

Rental Operators VS Covid-19

How coliving, student housing and home rental operators can protect their business and customers during the ongoing pandemic and its aftermath



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Introduction

It's definitely not easy being a rental operator. Every business across the world is suffering, and the home rental industry is no different.

The other day, one of our clients (who is a co-living operator) asked what he should expect over the next few weeks. I said -

“ Brace for impact - It's going to be a hard landing ”

At TheHouseMonk, we have the privilege of working with 50+ co-living, student housing and rental housing operators across 11 countries. Over the past week, we got on calls with as many of them as possible to hear how their business has been impacted, and seeing how we could help. After hearing their

stories, we decided to compile this handbook based on our learnings, recommendations, and opinions of industry leaders.

I have used the word 'unprecedented' more times over these past few weeks than I have all my life before, but that's exactly what this situation is. While I still struggle to completely grasp what's going on, we all have to accept this reality and plan our businesses keeping the same in mind.

We have been through wars, economic downturns, and pandemics before. We got through them and came out stronger. This time would be no different.

So let's all prepare ourselves and our business to weather this storm.



Ajay Kumar
Founder and CEO,
TheHouseMonk

Getting into survival mode

The first, and probably the most important thing for rental operators to do right now is to get into survival mode. The pandemic will have short-term, mid-term, and long term consequences for the business and we have to accept that.

Many entrepreneurs are facing a downturn for the first time, so we have highlighted a few things you should do now.

1. Conserving cash is priority 1

For about half a decade now, co-living has been a hot industry with demands soaring and investors filing in. This is likely to change with the current status of the economy. Now is the time to cut down on all costs because the future of business is truly uncertain. Operators need to control all their

spendings and attempt to conserve cash as much as possible.

2. Understand your runway

Put simply, your runway is how much money you have in the bank before you run out of money.

A very important point to factor in right now - Over the next few months, many of your customer will not be able to pay you, and your occupancy rates might become lower than what you are used to. Both of these factors will result in your losses increasing, and your runway decreasing

Do you have 12 months runway in the bank?

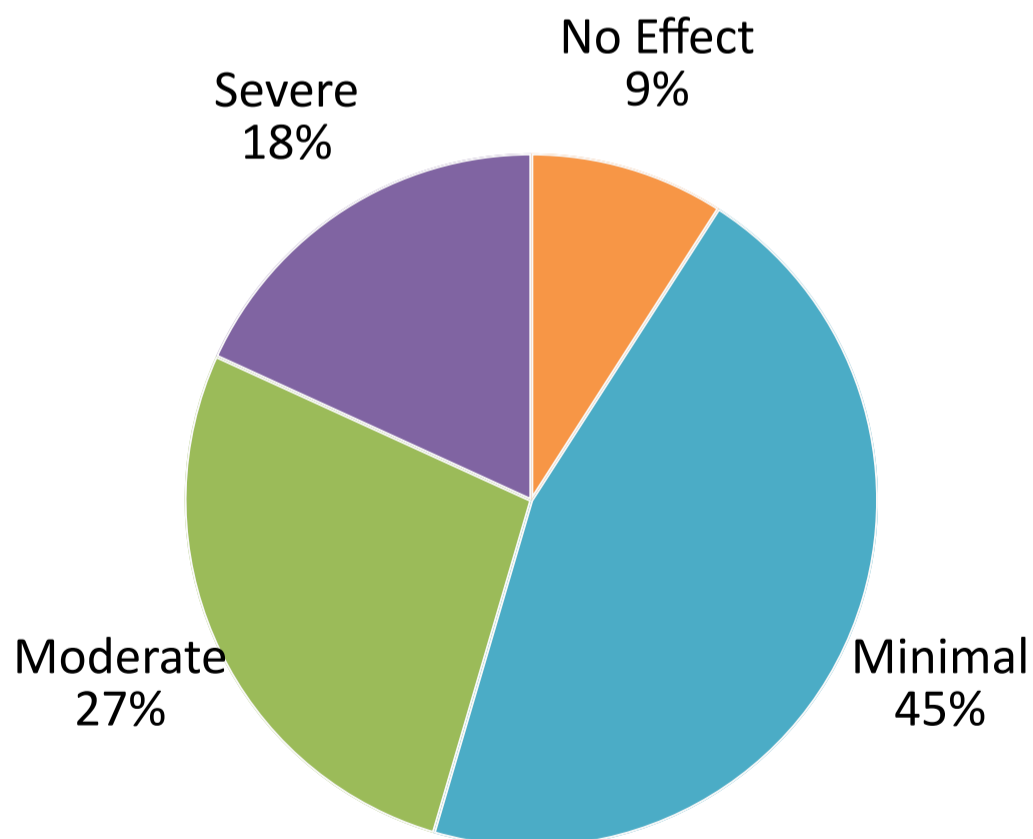
Sitting down with your financial advisor is the need of the hour because runways and survival funds are going to change shape rather quickly in the

time to come. With the inflow of funds seriously compromised, you need to assess what is the condition of your business and where will it stand in a few months to come with such conditions.

