

Retirement living

Industry trends & prospects January 2011



Welcome

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A word from Grant Thornton

This is the first report on our findings from the national Grant Thornton / RVA Retirement Living Survey. In light of our ageing population, demographic shifts and changing market drivers, Grant Thornton enthusiastically engaged in the review of the evolution of seniors' housing in Australia. The study has been undertaken almost a decade after the RVA completed the first major study into retirement living.

Between June and December 2010, Grant Thornton and the RVA analysed feedback from the operators of over 320 retirement villages accommodating in excess of 30,000 residents around the country. Operators and residents were asked to articulate their views on emerging priorities for consumers and to provide information regarding the accommodation and services being delivered to meet those priorities.

This study comes at a crucial time of transformation within the industry. Whilst Australia's ageing population will demand a substantially greater investment in seniors' accommodation, historically low penetration rates understate the potential of just how successfully this industry could grow.

Our research explores not only the current state of the market, but contrasts the changing expectations of future generations of consumers. In doing so, investors, operators and residents can help to unlock the true opportunity of a sector that will become one of the most influential for Australia's construction, health and service markets.

We look forward to sharing this journey with you.

Cam Ansell
National Director
Retirement Living & Aged Care Services



A word from Retirement Village Association

As Chief Executive Officer I wish to extend great thanks to Grant Thornton who have put in countless hours on a pro bono basis to design, survey and report findings for the benefit of the industry. Their extensive experience in consulting to operators and managing retirement villages has been instrumental in interpreting the survey results.

This is the first major study conducted for the RVA since *The Retirement Village Industry in Australia – Evolution, Prospects, Challenges* research based on feedback from 1,200 village residents between 1999 and 2001. The Report recommended the need for benchmarking for the industry and this study responds to that recommendation.

The timing of the report has been scheduled to coincide with the Productivity Commission's major review of the aged care and retirement living sectors. This review is critical as we expect an increase of five million people over 65 years of age (from three million to eight million people) by 2050. At the same time, the number of taxpayers per retiree is expected to decrease from 5 to 2.5. Robust research about our industry is going to be critical in order to plan for the variety of challenges and opportunities that come from such a dynamic demographic change.

Finally, thank you to the many owners and operators who contributed to the survey. I know that you will find the results useful and look forward to future instalments.

Appreciation

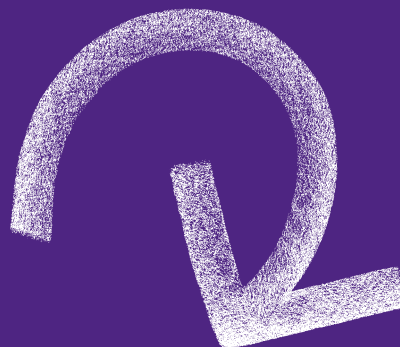
Grant Thornton and the RVA would like to extend our thanks to the village managers, residents and management that participated in this survey. We also thank the Aged Care Association of Australia, Catholic Health Australia, Aged & Community Services Australia and Villages Publishing for their support.



Andrew Giles
Chief Executive Officer
Retirement Village Association (RVA) Ltd

Summary of findings

- On average, residents are entering retirement living older than we expected; they are staying for shorter periods of time and are increasingly demanding assistance with their care needs. At the same time, their range of life interests and discerning characters demand more privacy, living space and a greater breadth of services and social activities.
- The survey results confirm that the reputation and affordability of the village remain the two highest ranking resident priorities. While the design, services and condition of the village are key considerations, most prospective residents will visit a number of villages before choosing a new home and word of mouth remains one of the strongest sources of referral.
- Over 70% of operators surveyed considered that the provision of on-site care services was a critical priority for the majority of residents and more than three quarters believed there was scope to provide greater levels of care support in their village. The overregulation of aged care services was considered to be the major hurdle in meeting this critical priority.
- The “Loan License” contracting model remains the most widely used in Australian retirement villages. However, as baby boomers will have a diversity of preferences in relation to ownership status, risk adversity and expectations for payment flexibility, the sector will need to be responsive by providing contract options that meet these priorities, rather than assuming that consumers will accept the operator’s preferred models.
- The survey confirmed that villages with residential aged care services have older residents who have a shorter length of stay than villages without nursing homes or hostels. They also tend to attract residents from a wider catchment area and enjoy higher occupancy at both the village and the residential care facility.
- While most operators acknowledged a significant flow-on effect from the slump in the property markets, almost three quarters believed the sector was now recovering and that sales were improving.
- Our consultations revealed a low level of understanding of the advantages of retirement living among baby boomers. Innovation in marketing will be paramount in shaping the perceptions for future generations of consumers and this may present an opportunity for the sector to engage in a promotional strategy to demonstrate the considerable benefits associated with retirement living.
- The reforms currently anticipated in the aged care sector are likely to have a dramatic impact on retirement living in Australia. A move toward a less regulated operating environment and greater flexibility in service delivery and user payments will provide an opportunity to greatly enhance the offerings available within retirement villages. The industry will need to adapt and capitalise on research-based information to plan for the future.



