

Retirement Villages - A Sunset Industry in a Sunrise Situation

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Abstract

Retirement Villages are a specialised property use that is receiving considerable attention due to demographic changes. This paper looks at this industry and the issues it is currently facing.

Keywords

Retirement Villages

Draft

Introduction

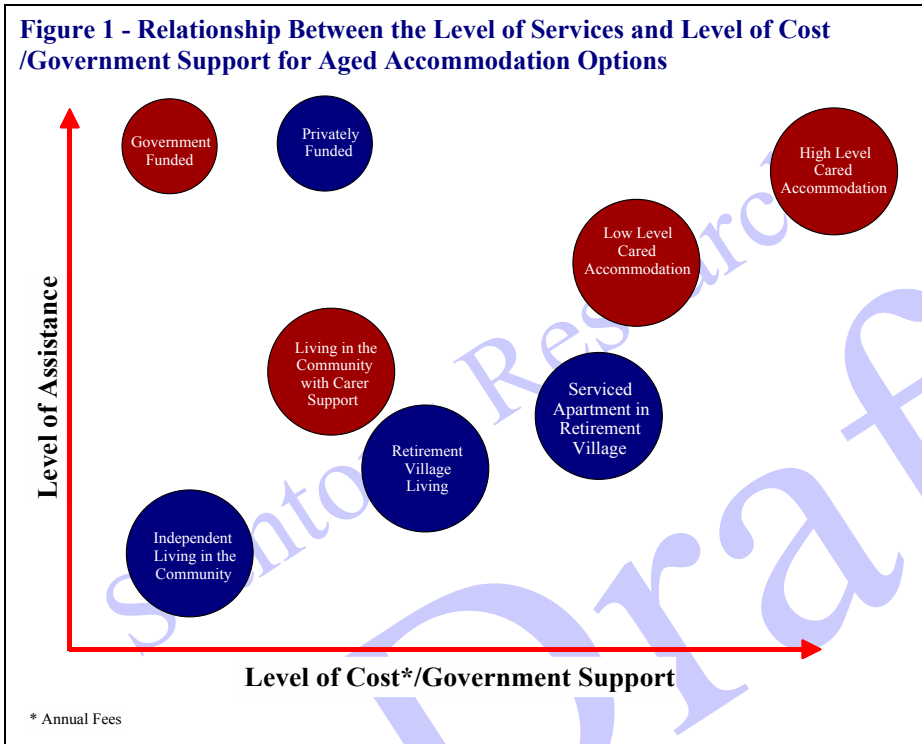
Accommodation for the elderly in Australia was traditionally an issue of family care, charity and government welfare; however in the latter part of the 20th century the industry has undergone significant changes resulting in a market where investment returns are as important as social welfare. The industry is complex and is undergoing an expansion phase where considerable opportunities are being pursued by all participants in the industry.

Aged Accommodation

Accommodation for the elderly comprises two main components.

- Retirement Villages
- Residential Aged Care

Figure 1 - Relationship Between the Level of Services and Level of Cost /Government Support for Aged Accommodation Options



Retirement Villages are under State Government Legislation, which is usually administered by the Consumer Affairs/Fair Trading/Consumer protection department. They are for those that can still care for themselves (cook, clean) but want the facilities and security that can be provided by such a complex. Retirement Villages may contain serviced apartments where meals, cleaning and linen services are provided, plus in various instances some care, however these are still operated as Retirement Villages.

Residential Aged Care was previously called Nursing Homes and Hostels and is now called High Level and Low Level Cared Accommodation; it is under the Federal Government Aged Care Act 1997. This act governs the providers of aged care (level of accreditation), the level of Federal Government subsidies to occupants and determines who is eligible for aged

care. To enter into Residential Aged Care a person has to be assessed as needing care by an Aged Care Assessment Team (ACAT).

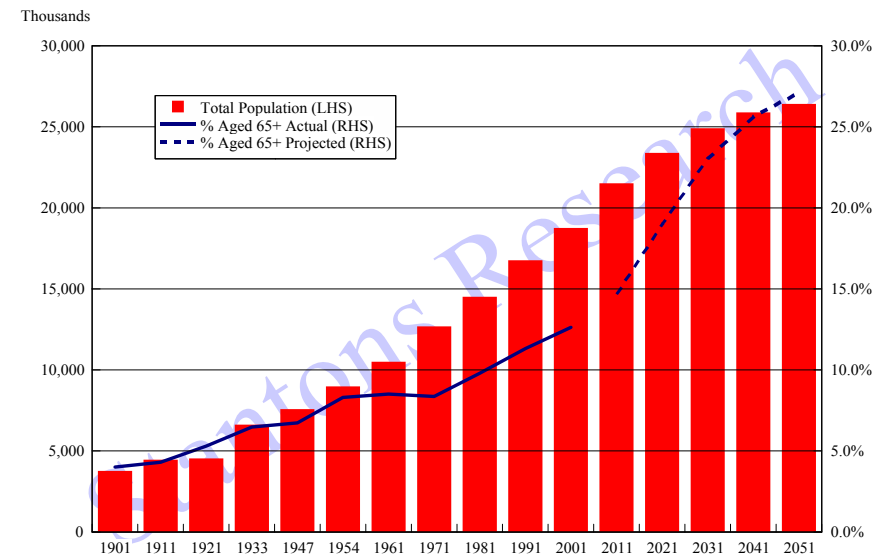
Residential Aged Care is for those that require assistance to perform daily tasks. Not all those that require this assistance may move to Cared Accommodation, as many can remain in their home with carer support. This carer support may be from Home and Community Care or District Nursing Services.

Demographic Issues

In the start of the 20th century the percentage of the population older than 65 was 4.0%. Delayed marriages and childbearing through the two World Wars and the Great Depression resulted in a slow growth in younger people in the Australian population, with the proportion of older people doubling by the end of the Second World War. The post war baby boom and the higher levels of immigration following WWII resulted in this proportion of older residents remaining relatively stable until the 1970's (Chart 1).

