



February 2024

Global living in focus: Opportunities in housing a generation

Housing is a perennially hot topic across the globe. Housebuilding has lagged government targets year after year in most developed economies, contributing to a lack of housing supply in markets where demand is most acute. This has driven strong long-term growth in both house prices and rents, creating challenges for people seeking homes in whatever form.

With stretched affordability, home ownership has increasingly become an unattainable dream for many young people. Renting has become increasingly normalised for younger generations, even in markets where getting on the housing ladder is embedded in the culture.

Yet access to rental housing is awash with extreme anecdotes around the world, from Stockholm's nine-year waiting list for an affordable rent-controlled apartment; to tenants in Sydney facing rent rises of over 60%¹; frequent overcrowding in small Parisian flats; and students in Dublin without accommodation at the start of their studies.

¹ Source: www.9news.com.au, "NSW tenants take action after being hit with more than 60 per cent rent increase", April 2023.

Housing younger generations today is a global challenge that needs to be resolved, by the public and private sectors combined. But with challenge comes opportunity; institutional investment has ballooned as investors look to meet pools of growing demand across the housing spectrum, and tap into areas of strong potential income growth. This is helping to provide high quality and affordable accommodation, catering to differing needs across the living life cycle; from purpose built student accommodation and private rented sector housing, through to senior living.

There is no one-size-fits-all housing solution. With varying demand being addressed with varying levels of success, targeting the right areas of the market is crucial to developing an effective investment strategy. We look at case studies drawn from across the world with different customs, regulation and existing stock to explore where need and opportunity converge.



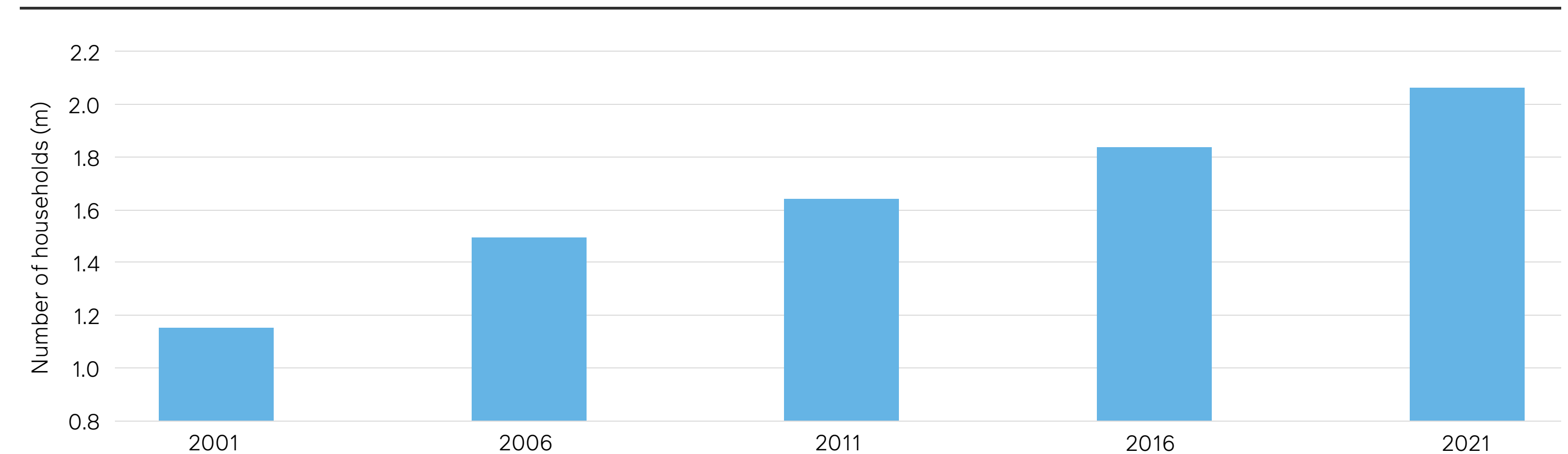
A lack of housing where it's needed

Demand for housing: through the roof

A roof over our heads is a basic need. As the global population has soared past eight billion, the number of roofs needed has grown considerably over the years. Many factors come together to drive demand for housing, but at the most fundamental level, the amount of housing required is a function of changes in the number of households in a particular market. And many markets, particularly in urban areas, have seen a significant rise in households over recent years and decades.

Cities globally have benefited from the long-term trend of urbanisation, while demographic and social shifts such as people living longer, or couples marrying and/or having children later, have led to average household sizes generally shrinking over the decades, pushing up the amount of housing required for the total number of people. An acute example of this is Melbourne, with a near-doubling of households in just 20 years.

Melbourne's staggering surge in households

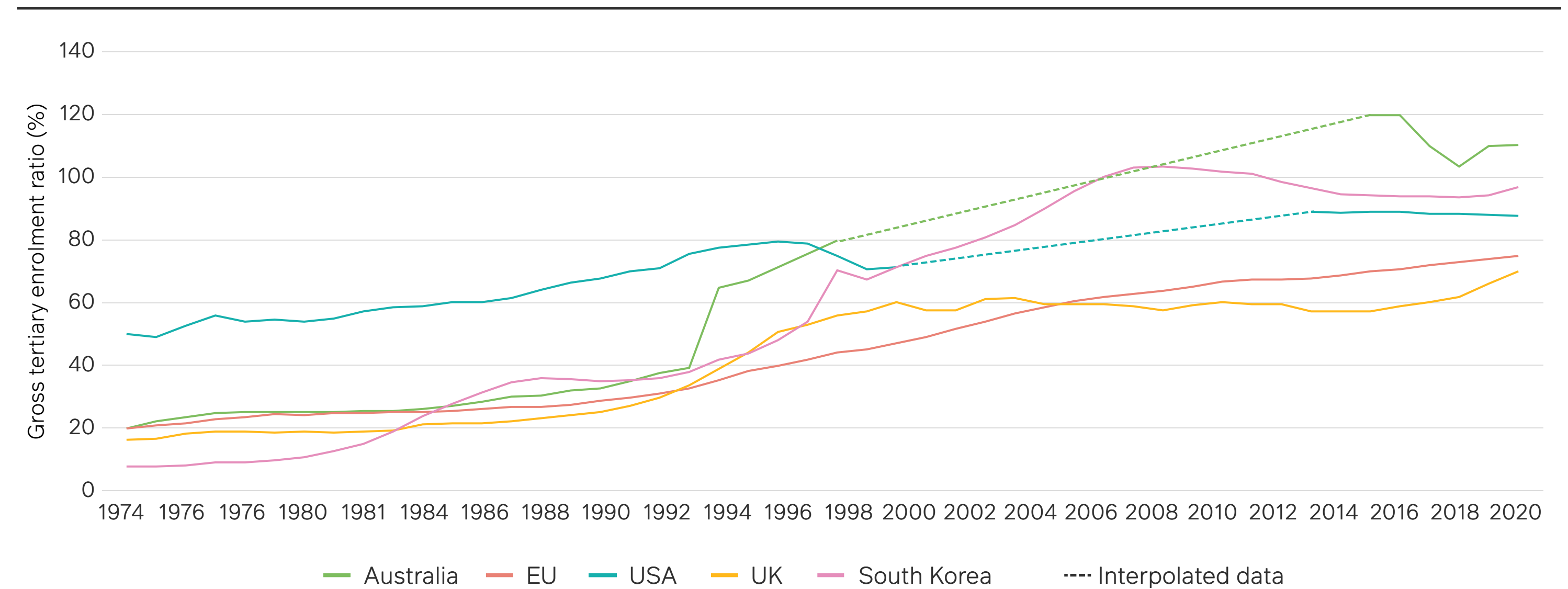


Source: Australian Bureau of Statistics (2023).

The student masses

Demand for housing has also been swollen by a huge expansion in the number of students. For instance, by 2022 a total of 7.4 million were studying at higher education institutions in the UK, France and Australia – a 58% increase on the 4.7 million in 2000. Tertiary education enrolment ratios in most developed economies have risen significantly over the last few decades and are now in excess of 75%². In addition, many universities have seen a dramatic rise in the number of students who come from overseas, particularly from countries like China. Globally, international students rose to nearly 6.4 million by 2021; a tripling since 2000³. Naturally, students who move away from home to study need accommodation, adding to pressure on housing in university towns and cities.

Tertiary education enrolment levels continue to rise



Source: M&G Real Estate based on World Bank (2023)⁴.

² Source: World Bank (2023). Based on latest available Gross Tertiary Enrolment Ratios.

³ Source: UNESCO Institute for Statistics (UIS) (2023).

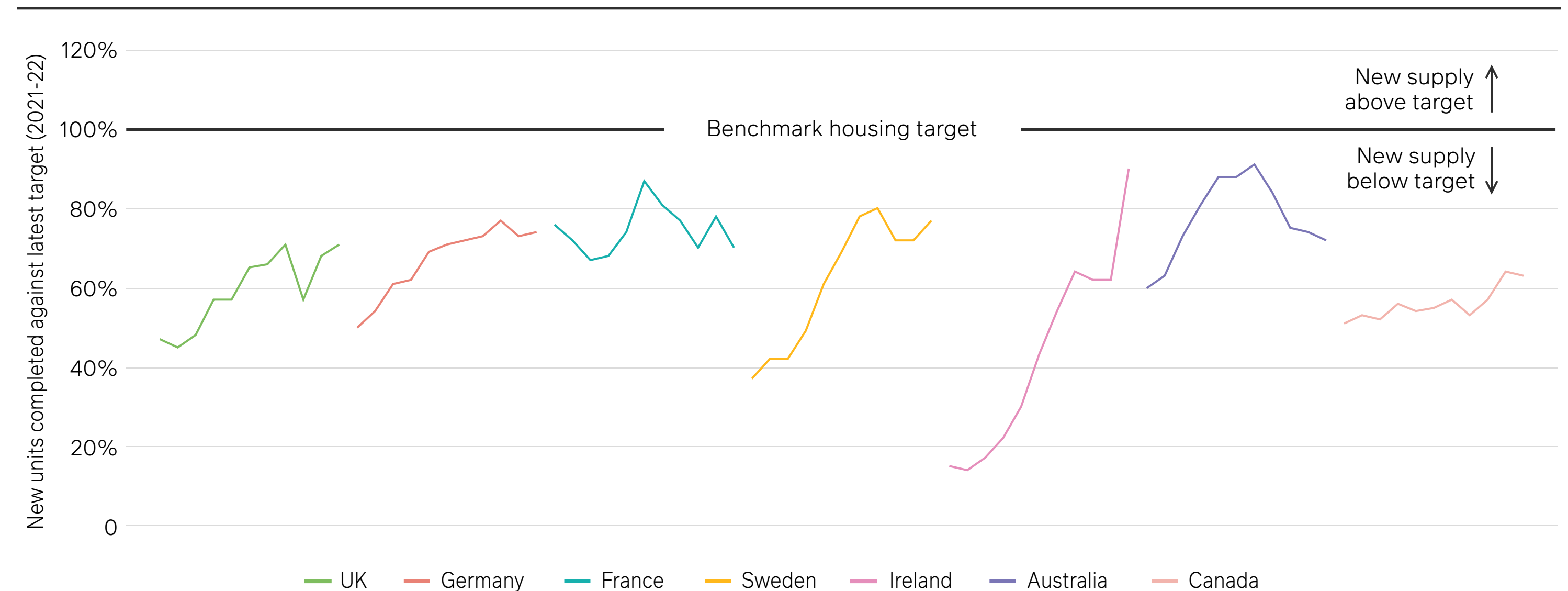
⁴ Notes: (1) Gross tertiary enrolment ratio calculated as the ratio of total enrolment, regardless of age, to the population of the age group that officially corresponds to the level of education shown; mature students and international students can push the ratio above 100%. (2) Linear interpolations (dotted lines) used for missing Australian and US data.