Research objectives

The RVA estimates that there are approximately 1,850 retirement villages in Australia, accommodating around 138,000 people around the country. Given Australia's demographic profile, growth in the retirement living sector is expected to increase almost threefold over the next four decades.

Penetration rates for retirement villages as an accommodation solution for seniors are still quite low, with just over 5% of Australians over the age of 65 occupying villages. In other developed countries, like the US, over 10% of the over 65 population live in seniors' villages. Many industry leaders believe that there is an opportunity for exponential growth in the sector in Australia beyond natural demographic shifts.

This research is intended to help us understand more about the services currently provided in villages around Australia and to consider how the offering needs to adapt to meet the changing expectations of a new

generation of consumers.

We also give consideration to the likely impact of reforms in the residential aged care sector and canvass the views of village operators on the potential integration of seniors' care and accommodation services. This is particularly important given the Government's current policy directions.

To provide a deeper understanding of Australian seniors' needs, the survey research has been complimented by informal consultation forums with retirement village residents as well as Australian seniors that have chosen not to use retirement living services.



Consumer profiles and priorities

Although historically many retirement villages have been promoted to the 55 and over market, the reality is that most people make the decision to move into a village much later in life. The survey revealed that most residents were around 73 years old on admission and that the average age of residents within the villages was 79. These averages increased where the village provided care services (subsidised community care and residential care) on site.

The majority of residents will enter as couples (60%) and just under two thirds of village residents are female.

Staying close to home

Our research indicates that over 70% of residents will have moved from homes within close proximity of the village and on average, they will remain in the village for eight to nine years.

Critically, the profile of residents using retirement living services is materially impacted by the services provided, the contract arrangements and the availability of care services.

Key drivers of choice

RVA and Grant Thornton research indicates that the choice to move into a retirement village is prompted by often interrelated factors relating to the individual's health and mobility, lifestyle preferences and social isolation. Specifically, research conducted by the RVA and the University of Queensland identified five major "push" factors:

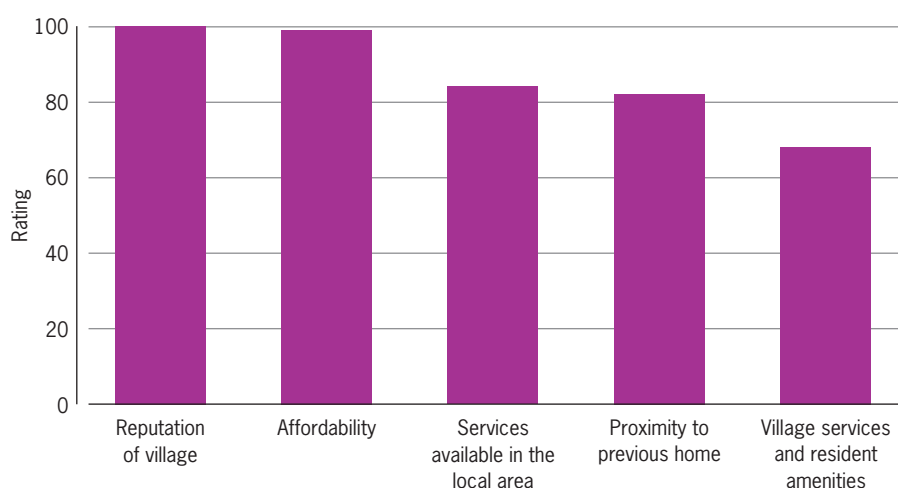
1. Health issues or need for assistance
2. Death of spouse
3. Downsizing family home that had become unmanageable
4. Change of lifestyle
5. Desire to be closer to family and friends

In addition, there are a number of key "pull" factors that attract seniors to a particular retirement village. The results of the Grant Thornton/RVA survey confirm that the reputation and affordability of the village remain the two highest ranking resident priorities (and pull factors) when choosing between villages, as can be seen in Graph 1.

