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

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Introduction

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

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. As these markets face uncertainty, savvy investors are looking to new investment prospects that can leverage their development experience.

One such opportunity could be 55+ housing as Baby Boomers retire and downsize. Adding 55+ communities allows real estate investors to diversify their portfolios while using their land acquisition and development knowledge. With continued growth projected in 55+ housing[1], investors have the chance to enter the market before larger builders. A franchise offering communities with low maintenance, detached homes that are popular with 55+ home buyers can give investors a significantly lower barrier to entry in this real estate segment.

55+ Housing

is experiencing record growth

Chapter 1

Tough Reality: Commercial Properties and Multifamily Housing Showing Continued Signs of Decline

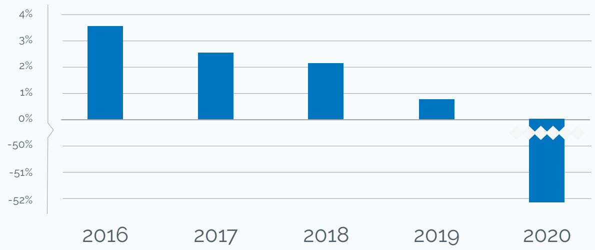
Hotels

After the Great 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, the U.S. hotel industry has seen a decline in occupancy rates.[2] RevPAR, the way hotels measure growth in annual revenue per available room, has also slowed down significantly.[3] This decline could mean slower returns for investors.

53.1% decrease in hotel occupancy for 2020, according to STR and Tourism Economics.[6]

Growth in annual revenue per available room (RevPAR) plummeted in 2020.

Growth in RevPAR



SOURCE: STR Global and Tourism Economics

What This Means for You

Hotels are considered the most volatile properties through market cycles.[4] Never has this been more evident than in the face of the COVID-19 pandemic. Hotels face a difficult road to recovery—U.S. hotel performance has shown an uneven rebound by market, with performance corresponding with spikes in COVID-19 cases, pushing any return to 2019 fundamentals well into 2024.[5] This could mean some investors are already seeking alternative development opportunities.

Multifamily Housing

While demand remains unchanged, a 10-year bull run for market-rate multifamily rental housing development and construction is now over.[5] The decade to come has been thrown into uncertainty by the COVID-19 pandemic and concurrent market forces. Any semblance of predictability is disrupted, which materially undercuts the nature of value in the world of multifamily rental community development.[5]

The sheer magnitude of the pandemic, and it's long-term effects, may spur traditional multifamily investors to look for new opportunities to help mitigate risk.

As more people buy homes, the demand for rental housing could decrease.

Investment prospects are expected to decrease in 2021 **for multifamily housing**

Development prospects are expected to decrease for multifamily housing as well

Builder confidence in the single-family 55+ housing market

reached an *all-time high* in the third quarter of 2020.[1]

Yet 55+ home buyers in the U.S. continue to be tremendously underserved. In fact, the housing market hasn't been able to keep up with buyer demand over the past decade.[7]

What This Means for You

The unique challenges presented to the world recently have had a substantial impact on commercial real estate portfolios in the United States, including those composed of office, retail, hotel, restaurant and multifamily developments.

Timing is right for experienced investors to explore other sectors to diversify their portfolios, and the residential housing market in particular is a sector that deserves a closer look.

Chapter 2

Ways to Leverage Development Experience for Residential Investments

Residential community building may represent an alternative strategy for experienced developers looking for their next investment opportunity. Experienced commercial developers 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.[8]

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.[4]

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 proceeds 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.

Chapter 3

Growth in 55+ Housing

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

There are approximately 73 million Baby Boomers in the U.S. and every day, about 10,000 turn 65.[9]

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.[10]

Chapter 4

What Makes an Ideal 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 people over 55 with attention to some key specifications.

This demographic focuses on lifestyle.

Baby Boomers enjoy 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 are popular with 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 [11]

Ranch style homes that are open and emphasize functionality are preferred.

Successful 55+ home builders have used market research of the Baby Boomer demographic to create floorplans 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.[12] 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 floorplan options, 55+ communities must provide some outdoor 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.[13] 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.

