

THE FIVE PILLARS OF CO-LIVING MARKET VIABILITY

A Practitioner's Framework for Evaluating Markets Before You Commit Capital

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Ralph Pombo has spent fifteen years buying, selling, and holding real estate across multiple states and asset types. With a background in computer science and data research, he approaches investment decisions as an engineer approaches a problem — with frameworks, measurable variables, and a discipline for walking away when the numbers do not support the thesis. The CoLiv Viability Index was developed from that discipline, applied specifically to the co-living market.

THE QUESTION EVERY CO-LIVING INVESTOR HAS TO ANSWER

Finding a market that looks promising is not the same as finding a market that works. There is no shortage of cities with housing demand, growing populations, and affordable acquisition prices. The harder question — the one most investors answer too quickly, with too little information — is whether a specific market can support a co-living operation that generates consistent returns over a multi-year investment horizon.

That question cannot be answered by a single data point. A high rent burden rate tells part of the story. A favorable vacancy rate tells another part. A market with strong employment growth, low competition, and reasonable acquisition costs looks different from a market with strong employment growth and nothing else. The variables interact, and the interactions matter.

The Five Pillars framework exists to answer that question systematically. It breaks market viability into five distinct dimensions — each one independently important, each one carrying a different weight in the final analysis. Think of them as the five load-bearing walls of a building. Remove any one of them and the structure does not hold. Weaken several of them and the structure may stand, but it will not perform under pressure.

One important note before we begin: the Five Pillars framework applies only to markets that have already cleared the Market Killer Screen. The six Market Killers — zoning prohibition, rooming house classification burden, HOA saturation, unsustainable cost structure, shrinking population, and absence of the target tenant — are binary disqualifiers. A market that fails any one of them does not reach the pillar scoring phase. The pillars measure degree. The killers measure kind. Both are required, and in that order.

THE FIVE PILLARS AT A GLANCE

Each pillar contains two or three sub-variables. Score each sub-variable individually on a scale of 1 to 10 using the scoring guides provided. Add those scores together and divide by the number of sub-variables to get the pillar average. That average — not the raw sub-variable total — is then multiplied by the pillar's weight to

produce the weighted score. The five weighted scores are added together to produce the composite score out of 100. A pillar where every sub-variable scores a perfect 10 produces a pillar average of 10. Multiplied by the weight, that produces the maximum points available for that pillar.

Pillar 1 — Demand Conditions D-1 Rent Burden D-2 Vacancy Rate D-3 Population Growth	× 2.5	25 pts
Pillar 2 — Regulatory Environment R-1 Zoning Classification R-2 Municipal Posture R-3 State Trend	× 2.5	25 pts
Pillar 3 — Economic Profile E-1 Employment Base E-2 Tenant Income E-3 Rent-to-Acquisition Ratio	× 2.0	20 pts
Pillar 4 — Property Acquisition & Conversion P-1 Inventory Availability P-2 Conversion Cost Environment	× 1.5	15 pts
Pillar 5 — Competitive Landscape C-1 Overall Supply vs. Demand C-2 Demand-Type-Specific Gap	× 1.5	15 pts

The score bands that determine what action to take:

85–100	Strong Entry Candidate
70–84	Viable with Identified Risks
55–69	Proceed with Caution
Below 55	Do Not Enter

Pillar 1 — Demand Conditions	25 pts
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Demand is the most discussed pillar and the most misread. The common mistake is treating demand as a binary condition — either a market has housing need or it doesn't. In reality, demand has texture, and that texture determines whether a co-living operation can sustain occupancy over time or whether it struggles the moment economic conditions shift.

For a co-living operator, three specific demand conditions need to exist simultaneously. When all three are present and strong, the market has a durable demand foundation.

D-1: Rent Burden Rate

Rent burden is the foundational metric for co-living demand. A renter is cost-burdened when they spend 30 percent or more of their monthly income on housing costs. When that threshold is crossed, the value proposition of co-living — a private furnished room at a price point significantly below a conventional studio or one-bedroom apartment — becomes not just appealing but necessary.

