

New trend: Co-living space enters Tianjin

The sharing economy is booming and while first welcomed by young people now is gradually being adopted by the whole society. Shared bikes are on the street everywhere, Didi's ride sharing is popular and its app is installed on almost every young person's phone. You can also find work places with shared working environment and facilities. Co-working space which emerged recently and attracted young start-up companies and freelancers is available in Tianjin. But what about accommodation?

This sharing concept is finally expanding to the housing market. Co-living space is entering Tianjin after several year development in Tier I cities. It could be a new option for young people who don't own an apartment.

What is co-living space?

Co-living space is a new form of rental housing. It is usually an apartment building run by a single operator, providing small-size but fully furnished units, public spaces, shared amenities with other services for young generations.

The main attraction or the main difference between co-living space and other types of housing (traditional residential and serviced apartment) is that co-living space provides a social environment among young people. Thanks to commons space, amenities and activities, renters have a better to chance to meet people and make friends with their neighbours. In addition, to attract young people, co-living spaces often have trendy interior design.

	Positioning	Target Customers	Services
Traditional residential	wide variety, from low-end to luxury housing	wide variety, mainly targeting families	Property management
Co-living Space	Mass market to mid-high	20-35 year old professionals, graduate students and singles	Public spaces such as lounge and video room; weekly or monthly clean; community activity
Serviced apartment	Mid-end High-end	Executives, businessmen and travellers	Hotel-like amenities: room service, concierge, gyms and laundry room

Comparison of three types of rental market

One of the main co-living space brands in China, Port Apartment, run by Vanke, plans to open its first project in south-west Tianjin in October. Vanke signed a 20-year lease contract with local government who owns the apartment building. In this nine-storey building, floors three to nine feature apartments for rent; the first floor is a retail podium and the second floor is the public area, including a communal laundry area, gym, billiards and video room. Port Apartment has already opened in 13 cities including Beijing and Shanghai. Residents can enjoy the various community activities, such as community concerts, cooking competitions and Halloween Parties.



Port Apartment Tianjin under construction, façade and public space



Port Apartment Beijing, video room and unit design

Need for the co-living space

In general, married couples and retired people tend to aspire to buy apartments in good school districts, near parks or with nearby amenities. They are looking for long term stability, something they can often do because of their higher purchasing power allows them to buy a property. But for groups, including graduate students, young singles, professionals and young married couples, who may not yet have the required purchasing power to buy, don't need to focus on children's schools, and want to be close to work they often choose to rent for a few years.

They may also be more focused on aspects including nice interior decoration, additional services, a community environment and other social opportunities. Co-living space can fit most their requirements.

The concept of co-living is already popular in international locations including Silicon Valley and New York, with healthy economic growth and a thriving service industry where young professionals and start-up companies are abundant. China is seen by many as a leading player in the technology and sharing sectors and as a result, we expect to see stronger demand for co-living space. In fact, the new model started and quickly expanded in cities like Shanghai and Shenzhen several years ago.

Why developers are interested in?

It is easy to understand why this model might appeal to end users, but why would traditional Chinese developers, be interested in developing this product, since the yields appear to be lower than their traditional development for sale model. Some estimate rental returns on co-living space is as low as 2%.

There are several reasons why traditional developers might be interested in Co-living space:

1. **Lack of new land:** a lack of new land for residential released by the government, especially in city centres make it more competitive for developers to obtain new lands;
2. **Government regulation:** the government released new rules for land auctions in Tianjin, setting maximum prices and once developers reach the ceiling price, they must turn to other options to win the land plots. By committing to not selling, but retaining the units for lease only, the government is favouring developers who will help increase the stock of apartments for rent, solving an ongoing challenge in major cities.
3. **Government direction:** both central government and several local authorities have published several documents to encourage developers to add more rental property into their portfolio. For example, the Shanghai government plans to add 700,000 units of rental apartment including co-living space by 2020. Beijing and Nanjing government have published interim measures for the administration of giving renters rights of schooling and medical services equal as homeowners.

4. **Cheap alternative to new raw land:** Because of the high cost of residential-use land and the difficulty of getting land from the government, an alternative for a developer is to purchase an existing commercial building and re-purpose it. This could be money-saving because, in some cases, the price of an existing commercial building could be half the price of a new piece of land.
5. **Diversify revenue stream:** As land price and the cost of construction, labour and other costs growing, developer's profit margins are expected to shrink. To stabilise the revenue and add a new profit source as a supplement, developers start the new rental strategy and get ongoing income from rental apartments.
6. **Focusing on their strengths:** Most residential developers have their own construction teams, which means they are able to provide professional and trendy interior decoration for rental apartments.

Challenges for the development of the co-living space market

Traditional residential developers are used to the model of purchasing land, building the apartment blocks and selling them, so recouping their initial investments plus profits in only a few years. In fact, in Tianjin, rules allow developers to pre-sale units, bringing in funds even before the projects are completed. Building for the rental market is different. The initial construction and or decoration costs will be substantial and result in lower income in the form of rents which will squeeze developers' profits margin in the first few years. At some stage however, a healthy portfolio of rental property will provide developers with a steadier stream of income, as opposed to the volatility of development related cash flows.

Managing a portfolio of co-living space will also require continuous management and maintenance. Besides the operator of the project, developers may also play the role of community leader. Some developers may not have enough experience in this area. For example, to maintain the young customers and compete with traditional rental residential, operators must follow trends, figure out what young people like and even host activities to improve the social function of co-living and build a neighbourhood in the building.

Another challenge is the lack of related laws to protect the rights of both sides. Chinese rules have generally focused on the "for sale", not "for rent" market and so renter protections while already less developed, will face bigger challenges with this new rental model.

Conclusion

The development of the co-living space market will largely depend on a city's economic growth, the government's support, the innovation of market players and the acceptance of this model by the younger generation. How to make housing affordable for most residents is a challenge for almost all major metropolitan areas, not only in China. Co-living space with its community and sharing concept may be the one of solutions, but it also has some uncertainties and challenges. As the first major co-living spaces open in Tianjin, this will be an interesting sector to watch.



Lesley Chai
Assistant Manager of Research
Tianjin, JLL
+22 8319 2233
Lesley.chai@ap.jll.com



Michael Hart
Managing Director
Tianjin, JLL
+22 8319 2233
Michael.hart@ap.jll.com