CUSHMAN & WAKEFIELD

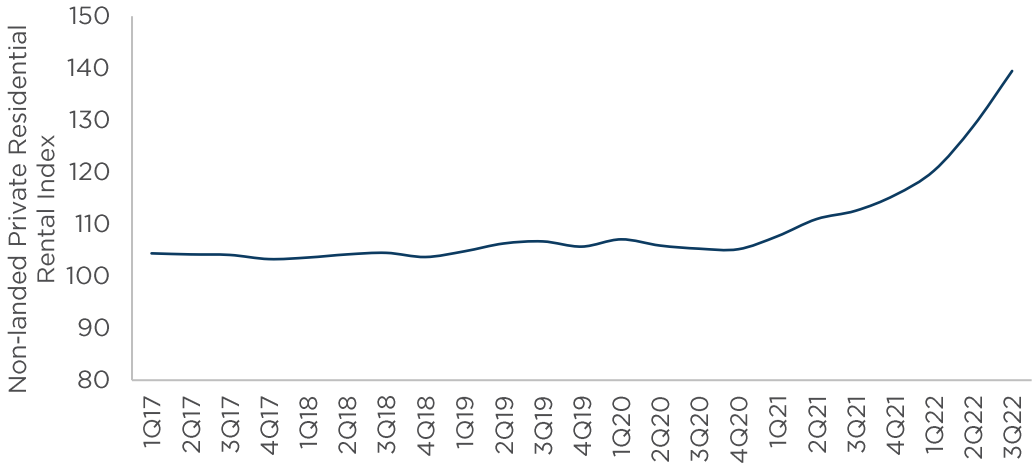
THE APPEAL OF CO-LIVING IN *Singapore*

A GROWING ALTERNATIVE ASSET CLASS

A GROWING MARKET

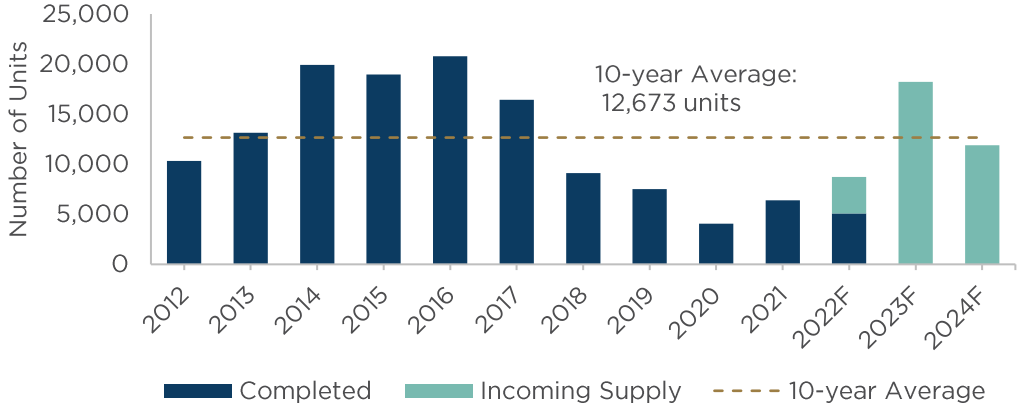
The demand for co-living has heated up in recent times, fueled by a confluence of surging residential rents and prices as well as construction delays of new homes. Private residential non-landed rents rose 20.7% as of Q3 2022 y-t-d for a seventh consecutive quarter. The private residential market has faced a supply crunch with only about 8,722 new private homes completed in 2022 - significantly lower than the ten-year historic average of 12,673 units completed between 2012 and 2021. Nonetheless, this shortage could ease with a higher anticipated completion over these two years. Rental growth is expected to slow.

