



Q3 2023

**BUILD TO RENT
REPORT**

**A CLOSER LOOK
AT CO-LIVING**

CONTENTS

02 | WHAT IS CO-LIVING?

04 | CO-LIVING DEMAND DRIVERS

06 | CO-LIVING MARKET DEMAND

08 | SIZE OF THE CO-LIVING MARKET

10 | BUILD TO RENT OVERVIEW

AN INTRODUCTION TO CO - LIVING

Our Q3 2023 BTR (Build to Rent) report will take a deep dive into the co-living sector. Co-living has seen significant levels of interest over recent years, with a growing amount of capital being deployed. The London market has been at the forefront, but demand is trickling out to the regions with a growing regional pipeline. This report will explore the definition of co-living, investor rationale, market demand and the current size of the market.

WHAT IS CO-LIVING

Purpose built co-living accommodation typically comprises of self-contained units arranged with living and bedroom space, a small kitchenette and ensuite, with the block benefitting from additional communal space. The communal space can range from kitchens and common rooms to cinema rooms, terraces, gyms, laundry rooms and co-working space. In the typical co-living model, bills are all inclusive and lease lengths are more flexible than in the traditional PRS (Private Rented Sector) or BTR.

The purpose-built nature of co-living blocks allows for optimal design and space management, providing an opportunity to boost net operating income on a per square foot basis. With a high level of specification, developers are also seeing premium rental levels and occupancy rates, more akin to the BTR concept.

The co-living market is an active and evolving sector with investment and development forecast to increase in coming years.



CO-LIVING DEMAND DRIVERS



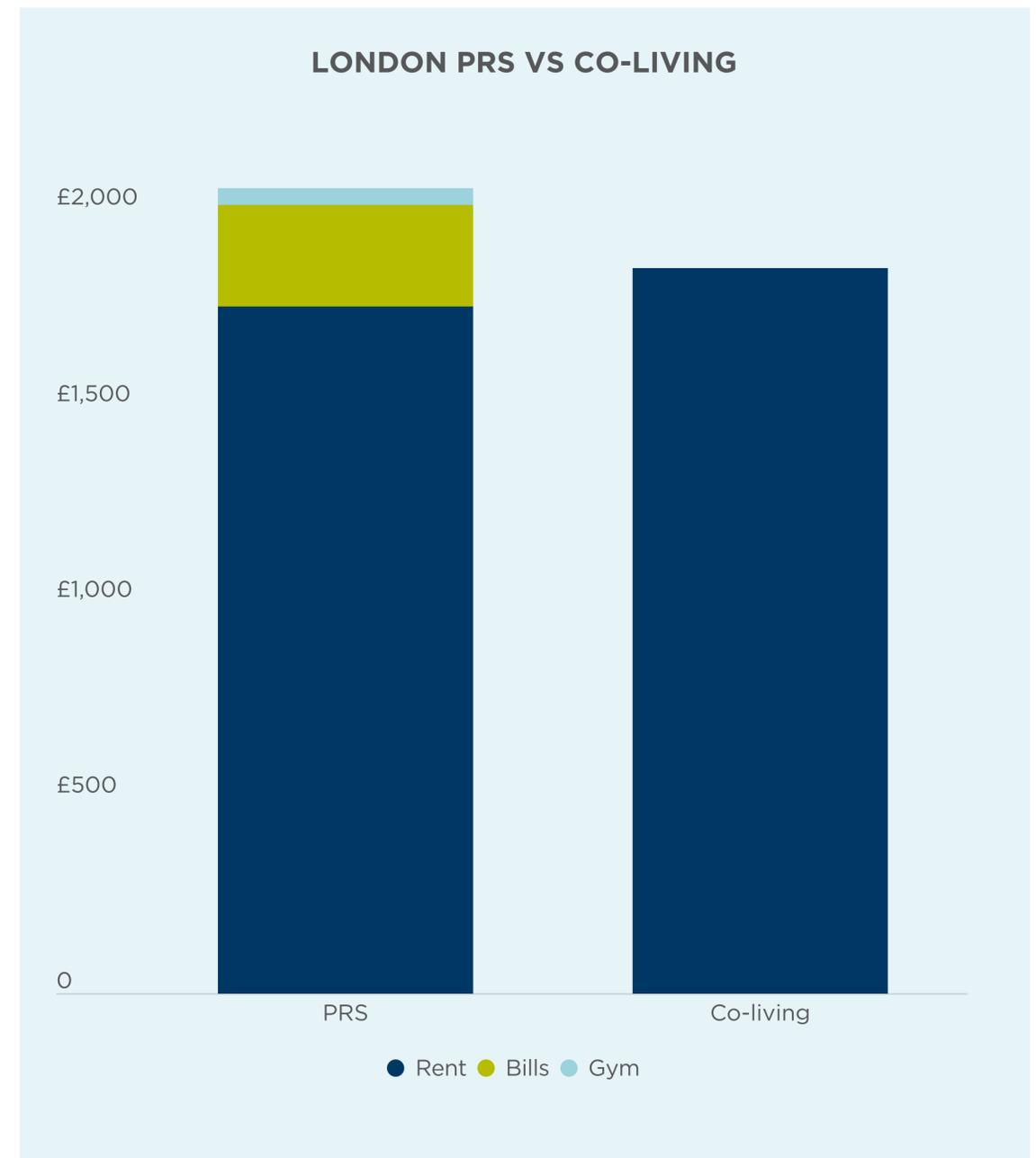
Like all living sectors, co-living has seen increased levels of demand from investors. This is partly driven by the strong fundamentals of the living sector (stable long-term income, a low risk-return profile, and strong capital growth) and partly driven by structural changes (changes in the way we live, work, study and play). The following structural changes are underpinning investor rationale for investing in the co-living sector:

