who are sharing a private rented home with one or more other benefit units, 1985 - 2017



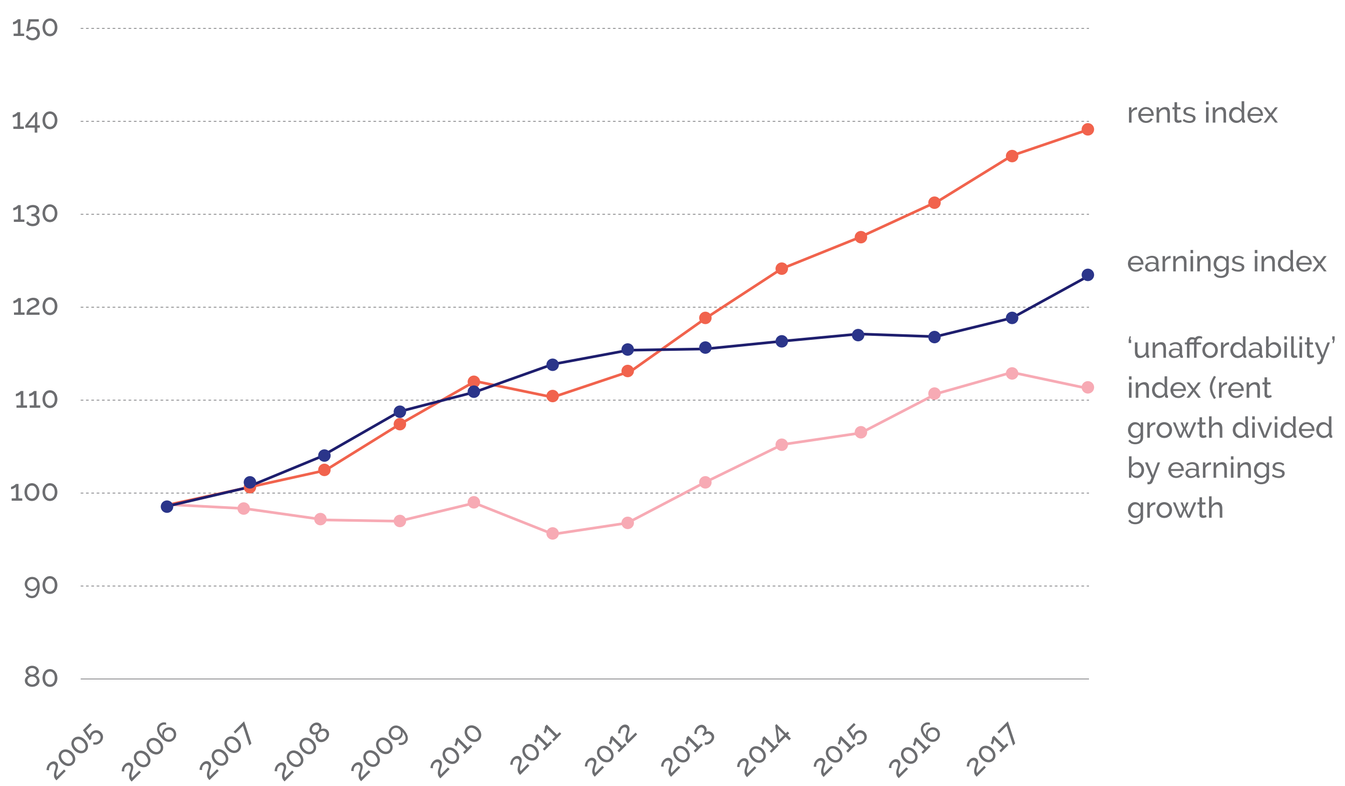
KEY: A benefit unit is a single adult, or a married/cohabiting couple and any dependent children. For purposes of this graph, London means all 32 Greater London Boroughs and the City of London under the Governance of the Greater London Authority, while Inner London is Camden, Greenwich, Hackney, Hammersmith and Fulham, Islington, Kensington and Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth, Westminster and the City of London.[2]

2. https://data.london.gov.uk/dataset/housing-london

22.5% of 'benefit units' in Inner London now rent a home with others – this has almost doubled over the course of 20 years. In 2016, 3.5 million people lived in Inner London, compared around 2.4 million in 1985. This 45.8% percentage increase in population size is one reason for the sharp increase in those in shared rental homes, but cost is another. A recent survey by Spareroom.com found that the financial benefit of flat sharing was the biggest factor in them choosing this style of accommodation.[3] However even the price of flat sharing has risen at a considerable rate, meaning that people may be left feeling there is no viable alternative left.

The chart below, using data from a Mayor of London report, shows how rent has been increasing since 2005 compared to earnings. While rental costs have been on a steep upward curve continuously, earnings have not, and the average increase in rent overtook that of salaries in 2012 – it is now considerably higher, pricing many people out of the market completely.