According to the 2024 American Community Survey, more than 50 percent of all renter households nationally are cost-burdened. In Florida, 60 percent of all renters are cost-burdened. In Nevada, 57 percent. In California, 55 percent. At the city level, at least half of all renters are cost-burdened in 68 of the nation's 100 largest cities. But the distribution is uneven, and that unevenness matters. A city can have widespread rent burden and still be the wrong market if the tenant income levels are too low to support even the co-living price point.

SCORING GUIDE — D-1

Below 35% cost-burdened: score 1–3 | 35–50%: score 4–6 | 50–60%: score 7–9 | Above 60%: score 10

D-2: Rental Vacancy Rate

Vacancy rate measures how tight the rental market actually is. A low vacancy rate means available rental units are being absorbed quickly — signaling genuine demand pressure, not just statistical cost burden. A high vacancy rate, even in a market with apparent rent burden, signals that either supply is adequate or that tenants are leaving the market faster than new ones are arriving.

The national rental vacancy rate has hovered near historic lows over the past several years, driven by a structural shortage that has persisted despite record multifamily construction. In 2024, the industry completed 608,000 multifamily units — the most in nearly 30 years — and it was still not enough to absorb the 849,000 new renter households that entered the market that same year. That gap is the environment in which co-living operates.

SCORING GUIDE — D-2

Above 8% vacancy: score 1–3 | 6–8%: score 4–6 | 4–6%: score 7–9 | Below 4%: score 10

D-3: Population Growth Trajectory

A market losing population is a market whose tenant pool is shrinking. Even if current rent burden and vacancy metrics look favorable, the forward trajectory matters enormously for an investment that will take several years to recoup its initial capital outlay. Sun Belt metros have led domestic population growth consistently through this decade, driven by climate preference, lower cost of living, and sustained job creation. These markets offer the strongest long-term population foundation for co-living operations.

⚠ IMMIGRATION-DRIVEN GROWTH: A REQUIRED STRESS TEST

Immigration-driven demand is real — and in many markets, immigrant workforce populations represent exactly the tenant profile co-living is designed to serve. However, that demand is subject to federal enforcement policy and administrative priorities that shift outside the operator's control. It cannot be the sole population growth driver in a market thesis. It must be stress-tested against scenarios where those patterns change significantly. This factor alone can make or break a co-living investment.

SCORING GUIDE — D-3

Net population loss or flat: score 1–3 | 0–5% growth over five years: score 4–6 | 5–10% growth: score 7–9 | 10%+ growth: score 10

Pillar 1 Score: Score D-1, D-2, and D-3 individually from 1–10. Add the three scores and divide by 3 to produce the pillar average. Multiply that average by 2.5. Example: scores of 8, 7, and 6 average to 7.0, which multiplied by 2.5 produces a Pillar 1 score of 17.5 out of a maximum 25 points.

Pillar 2 — Regulatory Environment

25 pts

Regulatory risk is the most underestimated pillar in this framework — and the one most likely to destroy an investment that looked solid on every other dimension. Co-living sits in a legal gray zone in most American cities, and that gray zone has real consequences for operators who do not map it before they buy.

The reason regulatory environment carries equal weight to demand is straightforward: a market can have the strongest demand conditions in the country and still be operationally impossible if the regulatory structure prevents the model from functioning legally. Demand without the legal ability to operate is not an opportunity. It is a market to walk away from.

R-1: Zoning Classification and Permitting Clarity

Co-living does not fit neatly into the residential zoning categories that most American cities developed in the twentieth century. Depending on the jurisdiction, a co-living home with multiple unrelated tenants may be classified as a single-family residence, a rooming house, a boarding house, a group home, or a multi-family dwelling — and each classification carries a different set of rules, licensing requirements, inspection obligations, and in some cases outright prohibitions.

The best-case scenario for an operator is a jurisdiction where co-living is permitted by right — meaning no special permit or approval is required beyond standard occupancy. Washington State passed legislation in 2024 requiring all cities planning under the state Growth Management Act to permit co-living housing by right, with full implementation mandated by December 31, 2025. Co-living units in Seattle now commonly rent for \$850 to \$950 per month, compared to approximately \$1,500 per month for a studio apartment — a pricing gap that demonstrates exactly the kind of value proposition that drives co-living demand.

