

Savills Operational
Capital Markets



Website



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SPOTLIGHT
Savills Research

UK Co-living 2023

Momentum builds in the sector



KEY POINTS

2,000

UK Co-living beds completed in 2022

25,021

beds operational or in the pipeline

51%

of European investors plan to invest in Co-living over the next 3 years

€2.6bn

of capital in our Investor Survey targeting Co-living over the next 3 years

35%

of Dandi Wembley residents are international

82%

of Dandi Wembley residents said the scheme improved their quality of life

The sector in the UK is still nascent, but is rapidly gaining momentum

Last year, 2,000 new Co-living beds completed and opened to residents, more than doubling the number of operational Co-living beds in the UK, to 3,422. Looking ahead, this trend is expected to continue, with a further 4,999 beds currently under construction.

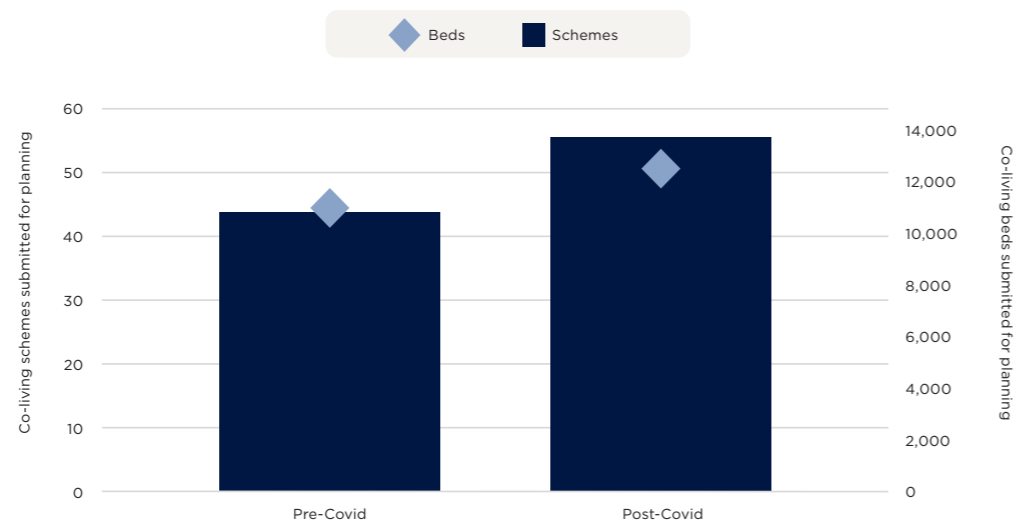
There has been a significant surge in Co-living pipeline activity since the onset of the Covid-19 pandemic in early 2020.

In the five years to March 2020, applications were submitted nationally for 10,520 Co-living beds. Yet in the three years since then, plans for a further 12,150 beds have been submitted, showing the rate more than doubling and demonstrating the appetite from developers, investors and lenders for the sector.

The pandemic has also increased the desirability of Co-living accommodation for residents, due to its emphasis on community and resident interaction.



Fig 1: Activity in the Co-living sector has more than doubled since the pandemic



Source: Savills Research

London leads the way but the regions are catching up

The number of Co-living beds in the UK, either existing or proposed, is now 25,021, with 3,422 operational and 21,599 in the pipeline. The total size of the sector, combining both operational beds and pipeline, has nearly trebled since 2019.