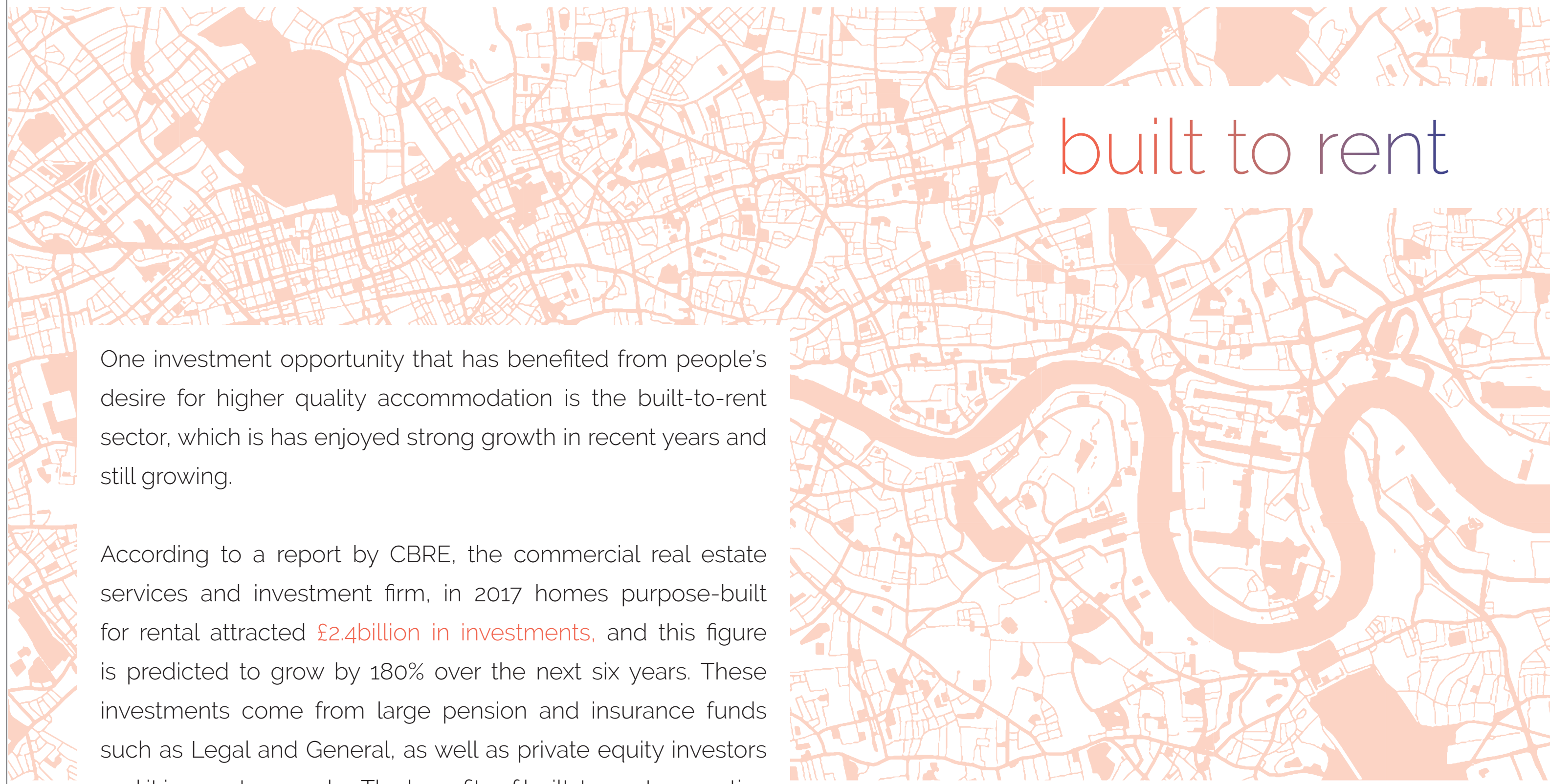
index of cumulative change in private rents, earnings and implied affordability in London, 2005 - 2017 (2005=100)



However, while rents are increasing significantly, for many, quality of accommodation is not, which is a key concern for political audiences with parliamentary bills being debated on this very issue. There are many horror stories of flat shares with inconsiderate landlords and dangerous conditions inside these highly priced homes. This means that many people are looking for an alternative. Seeing as they are already paying a high price, they are willing to continue to do so for quality accommodation.

3. https://www.spareroom.co.uk/content/info-advice/flatsharing-faq/

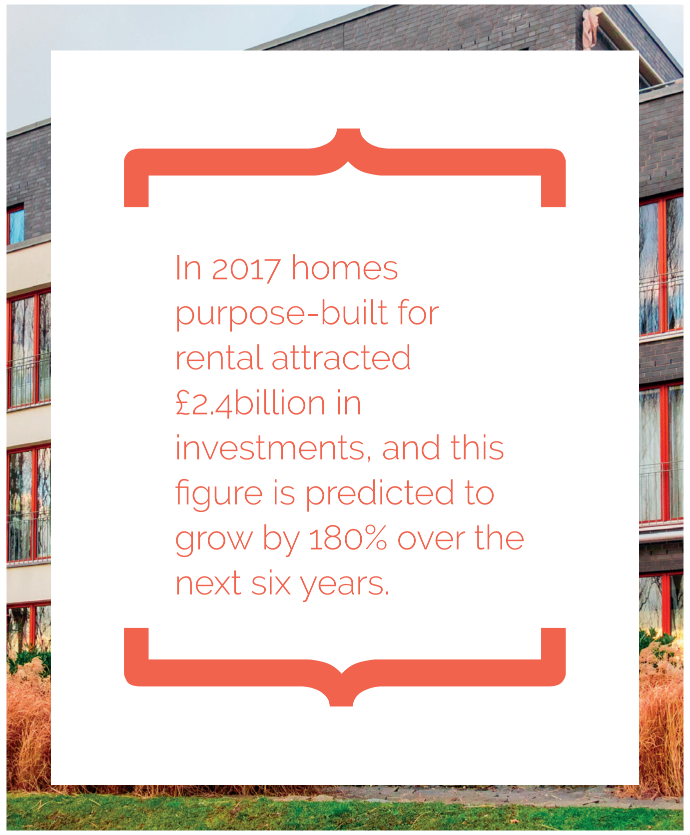
built to rent



One investment opportunity that has benefited from people's desire for higher quality accommodation is the built-to-rent sector, which is has enjoyed strong growth in recent years and still growing.

