Appendix 1

Residents Vulnerability Survey

Retirement Villages Association

September 2021

Executive summary

- RA vast and increasing majority of residents are satisfied with their retirement village and likely to recommend their village to a friend or family member.
- Most residents feel their village is maintained and operated responsibly and professionally and also feel well-informed of any plans and changes to be made to their village that may affect them.
- Almost all residents feel safe and secure, have peace and quiet and feel their village is somewhere where they feel completely comfortable.
- A strong majority of residents also feel their village is somewhere they can afford and where their wants and needs are met.
- A tiny minority of residents feel alone or vulnerable in their villages. Those more likely to feel alone are residents aged 85 years or more or that were living alone in their unit.
- Most residents agree that their village staff are: helpful, caring, treat them in a respectful way and are professional.
- At a slightly lower level, but still a strong majority of residents agree that their village staff understand residents perspective.
- Once again, a very small minority of residents agree that their village staff are: controlling, patronising, dismissive and bulling of residents.
- A minority of residents had a complaint or concern about how they were treated by their village staff. The vast majority of these residents expressed this complaint or concern to their village manager and the largest portion of them were satisfied with the outcome.
- Around one third of residents who expressed a complaint or concern to their village manager are dissatisfied with the outcome -- this equates to an estimated 3.5% of all residents.

Methodology

- Results in this report are based on questions asked in an online survey distributed to a randomly selected 160 Retirement Villages across New Zealand. Of the 160 villages invited, 105 had at least one resident take part. The total number of residents that completed the survey was 1,692
- Fieldwork was conducted from the 1st to the 20th of September 2021.
- The margin of error for sample size of 1,692 for a 50% figure at the 95% confidence level is ± 2.4%.
- To ensure representativeness, results were weighted to population figures for number of units in village and location.

Note on rounding:

- *All numbers are shown rounded to zero decimal places. Hence specified totals are not always exactly equal to the sum of the specified sub-totals. The differences are seldom more than 1%.*
- *For example: 25.7 + 31.5 = 57.2 would appear: 26 + 32 = 57.*

* A total of 50 Retirement village residents took part in the survey via telephone as they did not have access to email.

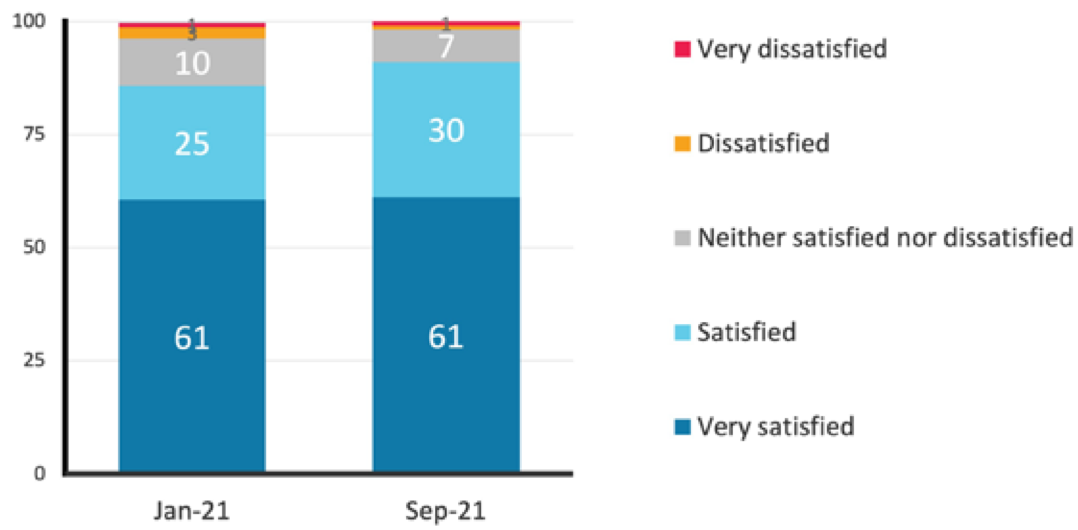
Overall satisfaction

Residents express very strong levels of satisfaction with village life

- Almost all (91% up 5% since January 2021) of residents declare they are satisfied with their experience of living in their retirement village with only 2% not satisfied. This meant of those that had an opinion, 98% (95% January 2021) were either very satisfied, satisfied or neutral.
  - The only significant difference across the demographics was recorded for residents living in Canterbury where 73% declare that they were 'very' satisfied compared to only 50% of residents living in the rest of the South Island who also declare being 'very' satisfied with their experience of living in their retirement village.
- The net promoter score among residents also increased significantly from earlier this year up 10 points to a solid + 53.
  - When interpreting a net promoter score, between 0-30 is generally considered to be good (it means your customers are more likely to recommend you than not). A score between '30 and 70' is considered great and anything above 70 is rarely achieved and considered excellent.
- The vast majority of residents (86%) feel that their village is maintained and operated responsibly and professionally
  - There appears to be a relationship between size of village and how professionally residents feel their village is run. A majority (82%) of residents living in villages with less than 100 units feel their village has been run responsibly and professionally, this increases to 86% of residents in villages with between 100 and 199 units, while the vast majority (89%) of those living in villages with 200 or more units held the same view.
- A majority of residents (78%) feel that they are kept well-informed of any plans and changes made to the village that may affect them.

Most residents are satisfied with living in their retirement village

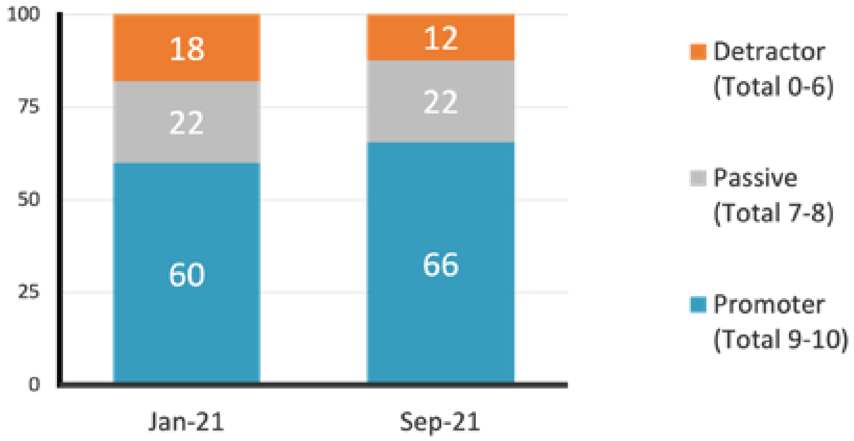
Q: Overall, how satisfied or dissatisfied are you with your experience of living in this retirement village? (%)



Base: All respondents (n=1,692)

Residents declare a 10-point increase in the net favourability score for their villages

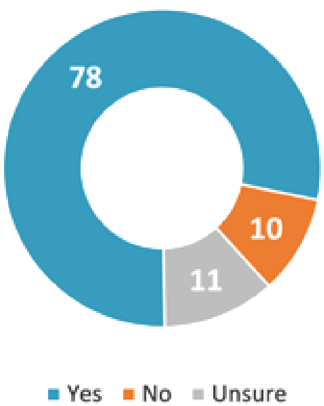
Q: How likely is it that you would recommend this retirement village to a friend or family member? (%) (Please note the scale for this question is: 0 – Not likely at all and 10 – Very likely)



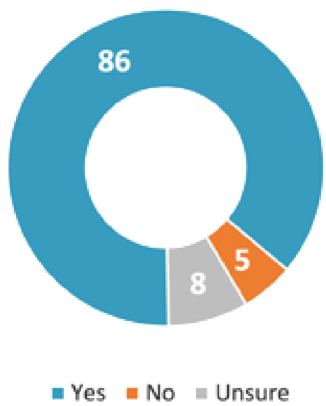
Note: NPS = Promotors – Detractors; Base: All respondents (n=1,692)