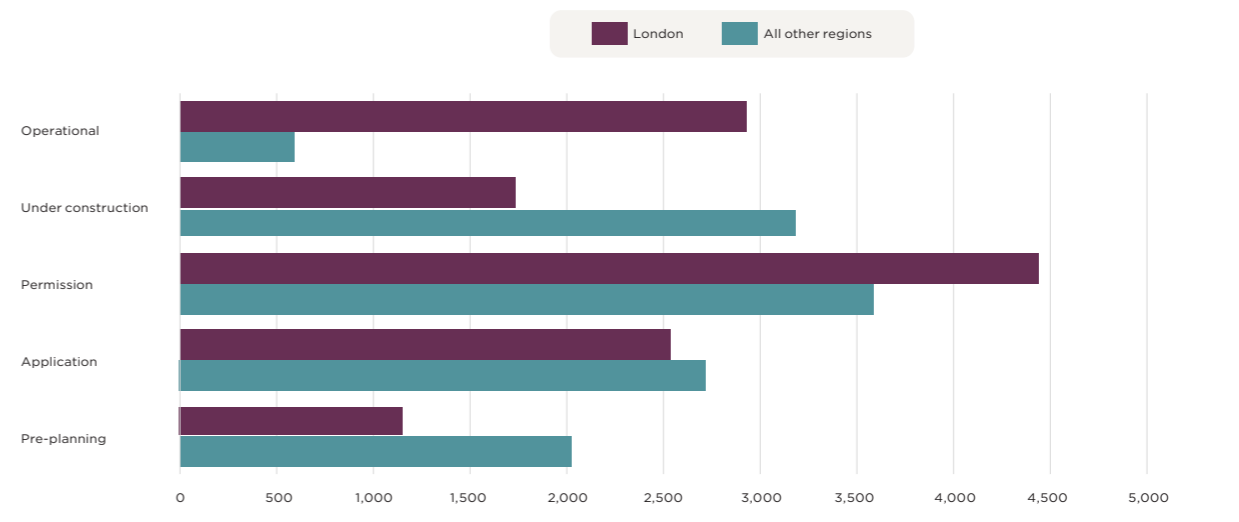
Mirroring the evolution of UK Build to Rent (BtR), the emergence of Co-living has started in London. There are currently 2,820 operational Co-living beds in London, accounting for 82% of the total UK market.

However, we are now witnessing an increasing trend of the UK's regional markets embracing Co-living. In fact, we anticipate that the regions will be the main driver of future growth, as there are presently 6,879 beds outside London that are either under construction or have planning consent, which is higher than the 6,176 beds in London. Moreover, the regions have an additional 4,797 beds either at the application or pre-application stage, while London has a slightly lower 3,747 beds at these stages.

This regional expansion is being driven primarily by investment in the UK's key regional cities, including Manchester, Sheffield, Glasgow, Birmingham, Bristol and Leeds. These are markets that have already seen high levels of investment into BtR and are home to large populations of the 'core target market' for Co-living (young professionals looking for amenities and community, as well as high student populations), as we found in our report from last year. However, we are also seeing schemes come forward in smaller markets such as Reading, Brighton, Guildford and Kingston, highlighting that Co-living isn't solely the preserve of major cities.



Fig 2: London leads the way but pipeline across the regions is catching up



Source: Savills Research

Who are the residents of Co-living and what attracts them to the product?

Co-living in its simplest form is purpose-built rented housing, where residents have their own self-contained studio apartment with significant amenity space throughout the building, often including co-working spaces, gyms and cinema rooms.

Tenancies typically range from 3-12 months (but can be as long as 3 years), so Co-living offers real flexibility in a way most other residential products don't. Target residents include students, recent graduates and young professionals who want to live in vibrant urban centres, with a strong sense of community and access to amenities.

Evidence from recently completed developments provides further insight as to who lives in Co-living schemes. Scape's Guildford Co-living offering was built alongside a purpose built student accommodation (PBSA) scheme and therefore is not allowed to cater to students. Despite this restriction, the development has been very successful in attracting local residents from diverse industries, including healthcare, gaming, and technology.

The scheme has particularly benefited young professionals facing affordability pressures in Guildford's housing market, providing them with a new, secure and more flexible housing option. The success of the scheme also illustrates that Co-living isn't limited to city centres, but can be viable in any market with strong employment opportunities.