Declining fertility (attributed to a variety of social and economic factors) and increased life expectancy in the latter part of the 20th century has resulted in the proportion of elderly climbing steadily to a level of 12.6% at the last census. These factors are anticipated to remain in force into the new millennium, the effect being an ongoing increase in the proportion of elderly to a

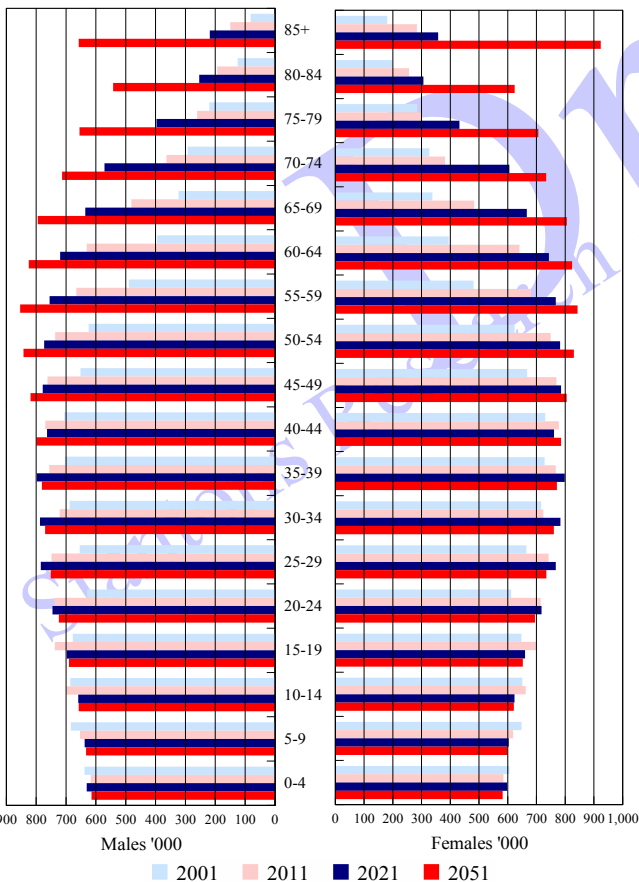
Chart 1 - % of Australia's Population Aged 65+



Source: ABS Census of Population and Housing and Population Projections 3222.0 (series B projection)

level of 27.0% in the middle of the 21st century.

Chart 2 - Australia's Population by Age (Actual and Projected)



Source: ABS Population Projections 3222.0 (series B projection)

The structure of the older population has also been changed by these increases in life expectancy; the proportion of older old (85+) has increased over this time frame, as a proportion of total elderly this group has increased from 2.8% in 1901 to 11.1% at the last census.

The proportion of younger old (65-74) of total elderly has proportionally declined over this time frame from 75.1% to 54.0%.

This trend is anticipated to continue into the next century with the proportions of younger old anticipated to further decline to 42.6% of total elderly and older old increasing to 22.1% (Chart 2) (3222.0 (series B projection)).

Much of the popular debate on the ageing of Australia's population has focussed on the declining birthrates and immigration. However, it is this increase in life expectancy that is having the major impact on the increases in elderly, especially the increases in the older old. It is this increasing life expectancy coupled with the baby boomers (those born in the post WWII generation) which is anticipated to account for the "bulge" of elderly into the new century.

Both the increasing proportion and increasing total numbers of elderly are anticipated to result in increased demand for aged facilities and services. However the elderly of the future are anticipated to be different from the elderly of the past.

The elderly of the 21st century will not have experienced the significant influences that the elderly of the past have experienced. The Great Depression encouraged frugality, and the two large scale World Wars reduced the proportion of surviving males. This new elderly will have experienced greater material wealth and (on average) better health and education than previous generations.

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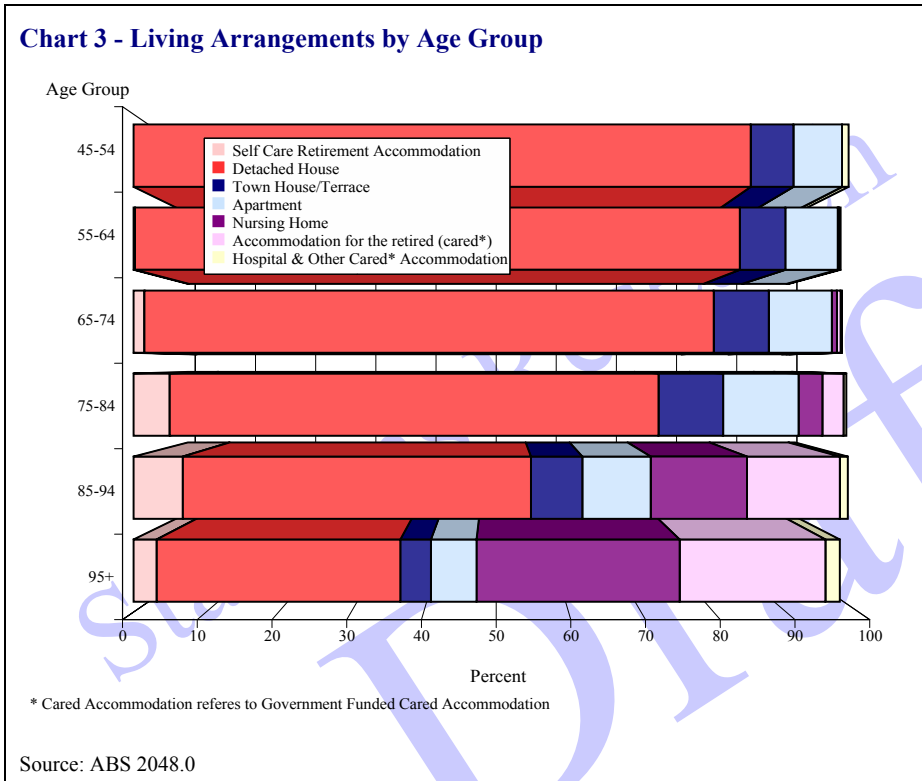
Traditionally looking after elderly parents fell to the female members of the extended family. However if one creature has become extinct by the end of the 20th century it is the stay at home housewife. Increasing female participation in the workforce and the importance of the two income family has seen a decline in the numbers of females available to care for their elderly parents. In most large Australian cities it is a prerequisite for home purchase to have both partners in employment. Therefore many elderly do not rely on their extended family to look after them.

Living Arrangements

The type of accommodation that the 21st century aged will require can also be anticipated to be different from that previously supplied. Notwithstanding this, some indication of the likely quantities of future demand for accommodation in retirement can be determined from current living arrangements of the elderly.

The younger and middle elderly prefer to remain in their own home (Chart 3) however as mobility, strength and other facilities diminish in old age the proportion of older elderly in cared accommodation proportionally rises.

Chart 3 - Living Arrangements by Age Group



The demand for specialised aged accommodation is anticipated to come from those wanting a more convenient lifestyle and those actually needing specialised care in their ongoing years.

The difference between Residential Aged Care and Retirement Villages in terms of their regulation and funding becomes apparent in projecting any anticipated demand. While Retirement Villages are for those who can still look after themselves and do not receive government subsidies, Residential Aged Care is for those that actually need assistance and receives subsidies. There has been a policy of greater emphasis on community based care since the 1980's and a move away from institutionalised care for those needing assistance. Consequently projecting demand for Residential Aged Care becomes more difficult as an estimate of future Government Policy is required to determine the overall level of demand.

However projecting demand for Retirement Village accommodation is more straightforward. Combining the population projections from the ABS (3222.0 (series B projection)) and the current proportions of living arrangements, some projection of likely demand for specialised retirement accommodation can be made (Chart 4).

