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

WHAT'S THE BUZZ

- Lemon Tree targets to offer 100,000 beds in 6 years
- Will have a pan-Indian presence, including towns
- 72% of 18-21 yrs respondents of a Bright-Frank survey prefer co-living space
- 3% see it as the future of the business model

After shared transportation, services, and workspaces, the rise of shared living spaces presents an opportunity, this time in the co-living market.

If the plans charted by Homestay Living, the co-living business of Warburg and Lemon Tree announced last week, any indication, the concept of shared accommodation is going to take off big time. Homestay plans to offer 100,000 beds over the next five years as it seeks to make inroads into a highly underpenetrated segment, Kapil Sharma, chief financial officer at Lemon Tree Hotels, told Business Standard.

The company is planning to house on 35 million students enrolled in graduate and post-graduate programmes and young working professionals who frequently migrate from one city to another and on a look-out for equality, flexible accommodation, said Sharma.

"This segment is highly underpenetrated. A steep capital cost and high rent has given birth to the concept 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 technologically-based start-ups such as Nest Away, Fula, Collab Stay, Ashoka, and Simply Guest. In October, SoftBank-backed FlatPod also entered the segment with 460 units.

Unlike most of the incumbents, which have 1,000-3,000 beds each, the portfolio 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% to 16% of the investment being made.

You start with, Homestay will have an asset-light model—manage the existing properties and lease properties from real estate firms that have sanitised inventory.

In the next phase of expansion, it will also have greenfield properties. Depending on the location and the prevailing rent in a particular city, the charges will vary from INR 6,000 to 10,000 per month.

Homestay has also plans to tap into the hospitality sector to market outside India in the next phase as Warburg Pincus is operating similar businesses in Hong Kong and China, said Sharma. Homestay is in talks with engineering and management institutes for a possible association.

Warburg announced a joint venture with Lemon Tree and a planned investment of INR 3,000 crore into the business last week. While it will hold a 60% stake in the venture, Lemon Tree will own 30% each. The remaining 10% will be held by Lemon Tree Chairman Prashant Bhusan.

The partners will initially invest INR 8,500 crore in equity over a period of time and an additional equal infusion at the option of the partners to develop mental housing projects.

Earlier this month, Knight Frank India, an international property consultancy, launched a report that said 73% of millennials prefer co-living spaces and more than 35 per cent respondents in the age group of 18—35 years are willing to rent co-living spaces.

The survey also showed close to 40 per cent of all respondents are most comfortable in paying between 6.2 lakh and 8.1 lakh per annum towards mental housing in key cities of India. The sweet spot for rentals, thus, remains at a monthly outflow of INR 10,000—15,000, it said.