According to a report by CBRE, the commercial real estate services and investment firm, in 2017 homes purpose-built for rental attracted £2.4billion in investments, and this figure is predicted to grow by 180% over the next six years. These investments come from large pension and insurance funds such as Legal and General, as well as private equity investors and it is easy to see why. The benefits of built-to-rent properties include that they are managed by a single company who lets them out long term; the New London Plan insists that such properties in London must have tenancies of at least three years. This consistency of landlord and tenancy ensures stable and long-term income for investors, and it is also positive for tenants. Renters in these types of properties are promised a better quality of service from a highly-skilled management team than they would receive with an individual private landlord.

Built-to-rent properties have been popular with governments of all colours, and it seems they have the support of the Mayor of London, as a policy about built-to-rent properties is expressed in the New London Plan. Another advantage, that the New London plan mentions, is that such developments often create a sense of community that can easily be lost in big cities where people move often. However, the benefits are not only limited to London, and the appeal is the same for other metropolitan areas as well. In this report we are going to look at two segments of the built-to-rent market that will be of particular interest to investors – purpose-built student accommodation and co-living.



student accommodation

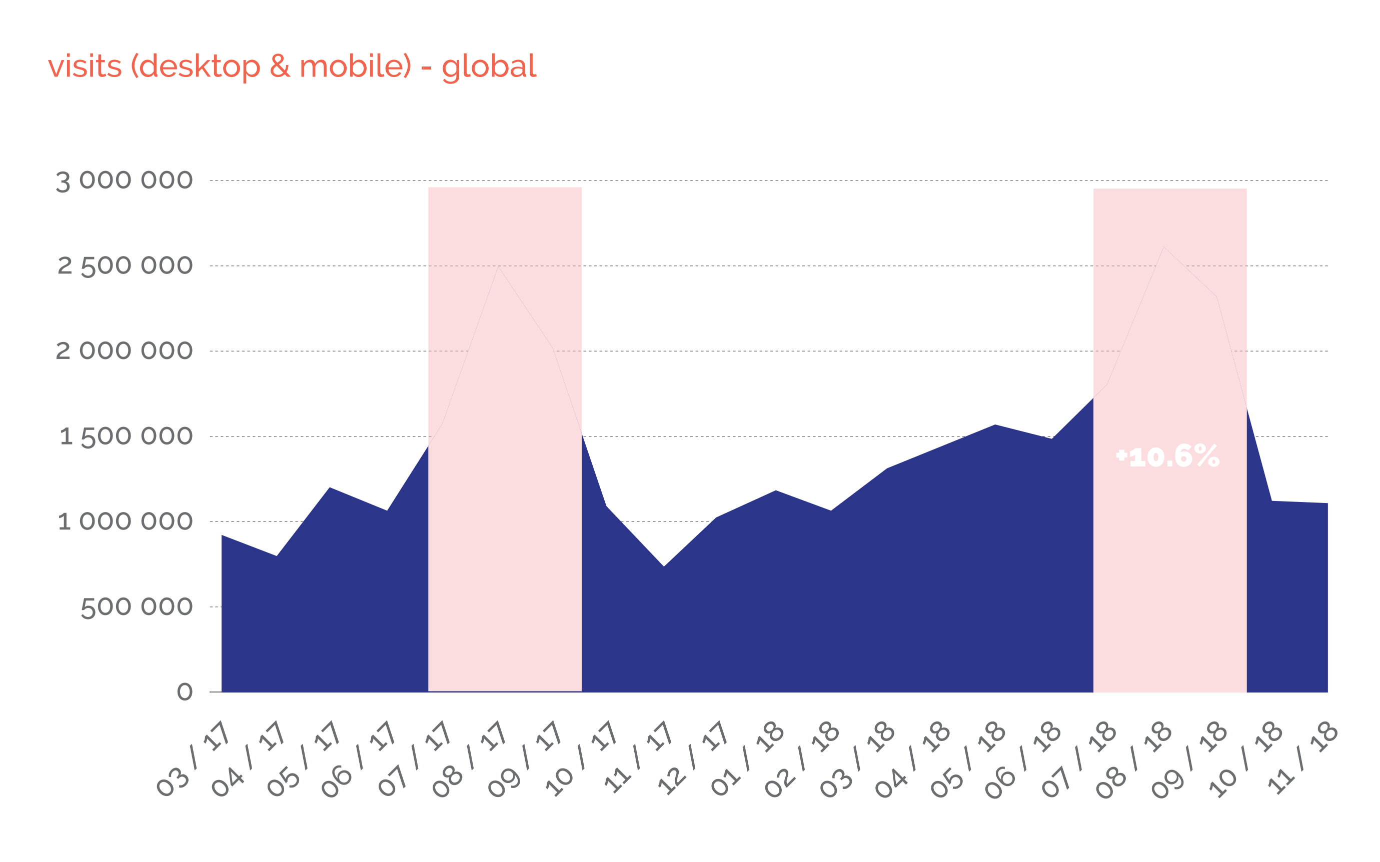
jamie cater
GK head of policy

"There are a number of policy drivers that contribute to the attractiveness of student accommodation as an investment proposition. The first is the emphasis still placed by policy-makers on enabling more students to attend university; although the number of new undergraduates dipped slightly after the introduction of higher fees a few years ago, growth has returned and should be expected to continue. The second is the Government's renewed focus on attracting a higher number of international students, and the streamlining of visa routes for students coming to the UK is likely to be a key driver of demand for quality accommodation. Despite some political concern that Brexit and the inclusion of international students in the Government's net migration target might tarnish the UK's reputation as a prime destination, the Prime Minister, Home Office and Department for Education are clear that welcoming more students from overseas is a high priority.