Most residents feel well-informed of village changes and that their village is maintained and operated responsibly and professionally

Q: Do you feel well-informed of any plans and changes to be made to the village that may affect you? (%)



Q: Do you feel your village is maintained and operated responsibly and professionally? (%)



Base: All respondents (n=1,692)

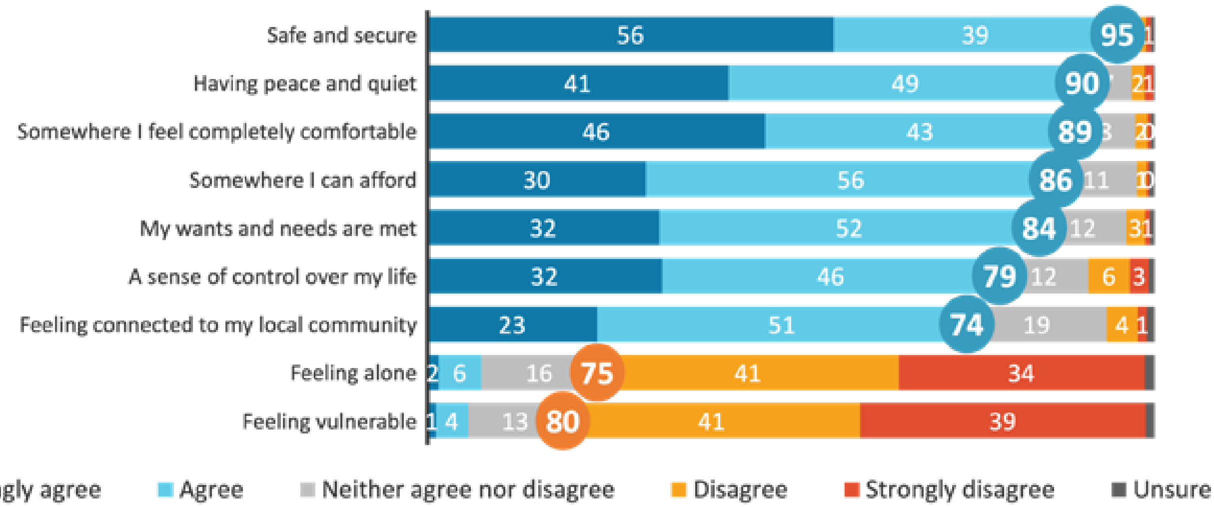
Experiences of village living

Most residents are feeling safe and secure, they have peace and quiet and feel completely comfortable

- Almost all residents (95%) agree that feeling 'safe and secure' applies to their experience of living in their retirement village.
- A similar strong number (90%) agree 'having peace and quiet' applies to their experience of living in their retirement village.
- Just dipping out of the nineties, a very strong (89%) agree 'somewhere I feel completely comfortable' applies to their retirement village.
- The vast majority also agree (86%) that 'Somewhere I can afford' applies to their retirement village.
- Another strong majority (84%) agree that in their retirement village their 'wants and needs are met'.
- Almost 8 in every 10 (79%) agree that 'a sense of control over my life' applies to their retirement village.
- Just under three quarters (74%) agree than 'feeling connected to my local community' applies to their retirement village.
- At the other end of the scale only 8% of residents agree that 'feeling alone' applies to their experience of living in their retirement village.
    - This is almost twice as high (14%) for residents aged 85 years or more and is also higher at 11% for residents who were living alone in their unit.
- Almost as low as 1 in 20 (6%) of residents agree that 'feeling vulnerable' applies to their experience of living in their retirement village.
    - There is no significant demographic differences among those feeling vulnerable.

The vast majority of residents feel safe and secure, with almost none declaring a strong sense of vulnerability

Q: How strongly do you agree or disagree that each of the following apply to your experience of living in this current retirement village? (%)



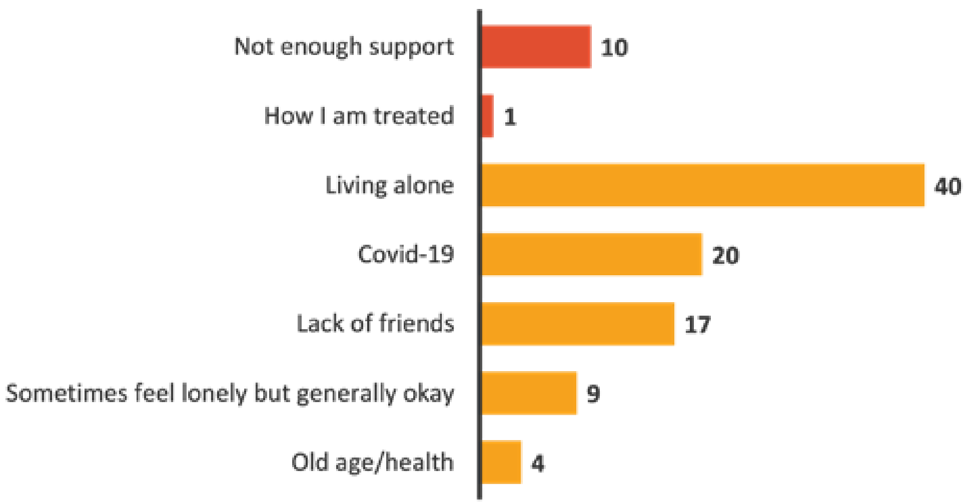
Base: All respondents (n=1,692)

A tiny minority of residents are less happy with their experience of retirement village life

- When asking survey participants about potentially sensitive topics, it is inappropriate to force an answer. Residents were given the option to provide a reason why they felt less happy with their retirement village, but not all were comfortable with recording their reason.
- Across the entire resident population only a tiny minority of residents feel less happy with their retirement village experiences. To ensure these reasons are not overblown in this report before every set of reasons we first state what percentage of all residents are being reported on. We also report on the percentage who then were willing to give a reason.
- 7.8% of residents indicate that they 'feel alone', out of these residents about two fifths (n=81) went on to say why. The three main reasons given for this view are: They were living alone, Covid-19 and a lack of friends.
- 5.9% of residents indicate that they 'feel vulnerable', out of these resident about half (n=47) went on to say why. The three main reasons given for this view are: How they are treated by village management, village security and the fact that they were living alone.
- 3.8% of residents indicate that their 'wants and needs', were not being met, out of these residents about three quarters (n=48) went on to say why. The four main reasons given for this view are: They want more activities and facilities, poor communication, not enough support and need repairs.
- 2.4% of residents indicate that they are 'not feeling comfortable', out of these residents about three quarters (n=31) went on to say why. The three main reasons given for this view are: Not enough support, too many rules and neighbours.
- 2.0% of residents indicate that they feel their village is 'not somewhere that they can afford', out of these residents about two-fifths (n=21) went on to provide reasons. The main reasons given for this view are: It is expensive, lack of affordable options, increasing fees and losing capital gains.