On average, residents are entering retirement living older than we expected. They are staying for shorter periods of time and are increasingly expecting assistance with their care needs. At the same time, their range of life interests and discerning characters demand more privacy, living space and greater breadth of services and social activities.

In this environment the importance of a village's reputation cannot be understated, yet many operators overlook some of the most critical factors contributing to that reputation. While the design, services and condition of the village are key considerations, most prospective residents will visit a number

Graph 1: Likely reason for choosing the village



of villages before choosing a new home and word of mouth remains one of the strongest sources of referral.

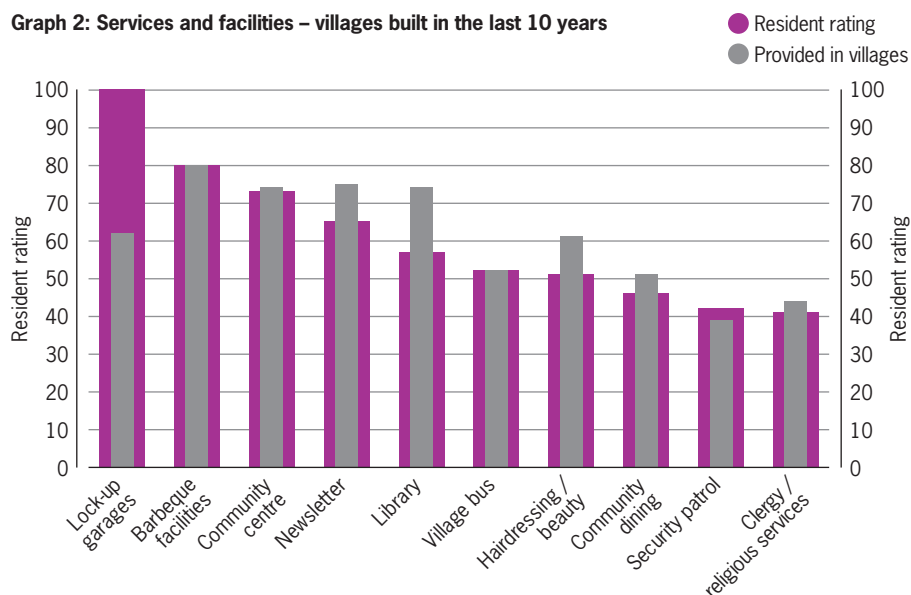
Successful villages often hold open days to provide an opportunity for existing and potential residents to socialise within the village environment. Where resident satisfaction is high, villages will also benefit from referrals from local doctors, pharmacists and community groups.

Two key contributors to resident satisfaction relate to the performance of the village manager and the role and influence of the resident's committee. Managers that are respectful and responsive to resident/committee input can significantly improve satisfaction within the village as well as the chance for referrals.

The existence of care services and unit designs that supported people with limited mobility and dexterity were also factors deemed critical by residents. Operators are aware of this and the Grant Thornton/RVA survey revealed that 71% of participants considered that access to appropriate care services was a critical priority for the majority of residents.

As illustrated in Graph 1, village services and amenities are also critical pull factors for potential new residents. Feedback was sought from operators on the services provided in each village and from residents on those services that were considered most desirable. The analysis of the two elements in Graph 2 below compares resident priorities to service

Graph 2: Services and facilities – villages built in the last 10 years



availability in villages built in the past decade.

Most residents use garages for storage as well as parking and most will have moved from considerably more spacious family homes. During our consultations, residents expressed concern that there was insufficient storage available within their new home and that both internal and external storage options should be critical considerations in village design.

Although barbeque facilities ranked highly, our experience indicates that personal utilisation rates tend to be quite low. The response may reflect the importance residents place on maintaining a community, social and family atmosphere within their village.

Interestingly, bowling greens and

swimming pools ranked poorly by residents with access to those amenities.

Bowling greens ranked as the 25th highest priority of the 41 service/amenity categories and swimming pools ranked 13th. This statistic is particularly interesting given the high cost of establishing and maintaining these services and the opportunity cost of the land used.

However, our consultations with residents in villages with a younger demographic indicated that lifestyle features such as bowling greens and caravan/boat parking were highly desirable and a key contributing factor to their choice of village. Further analysis of these priorities and village demographics will feature in future reports.