Housing shortages

With demand for housing growing substantially over the years in many markets, there has been substantial pressure for the supply of housing to rise accordingly. This is reflected in government targets for the number of new homes to be built each year. However, the amount of new housing actually completed in developed economies has typically fallen well short each year, largely owing to governments' funding constraints.

In addition, the last 15 years have seen the rise of homes being used for short-stay lettings (eg through Airbnb), and of course some people have acquired second homes. Both trends have effectively removed stock from the market for people looking for somewhere to live. The cumulative result: a chronic lack of housing supply in markets where demand is most acute.

Completion of new housing has persistently fallen short of government targets



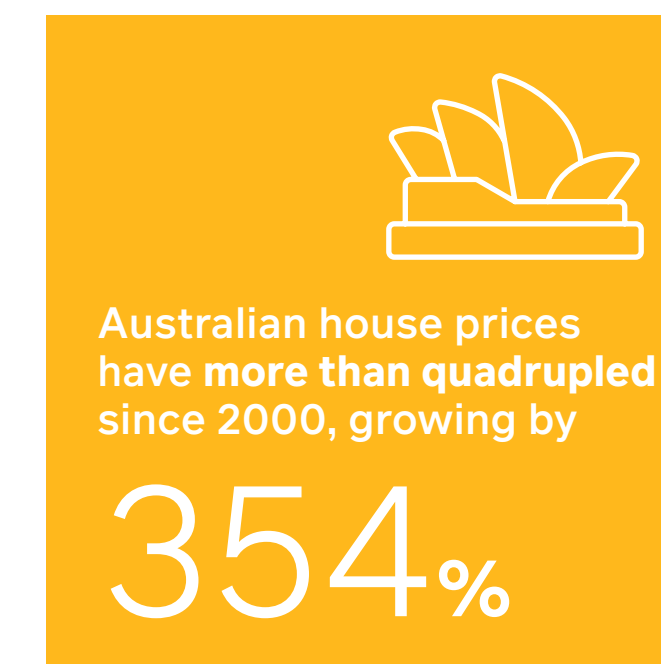
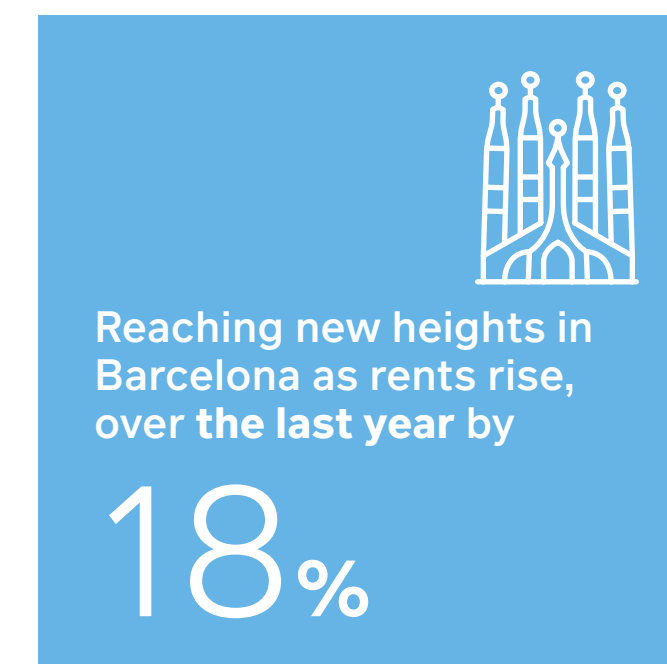
Source: M&G Real Estate based on local statistical authorities and other national sources (2023)⁵.

⁵ Notes: Housing targets are taken from latest official government documents or other calculations relating to estimated housing demand. 2022 completions estimated for France given official data is not yet released.

Taking stock: growth stemming from a lack of housing

With excess demand compared to supply, competition for the limited stock of housing is high among both owner-occupiers and renters. Growth is the result – for both house prices and rents. This has been most striking in places where the demand/supply imbalance is greatest – generally in the most sought-after locations like big cities.

Turbocharged growth in rents and prices for housing across the world



Sources: M&G Real Estate based on Idealista, Daft.ie, Nationwide, Bank of International Settlements, Macrobond. All data to Q3 2023.

Housing a generation

The generation gap

Due to the lack of stock, housing opportunities available to today's younger generations are quite different to those afforded to previous generations in years gone by. Today's 18-34 year-olds straddle Millennials and Generation Z. For these generations, access to housing in big cities and prospects for home ownership contrasts starkly with that faced by Gen X or Baby Boomers.

Through the generations



Baby Boomers

Born 1946-1964
Aged 59-77 today
Were aged 18-34
over 1964-1998



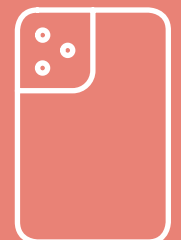
Generation X

Born 1965-1980
Aged 43-58 today
Were aged 18-34
over 1983-2014



Millenials

Born 1981-1996
Aged 27-42 today
Aged 18-34 over
1999-2030

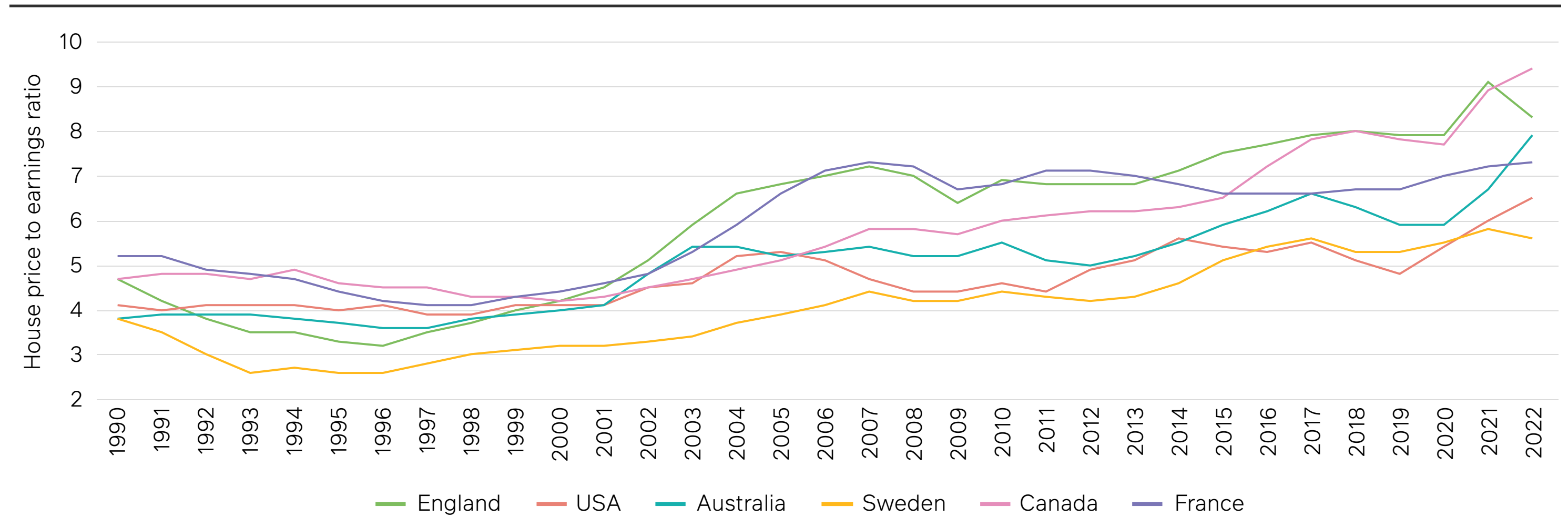


Generation Z

Born 1997-2012
Aged 11-26 today
Aged 18-34 over
2015-2046

With such strong growth in house prices over the years, today's young people face significant affordability issues in buying a home – reflected by a long-term rise in house price to earnings (HPE) ratios – which have been compounded by recent rises in mortgage interest rates.

House price growth has exceeded income growth over the decades, reducing affordability for first-time buyers



Source: M&G Real Estate based on OECD (2023) and various local sources.

