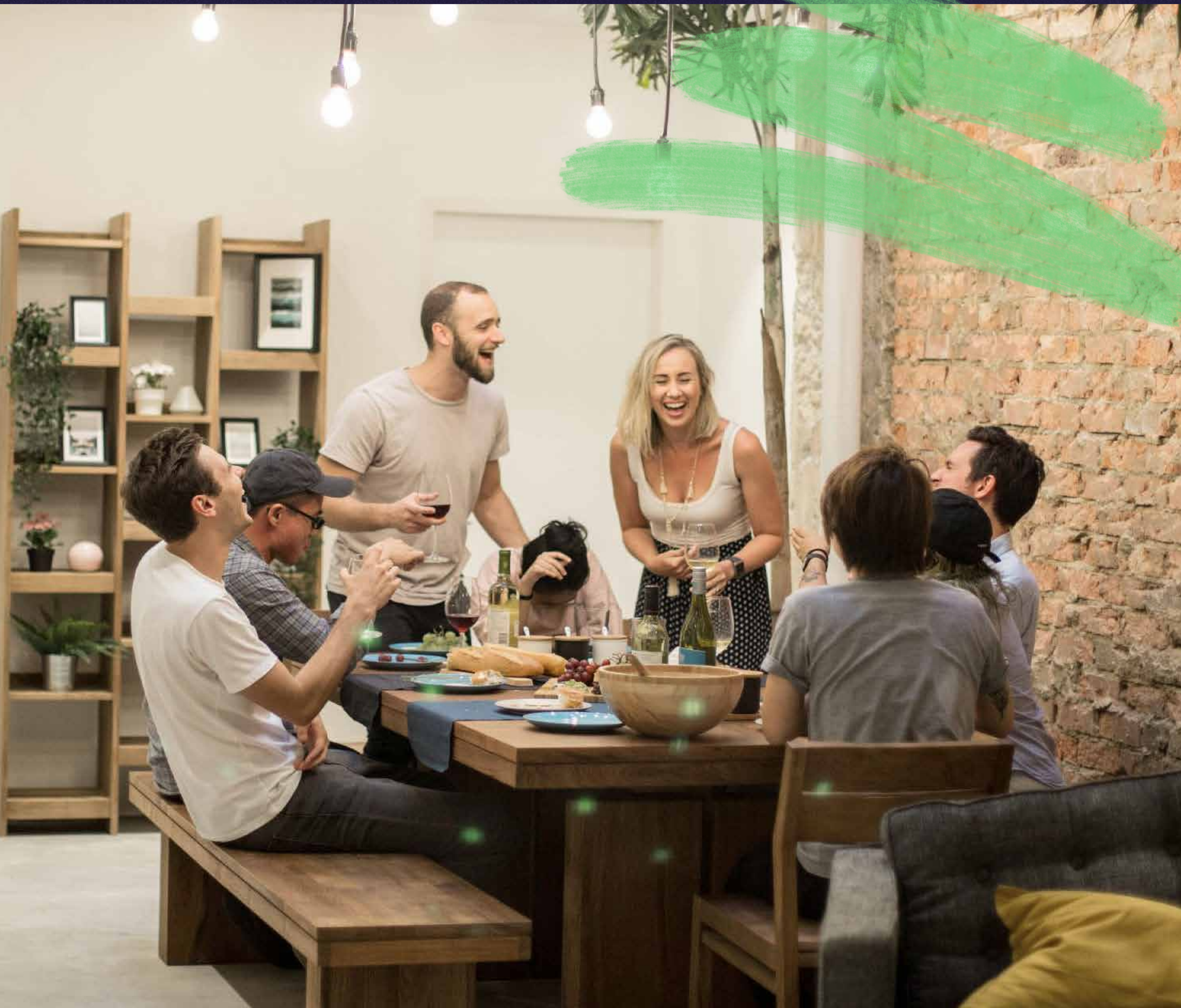
Co-Living: Transcending Adversity

Locals And Expatriates Drive
Resurgence In Shared Housing Spaces

COMFORT WITHOUT COMPROMISE



An Insider View Of Singapore's Co-Living Landscape

by Joshua Li

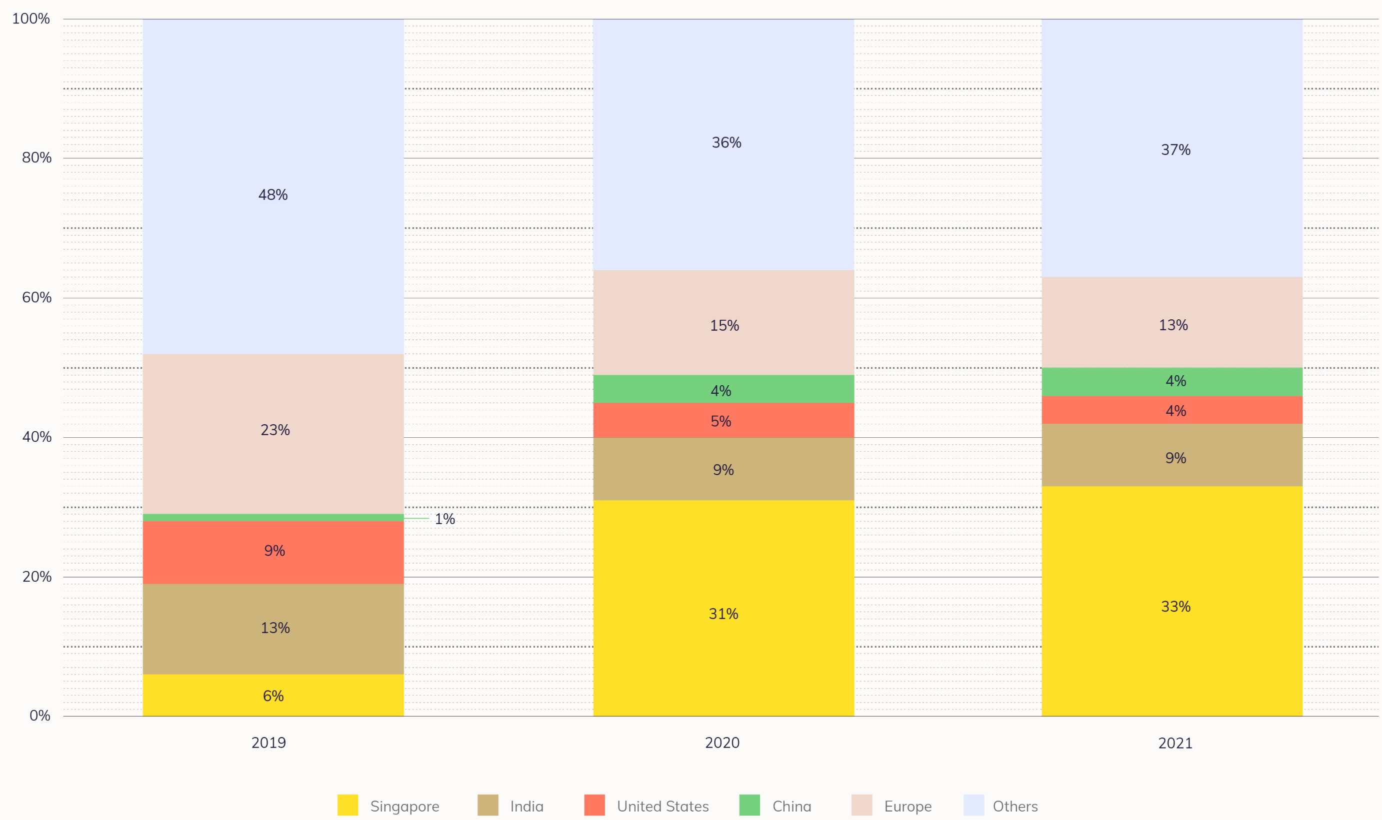
Throwback to a pre-COVID-19 world sometime in 2018 when Singapore's borders were porous, expatriates were moving here as a base to embark on adventures on long weekends to Bali or Phuket.

Co-living in its infancy was the perfect platform for such expatriates to transition seamlessly into their new country of residence. More than just an affordable flexible housing solution that is professionally managed, it also provides opportunities to meet other like-minded expatriates through community events.

From the time Hmlet began operations in 2017, 95% of our Member base were expatriates. The co-living scene was thriving and bustling with activity, and Hmlet's portfolio occupancy of above 90% was reflective of that new found demand. Member events organised in collaboration with local food and beverage (F&B) outlets were packed to the door, craft beer and long islands flowed freely.

But just as the party was getting started with the co-living industry taking its seat alongside established real estate classes, the first COVID-19 case was confirmed in January 2020.