Growth in renters - the renter demand pool is becoming even more robust. There are more renters overall, growing from 3.9 million private rented households in 2011 to 5 million today (Census). The renter demand pool is forecast to continue to increase, due to a growing population, affordability constraints in the owner occupier market, and an increasing number of people prioritising lifestyle and flexibility.

Affordability - a growing number of renters and a shortage of decent rental homes has led to rapid rental growth. Private rents in the UK have increased 10% over the last 12 months and 35% over the last 5 years. The all-inclusive co-living model can save money for renters in some markets.

On average, a studio or 1 bed apartment in London in the PRS sector would cost £1,756 pcm plus c.£300 on bills and a gym membership. This is 11% more expensive than the average all-inclusive rent in a co-living scheme in London, £1,852.

Undersupply of PBSA - the UK higher education sector continues to grow, driven by increases in the proportion of applicants accepted, the strong international appeal of the sector and the ongoing attraction of postgraduate study. With the national average student-to-bed ratio standing at 2.1:1 (varying greatly by city), there is often overspill to the PRS market. Co-living products in undersupplied student markets can act as overspill homes for the students.



Source: Cushman & Wakefield, scheme asking rents, Realyse

CO-LIVING DEMAND DRIVERS

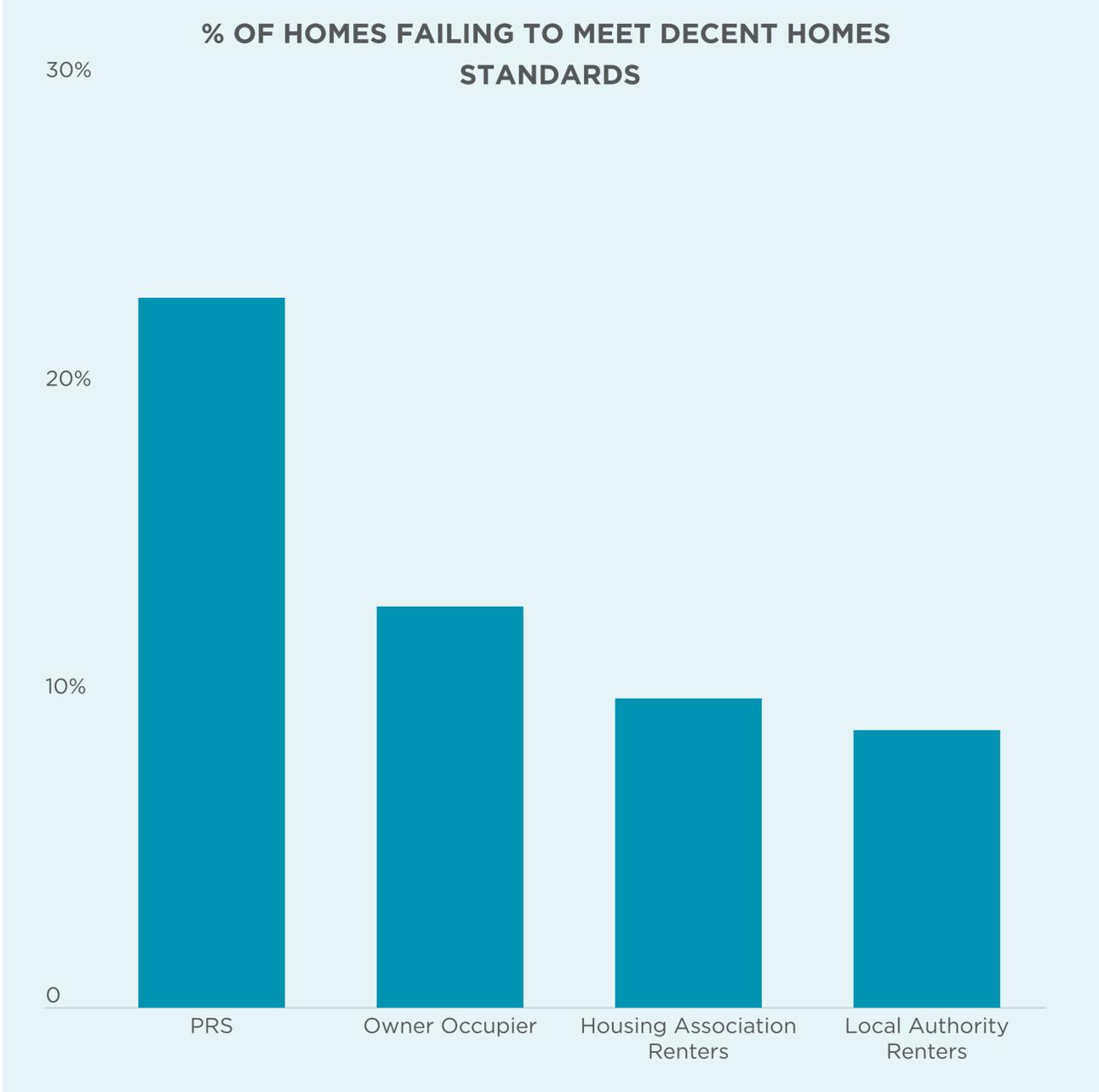


Decent Rental Homes - Almost a quarter of private rented households (23%) live in a home that fails to meet the Decent Homes Standards, a much higher proportion than owner occupiers (13%), housing association rents (10%) and local authority renters (9%). Co-living, as well as BTR, provides renters with well-managed, decent homes.

Community - Co-living emphasises community living, fostering social interaction and a sense of belonging. With 33% of people worldwide feeling lonely (McKinsey), co-living can help address loneliness, appealing to individuals who seek a more communal lifestyle.

Hybrid Working - The pandemic accelerated existing trends in remote working, with the post-pandemic norm settling at an average of three days a week in the office (varying by city). Co-living provides renters with a decent working from home space in communal co-working lounges, unlike the PRS market where working from home often happens in bedrooms or at the dining room table.

