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Retirement Villages in Australia: Evolution, Prospects and Challenges

Abstract

This paper is about the evolution, prospects and challenges that face the retirement village industry and the boarder issues of housing the aged in Australia.

As a starting point the paper provides a summary of a recently completed ARC research project (by the author) into the status of the Australian retirement village industry and its residents, where the major push/pull factors associated with residents choosing the live in a retirement village are identified. Additionally the paper reviews what attributes provide ongoing satisfaction or dissatisfaction associated with retirement village living and finally levels of affordability.

Finally, the paper put forward a number of potential policy, investment and asset management proposals to enable a more efficient delivery of affordable housing for the aged, which include

- How to attract sufficient funding to provide the required housing stock for older Australians in the rental sector,
- How to reduce the costs to occupy this housing
- How to provide housing stock in the total range of locations within Australia
- How ensure this housing has a total useful life similar to other housing types and tenure

Keywords

Retirement Village Funding, Strategic Asset Management, Housing Affordability Policy

INTRODUCTION

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THE CURRENT STATE OF RETIREMENT VILLAGE ACCOMMODATION IN AUSTRALIA

Introduction

As demand for housing which has a focus on the needs of the aged increases, the implications of housing tenure, investment and asset management requires critical review. The University of Queensland in 1998- 2001 conducted research, which analysed the retirement village industry in Australia as it existed at that time and what future demands opportunities, existed. This work was undertaken with the assistance of an ARC Linkage grant with the Retirement Village Association of Australia as its commercial partner.

The study surveyed over 140 retirement villages across Australia and received survey instruments responses from in excess of 1,200 participants. Additionally the survey extended over 40 pages, investigating approximately 200 questions.

In this section of the paper we review finding from the research with particular reference to

Demand drivers

Push pull factors associated with retirement village living

Attributes associated with on-going satisfaction/dissatisfaction of retirement village living

What factors exist to various measures of affordability

Demand Drivers

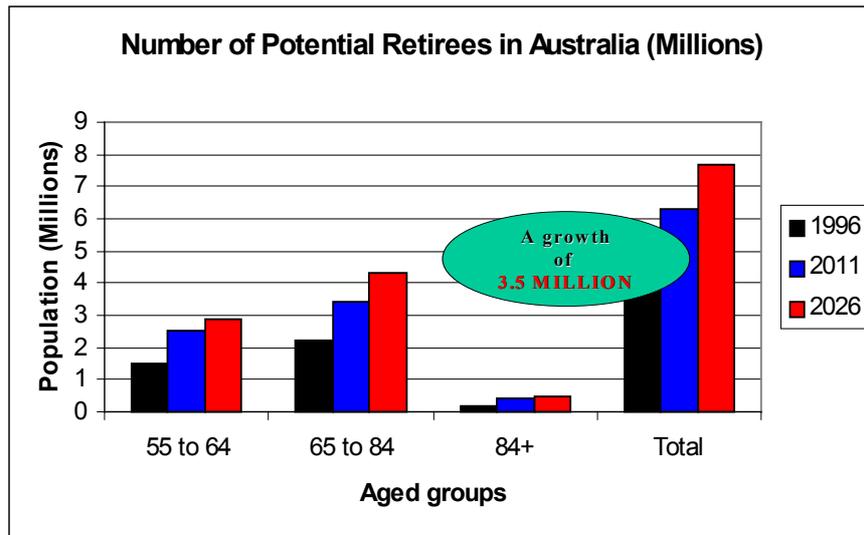
The population of those over the age of 55 in Australia has been estimated to increase by approximately 3.5 million over the next 25 years, and the major proportion of this growth occurring in the age group 65 to 85 (ABS 4109 Population Growth Estimates), which is the principle sector which currently uses retirement village accommodation. This demonstrated by data, which indicates

Age Group	Approximate % in RV
55-64	0.2%
65-74	2.0%
75-84	4.0%
85 +	7.0%

The estimated impact of this demographic change linked with changing household formation trends is that an addition 4 million households will form the emerging retirement village pool based on 100% participation and based on current participation rates above an addition 30,000 units will be required and with a 3%

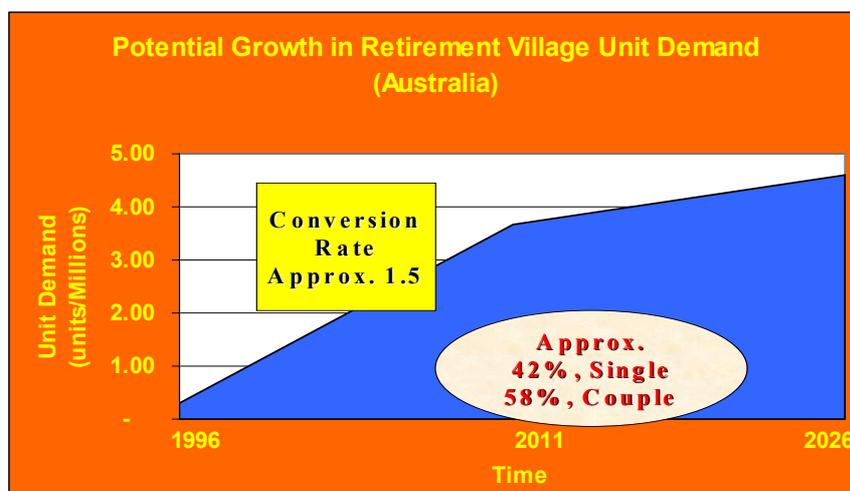
growth Retirement village participation rates some 90,000 units of accommodation will be required. It is interesting to note that based on the 30,000 units of accommodation scenario it will equate to an approximate doubling of the current level of retirement village supply. Additionally it will require approximately \$8 billion dollars of investment (in 2002 dollars) (Earl 2002).