As at the 2001 Census the number of residents in retirement villages was approximately 80,000, this amount equates to roughly 2.0% of those aged over 55. The number of residents can be anticipated to increase to nearly 300,000 by the middle of the century.

This base level projection anticipates that demand for Retirement Village accommodation will increase at around 3% per annum. Unlike demand for Residential Aged Care, which can be significantly impacted by Government policy, demand for Retirement Village accommodation is much more in the private sector.

Furthermore this prediction is on the basis of existing Retirement Village product, as many of the baby boomers age there is the anticipation that they will seek more lifestyle benefits in their accommodation choices.

If the ratio of over 55's living in retirement homes were to increase especially in the levels of middle and older elderly (as these are proportionally increasing faster) this could see significant amounts of increased demand for retirement village accommodation.

This anticipation is resulting in development opportunities especially in the "lifestyle" sector. The new elderly want to see themselves as having made a lifestyle decision to locate in a retirement village. Many recently developed villages are catering for this market; there is a growing emphasis on the facilities and amenities in a village.

Retirement Village Living

Organised retirement living in Australia started around the 1800's with churches and charitable organisations providing housing and care. However the industry in its modern form started around the mid 1970's with the phasing out of the capital subsidy for the construction of retirement living to churches and charities. This change allowed private developers to enter the industry, constructing complexes that were funded by the residents.

There are two types of funding for retirement villages in Australia

- Resident Funded. These are complexes which are funded (initial, ongoing and exit costs) by the residents. Although many of these complexes are operated by churches, community groups or charities.
- Donor Funded. The village receives funding (charity, government) and the occupant is charged for what they can afford.

Chart 4 - Current and Projected Demand for Retirement Village Accommodation

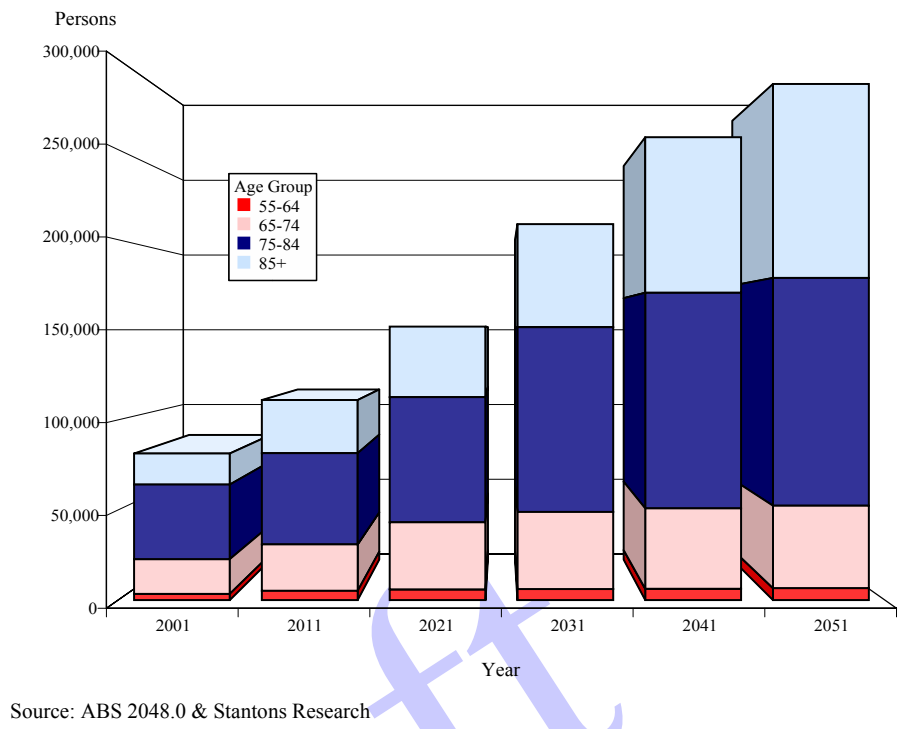
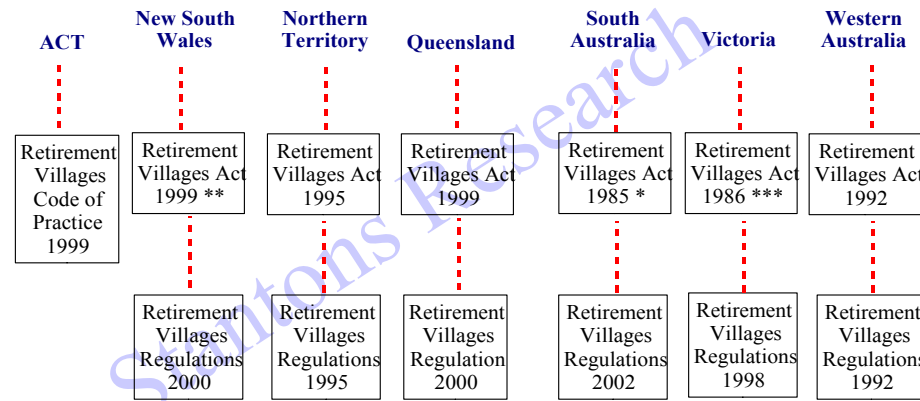


Figure 2 - Legislative Framework for Retirement Villages



Tasmania has not enacted any legislation
 * Due to be replaced with a new Act
 ** Currently being reviewed
 *** Amending legislation currently being passed

If you think this looks complex spare a thought for our cousins across the Pacific, 50 different state regulations is a lot more than 7.

Legislative Framework

There are numerous differences between the various state acts, as a generalisation the more populous the state and the more recent the legislation the more detailed the legislation. These differences include

- The actual definition of what can be called a retirement village differs between some states.
- Cooling off periods - in New South Wales this is 7 business days, while for Victoria it is 3 business days and Western Australia 5 working days.
- The initial information required to be given to potential occupants, not only is it called

by a different name but also has different requirements.

- Titles of Entities - In the Northern Territory and South Australia this is the administering authority, in New South Wales the operator and in Victoria the manager.
- The procedures for vacating premises and unclaimed goods, some states have extensive legislation on detailing procedures while others only superficially mention these issues

These differences are not an issue for residents of retirement villages as all they need to do is familiarise themselves with the relevant legislation in their state; however they add a layer of difficulty for retirement village developers and managers. While the broad thrust of the legislation is similar (rights of residents, behaviour of operator/manger, establishment of dispute resolution mechanisms) across all states there are numerous technical differences between the states. This requires developers and operators to familiarise themselves in depth with the minutiae of the state acts and regulations for the areas in which they are active. These different acts result in different legal mechanisms for undertaking the activities of running a retirement village, from development, getting (initial and ongoing) occupants and operational issues including any disputes.

