Briefing note
Temporary living – a convergence of concepts

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Student accommodation was the past, temporary living is the present. This is a reasonable interpretation of current trends in the furnished micro-apartment market. While this remains a niche segment, it is also a growing one. Here, we outline the latest trends in terms of supply and demand.

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The market for student accommodation is enjoying rapid growth

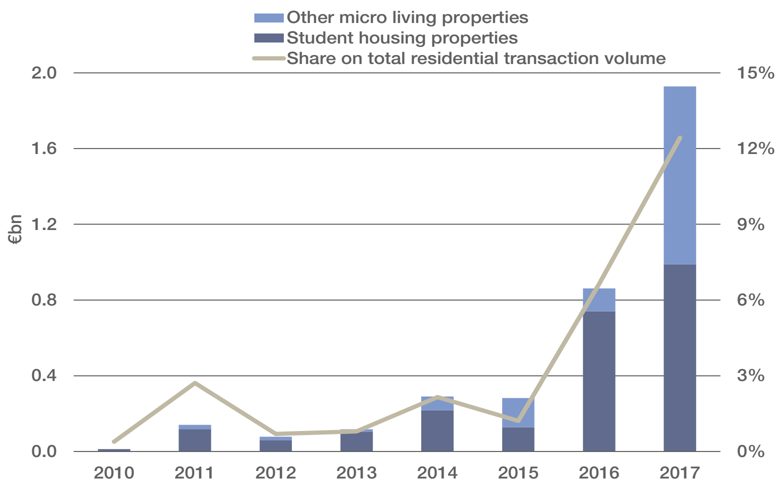
One niche segment in the German residential market has witnessed rapid growth in recent years; the student accommodation market. Over the last six years, the private-sector stock of student accommodation has more than tripled and the supply will continue to grow (see also "Spotlight Student Housing Market Germany"). Investment in this niche is also booming. In 2017, student accommodation accounted for approximately €990m or around 6.4% of the entire residential transaction volume. Institutional investors such as insurance companies, pension funds and even sovereign wealth funds have been active in the segment for some time.

A niche growing beyond its boundaries

However, it is evident that providers of student accommodation are increasingly addressing other target groups while additional operators are entering the market with non-student target groups. These providers are particularly targeting young professionals, project employees and expatriates as well as long-distance commuters. One likely reason for this expansion in target groups is that such persons also often struggle to find suitable offerings in the residential market and, for some of them, small, furnished apartments are the product of choice. It is also reasonable to assume that they are generally willing to pay more than students. The growing competition in the high-end price segment of the student apartment market is another potential reason why providers are broadening their horizons in terms of target groups. We believe all operators are ambitious to grow further since, the higher the number of apartments, the greater the cost benefits with regard to management and purchasing furniture. This growth can be achieved faster by addressing more target groups.

These non-student target groups are generally accommodated in separate residential developments. This is explained, on the one hand, by the fact that student accommodation is subject to special regulations in terms of occupancy concepts (see "Spotlight Student Housing Market Germany") and, on the other hand, by the fact that professionals and students generally have different daily routines and,

GRAPH 1
Investment market for properties of temporary living



Source: Savills

hence, different living requirements. Like student accommodation, however, these residential developments mostly comprise small, furnished, one-bedroom apartments as well as various communal areas. The investment market for these residential developments is also booming, with the transaction volume last year reaching €940m (Graph 1).

Student accommodation as a sub-segment of a niche

Hence, the student accommodation market is increasingly being regarded as a sub-segment of a larger niche market. The discussion around this niche market is shaped by the terms 'micro-living' and 'temporary living'. In recent times, the term 'co-living' has become more prominent (Graph 2). No single term has been unanimously adopted by market participants to date; the terms are often used synonymously. Below, we provide our own classification of this niche market and describe the supply and demand. Our analysis focuses exclusively on residential concepts (see the box 'Residential versus commercial').

It's about temporary living in micro-apartments

When looking at the principal target groups, there is one central commonality: they all only require accommodation for a period that ends in the foreseeable future. Hence, this is a market for temporary living. Since the accommodation is only required temporarily, the majority of potential occupiers are also likely to have small space requirements and to require furniture.

Consequently, temporary living refers to residential developments comprising small, fully-furnished residential units. The supply is targeted almost exclusively at single persons, which is why the apartments are typically no more than 45 sq m in size. While it is not absolutely essential, many properties offer various communal facilities, such as leisure amenities, workspace or shared kitchens. This shift of uses into semi-public areas is not only borne out of reasons of space but also serves to create a community. For many potential occupiers, the latter could represent further added value compared with the supply in the traditional apartment market.

