**Apps to screen tenants latest Chinese startups battleground**

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In its attempt to cool what are among the fastest-rising property prices in the world, China is pushing its people to rent instead of buy. That’s prompting venture capitalists to pour millions into an old-fashioned sector that’s being uprooted by technology: rental management.

Tencent Holdings Ltd, Warburg Pincus and Sequoia Capital are among the VCs betting on startups to win a slice of the market expected to grow to 4.2tril yuan (RM2.58tril) by 2030, according to estimates from Orient Securities Co. That’s almost half of total home sales in 2017.

The initiative to encourage renting homes is spurring some of the most important policy changes in private property ownership since 1988. It’s also creating opportunity for half a dozen companies, including Ziroom, You+ and Mofang Apartment. With already about 1.2 million tenants using Ziroom alone across nine cities in China, the startups are becoming the new gate keepers of social credit: tapping data and technology to determine rent prices, screen tenants and generate uncannily detailed profiles of their hobbies and habits.

“China’s urbanization, along with a younger generations’ demand for better quality of life and control of property prices, has sent the rental sector into high-speed growth,” said Liu Xing, a partner at Sequoia Capital China, which invested in Ziroom. “The new winners in this space will be those who can provide high quality professional service by applying big data and technology.”

**Raising money**

Ziroom raised 4bil yuan (RM2.45bil) led by Warburg Pincus, Sequoia and Tencent in January. You+’s backers include DST and Shunwei Capital Partners, the VC firm backed by Xiaomi’s founder Lei Jun. Warburg Pincus, which has invested about US$8bil (RM31.18bil) in Chinese companies, has invested in three startups in the field, according to Julian Cheng, co-head of Warburg Pincus China.

China has 190 million workers who rent, according to research from real estate agency Lianjia. That’s 77.6% of people who live away from their homes. China’s largest developers, including Country Garden Holdings Co, have announced plans to make millions of new rental properties available.

Unlike Airbnb Inc or Tujia.com – known more as purveyors of vacation rentals – these new startups are focusing on long-term leases, such as one-year duration.

You+, for example, has retrofitted former factories into co-living communes. They offer shared office space, kitchens, gyms and cinemas to tenants usually below age 45. The lessees use the You+ app for payments and create online profiles to join interest groups ranging from hiking to photography.

**Smaller developers**

You+ is starting to work with smaller regional developers, such as Guangzhou-based Times Property Holdings Ltd. It will manage the apartments in bulk and take a cut of the rent, typically 6% to 8%, You+ said.

“We’re exploring opportunities to work on more projects in the future, where we provide the property and You+ takes care of the management to maximize our strength respectively,” said Li Qiang, an executive director at Times Property.

The Beijing-based You+ estimates it could be managing as many as 100,000 units across China, including Beijing, Shanghai and Nanjing, by mid-February. The units range from 30 square meters to 50 square meters (323 square feet to 538 square feet) and usually cost 2,000 yuan (RM1,232) to 3,000 yuan (RM1,848) per month.

“What we do better than traditional property managers is we’re creating a social network,” said Liu Yang, co-founder of You+. “If we replicate this model on a large scale, it will become a profitable business.”

**Individual owners**

Ziroom’s housing supply is more diversified. The company started as a spin off from online real estate agency Lianjia in 2016. Ziroom mostly manages property from individual owners. The company refurbishes the homes and brings them up to standard. Setting it apart from traditional services: Everything can be done via its app.

Customers can check apartment photos online – images that Ziroom says it makes sure are honest representations. Once people identify units they’re interested in, they receive smart-lock codes granting them access to the apartments, without having to deal with an agent. When they move in, they’re greeted with standardized furniture. If the sink is clogged, renters can order maintenance with a few taps. Ziroom is also trying to introduce more Internet-connected furniture, so users can control their lighting, television watching and room temperature, all on the app.

All the while, Ziroom is amassing data. While Chief Operating Officer Liang Zhanhua said the company hasn’t fully mapped out what it wants to do with the information, but the opportunities are endless.

“If we have 10 million tenants, and they spend 10 hours a day on my app, that’s 100 million hours” of data, said Liang. “There’s a lot to imagine, there’s a lot we can explore, their life style, the services they need and content they want to watch.”

**Credit scoring**

Both Ziroom and You+ are already working with Ant Financial and Tencent on social credit scoring, which uses financial and other metrics to assess a person’s suitability as a customer. That partly helps decide whether people can rent apartments. For example, with Ziroom, users are required to allow the company to have access to their credit scoring on Ant Financial and also a Chinese service akin to LinkedIn. Only those who score above 70 points are allowed to move in.

Giving companies access to so much personal information could pose risks, an awareness that has yet to fully register with the public, according to Lotus Ruan, a research fellow at the Citizen Lab at the University of Toronto. There’s a lack of education on “privacy risks that came with the convenience brought by apps, or social credit scores in this regard,” said Ruan.

Ziroom signs up apartments and offers them to tenants at a higher price than the landlord asks, keeping the difference. Ziroom collected rent totalling 15bil yuan (RM9.22bil) in 2017, Liang said, declining to disclose whether it made a profit. Ziroom wants to double its supply, ranging from US$10,000 (RM39,009)-a-month luxury properties to small studios, to 1 million units by the end of 2018.

For operators, initial investment is big, and the wait for returns could be long. The startups are doing the dirty work that many developers spurn – they furnish the rooms, offer cleaning services for the toilets, shared kitchen spaces and gyms, and create online social networks for tenants. The companies are counting on scale.

“We position ourselves to be the cream on top of the cake. We might be a thin layer, but it will increase the value of the cake,” said Liu of You+. “We take a thin spread, but we can be applied on every cake, so this could become profitable.” — Bloomberg