Private Residential Rents Have Surged



Source: URA, Cushman & Wakefield Research

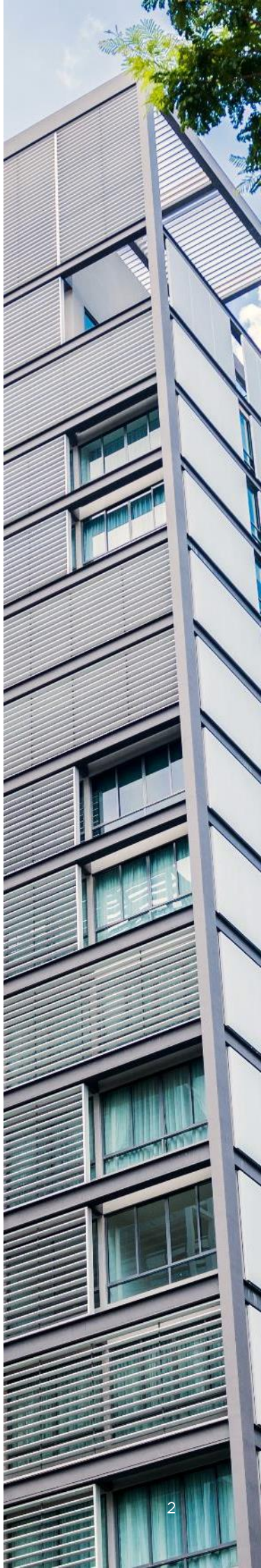
Private Residential Supply Crunch



Source: Cushman & Wakefield Research

Co-living has come up on investors radar and offers an opportunity to boost net property income (NOI) on a per square foot basis through retrofitting the premises and providing better tenant experience. For residential units, yields can be increased via subletting of individual rooms. Ageing private residential homes, shophouses, serviced apartments and hotels are prime targets to undergo a co-living revamp to ride on rising residential rents and recovering tourism in Singapore.

Indeed, the co-living market is expanding with a slew of new co-living launches in 2022 and in 2023.



Notable Co-living Launches in 2022 and 2023

Co-living Operator	Development	Space type	No. of Rooms	Reported Occupancy	Opened/ Estimated Opening Date
Coliwoo by LHN Group	Coliwoo Hotel Balestier	Hotel	39	-	Q2 2022
	Coliwoo 75BR	Shophouse Apartment	24	-	Q3 2022
	Coliwoo Hotel Gay World	Hotel	27	-	Q3 2022
	Coliwoo Serangoon 450	Apartment	39	-	Q3 2022
	Coliwoo Lavender Collection	Shophouse Apartment	105	-	Q3 2022
	Coliwoo River Valley 298	Shophouse Apartment	13	-	Q4 2022-Q1 2023
	Coliwoo Orchard	Apartment	411	-	Q4 2022-Q1 2023
	404 Pasir Panjang Road	Hotel	Unknown	-	2023
	48 Arab Street	Shophouse Apartment	Unknown	-	2023
The Assembly Place	138 to 142 Jalan Besar	Shophouse Apartment	16	-	Q2 2022
	257 Outram	Shophouse Apartment	12	-	Q2 2022
	60 Wilkie Road	Apartment	12	-	Q2 2022
	Co-Living Hotel @ Mayo	Hotel	23	85%	Q3 2022
	TAP at Veerasamy Road	Hotel	24	-	Q4 2022
	TAP at 25A Perak Road	Hostel	31	-	Q4 2022
	3 Tank Road	Apartment	15	-	Q4 2022
	18 Penhas Road	Apartment	12	-	Q1 2023
	TAP at Duke Road	Apartment	42	-	Q1 2023
Dash Living	Dash Living on Mackenzie	Hotel	40	95%	Q2 2022
	Dash Living on Kinta	Apartment	30	-	Q2 2022
Lyf by The Ascott	lyf Farrer Park	Hotel	240	80%	Q1 2022
Hmlet	Owen House by Hmlet	Hotel	106	-	Q1 2023

Source: Media reports, websites of listed co-living providers, Cushman & Wakefield Research, data as of Dec 2022
Note: Space type according to URA's approved use for residential use, serviced apartments or hotels unless otherwise stated

CO-LIVING DEFINED

Co-living provides a blend of privacy and community. Typically, residents have their own personal rooms and share communal areas. Some personal rooms are equipped with an en-suite bathroom, work desks and kitchenette. The types of communal areas and facilities could include social kitchens, gyms, laundry areas. There is no cookie-cutter approach, and offerings would vary across co-living establishments.

Given that co-living embodies a communal lifestyle, co-living operators often organise events or activities to curate this experience. This can be attractive to young professional expats, students, or even locals looking to network and expand their social circles.

Given possible shorter leases and flexibility, co-living can also serve as an interim housing arrangement for local families awaiting the completion of their homes or expats who are still searching for a long-term accommodation.

Pros and Cons of Co-living

PROS

Hassle-free and strong experience: Rooms are fully furnished, with utilities and house keeping all under one bill. Attractive for professionals who work from home often. Co-living platforms are also powered by technology allowing for ease of booking and raising issues.

Cost savings for a niche market: Co-living can be a cheaper option as compared to renting a studio apartment or serviced residence though the leased space is smaller. Use of digital platforms also reduces intermediary costs common to the traditional rental market.

Community building: Co-living spaces are designed to encourage networking and interaction with like-minded residents

Higher flexibility for leases: Some co-living spaces allow shorter leases depending on property license (3 months or less). For traditional residential rentals, the typical lease period is one or two years.