Figure 1: Population Growth



Source: ABS Population Growth Estimates 4109.0

Figure 2: Dwelling Growth



Source: ABS Population Growth Estimates 4109.0

Push Pull Factors

As we have observed above there is demographic data to indicate significant demand for retirement village accommodation, in this section we review what are the dominant push/pull factors associated with eventual retirement village occupation.

In the UQ/RVAA study it was found that the following characteristics profiled those choosing to live in a retirement village:

62% came from a professional or administration employment background,

Those coming from a non professional/administration background moved in to a retirement village earlier,

91% were previous home owners, and

81% lived in detached housing.

Having identified where occupants came from the survey identified demand drivers linked to physical and economic satisfaction or dissatisfaction. These factors were

Large capital costs facilities such as community centres, libraries, games rooms etc (see Figure 3 for full details) were provided in approximately 80% of retirement villages surveyed. In the survey less than 50% of residents listed these facilities as desirable.

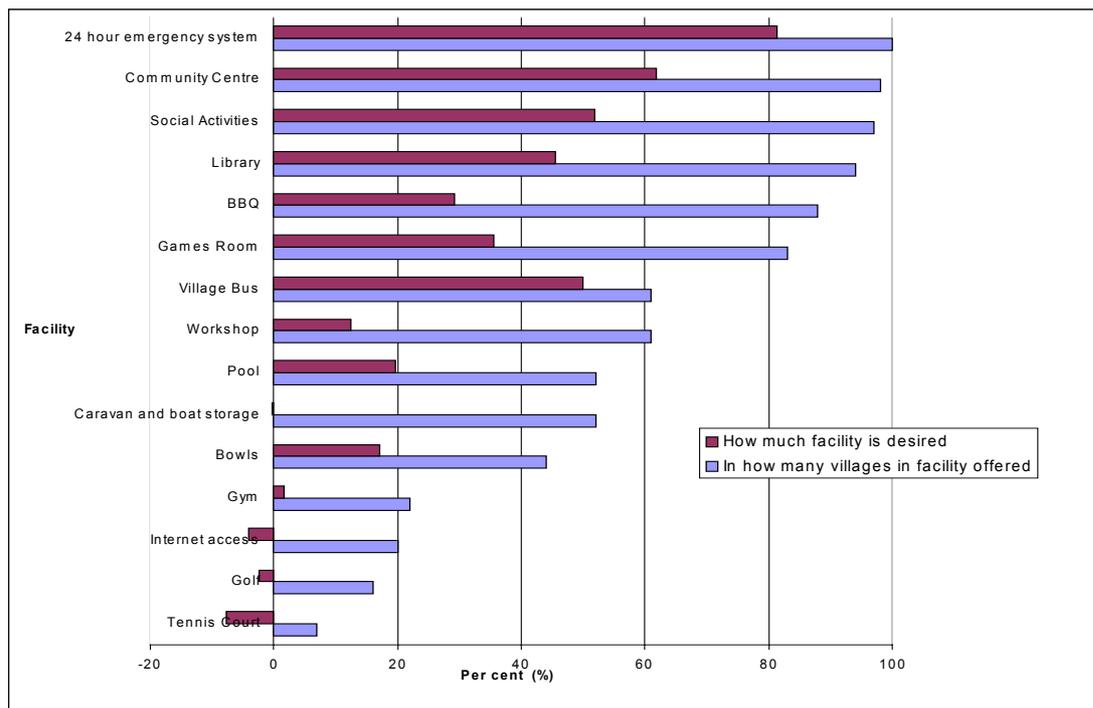
In all retirement villages surveyed, facilities provided exceeded those desired by more than 20% (range 20% to 50%) (See Figure 3 for full details)

Characteristics in a retirement village which were dominant as satisfaction drivers were physical (layout and design of units and village) and social (interaction with other residents), while those which were dominant as dissatisfaction drivers were those of management and ongoing fees (see figure 4 for full details)

In retirement villages where the entry contribution was under \$150,000, the entry contribution exceeded the occupants last home value by approximately 10%, while those villages with an entry contribution of \$150,000 to \$200,000 the occupants last home was valued at approximately 5% more the retirement village. Those villages with entry contribution in excess of \$200,000 the last home had a substantially higher value. (See Figure 5 for full details)