3. Can you do a ‘Top-Up’ round with existing investors?

Thriving is not an option; we are in true survival mode. You must

approach existing investors, for more funds. This is crucial to build a reserve and stay afloat in the future, and it is even more important to start right away, as unless you have enough money in the bank, it would be difficult to focus on other parts of the business.



What was the level of impact of COVID-19 on your occupancy rate?

4. Lobby for Govt bailout under 'Hospitality' industry

Governments across the globe have been pressed to aid the economy, and bail outs and assistance plans are being implemented. Try to make the most of these reliefs, and further try to partner with competitors to lobby the industry of co-living as a subset under the wing of hospitality industry as it is likely to be at the centre of relief attempts.

5. Take advantage of relief measures offered

Utilize the government provided features of delayed payments in different forms; some countries are giving relief options on rent while others are allowing delayed payments of electricity, gas, and water bills. Plan strategically and don't go all in trying to stay debt-free. It is smarter

to not throw in your available resources thinking you'll garner more, since the times coming are more unreliable than ever.

6. Be scrappy

Entrepreneurs are known to be extremely resourceful, especially when it comes to saving their business. Below are some measures which you can consider and implement -

- Get rid of your office, continue working from home
- Move your office to an empty room in your co-living space
- Convince your employees to take a temporary pay cut, with the promise the money would be paid as backlog in 6 months
- Speak to your largest IT vendors and ask them to give you a discount for the next few months
- Cut down on your marketing budget

Managing landlords

One important thing to keep in mind - As an operator, your role is in between the tenants and the landlords. An operator is neither a tenant nor the asset owner, but a service provider to both. So if tenants aren't paying their

Pass the baton forward

rents correctly (we will talk more about this in the next section), you should pass the baton forward to landlords. Start by convincing the landlord that 'We are all in this together'.

1. Request landlords for rental renegotiation

In the table below, we have given a few options you can present to landlords to renegotiate your contracts with them. See if it helps.

Possible negotiation options

1. 1-time discount of 30-60% of the rent for Mar/Apr
2. Option to pay the rent for Mar/Apr as instalments over the next 6 months
3. Decrease of 5-15% of the rental amount payable for next 12 months
4. Adjust the Mar/Apr rent with security deposit, and allow operator to pay back the deposit after 6 months
5. Move onto to revenue share model for next 6 months, including Mar/Apr

2. Invoking ‘Force Majeure’ clause

‘Force Majeure’ refers to unforeseeable circumstances that prevent someone from fulfilling a contract. It’s a key legal point used by many operators in their rental contracts with landlords.



If push comes to shove, rely on the Force Majeure clause in your contract to point out that the pandemic engulfing the world and by extension the economy is an unpredictable, unprecedented event that is entirely out of the control of any party involved. If you are bearing the impact of it, it is bound to manifest in these

aspects of your business and that does not say anything about your business ethics or entrepreneurial skills.

We would advice entrepreneurs to have this be their last resort. The first option should still be to ensure that the landlord gives a concession on the rental payment willingly. At the end of the day, many landlords are reliant on the income from their property to run their life.

3. Stop on-boarding new buildings

If this isn’t adequately clear yet, let us tell you once and for all: all expansion efforts must be put on hold right now. This is not the time to market a facility you have just acquired, and construction and renovation activities are not sustainable at the moment. Right now you must focus on the business you have, and fight to keep it in the best shape possible instead of trying to expand or grow it.

Straight Talk

“ Most of our tenants are gig workers and freelancers. Many with actual jobs are part of the informal sector.

We did a quick survey amongst our tenants, and an overwhelming 75% majority have come back saying they won't be able to pay rent on 1-Apr as they have been laid off, or payments have been delayed by their employer. We are looking at a rental shortfall of \$200,000+. We are figuring out how we can cover that loss in such a short time frame.

We don't want to kick out our tenants due to inability to pay rent at such a dramatic time in our lives. We are sure they won't be able to find another place to live now. Besides, we won't be able to replace them as tenants over the next few weeks anyway!