CONS

Lower privacy: Given the use of communal areas, residents would have lower privacy as compared to renting an entire apartment

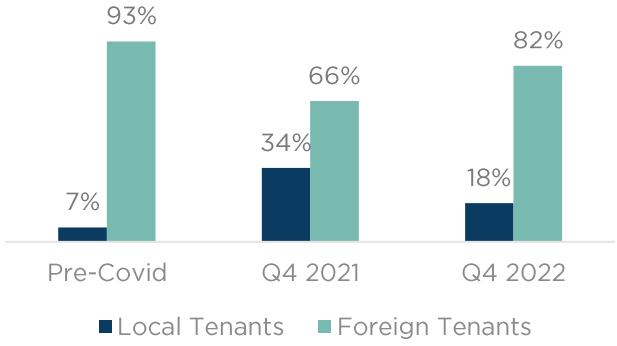
Not for the mass market: With monthly rents typically over $2,000 per month, co-living is typically aimed at young professionals with strong earning power

KEY DEMAND POOL

Given that traditional housing remains the most cost-effective option for long term stays, co-living establishments typically targets transient demand such as young professional expats and foreign students. This dynamic changed during the pandemic, as local demand surged due to increased work-from-home, construction delays and returning Singaporean workers and students from overseas. Several co-living providers have cited a significant increase in the proportion of local occupiers.

However, as the world reopens and the construction backlog clears, local demand could recalibrate lower, while remaining above pre-pandemic levels. A portion of local demand should remain sticky as some will enjoy the experience and flexibility that co-living provides.

