Temporary living Germany - September 2019

SPOTLIGHT

Savills Research

Short-term, small and expensive?

savills

Community may be • Covenience beats space • Expensive? Not until the fourth year!

3%
Only 3% of 25 to 44-year-olds would prefer to live in an apartment smaller than 40 sq m. In the temporary living segment, however, this is typical and the market is booming. Our Spotlight offers suggestions as to what makes these concepts so attractive to occupiers

The supply in the temporary living market is expanding. Concepts not only offer occupiers small, furnished apartments but also an extensive all-inclusive package. Here, we discuss why greater convenience is central to these concepts. We also analyse the role of communal areas using the example of Berlin. Finally, we compare costs and illustrate how occupiers of temporary living accommodation have lower overall costs than those of traditional apartments.

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Living in small accommodation – a growing niche

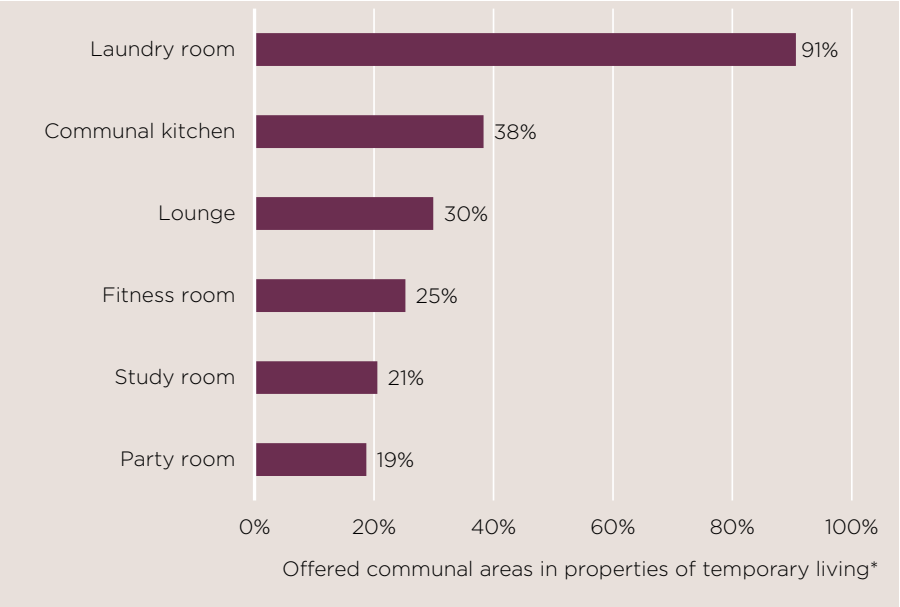
Living in small accommodation is not popular in Germany. Such is the conclusion one might reach when looking at the latest surveys on living preferences. According to the study Wohntrends 2035, only 3% of 25 to 44-year-olds indicated that they would prefer to live in an apartment measuring less than 40 sq m on a long-term basis. In the over 55s age group, just 1% of those surveyed responded that they would like to live in such an apartment. To date, the supply has been correspondingly low. In 2018, one-room apartments accounted for just 3.4% of the apartment stock.

This is now changing, however, and construction of small apartments is booming. The number of one-room apartments rose by approximately 11% between 2010 and 2018, which was more than two and a half times the growth of the overall apartment stock. The temporary living market is likely to be responsible for a considerable proportion of this growth since the segment primarily offers small, furnished, one-room apartments. Such apartments are also known as micro-apartments. Occupiers typically stay in temporary living accommodation for several months to a few years. The many fully-occupied temporary living developments and the expansion plans of most operators suggest that demand for such residential units is high (see Temporary living – a convergence). Major contributing factors include more flexible working models and more individual lifestyles.

Small, short-term and furnished. Is that all?

The preferences of target groups in the temporary living segment probably differ significantly from those in the traditional apartment market. This is evident from the supply, which comprises very small, furnished apartments designed for a short period of residence and offered at relatively high prices. Apartments in private temporary living properties in Berlin have a median size of 21 sq m and cost 618 euros per month (inclusive of all costs). This equates to approximately 29 euros per sq m. However, the occupier receives more for this price than merely a small, short-term, furnished apartment.

