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Hotelized urbanism: The new real estate business model

Unless the developers find a way to generate stable cash flows from the assets they have already developed, their business model will soon become obsolete.

Prashant Das Oct 05, 2020, 02.15 PM IST



Prashant Das

Associate Professor, EHL Lausanne



In different parts of the country, **hotel developers** are offering real estate investment opportunities to retail investors packed with hospitality services. However, the pre-pandemic innovations will be

inadequate to address the new landscape. The innovations must be more radical.

As the climate changes, the world population swells, and global threats like Covid-19 turn more real than ever before, it is time we transformed our business models. Yes, we shall eventually conquer the menace of the current pandemic. But our world will have changed forever in the aftermath. In all our prudence, we must stay ready for the next crisis in an increasingly globalized world.

Real estate as a service

While the new urbanism introduced in 1980s was somewhat successful in developed nations, a lack of political will has mostly rendered the movement as utopia elsewhere. On the one hand, people still commute too far from their residences for work, recreation, education, and shopping.

On the other hand, the one-off “develop-to-sell” real estate business model is not sustainable in the long run: Urban land is limited and urban sprawl must be curbed at any cost to sustain our future generations. If our commitment to sustainability is sincere, we shall soon have no more land available for real estate development.

Unless the developers find a way to generate stable cash flows from the assets they have already developed, their business model will soon become obsolete. Consumers would agree that the “[Software As A Service \(SAAS\)](#)”, although innovative, has been overdone in recent months. Yet, real estate developers could take cue from this trend.

Sharing economy is not dead

As leading universities and corporations of the world have successfully shown, our transportation activity had been excessive. More recently, people have been working from home (WFH) at an unprecedented scale, but have done so in poorly equipped facilities (“home”). Sharing economy has evolved as a pragmatic solution to our increasingly overcrowded urbanities.

We just need to rethink its operationalization. The onslaught of

sanitary concerns must be addressed through new technology and innovative design. The sharing economy must stay in business.

The “asset light” strategy of hotel chains (wherein hotel companies do not offer hotel facilities, but hospitality operator services) is a remarkable trend. Real estate developers must evolve on similar lines but learning from the mistakes of hoteliers.

The build-to-sell real estate business model is, anyway, fraught with innumerable risks including spotty cash flows with extreme sways. The new normal will force for real estate players to offer their expertise as services to secure relatively stable cash flow streams.

In the hotelized urbanism, here are a few ways in which real estate businesses will reinvent themselves:

Community spaces as a service (CoSAAS)

Developers will retain multi-use flexible community spaces within their build-to-sell projects. The notoriously monotonic daily life of WFH households and their need to venture out of their homes for a change or to access professional-quality facilities (such as printshop, video-conferencing, and socializing) is a subtle call for CoSAAS.

These architectural innovations will serve as shared places for work and education during daytime and recreational/e-shopping hubs otherwise. Urban designers will infuse immersive technology to make shopping (and remote interactions) more reliable and engaging experience for users.

CoSAAS will require a strong interface with external parties and state-of-the-art technology. For example, employers may demand Blockchain-based record of employee check-in and check-out. Cinemas and performing-art theaters will want to ensure a fair revenue-sharing mechanism for the contents they stream.

Educational institutions would want specific pedagogic materials, proctoring services, and interactive technology installed. These needs also hint at the necessity of on-demand pool of new-breed, multifaceted staff who will administer these flexible services. Real estate companies must have a more diverse human-resources

team to address the new needs.

A new breed of relationship managers for the diverse set of third-parties will be integral to real estate payrolls.

New design

Beyond CoSAAS, architectural design warrants a drastic rethinking in the residential sector. In many communities where CoSAAS may not be feasible, a large number of households will be spatially constrained.

A WFH area must be squeezed into an already cramped residential facility. Designer will need to defend each decision on space-allocation to single-uses such as dining halls, lavish toilets or master bedrooms.

Innovative furniture (such as sound-proof bunk-beds) with adequate provision for visual and audible privacy will come into vogue. Affordable materials, layout and furniture that could help achieve such compact designs will see increased demand. A real estate developer must be ready to exploit the new opportunities.

End note

In commercial real estate, traditional owners allocate some budget to “tenant improvement (TI)” wherein the facility is adapted to the needs of a new tenant. In hotels, too, a (often large) budget is required of owners in the name of “property improvement plan (PIP).”