Local versus Foreign Tenants of Major Co-living Providers

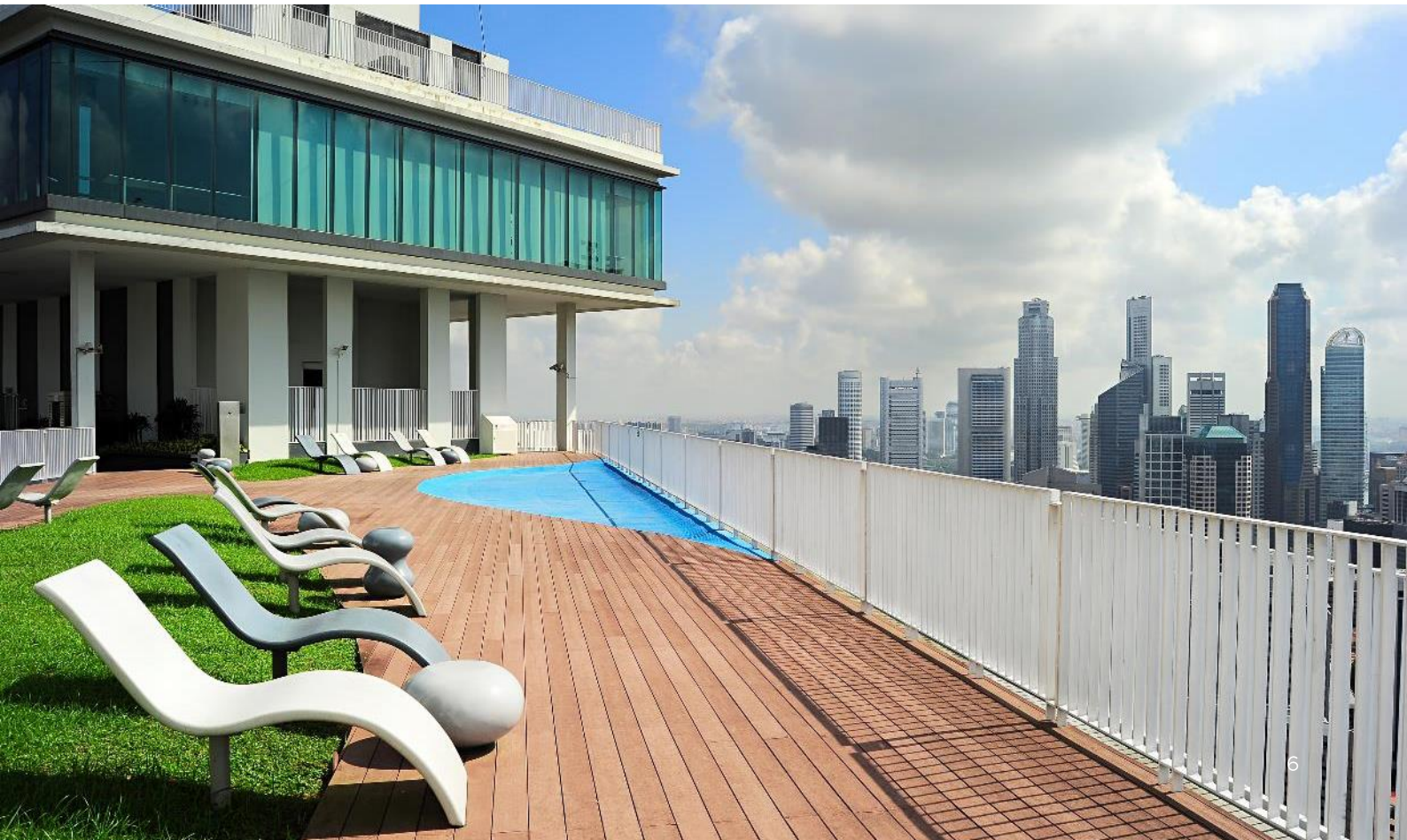


Source: Cushman & Wakefield Research

Comparison of Estimated Rental Rates Across Various Housing Options

Accommodation Type	Example (size)	Length of Stay		
		1 Week	3 Months	1 Year
Co-living Hotel	Co-living Hotel at Cantonment Road (118-151 sf)*	$1,400 per week	$5,360 per month	$5,800 per month
Co-living Apartment	Co-living Apartment at Outram (around 200 sf)*	Not allowed	$2,650 per month	$2,550 per month
Hotel	Hotel at Outram (118 sf)*	$1,000 per week	$4,530 per month	Not normal practice to stay that long
Serviced Apartment	Studio Unit at Robertson Quay (667-872 sf)	$2,475 per week	Nil	Not normal practice to stay that long
Private Studio	Onze @ Tanjong Pagar (506 sf)	Not allowed	Not normal practice for short lease of less than one year	$4,200 - $4,400 per month
Public Housing Room	Pinnacle@Duxton (118 sf)	Not allowed	Not normal practice for short lease of less than one year	$1,600 - $1,800 per month

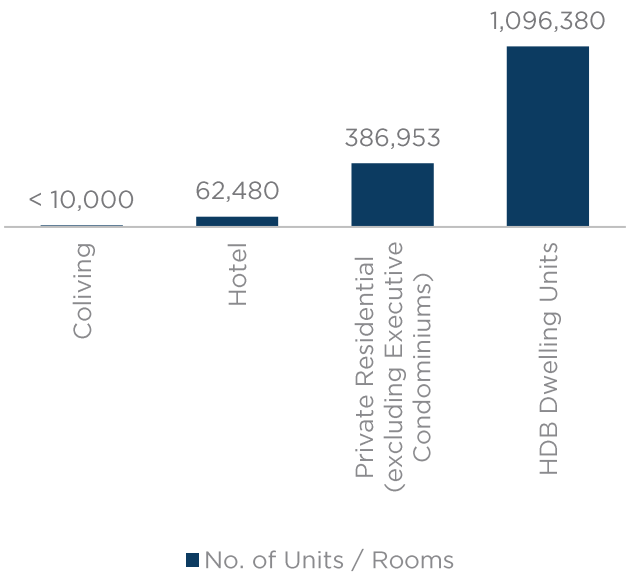
Source: Various sources, Cushman & Wakefield Research, data retrieved on 14 Dec 2022
Note: Period starting from 1 January 2023
* The size indicated is only for a private room and excludes shared spaces for kitchen and other amenities



CURRENT MARKET SIZE AND KEY PLAYERS

The total co-living market is estimated to be under 10,000 rooms in Singapore and represents a small proportion of private property residential stock of 386,953 units* and hotel room stock of 62,480 rooms as of Q3 2022. Currently, we estimate that available rental stock in the private residential and HDB market is about 190,000 units or about 20% and 10% of their respective total stock.

Co-living versus Private Residential versus Hotel Stock



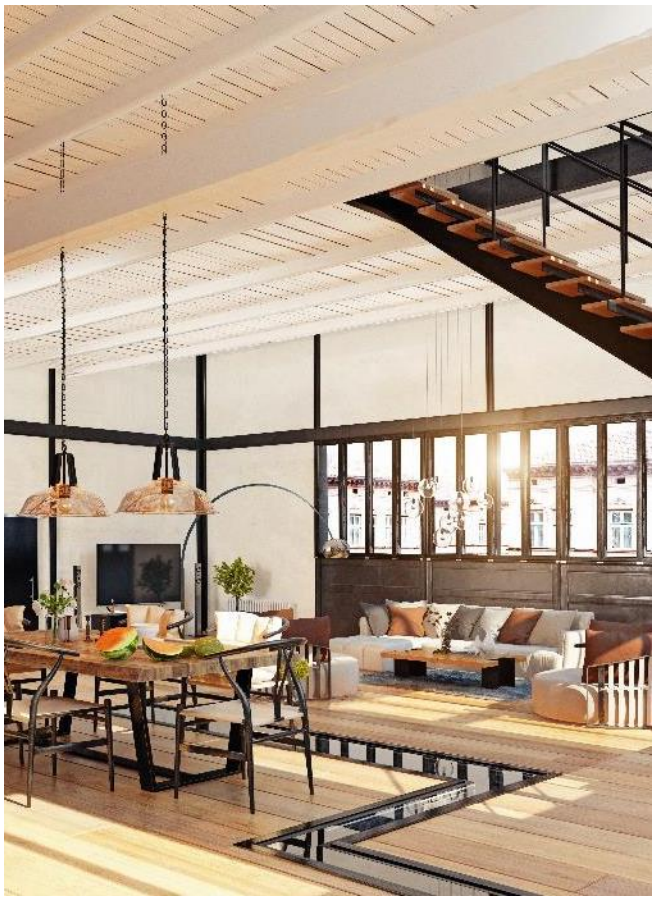
Source: STB, URA, Cushman & Wakefield Research, data as of Q3 2022