Resident accommodation

During the 2000's, the surge in retirement village developments started to test our thinking on accommodation models and contracting arrangements. Today, we are able to consider the resilience of a variety of senior accommodation solutions in a less buoyant property market.

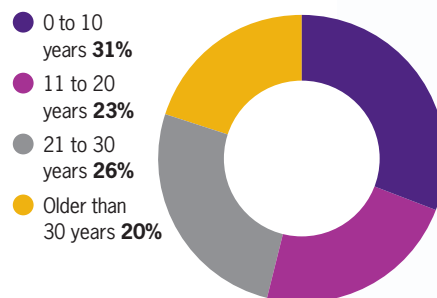
The survey produced a strong cross section of retirement living facilities of varying ages which has enabled the analysis of changing trends over time. Graph 3 presents the age profile of units included in the survey.

One of the most significant trends impacting upon unit design over the last ten years has been the increasing expectations of residents for space and privacy. On average, village operators who participated in the Grant Thornton/RVA survey had 72 units/apartments. These comprised diverse building structures ranging between semi-detached (51%), apartment style (34%) and detached villa units (15%), mostly with two bedrooms.

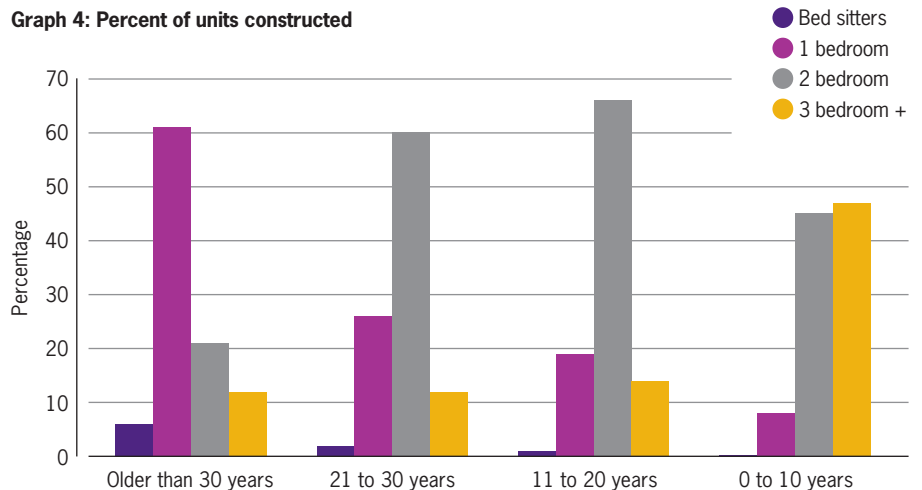
While land availability and affordability remain key considerations, the greatest increase in demand over the past decade has been for 3 bedroom units (including 2 bed plus study). Graph 4 provides an analysis of the changing trends towards larger units/apartments from the traditional single bedroom/bedsits prevalent in older villages.

People frequently leave their family home to move into the village. The move into higher density accommodation represents a compromise that is not reflected in their expectations for internal