Graph 1 Dominating communal areas



Source Savills / *only existing properties in Berlin; n = 107

There may be communal areas

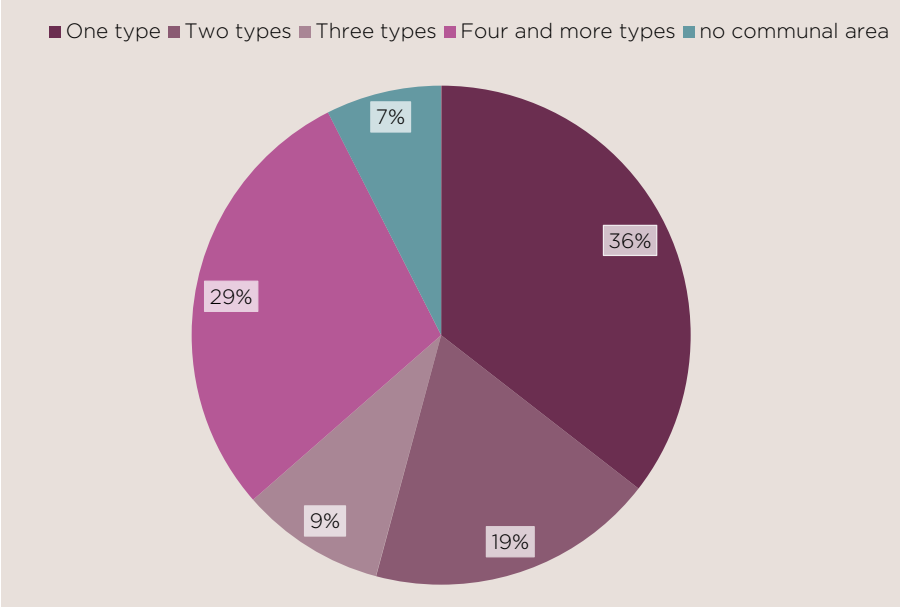
Many providers emphasise in their marketing that their living concepts create a community. This differentiates their properties from traditional residential property. While the proportion of communal areas in traditional apartment buildings is trending towards zero, new-build premium accommodation for students and young professionals, for example, dedicates around 4% to 10% to communal areas. The proportion varies according to the target group, with co-living concepts coming in at the top end of the range. The provision of communal areas could explain why occupiers of temporary living accommodation are willing to sacrifice private living space. Indeed, the Zukunftsinstitut believes that living space will be equated less and less with quality of life going forward, while certain uses will be increasingly shifted to public and semi-public areas (see also Zukunftsinstitut: 50 Insights - Zukunft des Wohnens. p. 44). Types of accommodation with extensive communal areas are particularly gaining in popularity with millennials (see Impacts 2019: The business benefits of sharing). The fact that providers are evidently taking this trend into account differentiates them from those in the traditional apartment market.

Communal areas typically offered include laundry rooms, lounges, fitness rooms and communal kitchens. According to an analysis of the supply in Berlin, 93% of existing properties have at least one communal area. While laundry rooms are almost always offered, other communal

> **Temporary living offerings are convenient both in terms of finding and living in an apartment, saving occupiers time and money.**

areas are significantly rarer (Graph 1). Most communal areas are functional areas such as laundry rooms, kitchens or fitness rooms and workspaces. Areas that are likely to predominantly serve to create a community, such as lounges or party rooms, are rarely provided. More than a third of all properties have only one type of communal area (Graph 2). In most cases, this is a laundry room. In a larger group of properties, however, residents are offered four or more types of communal area. While the first group particularly includes accommodation that is not explicitly targeted at students or young professionals, the second group predominantly comprises premium student accommodation. Owing to the provision of communal areas, occupiers require less space in their apartments. There is no need to find space for a washing machine, for example. Consequently, rents per square metre are of limited significance in the temporary living market and are not comparable with those in the traditional apartment market.