Most states undertake (almost ongoing) reviews of the relevant legislation and maintaining up to date understanding of this legislation is an ongoing process for all retirement village developers/investors/operators.

Furthermore different states have other legislation that impacts or overrides the relevant retirement village’s legislation. This legislation may include group tenure or body corporate acts/regulations plus acts which govern fair trading and residential tenancies.

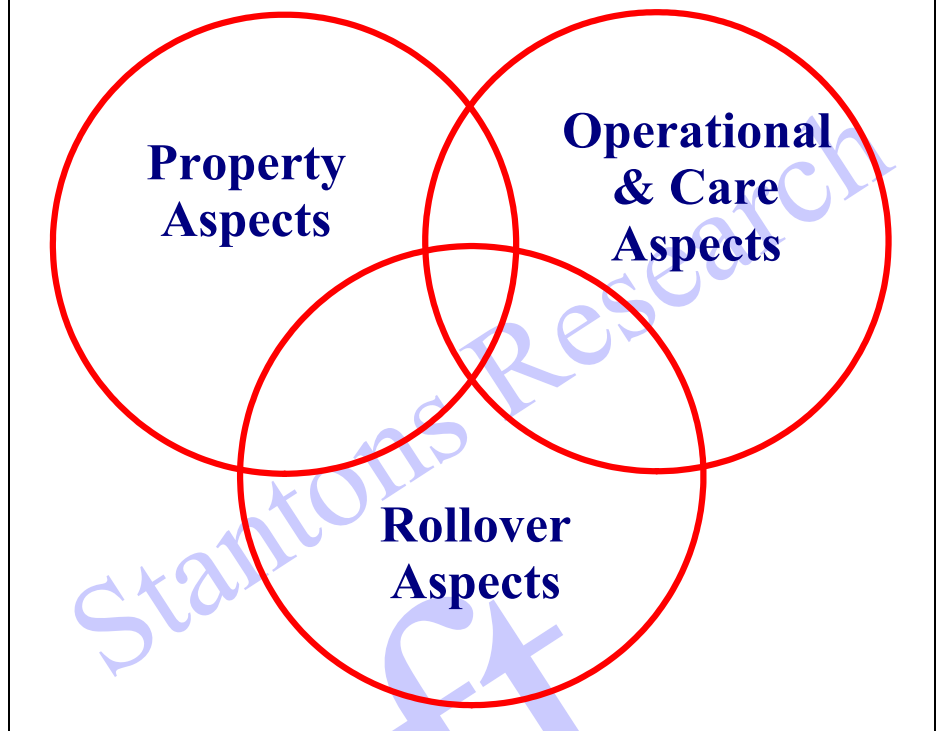
This requirement then explains why many retirement village developers and managers become established in one state before applying their business model across the border rather than go for lesser coverage across all states. Furthermore these requirements can be expected to favour the larger operators who have the resources to fully familiarise themselves with all the requirements across all the various states.

The Business of Retirement Villages

The business of retirement villages is not straightforward as there are three main components. Property, Operational and Care and Rollover Aspects are all interrelated in the financial outcomes of a retirement village and when one is problematical it can significantly impact on the others.

A developer/investor/operator earns a different return for each of the three different components of a retirement village business. The property aspects impact on the development profit, set the tone for the costing of the operational and care aspects and the ability to earn a return on the rollover aspects. While a developer/investor/operator can earn a return on Property and Rollover Aspects, State Legislation does not allow a profit to be made on much of the Operational and Care Aspects, only recovery of costs.

Figure 3 - Retirement Village Business



Property Aspects

The property aspects of a village set it up for its future performance. These aspects include

- The site - The site must be an appropriate size for the village planned. It needs to be appropriately zoned (or rezoning can be easily obtained). Vehicle access needs to be good and all the required facilities must be available.

The site must have good proximity to the services that seniors require and this aspect is enshrined in some states planning legislation. These include shopping centres, community and cultural centres, health care (doctor, specialist and full service hospital) and emergency services (especially fire). Where the site is not connected to these services by public transport then generally the operator needs to put on a regular shuttle service.

- The locality - This needs to be appropriate for a retirement village, the elderly do not want to be placed at the back to the industrial estate.
- The demographics of the catchment or market area - Similar to a shopping centre, retirement villages have regions from where the greater proportion of their occupants will locate. The market area needs to be defined and the proportion of those aged 55+ determined. The types of housing that these people live in should be determined. For example if there a large number of new villa units in the locality the elderly living in these already have many of the maintenance services undertaken by the body corporate, consequently they would have to expressly need the emergency call, security, care services and other amenities provided by a village.

Their economic status has a significant impact on potential demand; ideally they should be owner occupiers, especially for operators with occupancy agreements requiring capital payments up front. The value of their residential property is important as many may be selling in order to fund their entry into a retirement.

Furthermore one trend noticed both in Australia and overseas is the location of adult children as this has an important bearing on where parents chose to locate in retirement. Adult children when they are not actively looking after their parents do want to visit them. Moreover adult children are often involved in the decision of whether to move to a retirement village and are influential in the decision of which village to choose.

- Competition - The size and quality of competing villages needs to be determined. Furthermore defining which villages are competing is important as the retirement village market is undergoing greater segmentation. The presence of a larger better quality village in the region does not necessarily mean that it is automatically competing as the planned village may be targeting a different socio economic (or even ethnic) group.

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- Village size - Each retirement village needs a base level of amenities including communal rooms and gymnasium/exercise facilities. The cost of these is shared across the value of all the dwellings in the village therefore there are a minimum number of dwellings required to make a development commercially viable. In looking at new retirement village developments this appears to be around 50 dwellings especially for those being marketed on the basis of their lifestyle; however this “minimum” village size is balanced by the size of the potential market.

The optimal size of a village is also affected by the market niche that it occupies. Retirement villages pitched at the budget end of the market generally have smaller community facilities, and they are often smaller with around 35 - 45 dwellings. In contrast villages pitched at the resort/country club market have extensive leisure amenities including restaurant, bar, golf facilities, bowling green, tennis court, doctors consulting rooms, hairdresser, communal lounge(s) and library. The cost of these greater facilities is more efficiently spread across a larger number of dwellings. Consequently these complexes are more often around 100 dwellings in size with some complexes even larger of up to 200 dwellings and development occurs in stages. However even this “rule of thumb” can be contradicted by a smaller lifestyle village that appeals to upper socio economic groups on the basis of its exclusivity.

- Design - Good design incorporates the layout of the village, the positioning of the communal facilities, the floor plan of individual dwellings and the overall aesthetics. A well designed village should provide a community focus and encourage occupants to circulate while still providing privacy. Furthermore the “trades” component of the village should be situated where deliveries and refuse removal do not interfere with normal daily activities.