”



Name Withheld
Co-Founder and CEO, US based
co-living with 200+ beds

Handling tenants

As healthcare guidelines and government mandates start taking effect, more and more people are moving back to their hometowns for the time being. This is leaving co-living operators in a rut as business plans have taken a severe beating.

1. Sudden churn

Co-living operators are reporting varying numbers of their tenants having vacated, depending on what parts of the world they are from. UJ Hostels from Malaysia have reported about 5% decline in occupancy rates, while Tikaana has reported a 30-35% drop.

This is predominant in the student housing and short stays models of co-living. Most universities have shut their doors which has resulted in students having to move back in with their parents for the time being.

Restriction on travel also has led to significant reduction in occupancy of short stay co-livings.

2. Demands of deposit refund

Upon vacating the tenants are also seeking their deposits to be refunded, but with no new prospects coming in, the cash inflow that allows deposits to be repaid seems unlikely.

Ensure you deduct all penalties before returning deposits

We urge operators to look into their rental agreements with tenants and revisit their cancellation policy. It's mandated that a notice be given to the operator before vacating the premises. If tenants vacated without doing so, operators should deduce the necessary

penalties from the deposit before returning the same. Also, many operators have a minimum lock-in for tenants before which they can't vacate. If such is the case, operators can also levy an extra fee against prematurely breaking off contract before returning the balance due.

3. Rent default next collection cycle



Operator do report that they have not had rent defaulters so far, but the tenants who are on property are struggling with pay-cuts, some even fearing lay-offs, which suggests that they might also falter on rent payments in the coming months. Oka Living has already rolled out 50%

discount on the next two month's rent, while most others have received requests for delayed payments.

This means the revenue loss being reported is not only immediate but also long-term; hence the goal right now for operators is not to make profit but to ensure their business stays afloat.

4. Community events

Community events are the backbone of any reputed co-living operation, but social distancing has thrown a spanner in those works as well.

It is imperative to distance tenants, which means community events have to be postponed indefinitely, as has been done by Oka Living. Other operators including DomiLiving have stated clearly that guests are not allowed inside facilities.

Although this a tough situation to bring the community together, a few have a found a way.

“ Community has always been at the heart of what we do at Happy Pigeons, but unfortunately, we had to close our community room and co-working space. To bring people together, we have started doing virtual lunches every day with our members where everyone shares what they’re up to. It has been a very interesting experience for our members! ”



Kai Drwecki
Co-Founder, Happy Pigeons

Many co-living companies have started conducting virtual events to keep the community engaged and feel connected during these times.

5. Mental health of tenants

The tenants on the property are confined to their rooms, and with limited social interactions and no lively community around them, their mood has also taken a dip. Gravity Co-living has successfully tried to liven the spirits of tenants with its internal communications app and the multiple partnerships they have that offer

discounts to tenants for a variety of services.

However, most tenants are stuck with little to no distractions while missing home, friends, and family, alongside anxieties related to financial stability and news that is a repulsive mix of negative and terrifying. Co-living operators are struggling to find ways to provide them with emotional comfort without physical companionship.

The impact of this situation on people’s mental health is yet to be fully implored, as the conditions don’t seem to be getting any better in the near future

Straight Talk

“ About 40% of tenants in some of our student housing facilities vacated their rooms and left without giving any notice. Most of their universities have shut down, and their parents asked them to come back to their hometowns for safety reasons during such uncertain times.

This is a very tricky situation for us, as we don't foresee them coming back till the start of their next semester (4-5 months away). The challenge also is that there is no demand in the market now, so filling up these rooms will not be possible immediately.

We are asking for some concession in rent payments with the landlords of these buildings. We have started these talks. Hopefully, they will accept our request. ”



