

BY TIMOTHY R. MCCARTHY

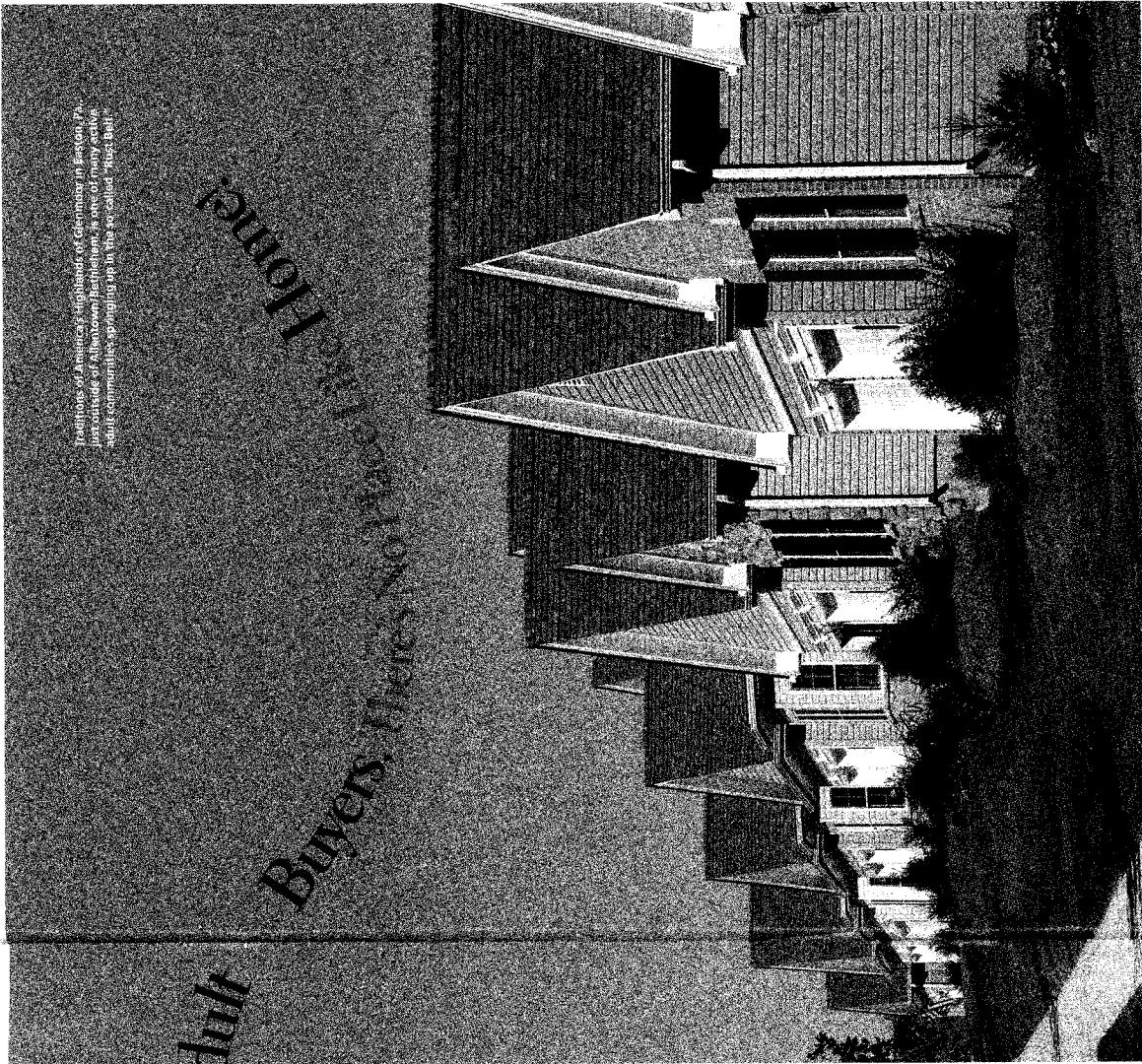
For Today's Active Adult

The Close-To-Home Phenomenon

Dorothy uttered these simple but powerful words more than 60 years ago. Today, millions of aging Americans are realizing just how right she was. Active adults, empty nesters, and retirees are increasingly turning their backs on *destination communities*. Instead of heading off to an idyllic spot in the sun, they are finding happiness in their own backyards. Meanwhile, market-savvy public and private builders are racing to meet consumers' growing desire to stay close to home.



But what is driving them to make this choice? What does *home* really mean to today's active adults? How close does it really need to be? What are the implications for planners, engineers, architects, and builders? Will this trend continue? Or will it reverse itself as globe-trotting boomers again search for their place in the sun? As the close-to-home market matures, what are the threats on the horizon?



Photograph courtesy of developer of retirement community, Parkside of Albemarle, North Carolina. Aerial view of community. About communities springing up in the so-called "age 60+ belt."

PHOTOS COURTESY OF TRADITIONS OF AMERICA

What Does Home Really Mean To Today's Active Adults?

