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Franchising

Why Real Estate Investors Can Find New Opportunities in 55+ *Communities*

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Why Real Estate Investors Can Find New Opportunity in 55+ Communities

INTRODUCTION

Timing is everything, right?

Economic conditions and changing demographics mean timing couldn't be better for U.S. real estate investors to begin looking at new opportunities.

Investing in commercial properties, such as hotels and multifamily housing has been prosperous for many real estate investors and developers. These markets are beginning to show signs of a potential decline. This leaves savvy investors to look for new investment prospects that leverage their development experience.

One such opportunity could be 55+ housing as Baby Boomers look toward retiring and downsizing. Adding 55+ communities allow investors to diversify their portfolios while using their land acquisition and development knowledge. With continued growth projected in 55+ housing, investors have the chance to enter the market before larger builders. A franchise offering communities with low maintenance, detached condominiums that appeal to 55+ home buyers, can give investors a significantly lower barrier to entry in this real estate segment.

55+ HOUSING IS EXPERIENCING RECORD GROWTH

Tough Reality: *Hotels and Multifamily Housing Show Signs of Decline*

HOTELS

After the recession, many developers switched their focus from residential to commercial properties, leading to a boom in the U.S. hotel sector to fulfill higher demand. And yet, for the first time since 2009, the U.S. hotel industry has seen a decline in occupancy rates.[1] RevPAR, the way hotels measure growth in annual revenue per available room, has also started to slow down.[2] This decline could mean slower returns for investors.

13+ OF THE 54

LARGEST METRO AREAS SAW A DECREASE IN HOTELOCCUPANCIES THIS YEAR.[3]

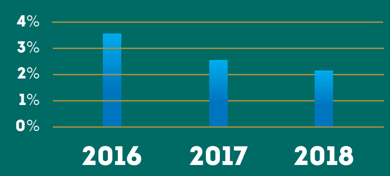
0.2%

DECREASE IN HOTEL OCCUPANCY IS PROJECTED FOR 2018,

according to STR and Tourism Economics.[4]

Growth in annual revenue per available room (RevPAR) has also started to slow down.

Growth in RevPAR



SOURCE: STR Global and Tourism Economics

WHAT THIS MEANS FOR YOU

Hotels are considered the most volatile properties through market cycles.[5] Forecasts predict slower or even declining market growth, which could mean some investors are already seeking alternative development opportunities.

MULTIFAMILY HOUSING

The multifamily housing sector is seeing a similar slowdown. The number of multifamily housing projects is expected to peak at the end of 2017 and remain elevated in early 2018 before it levels off.[6]

It's expected that a decrease in permits and starts will lead to higher vacancy rates, slower absorption of new units and moderated rent growth.[7] According to Freddie Mac's Multifamily 2017 Mid-Year Outlook, these effects were already beginning in big rental markets like San Francisco, New York, Washington, D.C. and Miami.

While demand is high, rents have risen to unaffordable levels in many cities, hurting future rent growth. Rental rates and net operating income growth are slowing, stagnating or starting to decline, especially in markets like New York, San Francisco and Seattle.[8]

The growing labor market's effect on homeownership could also decrease the demand for rental housing as more people buy homes.

MULTIFAMILY PERMITS WERE DOWN 14%[9]

MULTIFAMILY STARTS WERE DOWN 10% OVER THE LAST TWO YEARS WHILE COMPLETIONS ARE EXPECTED TO INCREASE THIS YEAR[10]

In the first quarter of 2017,
854,000 households bought homes
and 365,000 rented

– the first time more new households bought versus rented since 2006[11]

WHAT THIS MEANS FOR YOU

The hotel and multifamily housing sectors remain strong, yet there are indicators that slower growth could be on the horizon.

Timing is right for experienced investors to explore other sectors to diversify their portfolios.

chapter 2

Ways to Leverage Development Experience for Residential Investments

Residential community building processes are very similar, which may represent an alternative strategy for experienced developers looking for their next investment opportunity. Experienced commercial developers, particularly those with experience in commercial and multifamily real estate, may be positioned for growth in residential real estate communities for several reasons:

The complexities of acquisition and development are well understood.

Commercial investors who are already well versed in these areas can quickly transition to new types of development. Investors may even be able to use land they were originally planning for another type of property that has slowed in growth to take advantage of growing residential sectors like 55+ housing.

Development of residential properties can be easier.

There tends to be more opportunities, down payment requirements for loans are typically lower and there can be fewer regulations to follow in the building process for residential properties. As banks tighten their lending standards in response to increased regulations, financing from Commercial Mortgage Backed Securities (CMBS) is becoming limited. The CMBS market has seen a 50 percent decline in overall issuance.[12]

Residential development can be less expensive than building commercial properties.

