

# THE SIX CONDITIONS THAT WILL KILL YOUR CO-LIVING INVESTMENT BEFORE IT STARTS

## MARKET KILLERS

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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.*

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## THE PROBLEM WITH HOW INVESTORS EVALUATE CO-LIVING MARKETS

The co-living investment conversation usually starts in the wrong place.

Co-living — a shared housing model in which individual tenants rent private bedrooms within a fully managed home, with common areas shared among residents — has become one of the most discussed alternative housing strategies in residential real estate. The macro data supporting this discussion is real and sobering. An investor hears that 43.5 million American households are cost-burdened, spending more than 30 percent of their income on housing. They read that the national rental vacancy rate is near historic lows. They see that the stock of affordable rental units priced below \$1,000 per month has dropped by more than 30 percent over the past decade. The case for co-living is compelling.

So the investor identifies a market — the geographic area, whether a state, city, county, or specific neighborhood, where they are considering launching a co-living home — that appears to have housing demand, finds a property with enough bedrooms, and moves toward a purchase. What could go wrong?

Quite a lot. And the failure usually does not come from the market being weak. It comes from a specific condition in that market — one that makes co-living legally unworkable, financially unviable, or operationally impossible — that the investor never identified because they were not looking for it.

These conditions are called Market Killers. They are not weaknesses to be weighed against a market's strengths. They are disqualifying conditions. A market that carries even one of them is not a market with a flaw — it is the wrong market. No amount of demand, no favorable property price, and no skilled management team can overcome a Market Killer once it has been triggered.

There are six of them. Every co-living investor needs to understand all six before committing a single dollar to any market.

## WHAT MAKES A MARKET KILLER DIFFERENT FROM A MARKET WEAKNESS

Every market has weaknesses. A market with a lower-than-ideal vacancy rate is a weakness. A market with moderate competition is a weakness. A market where renovation costs run slightly high is a weakness. These are conditions that can be weighed, priced, and managed. Investors deal with weaknesses every day.

A Market Killer is categorically different. It is a condition that does not yield to good management, creative financing, or operational excellence. It removes the foundation the investment requires to function. Think of it as the difference between a house with a leaky roof and a house built on a sinkhole. The roof can be fixed. The sinkhole cannot.

The six Market Killers share three characteristics. First, any one of them is sufficient to disqualify a market — they do not average out. Second, most of them are knowable before entry, which means encountering one after purchase represents a due diligence failure, not bad luck. Third, several of them are invisible in the data — they only reveal themselves through direct engagement with the people who will be making decisions about the property after the purchase closes.

### THE RULE

Any single Market Killer is sufficient to disqualify a market. There is no averaging, no offsetting, and no negotiating. One failure ends the analysis.

## THE SIX MARKET KILLERS

### MK-1 Outright Prohibition or Active Municipal Hostility

The most direct path to losing a co-living investment is entering a market that has decided — either through formal ordinance or informal enforcement posture — that it does not want co-living to exist.

The formal version is straightforward. Some cities have enacted ordinances that explicitly prohibit four or more unrelated adults from sharing a residence. When the city of Shawnee, Kansas saw two homes converted to room-by-room rentals, the city council responded by passing exactly that kind of ordinance — despite documented rent increases of more than 13 percent in the surrounding county over the prior three years. The demand was real. The market still became illegal to operate in overnight.

The informal version is more insidious and harder to detect. A city does not need a new ordinance to shut down a co-living operation. It needs only a code enforcement officer willing to interpret existing regulations aggressively. In St. Petersburg, Florida, an operator called Docked Living was running legal co-living properties — with permits in hand — until fire officials reclassified those properties as rooming houses under a stricter code standard. No new law was passed. A different interpretation of existing code was applied, and the result was identical to an outright ban.

This is why a review of the written municipal code is necessary but not sufficient. The written code tells an investor what is technically permitted. The enforcement posture tells them what is actually permitted. Those two things are not always the same, and the gap between them is where investments go to die.

### WHAT DUE DILIGENCE REQUIRES

Direct phone calls to both the local planning department and the code enforcement office — not a website review, not a reading of the zoning ordinance. The tone and content of those conversations are themselves data. An official who is neutral or receptive is a different environment than one who signals hostility. Both answers are valuable. Neither is available without making the call. The companion workbook to this framework includes specific call scripts and question guides for both conversations.

## MK-2 Unresolvable Rooming House Classification Burden

This is the Market Killer that surprises investors most, because the market appears to pass on first inspection. Co-living is technically permitted. The zoning classification exists. The operator can legally run a shared-occupancy home. What they discover — often after the purchase — is that the classification comes with requirements that make the financial model impossible.

When a jurisdiction classifies a co-living property as a rooming house or boarding house, it typically triggers a set of compliance requirements that standard single-family rentals never face. These can include commercial-grade fire suppression systems, separate egress requirements for each occupied room, commercial electrical and plumbing standards, mandatory annual inspections, and in some cases a public hearing process that gives neighboring property owners the legal standing to object to and potentially block the operation.