Graph 2 Diversity of types of communal areas*



Source Savills / *only existing properties in Berlin; n = 107

Convenience is a must

While the nature and scope of communal areas vary significantly, there is one feature common to almost all temporary living concepts. The concepts aim to offer their occupiers convenience, which comprises various aspects. Firstly, the complete furnishing of the residential units saves occupiers time and money. The properties also typically have a modern building fit-out with high-speed internet. For a young target group in particular, a fast and stable data connection represents important added value (GdW:Wohntrends 2035. p. 49 et seq). Owing to the all-inclusive concept, this service is available immediately upon moving in, which also saves the occupier money. Most concepts also have their own website, making available apartments directly visible or at least allowing enquiries to be made with ease. In many cases, it is even possible to reserve an apartment directly. Extensive marketing material and options such as 3D views of apartments also significantly reduce barriers to access for occupiers compared with the traditional apartment market. For newcomers to a city, such straightforward availability surely offers decisive added value, eliminating time-consuming searches and journeys to view apartments. In some properties, there is also a concierge service that can offer support with official formalities or accept parcels, for example. On the whole, the concepts are more convenient than offerings in the traditional apartment market for the intended target group both when it comes to searching for an apartment and during the period of occupation. This is probably their greatest competitive advantage.

And what is the cost?

People seeking an apartment for themselves for a limited period now have a choice. They can either find an apartment in the traditional apartment market or avail themselves of the offerings in the temporary living segment. Let us now compare the costs of these two options using Berlin as an example. The median size of unfurnished, one-room apartments in the German capital is 39 sq m. One-bedroom apartments in temporary living accommodation, on the other hand, have a median size of 21 sq m (excluding communal areas). While temporary living offerings comprise an all-inclusive package with the associated convenience, occupiers in the traditional apartment market have to factor in a range of other costs. Table 1 contrasts the costs for the different accommodation types assuming a one-year period of residence. When all costs are taken into account, it is apparent that one-bedroom apartments in temporary living accommodation are less costly than one-room apartments in the traditional apartment market. Owing to one-time costs for finding and furnishing an apartment, there is a particular cost saving in the first year (Graph 3). However, the total overall costs remain lower up to a period of residence of three years. With a longer period of residence, the unfurnished apartment is less expensive since running costs are 482 euros per year lower. However, most of those seeking temporary living accommodation do not want to stay for such a prolonged period in any case. The communal areas and convenience offered by the temporary living

One person
Temporary living concepts are aimed almost exclusively at single-person households. In Berlin, 95% of the private apartment stock is designed for single occupancy.

Concierge
A fifth (21%) of temporary living properties in Berlin have a concierge service.

Costs per sq m
Costs per square metre in the temporary living segment are 58% higher in the first year. This figure rises to as much as 99% from the seventh year.

17%
In the first year, furnishing and transaction costs account for around 17% of total costs for an unfurnished apartment.

market produce significantly higher costs per square metre. However, many occupiers are likely to look at their overall budget when searching for an apartment.

Pioneers of living 2.0?