Co-living also provides an attractive option for people moving to a new city, providing them with an ideal environment from which to establish new roots, due to tenancy flexibility and the vibrant social scene within schemes that makes it easy to meet new people. Recent evidence from completed Co-living developments in London indicates that a significant proportion of residents have relocated to the city from other locations. For instance, at Dandi Wembley, the majority of residents were new to London, with only 41% previously residing in the city. Another 24% came from elsewhere in the UK and 35% came from overseas.

PUSH FACTORS



High house prices



High rents in the wider PRS



Lack of available rental stock



Not wanting to live in a 'house-share'



PULL FACTORS



Extensive amenities: co-working, gym, cinema



Living in a community, with frequent resident interaction



Flexible lease lengths



All-inclusive bills



Central locations that might otherwise be unaffordable



Class Designations under Co-living

Whilst the Co-living sector is still nascent, it is nevertheless evolving at pace as developers and operators rapidly build their understanding of what the market wants. Many lessons were learned from the Covid-19 pandemic, which has further shaped what tenants are now looking for from schemes. As the sector evolves, there is also a divergence between the various use class designations that Co-living can be operated under.

The C1 Co-living model can cater for guests staying for between 1 and 365 days a year if the appropriate planning permissions are sought to allow stays over 90 days. Having the ability to house residents for less than 90 days is useful, capturing relocation as well as serviced-apartment type demand. It is worth noting however that although rooms can be charged out at a premium for shorter terms, VAT is chargeable on rents under C1.

The sui-generis shared living model requires a minimum stay of 3 months on an AST agreement, rather than a licence, and single occupancy rooms that must adhere to design guidelines. The sui-generis model is more widely recognised in planning terms and seemingly preferred if building from the ground-up.

There are a range of considerations any investor must be aware of when embarking on a Sui Generis, C1 or rarer C3 route to market, namely the different tax, yield, operational and planning regimes. The varied C1 consented model has the potential to offer more immediate access to market, through conversions of existing buildings whereas sui-generis shared living schemes can often take longer to get through the planning process.

Co-living schemes lease up quickly

Although there are a relatively small number of operational schemes, interviews with active players in the market show evidence of strong lease-up rates and growing rental values, indicating very strong demand from residents. Both Dandi Wembley and Folk's Sunday Mills in Earlsfield demonstrate the speed at which schemes can be leased-up.

The former leased all of its 360 beds in just 3 months, an average of 4 beds per day, while the latter let 315 beds in only 4 months, and during the typically slower winter period. These statistics demonstrate the extent of demand for the product, improving the confidence of stakeholders across the sector. Wembley Ark scheme highlights how it is also possible to drive strong pricing growth through lease-up strategy.

Wembley Ark is one of the only schemes to have been both designed and completed post-pandemic. According to **Jermaine Browne**, Co-Founder of Re:shape Living, ARK Co-Living and the Second-Generation Shared Living Consortium (SGSLC):



Two big lessons from the pandemic in terms of the design of second-generation Co-living schemes are that co-working spaces and access to outdoor amenity spaces are crucial offerings for today's Co-living members. As new management companies and capital partners enter the space, it will be interesting to see which of the two models (C1 Co-living or Sui-Generis) gains more traction in the market. The flexibility of the Transient C1 Co-living model may appeal to a wider range of guests and is an expedited route to operations through e.g. the repositioning of existing hotels, while the more residential Sui Generis Shared living model may be more attractive to those residents that want security of tenure. This divergence in my view indicates a healthy evolution of the Co-living market, with numerous exciting possibilities for future growth and innovation".

Jermaine Browne
Co-Founder, Re:shape Co-living



The total size of the sector, taking into account operational and pipeline beds, has nearly trebled since 2019.