Note: Data would overlap slightly due to some hotels and private residential units being repurposed as co-living rooms

HDB stock based on the numbers of HDB dwelling units under management as of end March 2022

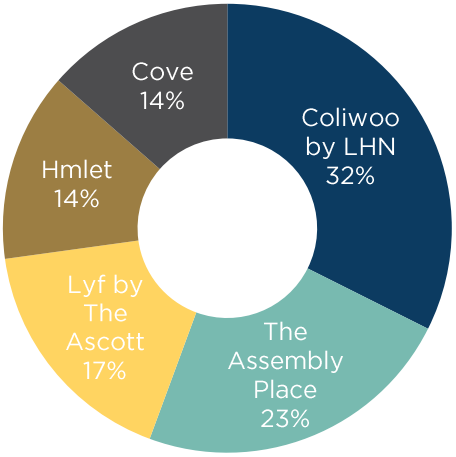
*Represents a single residential unit which typically have multiple bedrooms

Currently, the market is dominated by a few key players namely, Coliwoo, Lyf, The Assembly Place, Hmlet and Cove, with over 5,000 co-living rooms. Currently, most co-living units are concentrated within or around the city-centre where tenants are willing to pay for convenience and experience. In suburban markets, co-living would face stiff competition from HDB rental market.



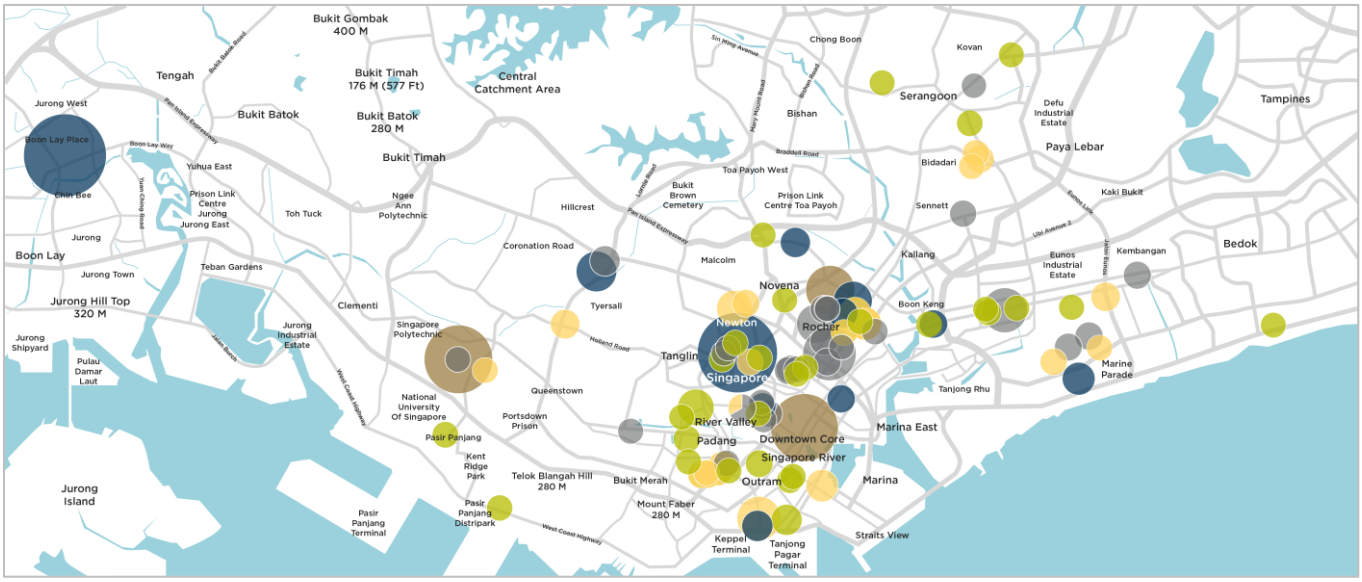
With recent market consolidations observed, Singapore's co-living market could evolve further. In H1 2022, The Assembly Place acquired Libeto that operates Commontown Singapore's co-living space, and European co-living player Habyt acquired Hmlet, a major co-living player in Singapore.