Ateev Bharadwaj
Founder, Birdhouse Co-living

Operations and service delivery

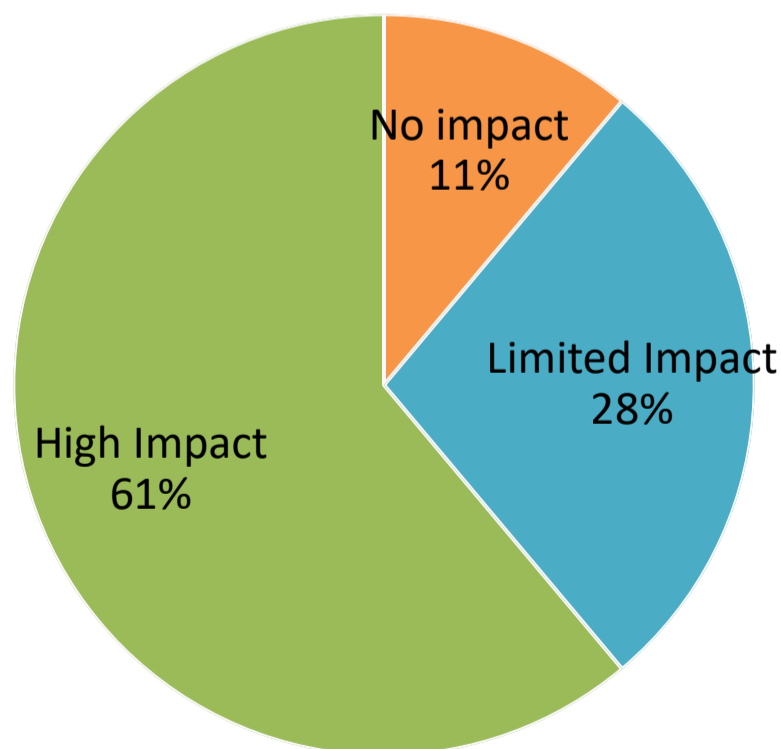
Operations and service is at the heart of the offering by rental operators. It definitely involves, rather needs, people to people interactions.

Whether it is cleaning, property viewing, on boarding or others, rental operators need to physically move to provide the service that is offered.

Unfortunately, this has become a big problem in the industry, due to the restricted movement during these times. Below are some observations made by TheHouseMonk.

1. Cleaning

Cleanliness is the top priority in these times. Sanitisation is imperative to make tenants feel confident that co-living operators are taking precautions to ensure their health is not compromised.



What was the level of impact of COVID-19 on your operations?

Happi Stay has installed hand sanitizers across facilities, and are working on personal washing machines for tenants to help them practice social distancing even better.

However, some tenants want to be left alone without cleaning staff on the premises lest they are unknowingly carrying a disease. Others are complaining if housekeeping is not available at the facilities. There are internal disagreements within tenants which are hard to resolve; the best that can be done is to allow people to clean their own personal spaces while community spaces are taken care of by the operators.

2. Technical Services

Technical services, across facilities, are suffering due to multiple factors. The staff is either not available, or unable to travel to facilities. Issues of maintenance cannot be resolved as facilities are locked down, and as observed by UJ hostels, leaking pipes

can't be fixed for the same reason. The facilities that aren't locked down completely are also seeing a shortage of vendors and handymen.

3. Food operations



Operators who provide food to their tenants have another thing to look into as supplies are getting more and more expensive. On the other hand, tenants are constantly complaining about receiving and not receiving food due to the shortage of staff or due to safety concerns. Those who are still receiving food are often complaining about the taste and quality, which is suffering simply due to the unavailability of resources.

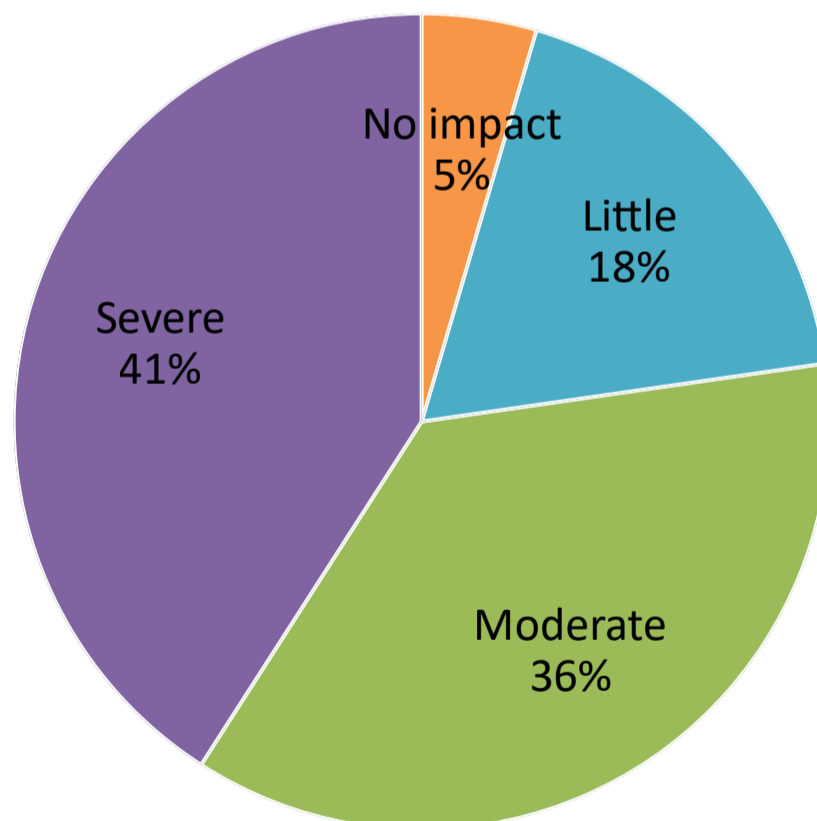
4. Viewing for new tenants

Filling up empty rooms and beds is an inherent part of co-living operations. Most tenants definitely want to come and visit the premises before they make a booking, and enabling this site visit is a challenge during this pandemic.