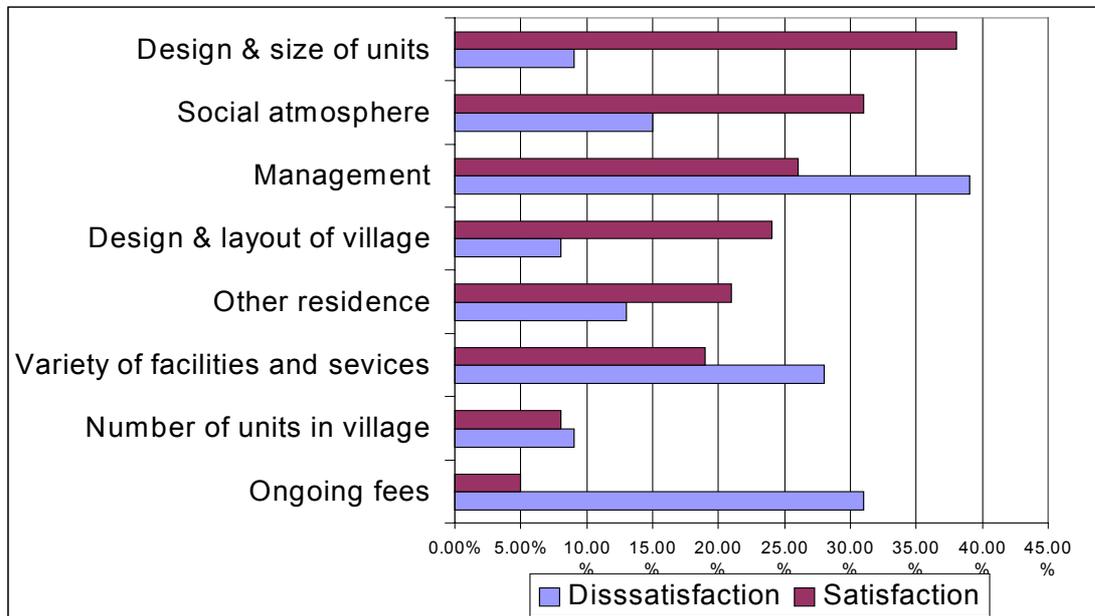
Of the retirement villages surveyed approximately 70% paid an entry contribution of less than \$150,000, while at the same time approximately 75% paid between \$200 and \$300 per fortnight in ongoing service fees. (See Figure 6 for full details).

Figure 3: Facilities Provided and Those Desired



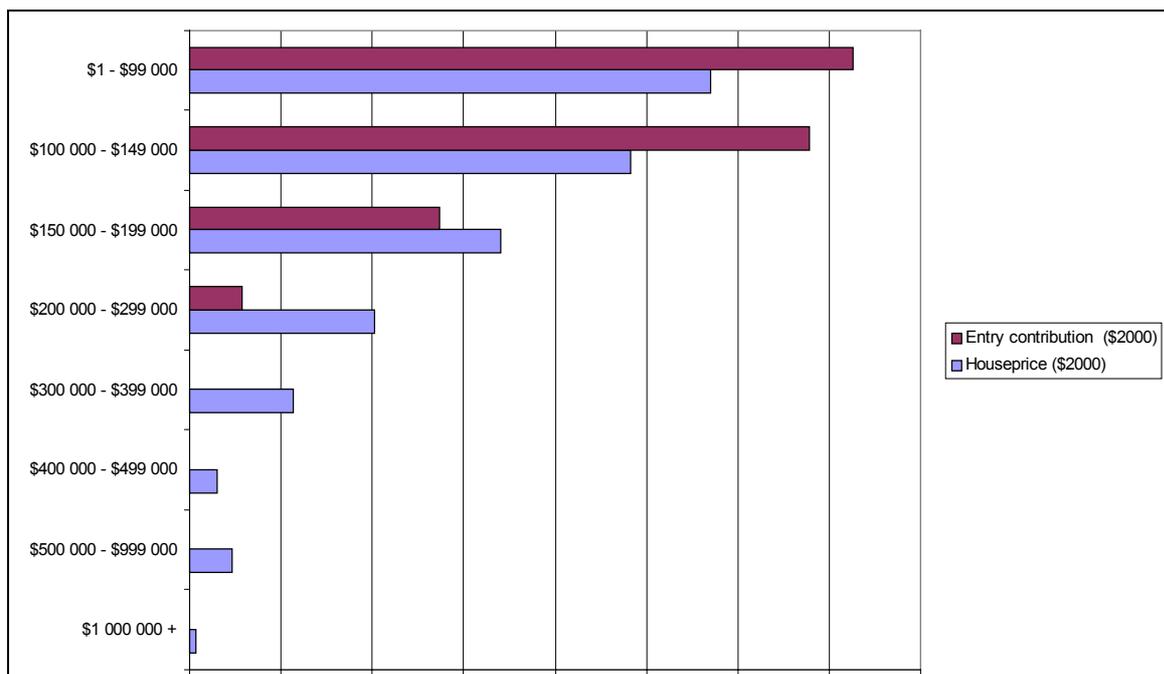
Source: UQ/RVAA Survey 2001

Figure 4: Retirement Village Characteristics & Levels of Satisfaction or Dissatisfaction