Although there are often local political concerns that have to be taken into consideration – many MPs and councillors representing university constituencies receive a high level of casework in relation to student accommodation, and often some level of opposition to new developments from other residents in the area – the national political environment is a positive one and will aid further growth in this market. Businesses contributing high-quality, sustainable student accommodation are likely to find few political barriers in their way but will need to be conscious of the views of local stakeholders."

There were 2.32 million students studying at UK higher education institutions in 2016/2017. Approximately 50% of full-time students live in the private rented sector, while 20% live in university-owned purpose-built student accommodation (PBSA). Student accommodation is often stigmatised as being low quality, but this is increasingly a dated stereotype. The number of students interested in living in better conditions and private, well maintained PBSA is growing, reflecting the overall rental market.

Using our digital data analytics tools, GK Strategy found that traffic for the entire set of PBSA brands has grown 10.6% year on year for the peak period. This reflects the shift in the university sector away from students simply being recipients of education, but a vocal consumer group with growing expectations. The landscape surrounding university life has become more competitive, and attractive accommodation offers have become part of the appeal to prospective students. Demand for the representative sample of student accommodation brands is predictably seasonal, with visits peaking from July to September around the start of new educational years, the point at which most students find new accommodation. When looking at traffic for the group by platform, the peak seasons are driven particularly by mobile devices, likely a result of 'on the move' usage during hectic house-hunting periods, and also sharing of listings via messaging and email (a third of traffic to this subcategory during August 2018 was via 'direct' access, which includes these use cases).



At first glance, privately-run PBSA appears to be a luxurious form of student living, with amenities at some extending as far as gyms, social spaces with high-tech gaming consoles and even swimming pools. Such types of accommodation are in high demand, with many selling out long before term starts – even with high prices of up to over £2,000 a month (including bills). 'Luxury' is being normalised, particularly for international students, who make up 30-40% of visitors to the sample of sites GK analysed, who tend to be less cost sensitive. International students pay much higher fees to UK universities than domestic students, and are not offered loans by Student Finance England, meaning they must be self-funded. This means they are often from wealthier backgrounds with more disposable income to spend on accommodation – a 2015 survey found that spending by international students generated a knock-on impact of £25.8 billion in gross output in the UK. Comparatively, the total output created by all university students' expenditure is £65.55 billion.5 This means international students' spending makes up over 39% of all student expenditure, which is disproportionally high considering international students only make up 19% of the UK's student population.

5. https://www.universitiesuk.ac.uk/policy-and-analysis/reports/Documents/2014/the-impact-of-universities-on-the-uk-economy.pdf

According to research by Downing Students, a privately-run PBSA provider, students now want a private ensuite bedroom with shared kitchen (much like a traditional flat share, minus the shared bathroom), or their own studio flat, offering extra space and privacy. Either way, they also want communal study and entertainment spaces also in the building which are kept clean and in good order by the accommodation provider. They appreciate the convenience this 'all under one roof' and 'everything included' approach offers (especially if their chosen accommodation is located close to campus, as many are.) The safety of being in a busy, student-filled building with 24-hour security is another great attraction.[6]

While most universities in the UK supply their own accommodation, they lack the funds or expertise to bring it to these standards. This opens up opportunities for joint ventures and partnering arrangements between education institutions and private sector operators, as well as completely standalone private PBSA projects. Therefore, PBSA is an incredibly attractive sector for investors. A report by Savills at the end of 2017 predicted a 17% rise in investment in student accommodation in 2018, and investment in purpose-built student housing is expected to reach £5.3bn by the end of the year. The report states that approximately 37,200 student housing units were under construction at the end of 2017, with a further 91,400 units to be delivered over next five years.

But who is investing in this market – and who are the students driving it? Interestingly, on both sides the demand is international. The UK has the second highest proportion of international students in the world, topped only by Australia. These students are attracted by the high quality of higher education offered around the UK, which has led to a growth in the UK's international student population of 5% over the past decade.

top 4 destinations for international student enrolment in 2016

country	international student segment
Australia	26.8%
UK	19%
France	16.3%
Canada	11.1%

top 5 origin countries by percentage of students studying abroad

country	segment studying internationally
China	31.5%
India	15.9%
Saudi Arabia	5.9%
South Korea	5.8%
Canada	2.6%

6. https://www.downingstudents.com/10-things-students-now-want-accommodation/

These arriving international students are frequently searching for PBSA online, with 30% of web traffic to the representative sample of PBSA brands coming from outside the UK throughout the year. This figure peaked in August 2018 when over 40% of traffic was international. Proportionally, therefore, more students from abroad are interested in living in privately run PBSA than UK students are. Furthermore, GK's research indicates that the proportion of visits from UK users has declined year on year in the peak month of August, indicating increasing interest from overseas for student housing.

percentage of UK visitors to student accommodation websites

country	% of visits (Aug 2017)	% of visits (Aug 2018)
UK	63.2%	58.2%

The investors also are often based abroad. For example, Singapore was the largest source of investment in 2016, investing £1.2 billion in the creation of over 13,000 beds in PBSA in the UK. Large investments such as these show there are clearly many advantages to investing in student accommodation, but investors may also be keen to know about any potential disadvantages to developing PBSA, such as planning regulations. While there is no special procedure for PBSA, sometimes locals may object to a large student development – but they are rarely declined in the end.