Each of these requirements carries a cost. A commercial sprinkler system retrofit in a single-family home can run from \$15,000 to \$40,000 or more depending on the property and the jurisdiction. When those compliance costs are added to acquisition and renovation expenses, the per-room revenue that the property can generate may no longer support an acceptable return — even at full occupancy. The market permitted co-living. The classification made it financially unviable.

The question an investor must answer before any offer is written is not simply whether rooming house classification applies. It is what rooming house classification actually requires in that specific jurisdiction, what full compliance will cost, and whether the pro forma still works when those costs are included. That answer requires a direct conversation with the local building and licensing department — not an assumption based on how other cities handle similar classifications.

### THE SURPRISE KILLER

A phone call to the local building and licensing department before any offer is written can save the entire investment. Request the full rooming house requirements in writing and get compliance cost estimates from a contractor before proceeding. The workbook companion to this framework includes specific question guides for this conversation.

## MK-3 HOA Saturation

The homeowners association is the Market Killer that investors most consistently underestimate — because the risk is not in the current rules. It is in who controls the rules going forward.

The common version of this due diligence mistake goes as follows: an investor identifies a promising market, surveys available inventory, and finds properties in HOA-governed communities. They review the current CC&Rs — the covenants, conditions, and restrictions that govern what property owners can and cannot do — confirm

that rental use is permitted, and proceed with the purchase. The current rules support the investment. The current rules are not the problem.

HOA covenants can be amended by a vote of the membership. That membership changes over time as properties in the community are bought and sold. A single motivated homeowner — one neighbor who decides that a co-living operation is incompatible with the neighborhood's character — can organize a campaign, bring a rule change to a vote, and if successful, render the entire investment non-operational. The HOA does not owe the operator compensation for that change. It does not require the operator's agreement. A vote is a vote, and the investment is now in violation of the governing documents.

The legal remedies available in that situation are expensive, slow, and deeply uncertain. The practical lesson is not to read the CC&Rs more carefully before buying. The practical lesson is to treat any property encumbered by an HOA as carrying permanent governance risk regardless of what the current rules say — and to build acquisition criteria that specifically target non-HOA inventory.

The market-level implication is direct: in markets where the dominant housing stock suitable for co-living conversion is concentrated in HOA-governed communities, the operator's practical acquisition pool shrinks to a point where the market cannot support a viable portfolio. That condition disqualifies the market regardless of how strong its demand indicators are.

#### **MK-4 Unsustainable Cost Structure**

A market can have strong demand, favorable regulations, non-HOA inventory, and still be the wrong market — because the numbers do not work. This killer does not announce itself through hostility or prohibition. It appears in the pro forma.

The highest-cost coastal markets illustrate the pure version of this problem. Acquisition prices for the type of property suitable for co-living conversion have reached levels in these markets where the per-room revenue a co-living operation can realistically generate does not produce an acceptable return on invested capital, even at high occupancy. The market is not hostile to co-living. The math is.

Two cost variables deserve specific attention because they are frequently underestimated at the time of acquisition.

Insurance costs have accelerated at a rate that is rewriting investment assumptions in several otherwise attractive markets. The average annual homeowner insurance premium increased by 14 percent in 2024 alone and is up more than 60 percent over the prior five years. In Florida, Texas, and California — markets that present attractive co-living demand conditions — insurance costs for multi-occupant residential properties have risen sharply as carriers reprice climate-related risk. An investor who underwrites a deal using prior-year insurance rates is carrying unacknowledged exposure that can quietly eliminate the investment's returns without a single vacancy.

Property taxes present a parallel risk in markets experiencing rapid appreciation. An investor evaluating a property sees the current owner's tax bill. What they will actually pay — after the sale triggers a reassessment at the new purchase price — may be materially higher. The correct underwriting approach is to model the post-acquisition tax burden, not the seller's current obligation.

A fully loaded pro forma at 75 percent occupancy — with current insurance quotes, post-acquisition tax estimates, and all compliance costs included — is the minimum test. If the investment does not produce an acceptable return under those assumptions, the market fails this screen.

## MK-5 Shrinking or Unstable Population

Co-living is a business model built on consistent, recurring demand. As existing tenants move on, new ones must be available to replace them. That replacement requires a market with a population that is stable or growing — one that continuously replenishes the tenant pool. In markets where the population is declining or structurally unstable, that replenishment does not happen reliably, and vacancy rates rise regardless of how well the property is managed or priced.

Sun Belt metros have led domestic population growth consistently through this decade, driven by a combination of climate preference, lower cost of living relative to coastal markets, and sustained job creation. These markets offer the strongest long-term population foundation for co-living operations. Markets experiencing net outmigration — regardless of how inexpensive the available inventory appears — carry structural vacancy risk that property management cannot solve.

