EXECUTIVE INSIGHTS

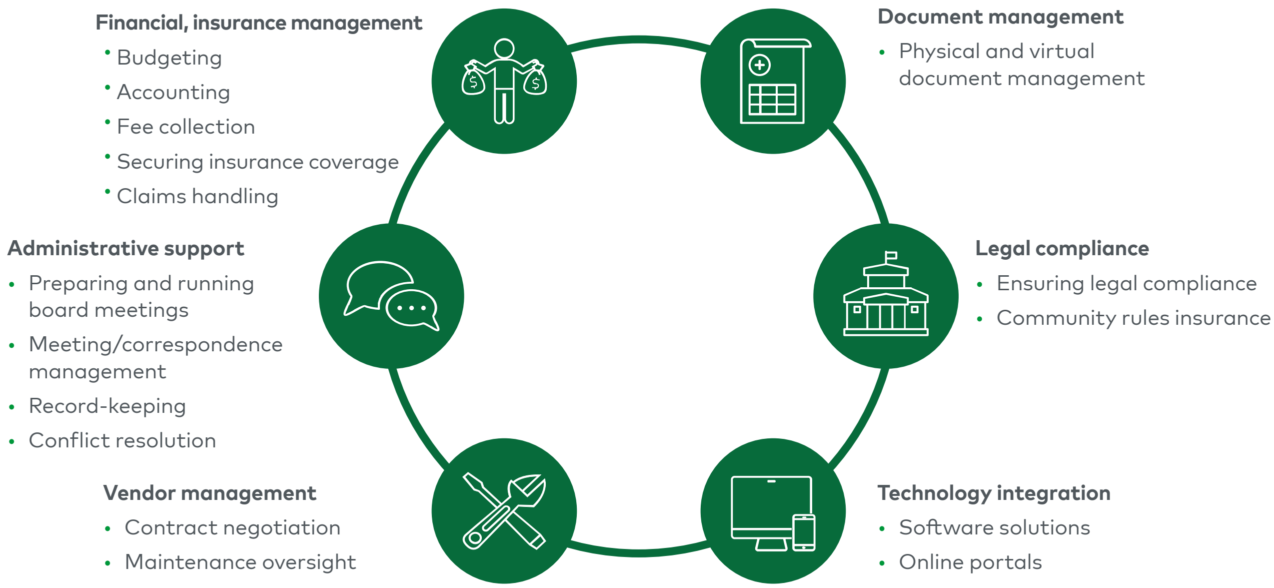
HOA Management Services: A Gateway for Residential and Commercial Services

As more and more Americans choose to live in managed communities, homeowners association (HOA) management firms and the services they provide are increasingly in demand. And that, in turn, is creating opportunities for private equity investors looking to roll up and/or buy small HOA management firms and add value through scale as well as through the addition of more services.

The HOA management market

HOA management is part of the overall community association (CA) management market, which includes condo management. It's composed of a variety of services, from financial management (including insurance), vendor and document management, and technology integration to legal compliance and administrative support (see Figure 1).

Figure 1
CA management services



Note: CA=community association
Source: L.E.K. research and analysis

CA management services providers cater to a range of different property types, from single-family homes with an established community association that governs shared spaces to lifestyle/co-op communities, which are often but not always geared toward older homeowners. Also included are low-rise condo communities, which have a more limited set of amenities, and high-rise condo communities, which may have any number of amenities, among them a concierge/front desk, co-working spaces, a fitness center, a rooftop deck and a parking garage.

Professional CA management firms receive direct fee revenue for services such as organizing board meetings and enforcing CA rules; they also receive amenity fees from tenants for the use of pools, gyms, clubhouses, etc.

They often work as an intermediary between residents and third-party providers and earn a percentage of payments for managing those providers. For example, a CA management firm that sources and subsequently communicates with various utility providers may receive a small percentage of the fees incurred for use of those utility services.