Estimated market share of top 5 co-living players by co-living rooms



Source: Media Reports, Websites of listed operators, Cushman & Wakefield Research, data as of 9 Dec 2022

Location of Notable Co-living Providers in Singapore



Co-living Provider ● Coliwoo by LHN ● Cove ● Hmlet ● Lyf by The Ascott ● The Assembly Place

Source: Websites of listed operators, Cushman & Wakefield Research, data as of 9 Dec 2022
Note: Size of bubble represents the number of known rooms at a location; only locations with more than 5 rooms are shown

TYPES OF OPERATING MODELS

Co-living can be viewed as a real estate strategy which can be applied to private residences, serviced apartments, shophouses and hotels to increase potential net operating income. However, different property types or approved use face different minimum days of stay.

For example, the minimum stay period for private residential units is 3 months while residential units that are approved for serviced apartments use, have a minimum stay period of 7 days. As such, various co-living establishments would have nuances in market positioning and target markets depending on their minimum stay period. For example, in-room kitchenettes or work desks may not be as relevant to co-living hotels as compared to co-living private residential units.

Minimum lease period

Property Type	Minimum Stay Period
Residential	3 months
Residential Approved for Serviced Apartments Use	7 days
Hotels	No restriction

Source: Websites of listed operators, Cushman & Wakefield Research, data as of 9 Dec 2022
Note: Size of bubble represents the number of known rooms at a location; only locations with more than 5 rooms are shown

Co-living operators have pursued various strategies to expand their portfolios, including direct acquisition, sub-letting or entering into management contracts. Operators often deploy a mix of strategies depending on what makes financial sense. For example, real estate management firm LHN Group has spent about $90.5 million in the past three years to acquire properties for its co-living brand Coliwoo with its latest 115 Geylang Road property converted into a new co-living hotel. The Assembly Place (TAP) has largely expanded via an asset-lite approach, by entering management contracts and risk sharing with landlords. Nonetheless, TAP also have a significant proportion of direct leases in their portfolio and are looking into property acquisitions to accelerate their expansion.

Pros and Cons of Co-living Operating Models

Operating Model	Pros	Cons
Acquisition	• Control over space • Potential for capital gains on divestment • More resilient to market cycles though it depends on financing terms	• Capital intensive: Steep upfront costs due to acquisition and fit-out costs • Viable options limited to serviced apartments, shophouses, hotels as acquisition of private residential units would incur additional buyer tax • Ability to scale depends on property prices and financing costs • Rising operating costs due to higher property taxes
Sublet	• Lower upfront cost • Return potential due to lease arbitrage	• High exposure to market cycles • Potential high opportunity costs: No certainty of availability of premise on lease expiry. • Competition from other tenants
Management Contracts	• Low upfront cost • Potential to scale quickly • Lower risk exposure to market cycles	• Not all landlords favour management contracts especially during a robust rental market • Potential high opportunity costs: No certainty of availability of premise on lease expiry • Competition from other tenants

CO-LIVING DRIVERS

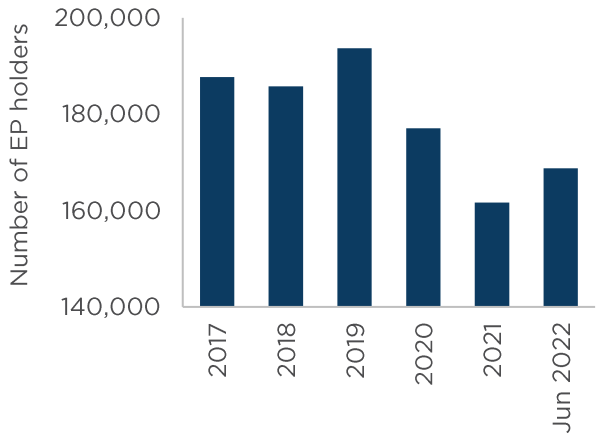
1. HIGHER ADOPTION OF HYBRID WORK

A higher adoption of hybrid work translates to higher amount of time spent at home rather than the workplace. More young locals are observed to move out of their parental homes amidst work-from-home (WFH). This has driven a stronger demand for better and higher quality homes. This fits in well with co-living which provides fully furnished homes and housekeeping and 24-7 air conditioning.

2. RECOVERING FOREIGN DEMAND

Singapore's swift economic reopening has driven a return in foreign demand. Singapore's status as a regional business and tech hub coupled with pro-business policies would continue to attract businesses to set up shop in Singapore. Indeed, Singapore has been recognised as one of the top tech cities in Asia Pacific, scoring well across criteria such as key talent, real estate and business environment criteria, according to Cushman & Wakefield's Tech Cities report (2022 edition).