One population growth metric that requires careful, specific scrutiny is growth driven primarily by immigration. Immigration-driven population increases can produce genuine and sustained demand — and in many markets, immigrant workforce populations represent exactly the kind of cost-burdened renter that co-living is designed to serve. That demand is real and should not be dismissed.

However, the durability of immigration-driven demand is subject to forces entirely outside an operator's control, and can shift rapidly based on federal enforcement policy, geopolitical conditions, and administrative priorities. A market whose population growth story rests primarily on continued immigration at current rates is a market whose demand durability is exposed to policy risk in a way that employment-driven or retiree-driven growth is not. That exposure needs to be explicitly acknowledged in the investment thesis and stress-tested against scenarios where immigration patterns change significantly. Failing to do so is not optimism — it is an unexamined assumption that can break an investment that looked solid on every other dimension.

### ⚠ IMMIGRATION-DRIVEN DEMAND: A REQUIRED STRESS TEST

The question is not whether immigration contributes to demand. The question is whether the market's tenant pool is deep enough and diversified enough to sustain occupancy if that specific driver contracts. This alone can make or break a co-living investment.

## MK-6 Absence of the Target Tenant Population

The final Market Killer is the most straightforward and the most frequently overlooked. The specific tenant population that would sustain occupancy simply does not exist in sufficient numbers, in the right concentration, with the income and housing need that makes co-living the appropriate solution for them in that market.

The error that leads to this failure is treating general housing demand as evidence of specific tenant demand. A market can have widespread rent burden — half its renters spending more than 30 percent of income on

housing — and still be the wrong market for a specific co-living model if the tenant population that model is built to serve is not present in meaningful numbers.

Consider what that looks like across different tenant types. A market with a large hospital system and documented nursing shortages generates travel nurse demand — but only if the hospital is actively using contract staffing agencies and those assignments are placing nurses in that market consistently. A market near a major university generates student demand — but only if off-campus housing is demonstrably undersupplied and the university's enrollment is stable or growing. A market with a strong concentration of light industrial and service sector employment generates workforce housing demand — but only if the wage levels in that employment base are sufficient to support co-living rent without creating severe affordability strain.

Silver Living residents — the 55-plus tenant population that represents one of the most underserved and fastest-growing segments in co-living — require a market with accessible healthcare infrastructure, walkable daily-needs proximity, and a climate and community profile that supports the active retirement lifestyle. Silver Living is an emerging category and standard for understanding this demographic's housing needs. A market that lacks those specific characteristics will not attract or retain this tenant type regardless of how favorable its broader demand indicators appear.

MK-6 cannot be evaluated on general demographic data alone. It requires tenant-specific research — employment data, income profiles, documented housing shortage evidence, and in some cases direct engagement with the employers, institutions, or referral networks that would generate the tenant pipeline. The question is not whether the population exists. It is whether it exists in sufficient concentration, with the specific characteristics, to sustain a co-living operation over a multi-year investment horizon.

## WHY MOST MARKET KILLERS ARE AVOIDABLE

Five of the six Market Killers described in this paper are knowable before entry. Zoning classifications are public record. HOA saturation is visible in a basic inventory survey. Insurance costs are quotable before any offer is written. Population trends are documented in U.S. Census Bureau data. Tenant population characteristics are measurable through publicly available employment and demographic research.

The one killer that is hardest to see in advance is active municipal hostility — the enforcement posture of a local government that does not appear in any written ordinance but that can shut down a legally operating business. That is precisely why due diligence for MK-1 and MK-2 cannot be completed from a desk. It requires direct phone calls — or better, in-person meetings — with the planning and code enforcement officials who will be making decisions about the property after the purchase closes. Everything else on this list can be identified through research. Those two require a conversation.

The discipline this framework requires is not complicated. It is sequential. Before analyzing a market's strengths, confirm that the market does not carry a condition that makes those strengths irrelevant. A market that fails any one of these six screens is not a market to be negotiated with. It is a market to walk away from — cleanly, without regret, and with the capital preserved for a market that passes.

## WHERE MARKET KILLERS FIT IN THE BROADER FRAMEWORK

The six Market Killers described in this paper are one component of the CoLiv Viability Index — a structured, data-driven framework for evaluating co-living markets before capital is committed. The CVI produces a composite score across five pillars of market analysis — demand conditions, regulatory environment, economic

profile, property acquisition viability, and competitive landscape — that allows operators to compare candidate markets and make investment decisions with full information.

The Market Killer Screen is not scored. It is binary. A market either passes or it does not. A market that fails any killer never reaches the scoring phase of the analysis — because no score across the five pillars can compensate for a disqualifying condition.

Investors who want to work through the full Market Killer evaluation process — including direct research protocols, phone call question guides, and pass/fail documentation — will find those tools in the CoLiv Viability Index Market Selection Workbook. This white paper is the conceptual foundation. The workbook is the instrument.

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