Positive drivers of HOA management growth

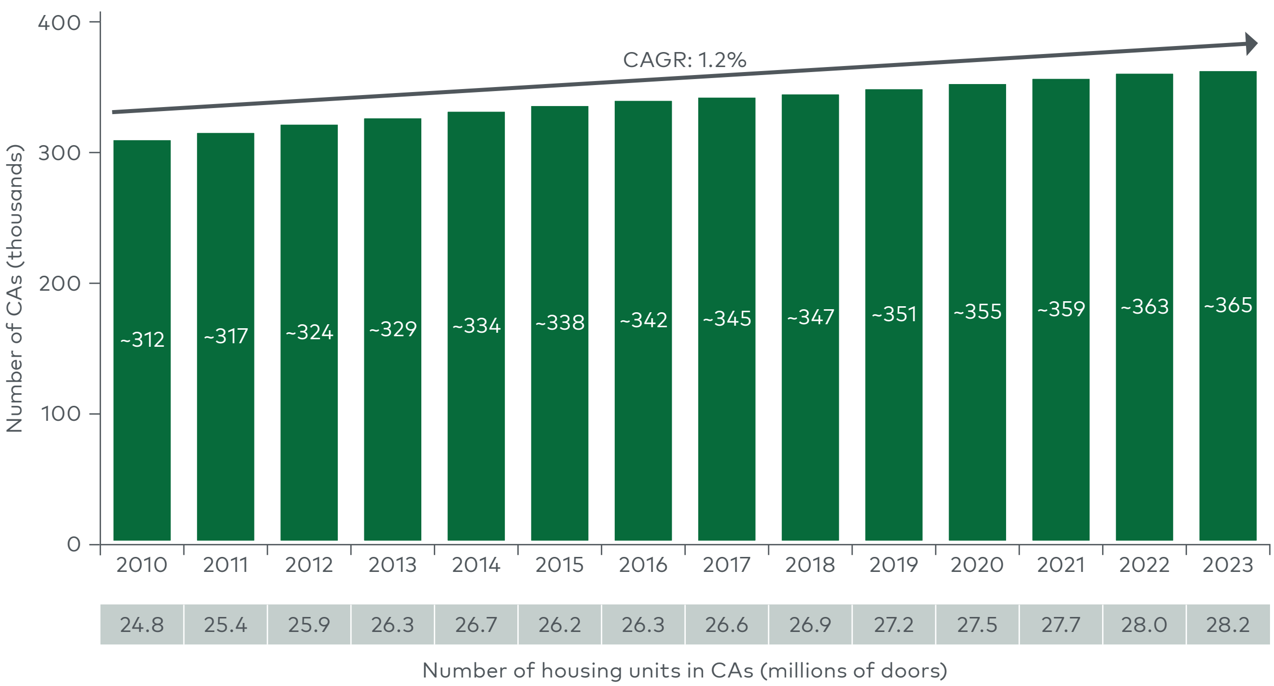
The HOA management association industry is currently benefiting from a number of growth drivers:

Residential housing stock growth — Like most residential services categories, HOA management benefits from growth in the housing stock. To that end, HOAs are more prevalent in the

South and West, where the housing stock has been consistently rising in recent years due to population migration.

Meanwhile, there are 365,000 CAs in the U.S., a number that has steadily increased over the past 14 years and is expected to continue growing at that pace through 2028. A growing portion of the U.S. population — more than 22% as of 2023 — is covered by a community association (see Figure 2).