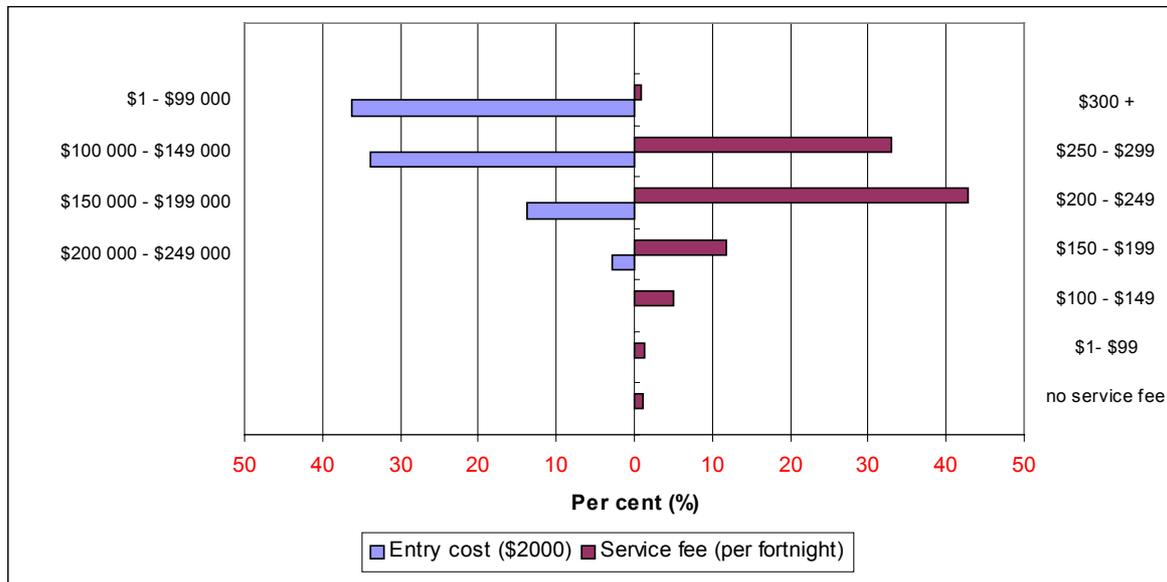
Source: UQ/RVAA Survey 2001

Figure 5: Economic Factors of Entry of Retirement Village and Capital from Home Ownership



Source: UQ/RVAA Survey 2001

Figure 6: Economic Factors of Entry of Retirement Village and Ongoing Fees



Source: UQ/RVAA Survey 2001

Conclusion

From the current market review summarising the research undertaken by Stimson and Earl (1999- 2001) as part of the ARC/RVAA Linkage grant the following can be concluded

Approximately 3.5 million Australian residents will enter the potential retirement village market (based on 100% market penetration)

Based on current levels of market penetration approximately 30,000 new units of accommodation will be required at an investment of 8 billion dollars (2001 dollars, Earl 2000), and with a 3% market growth, 90,000 units of accommodation will be required with an investment of 25 billion dollars (2001 dollars, Earl 2000)

Current village occupants come predominately from professional or semi professional occupational backgrounds and were home owners (the ownership issue may be skewed due to the lack of rental villages at the time of the survey (research currently being undertaken by Earl et, al. will look at the rental retirement village market)

The current stock of equity based retirement villages have a high level of amenity (community centre, recreational facilities, village bus etc.), but interestingly these factors produced low levels of occupational satisfaction. This may be due to their impact on ongoing village fees

On the issue of occupation dissatisfaction the two most dominant factors were village management and village servicing fees (the survey team believe these to be linked)

Most village occupants at the low value (Dollars) end of the equity based retirement village market paid an entry contribution greater than the value of their final home, therefore raising the issue of affordability impacting on market penetration. Additionally these villages indicated the highest on going fees, therefore raising the issues of property and asset management.

From the above conclusions for the retirement village market to develop an efficient supply model, it needs to address the constraints of affordability (initial and long term), investment attractiveness and locational acceptability.

The following section of the paper proposes a number of potential policy, investment and asset management proposals to enable a more efficient delivery of affordable housing for the aged.