Member Nationality Distribution
Source: Hmlet



Pandemic Uncertainty

The taps were shut off, not just for the craft beers at F&B outlets with circuit breakers and new social distancing rules, but on the inflow of expatriates into the country.

Almost overnight, incoming demand from our core expatriate market vanished. This was amplified by the churn from existing Members who ended their assignments prematurely to return to their home countries before borders closed.

The entire hospitality industry ground to a halt as cross border travel came to a standstill. Traditional hotels were able to rely on mandated commercial rent concessions and government job subsidies, as well as income from Stay Home Notice (SHN) and quarantine services. However, the situation wasn't as clear for the co-living industry. As most of our business is housed in residential buildings, we fell through the cracks and did not receive similar government relief packages. From a rental cost perspective, we were grateful to our landlords who extended relief to Hmlet out of their own pockets. With an entire demand audience channel shut off, co-living operators were staring into the abyss.

Hmlet's portfolio occupancy dipped to its lowest point in Q2 2019 at 70%, this was further exacerbated by lockdowns that did not allow for physical viewings. Even with a demand audience we knew intimately, based on our regular consumer engagement surveys, consumer preferences were rapidly shifting.

Adapting to WFH

Working From Home (WFH) had a profound impact on our product market fit. With most Members WFH at the same time, they would now require upgraded wi-fi connectivity, and working desks and chairs in their rooms to take virtual calls privately.

Due to restrictions on the number of unique household visitors per day and workers allowed to operate during circuit breakers, we were not able to deliver on some of our cleaning and maintenance services. However, that did not mean we sat on our laurels. Our Member Experience team remained available at all times, assisting Members on their SHN and isolation needs, amongst others. In addition, we stepped up our cleaning efforts and ensured common areas were frequently sanitised to prevent the spread of COVID-19.

Another change was also happening during this time: our Members' perception of home location shifted dramatically. Our properties located within the Central Business District suffered the steepest drop in occupancies to less than 50% at the trough, as the premium to pay for living next to the office no longer made sense in a WFH environment. Conversely, our locations in the East demonstrated a lot more resilient occupancies given the proximity to nature and amenities.

The Good And The Ugly

The one thing about being hit by such a severe shift of fundamentals, it shone a light on every nook and cranny of the business model; the good and the ugly. It forced an objective introspection towards the state of matters and as a startup we had to pivot quickly to remain relevant.

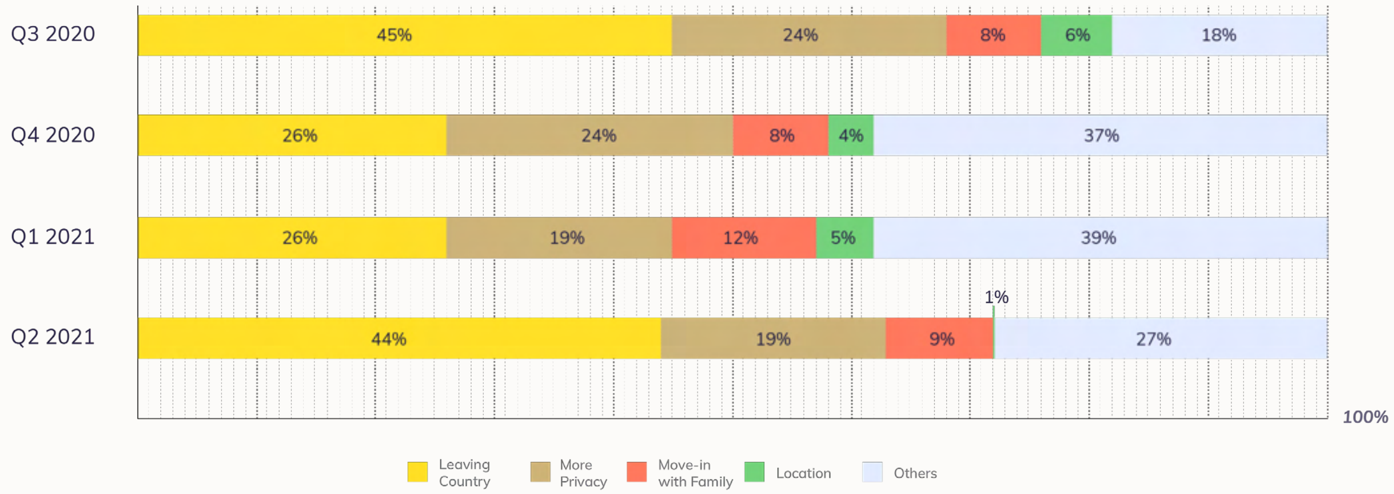
In hindsight, the fault lines were almost extremely obvious, the business model was entirely reliant on a singular target audience. How then could we leverage the strength of our brand to navigate a black swan event where there was no playbook written for?