SCORING GUIDE — R-1

Outright prohibition or no clear pathway: score 1–3 | Permitted with burdensome conditions: score 4–6 | Straightforward administrative process: score 7–9 | By-right permitted: score 10

R-2: Municipal Posture and Political Environment

Written zoning code tells part of the regulatory story. The enforcement posture of local government tells the rest — and it is the part that cannot be found in any database. A city's municipal posture is the informal attitude of its planning department, code enforcement office, and elected leadership toward shared housing models. A city that is technically neutral on paper but whose code enforcement officers view co-living operations with institutional suspicion creates an environment that is nearly as dangerous as outright prohibition.

REQUIRES A PHONE CALL — NO EXCEPTIONS

R-2 is the only sub-variable in the entire framework that cannot be evaluated through data research alone. It requires direct phone calls to the planning department and code enforcement office, and ideally conversations with other operators already working in that market. Ask directly: How is co-living classified under current code? Have there been enforcement actions against shared housing in the past three years? The workbook companion to this framework includes specific call scripts and question guides.

SCORING GUIDE — R-2

Actively hostile: score 1–3 | Neutral: score 4–6 | Receptive: score 7–9 | Actively supportive: score 10

R-3: State-Level Regulatory Trend

The regulatory environment that exists today is not necessarily the one that will exist in two years. State-level housing reform is moving quickly in both directions — some states are actively preempting local restrictions on co-living and shared housing, while others are tightening oversight of multi-tenant residential operations. Washington, Oregon, Colorado, and Montana have each moved in recent years to reduce local regulatory barriers to alternative housing models. An operator who enters a market with a favorable current regulatory picture but a negative state-level trend is making a bet that the status quo holds — one that deserves explicit acknowledgment in the investment thesis.

SCORING GUIDE — R-3

Restrictive state trend: score 1–3 | Neutral state: score 4–6 | Reform-trending state: score 7–9 | Leading reform states (WA, OR, CO, MT): score 10

Pillar 2 Score: Score R-1, R-2, and R-3 individually from 1–10. Add the three scores and divide by 3 to produce the pillar average. Multiply that average by 2.5. Example: scores of 7, 5, and 8 average to 6.67, which multiplied by 2.5 produces a Pillar 2 score of 16.7 out of a maximum 25 points.

Pillar 3 — Economic Profile

20 pts

The economics of a co-living market operate at three levels simultaneously: the macro employment environment of the metro area, the income profile of the target tenant population, and the operator's own cost structure relative to achievable rents. All three need to align, or the investment does not work regardless of how strong demand and regulatory conditions appear.

E-1: Employment Base Diversity and Stability

A market driven by a single large employer — a military installation, a single dominant corporation, or a single university — carries concentration risk that a diversified economy does not. When that employer contracts, relocates, or downsizes, the market's tenant pool shrinks rapidly and vacancy climbs without warning.

The strongest co-living markets have diversified employment bases anchored by sectors with known, durable demand: healthcare, technology, logistics, education, government, and professional services. These sectors do not move in perfect unison. A market with healthcare and technology and logistics employment will experience disruption in any one of those sectors without experiencing a collapse of its overall tenant base.

SCORING GUIDE — E-1

Single-employer or single-sector dependent: score 1–3 | Moderately diversified: score 4–6 | Well-diversified: score 7–9 | Exceptional diversity with documented growth across multiple sectors: score 10

E-2: Income Profile of the Target Tenant Population

The goal is not to find the market with the lowest-income population. It is to find the market where the gap between what tenants can afford and what the conventional rental market charges is wide enough to make co-living's value proposition compelling — and where tenants can still reliably pay co-living rent without severe affordability strain.

This sub-variable changes significantly depending on the tenant type being targeted. Travel nurses earning over \$100,000 per year with a dedicated housing stipend represent a very different income profile than workforce tenants earning \$30,000. Silver Living residents — the 55-plus tenant population that represents one of the most underserved and fastest-growing segments in co-living — often have fixed retirement incomes that are predictable but inflation-sensitive. The income alignment analysis must be specific to the actual tenant type the operator is pursuing, not to the general population of the market.