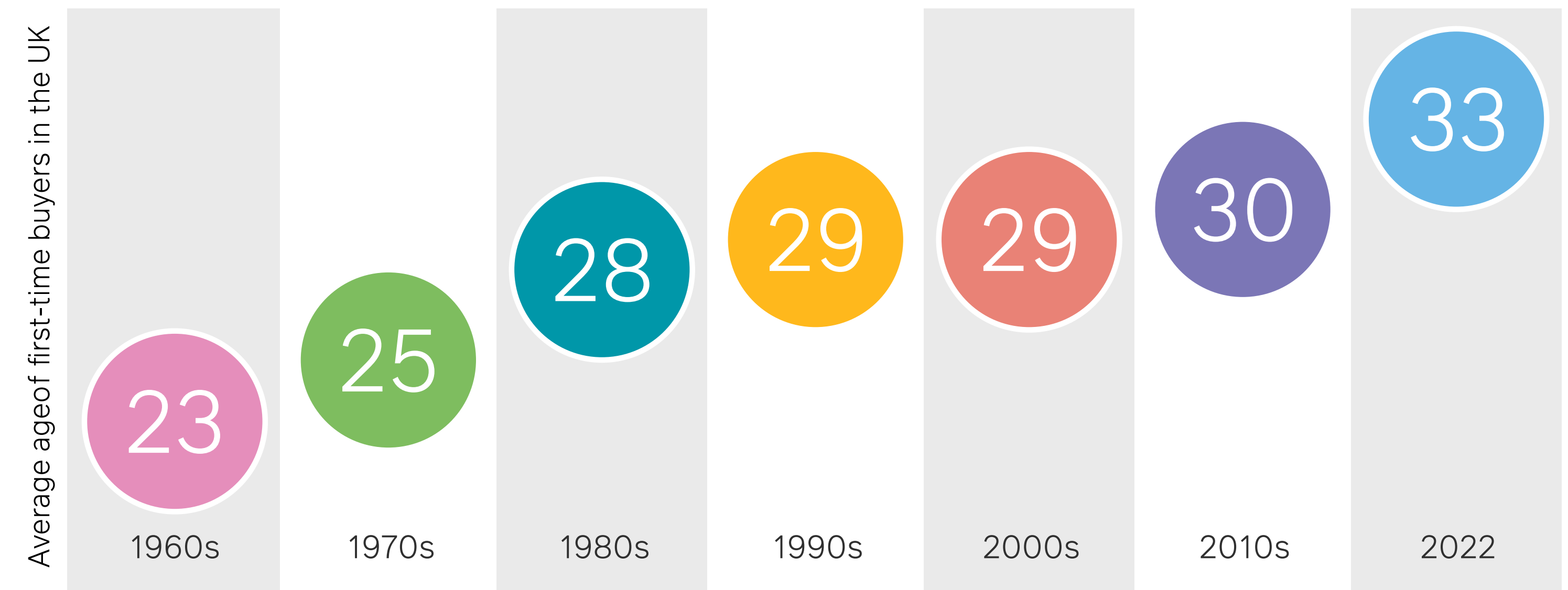
Generation Rent

With stretched affordability, most global markets have seen a decline in home ownership for young adults, with the average age of first-time buyers pushed back over the years.

In many cultures, home ownership is a major life goal. Yet nearly 60% of 18-24 year olds surveyed in the US by McKinsey do not expect to ever achieve this⁶.

With the lack of housing opportunities for many young people, some simply live with their parents for longer – in itself representing latent demand for housing. However, recognising it is typical for young adults to fly the nest, the term ‘Generation Rent’ has come to symbolise the reality for today’s cohort.

First-time buyers have been getting older



Sources: Keepmoat Homes (2019); gov.uk (2023).

⁶ Source: McKinsey American Opportunity Survey, Spring 2022.

Rising to the challenge

The lack of supply can, at least in part, be alleviated by institutional investors who have identified the opportunity in the depth of demand across the Living sector spectrum. This is already resulting in high quality, affordable housing being provided, but demand still exceeds supply, with further rental growth likely to continue.

Questions arise for investors considering effective strategies in providing housing for Generation Rent. Where do they live? What are their housing preferences and level of service requirements? What housing options are there and how are they affected by the regulatory landscape in individual markets? Do they suit the needs and constraints of young renters, whether students or those in the early stages of their careers? Exploring these questions and tuning into the nuances that define how younger renters interact with housing on offer is integral to both successful investment decisions and creating solutions that help to meet this unmet demand.

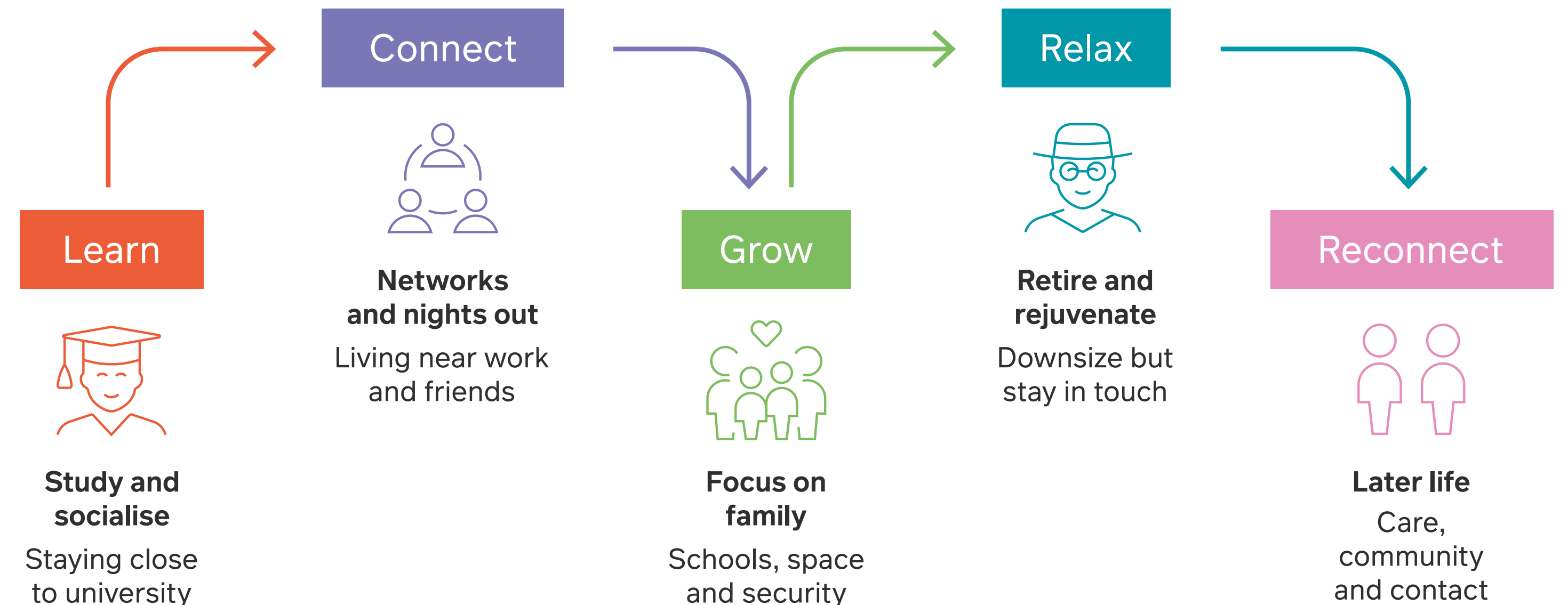
The evolution of housing preferences

The idea of home can mean different things to people across the world – and can change through a life cycle. A single young professional in Amsterdam will likely want something different to a family in Sydney, while a student in London would typically choose a different type of home to a retired couple in France.

When it comes to housing decisions, we consider five different life phases: Learn, Connect, Grow, Relax and Reconnect. This is representative of many people as they move through life, from their student days and early stages of their career, through to having children and growing their family, before winding down as they reach retirement later in life.

The housing journey through the life cycle

Lifestyle changes drive our living decisions



Source: M&G Real Estate.

Housing priorities for Generation Rent

Choosing where and how to live can be driven by cultural norms, financial constraints, and regulatory interventions. Trade-offs are invariably part of this process and needs must be prioritised. Younger people in earlier stages of life typically prioritise different things to older people in later life stages, for instance favouring proximity to ‘the action’ over having more space.

Here, we focus on housing the younger generations, who are primarily in the Learn and Connect phases of life (n.b. in future papers we will shift our focus to housing for the Grow and later phases – for which there is also increasing recognition from investors that there are roles they can play and opportunities to tap into).

Throughout the rest of this paper, we explore housing students and young professionals, looking at three case studies for each. These are drawn from markets across the world, with different customs, regulation and existing stock, helping to assess where need and opportunity can converge.

Life phases and priorities from a generational perspective

Generation Rent and focus of this paper

Living priorities	Generation Z 1997-2012		Millennials 1981-1996	Generation X 1965-1980	Baby Boomers 1945-1964
	Learn 18-25	Connect 20-35	Grow 30-55	Relax 50-75	Reconnect 65+
	Independence or service level	● ● ●	● ●	●	● ●
City centre location	● ●	● ● ●	●	● ●	● ●
Income and spending power	●	● ●	● ● ●	● ● ●	● ●
Personal space use or need	●	● ●	● ● ●	● ●	●

Source: M&G Real Estate (2023).

Note: Green = high priority, yellow = mid priority, red = low priority

University challenge: Housing today's students

A place to study and a place to live

With increasing student populations, accommodation is in high demand in key university cities, and it represents the first housing decision that many younger people make. During the living cycle's Learn phase, being close to university is often the driving factor behind where to live, allowing students to study and socialise comfortably in their environment. While some stay in their parental home and study locally, leaving home to find educational opportunities in new cities and towns – either domestically or internationally – is regularly seen as a rite of passage.

Of those leaving home, the vast majority will rent their rooms, flats or houses. Students typically look for flexible, reliable and affordable forms of accommodation. They look to live with friends where they can, but also increasingly choose serviced living concepts (where they exist) within purpose-built schemes.

Understanding the perspective of the student population



Do students leave home to study?



Is there a high provision of PBSA for them?



Is the city a hub for international students – if so, from where?



What is the spending power of an average student?



Is accommodation available on or off campus?



Do students want to live alone or with friends?

A world of difference for students

Markets across the world are subject to big differences in the nature of the students they attract and how they are housed. Whilst some cities, like many in Australia and the UK, need to cater for large numbers of international students, others need to consider the very different housing needs of a much more locally drawn student pool.

As the mobility and preferences of a university's student base has evolved, markets have had to adapt to provide suitable accommodation that appeals to their needs, although the pace at which this has been happening has varied. This has resulted in large differences across markets in terms of maturity and provision of Purpose Built Student Accommodation (PBSA) – and hence the reliance on other forms of housing in which students live.

Finding a place to live while studying is not always easy. On average, 25% of students in Europe's Erasmus student exchange programme experience a housing-related scam during their exchange, according to a recent report⁷. In

the Netherlands, several universities warned international students not to arrive unless they had already secured accommodation for the 2022/23 year, given tight local rental markets.

The following three case studies for housing students are drawn from Australia, Bristol and Lisbon. These show the importance of international students in defining a market for PBSA, as well as the necessity of understanding the perspective of the student body to identify where pain points in their housing journey exist. Interpreting these points is crucial for investors seeking to target the sector.