Hmlet Nest

Launched in June 2021 to target couples and young families seeking private unit rentals,

Hmlet Nest was born in part as a by-product of the circumstances that forced us to look inwards at market demand and connect the data points gathered over time. We found that 20% of members were opting for traditional private unit rental listings over standard co-living offerings, because they found a partner, or sought more privacy.

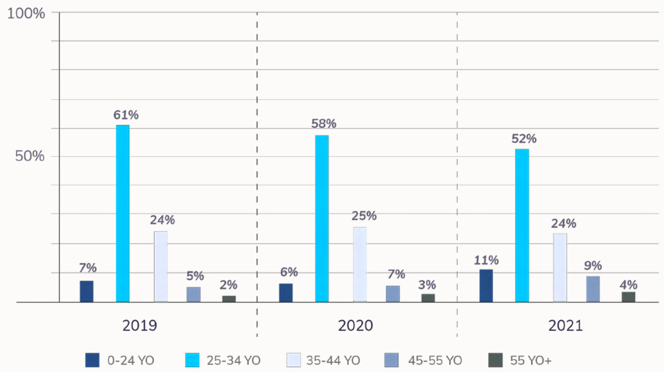
Reasons For Opting Out Of Standard Co-living Arrangements
Source: Hmlet



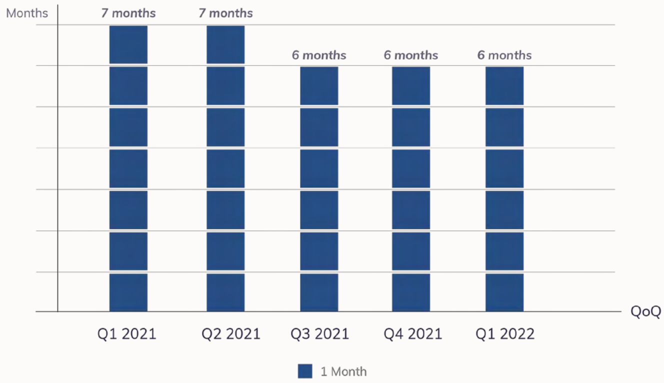
Hmlet Nest appealed to both local and expatriate couples alike. With the delayed construction for both private and public housing, Hmlet Nest appealed particularly to local couples who sought independence and did not want to let COVID-19 put their life plans on hold. In the same breath, Members who are WFH for the foreseeable future even as we progress to the other side of the pandemic.

We have observed a burgeoning segment of single locals, who are not necessarily rushing to jump onto the home ownership ladder, moving into Hmlet Nest offerings. This is telling of the shifting sentiments when it comes to traditional home ownership aspirations, which is gradually becoming a growing part of the zeitgeist for Millennials and Gen-Z cohorts who feel strongly that if their liabilities are narrowed, their horizons widen.