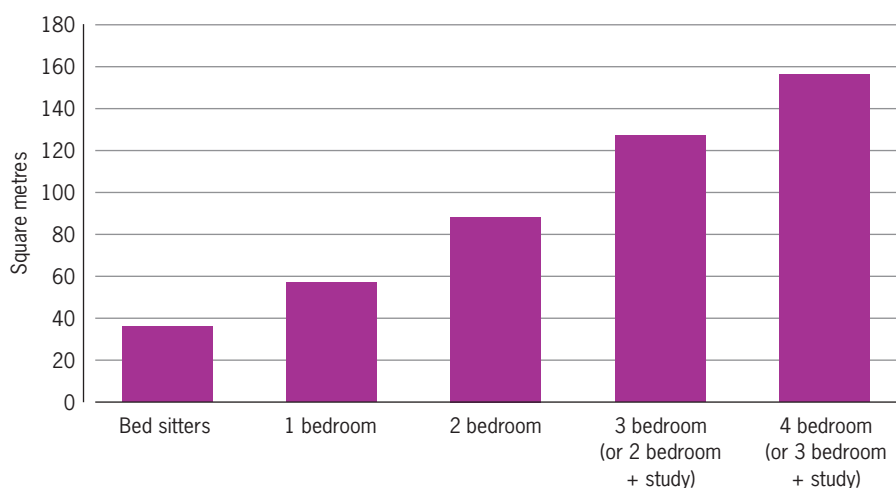
Graph 3: Age of units



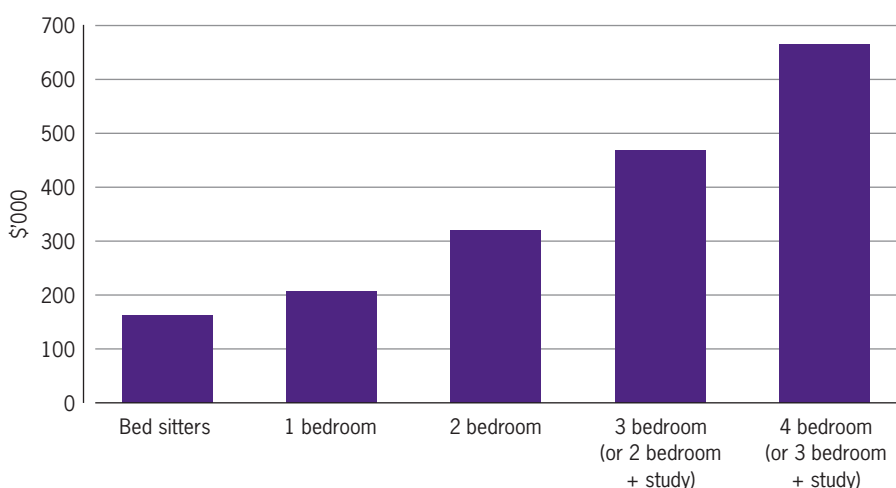
Graph 4: Percent of units constructed



Graph 5: Internal floor area



Graph 6: Average sale price



unit space. Many villages that have attempted to increase development yield by constructing a larger number of small units have been unsuccessful.

Future generations of retirement village consumers will place a high priority on their privacy and personal space. The resident's sanctuary should have provision for extended family visits, storage, entertainment and solitude (particularly for couples!).

Our analysis of unit sale values indicates that larger units generally attract a higher yield per square metre than smaller units, although this is also influenced by the age of the units. Interestingly, serviced apartments often produce a much higher yield per square metre because of the availability of support services. However, occupancy levels tend to be lower and

limited access to public subsidies makes this model challenging to manage in the current regulatory environment.

Feedback from residents interviewed confirmed our experience regarding the challenges in marketing multistorey accommodation in retirement villages. Even where villages are able to attract a younger demographic, stair access to upper levels becomes increasingly inconvenient for residents over time and villages of all ages will often struggle to market these units. Dumb waiters and chair lifts can provide some support; however, elevators are preferred by the majority of residents.

It is important to provide a variety of accommodation offerings given that the relative mix of singles, couples, wealth and age groups will impact upon

preferences for unit styles, sizes and amenities. Consideration should be given to how these preferences might change as the building stock will be required to accommodate several generations of consumer.

When conducting development planning for new villages, Grant Thornton works with clients to gain an understanding of the likely preferences and attributes of both seniors and earlier generations in the catchment area. The specification for building design, village services and development scale/density is then adapted accordingly.

Understanding the target market is also critical in the planning and execution of promotional strategies and even the best of villages can underperform if the value proposition is not well articulated.

Ownership / contracting arrangements

The overwhelming majority of village units were leased to residents on a traditional “Loan-Lease/Licence” or “Lease for Life” basis. Graph 7 illustrates the mix of contract arrangements for the participating villages.

“Loan Lease” arrangements can be structured in a number of ways, depending on the preference of the village operator and the incoming resident. Deferred management fees (DMFs) are generally charged by the operator as a proportion of the incoming loan amount, or the “sale” price on exit.

As presented in Graph 8, DMFs were ordinarily based on the incoming loan amount, rather than the “resale” price. However, more of our clients are offering exit based DMF contract arrangements, sometimes as an option for those with a

preference for this method.

Approximately 64% of villages shared the capital gain with the resident on “resale”, where the DMF was based on the entry loan amount. Although the relative share of gain varied from village to village, most opted for an equal split between the owner and the departing resident.

Most contracts had a sinking fund provision for refurbishment or replacement of village assets. Around 65% of operators assumed responsibility for refurbishments, with 15% requiring residents to fund and the remainder sharing the cost.

Maintenance fees varied enormously and future analysis will be conducted on a regional and service level basis. The levels across all villages ranged

from \$35 to \$640 per week, with the latter providing access to the village golf pro during morning rounds on the picturesque 18 hole course!

