CO-WORKING_ CO-LIVING SEGMENTS COULD HAVE AN UBER _ OLA EFFECT ON THE REAL ESTATE INDUSTRY

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As per Andrew Grove’s book ‘Only the Paranoid Survive’, a strategic inflection point is when the balance of forces shifts from the old business structure, from the old ways of doing business and the old ways of competing. It is a point where the business curve has subtly but profoundly changed, never to change back again.

The auto and real estate industry seem to going through one such strategic inflection point. For the great Indian middle class, a car and a house are both prized possessions to be bought at the earliest possible financial convenience. In recent times the auto industry is going through an unprecedented downward spiral of demand. Logically if a customer is reluctant to buy a car then would she take the risk to buy a house? Hence it seems sensible to evaluate if the auto industry ’s current experience offers any insight into the real estate industry.

In recent time any talk about the auto industry slump gets linked to the success of ride hailing apps like Uber / Ola. Have seen two more such apps get launched recently i.e. Tora and Prydo. It seems sales of automobiles have fallen, especially among millennials, as preference is given to renting a car than buying it. The general commentary across media seem to be painting a doomsday picture for this sector.

A closer look tells us that not all auto companies are suffering. In this general slowdown scenario we find some models selling extremely well. Sales for MG Hector, Kia Seltos, Hyundai Venue, Jawa Motorcycle, Jeep Compass etc. have been quite successful. Why is the same customer not buying the regular or older car models but new ones are being welcomed with open arms. New models have waiting time of months for delivery and older models are lining up discounts, sometimes in the same dealership. The answer seems that in this day and age of iPhone 11 a product looking, feeling and working like first iPhone would not sell. The Indian customer does not seem to be adhering to her established mind-frame of 'Sasta Sunder Tikau’. Even at discounted prices her expectations are of a modern product with all the latest features and specifications.

The co-working industry in Hyderabad is touching between 20-25K seats currently, with the biggest amongst them… Wework just setting up shop. This number can be expected to double in the next 12-18 months of time. Clients are aggressively filling up co-working spaces even in this phase of high rentals. Seems like the co-working industry is acting like a buffer and burning money cushioning clients from high rentals. The co-working industry has ensured that clients get a furnished office with all required facilities like broadband, beverages, housekeeping, water, printouts, parking etc coming as a package at a fixed cost. The landlord has morphed into a service provider.

The general thinking till now has been that large companies prefer to do fit-outs on their own and manage their offices / campuses. Co-working was thought to be more in demand from startup’s, SME’s and limited number of large clients. All this seems to be changing with clients like Microsoft looking at co-working options for 1000+ seats. Effectively who has lost out deals to co-working companies? It’s the larger standard & medium developers, HNI’s and smaller investors who own commercial real estate. The only segment which has remained insulated from the co-working phenomenon are the SEZ’s which is purely due to the current statutory rules and regulations.

Developers offering just warm / bare shell space are losing serious ground to co-working companies. So today we have reached a level where investing in your office fit-outs and managing your own office is passé. Obviously outsourcing to co-working landlords is commercially competitive and improves productivity for clients, which explains the exponential growth of the co-working industry. Our guess is that standard developers / property owners would have to offer spaces fully functional with infrastructure and amenities already in place. Clients will just come in and plug in their gadgets and get to work. The office would be managed by the developers / property owners through a model of property management which would ensure seamless office functionality round the clock all days in a year. Incase the economic situation becomes grim for clients, they would have already made the smarter decision of conserving capex cash by operating from co-working centres.

We are already seeing most national and few local developers venturing into the co-working segment. It is predominately a reaction to the current market situation and an attempt at remaining relevant to the new generation of clients and their employees. It is not uncommon today to see multiple co-working centres operating from the same building. In future complete buildings might operate on just a co-working model. We might also see a lot of real estate getting redesigned for office spaces especially unused malls. These would get realigned as office space and to make them more attractive the co-working model would only make sense.

Co-working clients would be able to book office space, conference rooms, meeting rooms etc on a just-in-time basis. Commercial and exit terms would remain extremely client friendly with co-working landlords. Co-working is a huge strategic inflection point for the commercial real estate industry and it will never be the same again in future for developers, property owners and investors in this segment.

Co-living is another segment which needs to be looked at more seriously by developers. This is one segment where the new generation is being provided services like housekeeping, wifi, electricity, maintenance, change of linen, food, parking and weekend / festival entertainment. This segment currently caters to students, working men and women and has developed as a better version of hostels. Unlike co-working number of operators in this segment are far more and widespread.

It is a matter of time when this segment starts offering proper rental options to families with or without kids. Think of the future scenario where as a family you stay in a rented accommodation and all services like maid, housekeeping, electrical, connectivity etc are taken care off. Residential investments anyway give just about 2-3% returns p.a., add the cost of these services and returns might work out to 5-6%. It might still be worth staying on rent rather than buying a house. This is the segment which will put maximum pressure on residential sales in future. It is the same thing like Ola / Uber, why buy an apartment when you can rent out a fully furnished and serviced apartment from the likes of Zolo, Oyo etc.

Residential developers will have to start thinking aloud as to the value add's they can offer. In the coming times just building four walls, a few rooms, bathrooms with kitchen slab will not suffice. The new generation may not have the patience or aptitude to invest few months of their life on doing interiors and running behind various contractors and suppliers. Somebody else would have to furnish everything and give them a fully functional house.

Developers would have to offer fully functional houses to clients with all modern facilities. Modern does not mean gated communities. Gated communities have not been receptive to the idea of co-living and yet the industry has thrived. This only goes to show that the modern residential user is not so hung-up about living in gated communities.

The new generation is concerned about the use of solar for their electricity needs, technology for their security and maintenance, single wifi connectivity to all gadgets in a complex and not have 1000 wires hanging for 1000 flats, having single satellite dish for TV and still have choice of service providers, laundromats, car washing facilities, gyms with trainers, swimming pools with coaches, water conservation projects set up across the complex, may be have gadgets which would harness drinking water from thin air and still not having a bomb of a maintenance bill. To top it all clients will have the option to move houses at the drop of a hat.

Developers will have to make the painful transition of becoming a service provider in the not so distant future. Probably explains why developers are not evaluating getting into the co-living segment so much as some of them are evaluating getting into co-working. Agree with some expert opinions that the golden phase of residential real estate market in India is over. If developers hope to get some semblance of the good phase again then they need to change and fast for the millennials. Customers will now not buy crore plus value pigeon hole apartments in projects which may never see the light of day.

On a personal note the first change that we would like to see is immediate adherence to RERA. Seems a lot of developers in Hyderabad continue to flout RERA. It is seems not uncommon to find developers selling projects, forget without RERA, but without even GHMC approval. We sincerely hope no client would buy in non-RERA approved projects, rather they should expose such criminal minded developers who are not only a disgrace unto themselves but a blot on the entire industry.

Another segment which is experiencing a strategic inflection point is brokers or consultants. Earlier consultants had to just compete with fellow local or IPC brokers. Today the entire sales and marketing team of every co-working / co-living brand is a competitor. After all, all of us are trying to service the same demand side of the market. The learning would be to work complementary with co-working / co-living companies so that demand can be serviced better and in a more effective manner. Last but not the least I hope all brokers register with RERA and never promote non-RERA compliant projects.