Member Age Distribution
Source: Hmlet



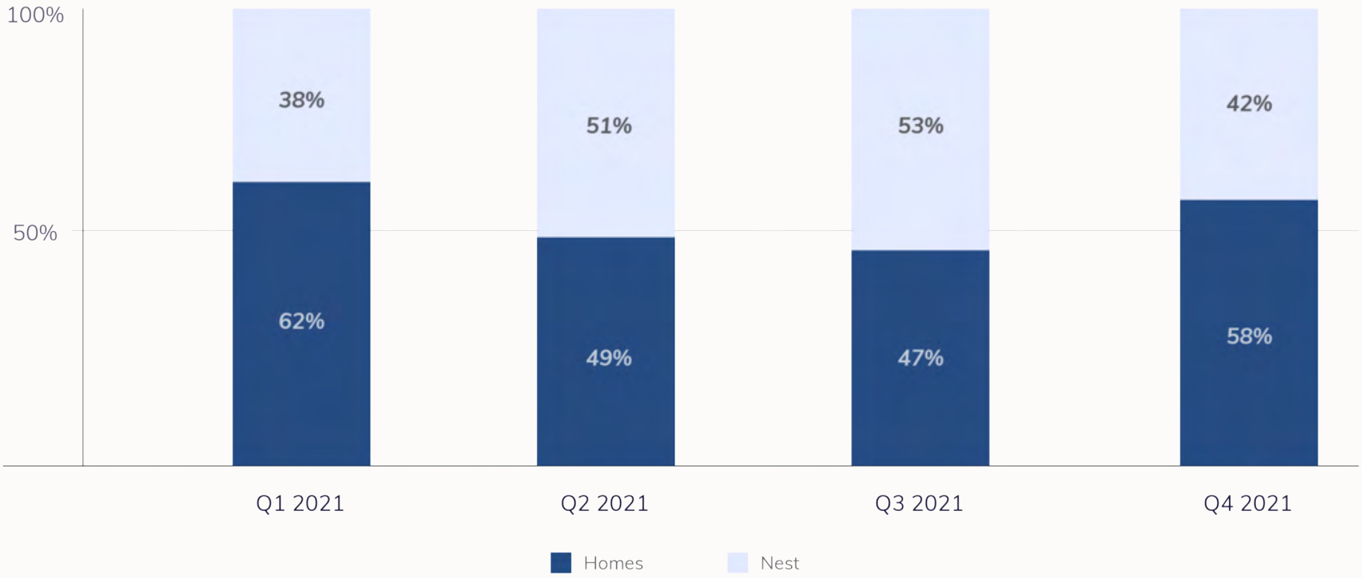
Average Length Of Stay
Source: Hmlet



The Road to Recovery

Fast forward to today, 35% of our Members in Singapore comprise locals and 25% of our portfolio inventory are Hmlet Nest offerings. Our portfolio occupancy for FY2021 has recovered to 85%. 2021 may have been the toughest year for the business to navigate, but in many ways it was transformational as it forced us to adapt and leverage the strength of the brand to connect with a broader audience and change the way we do business.

Number Of Rooms Sold (Homes vs Nest)
Source: Hmlet



It gifted us the opportunity to come out of 2021 as a much healthier, sustainable and stronger business as a whole. With the gradual loosening of borders in 4Q 2021, Hmlet has been a beneficiary with volume of leads increasing by 35% from 3Q 2021 to 4Q 2021 and occupancy in 4Q 2021 exceeding 90%.

This has made 2022 start off on a positive note as we get to the other side of the pandemic with expatriates and overseas students receiving visa approvals to enter Singapore, and progressive locals who have tasted the forbidden fruit of living independently continue to stay on with Hmlet, driving a broad-based demand recovery for the business.

As the future of retail and the office face disruption, and often remains a contentious topic of debate, the residential asset class consumer demand for institutional grade rental housing stock that is professionally managed remains evergreen and is a universal need for all demographics. The broad-based acceptance of the Hmlet product amongst other demographics is an indication of the co-living industry maturing. In a world that is seemingly migrating online in all aspects of our lives, the need for a physical community has never been more existential.

As we reflect on 2020 to 2021, it is clear that COVID-19 was always an artificial suppressant on demand. Data shows that throughout the pandemic our portfolio occupancy never fell below 70%, demonstrating an element of resilience. The need for a seamless rental housing solution embedded in a community welcoming all demographics, if anything, is an essential service that is here to stay.

Robust Demand For Residential Rental Market Amid COVID-19

by Alice Tan

The COVID-19 pandemic has impacted global supply chains, constrained the supply of labour and building materials into Singapore, and fluctuated border controls in various countries.

These challenges have hampered construction progress of residential projects, which will remain so at least for the next three months as the omicron variant cast uncertainty on the timing of the Covid-19 relaxation measures. The construction and handover delays of new homes to homebuyers and rising competition for available homes in the resale market have resulted in a robust private residential rental market (see Exhibits 1 & 2).

Singapore's private residential rental market has been a beneficiary of the pandemic-induced work-from-home phenomenon. Residential leasing transaction volumes grew from 94,205 in 2020 to 99,925 in 2021, an increase of 6.1% and surpassing the pre-pandemic leasing volume in 2019 by 4.6%. Meanwhile, the residential rental index grew 10% over five quarters, increasing from a pandemic-low of 103.8 in 3Q 2020 to 114.2 in 4Q 2021. For the whole of 2021, rentals of all private residential properties and non-landed properties rose by 9.9% for both markets. Consequently, the co-living market segment witnessed stronger take-up arising from a buoyant residential rental market.