55+ home buyers want to be near shopping, restaurants, medical services and grocery stores—not in remote areas [12]

They also want technologies that amplify purer air and water quality, room comfort, and sound, as well as connectivity to family, friends and adventure [12]

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

Chapter 5

Generation X: Anticipating the Needs of the Next Generation Entering the 55+ Market

Who is Generation X?

Generation X is quickly entering the 55+ market. This shift is just beginning, but will have significant implications for the future of 55+ housing. At Epcon, we work to stay ahead of trends, so you have a turnkey product that will continue to resonate as Gen X comes calling.

Generation X

Born in 1965-1981

39-55 years old

Signature Traits

Pragmatic

Self-Reliant

Results-Driven

Looking at the next decade

3 Key Insights into 55+ Housing from 2020 to 2030

Generation X will have a growing impact in the 55+ homebuilding market over the next 10+ years. With unique insights into the buying habits of Gen X, Epcon is working to put the right strategies in place to maximize opportunity. Let's look at their preferences and the opportunities they create for home builders.[14]

1

Gen X Puts a Premium on Privacy

Gen X places a strong emphasis on private, dedicated spaces for them to enjoy, relax and entertain. According to our proprietary research, over 80% of 45-54 year olds say private outdoor space is absolutely essential. Ensuring that home designs appeal to the needs of this generation through ongoing product development will be key.

2

Gen X is Sensitive to Extra Fees

Since many Gen Xers haven't accumulated wealth quite like the Baby Boomer generation, added fees are being scrutinized. Lower and more transparent HOA fees will appeal to the pragmatic nature of Gen X home buyers.

3

As 55+ Demographics Shift Toward Gen X, Some Housing Preferences will Remain Steady.

While a new generation will bring its own unique opportunities and challenges, many of the early wave Gen X housing preferences, design priorities and demand for amenities will still be in-line with late wave Baby Boomers. This makes Epcon's market-tested floorplans and communities a turnkey homebuilding opportunity for the foreseeable future.

Building for the next generation:

Breaking Down the Target Gen X Market

Epcon Franchising is dedicating significant resources to understand Gen X buyers to develop the next generation of 55+ homes and communities. We're looking at price sensitivity, as well as housing and amenity preferences, to keep Epcon Communities out ahead of the competition in this increasingly competitive housing segment.

As an Epcon Franchise Builder you will have access to this ongoing research as well as the targeted marketing and sales knowledge to capture the rising Gen X market.

Chapter 6

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.

55+ communities are growing across of the country

as individuals want to be in close proximity to where their family or friends live[15]

Five Qualities to Look for In a 55+ Business Opportunity

A proven framework.

A 55+ business opportunity should provide core strategies and processes for developing communities, proven floorplans with CAD drawings and specifications and insider bookkeeping knowledge to help gauge costs and maintain margins.

Purchasing power.

A 55+ business opportunity should provide national account buying power on construction materials and services, decreasing overhead.

Tools and technology.

A 55+ business opportunity should 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. The investment in marketing and technology can help increase a developer's sales velocity without lowering the profit margin.

Greater velocity.

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 turnover of homes. Plans should allow you to build a home efficiently. For example, Epcon allows you to build a home in as little as 110 days—faster than the industry average for developments with more than 20 units—according to the U.S. Census Bureau's 2019 Survey of Construction.[16] As investors close out communities, they can start new ones, providing long-term growth opportunities.

No long-term contracts.

A 55+ business opportunity should not require long-term contracts. This will allow you to avoid committing decades to a particular brand. For example, the Epcon homebuilding 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 proceeds 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 company like Epcon Communities with proven expertise in the 55+ housing market, investors can enter the segment smarter and faster.

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About Epcon Franchising

Epcon Franchising is a production homebuilding and land development franchise company.

We help our Franchise Builders accelerate their growth by providing proven floorplans and business management systems that enable them to build faster, sell faster, market homes more effectively and turn home buyers into brand ambassadors.

Learn more.

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