Warburg Pincus—Lemon Tree Hotels targets 100,000 beds in co-living biz

"This segment is highly under penetrated. A dormitory (dorm) capital-intensive project would be a smaller form of shared accommodation," he said, adding that Homestay was looking to have a pan-Indian presence, intending to build 100,000 beds over the next six years. This will include having a presence in all the major cities, including smaller ones like Kota in Rajasthan, which has emerged as a prominent education hub for producing excellent results in JEE and medical entrance exams over the past decade and a half.

Lemon Tree Hotels is the first hospitality firm to enter the segment. It has been the preserve of technology-based start-ups such as New Wave, SaffronStays, StayAbode, and SimplyGuest. In October, SoftBank-backed OYO also entered the segment with YITH Living. Unlike most other entrepreneurs who have 4,000-5,000 beds, this scale at which Homestay will operate will be much larger, Sharma said.

An experience in the hospitality business, he said, would come handy in offering the desired quality experience at an affordable cost. Sharma is looking at a return of 14-15 per cent of the investment being made.

To start with, Homestay will have an asset-light model to manage the existing properties and lease properties from real estate firms that have unsold inventory. In the next phase of expansion, it will also have greenfield properties. Depending on the location and the permanent rent in a particular city, the changes will vary from INR 8,000 a bed per month.

Homestay has also plans to tap into markets outside India in the next phase as Warburg Pincus is operating in the business in Hong Kong and China, said Sharma. Homestay is in talks with engineering and management institutes for possible associations.

Warburg Pincus announced a joint venture with Lemon Tree and a preferred investment of INR 600 crore into the business last week. While it will hold a 10 per cent stake in the venture, Lemon Tree will own 90 per cent. The remaining 1 per cent will be held by the employees of Lemon Tree in a trust. Sharma said the warburg partnership will initially invest INR 250 crore over a period of time and an additional equal infusion at the option of the partners to develop rental housing projects.

Earlier this month, Knight Frank India, an international property consultancy, launched a report that said 72 per cent of millennials prefer co-living spaces and more than 55 per cent respondents in the age group of 18–35 years are willing to rent co-living spaces. The survey showed close to 40 per cent of all respondents are most comfortable in paying between INR 15,000 and INR 30,000 per month towards rental housing in key cities of India. The sweet spot for rentals, thus, remains at a monthly outflow of INR 20,000–35,000. It said.