Exhibit 1 – Leasing Transaction Volume (All Property Types)
Source: Urban Redevelopment Authority, Knight Frank Research

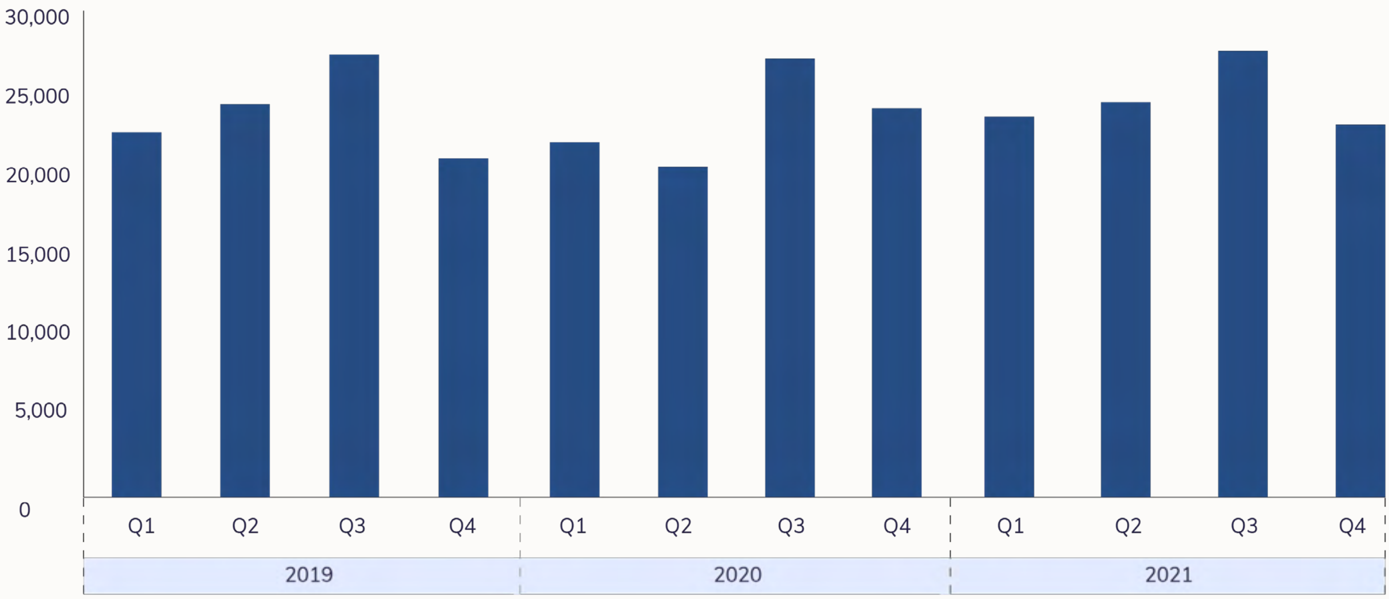


Exhibit 2 – All Private Residential Rental Index (include Executive Condominiums)
Source: Urban Redevelopment Authority, Knight Frank Research

Since the pandemic has upended travel and workstyles, co-living dwellers are becoming more diverse — from local and foreign communities to family and older demographics. Occupants are embracing the extended benefits of co-living compared to conventional home rental or ownership. These include lower capital outlay without expenditures incurred from home purchase, greater convenience from accommodation support services, opportunities to network, participate in meaningful activities and a greater sense of community.

As the authorities work towards pivoting the pandemic towards an endemic situation, the gradual influx of the foreign workforce comprising professionals and expatriates from growth sectors – technology, biotech and healthcare – will have an effect on the residential rental market.

Coupled with construction delays exacerbated by Covid-19 and the muted pace of roll-out of completed homes, the supply of residential units available for lease could be constrained. Rental rate increases are likely to persist in first half of 2022, as tenants maintain to rent amid the prevailing uncertainties of regular travel.

Knight Frank Research forecasts that rental growth of private residential property could hit around 7% year-on-year by Q4 2022.

About Hmlet

Hmlet is Asia's leading flexible living brand, with over 1,500 homes across Singapore, Hong Kong and Tokyo. We provide occupants, also known as Members, with custom-designed fully furnished rooms and apartments — tailored to fit their budget, duration of stay and stage of life.

About Knight Frank

Founded locally in 1940, Knight Frank Singapore is an established international real estate consultancy headquartered in the UK under Knight Frank LLP. The firm is backed by over 126 years of experience in real estate advisory and private wealth expertise, entrusted with multi-million dollar projects across public and private sectors, in both local and international markets.

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