The supply is growing substantially

There are now numerous providers offering such residential developments. The overall supply in Germany is currently difficult to quantify since the provider landscape is so fragmented. However, a number of nationwide and even some international operators have emerged over the last decade. The ten largest operators alone account for around 24,600 beds in Germany with a further 13,000 beds under construction or in planning (Graph 3). We believe the large operators can be divided into specialists and generalists.

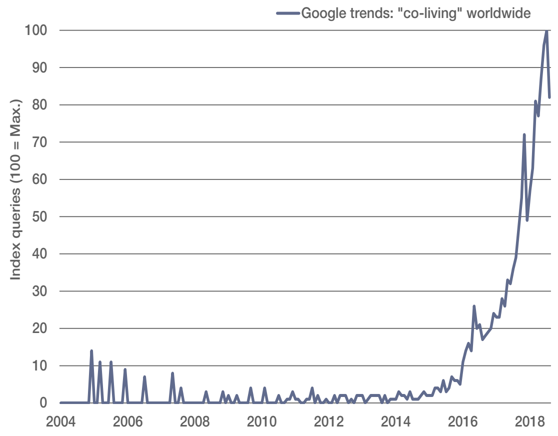
The *specialists* focus on a particular target group within temporary living. In most cases, this focus is on students. Examples of such operators include Base Camp, Campus Viva, GSA and MPC Micro Living with its Staytoo brand. Specialists also include those operators focusing on young professionals. Examples here include Medici Living, with its Quarters brand, and Rent24.

The *generalists*, on the other hand, address various target groups with several specially tailored products. One example is International Campus, which uses its umbrella brand THE FIZZ to offer products to students (THE FIZZ students) as well as young professionals (THE FIZZ young professionals) and trainees (THE FIZZ juniors). Corestate also offers a brand for students (Youniq) alongside offerings for all other target groups branded as Linked Living and UPARTMENTS. The same is true of GBI AG with its SMARTments student and SMARTments living brands. Other generalists include i Live and AviaRent Apartments. Almost all generalists were originally specialists in student accommodation and have expanded their offering to other target groups.

The supply of the largest operators comprises almost exclusively small, fully-furnished apartments. The typical size of an apartment in student accommodation is around 18 sq m to 22 sq m. In residential developments targeted at young professionals, the range of apartment sizes is significantly larger and some offer spacious multi-

GRAPH 2

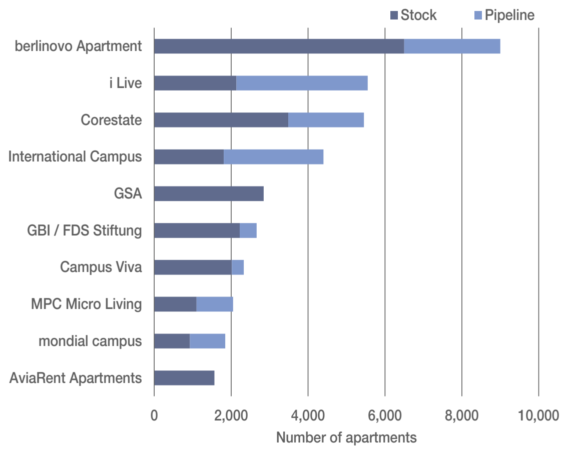
Google trends co-living



Source: Google Trends

GRAPH 3

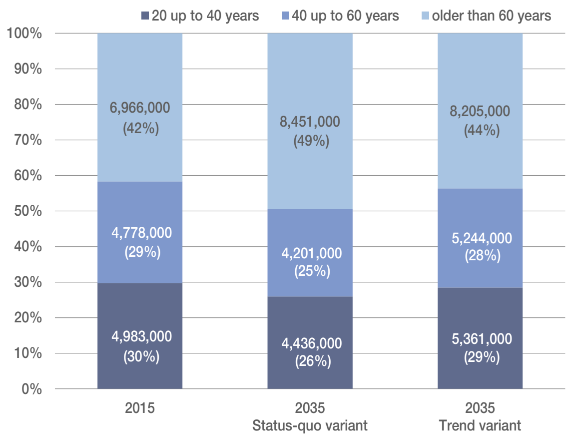
Top-10 operators in temporary living*



Source: Savills / *without serviced-apartments

GRAPH 4

Projected age structure of one-person households



Source: Federal Statistical Office

bedroom apartments. Apartment sizes in such residential developments typically range from 20 sq m to 45 sq m. The majority are likely to range from 25 sq m to 35 sq m. Rents are almost always all-inclusive, which, besides the rent, also cover the costs of furniture, service charge and internet connection. In many cases, additional amenities, such as an on-site point of contact, parcel collection or regular events, are also included.