Feeling alone - reasons

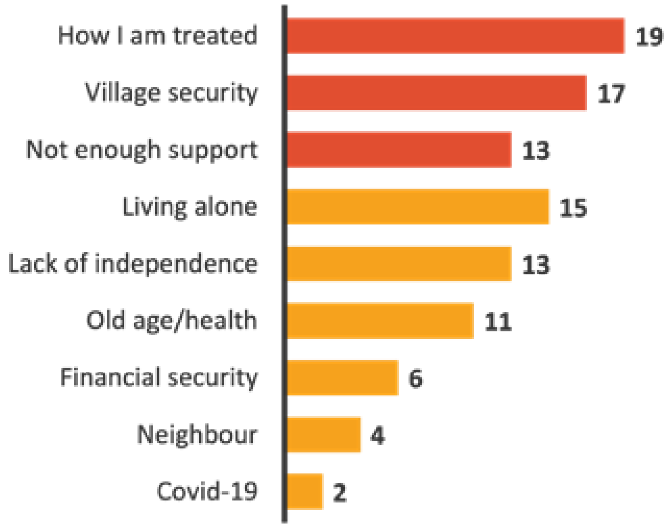
Q: What are the main reasons you agreed that 'feeling alone' applied to your experience living in your village? (7.8% said they feel alone; 4.8% gave a reason: n=81)



Base: those who agreed to feeling alone and provided a reason (n=81)

Feeling vulnerable - reasons

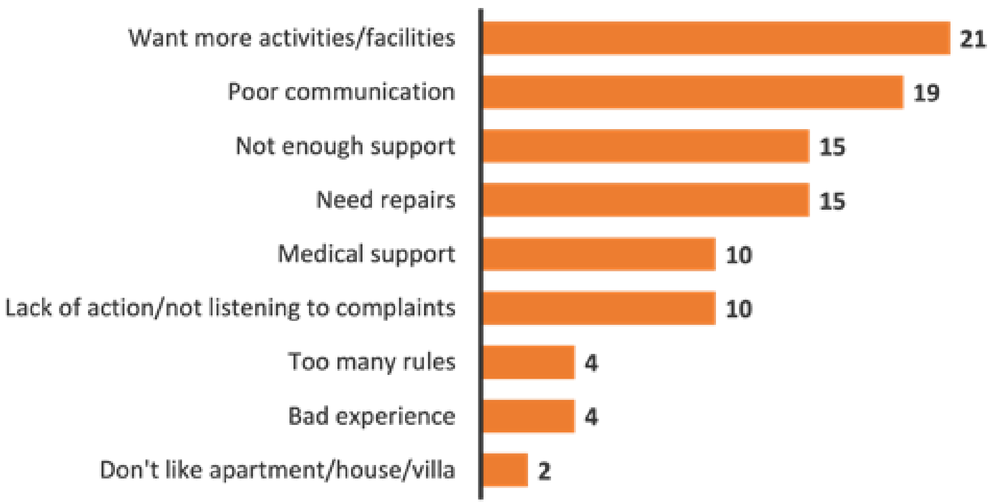
Q: What are the main reasons you agreed that 'feeling vulnerable' applied to your experience living in your village? (5.9% said they feel vulnerable; 2.8% gave a reason: n=47)



Base: those who agreed to feeling vulnerable and provided a reason (n=47)

Not meeting wants and needs - reasons

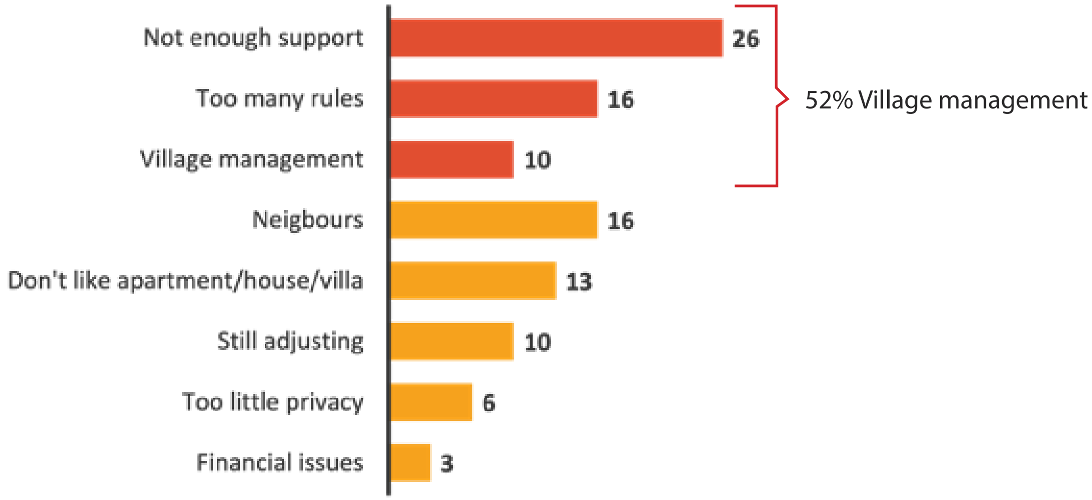
Q: What are the main reasons you said 'my wants and needs are met' does not apply to your experience living in your village? (3.8% said their wants and need were not met; 2.8% gave a reason, n=48)



Base: those who disagreed to 'my wants and needs are met' and provided a reason (n=48)

Not feeling comfortable - reasons

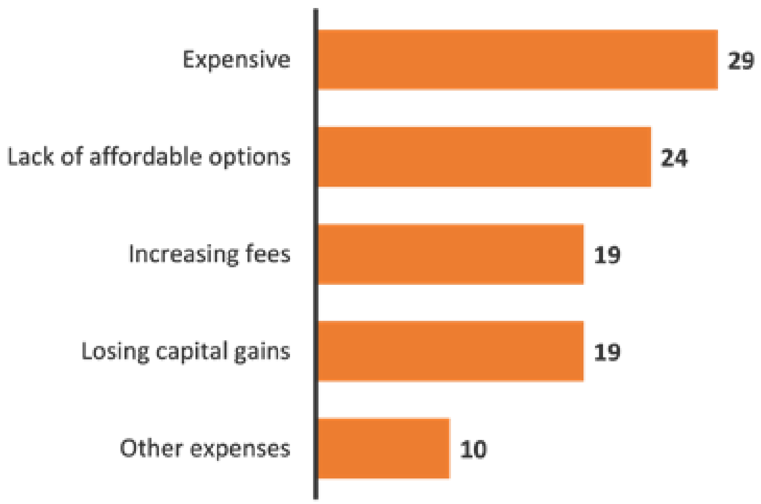
Q: What are the main reasons you said 'somewhere I feel completely comfortable' does not apply to your experience living in your village? (2.4% said the don't feel comfortable; 1.8% gave a reason: n=31)



Base: those who disagreed to feeling completely comfortable and provided a reason (n=31)

Lack of affordability - reasons

Q: What are the main reasons you said 'somewhere I can afford' does not apply to your experience living in your village? (2.0% said it wasn't somewhere they could afford; 1.2% gave a reason: n=21)



Base: those who disagreed to 'somewhere I can afford' and provided a reason (n=21)