Figure 2
Historical growth of US CAs (2010-2023)



Note: CAs=community associations; CAGR=compound annual growth rate
Source: Community Associations Institute; L.E.K. research and analysis

Increasing CA penetration in housing stock — As municipalities continue to shift the fiscal burden of shared elements onto developers, there is growing consumer demand for neighborhood/ building amenities, due to a number of factors:

- Increased complexity stemming from added amenities and more regulations (e.g., Florida law requiring structural inspections in light of the Surfside condo collapse) are driving more developers/owners as well as HOAs to seek out professional management
- Demographic shifts among key decision-makers are leading to greater use of professional management, as younger generations lack the time and interest to self-manage and instead seek outsourced solutions

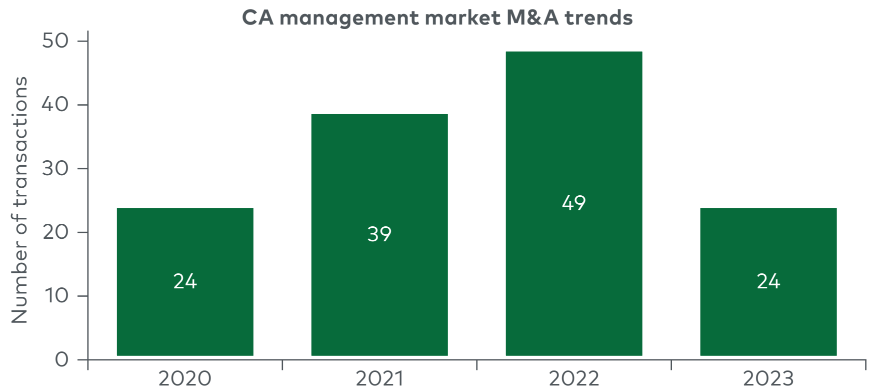
- A desire for digital amenities on the part of residents is driving them to seek more outsourced solutions

Greater service usage and higher prices — Given their high list price per door, the ever-greater use of select on-site services is expected to increase the overall fees generated by CAs. But while consumer price index increases are typically accounted for in CA services management contracts, larger increases are limited by fragmentation among suppliers and the ability of CAs to annually review, negotiate and (if they so choose) cancel services.

Consolidation underway

The CA management industry has started to see consolidation and M&A activity (though deal activity in the sector fell in 2023) (see Figure 3).

Figure 3
US CA deal volume (2020-23)



Note: CA=community association
Source: S&P CapIQ; Griffin Financial Group; L.E.K. research and analysis

Indeed, CA management is an attractive industry for M&A due to its being large and fragmented, and one believed to be in the earlier phases of consolidation. Revenue tends to be highly recurring and, generally speaking, customers are inclined to view the services it provides as critical.

The industry has two large-scale providers — FSV and Associa — that together represent roughly 11% of the market. It also has a long tail of smaller regional/local providers (with approximately 90% of market share), the vast majority of which serve fewer than 500 communities each. Therefore, there is a significant opportunity for continued growth through rollups of regional and mom-and-pop providers.

In the meantime, other platforms have started to emerge, and fragmentation could lead to price-based competition. Moreover, management talent can easily move to other properties or start their own business. Relationships in this industry are local and people based, so digital customer acquisition is not as relevant when dealing with a board. On the other hand, that means management doesn't have as much leverage when it comes to purchasing new products to replace existing installed ones. So scaled players need to create new forms of value in the form of seamless technology, scaled/"intense" offerings and/or service delivery.

Seamless technology

Residents are seeking more seamless, digitally enabled ways of processing service requests, receiving information, highlighting issues, etc. To that end, they should seek larger CA platform companies that are able to differentiate themselves, even if they are leveraging third-party software solutions.

Some platforms are investing directly in technology. For instance, RealManage owns CiraConnect, which provides community association management software and other back-office services, including financial management, a resident service center, collections, etc., to managed and self-managed associations alike.

Most platforms (e.g., PURE, Rowcal, RealManage, Continuum) have a strong technology element to their offering. Technology differentiates HOA management and offers benefits to CA board members in the following four categories:

1. **Operational efficiency and management**

   Centralized management software streamlines operations, integrates financial tracking and automates maintenance scheduling. Unserved resident requests can be tracked and performance set and monitored against metrics for each property, while digital document management ensures compliance and easy access to community documents.