Historical Perspective

A quick look in the rear-view mirror may be enlightening. Early active adult communities pioneered by legendary builders like Del Webb were destination, resort-like, self-contained developments. With true faith that "if we build it, they will come," large builders created massive planned communities with dizzying amenities in far-away Sun Belt locations. Many of these communities proved wildly popular, not to mention financially successful for builders.

Destination Communities: Chinks in the Armor

Consumer Objections: Like all products, destination communities had weaknesses, too. As the number of seniors escalated, it became clear that not everyone would pull up their stakes and move to the desert or beach. Market researchers grudgingly acknowledged that folks from Ohio might actually be happy staying in Ohio. Imagine that! Relocation, or dislocation, was not the only objection. Many destination communities were huge, stand-alone, isolated communities. For some, the scale was too much, and the disconnection from the non-age-qualified world too severe.

Developer Woes: Developers found that the scene was not all wine and roses. They discovered a dwindling number of large land tracts in cooperative municipalities with utilities available at reasonable costs. It took years for them to gain project approvals, costing them millions of dollars in legal and professional fees. Environmental concerns implicit in large planned residential developments were endless. This may seem daunting, but it actually was just the start of a troublesome business model. Even if a developer obtained a fully approved and permitted plan, it then faced a mounting gauntlet of financial challenges. Even with reasonable sales success, these huge financial burdens led to high carrying costs and back-breaking debt levels.

The epiphany of this era of active adult developments came when Pulte Homes acquired Del Webb and made it the company's active adult brand. If a company of the size and sophistication of Del Webb could not go it alone, who could?

Dawn of the 'Close-to-Home' Active Adult Community

Consumers spoke, some pioneering developers suffered, and many builders listened and learned. The age of "if we build it, they will come" gave way to "if they already are here, why

not build it here?" In the last 10 years, close-to-home active adult communities have prospered. They have been most prevalent in areas least associated with the Sun Belt, like the Mid-Atlantic and New England. The most mature active adult markets might be considered Rust Belt, slower-growth areas, heartlands, or suburbs of urban metropolises. The common denominator they all share is a higher-than-average percentage of residents over 55 years of age who have no desire to leave their homes behind.

What is in a Home?

When deciding whether or not to move, active adults may consider a number of factors. Some of the impulses affecting the decision to move include the location of children and grandchildren, location of healthcare providers, and opportunities to maintain or renew a career. Other factors include the desire to stay in the town where they reared their families, the desire to relocate to a place where they have close ties (such as a college town), or to a favorite vacation spot. In evaluating the location of an active adult community, it is important to consider these elements that produce the feeling of "home."

Pennsylvania Builder's History

The table to the right reflects a Pennsylvania builder's history to how far active adult customers will relocate from their present home. The fact that 47 percent of buyers are from within 10 miles confirms

Miles	Percent
0-10	47%
11-20	28%
21-30	15%
31+	10%
Total	100%

that the majority of business is traditional close-to-home buyers. However, this builder also has experienced a growing trend of people moving further away from their existing homes. The dominant factor in explaining the increasing distances of moves is the desire to follow children. This migration will continue to areas with good local economic conditions.

Source: Pulte Homes of America

The X Factors

In addition to consumers' desires related to family and personal life, there are some other powerful economic forces at work.

• **The Bubble:** It may not exist nationally, but some mature buyers' actions indicate they believe it exists in their market area. Some active adults living in older communities who have seen skyrocketing appreciation are looking to cash in. Locking in gains on their family home, they will seek out more affordable choices within their region that still feel "close enough."

• **Real Estate and Other Taxes:** No topic seems to enrage older consumers like skyrocketing local taxes, particularly school taxes. Often a move of only 30 miles will result in cutting their real estate tax bill in half — especially where a move of a modest distance will get them across a state line. State taxation of retirement earnings and estates varies widely.

Implications

Here are just a few ideas of what all this may mean to those involved in providing housing for active adults.

Public Officials and Planners

• **New Zoning Classes:** Between the onslaught of boomers and the now-proven market acceptance of active adult communities, municipalities need to plan to accommodate the future needs of their residents.

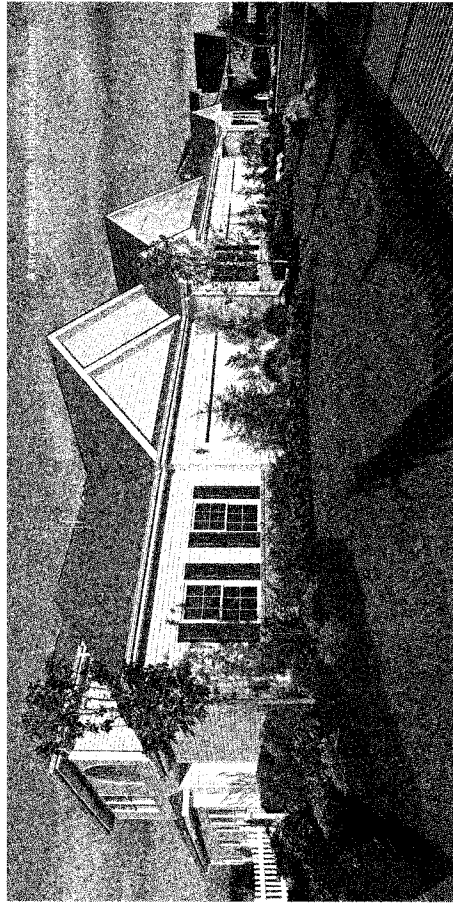
• **Amended Zoning Districts:** Short of creating a new zoning classification, officials can expand the permitted uses in existing zoning classes. The new uses would be age-qualified districts with greater density but less impact on community services.