In the New London Plan, a city incredibly popular with PBSA investment thanks to the 40 higher education institutions and over 400,000 students there, there is a specific policy surrounding PBSA. It aims to allow PBSA as part of "mixed and inclusive neighbourhood", and as long as at least 35% of it is classed as affordable. Therefore, when considering an investment into PBSA, it is important to take a strategic approach to planning to support an investors growth plans, in addition to key workstreams such as political and ESG diligence.

"The bumpy road to Brexit, and the Prime Minister's determination to keep international flows of students to the UK in the net migration statistics, have raised concerns about whether the large and lucrative market in international education could be riding for a fall.

david laws

GK adviser and schools minister, 2012 - 2015

High levels of net migration were a major factor behind the vote for the UK to leave the European Union and cutting the number of students coming to Britain would seem to be an easy way for the government to show that it is reducing the influx of overseas citizens into the UK.

However, there are good reasons to believe that the UK will continue to enjoy large inflows of foreign students, even in a post-Brexit world. The UK continues to attract a disproportionate share of the global market in student flows – and it has and seems likely to continue to enjoy a number of comparative advantages. UK universities and private schools have some of the top reputations in the world, and many students want to study in our "world beating" institutions. Students also often value the opportunity to improve their grasp of the English language – the world's most useful language, and frequently the language of global business as well as the global entertainment market. And in spite of Brexit, the UK still looks like a secure, safe, law-abiding and generally low risk country in which to live. While reductions in student flows may be easier to deliver than for some other forms of immigration – particularly while the UK is part of the EU – there is little evidence that the public resents the number of legitimate students who come to study in the UK. The more controversial areas around immigration have related to low skilled workers coming into the country and competing with our own citizens for jobs. There has also been public concern about immigrants coming to the country and being able to access UK welfare benefits, the NHS, and other services. But most students coming to the UK are paying high tuition fees and are helping to cross subsidise UK education and bolster our economy. And even those students staying on to work after graduation are likely to be in the less politically sensitive high skills area of the employment market.

The "harder" Britain's Brexit is, the more likely it is that the UK will need to show that it is "open for business", including open to students and higher skilled migrants. So, a hard Brexit government might well seek to show that it has "taken back control" of immigration policy, but this might not mean cutting student numbers. Indeed, at some stage it is likely that the present Prime Minister will stand down or be pushed out by her party, and at this stage it is possible that her successor could take a new and more liberal line on the way that students are counted in the immigration numbers – there are certainly many senior Conservatives who don't agree with the Prime Minister on the current approach.

So whatever bumps there may be in the road, and whatever the short-term uncertainties, there are good reasons for being optimistic that the UK will continue to benefit disproportionately from global education flows."

case study:
Unite Students

Established in 1991, Unite Students offer residential accommodation to around 50,000 students at approximately 140 sites across the UK, employing over 1,200 people. It is the oldest PBSA provider in the country, and largest in terms of capacity. It is the second largest in terms of value, second only to IQ Students. In 2017 Unite Students had a revenue of £119.3 million and is listed on the London Stock Exchange under the trading name of Unite Group PLC. However, it also uses investment funds to secure growth, such as the Unite UK Student Accommodation Fund (USAF) which is Europe's largest fund for direct-let student accommodation, valued at £2.3 billion, funding 75 Unite properties across the UK. It is backed by institutional investors.

On average there are 22,000 Google searches a month for Unite Students, the second most popular search relating to student accommodation after "student room" which averages 60,500 searches a month. This clearly suggests not only that Unite are a market leader, but also that students are embracing the idea of co-living in purpose-built accommodation over flat-sharing and even university provided accommodation. While Unite are often at the more affordable end of PBSA, and also frequently partner with universities to provide additional halls-style accommodation, they also offer the perks that a flat-share or halls would not. These perks include games rooms, TV rooms, all bills being included and even vending machines for midnight snacks.

According to our digital research, online sentiment towards the Unite brand between the start of January 2017 and the end of September 2018 has been positive, with only 18% of posts across social media, blogs and online forums being negative. To break down further into what appeals (and what does not) about Unite Students, GK looked into the most frequently used terms about the brand in these posts. The most popular terms include "ensuite" and "new", suggesting that students like having their privacy and the modernity of the facilities. However, this research brings to the forefront suggestions of where the brand could improve. Unsurprisingly perhaps, as their market is millennial, the most commonly used 'term' to do with Unite is not a word, but an emoji – however, it's not a smiley face. It is a confused, frowning face, suggesting anger and disappointment. Posts which use this emoji complain about a variety of issues – from mattress delivery problems to high rents. Overall, however, the online sentiment towards Unite is positive, with the most commonly expressed emotion being classified as joy – this includes posts praising everything from their programme to support their residents' mental health to charity fundraising.