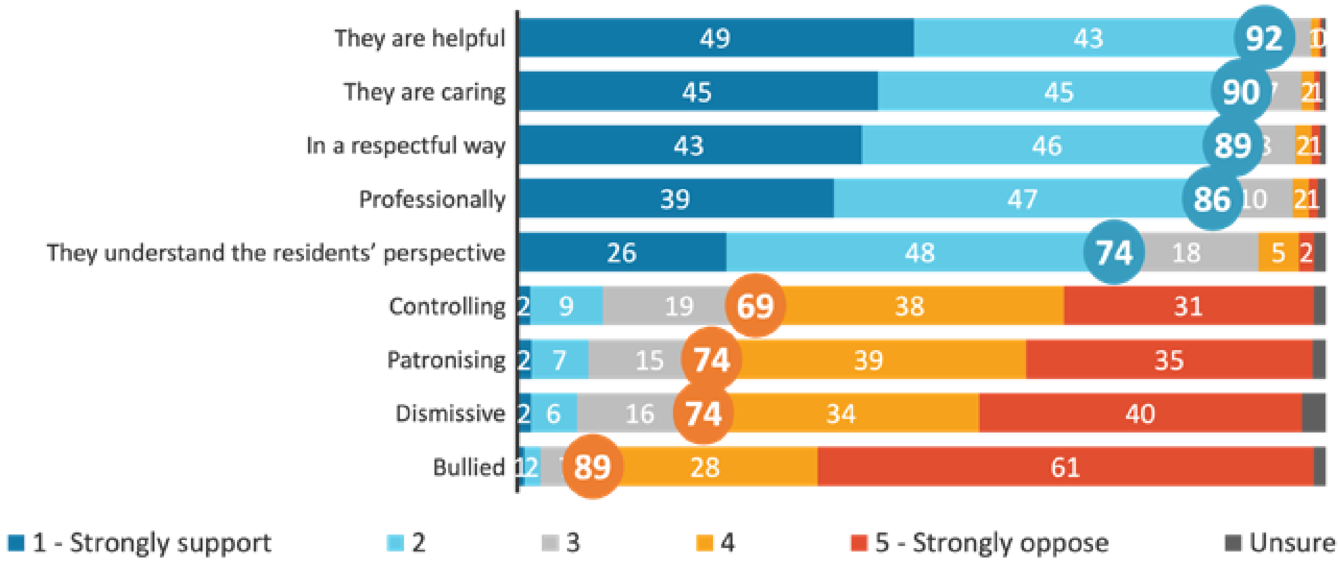
Views on staff treatment of residents

Most residents declare staff at their villages to be helpful, caring, respectful and professional

- Most residents (92%) declare that staff at their village 'are helpful'.
    - Residents in larger villages (200 plus units) are more likely at 95% to declare this and residents from other parts of the North Island (outside the centres of Auckland, Waikato, Bay of Plenty and Wellington) are less likely to share this view, albeit still very high at 88%.
- A similar number of residents (90%) declare that staff at their village 'are caring'.
    - Older residents (85 plus years) are more likely (96%) to find their village staff to be caring. Those living in an attached single level home were less likely to declare this at 83%.
- Almost 9 in every 10 (89%) declare that they are treated 'in a respectful way'.
    - Residents living in larger villages (200 plus units) and who had been in their village for less than two years were more likely to hold this view both at 92%.
- A strong majority (86%) of residents declare that staff in their retirement village treat them 'professionally'.
- Just under three quarters (74%) of residents declare that staff in their retirement village 'understand the residents perspective'
    - Residents living in the Bay of Plenty were more likely to feel better understood by their village staff at 88%.
- Only small numbers of residents declare that staff in their retirement village are controlling (11%), patronising (9%), dismissive (7%) and feel bullied (3%).
    - Males were more likely to feel that staff were controlling (14% compared to 8% of females).
    - Residents living in the South Island outside of Christchurch were more likely to feel staff were patronising at 17% as were older residents (aged 80-84 years) - 13% feel patronised compared to 5% of residents aged 75-79 years.

Residents declare staff in their villages to be overwhelmingly helpful and caring

Q: How strongly do you agree or disagree that each of the following apply to how you are treated overall by your Retirement Village staff? (%)



Base: All respondents (n=1,692)

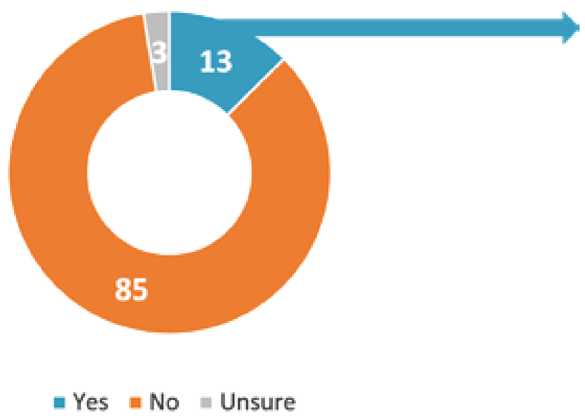
Understanding complaints

A minority of residents had concerns or complaints about how they were treated, most expressed the issue to management and the greatest portion of these are satisfied with the outcome

- Just over one in ten (13%) of residents indicate they had a complaint or concern with how they were treated by their village.
  - Residents who had been in their village less than two years were almost half as likely (8%) to have had a complaint or concern.
- Out of this 13% of residents the vast majority of them (88%) expressed their complaint or concern to their village manager.
  - It appears that residents in larger villages were more likely to express their complaint or concern to their village manager 89% of residents in larger villages (200 plus units) compared to 84% of those in villages of less than 100 units expressed their concern.
  - The main reason why the small minority did not express their concern to their village manager is they talked to someone else about it.
- The greatest portion of this 13% who expressed their complaint or concern to their village manager were satisfied with the outcome at 42% satisfied, 24% were neither satisfied nor dissatisfied with the outcome, while less than a third (32%) were dissatisfied with the outcome.
  - Across the entire resident population this equates to an estimated 3.5% of residents who had a concern or complaint, expressed it to their village manager and were dissatisfied with the outcome.

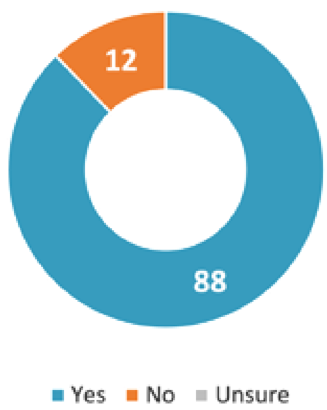
A minority (13%) of residents had a complaint or concern and almost all raised it with their village manager

Q: Have you ever had a complaint or concern about how you were treated by your village? (%)



Base: All respondents (n=1,692)

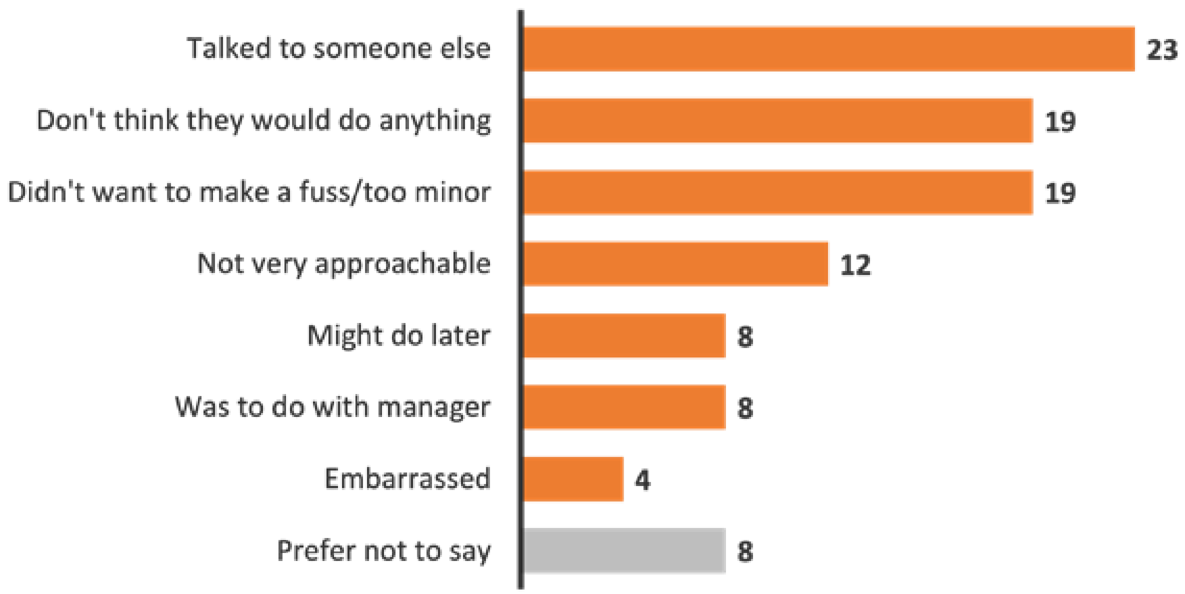
Q: [If yes] Did you express the complaint or concern to your village manager? (%)