However, TI and PIP are based on an optimistic assumption that the operator has more bargaining power. However, the coSAAS model as I propose is multi-partite: a real estate company owns the facility and offers its own (or outsourced) operator. The facility is used by retail customers (inhabitants), but must also adhere to specific needs of third parties (with whom the users interface): Employers, educators, entertainers, etc.

As such an arrangement could potentially reduce the traffic on the road and enhance community engagement of inhabitants (which

has known socio-economic and civic benefits), it is fair to expect regulatory incentives to encourage such developments, and keep them affordable.

If executed well, hotelization of real estate supported by a multidisciplinary and technology-intensive approach could be humanity's next response to sustainability and pandemics.

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Software As A Service

SAAS

Community spaces as a service

coSaaS

Hotel developers

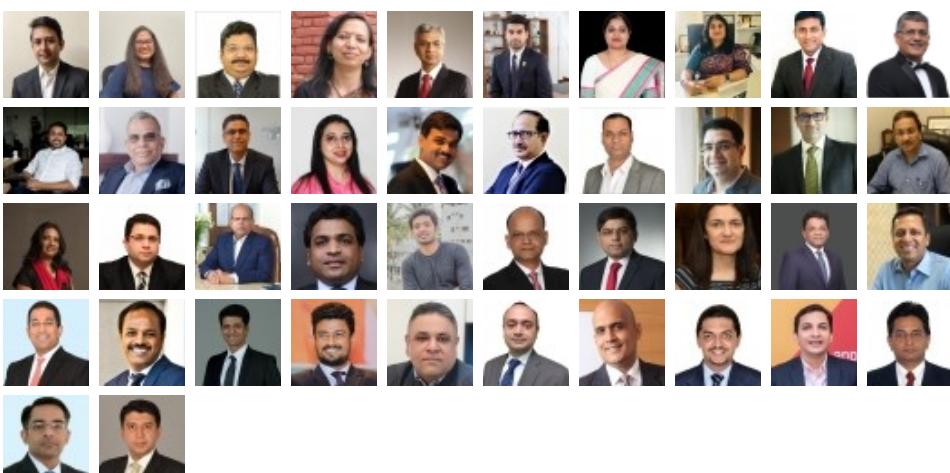


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Subbhash Hotchand Udhwaani

Founder, Elysium Capital

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It is during this period that gated work campuses gained popularity among corporates, for whom innovative building designs and structures became the key to growth in a fast-developing and highly competitive world.

Gautam Saraf Sep 22, 2020, 02.24 PM IST



Gautam Saraf

Managing Director-Mumbai, Cushman & Wakefield, India

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Raveendra Balivada
Head of Investment Advisers, HDFC Securities

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Subbhash Hotchand Udhwaaani Jul 09, 2020, 01.42 PM IST



Subbhash Hotchand Udhwaaani
Founder, Elysium Capital

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Abhay Upadhyay Jun 22, 2020, 07.33 PM IST



Abhay Upadhyay

Member, Central Advisory Council, RERA, Ministry of Housing and Urban Affairs

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Saurabh Goel May 19, 2020, 01.59 PM IST



Saurabh Goel

President, Havells India

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The logic to focus on Transit Oriented Development (ToD) and to abruptly increase Floor Area Ratio (FAR) along the ToD corridor without any judicious thinking behind the number (FAR) has impacted the balanced regional development.

Dr. Vinita Yadav May 19, 2020, 01.48 PM IST

Dr. Vinita Yadav



Head, Department of Regional Planning, School of Planning and Architecture

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Covid-19 & Real Estate: The last straw or the proverbial regenerative fire of the phoenix!

The last time we saw a real estate bull run, the interest rates on housing loan were down to 7%. We are back there in double quick time already.

Jasmeet Chhabra May 04, 2020, 09.25 AM IST



Jasmeet Chhabra
Managing Partner, Cerestra Advisors

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Given that the sector has limited reliance on capital market debt - not more than 10-15% of the total debt of most listed players, they would be able to conserve some liquidity over the next two months.

Harsha Sodhani Apr 06, 2020, 01.08 PM IST



Harsha Sodhani

Associate Director, India Ratings and Research

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Real estate's battle with Covid-19

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Amit Goenka Mar 26, 2020, 12.45 PM IST



Amit Goenka

MD & CEO, Nisus Finance

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Niranjan Hiranandani Mar 12, 2020, 04.04 PM IST



Niranjan Hiranandani

CMD, Hiranandani Constructions

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