Rise in Digital Nomads - Global travel is easier and more accessible than it has ever been, there are a growing number of companies which offer flexible working policies and remote-friendly visa policies are increasing. These factors, alongside advancements in technology, are allowing people to work together regardless of their physical location. This has led to an increase in digital nomads who are well suited to co-living.



Source: Cushman & Wakefield, English Housing Survey

CO-LIVING MARKET DEMAND

Using key demand metrics, this report highlights the top UK cities Cushman & Wakefield predicts will have the biggest growth potential for co-living. For this analysis, cities with the highest number of private renters aged 18 to 35 were chosen. The following metrics in each city were then analysed:

1. Proportion of private renters aged 18 to 35 earning over £40,000
2. PRS annual growth
3. Student-to-bed ratio
4. Post-graduate student numbers
5. Population forecasts of young adults - 2023 to 2040

UK CITY CO-LIVING RANK

Position	City	Proportion of renters aged 18 to 35 earning over £40k	Annual rental growth	Student-to-bed ratio	Post graduate numbers	20 to 34 year old age forecasts	Overall average rank
1	London	35%	14%	2.5	118,100	7%	2.0
2	Manchester	27%	16%	2.0	15,400	7%	2.6
3	Edinburgh	36%	17%	2.7	17,300	-3%	2.8
4	Bristol	21%	9%	2.9	13,200	11%	3.0
5	Brighton	27%	8%	2.4	5,000	8%	3.2
5	Cardiff	24%	10%	2.3	11,000	7%	3.2
7	Glasgow	15%	15%	2.4	26,300	-6%	3.4
8	Birmingham	15%	11%	2.0	15,400	8%	3.6
8	Leeds	19%	7%	2.1	12,500	8%	3.6
10	Leicester	10%	8%	1.7	9,000	11%	3.8
11	Coventry	11%	9%	1.7	5,700	10%	4.0
11	Nottingham	10%	10%	2.3	11,800	6%	4.0
13	Bournemouth	13%	9%	2.4	2,800	6%	4.2
14	Sheffield	12%	7%	1.4	15,000	7%	4.4
15	Liverpool	9%	9%	1.4	7,000	7%	4.6
15	Newcastle	18%	3%	1.8	8,900	4%	4.6
17	Southampton	7%	8%	1.8	7,100	7%	4.6
18	Bradford	3%	8%	1.3	2,600	6%	5.0

Source: Cushman & Wakefield Index (Experian, Realyse 12-month rolling average, HESA/C&W Student Data, ONS). Rank methodology - difference from average was calculated for each metric, ranked on outperformance, and then an overall average rank was calculated. The lower the score the better the city performed.