Base: Had a complain or concern (n=212)

Main reason for not formally expressing a complaint is they talked to someone else

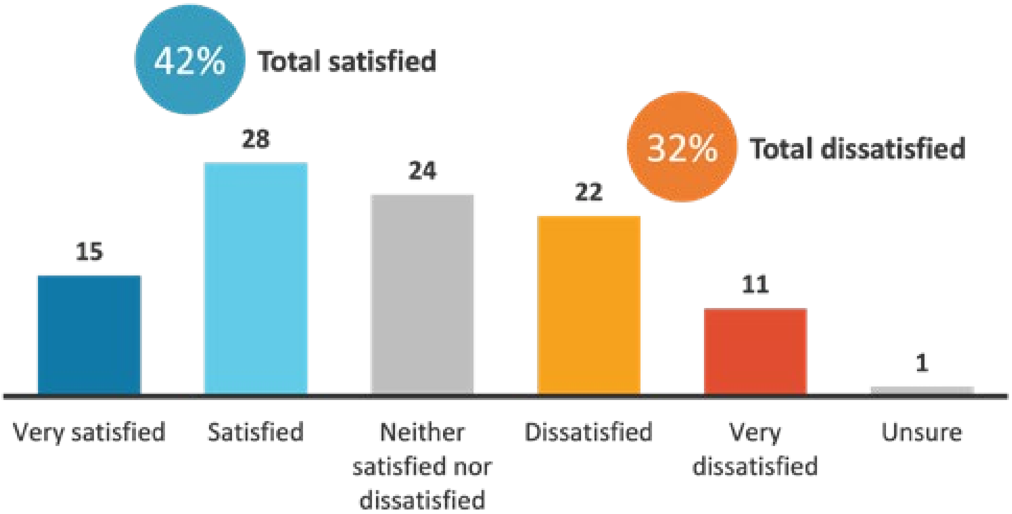
Q: What was the main reason why you did not express your complaint or concern to your village manager? (1.5% of the total sample - coded, n=26)



Base: those who had a complain/concern by did not raise it with the manager (n=26)

Largest portion of residents that complained are satisfied with the outcome

Q: Overall, how satisfied or dissatisfied were you with how your complaint/concern was managed by your Village manager? (%)



Base: those who expressed a compliant/concern to their village manager (n=187)

Conclusions

Conclusions and suggestions

- This research clearly shows that most residents are happy with their experiences of retirement village life.
- It also shows over the last eight months or so, both satisfaction with their village and likelihood of recommending their village to someone else has increased among residents.
- Retirement villages are delivering to residents on many of the aspects that can make retirement enjoyable for our older people such as feeling safe and secure, having peace and quiet and feeling completely comfortable.
- This is supported by retirement village staff that most residents agree are helpful, caring, respectful and treat residents in a professional way.
- Only a tiny minority have complaints. The greatest portion of these that express a complaint are satisfied with the outcome of their complaint. However there is a very small minority of residents who had made a complaint to their village manager and are not satisfied with the outcome.
- It seems the industry should think carefully before they make too many changes based on the concerns of a tiny minority that are at odds with the experiences of the vast majority.

Appendix – Sample overview

Gender, age and region

	%
Male	36
Female	64
Prefer not to say	1

	%
60-64	1
65-69	3
70-74	18
75-79	27
80-84	30
85-89	14
90+	6

	%
Auckland	34
Waikato	9
Bay of Plenty	11
Wellington	11
Other North Island	16
Canterbury	12
Other South Island	7

Village

Which of the following best describes the place you live in?

	%
Villa/ Standalone house	50
An attached single level home	15
An apartment	33
Other:	1

How long have you been living in this retirement village?

	%
Less than 6 months	7
Over 6 months and up to 1 year	11
Over 1 year and up to 2 years	15
Over 2 years and up to 5 years	27
Over 5 years and up to 10 years	29
Over 10 years.	10

Size of village (by units)

	%
Less than 50	10
50-99	16
100-149	16
150-199	16
200+	42

Who do you live with

	%
Your partner or spouse	49
Friend/s + Relative/s	.4
By yourself	50
Prefer not to say	.2

Base: All respondents (n=1,692)

Appendix 2 – RVA Blueprints for New Zealand's Retirement Villages Sector - Part A

RVA NEW ZEALAND
Retirement Villages Association

BLUEPRINT FOR NEW ZEALAND'S RETIREMENT VILLAGES SECTOR

New Zealand's retirement villages sector has launched a comprehensive blueprint to introduce a range of improvements in the industry.

The growing popularity of retirement village living and the overwhelming satisfaction levels among residents clearly demonstrates that our sector has struck the right balance between robust regulatory oversight and effective self-governance.

However, we accept there is always room for improvement and refinement around certain practices as our sector and our offering evolves.

That's why the RVA signed a Memorandum of Understanding with the Retirement Village Residents Association of New Zealand to work together on issues to ensure the interests of our residents continue to remain paramount in everything we do.

This blueprint sets out the tangible and definitive steps we will be taking to achieve that goal.

John Collyns
Executive Director

OUR PROMISE

- Provide residents with a stronger voice
- Strengthen the complaints process by exploring establishing an Ombudsman to hear and resolve complaints and invite an independent member of the public to sit on the RVA Executive to represent residents' interests
- Survey all members annually to examine emerging trends
- Work with members, residents and the Retirement Commissioner to design a best practice approach to re-licensing that reflects the reality of the local real estate market, yet ensures residents' estates do not wait an unreasonable period of time for a refund
- Review Occupation Rights Agreements (ORAs) to address any perceived unfair terms or confusing clauses and ensure clarity around what the resident and operator are responsible for, in particular, repairs, maintenance and replacement of operator-owned chattels
- Continue to work with the Commission for Financial Capability (CFFC) to develop best practice standards around disclosure of information about residents' transfer to care and incorporate these into the Retirement Villages Code of Practice.

96% of residents were either very satisfied, satisfied or neutral

83% of residents satisfied with the quality of the legal advice they received before moving into their retirement village

70% of residents satisfied with their overall consumer protection

*UMR Insight, 2021. See page 8 for further information

BACKGROUND

The Commission for Financial Capability's (CFFC) White Paper advocating a review of the retirement village legislation framework was published in June 2021. The CFFC raised a number of issues that it believes are a concern for some residents and others.

These include:

1. **Relicensing issues**
   - Treatment of any gains on re-licensing
   - Unit re-licensing times
2. **Operational issues**
   - Transfers, within a village [mostly to care]
   - Treatment of fees for units post vacation
   - Code compliance
   - Giving residents an effective voice
3. **Broader issues**
   - Whether the regime allows for affordable future supply, social housing, potential lack of capital for new residents, and the role of rentals.

The RVA understands the importance of these matters raised and we're committed to exploring options to address any relevant issues in a way which meets the needs of our residents and village operators.

INSIGHTS

The regulatory framework is broadly working as intended and is sufficiently flexible to allow operators to develop new innovative models to meet residents' concerns.

More than 100 New Zealanders are moving into a village every week and they are required to receive legal advice, with their solicitor certifying that their client fully understand the terms and conditions involved.