⁷ https://issuu.com/esnint/docs/international_student_housing?fr=xKAE9_zU1NQ

Australia

Housing international students

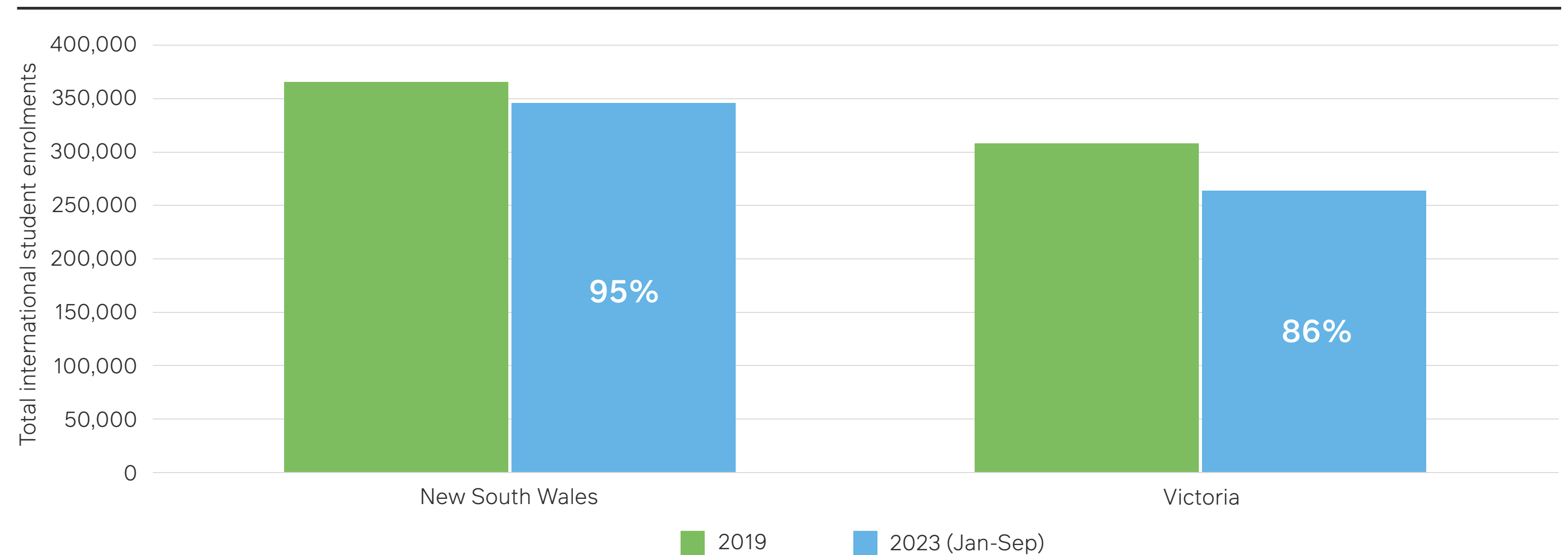
A heavily international student market, now recovered from the COVID years, creating strong demand for PBSA and other rental units

Before the pandemic triggered travel restrictions, Australia was the second most popular destination for international students globally, after the US⁸. The quality of education, vocational training and industry-led skilling available, coupled with a multi-cultural society and professional opportunities, drive the appeal.

More than half of Australia’s 39 universities are located in the key states of New South Wales (home to Sydney) and Victoria (whose capital is Melbourne); these states recorded about 70-80% of 2019 international student enrolment figures in just the first five months of 2023.

China and India are key source markets, making up around 40% of international students. With growing affluence and a strong emphasis on education among Chinese and Indian parents, this is likely to continue growing. In early 2023, the Chinese government encouraged students to return to in-person learning generally, while Indian student numbers reached over 150,000 by September 2023 – up 34% year-

International student numbers are returning to pre-COVID levels in NSW and Victoria



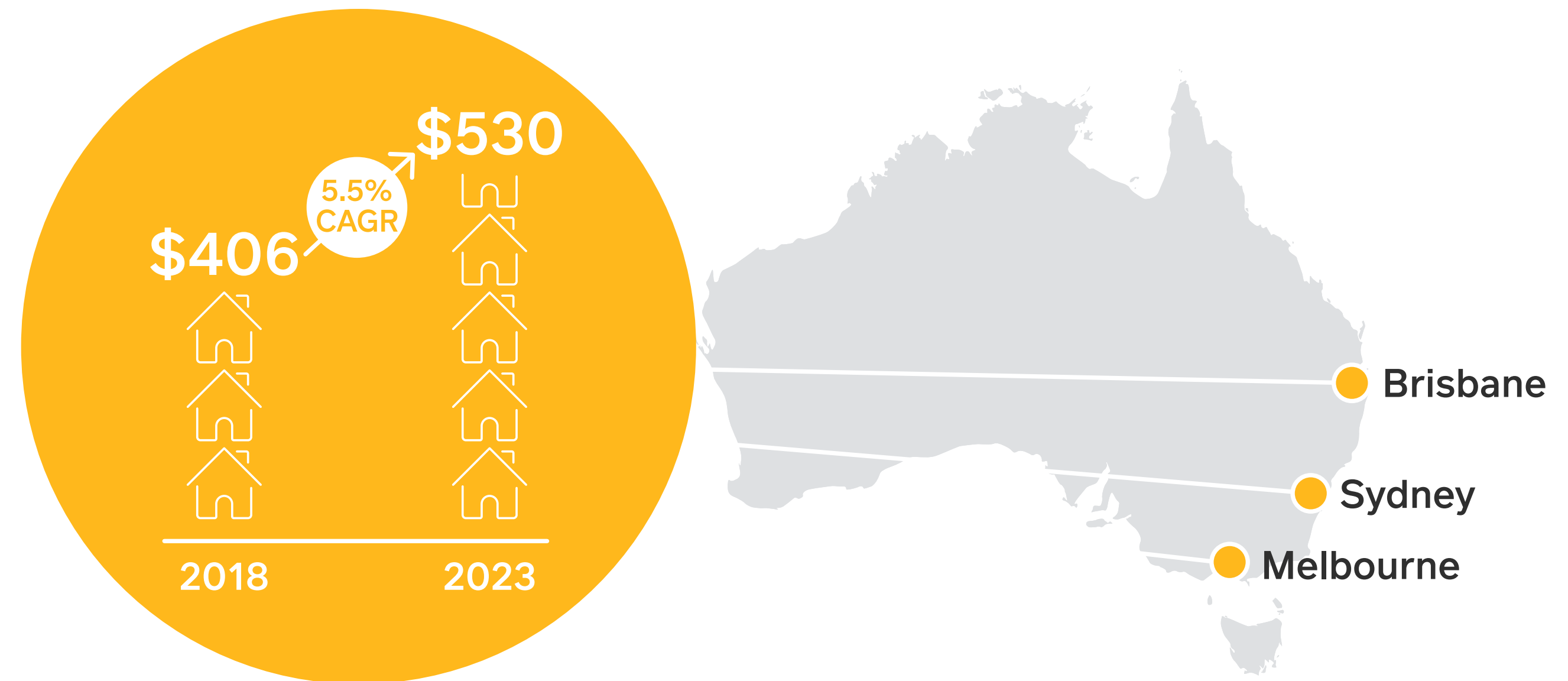
Source: Australia Department of Education, Skills and Employment (2023). Percentages represent 2023 enrolment figures as a proportion of 2019 entire year.

⁸ In 2019, Australia hosted 8.4% of the 6.1 million international students worldwide studying at a tertiary level, whereas the United States hosted 16.1%. Source: UNESCO Institute of statistics, Education dataset, 2023.

on-year. The Australian government has also extended post-graduate employment rights for international students⁹.

These fundamentals are likely to drive strong PBSA growth. 75% of those living in the 90,000 PBSA beds nationally are international students and the majority of these beds are located off campus¹⁰. While the residential Private Rented Sector (PRS) could form part of the accommodation mix for students, availability in both the PBSA and the PRS markets has lagged demand, with high student-to-bed ratios and vacancies below pre-pandemic levels¹¹. PBSA rents across three of the largest markets – Sydney, Melbourne and Brisbane – are now at record levels (see illustration). With ongoing demand and a shortage of supply, prospects for further rental growth look strong.

Median weekly PBSA rents (AUD) across Sydney, Melbourne and Brisbane



Source: CBRE (2023) based on average for Sydney, Melbourne and Brisbane.

⁹ Source: Australian Department of Home Affairs, 2023.

¹⁰ Only 10% of the total PBSA stock is located on-campus. Source: “Beyond Beds: Decoding Australia’s Student Housing Market”, University Living, 2023.

¹¹ As at Q3 2023, private rental accommodation vacancies within the key capital cities of NSW and Victoria (namely Sydney and Melbourne) are hovering between 1.2 to 1.3%. NSW and Victoria have 17 and 31 students per PBSA bed respectively, whereas the nationwide average is 19 students per bed. Source: SQM Research, Student Accommodation Council, 2023.