Less expensive properties may require developers to take on less debt. For example, demand for multifamily housing is highest in high-priced urban areas, and high-end amenities are expected, making apartments increasingly expensive to build.[13]

Building residential properties allows investors to diversify from annuity-style investments.

Once developers have built and sold a community, they can move on, pocketing any profit or using it to start another community. This allows investors to try a new type of development without having to collect and manage monthly income, which frees up capital quicker for future development. This type of development often has a shorter waiting period before the investment is recouped and profit is realized.

Growth in 55+ Housing

When considering a transition to residential communities, one sector in particular could represent significant opportunity – **55+** ***housing***

fact

BABY BOOMERS ARE THE LARGEST AND MOST UNDERSERVED SEGMENT OF BUYERS

In 2016, there were almost 75 million Baby Boomers.[14]

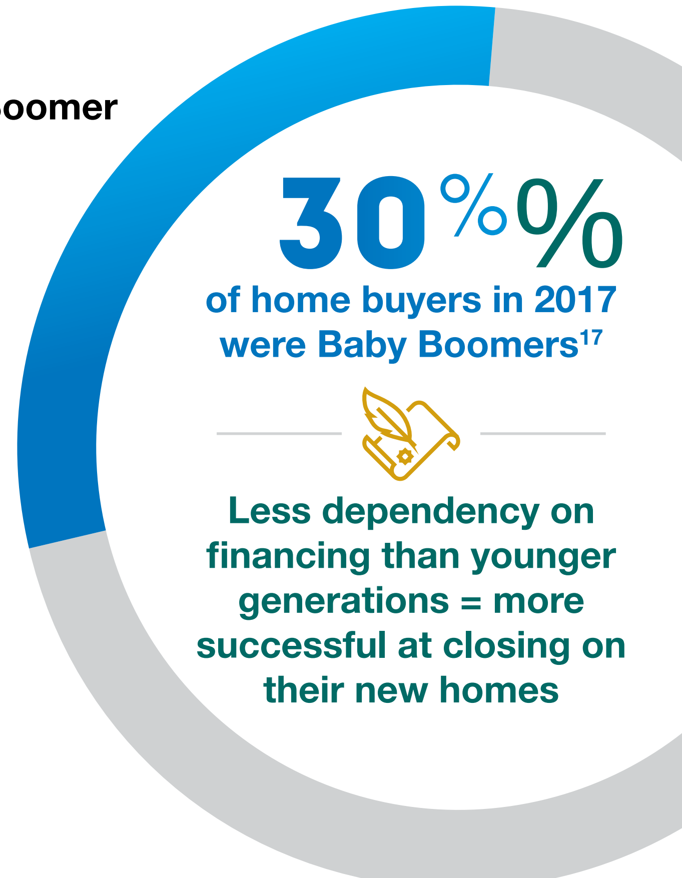
The longevity economy, which includes the products and services purchased by Americans more than 50 years old and the further economic activity those purchases generate, is currently valued at more than $7 trillion per year and is expected to reach more than $13.5 trillion by 2032.[15]

NOT ONLY ARE THERE A LOT OF BABY BOOMERS, BUT THEY ARE ALSO BUYING MORE HOMES AS THEY START TO RETIRE AND RIGHTSIZE.

Here are some fast facts about the Baby Boomer real estate housing market:

Approximately **32 million Baby Boomers**, or 42% of all Boomers, **plan to move**[16]

Almost all are already over 55, latecomers are set to turn 55 in the next 2 years

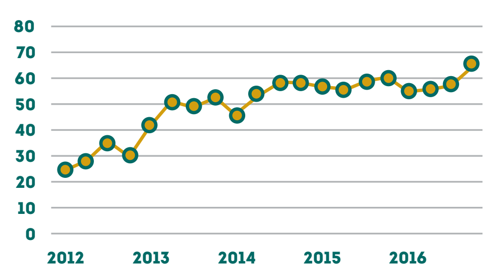


The 55+ Opportunity:

Demand is Exceeding Supply.

National builders have not yet flooded the 55+ market, giving investors nearly unlimited market opportunity. Metrostudy estimates that the demand for maintenance-free, single family homes is far exceeding supply.[18] The 55+ housing market has shown year-over-year gains every year since 2012, according to the National Association of Home Builders, and the demand for 55+ housing is only growing.[19] The 55+ Housing Market Index reached 67 for the fourth quarter of 2016—the highest since it started in 2008.[20] Age-restricted housing also leads the investment and development prospects for all residential property types this year.[21]

55+ HOUSING MARKET INDEX



What Makes a Successful 55+ Community

With an understanding of land acquisition and development, experienced hotel and multifamily housing developers can apply their knowledge to building single family communities for Baby Boomers with attention to some key specifications.

THIS DEMOGRAPHIC FOCUSES ON LIFESTYLE.