Market activity

Selected Co-living schemes completed in 2022

Scheme	Location	Developer	No. of beds	Time taken to lease up
Wembley Ark	Wembley	Re:Shape	300	6 months
Dandi Wembley	Wembley	Dandi	360	3 months
Sunday Mills	Earlsfield	Halycon	315	4 months

Investors are looking to increase their exposure to Co-living

In Q1 2023, Savills and Savills Investment Management surveyed European investors with over €1tn+ of combined assets under management (AUM). Our [survey](#) found that 38% of those investors are already investing in Co-living, making it the joint third most invested-in 'Living' sector, alongside Senior Housing but after Multifamily and PBSA. Looking ahead, the survey also revealed that 51% of

investors plan to target Co-living in the next three years, demonstrating the very strong appetite amongst global investors for the product. A third of those investors targeting the sector said they expect to deploy between €100m and €500m, by 2025. This equates to a total of €2.6bn of capital targeting the Co-living sector in the UK and Europe over the next 3 years.



CASE STUDY - DEBT FINANCING

First Street, Manchester - Downing Living

Savills Capital Advisors recently acted as Debt advisor to Downing Living for its First Street scheme in Manchester city centre. The scheme will deliver 1,790 multifamily and Co-living units, with a £227m loan raised to bring forward the project, provided by Japanese bank Nomura and Precede Capital.

“ Whilst a few years ago lender appetite for Co-living was far more selective than for traditional Build to Rent (BtR), this is no longer the case and we are seeing strong demand from both bank and non-bank lenders to finance development and investment opportunities, especially for high quality Sponsors.

Lenders have quickly understood that the growth of the sector is underpinned by a more permanent shift in resident demand for flexible tenancies, amenities and social spaces, and they are keener than ever to provide finance to the sector”.

Morgan Scale
Associate Director, Savills Debt Advisory



Co-living has attractive ESG credentials

Delivering Social Value

In providing greater housing options, often to those who have little choice, Co-living can deliver social mobility and real Social Value. With their emphasis on shared amenities and resident interaction, the schemes also foster a sense of community and promote wellness. A study by The Collective found that 71% of Co-living residents felt that living in a shared community had improved their social life. Co-living has been shown to be particularly appealing to millennials, who greatly value the social and community aspects of the lifestyle.

Dandi Wembley also recently conducted a study of its residents using LifeProven, an ESG property consultancy, and 82% of residents said that living in the scheme had improved their quality of life.

Health and wellbeing benefits for residents

Co-living provides a unique housing option that meets the needs of changing population demographics and helps to address the housing crisis. The sector can offer renters greater choice and, through the provision of an all-inclusive rent and generous amenities, it does so at a competitive price (compared with, for example, renting a BtR studio).

The mental health and wellbeing of young adults is an area of focus for policy makers, particularly in the wake of the Covid-19 pandemic. Co-living can play a significant role in reducing loneliness, improving social cohesion, and ensuring that people get the support they need by connecting with a community. Communal spaces and the layout of a flat, block or building can have a significant effect on a resident's wellbeing. Co-living schemes provide a variety of shared communal spaces, which increase the frequency and quality of social interactions, delivering health and wellbeing benefits.

Many Co-living schemes also include gym facilities onsite, promoting increased physical activity. In The Collective's Old Oak scheme, free fitness courses (including yoga) are part of the events programme, and state-of-the-art gym facilities are provided as standard.

Furthermore, the efficiencies achieved through the shared spaces in Co-living can help to drive down the environmental footprint of those living in the scheme. Research by Conscious Co-living found that carbon emissions per household in Co-living communities were up to a third lower than the average UK household.

By helping to tackle a range of social, wellness and sustainability challenges, Co-living is well aligned with the values of today's ESG-driven investors.





Savills Research

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Savills Operational Capital Markets

We provide our clients with valuation, consultancy, transactional and financing advice in the Residential (PRS), Student Accommodation, Co-living, Senior Living, Healthcare and Hotel sectors - across the UK and Europe. Our track record is unrivalled, having advised our clients on over £20bn of transactions in the last two years.

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