

Korea Co-living



Branded co-living sparks investor appetite

CO-LIVING OVERVIEW

Co-living is defined as a form of rental housing which includes shared living rooms and kitchens apart from private rooms within a single building. Co-living is attractive to individuals by providing various amenities and communal spaces that are otherwise less accessible to individuals such as kitchens, co-working spaces, fitness facilities, rooftop gardens, pet playgrounds,

and cinemas, as well as offering diverse programs and activities aimed to engage residents. The facility is differentiated from a shared house, which suffers from low levels of privacy and potential conflict among housemates, by ensuring personal areas. In Korea, co-living currently operates via various building uses including Urban Residential Housing, Officetels, or Lodging facilities.

MARKET DEMAND

For Seoul, population figures decreased steadily from 9.90 million in 2015 to 9.47 million persons in 2021, while the number of households increased from 3.78 to 4.05 million during the same period. The number of single-person households in Seoul has risen by 1.3x, from 1.12 million to 1.49 million, indicating reduced household sizes. As of end-2021, approximately 49% of single-person households in Seoul were aged between 18 and 39 years, with students and young professionals clustered in the nation's capital city for education and job opportunities, translating into demand for small housing units. Furthermore, the recent shift in consumer spending patterns among younger generations who are keener to pursue experiential value is likely to support market demand for co-living.

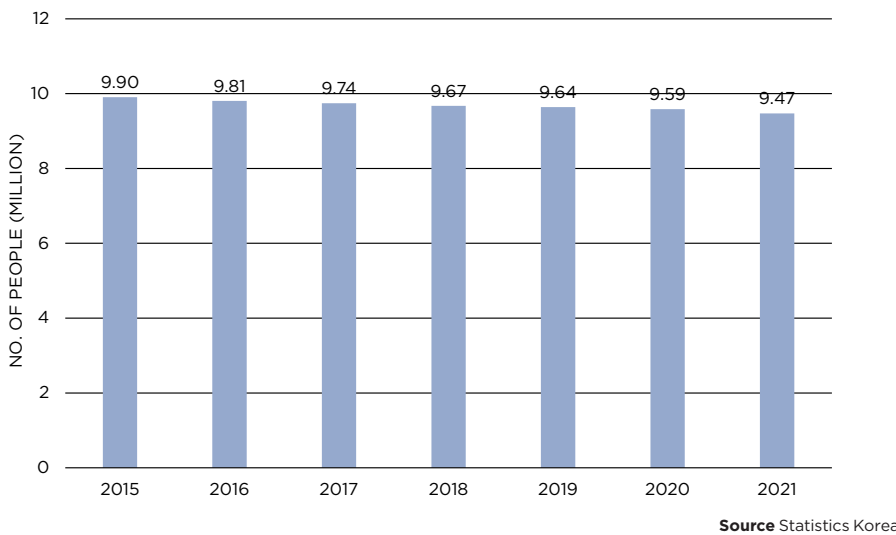
KEY MARKET REGULATIONS

According to statistics published by Korea Real Estate Board, housing prices in Seoul have shown steady growth since 2012 in line with the overall economy despite short-term cyclical downturns. To stabilize purchase prices and draw potential homebuyers to the rental market, the government recently announced in February 2023 the building use of "Dormitories for Rental Purpose" which will be regulated under "Special Act on Public Housing" for public housing operators, and "Special Act on Private Rental Housing" for private sector operators. The buildings are legally defined as residential facilities with minimum of twenty units available for lease with at least 50% of total households using the communal cooking areas. Though details on tax treatment and operational criteria are yet to be published, the introduction of dormitories for rental purpose is favorable for co-living developers and operators. For example, the buildings are likely to have relaxed car park installation requirements, and the whole dormitory building will also be considered as a single residential property rather than multiple units as compared to officetels, reducing the tax basis for annual Comprehensive Real Estate Taxes.