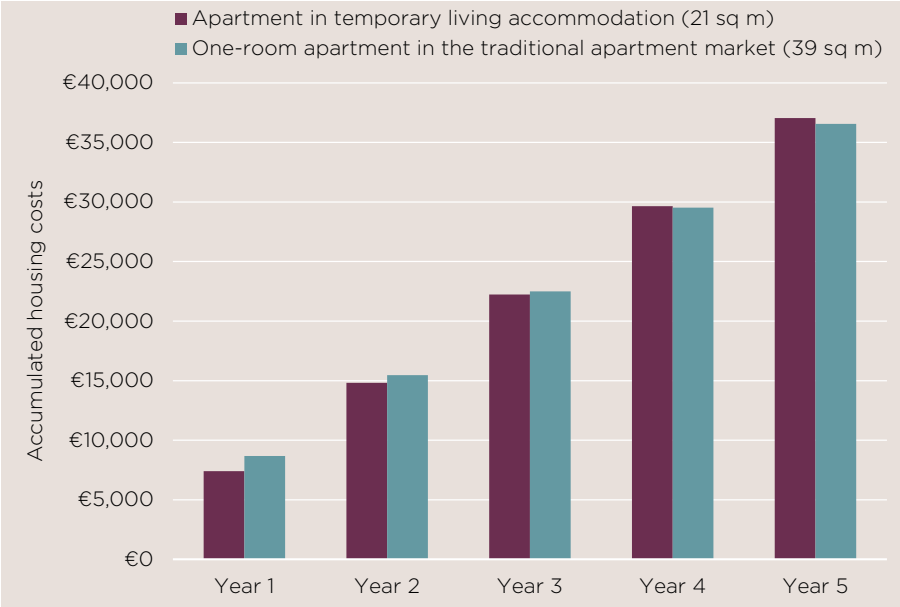
The boom in construction in the temporary living segment suggests that there is high demand for innovative types of accommodation. The innovative feature of temporary living concepts is not only the creation of communal areas, however, but also the convenience they provide. With their all-inclusive offerings, providers are evidently succeeding in creating added value for occupiers. They can also offer this added value at a competitive price. Enhancing their offering of living accommodation with additional services differentiates the segment from the traditional apartment market. It remains to be seen whether all-inclusive offerings will also become more commonplace with traditional apartments going forward.

Table 1 Comparison of costs for one year of residence in Berlin*

Cost area	Apartment in private temporary living accommodation (21 sq m**)	Unfurnished one-room apartment with kitchen in the traditional market (39 sq m)
Rent per month (median)	€618 all-inclusive rent	€430 net-cold rent
Service charge per month	inclusive	ca. €99
Electricity per month	inclusive	ca. €36
Internet per month	inclusive	ca. €33
Total furnishing costs	inclusive	ca. €1,000
Transaction costs	none	ca. €549
Total costs for one year	**€7,410 (€353 per sq m)**	**€8,686 (€223 per sq m)**

Source Savills / *each rounded values; **without communal areas; methodology see page 5

Graph 3 Costs for temporary and traditional living*



Source Savills / *in Berlin; methodology see page 5

€482

In Berlin, the running costs on a 39 sq m one-room apartment are, on average, 482 euros per year lower than those on a 21 sq m apartment in a temporary living property.

Methodology Assumptions for the comparison of costs

Rent and apartment size

For a temporary living apartment, we applied the median size and all-inclusive rent on one-bedroom apartments in existing properties in Berlin offered by private-sector operators. We only considered offerings that are easily accessible since there is extensive information or a reservation portal available for the property. Providers Berlinovo and Bürgermeister-Reuter-Stiftung were classified as private companies. When calculating the median all-inclusive rent and size, we only included units for which both figures were available. This applied to 5,599 units. In some cases, individual figures are based upon our own estimates. For a one-room apartment, we applied the median quoting rent and apartment size of all one-room apartments in Berlin advertised via the empirica-systeme market database. We only assessed advertisements that were online in the first half of 2019. For both accommodation types, we assumed that the initial rent would remain unchanged for the period of residence.

Service charge

We applied the average figure from the service charge index for Berlin (€2.56 per sq m).

Internet and electricity costs

We selected the cheapest tariff with a 12-month term using a price comparison platform (min. 50 Mbps). For longer periods of residence, we selected longer-term tariffs.

Furnishing costs

We applied total costs of 2,000 euros for furnishing. Owing to the short period of residence, we assumed a basic standard of furnishing. We assumed depreciation of 50% in the first year followed by straight-line depreciation of 10% per year.

Transaction costs

We applied transaction costs of 549 euros. We assumed that the occupier externalised most of the costs by instructing an agent. We applied a commission of one month's net exclusive rent plus VAT.

Other assumptions

All data was accurate as of 16.07.2019.
Other potential costs for both accommodation types are likely to be similar and have been excluded for the purpose of simplicity. All costs taken into account were calculated to an accuracy of two decimal places.

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