Bristol

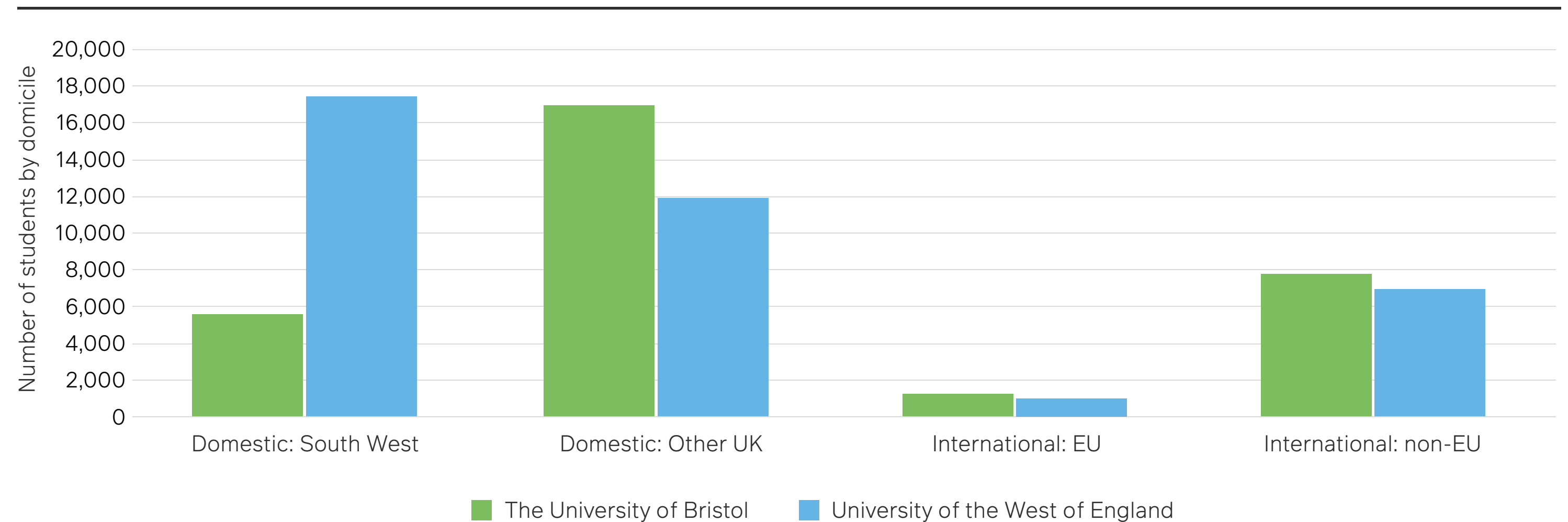
A tale of two cities

A typical UK student city with distinctive demand profiles at its two institutions, where the established PBSA sector serves both local and international students

Moving far from home to live in university halls has long been a UK rite of passage but is this always the case? The UK's eighth-largest city, Bristol, also has the country's eighth largest full-time student population. Domestic students form around 75% of Bristol's student population but, surprisingly, nearly half live locally or within the South West region, implying a lower need for PBSA accommodation.

But, this is not the whole story: Bristol has two universities with very different student dynamics, driving different housing needs. The University of the West of England has a more local focus: almost 80% of students are from the UK and nearly 30% of these come from within roughly a 45 minute drive of the university. Consequently, 45% of the university's student base lives with their parents or in their own home.

Where do Bristol's students come from?

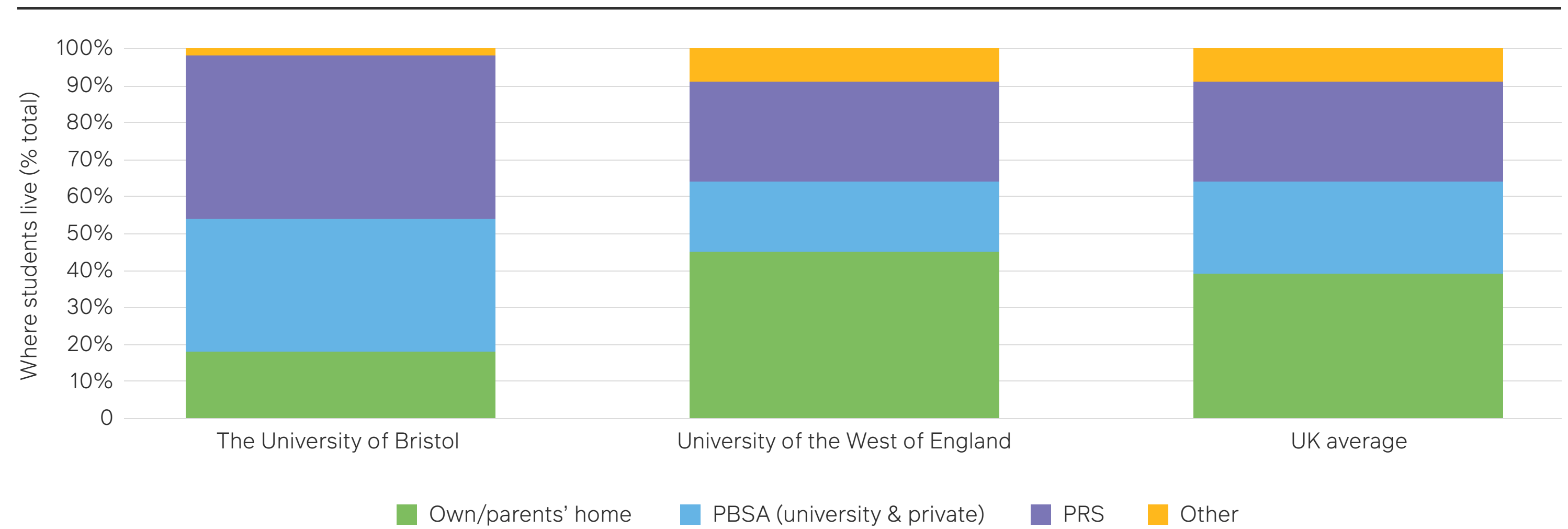


Source: M&G Real Estate based on HESA 2021/22.

In contrast, the University of Bristol, ranked 76th in the world¹², is a member of the internationally-renowned Russell Group. These credentials attract domestic students from across the UK, most of whom live in university-provided halls in their first year but often in the PRS thereafter (see Chart). There is also an above-average international student population, of which almost half comes from China, with a preference for the higher-quality private sector PBSA. As a result, despite catering for more than a third of the university's students, PBSA supply still doesn't meet growing demand.

While Bristol is one city, two different universities mean different housing needs, driving subtleties in PBSA provision. Getting it right can offer attractive returns for investors – according to Statista, the city saw PBSA rental growth of 8.9% for the 2022/23 academic year.

Different universities drive different student housing needs in Bristol



Source: M&G Real Estate based on HESA 2021/22.

¹² Times World University Rankings 2023.

Lisbon

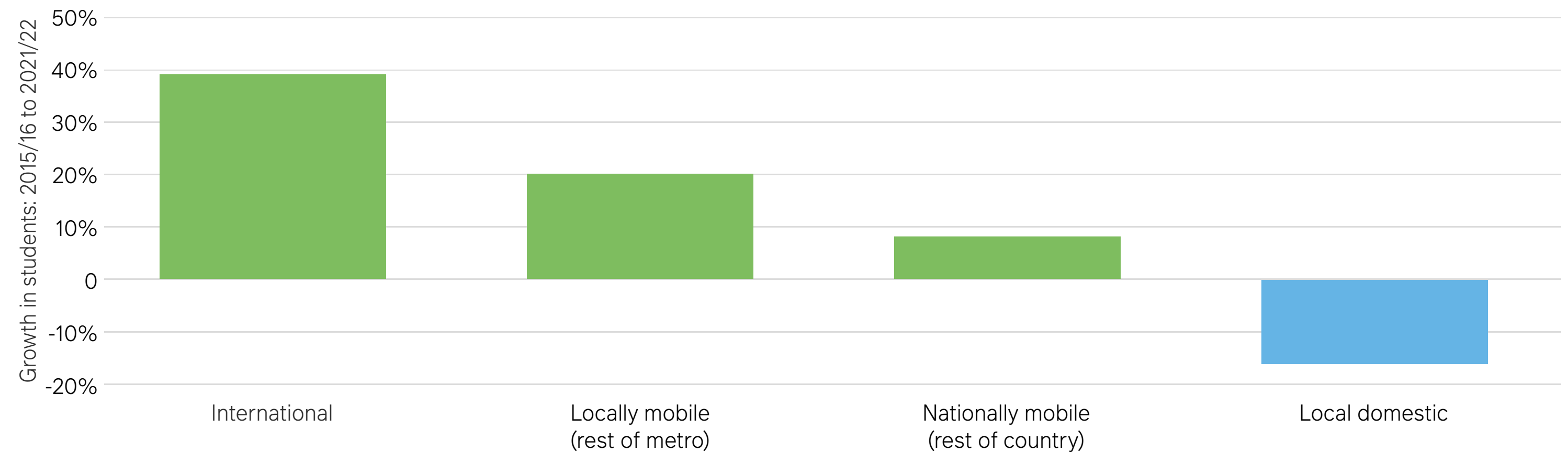
Evolving to meet PBSA demand

Historically a domestic-dominated student city, but with a growing international share. Most students live at home or in the rented sector, given limited PBSA supply

Over the last decade, Lisbon has become one of Europe’s most vibrant cities and its attractiveness as a place to live and study is reflected in growing student enrolments at the city’s 36 higher education institutions. For the academic year 2021/22, over 160,000 students were enrolled at universities in the city, up 18% from six years prior.

According to the 2024 QS World Student City Rankings, Lisbon scores particularly highly on ‘Student Mix’ and ‘Desirability’, and the appeal has resulted in a fast-growing international student population. For prospective students, Lisbon offers an attractive lifestyle, good weather, a relatively inexpensive cost of living, and some high quality universities. Of all students in the Portuguese capital, 17% of them – over 26,000 – come from abroad to study; a higher share than most comparable European cities and a cohort that has been growing rapidly.

Lisbon’s international appeal is driving student growth

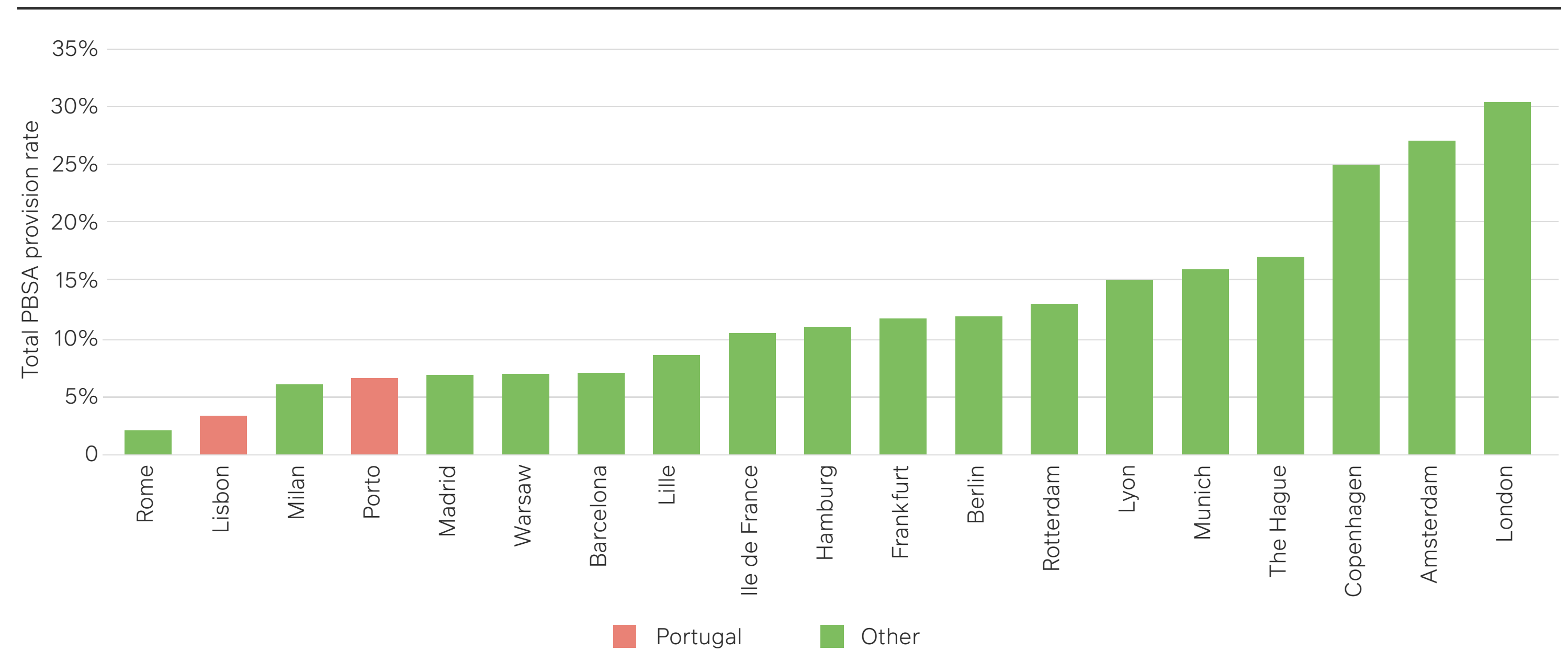


Source: M&G Real Estate based on DGEEC (2023).