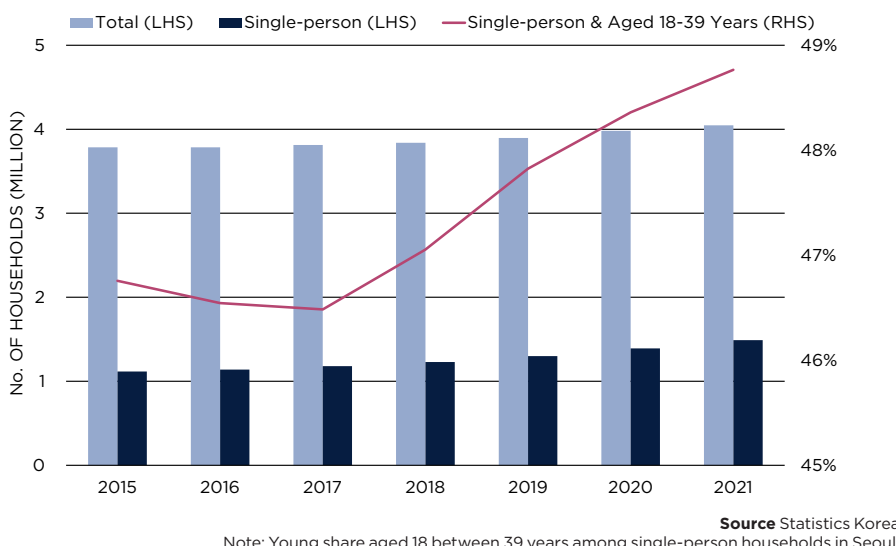
OPERATORS & PRICING

Notable operators (brands) include SK D&D (Episode), MRGV (Mangrove), Local Stitch and Fast Five (Life on 2.Gather) among others. They are rapidly expanding in

GRAPH 1: Seoul Population, 2015 to 2021



GRAPH 2: Seoul Single-person & Young Share of Total Households, 2015 to 2021

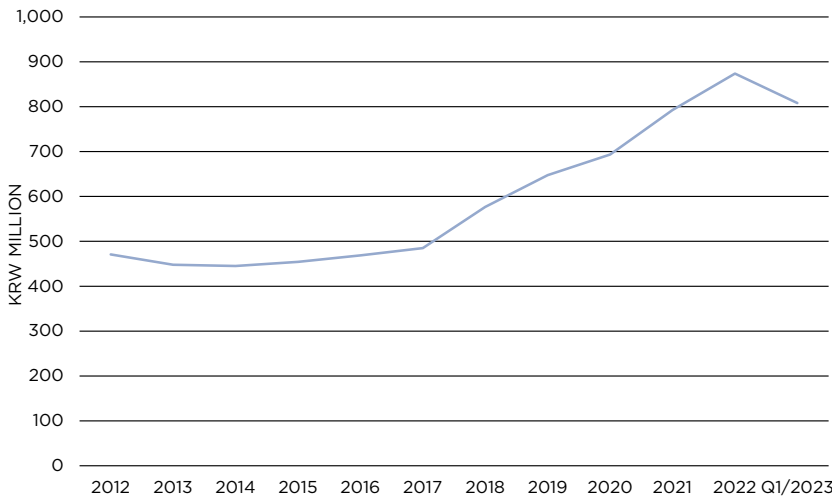


numerous university and business districts highly preferred by affluent youth with varying product offerings by target segment. Co-living schemes situated near universities are oriented toward networking events and one-day classes, while those in business districts are equipped with co-working workstations, and screen golf.

Since maintenance fees are subject to usage, quoted all-inclusive per person costs for co-living in the Sinchon university district averages from KRW800,000 to KRW1,500,000 per month. This is 10% to