All valid research, including research by UMR Insight in January 2021, demonstrates residents are very satisfied with the current framework.

The industry has grown strongly over the past 20 years as residents seek safety and security, peace of mind and a hassle-free lifestyle.

However, as would be expected with legislation that is almost 20 years old, some fine-tuning, particularly around operational issues, is necessary to enhance a model that has served older New Zealanders well for almost 40 years.

Summary responses to the CFFC

RELICENSING ISSUES

1. There would be a catastrophic effect if government interfered with the commercial model. The village model is not comparable to purchasing a property. The facilities and care involved in villages represent a significant investment, which operators recover over the long term, not on an initial licensing. Residents tell us they enjoy certainty of cost with a majority on fixed ongoing fees and the avoidance of major capital expense, leaving operators to cover these
2. The entry cost to move into a retirement village is attractive and the ongoing cost of living in the village is subsidised. When a tenure ends, the operator pays back the entry sum and takes an agreed fee for doing so
3. Residents balance financial security and know to the last dollar how much they will get back when they leave against the ownership risks. Any gain on re-licensing a village unit is used by the operator to refurbish the unit to which the resident does not contribute a cent and to off-set these risks
4. Any requirement to mandate some form of payment to a resident's estate on exit, based on what a new resident will pay for a licence of the same unit, fails to recognise that the resident does not contribute to refurbishment of the unit or the cost of other capital expenditure in a village. Furthermore, it could immediately render many operators insolvent
5. In the future, if such a change was mandated, operators would need to increase the deferred management fee charged to residents, defeating the intended purpose of the change
6. Regulation 25(2)(d) of Retirement Villages (General) Regulations 2006 requires that the disclosure statement addresses the extent to which the former resident is exposed to a capital gain or capital loss arising as a result of the termination. This incorrect characterisation has confused residents and any regulatory reform should address this wording
7. We appreciate that re-licensing a unit is a stressful time for residents and their families, especially if a resident is moving to care and needs the capital for that. An increasing number of operators offer short-term loans to cover these costs, and others offer to refund the capital sum (less the Deferred Management Fee (DMF) after a period of time if the unit remains unlicensed. The Ministry of Social Development (MSD) also can provide loans to village residents moving out of the village to care elsewhere, if need be
8. It is unreasonable and impractical to mandate a maximum relicensing period as villages face the same ebbs and flows of the real estate market. To cherry pick issues and rigidly prescribe some commercial terms fails to appreciate the interdependent nature of the terms of a village offering.

The RVA agrees that there is a role for continuously educating operators and residents about these options and to encourage best practice around some (e.g. drawn-out relicensing times).

OPERATIONAL ISSUES

1. In conjunction with the CFFC, the RVA has developed best practice standards around the disclosure of information about the transfer to care, and we believe that these standards should be incorporated into the Code of Practice. We are happy to work with the CFFC and Retirement Villages Residents' Association (RVRA) to achieve this

2. We also agree that the sector can encourage best practice standards around issues such as stopping all fees when a resident moves out. This is an example of education and market pressure. The practice was extremely rare 20 years ago, but today the majority of retirement villages in New Zealand have adopted this and more continue to do so to ensure they remain competitive

3. The RVA has secured a comprehensive training programme for staff and others involved in running retirement villages based on a highly successful Australian programme

4. Our Memorandum of Understanding, signed in December 2020, created a Residents' Advisory Group of residents and operators who review issues and recommend ways to mitigate them.

RVA'S COMMITMENT

While the RVA believes no major changes to the Act itself are required, we agree some changes to the regulatory framework could be beneficial for all parties and have developed the following seven-point action plan.

1. ENSURING THE RESIDENT'S VOICE IS HEARD

The RVA understands that without happy residents we don't have a viable sector. Therefore, it's essential that the residents have an effective voice in the sector's governance.

We propose to co-opt an independent person, who may be a village resident, onto the RVA's Executive Committee who can ensure that the residents' voice is heard and their perspective on relevant issues is taken into account. The exact method of selecting this person will be determined by the Residents' Advisory Group.

This initiative would follow the precedent set during the first level 4 and 3 lock-down when the Retirement Commissioner was a member of the RVA's Pandemic Task Force.

2. MONITORING RE-LICENSING TIMES

The RVA surveyed its major operators in early 2020 to ascertain times taken to re-licence units that became vacant in 2019. The survey covered 23,039 units from 195 individual villages. 13%, or 2,992 units, qualified as being empty during 2019.

Overall, 71% of the units were re-licensed within six months, although this varied by region. 26% took more than six months and 3% were still vacant at the end of the period. The reasons given were the impact of the COVID-19 lockdown, a less buoyant real estate market pre-lockdown (i.e. new residents took longer to sell their own homes), buyers selected other units in the village that were more attractive, more units than usual became available, and more competition from other villages. Since lockdown, we believe resale times have accelerated significantly.

The RVA has agreed with the CFFC to survey all members on an annual basis to see what trends emerge and work with members, residents and the Retirement Commissioner to design a best practice approach that reflects the reality of the real estate market in the region yet ensures that residents' estates do not wait an unreasonable period of time for a refund.

We believe that a "one-size-fits-all" approach through a mandatory buy-back rule has the potential to create solvency issues and seriously disadvantage many villages, and even make them unsustainable.

Once we understand whether a long-term issue around re-licensing delays actually exists, we will be in a better position to develop best practice standards for the sector, in conjunction with the CFFC and RVRA.

3. ADDRESSING ANY UNFAIR CLAUSES IN ORAs

Residents can express confusion regarding the boundary between what they are responsible for and what the operator is responsible for, in repairs, maintenance and replacement of operator-owned chattels.

The RVA will work with members, residents and the Retirement Commission to identify best practice for future ORAs that define each party's responsibilities so that residents are not responsible for maintaining operator-owned chattels but also protect the operator from abuse of the same chattels. Already some operators have moved towards this position and we believe market forces will ensure a majority of operators adopt this position quickly.

The RVA will also review ORAs in general and continue to work with the RVRA and the CFFC in identifying clauses that are unfair and engage with members to ensure that any unfair terms are removed.

4. IMPROVE THE COMPLAINTS PROCESS

Generally, the cost of maintaining the complaints and disputes regime falls on the operator, and we are comfortable with this approach. It provides an incentive to resolve complaints promptly.

The CFFC's analysis of complaints shows that in fact there are very few serious complaints and relate to individual problems rather than systemic failure.

However, we also acknowledge that some residents are unwilling to complain due to fear of retribution or discrimination, even if that fear is unreasonable, and accept that the regime could be improved.

The RVA also runs an internal complaints management regime with a Complaints Committee that investigates complaints lodged with the RVA's office and where necessary, will intervene with the operator to get a better outcome for the residents.

In the last two years, the Committee has intervened successfully five times to persuade the operator to take a different approach to a problem. This includes issues around slow re-licensing times, the treatment of village maintenance and unclear transfers to care.

We appreciate that this approach is still operator-centric. **We propose to include an independent member (as is common in other organisations) on the Complaints Committee to be part of the review process and to guide both operators and residents on the justice or otherwise of the complaint or dispute.**

This process would continue to run in parallel to the legislated Disputes resolution process in the Code of Practice.

The RVA has a Disciplinary Authority to deal with complaints about egregious operator behaviour. The current independent Chair of the Authority is the Hon Dr John Priestly QC, a retired High Court Judge.

Finally, if it was felt on a cost benefit basis, that an "Ombudsman" was necessary, we will work with the relevant parties to ensure the terms of engagement will address the perceived issues.