Personal preference is affecting the layout and size of individual dwellings, as most of the new elderly (even when single) do not want to live in a single bedroom dwelling. New villages are catering to this, with most accommodation starting at two bedrooms and a strong focus on three and four bedroom dwellings. Most dwellings require at least one garage (plus storage) and a second bathroom. The interior layout needs to accommodate people with mobility constraints (wheel chair or walking frame); consequently the internal size must have capacity for additional manoeuvring room.

Security also needs to be designed in from the start. One of reasons given for the move into a retirement village by residents is often the desire for greater security.

A major property issue that is being noticed especially in the established cities on the eastern seaboard is one of site availability. The prolonged residential property boom has impacted on prices and residential developers are keenly sourcing appropriate sites. These residential developers are openly competing with retirement village developers for available property and given the different costing and profitability of the two property types, many residential developers are able to outbid retirement village developers.

The property aspect is where a developer has the potential to earn their developer’s profit and sets the tone for the commercial operations of the village.

Operational and Care Aspects

The operational and care aspects of a retirement village are similar to a hotel with some of the aspects of nursing care added for good measure. Furthermore retirees are becoming more discerning and the quality and level of services regarded as normal is becoming higher. These operational and care aspects include.

- Staffing issues (hiring and supervision) - staffing costs generally constitute the largest expense of a retirement village and staff are a major contact point between management and occupants.
- Repairs and Maintenance - retirement villages are an ongoing activity and need to present an attractive appearance in order to attract new occupants.
- Insurance - most state laws require all villages to maintain up to date insurance.
- Utilities, rates and taxes - retirement living like any higher density residential activity requires all services to be connected. One advantage of the larger operators is that they, like institutional investors, can purchase in bulk and take advantage of lower operating costs.
- Administration (fee/rent collection) - depending on the type of occupancy agreement there are ongoing fees and rental that need to be collected. In addition, there is the administration of contracts for service providers to the village.
- Capital items - there is the requirement to maintain capital reserves and contribute toward sinking funds to meet items of capital expenditure. Furthermore different capital items (maintenance/replacement) are met by the residents or the operator.

The regular fees (regardless of what they are called) meet the operating expenses.

Retirement village accommodation is as much about providing a consumer service as a property asset; consequently the ongoing operation is not straightforward, being a people management business. Every village has a maverick resident whose

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main retirement hobby is to ensure that the village is run in their preferred manner. Managing this interaction with residents by both village management and staff is of considerable importance.

Rollover Aspects

After completion of a new development the first generation of occupants move in, however there comes a time when they move on (usually to cared accommodation). At this point a new occupant needs to be sourced. Depending on the type of occupancy agreement(s) the village is utilising this new occupant may “purchase” their dwelling and the departing occupant may receive some of the proceeds from this “sale”.

This “rollover” of occupants and capital is an important component of the profitability of a retirement village. A poorly located or maintained village may have difficulties in attracting new occupants and getting them to pay the incoming price required for profitable running.

The age of the existing occupants in a village has an important bearing on the length of their stay and to how often an operator can receive a capital return on their investment. A good village should have a waiting list for new occupants into the village and such a waiting list ensures that the “down time” between occupants is minimal. Therefore marketing of dwellings on offer and the village in general is an ongoing activity.

The presentation of the dwelling and the village is even more important at this stage. While the existing residents will demand that maintenance and repairs are undertaken, at rollover the dwelling is essentially being “sold” again. The incoming resident will often compare dwellings on offer in established villages with those in new villages consequently the dwelling must present “as new”.

Occupancy Agreements

To date there are at least eight types of occupancy agreements between the operator of a village and an occupant of a dwelling. Most of these are variations of the business structure in Figure 4.

- Leasehold. The occupant buys a long term (99/199 year) lease over the dwelling and can register their interest on the land title. Some of the initial lease payment may be refundable on exit. If the operator goes into liquidation the occupant still has rights to continue living in the village.

- Licence or Loan and Licence Agreement. The occupant makes an initial payment (which may be called a loan and be interest free) to the village operator and receives a licence to occupy the dwelling. There are varying arrangements for the initial payment to be refunded on exit. The village operator retains title to the village.

Figure 4 - Retirement Village Business Structure

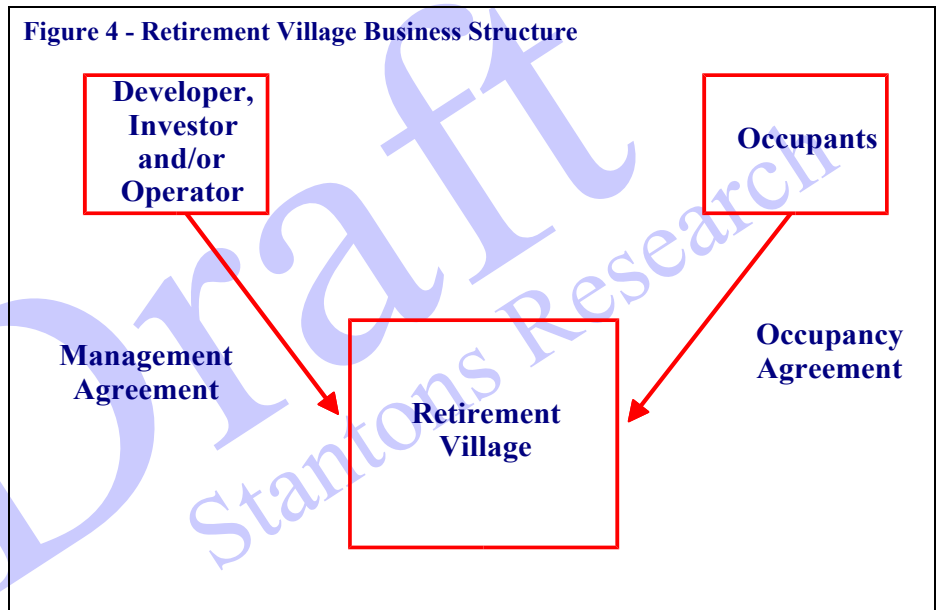
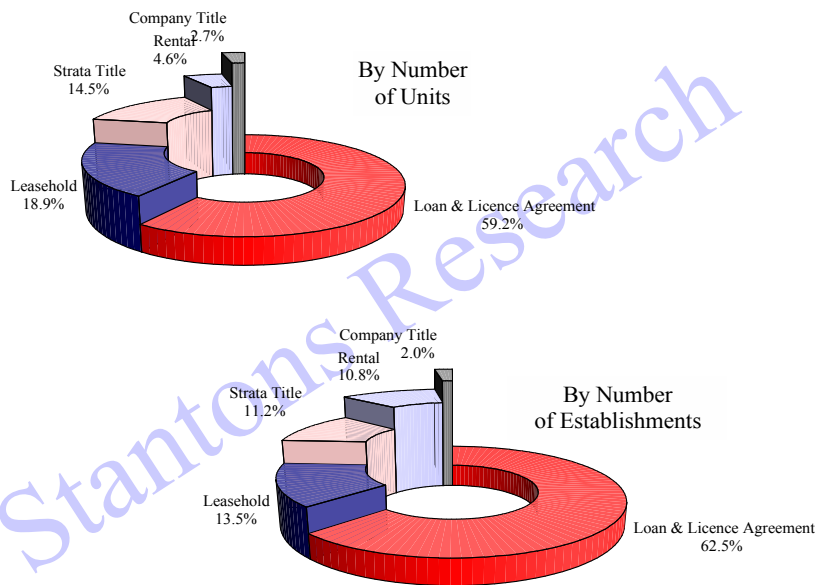