Unite also hold a unique standing in the market by partnering with many universities, whereas many providers of PBSA are entirely independent. While some Unite buildings are open to any student, allowing those at different education institutes to mingle, others are limited to a specific university – this makes them much more like halls. These joint ventures between Unite and universities also can lower rent costs for students, as the universities often subsidise them, particularly if they only can offer limited space in their own halls.

While Unite does not target the higher end of the PBSA market – it lacks the gyms, pools and cinema rooms that some offer – it has successfully carved out a market leadership position. Unite does this by offering high quality accommodation at a variable price point to access the majority of the available market. According to their website, the price of a room at Unite can range from £65 to £332 a week depending on the location and type of room – this wide price range show they open themselves to a very large portion of the market.

case study:
Scape

Scape is a luxury provider of PBSA, currently focussed in London in the UK, with 6 properties in and around the city. They market themselves as offering "smarter, brighter, better rooms" which allow students to study, eat and live better. This health and study focussed approach is complemented by the other facilities found in the building, such as gyms open 24/7 and specialist communal study rooms. They also are in partnership with organisations and businesses to offer talks, networking events and even exclusive internship opportunities to residents – Scape aims to become involved in large swathes of students' lives and futures.

However, it is not all about hard work. Scape also offers cinema rooms, lounges, gardens, games rooms and even roof terraces for students to relax. All of this does come at a price, unsurprisingly. Living at Scape in central London can cost up to £620 a week – a price way outside many students' budgets.

Therefore, GK researched who is driving growth in these properties, and our answer is international students – around 60% of the web traffic to Scape's website comes from abroad. This is much higher than the aggregated data from the 20 providers we looked at, demonstrating that luxury PBSA attracts more international students – probably because students coming to the UK to study tend to be from wealthy families and thus the students have more disposable income. Given that university fees are £18,000 a year for international students in the UK, those coming to study in Britain tend to come from wealthier background.

where visitors to scape's website come from

country	% of visits (Sep 2017 – Nov 2018)
UK	41.2%
Australia	18.3%
USA	4.5%
Thailand	2.3%
India	2.2%

When looking at Scape's website, they recognise this and are gearing their marketing towards the international student market.

Example content on their website includes posts about getting a UK Sim card, what the NHS is and how to access their properties from airports. Despite this 40% of web traffic for Scape does come from the UK, so British students should not be discounted entirely.

co-living

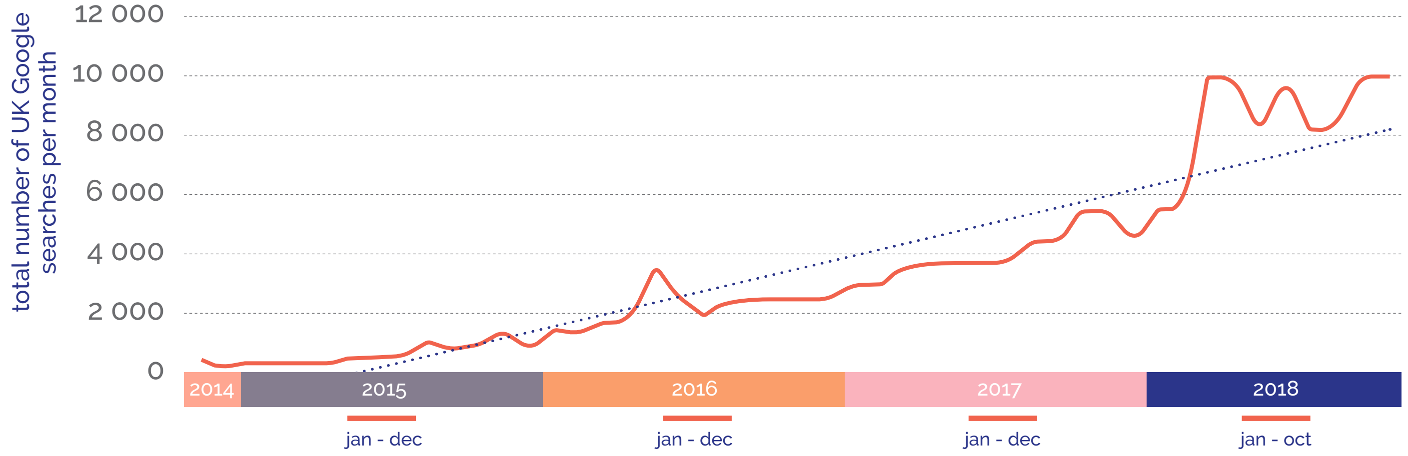
However, PBSA is not the only interesting space in the built-to-rent property market for investors. There is another kind of purpose-built accommodation emerging in the market. It is called 'co-living', or 'large scale purpose-built shared living' if you use the name from the New London Plan.

For those unfamiliar with these new terms, co-living is a style of accommodation offered in major cities such as London focussed on community and convenience. While residents have their own private apartment or room in the building, they share communal areas such as lounges and kitchens, as well as gyms, spas and outdoor spaces – much like luxury examples of PBSA but aimed at young professionals instead of students. Co-working has already become incredibly popular with this demographic, with over 500 new co-working office spaces with 824,000 extra desks opening in 2017 across the UK. Recent research by GK's sister digital agency, onefourzero, found that only 4.3% of online sentiment towards co-living was negative, showing the public are really embracing changing ways of working and living – so why wouldn't co-living prove popular too?[7]

Although co-living is still a relatively niche concept, interest in the sector has grown exponentially since the start of 2016. There has been an 3708% increase in search demand for terms relating to 'co-living' between November 2014 and November 2018.