5. DISCLOSURES AROUND THE COMMERCIAL TERMS

The current Act, regulations and Code provide a comprehensive list of disclosures for intending residents that must be included in the village's disclosure statement or ORA. However, it is possible that the commercial terms can become lost in the body of the paperwork, which is not helpful for residents wishing to compare one village's offering with the next.

The RVA recently required all members to give intending residents a **Key Terms Summary** (KTS) in a standard template format so that matters such as capital payment, weekly fees, the Deferred Management Fee (DMF), availability of care and the transfer process, and other important conditions about living in the village are made clear to intending residents. The summary was produced in conjunction with the CFFC and has been endorsed by them.

The **KTS could be expanded to further inform prospective residents and encourage best practice** approaches in other appropriate areas, as agreed between the RVA, CFFC and RVRANZ.

The Industry Code of Practice that evolved in 1990 was adopted by the Government as the basis for the legislated Code of Practice in 2007.

As there is no Government agency that audits retirement village compliance with the Code, the RVA has taken this on itself. **It is a condition of membership that every village must undergo and pass a robust compliance audit every three years, and a certificate** Aged Residential Care Facilities, so it is credible and independent of the RVA.

As the audit is managed by the RVA, we have added additional standards to the check, such as ensuring operators provide the Key Terms Summary and observe transparent disclosures about the transfer to care. We can add other best practice requirements, as necessary.

7. AWARENESS OF OTHER BUSINESS MODELS

The RVA does not believe it is the sector's role to provide social housing options but appreciate that with declining home ownership in the 65+ demographic, refusing to adapt the business model could be a disadvantage in the longer term.

We are committed to supporting our members **to explore new business models and encourage them to adapt their models to cater for a greater number of older peoples' circumstances**. This could include offering more rentals beyond those already in the market and looking for solutions for people who have some but not enough capital to move to a village, etc. We do not accept that we can or should impose any particular business model on members. We are committed to working with the Retirement Commissioner on any suggestions they may have in this area.

For more information, please contact

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Independent research by UMR Insight in January 2021 showed:

Overall strong satisfaction with retirement villages

- Most residents (**86%**) are satisfied with the village they reside in, **10%** were neutral and only **4%** said they were not satisfied. This meant of those that had an opinion, **96%** were either very satisfied, satisfied or neutral

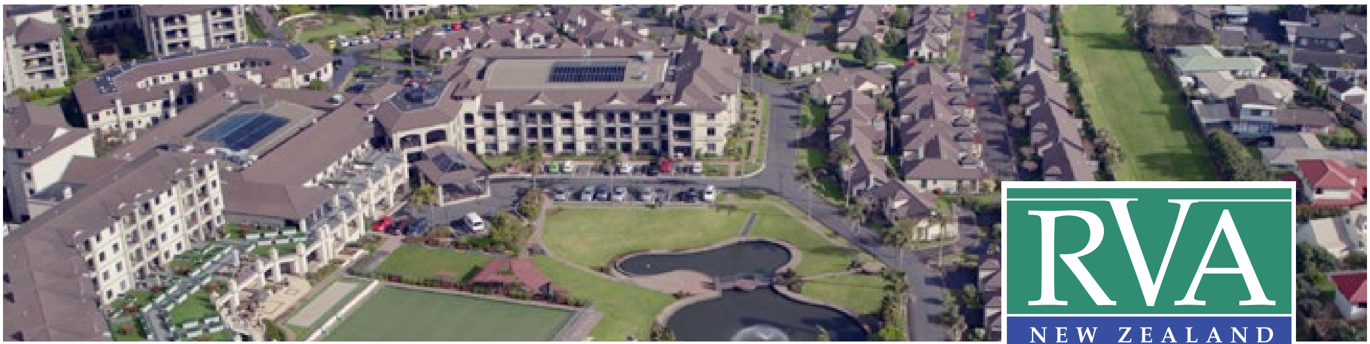
Most residents were satisfied with their village's response to COVID-19

- The vast majority of residents (**87%**) were satisfied with how the management and staff of their village managed their safety during COVID-19

Most residents were satisfied with quality of legal advice they received and with the consumer protection they have

- Around four out of five residents **(83%)** were satisfied with the quality of the legal advice they received before moving into their retirement village
- Seven out of ten residents (**70%**) indicated they were satisfied with, 'The overall consumer protection for residents, this includes the Retirement Villages Code of Practice, Code of Resident Rights and Retirement Villages Act'.

Appendix 2 – RVA Blueprints for New Zealand's Retirement Villages Sector - Part B



An update on the retirement village sector's Blueprint

Important information on the industry

June 2023

More than 100 people are moving into retirement villages every week and independent research shows nearly 90 per cent of over 50,000 residents are satisfied or very satisfied with village living.

Retirement village operators are also the only organisations building aged care facilities, providing desperately-needed facilities in many communities.

However, as a sector, we're not standing still.

After the introduction of the *Blueprint for Change* in 2021, last year RVA members voted at the sector's AGM to trial reforms and to identify any unintended consequences in the way our members operate. This included encouraging all members to amend if necessary their Occupation Rights Agreements to eliminate any perceived unfair clauses.

These changes represent the most significant voluntary reforms to the industry since legislation was passed in 2003.

These reforms will be reconsidered at the 2023 AGM next month (July 2023), and if agreed, they will become industry standards against which RVA members are audited against every three years.

The RVA also recently commissioned a study to gain an accurate picture of industry practice around key issues. We are aware that some villages, particularly older ones, have clauses that need to be updated to match the public's expectations. We engaged Covenant Trustee Services to review the ORAs of every registered village in New Zealand to determine how members operations align with the following areas:

- Weekly fees continuing after a unit has been vacated
- The DMF continuing to accrue after a unit has been vacated
- Whether any compensation is made for slow unit repayment
- Capital loss clauses without a sharing of the capital gain

This is the first quantitative study to ascertain practices and gain an accurate picture within and across the industry.

We are pleased to confirm there has already been some progress in these areas — as the RVA has shone the light on our members' practices, many are already making changes to the way they operate.

But we are not finished yet. The RVA wants to set ambitious targets in consultation with our members. We want as many operators as possible striving for best practice, and we will be doing everything to ensure our members' villages meet our expectations. This will include a further review by Covenant later this year of all villages so we can see how our members' practices have evolved and what changes, if any, need to be made to ensure our industry's satisfaction, reputation and success is maintained.

Graham Wilkinson
President
RVA

Comparison of village compliance with key RVA best practices

In August 2022, RVA members at the sector's Annual General Meeting considered various industry practices that some stakeholders had expressed as "unfair." One focus was on the issue around re-licensing of units. The standard business model generally releases the outstanding capital sum once the operator has the incoming resident's capital payment, and from that sum, the outgoing resident is paid out.

Members were asked to trial implementing the best practices over the following 12 months and advise whether there were any unintended consequences. The RVA also excluded villages with fewer than 50 units from the trial as they are less able to quickly implement changes which are likely to constrain village income, such as stopping weekly fees when the unit is vacated. However, we encouraged them to see if it was possible to grandfather certain changes, perhaps by changing their business model prospectively.

This paper is based on 401 RVA member villages with 38,844 units as at 1 August 2022. There are 167 villages with fewer than 50 units, a total of 3,728 units. Once new and developing corporate villages are excluded from this figure, there are 72 villages (including not-for-profits, small privately-owned developments, and organisations such as Presbyterian Support and the Masonic villages) with 1,489 units, which are used in the calculations below.

Based on surveys by UMR Insight into operators' re-licensing times in 2020 and 2021, we know that 90% of capital sums are paid out within nine months of the operator getting vacant possession of the unit. This includes the time taken to refurbish the unit and market it to the public.