Figure 5 - Retirement Villages in Sydney Basin - Types of Agreements



Source: Retirement Accommodation Directory & Stantons Research

Stantons Research undertook a survey of over 260 retirement villages in Greater Sydney in late 2004. The most popular type of agreement was a Loan and Licence Agreement accounting for around 60% of complexes and dwellings. Leasehold was the next most popular furthermore the larger proportion of dwellings under this agreement indicates a greater proportion of larger complexes using this arrangement.

Strata Title was the next most popular also with the result that more of the larger complexes prefer this arrangement. This was followed by Rental Agreements and the least popular was company title.

No complexes using Community Title, Unit Trust or Manufactured Home agreements were noted.

- **Strata Title (Unit Title in the ACT).** This is a standard strata title arrangement usually with additional regulations (age, management, etc). The village residents organise the management of the village or may contract this to a third party. This arrangement has been viewed as being popular with developers that did not want to enter into the business of operating retirement villages. The attraction is that occupants can get full access to the capital gain of their dwelling.
- **Community Title.** Similar to strata title the property is divided into separate lots and occupants become members of a Community Corporation which manages the village or may contract this to a third party.
- **Company Title.** Similar to residential company title, a company owns the village and occupants purchase shares in the company, which give the right to occupy their dwelling and use common facilities. The management of the village may be contracted to a third party.
- **Unit Trust.** Occupants own units in a trust that owns the village. These units give occupants the right to occupy their dwelling and use common facilities. The

management of the village may be contracted to a third party.

- **Manufactured Home.** Similar to caravan parks, residents buy the home then pay ongoing site rental. Upon exiting they then sell the home to an incoming occupant.
- **Rental -** an occupant pays a regular rental to occupy a dwelling. Traditionally this option was provided by government and charitable organisations where occupants had not accumulated enough wealth to purchase into a retirement village. The greater flexibility and lack of complex charges, especially exit fees, is resulting in greater interest in this form of agreement. Rentals are usually set in relation to the pension plus rent assistance.

Some of these options have an initial capital “purchase” however in addition there are other fees and charges. The fee structures are complex and there are in excess of a dozen variations of their calculation and levying. The differences between the different state acts also facilitate further variations. These fees include.

- **Entry** An entry fee in addition to the initial capital “purchase”.
- **During the period of occupancy** Ongoing management fees or service charges
- **Exit** Departure fees, exit fees or deferred management fees. These can be set in relation to the initial purchase cost, time of occupancy or the value of the sale of the dwelling on exiting.

The different agreements and fee structures also raise different issues with regard to Stamp Duty, GST, and Capital Gains Tax for the occupant. It is not surprising that any potential occupant of a retirement village is advised to get legal advice before signing any documentation.

Taxation

Originally taxation was not an issue for retirement village operators as they were churches and charitable organisations that were not taxed. Notwithstanding these changes to taxation have had an important impact on the evolution of the retirement village industry in Australia. In the 1970's the capital subsidy for retirement villages operated by churches and charitable organisations was phased out. Private developers who recouped the capital cost by "selling" dwellings to occupants entered the industry, these villages were called "resident funded".

More recently Taxation Ruling 94/24 (TR 94/24) has impacted on investment in retirement villages. TR 94/24 allowed a 100% tax deduction for investment in retirement villages. This resulted in a rush of funds to the sector and new developments were constructed to meet this capital inflow. With the benefit of hindsight some of these developments were poorly designed and in inappropriate locations. In the late 1990's there was concern that this tax deductibility was giving rise to packaged "tax minimising" investments and it was removed in 2000 and replaced with TR 2002/14. The impact of this change was felt most keenly by developers and operators that had packaged their investments on the strength of their tax deductibility not on their overall investment performance. Consequently these developers and operators have had a tumultuous start to the decade.

TR2002/14 also covers the treatment of payments by occupants to the operator including licence fees, lease premiums, share purchase, deferred management fees and sinking fund contributions. Given the complex nature of how income can be received by operators there are still issues (capital or trading items) with TR2002/14 that remain to be clarified.

The taxation issues for developers, investors and operators are considerably more complex than those faced by occupants. Furthermore the GST treatment of the provision of some services by retirement village operators is still being clarified. The most recent changes were in November, these made the provision of services to serviced apartment occupants by charitable institutions that operated the retirement village GST free.

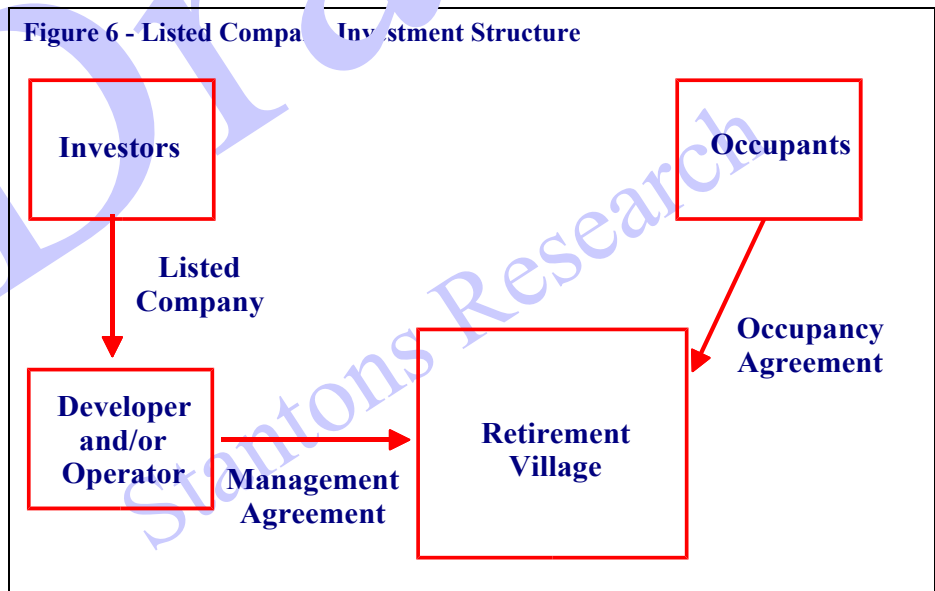
Investment Structure

While the occupancy agreement covers one side of the retirement village business the other side is the business structure which links the developer, investor(s) and operator. The evolving nature of the industry is resulting in a variety of business structures that are being explored by different operators. Many that are now being marketed are variations on the traditional investment forms of listed (or unlisted) company and/or trust and investment dwelling (in complex).