Number of Employment Pass Holders

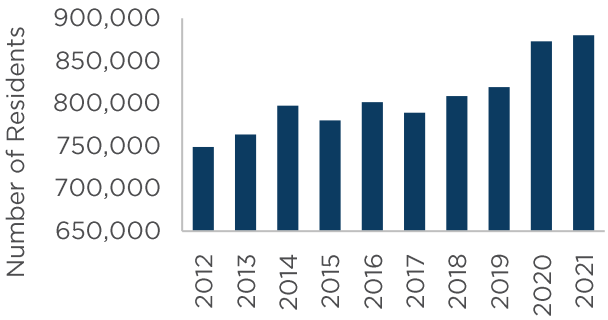


Source: Ministry of Manpower, Cushman & Wakefield Research

3. EXPANDING DEMAND POOL FROM LOCAL YOUNG SINGLES OR COUPLES

The demand for co-living is underpinned by an increasing number of high-earning singles who prioritise lifestyle and flexibility. Couples are getting married later, and women are giving birth at a later age. Covid-19 has accelerated the mindset shift of younger generations, both singles and married couples, towards postponing traditional home ownership aspirations and renting a home to live independently first.

Single Singapore Residents Aged 20 Years & Over



Source: Singapore Department of Statistics, Cushman & Wakefield Research

Median Age of Citizens at First Marriage, and Median Age of Citizen Mothers at First Birth

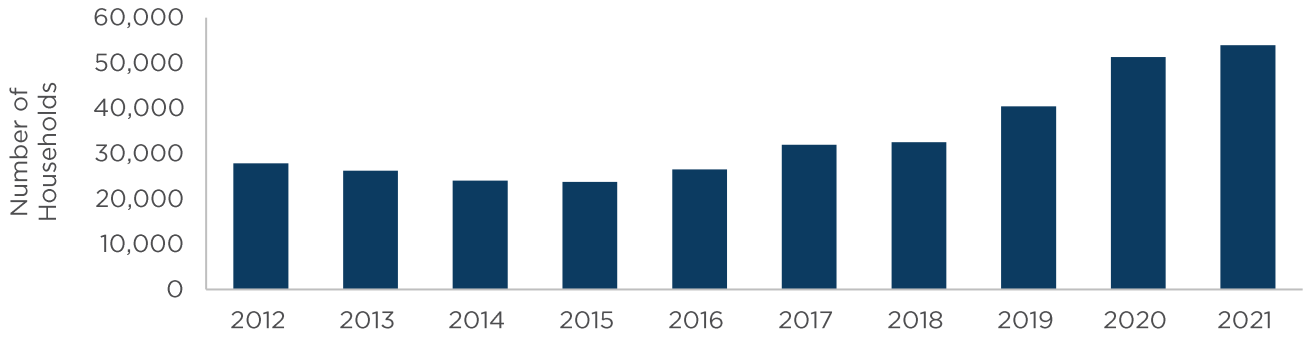
Year	2000	2010	2020	2021
Grooms' Age at First Marriage	28.5	30.0	30.4	30.5
Brides' Age at First Marriage	26.1	27.6	28.8	29.1
Mothers' Age at First Birth	28.6	29.8	31.0	Nil

Source: Singapore Department of Statistics, Cushman & Wakefield Research

3. EXPANDING DEMAND POOL FROM LOCAL YOUNG SINGLES OR COUPLES (CONT.)

With that, the number of resident households for those under 35 who lived alone or with non-family members has indeed jumped from 29,500 in 2011 to 53,900 in 2021.

Resident Households of Persons Under 35 who Lived Alone or with Non-Family Members



Source: Singapore Department of Statistics, Cushman & Wakefield Research

HOW SCALABLE IS CO-LIVING IN SINGAPORE?

While markets like Japan, Australia and Hong Kong where the multi-family asset class has seen strong institutional demand, the Singapore co-living market faces some challenges.

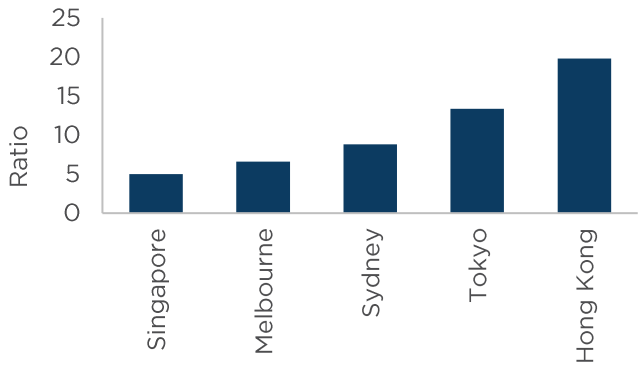
1. **SINGAPORE'S HOME OWNERSHIP POLICY:** The Singapore government has consistently launched new HDB flats and provides grants to keep homes affordable. Singapore residents can also use their Central Provident Funds (CPF) to finance their home purchase. Singapore's overall housing is affordable, with a property price-to-income ratio of 5.0[1], and compares favourably to other markets like Japan, Australia and Hong Kong. Given the availability of affordable housing and the strong track record of Singapore housing prices, the preference for home ownership remains very strong with home ownership rates at close to 90%.