CO-LIVING MARKET DEMAND

London of course came out top, ranking as one of the top outperformers for post-graduate student numbers (118,100), proportion of renters aged 18 to 35 earning over £40k (35%), and student-to-bed ratio (2.5). These strong metrics are the reason why London has led the way for co-living. It is important to note these metrics vary greatly by borough - for example, Kensington & Chelsea (60%), Westminster (57%) and Tower Hamlets (55%) having the highest proportion of renters aged 18 to 35 earning over £40k, and Hammersmith and Fulham (12%), Wandsworth (11%) and Tower Hamlets (11%) having the strongest population forecast for young adults between 2023 and 2040.

Manchester was the second-best performer, ranking as one of the top outperformers for proportion of renters aged 18 to 35 earning over £40k (27%) and annual rental growth (16%). However, the student-to-bed ratio in Manchester sits at 2.0 - below the national average - suggesting overspill from the student market for co-living may be lower than in other cities.

Edinburgh secured the third position, emerging as one of the leading cities in terms of the proportion of renters aged 18 to 35 earning over £40k (36%), annual rental growth (17%), and the student-to-bed ratio (2.7). Both Glasgow and Edinburgh are robust student markets with high student-to-bed ratios and a substantial post-graduate audience. Additionally, both cities have experienced a significant rise in international students over the past two years. Glasgow has witnessed an influx of 12,600 additional international students, while Edinburgh has seen an increase of 7,100. High levels of international student numbers might help balance the negative growth forecast for young adults in Edinburgh and Glasgow by 2040.

CHALLENGES

Alongside these demand metrics, it is important to consider land availability, planning, build feasibility and affordable housing agreements. These factors will have a major influence on where the co-living market will evolve. For example, as things stand, co-living is unlikely to evolve in Liverpool due to the city council's decision to view co-living in the same way as the private rental market. Co-living in Liverpool has to comply with housing policies such as minimum space standards, lease lengths longer than six months, more two-bed apartments provided than one-bed, and so on. London planning is not straightforward either. The GLA published 'The Large-scale purpose-built Shared Living Guidance LPG', which aims to give guidance around applying the H16 policy. However, there is still a lack of consistency across boroughs, with some more in favour of co-living than others.

SIZE OF THE CO-LIVING MARKET

London is leading the way with 2,300 complete co-living units. Key players in London are Folk (Sunday Mills, Palm House, and Florence Dock), The Collective (Canary Wharf and Old Oak Common), Mason + Fifth (Italian Building), Ark (Wembley Ark) and Node (Brixton). According to Molior there are 2,400 co-living units under construction and 5,600 in planning (applications and permissions). Deliverability of these pipeline schemes will vary, with construction and debt costs sky high, as well as a complicated planning process for those without permission.

Similar to the BTR market, the co-living trend is extending beyond London and gaining traction in various regions. Manchester's co-living pipeline is leading the way for the rest of the country with 1,700 co-living units under construction and 970 units in planning (applications & permissions) (Urbinfo). There are several notable complete co-living schemes in the regions: Zinc Works in Bristol, The Gorge in Exeter, Scape in Guildford, and Voder Riverside in Leeds.

SUMMARY

Overall, the investor rationale for co-living is strong and there is growing interest from investors. Like all real estate sectors, the cost of debt and a changing construction environment is temporarily dragging on the pace of investment. This, alongside planning issues such as minimum space standards and affordable housing delivery. With few operating co-living assets in the market, co-living relies heavily on forward funding deals, so investment in today's environment is limited. As the cost of debt eases, the market adjusts to recent changes in building regulations, and planning regulations become more clear, co-living investment is forecast to rise rapidly.