7. https://onefourzerogroup.com/co-working-spaces/

search demand for terms relating to 'co-living'



It is notable that the idea is growing so much that the Mayor of London felt it necessary to include policy about them in the New London Plan. This policy, which directly follows the regulation on purpose-built student accommodation, states that these 'co-living' developments must be in areas that have good transport links, offer tenancies for a minimum of 3 months, and have communal spaces such as lounges and gardens as well as services such as room cleaning and a concierge. The policy also states that such accommodation should be designed to encourage social interaction with ideas such as communal kitchens with cooking appliances that face each other, a community manager who organises social events and restaurants and bars open to the public, so residents mix not only with each other but with other locals as well. The insistence on such services being offered ties into the idea that co-living accommodations are not selling a product, but an experience and community. Having a concierge, a cleaner and a gym may sound more like a hotel, but this is what appeals to the globetrotting millennials at whom such properties aim their marketing. Interestingly, when GK examined the traffic to co-living brands websites, only 25% of traffic came from within in the UK

traffic to co-living brands' website by country

country	% of visits (Sep 2017 – Nov 2018)
USA	39.8%
UK	24.8%
Germany	2.9%
Canada	2.1%
Brazil	1.8%

This suggests that such types of accommodations have significant appeal to people either visiting the UK for a prolonged period, for example if they are about to move to the country and want a stable place to stay and meet people. It seems this kind of accommodation could be taking the place the former short-term rental market, alongside other alternatives such as Airbnb, another disruptive firm that is also booming. It is particularly interesting to note that such a large share of the traffic comes

from the USA – this is perhaps because co-living is a more established concept in America, with long waiting lists for the most popular spaces in cities like San Francisco.

In America, co-living has been described by Forbes as "promise to revolutionize urban life". It is expanding massively, with even the newsest providers imagining huge imminent growth. For example, one brand, Common, had 40 beds in May 2018, but predicted having over a thousand by the end of the year. Another start-up, We Live, predicted to have over 34,000 residents also by the end of 2018. Other brands such as Ollie have this year raised large amounts of investment, of up to $15million each, to fund their expansion plans.

While now only a quarter of website traffic to British co-living brands' sites comes from the UK, we expect this to shift as the concept becomes more established in the UK. Website traffic data such as this should be used by brands when deciding on international marketing strategies.

It seems that brands in the space do already recognise the international buyer trend, with The Collective, a large shared accommodation provider based in London, including quotes from residents on its website describing it as "so international".

To further explore what is driving interest in purpose-built shared living, we analysed what words are most frequently used across the web when people post about 'co-living'. These words included 'solution', 'community', 'generation' and 'millennials'. One of the most interesting results is the prevalence of the mention of 'community', especially as these co-living sites are usually based in large cities like London which are stereotyped as anonymous and at times lonely.

As growth in PSBA market continues, if co-living takes off in a similar way, this type of accommodation become an established lifestyle choice. There is space for a brand that straddles the PBSA and co-living space, which would create a lifetime of recurring revenue from a single customer. As it seems the younger generations are not planning to buy homes, a company could receive 60 years of rent if they catch a customer at the student stage and keeps them loyal to the brand for the rest of their life. For the renter, it seems a lot more convenient than dealing with difficult landlords and constant moving, and it is reflective of a generation looking for more than bricks and mortar in their living arrangements.

case study:
The Collective

The Collective is one very popular, co-living space in London. In fact, its launch in 2016 coincides with the beginning of the steep increase in UK users searching for 'co-living' on Google – coincidence, or did its opening and subsequent marketing spur interest and a revolution in how we live?

The Collective and its amenities look very similar to that of luxury PBSA, such as Scape, but The Collective is for young professionals rather than students. At The Collective you can rent an en-suite bedroom where you share a kitchenette with 1 other person, or a studio with a small kitchenette. Both options offer access to larger kitchens where all residents can meet and socialise. Living at The Collective means all bills are included, your linens get changed, your room is cleaned bi-weekly and you have access to facilities such as a gym, garden and lounges.

The Collective currently has one fully occupied site in London and it is looking to expand, with plans for a second site in Stratford. This demonstrates that the demand is there for co-living, and it could be an exciting, innovative investment opportunity for those looking to diversify the rental market, especially as at the moment The Collective seems to dominate the market in the UK with almost a quarter of online conversation mentioning 'co-living space' also mentioning 'The Collective'.

case study:
Tipi

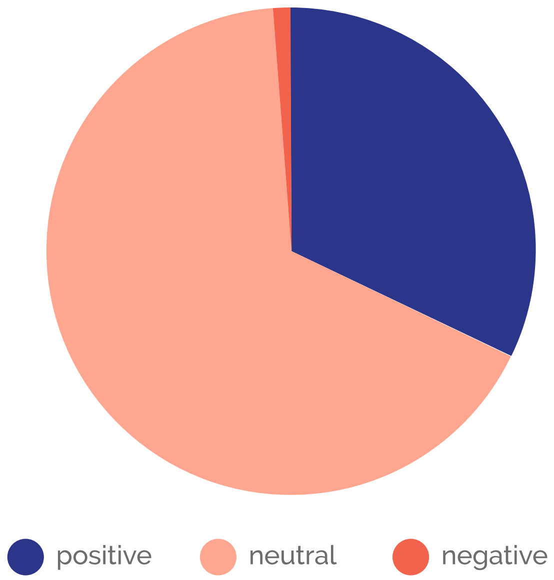
Tipi offers a more private, larger options of 1-, 2- or 3-bedroom homes which you can move into alone or with friends, but all also have access to communal facilities similar to The Collective. These facilities include social spaces and an on-site gym. Also, like The Collective, your bills are included and there is a 24-hour concierge and residents' team to help with any need you may have, as well as organising social events to encourage a sense of community in the development. Tipi describe it as a "hotel-like service" but in a home.