PROPOSALS TO PROVIDE AN EFFICIENT SUPPLY MODEL TO MEET FUTURE RETIREMENT VILLAGE ACCOMMODATION DEMAND IN AUSTRALIA

Introduction

This section of the paper proposes a number of potential policy, investment and asset management proposals to enable a more efficient delivery of affordable housing for the aged, which include

- How to attract sufficient funding to provide the required housing stock for older Australians
- How to reduce the costs to occupy this housing
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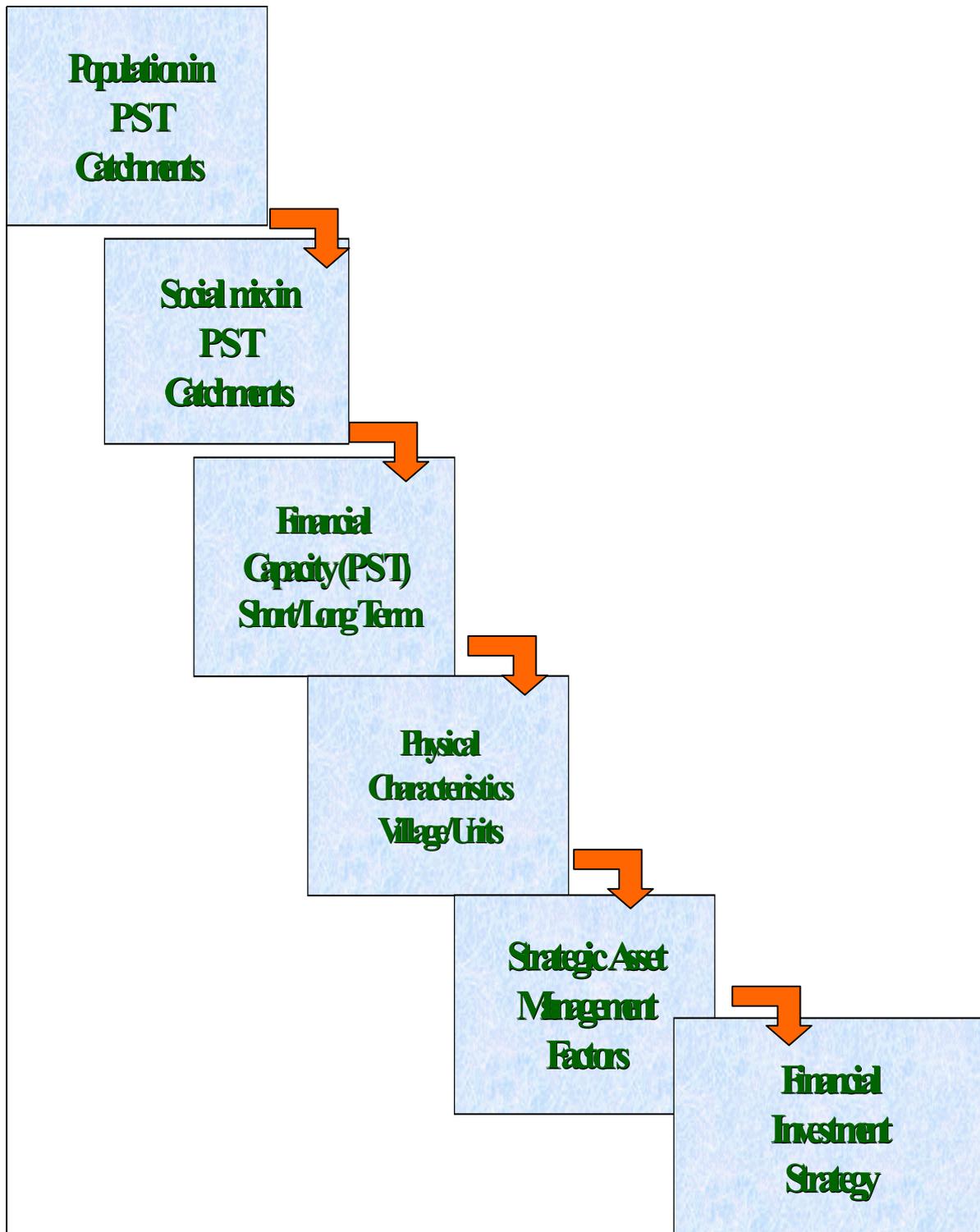
Funding of Future Retirement Village Accommodation

The ability to attract the level of funding estimated in the previous section of this paper is dependant on the level of financial return achievable measure against the market risks.

In order to measure this in a quantitative model the research undertaken by Earl as part of the ARC/RVAA Linkage grant developed the “Strategic Asset Management Model or SAMM” (See Figure 7 and Schedule 1 for details).

Briefly the model identifies the demand drivers and then places the data in a risk diversification investment portfolio model, which is then analysed through a 10,000 iteration Monte Carlo simulation to develop the appropriate discount rate to be placed in an investment NPV analysis.