Investors wanting exposure to this sector can achieve this by investing in listed companies developing, owning and/or operating retirement villages. There has been a recent flurry of activity in this sector with a number of companies listing and/or raising funds for further expansion (both property/business and listed company purchases). Interestingly retirement village operators which have an emphasis on rental occupancy agreements have been notably active.

Listed companies who have recently been active include the following (in alpha order).

- Community Life Ltd - a specialised retirement village developer and operator which listed in late 2004. The company has an emphasis on rental occupancy agreements.
- FKP Property Group - a diversified property company with retirement village operations in a fully owned subsidiary, FKP Australian Retirement Homes . The group also owns over 80% of shares in Forrest Place Group Ltd a retirement village developer/investor/operator
- LV Living Ltd - A specialised retirement village developer and operator (previously Maxe-tec). In late 2004 the company purchased 49% of Oxford Crest P/L a retirement village developer and operator.
- Primelife Corporation Ltd - a specialised retirement village developer and operator. In late 2004 the company made a bid to acquire Aevum Ltd, a recently listed retirement village developer and operator and aged care provider. Primelife also operates a number of unlisted property trusts/syndicates.
- SunnyCove Management Ltd - a specialised retirement village developer and operator which listed in mid 2004. The company has an emphasis on rental occupancy agreements.



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- Village Life Ltd - a specialised retirement village developer and operator with an emphasis on rental occupancy agreements. Village Life Ltd also has a recently listed property trust that has been expanding by purchasing existing (Tasmania) and under construction (New South Wales and Queensland) retirement villages.

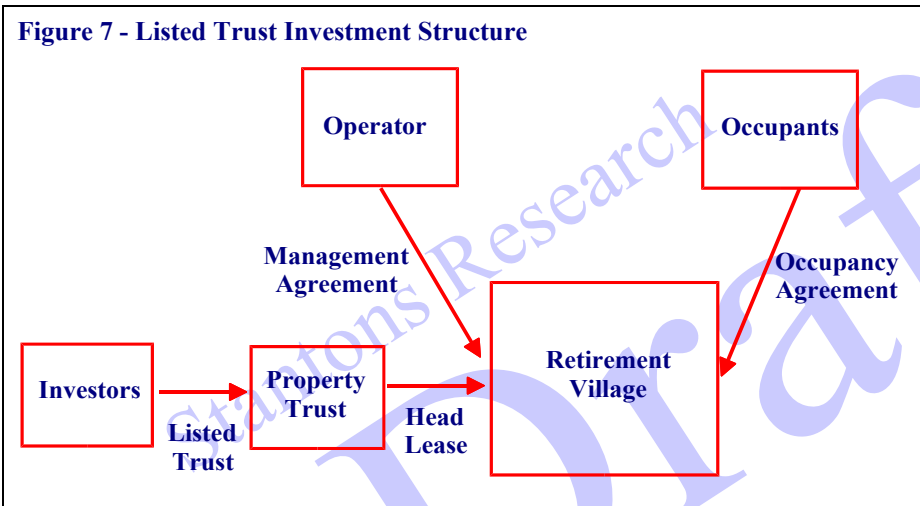
There are considerable differences between these companies not only is size but also in nature of operations. Of this group FKP Property Group and Primelife Corporation represent the largest organisations. FKP Property Group is a developer/investor/operator, Primelife has a relatively greater emphasis on development and operations/management. Of the other companies Village Life Ltd and Sunny Cove Management Ltd are predominantly managers of rental villages, while Community Life LV Living Ltd and Aevum Ltd have the more traditional retirement village activity.

Listing, with its ability to raise further funds for expansion is expected to continue being popular with this sector. Retirement Services Australia a specialised retirement village developer and operator based in Melbourne reportedly has plans to list. Furthermore there are sizeable unlisted companies including Tricare (Queensland) Living Choice (NSW and Queensland).

Further growth is also anticipated by larger listed and unlisted companies purchasing smaller (and often local) existing developers/investors/operators or the rights to manage their retirement village portfolios.

In keeping with any developing sector there has been little activity from the institutional investors, as this group prefer to wait until a sector has proven itself before taking a position. Notwithstanding this, Delfin Lend Lease is reportedly involved in the early planning of a 175 dwelling retirement village including community and shopping facilities at Pemulwuy a suburb on Sydney's fringes.

Figure 7 - Listed Trust Investment Structure



An alternative to investment in a listed company is a listed or unlisted trust. To date there have been a few of these, however the main requirement of a listed property trust is a regular income. Therefore retirement village listed trusts are focussed on villages that have a rental occupancy agreement. Herein lies a difficulty as this occupancy agreement accounts for around 7% of the retirement village market in Australia. Furthermore rental occupancy agreement retirement villages have to date been focussed on the budget end of the market, with smaller dwellings in smaller complexes with lower levels of community

facilities. This makes large scale expansion of the retirement village listed trust investment market difficult to predict.

Unlisted trusts in the form of syndicates have also been marketed, many of these have been a syndicate structured around a single property and again the retirement village dwellings are occupied under a rental agreement.

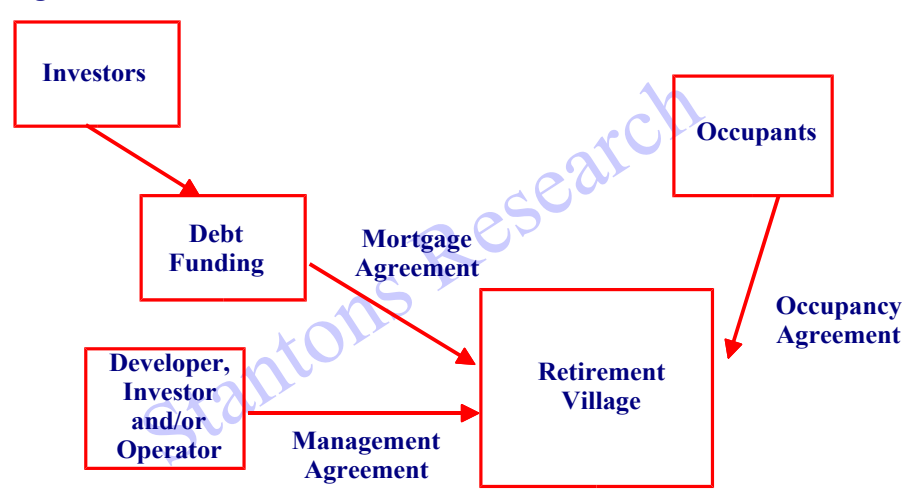
A further variation on this concept is the strata titled retirement village where dwellings are then occupied under a rental agreement, investors purchase individual dwellings and receive the income from that dwelling.