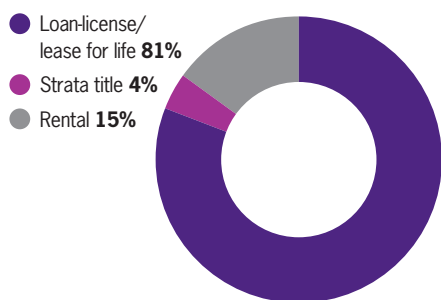
Within the survey, rental agreements were more prevalent for facilities over 20 years old. In Australia, rental village accommodation has been primarily provided to people who cannot afford to pay a lump sum and for units marked for redevelopment. In contrast, most US retirement villages are let on a rental basis, particularly for high quality stock. Grant Thornton is currently working with our European and US offices and the RVA to compare and contrast international retirement living contracting/ownership models. The results will be featured in subsequent reports.

Attempts to market rental models in Australia have had limited success to date and the traditional “Loan Lease” remains predominant.

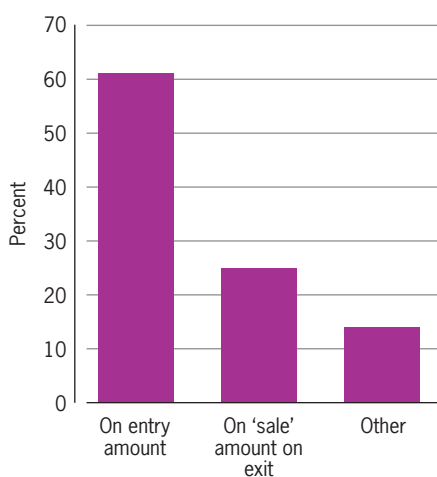
Operators were asked to provide their views on the “Loan Lease” model and its likely appeal to future generations of consumers. The responses were unanimous in the view the baby boomers will have a diversity of preferences in relation to ownership status, risk adversity and expectations for payment flexibility. The industry must be responsive and provide contract options that meet these priorities, rather than assuming that consumers will accept the operator’s preferred models.

This will almost certainly require legislative reform.

Graph 7: Contract structure



Graph 8: Basis of DMF



The importance of care services

As discussed, a large proportion of people entering retirement villages do so because of health issues or the need for greater levels of assistance.

Of the villages surveyed, around one third had subsidised aged care services provided by the operator. Residential aged care services (previously known as nursing homes and hostels) were the most common forms of care (27% of villages) and community care services (Home and Community Care (HACC) and other Community Aged Care Packages) were provided by the operators of 23% of villages. Most villages received some form of subsidised care services from external services providers.

Over 70% of operators surveyed considered that the provision of on-site care services was a critical priority for the majority of residents and more than three quarters believed there was

Graph 9: Village operator views – care services

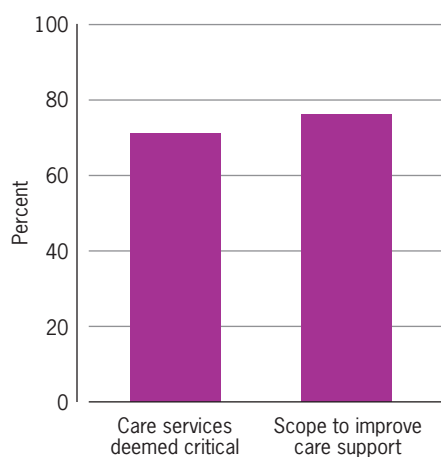


Table 1 – Care Services and Resident Profiles

	Age on Entry (Years)	Average Age (Years)	Length of stay (Years)
Retirement Village with Residential Care	74.7	80.9	8.3
Retirement Village without Residential Care	72.4	77.4	9.0

scope to provide greater levels of care support in their village (see Graph 9). Most cited the current funding and regulatory arrangements for community and residential aged care to be the major limitation to meeting this critical priority.

The Productivity Commission is currently reviewing legislative restrictions on flexible care service delivery following recommendations by the National Health & Hospital Reform Commission to reduce regulation in this area.

The survey confirmed that villages with residential aged care services attract older residents who have a shorter length of stay than villages without residential care services – refer Table 1. In addition, the survey results reveal that collocated villages attract residents from a wider catchment area, highlighting the broader appeal of these offerings.

Waiting lists and occupancy levels were stronger for villages with care facilities, which has proven to be a major advantage for our clients during the

economic downturn. Our research into residential aged care occupancy also demonstrates substantial benefits for nursing homes located within retirement villages, and you can peruse this research at www.grantthornton.com.au/Industry-specialisation/aged_care.asp.

