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

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After shared transportation, services, and workspaces, it's the turn of shared living spaces to create disruptions, this time in the house rental market.

If the plans charted by Homestede Living, the co-living business of Warburg and Lemon Tree announced last week, are any indication, the concept of shared accommodation is going to take off in a big way. Homestede plans to offer 100,000 beds over the next year 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 pinning its hope 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 a quality, hassle-free accommodation, said Sharma.

"This segment is highly under-penetrated. A steep capital cost and high rent has given birth the concept of share accommodation," he said, adding that Homestede 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 IIT-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 Nest Away, Zolo, CoHO, StayAbode, and SimplyGuest.

In October, SoftBank-backed OYO also entered the segment with OYO Living. Unlike most of the incumbents that have 5,000-10,000 beds, the scale at which Homestede will operate will be much larger, Sharma said.

WHAT'S THE BUZZ

- Homestede targets to offer 100,000 beds in 6 years
- Will have a pan-Indian presence, including towns
- Eyes 14-15% return on investment from the new business
- 72% (18-23 yrs) respondents of a Knight Frank survey prefer co-living space

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 15 per cent of the investment being made.

To start with, Homestede will have an asset light model - manage the existing properties and lease properties from real estate firms that have unutilised inventory.

In the next phase of expansion, it will also have greenfield properties. Depending on the location and the prevalent rent in a particular city, the charges will vary from ₹15,000 a bed per month.

Homestede has also plans to tap into markets outside India in the next phase as Warburg Pincus is operating similar businesses in Hong Kong and China, said Sharma. Homestede 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 ₹3,000 crore into the business last week. While it will hold a 68 per cent stake in the venture, Lemon Tree will own 30 per cent. The remaining 2 per cent will be held by Lemon Tree Chairman Patanjali Keswani. The partners will initially invest ₹1,500 crore in equity 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 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 also showed close to 40 per cent of all respondents are most comfortable in paying between ₹1.2 lakh and ₹1.8 lakh per annum towards rental housing in key cities of India. The sweet spot for rentals, thus, remains at a monthly outflow of ₹10,000-15,000, it said.