BUILD TO RENT OVERVIEW

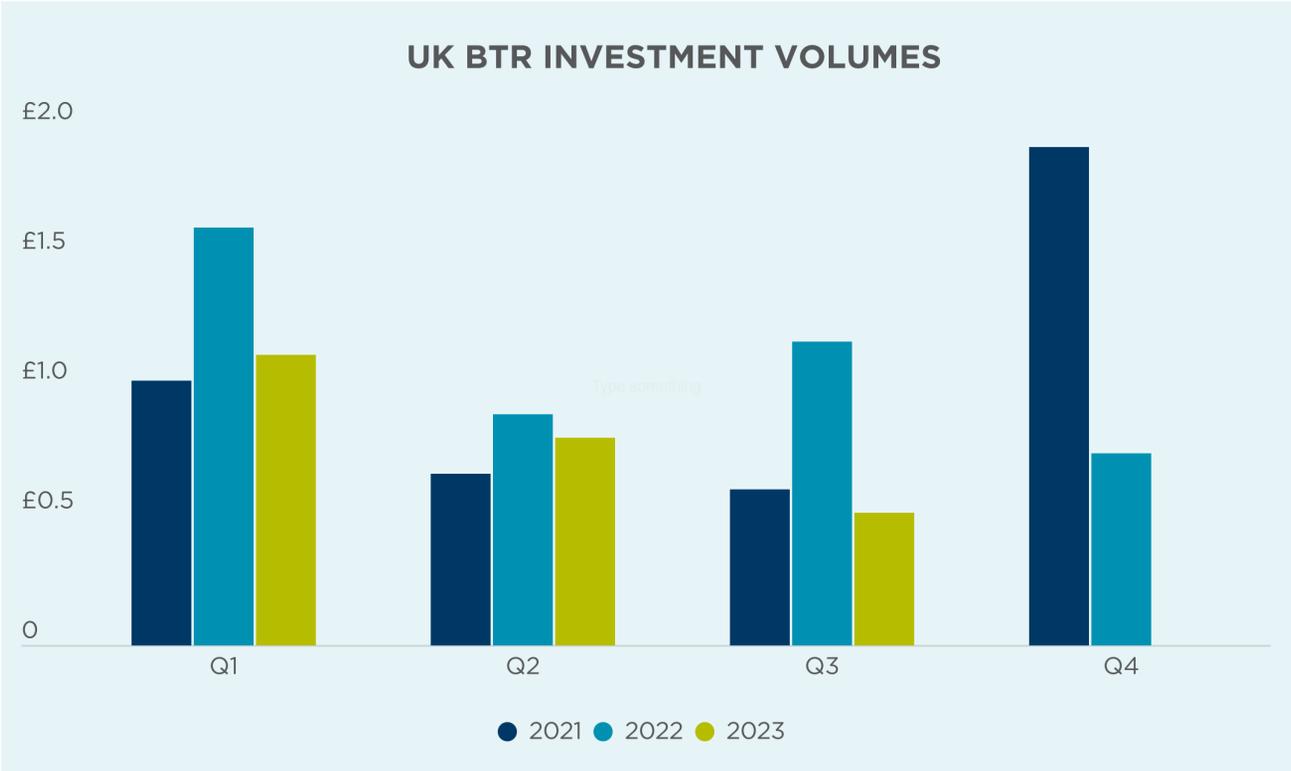


Rental Performance

The UK PRS has continued to see strong rental growth. Rents in the UK excluding London increased by 9.3% over the last 12 months, making the average rent £1,061 pcm as of September 2023. London has seen 12% growth in rents over the last 12 months, making the average rent £2,179 pcm as of September 2023.

Investment Volumes

BTR investment volumes continued to slow in Q3 2023 with £0.5bn invested. The economic backdrop and changing building environment has seen volumes slow over the summer. Momentum has started to pick up with several operational and forward funding deals under offer. These deals will provide the market with much needed evidence and confidence as to where pricing sits.



Source: Cushman & Wakefield, Homelet (London figure differs to page 3), RCA

CONTACTS



MARK CLEGG
**HEAD OF UK RESIDENTIAL CAPITAL
MARKETS**
MARK.A.CLEGG@CUSHWAKE.COM



JONATHAN STICKELLS
**HEAD OF UK RESIDENTIAL
VALUATIONS**
JONATHAN.STICKELLS@CUSHWAKE.COM



LEWIS SMITH
BTR FUNDING & DEVELOPMENT
LEWIS.SMITH@CUSHWAKE.COM



MILLIE TODD
**HEAD OF UK LIVING RESEARCH &
INSIGHT**
MILLIE.TODD@CUSHWAKE.COM



RUFUS MORGAN
STANDING STOCK INVESTMENT
RUFUS.MORGAN@CUSHWAKE.COM



DAVID FEENEY
**STUDENT ACCOMMODATION
CONSULTANCY**
DAVID.FEENEY@CUSHWAKE.COM

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