   A strong operational management solution can be both the glue and, by extension, the enabler of acquisition integration. Indeed, given the fragmented nature of the industry and the need for multiple platform integrations to create scale, an operational platform that can absorb and help integrate multiple accessories is a necessity.

2. **Communication and community engagement**

   Digital platforms (e.g., websites, apps, social media) enhance transparency and engagement through the efficient dissemination of information and collection of feedback. Residents can use such platforms not only to communicate with one another but also to build community engagement. Meanwhile, e-voting and online surveys increase resident participation and facilitate their input into community decisions.

3. **Financial management and services**

   Online payment systems simplify the collection of dues and improve financial accuracy, while digitally enabled financial processes are simpler to use and easier to track than manual ones and support board management processes at the same time. Such systems can build stickiness for incumbent HOA management services providers, as once financial arrangements are in place and banking links are established, it becomes harder to remove the HOA management services company. Elsewhere, data analytics support strategic financial decision-making by identifying trends and areas for improvement.

4. **Safety, security and sustainability**

   Advanced security systems and digital access controls make residents safer by protecting the property, while technology-driven sustainability initiatives, like smart irrigation and energy-efficient lighting, reduce operational costs while leaving a light footprint on the environment.

Scaled/intense offerings

HOA management services companies can leverage scale in multirise scaled properties and other larger communities, as well as by working with developers.

Larger properties require an HOA management firm to demonstrate it has sufficient talent resources to ensure redundancy and coverage for even the most basic level of services across a large number of properties. Similarly, high-rise, so-called intense properties, with multiple doors and services, require firms with a broad set of capabilities.

When real estate developers create a new development, they often contract a CA management firm — typically a larger firm with which they are already familiar — to help manage it (timing of contract start varies). Eventually, the CA transitions from being developer-controlled to being owner-controlled.

One benefit of operating in these scaled intense environments is that it can create a more powerful employee value proposition. A small HOA management company may have limited career opportunities, whereas larger firms can provide more career opportunities and so may be more successful in attracting talent. A larger firm can also create an employee brand that it can market to potential customers.

Service delivery

A number of HOA management companies have combined management with service coordination and/or service delivery, both of which have pros and cons. By adding service delivery, for example, they can capture more margin, but only by taking on a wider set of business responsibilities, equipment, capital, etc. that require a separate business model and will oblige them to serve business outside the HOAs under management. Hence, the HOA management company becomes a broader residential services company, with businesses requiring separate metrics and management structures as well as additional capital requirements. At the same time, the HOA management company becomes a source of leads and can be viewed as a means to enter and support a residential services business.

But there are emerging models where services coordinators/managers can also expand their offerings to deliver services. An HOA management company can act as a lower-cost source of leads for its service delivery arm. Contracts can be set up whereby the HOA management company retains a default service provider that the HOA board has a right to amend.

HOA management can be a low-cost approach to entering new geographic markets. Trucks and capital are not needed to begin offering a service in a new city; the HOA management acquiring platform company can bring software/technology and can add/provide a body of business for service delivery to follow and act as its vanguard.

Residents may also benefit. L.E.K. Consulting found that some 60% of HOA board members believe breadth of service is an important criterion when selecting a management provider, which supports combining HOA management with residential services offerings.

Specialist expertise

The HOA management services business is still in its early stages, so specialization is still to come. But over time, we expect offerings that are focused on community types, such as a particular lifestyle (e.g., affluent seniors), or those that have a specific state or regional branding. That said, companies that seek to provide unique offerings will need to differentiate themselves beyond seamless technology, scaled offerings and service delivery.

In the meantime, the HOA management services space represents a unique opportunity for private equity investors. As the use of HOAs continues to grow along with residential housing stock and consolidation remains in the early stages, the time to invest in HOA management services is now.

For more information, please contact us.

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