Specific housing need comes from this growing student population. PBSA, which is a mainstay in many northern European cities, is only just emerging as a concept in Lisbon. Unlike in the UK, the Netherlands, Germany and France, there is limited student-specific stock provided by universities, public bodies or social housing groups. Around 5,000 operational beds exist, resulting in one of Europe’s lowest provision rates. Private sector operators run little more than half.

International and nationally-mobile students are the driver of demand for PBSA, but with a lack of stock, many are pushed into the PRS: Lisbon has the highest pressure on its rental market within Portugal¹³ and rents have risen substantially in the last few years. PBSA, where it exists, can therefore be an attractive financial option – rents for single studios are on average 40-45% cheaper than a studio in the PRS. For investors, Lisbon’s supply/demand dynamics could provide attractive growth opportunities.

PBSA provision rates are low in a European context



Source: Savills (2022). Provision rate calculated as total PBSA beds (all providers) divided by total students.

¹³ As measured by the residential listing platform Idealista (Q2 2023).

Building connections

Housing people in their early careers

Working to live

After completing education, the Connect life phase begins. Some graduates stay on in university cities, while others head for alternative economic hubs. For young professionals, what is often paramount, is being in cities with attractive job prospects and, more specifically, lots going on. From Paris to Tokyo, urban centres can be melting pots of individuals seeking economic and lifestyle opportunities – comprising locals, domestic movers and international immigrants.

During this period, individuals are starting to build their careers and prioritise flexibility, while they often have not accumulated the savings required to afford a deposit for a home. Local services or on-site amenity space can be important, but locally-specific – saunas are almost a prerequisite in Finnish apartment blocks, for instance. Above all, accommodation must be well connected, in close proximity to public transport.

Understanding the perspective of renters early in their careers



Do young people move back into their parents' home?



Do they want to be in the city centre, or are there places this doesn't apply?



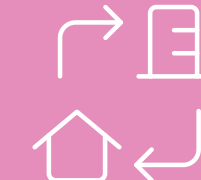
Are the reasons for lower home ownership financially driven?



Will renters pay more for extra amenities and services?



How important is transport connectivity?



Have living preferences been altered by hybrid working?

Worlds apart

Given the life stage and preferences, as well as home ownership affordability constraints for Generation Rent, it is no surprise that many end up renting, typically in the PRS – sometimes with friends, sometimes with partners, sometimes alone. The way in which young renters interact with housing markets can depend on local culture, regulations or opportunities.

The regulatory frameworks that govern rental markets vary substantially globally, and may often be changed by local (or national) political leaders. Overly regulated markets can create distortions relating to in-place and new letting rents, discouraging tenants to move to potentially better-fitting space, and making the challenge of finding a rental home for new arrivals looking to connect ever more challenging.

Our three case studies for housing young professionals are drawn from Copenhagen, London and Seoul. They offer contrasting market experiences with different degrees of regulations. All three cities are attractive and have a growing population of younger renters, but the ways in which the markets are providing homes for them differ. This shows the importance of understanding the nuances when investing in the PRS, and how other nascent options like co-living may provide some opportunity.

Copenhagen

Dynamic demand from new citizens

A vibrant city drawing young Danes, but the regulated rental market does not always appropriately cater for housing needs

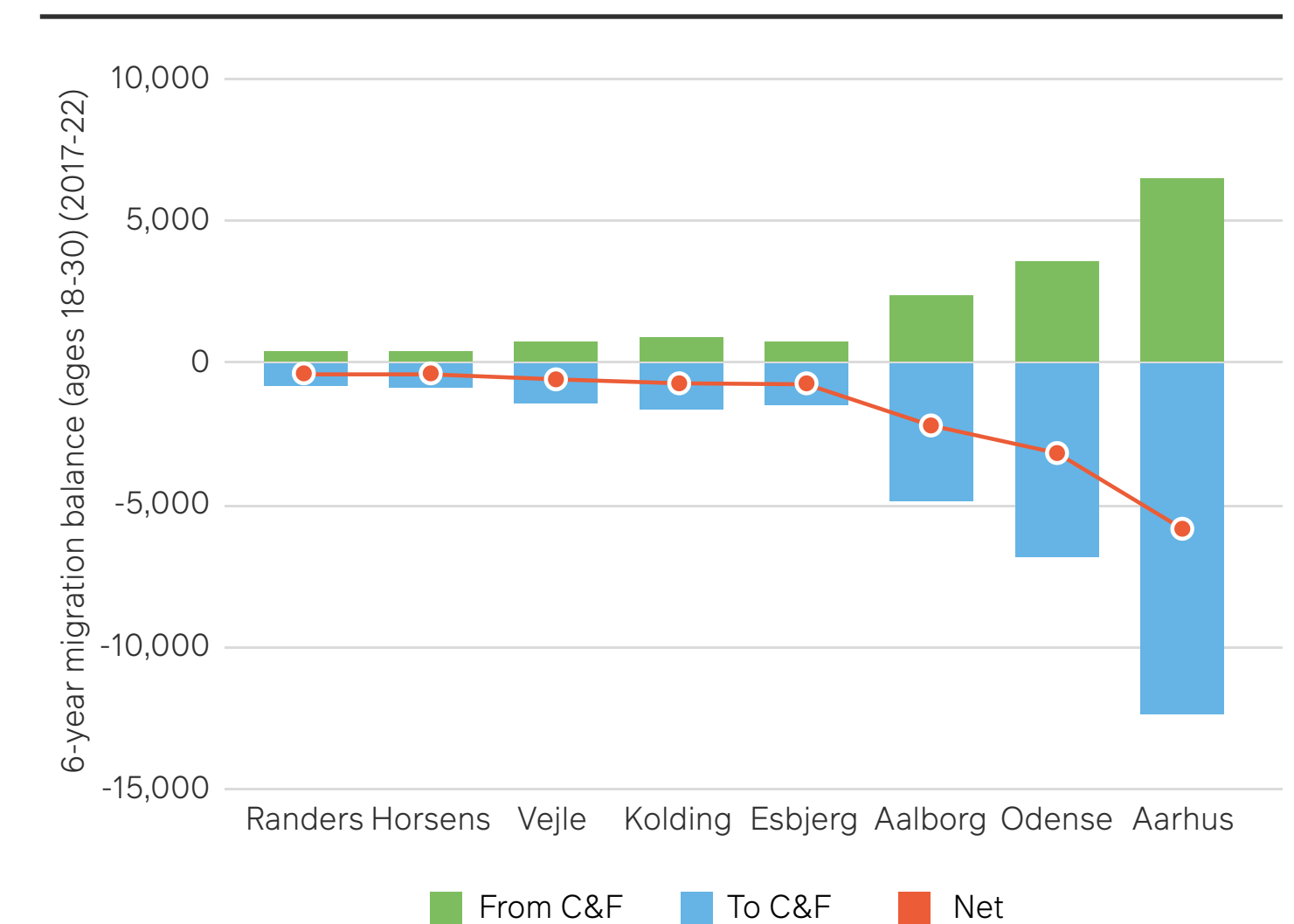
By many measures, Denmark’s capital Copenhagen is Europe’s youngest city: 27% of the 816,000 inhabitants are aged 18-30. Students bolster the numbers (helped by the fact that Danish universities are free of fees for anyone from the EU), but young Danes are also especially mobile, on average leaving the family home at age 21, contrasting with countries such as Spain, where the average is 30.

It is no surprise that many from across Denmark head for the capital city with its attractive job prospects and lifestyle. Over the last few years, around 30,000 young adults (18-30 year-olds) per year have arrived in the municipalities of Copenhagen and Frederiksberg¹⁴ from elsewhere in the country, including many from Denmark’s secondary cities¹⁵. In addition, the city grows by between 12,000 and 15,000 international migrants within this age group each year.

Only 12% of young city dwellers own homes, with the remainder renting. The sector is subject to a fairly heavy degree of regulation, including rent controls. In spite of this – or perhaps because of it, given the lack of housing stock – it is difficult and expensive for new arrivals to find suitable rental accommodation.

While in the 1990s and 2000s over one third of young adults lived alone, rising housing costs coupled with legislation which promoted the new delivery of larger family homes led to many starting to share, renting rooms in larger apartments. Today, over 40% of young adults live in shared homes like this, while only a quarter live alone. This varies as individuals move along the lifecycle.

The capital city pulls in young people from across Denmark



Source: M&G Real Estate based on Statistics Denmark (2023).
 Note: "C&F = Copenhagen and Frederiksberg municipalities.