Another unique selling point to Tipi is that they do not ask for a deposit, which they claim is a barrier for many young people looking for somewhere to live, as it can be such a high expense. And an area that has been identified by the government for reform. Expenses such as deposits and fees are a problem within the rental market that the Government has recognised, yet they continue to base their policy and regulation on the historic market. Therefore, the market it seems, with Tipi as a leading example, has started to respond itself outside of regulation. Regulators therefore are lagging behind, trying to fix something in an already evolving market.

Tipi have been marketing themselves as creating a "rental rebellion", with giant advertising hoarding appearing in tube stations across London. It seems the brand is hoping to appeal to young people fed up with their current living situation, much like luxury PBSA hopes to offer an alternative to the classic image of a dirty student flat. However, with a communist style of imagery used in their advertising, appealing to the left leading political inclinations of the demographic they seem to be targeting – in the last general election in 2017, according to YouGov, 63.67% of under 30s voted for Jeremy Corbyn's Labour Party.

According to digital data research by GK, Tipi is incredibly well liked. Only 1% of online sentiment of posts directed at Tipi's Twitter account in 2018 was negative, with 32% being positive and 67% being neutral.

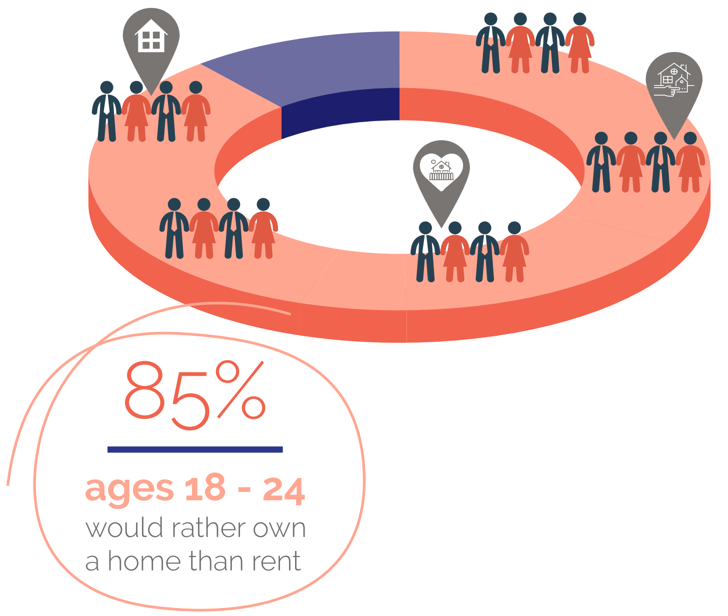
online sentiment on twitter towards "@tipilondon" in 2018



This large percentage of positive online feedback would suggest that Tipi is not only offering an attractive sounding service but is meeting expectations for its consumers. Comments from positive posts are frequently praise for Tipi's social activities for example, with social media users describing it as a "dynamic" place to live and a "homely but fun" environment, suggesting that Tipi and other co-living providers were right when they saw a gap in the market for renters wanting space to spend time together.

conclusion

It seems that for some young people, the dream of house ownership is dying, and new kinds of rental options are thriving. While a recent survey by YouGov showed that 85% of 18 to 24-year-olds said they would rather own their home than rent, another piece of research found that half of 20-somethings have no savings, meaning buying a home is not currently an option for them.



According to research by Strutt and Parker, a London estate-agent, 20-somethings spend a lot of their disposable income socialising, exercising and eating - the average amount a 20-something year old spends on the gym a year for examples is £1,100. By offering as many of these things included in one-rental bill, purpose-built accommodation developers (both for students and young professionals) are onto a winner. That yearly gym membership could cover over a month in rent – with a luxury gym included! Furthermore, the flexibility of contract that many such providers offer is also attractive to young people who are known for getting the travel bug.

These purpose-built accommodations suit those with busy lifestyles in big cities, offering convenience as well as comfort and community – all words that appeared in our research into positive online interaction with the idea of co-living and PBSA. These sectors along with the larger build-to-rent sector have seen significant investment in the past few years, but as our research shows demand for such developments is growing significantly year-on-year meaning the space remains an exciting one for investors.

The market is moving from providing a product to providing a service, which is typical of something aimed at millennials who put more focus on experience. Successful brands are not just trying to build accommodation but build communities that go beyond the corporate offering – like WeWork –, and by doing so they have the chance of bringing in retained revenue. This prize of retained revenue on offer is huge, if structural change to how we live and where we stay really is coming. Early adopters in the market could capitalise on spotting this change early, like WeWork have in the co working space.

While the Government and traditional developers are focussed on traditional market, consumers are changing and there is a favourable regulatory environment in London which some investors have already spotted and are capitalising on – but co-living spaces are also in development in Manchester, Leeds and Glasgow, and there is potential to get in early in other UK cities.

This is a very new market but there is a huge room for growth as US market shows.

Investors and regulators, take note.

GK Strategy is a leading independent strategic research and communications agency. We provide insight, strategy and impact to help businesses make better decisions.

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