• **New Active Adult Destinations:** Community leaders in other locations (i.e., college towns) may be surprised by their new identity as a retirement location, so they must be ahead of the curve in land planning.

Engineers

• **Modern Land Development Codes:** Forward-thinking engineers are needed to support community planning and to respond to the special needs of active adult communities. It is impossible to build most active adult communities under older planning standards.

• **Creative Design:** Communities should be designed with friendly streets, excellent pedestrian walks, and robust amenities layered with the homes.



How Close Does It Really Need To Be?

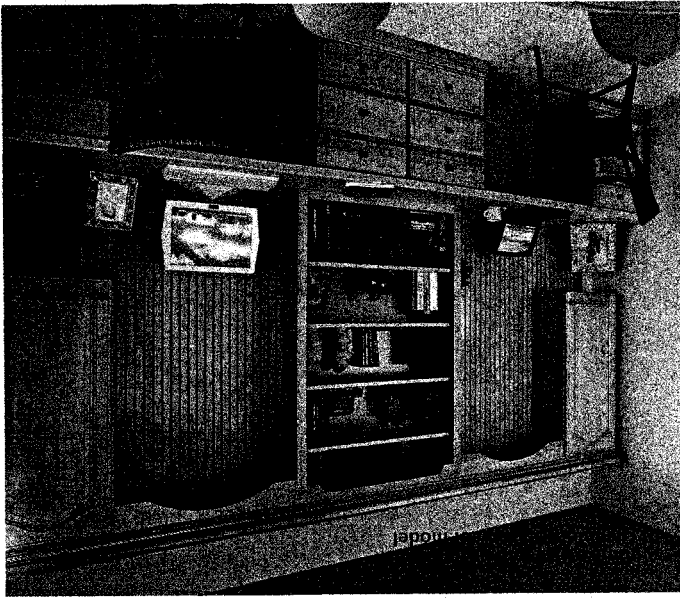
So, you say, how does this affect a close-to-home builder more than any other builder, or any other business for that matter?

Reality Check

Older Americans always have been, and always will be, financially conservative. Yes, boomers will outspend their parents by far, but there is a limit. Builders of close-to-home active adult communities frequently will find themselves in land-constrained markets. Due to lagging land use planning, they will compete with builders of larger luxury homes that support higher land costs. But affordability will matter. Older consumers will remain price-sensitive. The purchase price matters as the size of their nest eggs needs to be enhanced. The costs to own do matter, and like their parents before them, they will view themselves as being on a "fixed income."

The Glass is Half-Full

In the end, close-to-home communities will continue to prosper. Boomers will protect their significant net worth. If needed, they will work longer and harder to grow their savings. Even if it is not a financial necessity to extend their careers, they will continue to work. Many of them also will stay close to home, as that is where their roots are. Some boomers will have the financial means to also own resort homes — and they will have it both ways! 50+



Architects

• **Market-Appropriate Design:** Home designs and options need to be aesthetically appropriate and pragmatic for varied geography. For example, too many architects may take a beautiful Florida home design and place it in New England before realizing the design is inadequate to handle snow and ice.

• **Recreational Facilities:** Design world-class amenity packages that can be enjoyed, yet cost-justified in small-to moderate-sized communities. The consumer must not feel they are compromising in their decision to stay at home.

• **Energy and Comfort:** Homes must be designed to keep seniors warmed and cooled at affordable costs. Heat loss, insulation methods, and HVAC distribution plans cannot be second thoughts.

Developer/Builder

• **Location, Location:** Find sites where residents feel connected to their homes. Plan communities that are convenient to where their families live, work, shop, and near primary healthcare services.

• **Cast a Big Net:** The circle of what is considered "home" is expanding. Promote your community regionally as well as locally.

• **Lifestyle:** Create outstanding facilities that will bring as much resort living as possible to their private community. Don't forget that programming is as vital as facilities. Nothing is sadder than an empty yoga or aerobics studio.

• **Size:** Limit the number of homes you are building in a community. Do not recreate the perceived negative attributes of past destination communities.

Threats: The 800-pound Gorilla

While builders of close-to-home active adult communities rack up record profits, prudent operators are on the lookout for storms on the horizon. Our current customers, and the boomers still to come, enjoy more choices and purchasing power than perhaps any generation before them. However, this cause for optimism remains clouded with concerns. Those over age 50 today can expect to live longer and pay increasingly higher costs for healthcare. The significant assets they have, and the related investment income, must last more years, fund their future healthcare needs, and maintain their current lifestyles. They must achieve this while expected returns on their investments are modest. Meanwhile, many worry that the potential for future appreciation in their homes is minimal, as future buyers may lose purchasing power in a higher interest rate environment.