It is generally important to ensure that temporary living offerings are open to everybody in principle. Thus, a residential development conceived for young professionals could also theoretically attract students or pensioners. However, the concept will inevitably suggest that the core target groups addressed will dominate. Conversely, in student accommodation, non-student occupiers are only likely to be accepted to a certain extent.

Precise extent of demand remains unknown but several indicators point towards growth

As with the supply, demand is also relatively difficult to quantify. In order to deduce potential demand, many cite the number of single-person households. However, this figure does not adequately reflect demand since persons aged 40 or older account for 70% of these households (Graph 4) and it can be assumed that a small proportion of persons in this age group will seek a micro-apartment for temporary use.

When it comes to the actual composition of inhabitants of residential developments for temporary living, there is no publicly available information. In terms of the target groups of students, young professionals, career changers, project employees/expatriates and long-distance commuters, demand can be broadly outlined as follows.

There are approximately 2.8 million students. According to social survey findings, around 80% of students, or approximately 2.2 million, do not live with their parents and hence require accommodation.

It is difficult to find statistics for the number of young professionals. In 2016, there were around 2.8 million employees between the ages of 20 and 25 and approximately 4.2 million persons aged between 25 and 30. A certain amount of these 7 million or so employees are likely to have a requirement for temporary living, particularly while entering the workforce.

Besides young professionals, persons moving to a new city for a new job are also likely to come into consideration. However, no statistical data is available regarding the size of this group.

The number of long-distance commuters, i.e. employees whose place of work is more than 150 km from their place of residence, was approximately 1.3 million in 2015 according to investigations by the Federal Institute for Research on Building, Urban Affairs and Spatial Development (BBSR).

The number of project employees and expatriates, on the other hand, cannot currently be quantified. According to a study by the German Association for Project Management, however, the proportion of Germany's gross value added attributable to project work rose by almost 20% between 2009 and 2013 alone and further growth was projected. Hence, the number of employees sent to a city temporarily for the purpose of a project can be expected to rise further, thus increasing

Residential versus commercial

The boundaries between housing and accommodation are becoming blurred

Besides residential concepts, temporary living is frequently also used to refer to serviced-apartments. These, too, are properties comprising fully-furnished apartments and various communal areas. In contrast with offerings in the housing market, however, such apartments can also be booked by the day or week and are therefore assigned to the commercial hotel and lodging industry. With regard to the period of stay, legal practice in the housing sector primarily dictates a minimum tenancy of six months. The distinction between residential concepts and commercial offerings such as serviced-apartments has consequences under fiscal and planning law and impacts the application of tenancy law. Staying in a serviced-apartment, for example, means that the user is a guest and not a tenant. Furthermore, serviced-apartment properties are not generally eligible for approval in purely residential areas. In addition, revenues from the use of the apartments is not treated as income from lettings and is therefore liable to VAT.

Since serviced-apartments are not residential properties, they are not assigned to the temporary living segment in this analysis. This is supported, in our view, by the fact that individual motives for staying in such properties are likely to differ from those for choosing residential concepts. By way of evidence, business travellers account for around 70% of the target group (Boardinghouse Consulting 2016:12). Nevertheless, it can be observed that temporary living concepts in the residential sector are, to some extent, converging with the lodging sector and that, conversely, serviced-apartments are a lodging concept converging, to some extent, with the residential sector.

demand for temporary living models. Besides the absolute size of the cohort of potential occupiers, however, individual living preferences also play a part. It can be assumed, for instance, that temporary living offerings will only be attractive to a certain proportion of these groups. The size of this proportion is unknown, however, and can only be estimated very crudely at present with the aid of social milieus.

What does the future hold?

It is reasonable to assume that the supply of temporary living accommodation will increase over the coming years. The operator platforms are expansive business models that become more efficient the larger their portfolios. This could also result in more specialists becoming generalists and launching additional brands. The buoyant demand in the investment market from institutional backers seeking alternative investments is likely to support this trend. It remains to be seen whether and to what extent Anglo-Saxon co-living platforms such as Common and WeLive will enter the German market.

In view of the strained rental apartment markets in many major cities and university cities, it is probable that the new forms of temporary living offerings will meet with correspondingly large demand in the medium term. In the long term, however, the question remains as to whether such types of accommodation will be chosen owing to the lack of alternatives in the open apartment market or whether it is the attractiveness of the concepts themselves that will attract residents. It is likely that this question will only be answered if the strain in the housing markets is relieved somewhat, which is not currently foreseeable. In this regard, it also remains to be seen whether and, particularly, to what extent the living preferences and lifestyles of a larger section of society will change, which is often cited as a driver for temporary living concepts.

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