MALAYSIA COMMERCIAL REAL ESTATE INVESTMENT SENTIMENT SURVEY 2020: ALTERNATIVE INVESTMENT – CO-LIVING

The co-living / student accommodation segment has surfaced as an alternative investment option in our latest Malaysia Commercial Real Estate Investment Sentiment Survey 2020 (CREISS 2020).

This niche asset class, generally integrated or located in close proximity of Transit Oriented Developments (TODs) and in higher education clusters, is gaining popularity among developers / investors as these assets typically generate strong recurring income.

Diving into the survey findings, it is interesting to note that half of the respondents in the Fund / REIT manager category are exploring co-living / student accommodation as an alternative investment.

In light of the COVID-19 pandemic, we have sought further insights from developers / investors who have expressed interest in exploring this asset class to better understand the impact of the outbreak in their decision-making process.

CO-LIVING: DEVELOPERS' INSIGHTS

The deadly novel coronavirus, which has led the country being placed under Movement Control Order (MCO) till 12 May 2020 to curb the spread of the virus, continues to disrupt lives, economies and societies. During the initial stage of the 8-week long lockdown, all non-essential services and business activities in the country literally slowed or came to a halt. The conditional CMCO effective 4 May 2020 will see the gradual resumption of most economic sectors and business activities.

The property sector is also not spared during this unprecedented time. With safety measures such as travel (movement) restriction and social distancing kicking-in, transactional activity has also slowed to a trickle. More developers and agents are embracing digital platforms – website and mobile apps to conduct businesses now. Post MCO, virtual viewings may be a new norm to breathe life back into the lacklustre property market.

With the ripple effects of COVID-19 pointing to unseen levels of global uncertainty, developers / investors who were previously exploring other new property segments / opportunities, may now reconsider their decisions.

Developers who are exploring or planning to develop co-living accommodation are revisiting their plans amid this unprecedented crisis. While they may have little thought of cancelling their developments, they are looking to delay them for at least six months or longer depending on market conditions and behavioural shifts post MCO.

The requirement for human interaction remains deeply rooted although the new normal beyond the COVID-19 crisis is hard to predict. With safety and health of residents being high on the priority list of operators, hygiene of communal spaces is of upmost importance at all times. This pandemic may see developers revisiting the functionality of their co-living space in terms of the design and layout, in particular communal areas and shared facilities.

Developers are also restructuring marketing strategies and developing new potential market direction as they wait for the dust to settle. Meanwhile, they are also concern on the financial impact of COVID-19 on the sustainability of their businesses and the marketability of the proposed products amid rising unemployment.

With right timing, there is still opportunity for developers to explore co-living post COVID-19 as the impact of the pandemic is expected to be temporary.

CO-LIVING: NEW WAY OF LIVING FOR THE NEW ERA

In the era where younger people are more open to the ideas of collaboration and community, the concept of co-living, which shares many similarities to co-working, is beginning to take-off. Both concepts take a novel approach to our daily activities as to how we live and how we work, and thus, it is not surprising that co-working is evolving to combine co-living.

With income growth lagging behind house prices, housing in urban areas and major cities in the country are severely unaffordable. The speed of urbanisation coupled with rising cost of living has led the younger generations of millennials and Gen Z to rethink home ownership. They have different values and lifestyles and tend to choose experiences over possessions.

Co-living offers agile lifestyle with no worry about a mortgage. Unlike conventional rental arrangements, the hassle-free type of accommodation makes it an attractive proposition to people who move from city to city due to work or personal reasons. The accommodation, which is usually furnished, typically come with value-added facilities and amenities such as high-speed Wi-Fi, gymnasium, communal lounge, shared kitchen and dining area, co-working space, laundry & housekeeping facilities / services.

Despite sharing many similarities with a student house, co-living combines many other aspects, such as a sense of community, sustainability and collaborative economy.

In the local context, the concept of co-living is still at an infancy stage. There isn't any dominant player in this niche market segment. Within Klang Valley, the only prominent co-living space is Co-Coon Co-Living KL (Co-Coon) by Tan & Tan Developments Berhad, offering a total of 174 rooms spanning over 20 floors. Other known existing co-living accommodation are generally small-scaled and operate from multiple conventional shop-office or terraced house units.

Challenges are also present for co-living operators to provide decent accommodation that come with a high level of service albeit at reasonable prices that are affordable to the younger and mobile workforce, their primary target market.

Moving forward, co-living presents an opportunity for key players to secure a first mover advantage in this largely untapped market. However, there is a need for developers / investors to critically evaluate the characteristics of their proposed developments / investments (assets) amid prevailing market sentiments before venturing into this niche segment taking into consideration the development / refurbishment / repurposing costs, where relevant.

Demand for better living conditions with proximity to rail transportation network coupled with more innovative methods to house an ever-increasing urban population may boost the growth of the co-living sector.

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