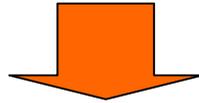
Figure 7: Process of Identifying Critical Model Drivers for use in SAMM



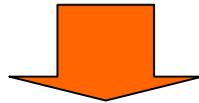
Schedule 1

Strategic Asset Management Investment Model (SAMM)

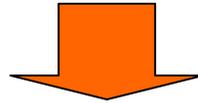
Demographic information in various catchments locations, such as numbers, growth and age change factors



Social mix of the various catchments, such as household types, employment grouping, home ownership data



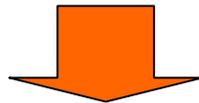
Financial capacity covering, income grouping, housing value and disposable income



Physical configuration requirements including, village location, size, and unit type and facilities desired and utilized



Investment model including development investment criteria, entry contributions and management structure



Financial strategy covering initial investment return, risk analysis and management, entry /exit contributions and on-going fees

Strategic Asset Management Investment Model (SAMM)

Existing Retirement Villages

The first phase of the model identifies existing villages and their asset management characteristics, such as size, value and vacancies (GIS management).

Population in Catchments

Data is then abstracted on population growth, and potential catchments by social mix and age

Proposed Village Assumptions

The base investment information section allows for the input of critical assumption such as

- Staging of the village development by number of units and timing (assumption entered),

- Development costs (these can be either entered as an assumption or built up via the development costs worksheet

- Entry and exit contributions (assumptions entered),

- On-going management fees (assumptions entered),

- Demand criteria (assumptions fixed based on UQ/RVAA study,

- Taxation rates (assumption entered based on legal structure).

Potential for Retirement Village Development

The model calculates the asset management potential of a village or forecast occupancy rates of a village over an initial 10 year period using information from the “**existing Village**” analysis, “**population in Catchments**” data and input from the “**proposed village assumptions**”

Estimated Pre Taxation Rate of Return (IRR and NPV) (First Iteration)

The model places the information from all of the above sections into an estimated pre-taxation rate of return cash flow over a 10-year period indicating an initial Internal rate of Return (IRR)

Portfolio Risk/Return Model

The then requires the development of a portfolio risk return analysis. To undertake this, the model requires information on the current investment portfolio of the investment entity, indicating annual rates of return and weighting on an investment as a percentage of the total portfolio. From this data the model uses “portfolio theory” to calculate the portfolio risk and weighted return. The model uses this information to calculate the investment **Beta** of the proposed village in relationship to the current investment entities portfolio. This analysis produces a discount rate that the retirement village cash flow is required to outperform to enable the investment entities portfolio to continue at the same risk/return criteria.

Estimated Pre Taxation Rate of Return (IRR and NPV) (Second Iteration)

Following the establishment of discount rate (identified above), the model undertakes a Net Present Value (NPV) analysis to indicate either a positive or negative result

Negative result indicating either the entry/exist contribution is require to be higher or the ongoing management fees require to be increased,

Positive result is the reverse of the above, e.g. lower entry/exit contribution or lower ongoing fees.

Post Taxation Analysis

The model undertakes a post taxation analysis based on the investment entity nominated in the “**Proposed Village Assumptions**” section of the model inclusive of the optimum combination calculation discussed above

Long Term Housing Cost Reduction and User Satisfaction

The SAMM outlined above has the ability to provide theoretical funding and affordability models, but long term affordability and user satisfaction is tied up in Strategic asset and facility Management delivery.

Work undertaken by Dr. Earl together with a team of SAM researchers over the past decade has developed a suite of SAM delivery models, at the core is the Property Standards Index (PSI) and the Total Useful Life Index (TULI) both of which were developed for Housing Queensland (Queensland's public housing authority). Both of these models can easily be adapted to the retirement village market.

In this paper we give a brief overview of these indices

Property Standards Index (PSI) and Total Useful Life Index (TULI)

The PSI is a decision support tool, which enables to SAM individual assets or a portfolio of assets. It uses an index from 0 –10 to determine the standard of a dwelling or can be aggregated to reflect a total portfolio.

The PSI measures the relative performance of an asset (benchmarking) by the linkage of physical condition and functionality. Finally it identifies what level of maintenance or upgrade should occur and when.

This model leads onto the TULI, which plots where an asset (individual or portfolio) is its usable life.

Figures 8 –10 inclusive give an illustration of the PSI and TULI.