SCORING GUIDE — E-2
 Too low to support workable pricing: score 1–3 | Marginal alignment: score 4–6 | Strong alignment between tenant income and co-living price points: score 7–9 | Optimal alignment where the value proposition is both compelling and financially sustainable: score 10

E-3: Rent-to-Acquisition Cost Ratio

This is the operator's own financial test — the point where market conditions translate into investment returns. The question is whether the per-room revenue achievable in this market, at realistic occupancy levels, produces an acceptable return on the combined acquisition, renovation, compliance, and operating costs of running the property.

THE FINANCIAL STANDARD
 The test is a fully loaded pro forma at 75 percent occupancy — with current insurance quotes, post-acquisition tax estimates, and all compliance costs included. If the numbers do not produce an acceptable return under those assumptions, the market fails this sub-variable. A deal that requires 90 percent or 95 percent occupancy to break even is a deal that will fail during any normal period of tenant turnover.

SCORING GUIDE — E-3
 Insufficient returns even at high occupancy: score 1–3 | Marginal: score 4–6 | Favorable returns at 80–85% occupancy: score 7–9 | Strong returns achievable at 70–75% occupancy: score 10

Pillar 3 Score: Score E-1, E-2, and E-3 individually from 1–10. Add the three scores and divide by 3 to produce the pillar average. Multiply that average by 2.0. Example: scores of 8, 7, and 7 average to 7.33, which multiplied by 2.0 produces a Pillar 3 score of 14.7 out of a maximum 20 points.

Pillar 4 — Property Acquisition and Conversion Viability 15 pts

The best market analysis in the world is irrelevant if the right properties are not available at prices that support the co-living financial model. This pillar is where the theory of a market meets the practical reality of what can actually be purchased and operated there. Co-living conversion typically works best with single-family homes or small multi-family properties that have the bedroom count, bathroom configuration, and common area layout to support multiple occupants. The ideal acquisition profile in most markets is a three-to-five bedroom home in a non-HOA neighborhood, within commuting distance of the employment concentrations that serve the target tenant type.

P-1: Availability of Suitable Inventory

Market-level inventory analysis answers one practical question: are there enough of the right kind of properties available — at prices the model can support — to build a meaningful portfolio? A market may score well on every demand and regulatory dimension and still be unworkable if suitable non-HOA properties are scarce, already owned by competing operators, or priced above the threshold where co-living economics function.

THE HOA DISCIPLINE

HOA rules can be amended by a membership vote, and a single organized campaign by one motivated neighbor can result in a rule change that makes a co-living use a violation — with no compensation owed to the operator. Treat non-HOA inventory as the target and HOA inventory as off-limits regardless of what the current CC&Rs permit. The risk is permanent and uncompensated.

SCORING GUIDE — P-1

Scarce suitable inventory: score 1–3 | Moderate inventory: score 4–6 | Good non-HOA inventory at viable prices: score 7–9 | Abundant suitable non-HOA inventory: score 10

P-2: Conversion Cost Environment

Acquiring the right property is only the first step. Converting it to a co-living operation — adding bathrooms, upgrading electrical and plumbing, meeting fire and safety standards, furnishing rooms — carries costs that vary dramatically by market. In markets with high construction labor costs, the renovation budget required to bring a property up to co-living standards can consume the margin that makes the investment work. The full cost stack — acquisition plus renovation plus compliance — is the number that matters, not acquisition price alone.

SCORING GUIDE — P-2

High renovation costs that compress returns: score 1–3 | Moderate costs: score 4–6 | Favorable labor costs and contractor availability: score 7–9 | Low costs with strong contractor infrastructure: score 10

Pillar 4 Score: Score P-1 and P-2 individually from 1–10. Add the two scores and divide by 2 to produce the pillar average. Multiply that average by 1.5. Example: scores of 7 and 8 average to 7.5, which multiplied by 1.5 produces a Pillar 4 score of 11.25 out of a maximum 15 points.

Pillar 5 — Competitive Landscape

15 pts

Entering a market without understanding who is already there — and how much room exists for another operator — is one of the most common strategic errors in co-living. The overall co-living market in the United States remains highly fragmented. No single operator controls more than a small slice of any city's supply. PadSplit operates the largest workforce co-living platform with more than 25,000 rooms across 33 states. Despite those numbers, the market is not crowded in most geographies — the platforms are concentrated in specific metros, and independent operators can still establish meaningful market position ahead of them in many markets.