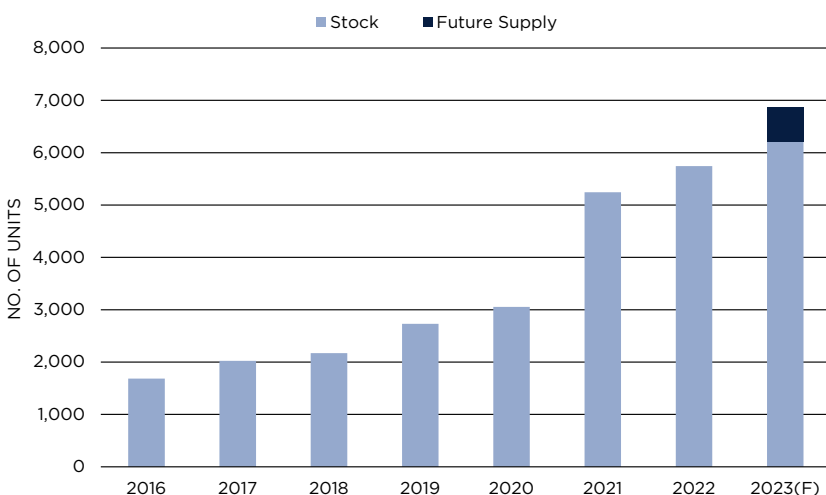
Significant demographic changes, urbanization in Seoul, and shifting consumer preferences for lived experiences are expected to foster growth in the co-living sector.

GRAPH 3: Seoul House Price Trends, 2012 to Q1/2023



Source Korea Real Estate Board
Note: Includes Tradeable apartment houses, detached houses, and tenement houses (excluding rental).

GRAPH 4: Seoul Co-living Stock & Future Supply, 2016 to 2023(F)



Source Savills Korea Research & Consultancy
Note: Stock excludes short-term lodging facilities.

20% higher than comparable one-person studio or officetel rents in the vicinity. For young professionals in the Gangnam area, costs showed a wider gap of 20 to 30% for similar properties, ranging between KRW1,200,000 and KRW3,500,000 per month.

The pricing premium is attributable to a diverse selection of amenities, as well as the comfort for residents from flexible lease terms and effective security. Investment yields, which are determined as Total Rental Income divided by Total Project Cost excluding Security Deposits, are roughly estimated between high-3% to high-4%.

MARKET SUPPLY

Seoul's co-living market, excluding any short-term lodging facilities, currently totals approximately 6,200 units as of May 2023, showing a CAGR of 20.5% from 2014 to YTD2023. With the market still in its early stage, supply has spiked thanks to new market operators entering the field, such as SK D&D in 2021, and Mangrove in 2023. Future pipeline includes Celib Gadi to be completed in Q3/2023 and Episode Yongsan in the Hannam-dong area, to be completed in Q4/2023.

Backed by solid market fundamentals, the market has accumulated capital from various domestic and foreign investors. Singapore's GIC reportedly participated in the investment of four branches of SK D&D's Episode (Episode Seocho 393, Episode Gangnam 262, Episode Sinchon 369, Episode Suyu 838), while Britain's ICG has signed an MOU to establish a joint venture with local co-living operator Homes Company with plans to raise funds from local institutional investors. Other key domestic players include Mastern IMC, which has recently signed an MOU with co-living operator Unionplace to establish a dedicated REITs to invest in the sector.

TABLE 1: Comparison of Key Co-living Schemes by Area

AREA	BUSINESS DISTRICT			UNIVERSITY DISTRICT		
	NAME	Episode Gangnam 262	Episode Seocho 393	Life on 2.Gather	Local Stitch Creator Town Seogyo	Mangrove Sinchon
OPERATOR	SK D&D	SK D&D	FASTFIVE	Local Stitch	MGRV	SK D&D
LOCATION	GBD	GBD	GBD	Hongdae	Sinchon	Sinchon
COMPLETION	Q4/2021	Q3/2021	Q2/2019	Q2/2023	Q1/2023	Q4/2021
GFA (SQ M)	23,307	33,775	5,039	17,035	13,520	21,953
NO. OF UNITS	250	378	130	296	165	352

Source Savills Korea Research & Consultancy

OUTLOOK

Significant demographic changes, urbanization in Seoul, and shifting consumer preferences for lived experiences are expected to foster growth in the co-living sector. In addition to a traditional place for living, the home will perform a role supporting social interaction and various activities. Market-related factors such as the impact of rising Seoul housing prices amid the propensity to live in professionally managed properties rather than choose individually owned houses due to frequently reported cases of jeonse and deposit scams are also contributors to demand. From the supply perspective, the sector is likely to expand due to improved operating profit margins from recent regulatory revisions on the introduction of dormitories for rental purposes via new developments and renovation schemes.



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