While the demand for their properties has definitely gone down significantly, most have resorted to virtual viewings for tenants who are looking to make future bookings.

UJ Hostels, Oka Living, Place Me and DomiLiving are just a few of the players who have confirmed the above trend.

www.thehousemonk.com



What has been the drop in new demand for new rooms/beds in your space?

Straight Talk

“ Three of our co-livers, who suspected they may have been infected by COVID19, self isolated and we made sure that via group chats on social media we were able to look after them without compromising on the health of other residents.

Operationally, this meant we had to isolate areas within our house where only infected residents could cook and eat. We also made sure that our cleaning staff were using protective clothing and thoroughly cleaning common spaces.

At the moment there is only one resident who is self isolating. This is a constantly evolving scenario and we need to think on our feet and be there for our community of co-livers.

”



Sonoo Dhar
Co-Founder, Domi Living

Efforts for your team

These are testing times for everyone, and your team is no different, many of whom would be on the front lines servicing customers while putting their own health in danger. We have tried to collate a set of principles to help operators think through this problem and help come out stronger.

“ How companies treat their employees during this pandemic will define their brand for generations to come ”

- Mark Cuban

1. Start with honest conversations about the state of the business

Your team definitely knows that the business, like every other, is going to be impacted negatively during this period. Start by being very honest with them on how you feel this is going to impact your business. If you are not going to layoff people, ensure that you communicate that very clearly as job loss is floating high on everyone's mind right now.

2. Wage cut vs Lay offs

If you have done your math and realised you need to reduce your payroll expense by say 30%, you should consider doing a uniform wage cut across the entire company vs laying off members of your staff. These are hard times and employees would prefer taking a cut to their salary versus the chance of losing their job. It would be much better for your teams morale as well.

3. Repurposing your team

There is a good chance that many of your team members are currently unproductive as they can't work from home. Sales people, housekeeping staff, technical services team, etc. are not members who can contribute remotely.

Instead of writing off their time or laying them off, you can consider if you can take their help in other aspects of the business.

One co-living operator in India is having the technical services team do outbound marketing to potential landlords on LinkedIn through manual direct messages. This is a very creative way of reorganising the team and getting some output from an otherwise unproductive team member.

4. Health insurance

During the middle of a public health crisis, most employees are concerned about the safety of their family and

themselves. This is especially true for workers who are still servicing customers (community managers, housekeepers, etc.). The chances of them getting infected by the virus while doing work is very high, so it's important for operators to consider giving health insurance to their team members (if they haven't already).

5. Can you house your team at your property?

While movement back and forth is difficult during lockdowns and increases the chances of contracting the virus, it might be a good option to accommodate your functional teams at the property if possible. BeeUrban, a co-living space in Pune, India has done exactly that by giving housing options to their staff members at their properties, thereby making it easier for them do their work without any interruption of service for their tenants.

Conclusion

This pandemic is ongoing and we still don't have any idea if we are 2 weeks or 2 months (or more) away from things getting back to normal. For the time being, we can only prepare and take each week as it comes.

World wars and market crashes from the past have proven that businesses that were prepared and decisive made it out of those, and we're sure we will collectively come out of this as well.

Organised rental housing is not a fly-by-night industry. It's critical to the world that people have access to good quality housing at an affordable price with a built-in community to fall back on. Operators who excel at providing that will never go out of business.

So as the adage goes - "This too shall pass".

Also, can we help you?

TheHouseMonk is committed to helping co-living and rental housing operators through this tough spell to ensure we all come out of this ahead. Whether through technology, operations consulting, or helping in setting the strategy - We are happy to do them all for a significantly reduced cost (or free in certain cases) now!

Ping us on hello@thehousemonk.com to get started.

We extend sincere thanks to everyone who shared their views with us



PlaceMe



Youth Community Living



Rentprop4U
Mgt Services Pvt. Ltd.



Thank you!



The
HOUSEMONK