Another factor of the evolving market is the relatively higher forecast returns when compared to other types of property trust.

Financing

Providing debt finance is naturally a highly conservative activity and financiers are mindful of two main issues when advancing funds. They want a return on their money while it is being advanced however it is getting their money back which is of greater importance as this has the higher level of risk. In retirement villages occupants have first security over the real estate component (depending on their occupancy agreement); therefore from a financier's perspective these properties have a greater level of risk as the occupants have a greater claim over the asset than the financier.

Figure 8 - Debt Investment Structure



Furthermore this first claim that occupants have is enshrined in some state legislation (but again there are differences between states). Where occupation requires an upfront payment of a premium and does not deliver freehold title (Strata Title) or an ability to register this interest on the title a statutory charge is placed on the title under state legislation to protect this claim.

The most popular forms of occupancy agreement (Leasehold and Licence or Loan and Licence) are those that have this financing issue. Therefore for investors or managers to use the real estate as collateral they must either pay higher rates of interest on a second mortgage arrangement or seek alternate debt funding.

Villages using a rental occupancy agreement do not have this issue and this greater availability of finance (especially equity through the property trust structure) is one of the reasons this form of agreement is receiving greater attention.

Types of Operators

The main types of retirement village operators include.

- Not for Profit (churches, charities and community groups)
- For Profit (listed and unlisted companies, these can also offer property trust investments)

The villages managed by each of these groups present in a similar manner.

As yet there is no comprehensive database of all retirement villages across Australia, so analysing trends in this sector can be time consuming. Recent analysis by Stantons Research of over 260 retirement villages in the Sydney Basin revealed that the industry is still dominated by the smaller players as those operators (all types) that had less than 3 complexes comprised around 40% of the market. The largest operators were in the not for profit group with Uniting Care and Anglican Retirement Villages together having nearly 20% of the market. While there are a small number of municipal government operators (with smaller complexes) government at both the state and local level has tended to focus on Residential Aged Care.

This is not expected to be repeated across Australia as one of the major factors noted in the Sydney market was the lack of available sites for further development. Consequently the smaller operators with smaller complexes still dominate the market especially in the inner older suburbs. Furthermore many of the for profit developers have evolved their investment model in Queensland and Victoria consequently this group has much greater coverage in these regions. More recently this group has started to actively expand into the Greater Sydney region.

Newer population centres especially those with residential broadacre land development are expected to have a greater proportion of the for profit operators. Notwithstanding this the not for profit operators, especially the larger organisations, are actively seeking expansion opportunities. Sourcing sites and development of retirement villages is a competitive industry and considerable activity from both the not for profit and the for profit sector is anticipated.

Overseas Experience

Owing to different legislative and taxation regimens the retirement village industry is different in the US. Seniors Housing comprises five main options.

1. Skilled Nursing Facilities (Residential Aged Care)
2. Assisted Living Facilities (Residential Aged Care)
3. Congregate Seniors Housing (Serviced Apartment in Retirement Village, meals, linen and cleaning services are provided)
4. Independent Living Facilities (Retirement Village)

5. Continuing Care Retirement Communities (complex containing all of the above)

Notwithstanding this there are some clear trends that are also being noticed in Australia.

- Demographic issues - the ageing population with greater levels of wealth is creating opportunities. Also the diversity of the market is more noticeable in the larger market and specialised niche developments are becoming more noticeable.
- Rising importance of the for profit developers/investors/operators. Like Australia the Seniors Housing market in the US was dominated by the not for profit sector, however the for profit sector has increased in size. Recent studies report that the largest owners of Seniors Housing are for profit organisations.
- Increasing use of public funds both at the company and trust level. There have been increasing numbers of public companies entering into the Seniors Housing market or private companies going public. Furthermore there are increasing numbers of listed REITs in the Healthcare sector. As at November 2004 the market capitalisation of the Healthcare sector was approximately \$US15,000 million and comprised 5.12% of the total REIT listed market capitalisation.

There are currently 14 REITS in the Healthcare sector, of these 5 invest in Independent Living Facilities (CNL Retirement Properties Inc, National Health Realty Inc, Nationwide Health Properties Inc, Senior Housing Properties Trust and Ventas Inc). Unlike Australia which has specialised retirement village trusts these hold a portfolio of medical properties including private hospitals, medical office buildings, skilled nursing facilities, assisted living facilities and independent living facilities. They are usually leased to operators on a triple net basis providing investors with a regular income.

Future Trends

While ongoing expansion is anticipated the industry is expected to go through a maturation phase that will result in more commercially astute developers/investors/operators. Clear trends that have been noticed include.

- Consolidation of operators in the for profit sector, recent company activity has involved both on market and private purchase of smaller operators by larger operators. As sourcing sites for further expansion is competitive many operators are reportedly looking at expansion by purchasing the portfolios of smaller (and often local) operators.
- Greater innovation of the types of opportunities offered to investors, as the industry expands operators will continue to source funds for this expansion. While there already have been numerous (investment) product offerings it is anticipated that they will continue in size and number and that new types of product offerings will be explored not only for retail investors but also for institutions. The industry is losing its "tax driven" perception and future investment can be anticipated to focus on performance not taxation.
- Greater use of listed and public funds. More listings of retirement villages and residential aged care operators is anticipated. While many operators are currently too small to go public, a number of those that are actively expanding reportedly have a strategy of listing at a future point.
- Broadacre developments are anticipated to be of larger size with many over 100 dwellings often in an integrated complex that has both a retirement village and residential aged care.
- Development, especially in the established population centres, will go up rather than out. Traditionally retirement villages were single level in a park setting. The lack of larger sites and their relative cost is likely to see development, especially in inner urban areas, of more higher densities.
- Greater segmentation of the market, there are numerous small retirement villages in established suburbs that cater for a particular ethnic or religious group. These villages are not always in the locality of the original residence, in Florida (Delray Beach) independent living facilities have attracted a high proportion of Jewish occupants migrating from New York and Pennsylvania. Other specialisations include particular socio economic groups, high or low income.
- Lifestyle retirement villages with greater levels of amenities including resort facilities especially in established holiday destinations. In order to spread the cost of these amenities across village dwellings these types of developments are anticipated to be larger.

Conclusion

The retirement village industry in Australia is undergoing an expansion phase with considerable opportunities however the complexity of the industry mitigates against "get rich quick" developers/operators. All the components of a retirement village, property, occupancy agreement, funding, operational issues and rollover of occupants, are inextricably linked together.

The aged care sector is an industry sector in its own right and the associated property investments are being recognised as an asset class in line with other property types. The complexity of the industry makes quick analysis difficult and industry practitioners with expertise are keenly sought after.