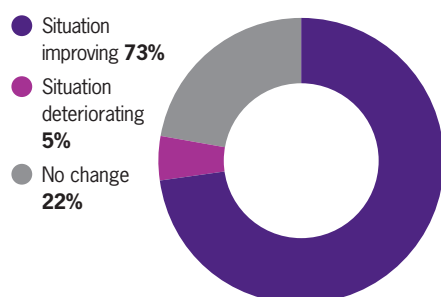
As well as meeting resident needs, the provision of care services can help sustain demand levels and promote greater occupancy rates for village units. This helps to improve DMF revenues and reduces the impact of variable demand during uncertain property market conditions.

It does not follow that all villages should have residential aged care facilities on site or that all operators should be responsible for delivering community care services. However, the recognition of care support as a critical priority for residents enables operators to consider ways to meet that need either directly or through strategic alliances with healthcare specialists.

Future directions and service integration

The survey gauged operator views on the current state of the market, following the global financial crisis. While most felt the effect of the slump in the property markets, almost three quarters believed the sector was recovering and that sales were improving. Approximately 22% felt that there had been no improvement, while just 5% believed that conditions were worsening.

Graph 10: Improvement in sales / marketing situation



With increased optimism around the property market and with expectations that the size of the retirement living market is likely to treble over the coming decades, operators are now busily planning for the developments of the future. Understanding both operators' and residents' priorities and preferences will be fundamental to the design of these villages and the contracting arrangements that will finance their construction.

While the majority of this research focuses on the priorities of the 5% of Australians over 65 that have chosen to move to a retirement village, perhaps the more important question would be directed at the 95% of seniors that who have opted to stay in their home or other senior housing options.

Based on our consultations, there are three major factors that contribute to low penetration levels:

1. Concerns regarding contract models and the loss of "ownership status";
2. Stigma associated with living in a segregated "aged" community and a loss of privacy and autonomy; and
3. Lack of full continuum of care within most villages.

The first component relating to contract arrangements is addressed earlier in this report. The issues of public perception relating to aged community living are significant ones, which are likely to be more acute in the minds of baby boomers. They have experienced greater diversity of interest and freedom than current users of retirement living services

and most will be in denial about getting older.

In our interviews with baby boomers living outside of retirement villages, most expressed concern about their vision of living in close quarters in a seniors' community. The views reflected perceptions of closed communities with limited choice, a lack of privacy and freedom and the belief that villages would tend to accelerate the ageing process.

However, our discussions with current village residents revealed that retirement living is usually a liberating experience that generally results in improved health and social outcomes. Residents interviewed expressed positive views on the social opportunities provided in villages, the security benefits and the flexibility of choice in engaging with other residents or the broader community.

Despite these benefits, our consultations reveal a low level of understanding of the advantages of retirement living among baby boomers. Innovation in marketing will be paramount in addressing these perceptions for future generations of consumers. This may present an opportunity for the sector to engage in a promotional strategy to demonstrate the considerable benefits associated with retirement living. This will be a focus of the RVA's future strategic direction.

These benefits are likely to be significantly enhanced through aged care reform and currently the Productivity Commission is undertaking

a major review of the aged care sector in Australia. A move toward a less regulated operating environment and greater flexibility in service delivery and user payments will almost certainly be a feature of the recommendations which are due in June 2011.

Although providers have long argued for change, much of the impetus has come from consumers of services and the wider public. While residents have demanded greater levels of service flexibility and modern facilities, the broader community has increasingly become cognisant of the need to establish an aged care system that is affordable and sustainable.

Testament to this theory are the key recommendations of the National Health and Hospital Reform Commission Report 2009 which states:

“We recommend that older people should have greater scope to choose between whether they get care in the community or in an aged care facility”

For the retirement living sector, enhanced choice for users of aged care services will have a dramatic flow-on effect.

Numerous surveys have demonstrated that Australians prefer non-institutionalised accommodation. People would rather receive care services at home rather than in residential care and our experience indicates that retirement villages are among the most effective and efficient environments for community based service solutions.



Under a less heavily regulated operating environment, the capacity to exercise choice will ultimately influence the way villages are designed, the services on offer and the way operators contract with their customers. The impact in overseas markets has been illuminating.