Figure 8

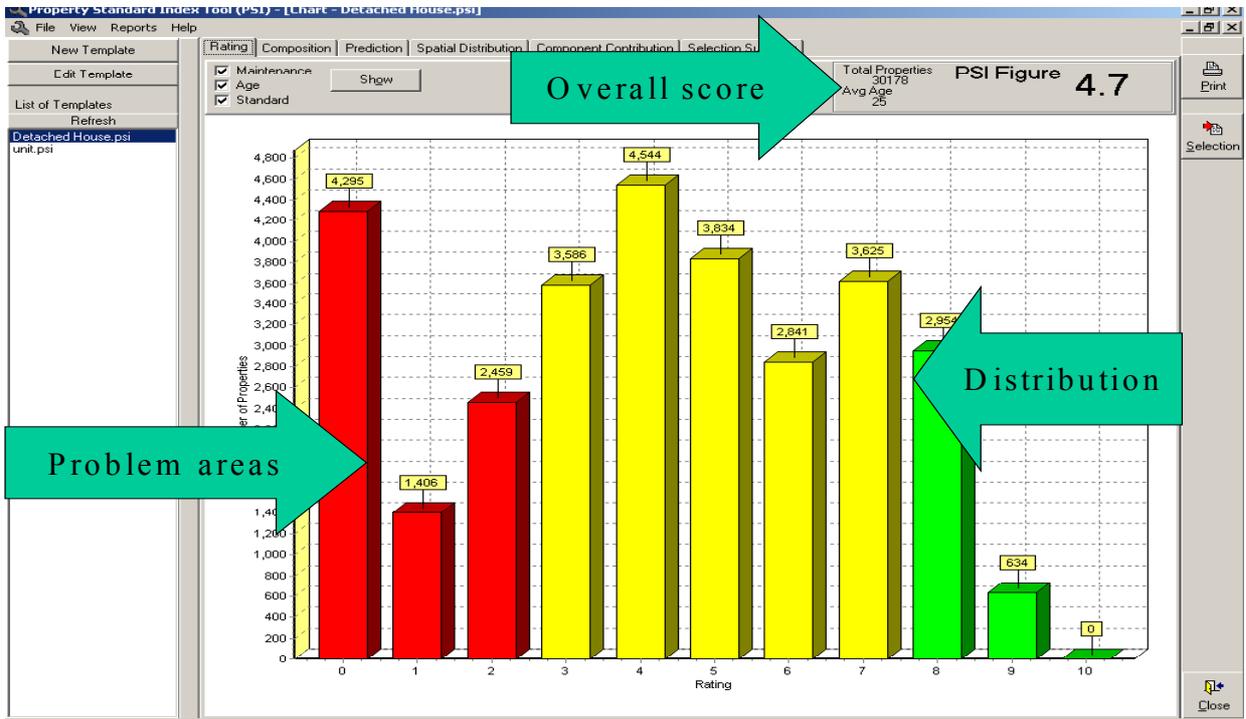


Figure 9

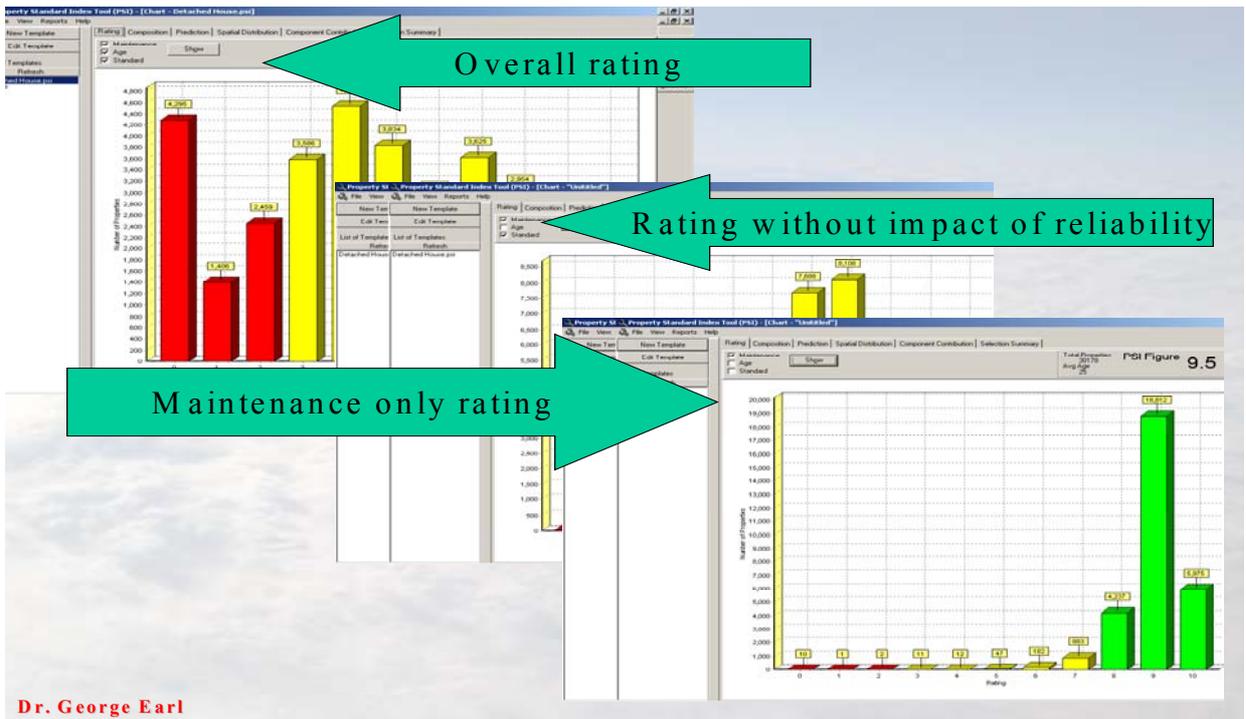
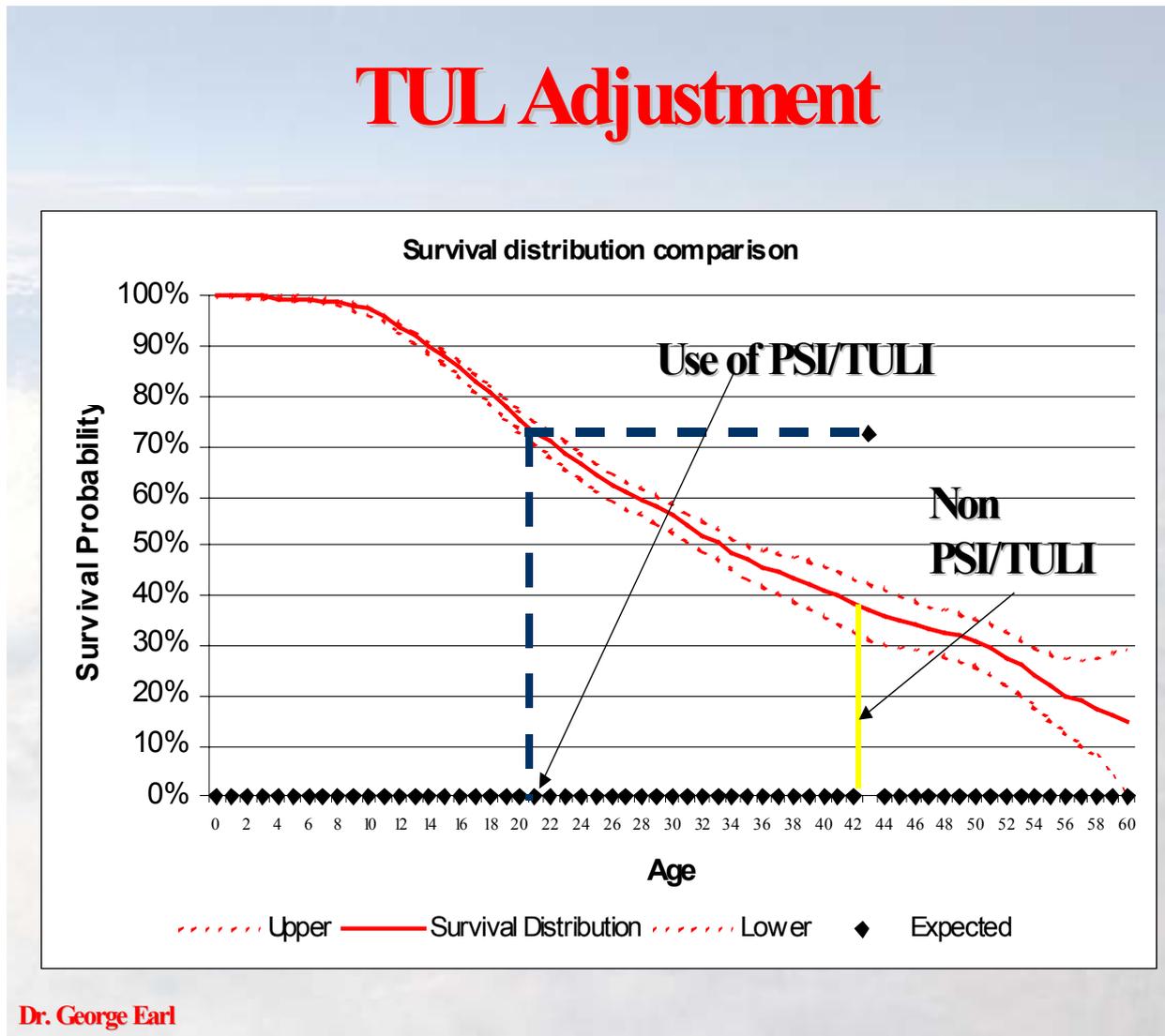


Figure 10



Location Index

The final decision support tool overviewed in this paper to enable effective investment and development of retirement village accommodation is the location index, which effectively locates a village to provide for investment and user satisfaction.

This index essentially uses data from the ARC/RVAA study to analyse the relative importance of various user attributes and develops an index of location preference with the use of a dynamic GIS interface.

Figure 11 provides an example.

	Distance (Metres from retirement village)	Barrier Rating	Calculated Rating	Rating with barrier Adjustment	Max Achievable Rating
Retail 20%					
Regional Centre	3000	1	6	6	10
Neighborhood Centre	1500	1	8	8	10
Local Shops	750	1	6	6	10
Community Facilities 20%					
Library	3000	1	6	6	10
Community Hall	1500	1	8	8	10
Bowling Club	750	1	6	6	10
RSL / Club	750	1	6	6	10
Medical 30%					
Hospital 1	4500	1			
Hospital 2	7500	1			
Hospital 3	3000	1			
Closest Hospital	3000	1	6	6	10
Medical Centre	1500	1	8	8	10
Doctor Surgery	750	1	6	6	10
Transport 30%					
Bus	150	1	8	8	10
Train	3000	1	3	3	10
Ferry	1500000	1	0	0	10
Total Rating			51	51	80

Rating percentage	68.2%
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