2. **COMPETITION FROM INDIVIDUAL HOMEOWNERS:** Co-living faces competition from HDB and private residential rental markets. These are more cost-effective rental for long term stay due to lower flexibility and lower service.

3. **PROHIBITIVE RESIDENTIAL ACQUISITION COSTS AND TIGHT RESIDENTIAL YIELDS:** High acquisition taxes and relatively low yields in the private residential market would limit direct investor acquisition interest. Companies face a 35% Additional Buyer Stamp Duty on property price when they acquire a private residential unit. Private residential gross yields remain relatively low at about 3%, given robust buying demand. Private residential property taxes are poised to be adjusted higher and would shave off potential returns.

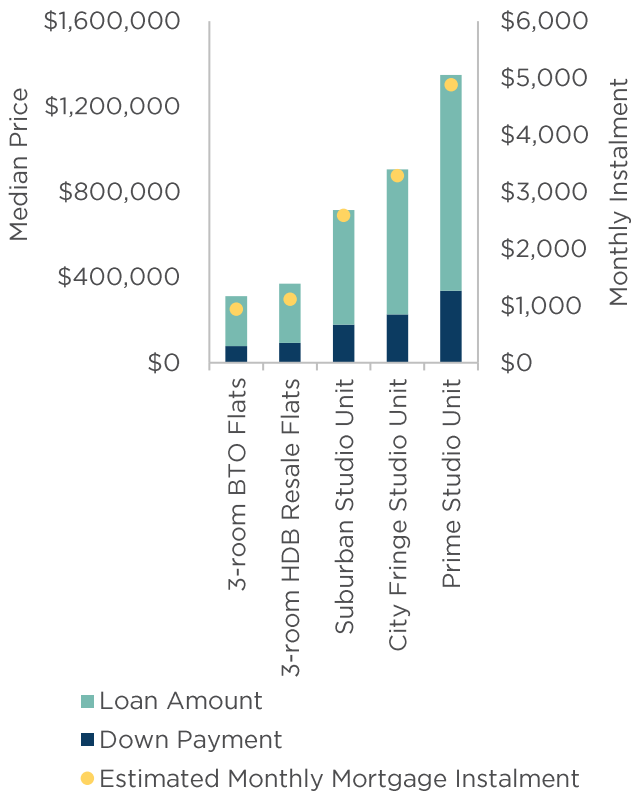
[1] HDB Resale Flats

Price to Income Ratios Across Cities in 2021



Source: Various Sources, Cushman & Wakefield Research
Note: Apartment price to income for Melbourne, Sydney, Tokyo and Hong Kong
HDB resale flats price to income for Singapore

Median Prices and Monthly Mortgage Instalment Across Different Housing Types



Source: HDB, URA, Cushman & Wakefield Research, data as of 12 Dec 2022
Median prices are the sum of down payment and loan amount.
Assuming interest rate of 4.09% (based on floating package rate spread and 3 month-SORA as of 12 December 2022) for Private Home Loan and 2.6% for HDB Home Loan; loan tenure of 30 years; down payment of 25% and LTV of 75%

OPPORTUNITIES AHEAD

Powered by a shift in demographics and consumer preferences, co-living demand is poised to grow. However, investors looking to invest in co-living would have to tailor their approach appropriately.

Investors looking at acquisition targets for co-living, tend to prefer hotels, shophouses and serviced apartments as they do not incur Additional Buyer Stamp Duties that are applicable to the private residential market. Mixed developments or residential developments which can be converted to serviced apartments could be potential targets.

The location and building attributes are important elements to consider. Currently, most co-living stock is concentrated around the city centre to cater to high-earning professionals in the Central Business District. Investors could continue to find viable conversion options in the city centre, with more aged stock and larger unit sizes that allow greater flexibility for asset enhancement works. This would include hotels, shophouses, smallish residential developments or even old black and white bungalows. Ageing commercial developments in the CBD which can tap on the CBD incentive scheme may be considered as well.

Alternative popular co-living locations could be at one-north, where there is a concentration of tech talent, or areas near to East Coast Park where there is strong expat leasing demand. Given increasing international student enrollment, there would be demand for co-living near to private education institutions in Singapore.

Going forward, the co-living market would be fragmented with a few clear market leaders. Co-living operators who can project a strong brand presence, curate a differentiated tenant experience, and provide numerous co-living options in Singapore and regionally, will likely come out on top.

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