Entertaining, spending time with friends and other leisure activities while spending less time on housekeeping and home maintenance. For example, communities offering detached condominium or patio homes appeal to the 55+ home buyer versus a multifamily condominium or apartment complex because they offer a greater sense of the traditional home.

71%

of adults from 50 to 64 years old **want to be in close proximity to family and friends** or age in their current community[22]

RANCH STYLE HOMES THAT ARE OPEN AND EMPHASIZE FUNCTIONALITY ARE PREFERRED.

Successful 55+ home builders have used market research of the demographic to create floor plans that meet this group's unique desires. Since lifestyle and entertaining is a focus, open concept living areas and outdoor patios are popular. A survey of the 55+ age group found that buyers are looking for high ceilings, natural light and sufficient storage space.[23] Flex rooms are also a plus because they allow homeowners to customize their space to accommodate guests, a home office or whatever else they need.

DOING LESS IS MORE.

Many 55+ new construction home buyers are rightsizing and looking for less square footage, fewer bedrooms and less maintenance. In addition to offering the right floor plan options, 55+ communities must provide some exterior home maintenance. This includes lawn care, snow removal and trash pickup.

COMMUNITY IS EVERYTHING.

More important than just a smaller, low-maintenance home, 55+ buyers want to feel part of a community. Hanley Wood found that first impressions upon entering a neighborhood and amenities are two major factors that influence a home buyer's decision to purchase.[24] Developers targeting this demographic should consider communities that include amenities like walking trails and clubhouses. Ideal benefits could include a swimming pool, fitness facilities and plenty of room to host social events, all of which facilitate the sort of lifestyle that appeals to the 55+ demographic.

BABY BOOMERS WANT TO BE NEAR SHOPPING, RESTAURANTS, MEDICAL SERVICES AND GROCERY STORES%NOT IN REMOTE AREAS.

It's no surprise that warmer climates appealing to some 55+ home buyers as a place to relocate upon retirement.

HOWEVER, 55+ COMMUNITIES ARE SUCCEEDING IN ALL PARTS OF THE COUNTRY AS INDIVIDUALS WANT TO BE IN CLOSE PROXIMITY TO FAMILY OR FRIENDS.

In addition, 71% of adults from 50 to 64 years old want to be in close proximity to family and friends or age in their current community.[25]

How to Tap into a Franchising Business Model to Enter the 55+ Real Estate Market

Franchising offers the opportunity for investors to enter a new area of development without having to reinvent the wheel.

FRANCHISE BUSINESS MODELS SHOULD ALSO OFFER TRAINING AND SUPPORT. IN THE 55+ INDUSTRY, THIS KNOWLEDGE CAN PREVENT COMMON MISTAKES THAT COULD BE COSTLY FOR A NEW BUSINESS VENTURE.

FIVE QUALITIES
TO LOOK FOR IN A 55+ FRANCHISE:

1. **A proven framework.**

A franchisor can provide core strategies and processes for developing communities, proven floorplans with CAD drawings and specifications, and insider bookkeeping knowledge to help franchisees gauge costs and maintain margins.

2. **Purchasing power.**

Franchisors have national account buying power on construction materials and services, decreasing overhead for franchisees.

3. **Tools and technology.**

Franchisors also provide the tools and technology needed for marketing and selling homes quickly. For example, Epcon Communities' website includes virtual tours and architectural renderings of all models. These tools are critical when pre-selling homes, but are often cost prohibitive for an independent builder to create. A franchisor's investment in marketing and technology can help increase a developer's sales velocity without lowering the profit margin.

4. **Speed of investment returns.**

If the home designs are tested and well-documented they will be easier to build and appeal to the 55+ buyer. This, combined with available tools, will help provide a fast return on investment. Epcon Communities floorplans, for example, can be built in as little as 100 days. This is twice as fast as the industry average of more than six months from start to completion.[26] As investors close out communities, they can start new ones, providing long-term growth opportunities.

5. **No long-term contracts.**

A franchise partner should not require long term contracts. This will allow you to avoid committing decades to a particular brand. For example, the Epcon home building and community development franchise does not require its franchisees to sign a 10-, 15- or 20-year agreement. Franchisees simply commit to build their first community. If franchisees choose to build additional communities anywhere in the country, they may not need to pay another initial franchise fee. This gives active franchisees the ability to continue developing as many communities as they want or the option to move on to other business interests.

CONCLUSION

The growth in 55+ housing offers a great opportunity for any investor, but those who have real estate development experience are particularly well positioned in this sector.

Adding 55+ housing communities to a portfolio makes use of land acquisition and development experience while diversifying a real estate investor's income strategy.

Investors can take any profit from one community and use that large amount of capital to start another real estate investment without having to wait to collect monthly income. Timing is everything for investors who want to maximize their growth potential before large builders come into the market. By working with a franchisor with proven expertise in the 55+ housing market, investors can enter the segment faster.

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