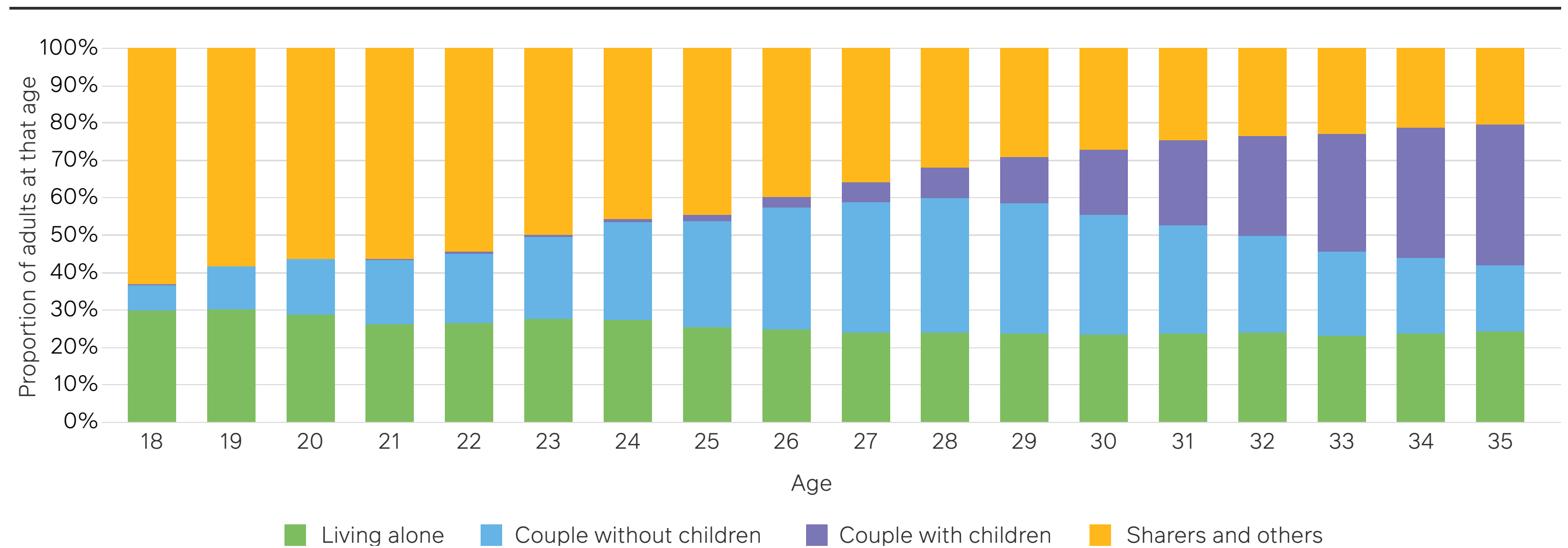
¹⁴ These two municipalities are considered the city proper.

¹⁵ Note: this includes moves between the municipalities of Copenhagen and Frederiksberg.

In 2020, regulations were partially eased which enabled the promotion of more appropriate housing for Copenhagen’s young and single-person households. Average sizes of newly built apartment units are reducing and a number of interesting new developments are emerging which are more akin to Co-living – efficient and compact personal units coupled with shared amenity spaces.

While rents are controlled, it has not prevented them from rising. In fact, with the supply/demand imbalance, it has simply led to steady and persistent growth. According to PMA, since 2001 when its data series began, there has not been a single year when average rents in Copenhagen have not ratcheted up – including throughout the Global Financial Crisis and the pandemic. With a need for more housing and the high degree of certainty of further regulated rental growth, opportunities for institutional investors abound.

What is the living set up of young people in Copenhagen?



Source: M&G Real Estate based on Statistics Denmark (2023).

London

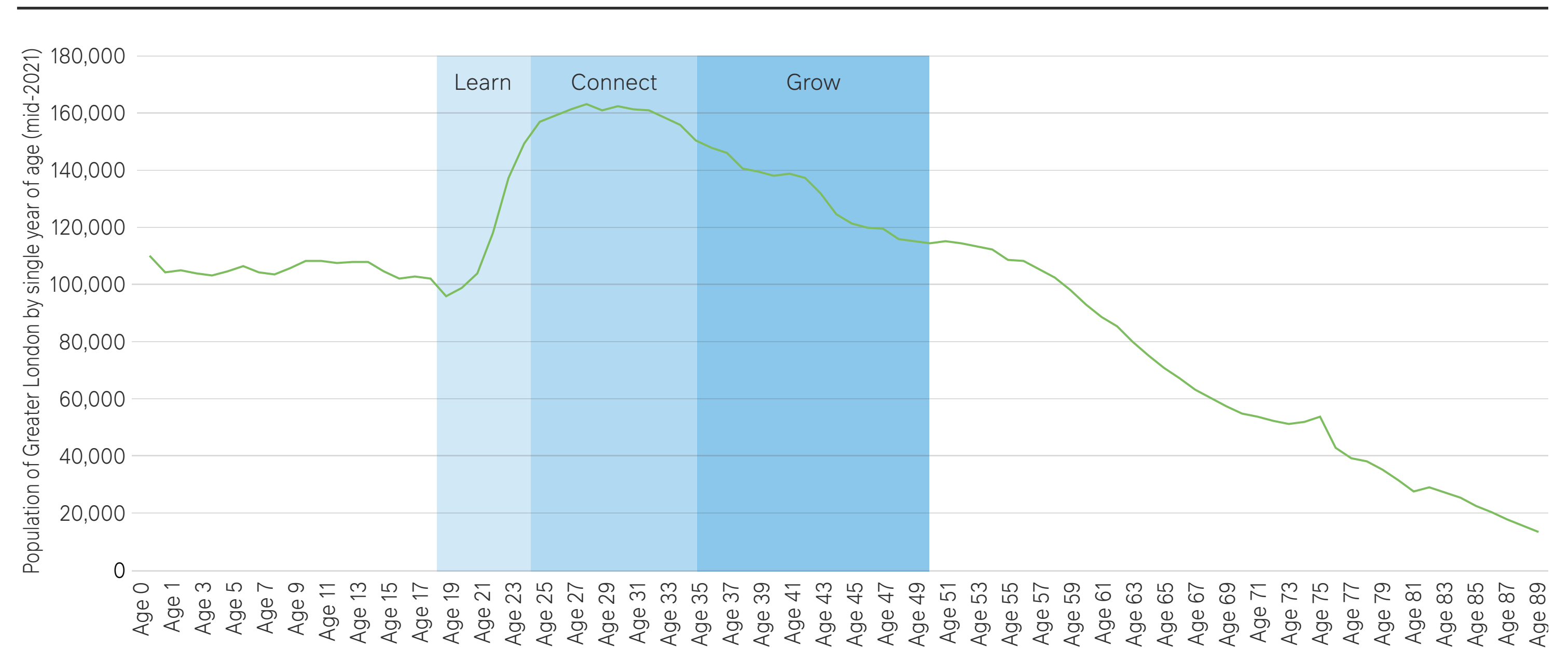
An urban melting pot

A city of national and international significance, with strong rental demand driven by domestic and international inflows

London epitomises the Connect phase of life, attracting and retaining increasing numbers of people from their late-teens to early 30s, drawing from both elsewhere in the UK and overseas. Many British cities (with some exceptions, like Manchester) see their populations peak between the ages of 18 and 21 as young people move to them to access higher education at the UK’s most prestigious universities, but often move away again after graduation. However, London’s population by age continues to grow, not peaking until age 31 (mid-2022). After this point, priorities shift and some people look to move away or further out.

The social whirl of the Capital and, importantly, greater job opportunities – London has more than four times as many jobs as Manchester – seem to more than offset London’s downsides (the city ranks poorly for quality of life and housing affordability). The early stages of the pandemic put this status quo to the test – people started putting ‘space’ top of their priority lists, trading living in London for a longer commute and more affordable housing, enabled by the new hybrid working world.

London’s peak population age is during the Connect phase



Source: M&G Real Estate based on ONS (December 2023).

However, now the dust is settling, it seems COVID has not created the lasting paradigm shift many expected: renter demand has climbed sharply as people return to London, with the return to the office leading a renewed desire for shorter commutes¹⁶.

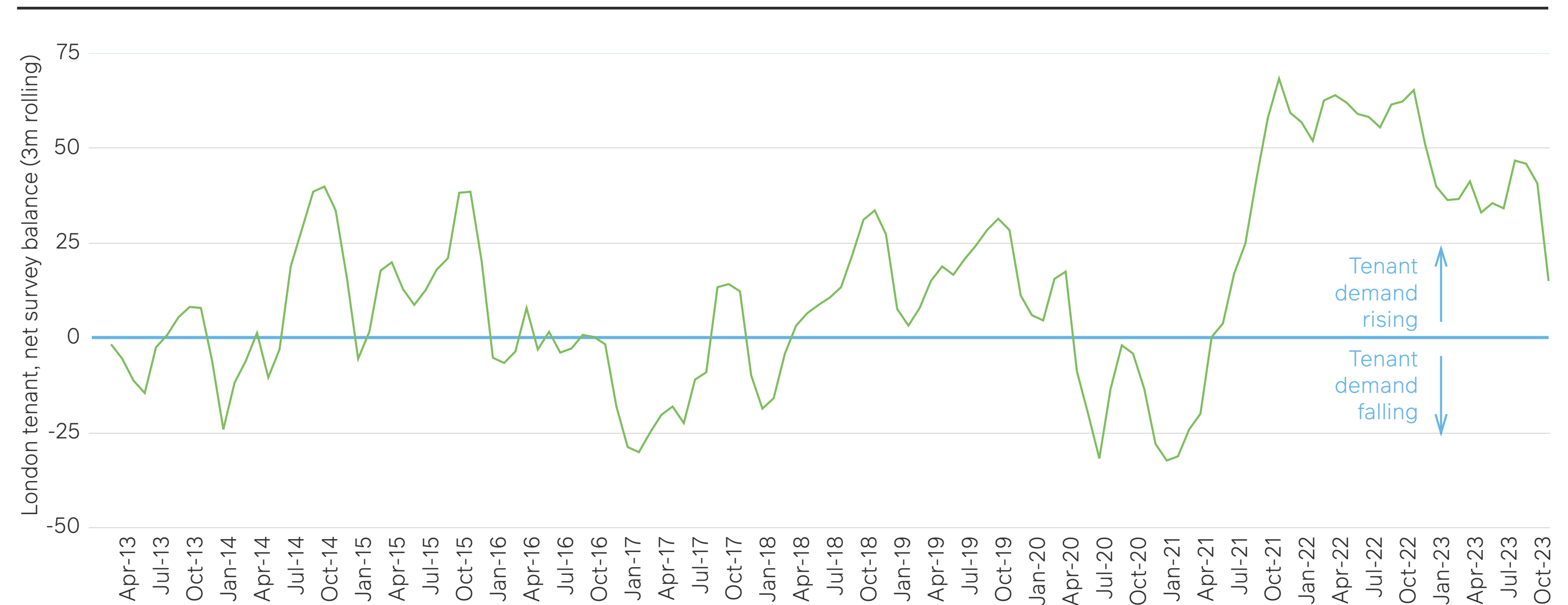
Unlike in Copenhagen or many other European cities, London's residential rents are not controlled but freely determined, enabling them to quickly respond to supply and demand dynamics. The resurgence in demand, amidst the undersupply of housing, has led to rapid rental growth. According to Homelet, by December 2023 rents for new lettings had risen by 40% since the 2020 trough.