In the Danish town of Skaevinge in 1984 a new program was developed to support people wishing to live longer in the community. As a result of the success of this program, the Danish government adopted an approach to restrict the construction of stand-alone “institutional” residential care facilities in favour of integrated village and community care solutions. Graph 11 presents the shift of housing stock from traditional stand-alone residential care to these integrated accommodation strategies.

Similar shifts toward serviced accommodation are evident in the United States under the Program for All-inclusive Care for the Elderly (PACE/ On Lok) and in the United Kingdom’s community cluster models.

Grant Thornton Australia has recently completed a major review of New Zealand’s aged care sector which has been experiencing increased integration between residential care and retirement living services within village models (www.grantthornton.com.au/files/aged_residential_care_service_review_nz_100921.pdf).

In a less regulated environment than the current Australian model, the New Zealand residential aged care sector provides greater flexibility for residents who wish to receive care services in alternative accommodation within a retirement village. The combination of these factors has seen the evolution of comprehensive integrated care villages.

We found that these villages had established service models offering superior care continuity and flexibility for residents. Integrated solutions in retirement living, serviced apartments and residential care has led to the establishment of care offerings and building designs that reflect the contemporary consumer demand and

care/accommodation priorities.

The prospect of developing innovative and lucrative retirement living solutions in Australia has now become very exciting. The proposed “entitlement/voucher model” previously recognised by the National Health and Hospital Reform Commission and the Productivity Commission have the potential to make care integrated villages much more attractive for residents and operators.

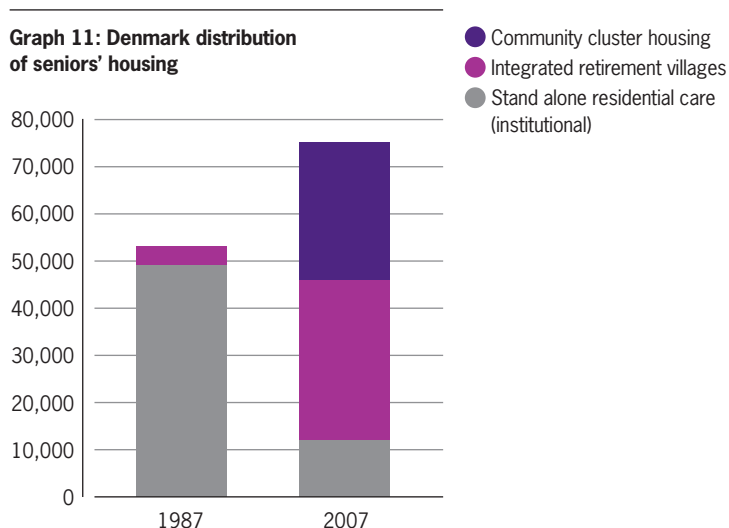
Currently, restrictive residential aged care legislation makes it difficult to operate serviced apartments viably – in most cases residents are required to meet the cost of care services delivered into their apartments. The situation becomes more challenging as residents functional dependence levels increase over time and their support requirements become unaffordable in the absence of a public subsidy.

Under proposed future models, entitlement to residential care subsidies will rest with the consumer of those services rather than with the provider. In this environment, older Australians will have greater flexibility to exercise their preferences for domiciliary care. There is no doubt that demand for residential care services will increase with the ageing population, and service and funding flexibility could see demand for supported living solutions in retirement villages grow at an accelerated rate.

But not everyone is excited by the prospect of reform and some retirement living operators and aged care providers may still be resistant to any major changes to their established service models. Adapting service and funding models to this new environment will represent a challenge for many operators that have developed their businesses around the current framework.

However, the design of seniors’ accommodation in the future will not be dictated by regulatory frameworks, or owner preferences for “property development” or “care service” business models. They will be designed according to the preferences of the people living in them.

Today is a good day to start thinking about what those preferences might be!



Future publications

This report represents the first instalment from the research conducted by Grant Thornton and the RVA during 2010. There remains a substantial amount of information from the survey that will be covered in future reports, including:

- Resident priorities and village demographics
- Sector consolidation
- Development planning and village design
- International retirement living contract/ownership models

The data base will continue to be expanded as new villages participate at www.grantthornton.com.au/Industry-specialisation/AgedCareSurvey2010.asp. We encourage operators to support this important initiative at a critical time of transition for the sector.

This information is provided free of charge to those who participate and future consultation forums will be convened by Grant Thornton and the RVA to explore the concepts revealed through our Australian and international research.



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