C-1: Overall Co-Living Supply Relative to Demand

The first competitive question is a straightforward supply-demand assessment. How many co-living beds currently exist in this market, relative to the population of renters who would benefit from the model? A market with 500 co-living beds serving a renter population of 200,000 cost-burdened households is structurally undersupplied. A market approaching saturation compresses occupancy and puts downward pressure on room rates. Most markets in the United States remain on the undersupplied side of that scale.

SCORING GUIDE — C-1
 Saturated: score 1–3 | Competitive but not saturated: score 4–6 | Undersupplied: score 7–9 | Minimal competition with open territory available: score 10

C-2: Demand-Type-Specific Supply Gap

This is the more important of the two competitive sub-variables. A market that appears competitive at the overall co-living level may simultaneously have no supply whatsoever for a specific tenant type. A city with ample workforce co-living beds may have zero purpose-built supply for Silver Living residents (55+), travel nurses, or students. Those are not the same market, and treating them as the same produces a flawed competitive analysis.

The operator who identifies a demand-type gap before the national platforms do is not entering a competitive market. They are entering a market with open territory for a specific tenant. Get there first, serve that tenant type well, and build a reputation before competition arrives. Once the platforms enter the market, the cost to compete goes up and pricing leverage goes down. The national platforms are actively expanding — the window to establish position ahead of them is open now, not indefinitely.

SCORING GUIDE — C-2
 Target tenant type already well served: score 1–3 | Partially served: score 4–6 | Meaningful demand gap for the target type: score 7–9 | No existing supply for this specific demand type: score 10

Pillar 5 Score: Score C-1 and C-2 individually from 1–10. Add the two scores and divide by 2 to produce the pillar average. Multiply that average by 1.5. Example: scores of 8 and 9 average to 8.5, which multiplied by 1.5 produces a Pillar 5 score of 12.75 out of a maximum 15 points.

READING THE SCORE HONESTLY

The five pillars produce a composite score out of 100. What matters is not just the number — it is understanding what the number is telling the investor about where the risk actually lives.

85–100	Strong Entry Candidate
70–84	Viable with Identified Risks
55–69	Proceed with Caution
Below 55	Do Not Enter

A market that scores 78 because Pillar 2 is dragging the total is a different investment decision than a market that scores 78 because Pillar 5 is dragging it. Regulatory weakness is harder to resolve than competitive weakness. An undersupplied competitive environment may close quickly as platforms expand. A hostile regulatory environment may take years to shift, or may never shift at all. The score opens the conversation. The pillar breakdown closes it.

No market is perfect across all five dimensions, and that is not the standard. The standard is a deliberate, eyes-open decision about which trade-offs are acceptable given the operator's specific tenant type, capital position, and operational capacity.

The score is also not permanent. A city that scores 58 today because of a hostile regulatory environment may score 79 in two years if state-level housing reform preempts the local restrictions — as has already happened in Washington, Oregon, and Colorado. Operators who score candidate markets on a recurring basis are running a market intelligence function that most competitors are not. That function is itself a competitive advantage.

WHERE THE FIVE PILLARS FIT IN THE BROADER FRAMEWORK

The Five Pillars scoring framework is the analytical core of the CoLiv Viability Index — a structured, data-driven system for evaluating co-living markets before capital is committed. Within that system, the pillars sit in a specific sequence. A market must first clear the Market Killer Screen — the six binary disqualifiers covered in the companion white paper to this one. Markets that fail any killer never reach pillar scoring. Markets that clear all six killers earn a full scored analysis across these five dimensions.

Together, the Market Killer Screen and the Five Pillars scoring framework give an operator everything needed to evaluate any co-living market with the same rigor that a hospital system uses to evaluate where to build a new facility, or that a national retailer uses to evaluate where to open a new store. The decision is too important and too expensive to be made on instinct. The data exists to make it on evidence. This framework provides the structure to do exactly that.

Investors who want to work through the full Five Pillar scoring process — including sub-variable research guides, scoring worksheets, and weighted calculation tools — will find those resources in the CoLiv Viability Index Market Selection Workbook. This white paper is the conceptual foundation. The workbook is the instrument.

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