Despite such rent rises, for young professionals the lure of city living is not showing signs of waning. For an age group where networking and social interaction is paramount, and with a renting population that prioritises proximity to public transport¹⁷ when choosing a home, the well-connected city of London is set to continue thriving.

¹⁶ CBRE Global Live-Work-Shop Survey: UK Responses, April 2023.

¹⁷ JLL Tenant Survey Report, 2023.

Return to the office and desire for connectivity driving London's tenant demand



Source: RICS Residential Market Survey (October 2023).

Seoul

A city with unique structures and challenges

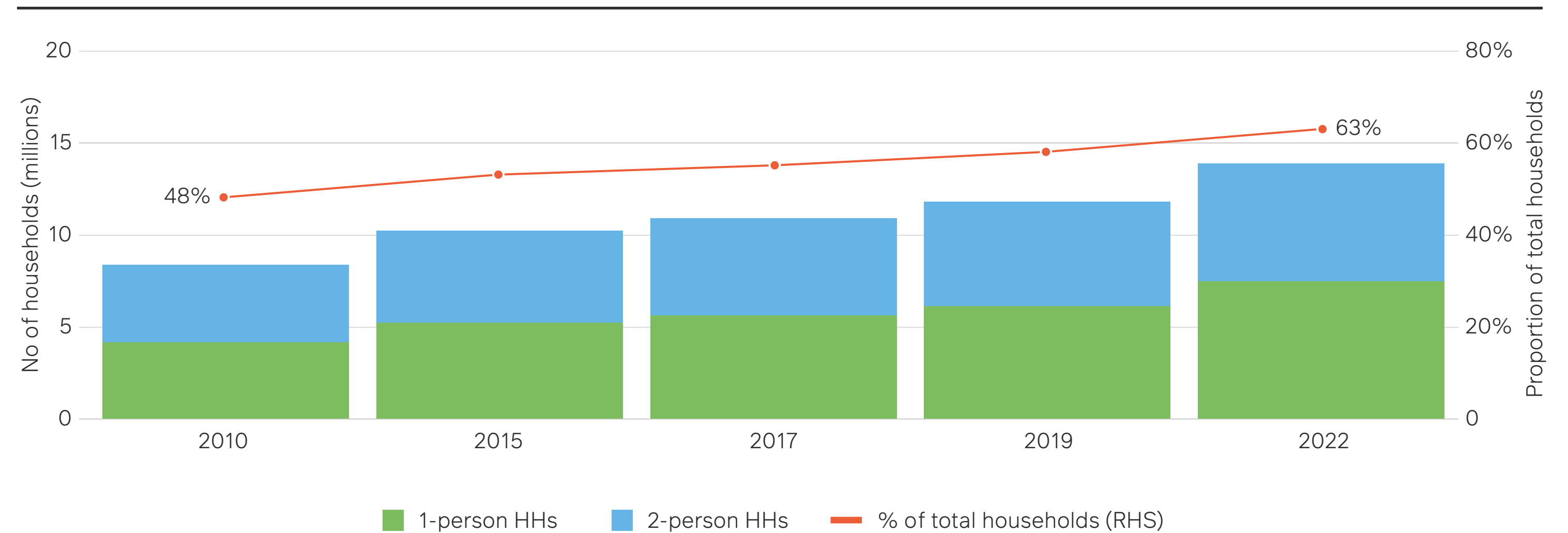
A rental market driven by attractive fundamentals, but with an idiosyncratic rental system and a growing professionally-managed PRS market

South Korea's capital city reflects many of the same characteristics as more mature housing markets: positive net migration of younger people, low affordability¹⁸, a large pool of renters and an increasing number of smaller households (see illustration). Yet professionally-managed multifamily apartment buildings represent a miniscule 0.3% of total housing stock in South Korea – a proportion which looks likely to rise as institutional investors enter the market.

Most tenants rent from individuals; a structure enabled by Korea's unique rental system known as 'Jeonse'. Tenants under Jeonse do not pay weekly or monthly rent but a lump sum deposit equivalent to 50-70% of the house price. This is returned at lease expiry, typically two years later.

Young professionals moving into Seoul for work typically borrow the Jeonse from parents or banks, preferring this over paying monthly rent. Landlords are able to buy more expensive units using these funds, which serve as a form of interest-free loan, to reduce their capital outlay. However, market dynamics are shifting following the recent sharp rise

Over 60% of households in South Korea are made up of one or two persons



Source: Ministry of Land, Transport and Infrastructure (MOLIT) (2023).

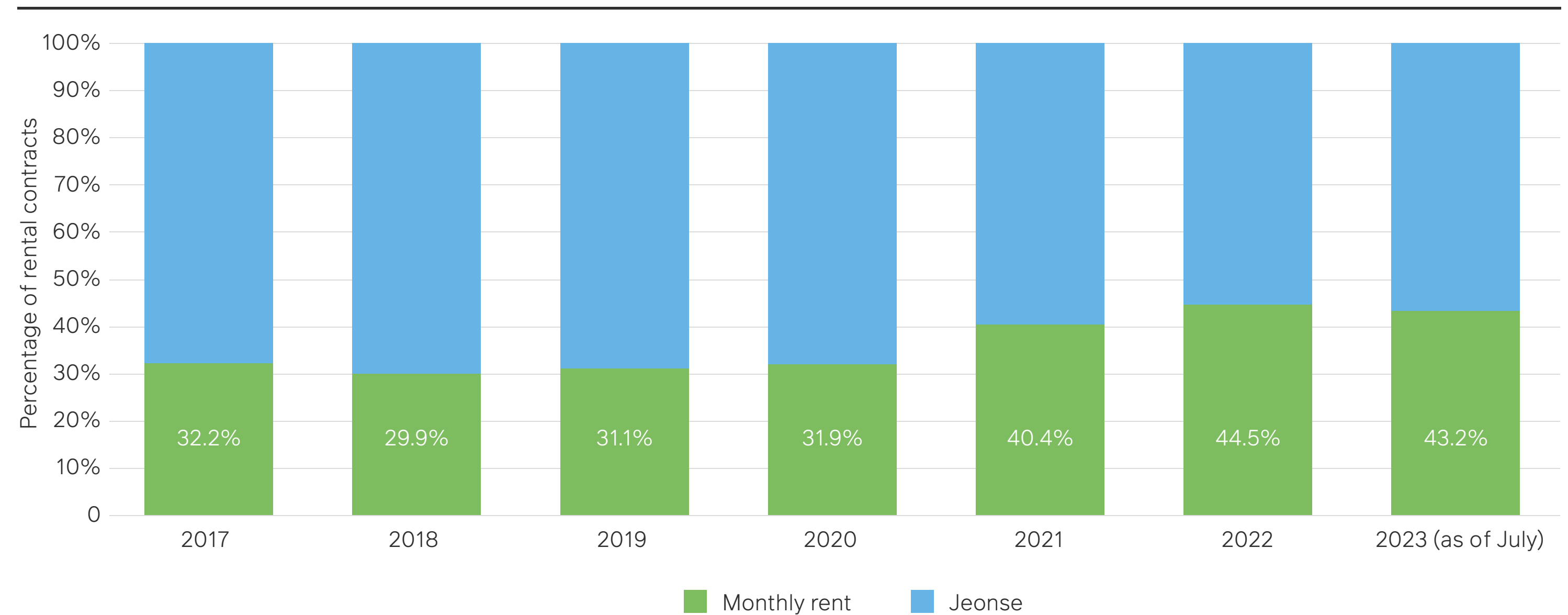
¹⁸ Medium price to income ratio is at 14.1 times. Source: MOLIT, 2023.

in interest rates, pushing down prices – and by extension Jeonse rates – for homes. Some over-levered landlords have been unable to repay deposits and growing reports of fraud have emerged.

This has prompted young renters to increasingly move away from Jeonse deposits, favouring instead paying monthly rent (see illustration) or seeking out Co-living or multifamily housing developments which are managed professionally. A few of these projects¹⁹ have been launched in Seoul since 2021 with some success, securing high occupancies and rents, which is likely to encourage further investment. The government is also expediting regulatory reform to support institutional investment into the residential rental market.

As high interest rates have also slowed apartment sales, some developers may be encouraged to hold or sell apartment blocks for rental. These disruptions could give rise to more multifamily investment opportunities in Seoul.

Jeonse contracts are becoming less popular, but still represent the majority



Source: Ministry of Land, Transport and Infrastructure (2023).

¹⁹ These include 'Episode' (SK D&D) and 'Mangrove' (tie up between MGRV and IGIS). Source: various news articles, 2023.

Opportunities for investors to meet evolving demand

Strong demand growth and a persistent supply shortage has led to challenges in housing the younger generation today in markets globally, but also contributes to significant growth prospects for investors with the ability to navigate complexities and different market maturities, through deep expertise and local market knowledge.

While familiar behavioural patterns shape housing decisions, local dynamics are paramount to understanding the nuances of residential demand and how it plays out across different cities globally.

By looking at a number of examples where needs are evolving, it seems that the structure of existing supply – whether for students or young professionals – can reflect the underlying demand profile, but the evolving nature of this demand is largely outpacing available housing.

Such housing shortages mean that either the high degree of certainty offered by regulated rental growth, or the strong upside potential from free-market rental growth make a compelling case for institutional investors, offering an opportunity for such capital partners to provide long-term solutions that can benefit society.

With no one-size-fits-all housing solution, and with varying demand being addressed with varying levels of success, strategies can be developed that appropriately target areas of the market where needs are apparent and opportunity exists. Whether for PBSA, Co-living or other flexible forms of serviced living; or high quality and well located rental units catering to a spectrum of resident expectations and price points, investor capital can be deployed with substantial impact in markets globally.

Look out for the next instalment of M&G's Global living in focus series, which will focus on housing for the Grow phase of life, and beyond.

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