Based on evidence presented to the Social Services and Community Select Committee considering a petition from the Retirement Villages Residents' Association (RVR) requesting a mandatory buy-back period after 28 days, it is clear that any hard legislative deadline will incur significant costs and will cause some villages to fail.

We are investigating issues, such as the continued payment of weekly fees after the unit is vacated, whether the DMF continues to accrue after the unit is vacated, and whether there is any compensatory payment made after a period of time if the capital sum remains unpaid. The RVA sees a compensation payment as fair and not something that will create solvency issues. A fourth element was also reviewed – whether the operator requires the resident to pay any capital loss without sharing capital gain.

The following tables show a high degree of support by members for the best practice approach taken by the RVA. However, we believe that these outcomes can be improved and the RVA's Executive Committee will be considering realistic targets and a deadline for members to meet the standards (in line with Commerce Act requirements).

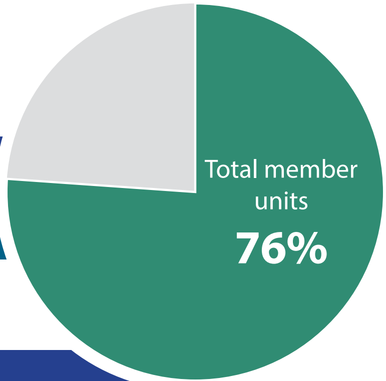
Methodology

The RVA engaged Covenant Trustees to review all 465 Occupation Right Agreements on the Registrar of Retirement Villages website to accurately determine their terms. This paper considers the 401 RVA member villages that follow best practice outcomes.

We are encouraging those that haven't yet amended their business models, (so far as that is possible in a competitive environment), that they will do so in the future. We will review registered ORAs later to check the number of villages and units that have aligned themselves with the agreed "best practice".

1. Villages that stop charging weekly fees once the unit is vacated

Number of villages	**257**
Number of units	**29,607**



Villages with fewer than 50 units

Number of villages	**15**
Number of units	**249**
% of group	**17%**
% member units	**1%**

Comment

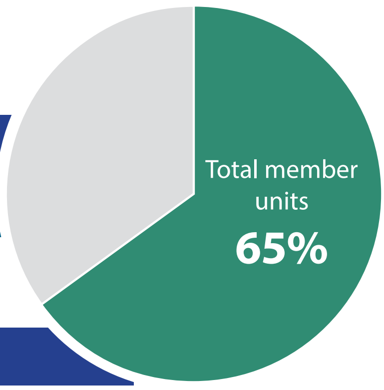
The Code of Practice allows operators to keep charging weekly fees until the unit is re-licensed, however long that might take. The fees must be reduced by 50% after six months if the unit remains unlicenced. This approach recognises that some charges (rates, insurance, maintenance, staff salaries, etc) continue.

The outgoing resident's family might fund deductions from the repayment for the period the unit is empty until relicensing. Where the operator can absorb the additional cost, we encourage them to do so. In some cases, the business model has had to be changed (e.g. a higher DMF) to allow this.

Already for villages over 50 units, 76% of units have no weekly fees post-vacation.

2. Villages that do not continue to accrue the DMF once the unit is vacated

Number of villages	**242**
Number of units	**25,200**



Villages with fewer than 50 units

Number of villages	**19**
Number of units	**387**
% of group	**26%**
% member units	**1%**

Comment

Operator terms may include accruing the DMF after the unit is vacated until a new licence is issued. This could occur when a resident has been in the village less than the period over which the standard DMF accrues – e.g. a 25% DMF may accrue at 5% over five years but if termination occurs after two years, further accrual is possible.

This is largely a historical practice and the RVA considers this to be unfair. We are encouraging members to cease accruing the DMF once the unit is vacated.

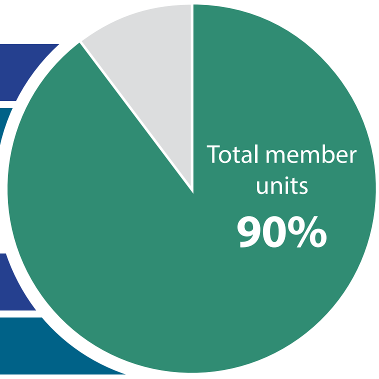
While 65% of units in villages over 50 units have ceased this practice, further encouragement is required.

3. Villages that do not have a capital loss clause without sharing capital gain

Number of villages	332
Number of units	34,831

Villages with fewer than 50 units

Number of villages	41
Number of units	856
% of group	57%
% member units	2%



Comment

The RVA has lobbied members for several years to remove any capital loss clauses where the resident does not share any capital gain. It is considered unreasonable for the operator to take all the upside and leave the resident with the downside. We understand this came about at the insistence of financiers when the industry first started, and operators with such clauses advise that "they're never enforced". The RVA believes they should be removed.

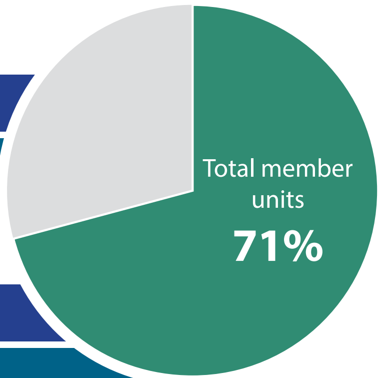
90% of villages over 50 units have discontinued this practice.

4. Villages that make a compensatory payment when the capital sum remains unpaid for any period.

Number of villages	226
Number of units	27,569

Villages with fewer than 50 units

Number of villages	2
Number of units	28
% of group	3%
% member units	0.07%



Comment

How operators deal with slow relicensing times varies. Some agree to pay interest on the outstanding amount after varying periods while others credit the DMF at the same rate it accrued to them after a period.

Operators are actively managing their buy-back times. The RVA strongly believes that any mandatory buy-back in legislation will be fatal for many, especially villages in provincial centres where house sale times can be protracted. Other issues, such as a pandemic, or a group of residents wishing to act in unison, could also cause business failure in a mandatory buy-back environment. It is worth noting that the dispute provisions under the Code of Practice provide a methodology to resolve perceived excessive relicensing times.

Next Steps

July 2023

Consider these and other issues at the RVA AGM to encourage members to adopt these best practices.

November 2023

Further review by Covenant Trustee Services of all villages' contractual terms.

For further information

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Appendix 3

SUMMARY OF KEY TERMS

Village: ____

Accommodation Type: ____________________________________

Correct as at ___/___/_____

KEY TERMS	DETAILS FOR RESIDENT/UNIT
Fees payable by resident	
Maximum Deferred Management Fee (DMF) (or equivalent fees) payable by resident for unit	Maximum total as a percentage of capital sum: ________ % **Method of calculation:** On entry ______________________ % Per annum: Year 1_____% Year 2_____% Year 3_____% Year 4_____% Year 5_____%
Weekly fees payable by resident • How much? • Can these be increased by the operator? • If yes, how often?	$ ____________ per week for a ____________ $ ____________ per week for a ____________ $ ____________ per week for a ____________ ☐ Yes ☐ No ☐ Annually ☐ Any time ☐ Other -specify
Are there any other regular fees payable by the resident to the operator and can these be increased? [For example, service fees.]	
Does the resident contribute to long term maintenance through a contribution to a specific village sinking or maintenance account?	☐ Yes ☐ No
Fees payable on termination (excluding DMF) [For example, admin, marketing fees.]	
Capital gains/losses	
Does the resident share in any capital gain on the sale of the unit? • If yes, what share? [Specify]	☐ Yes ☐ No
Is the resident exposed to any capital loss on the sale of the unit? • If yes, what is the exposure? [Specify]	☐ Yes ☐ No

KEY TERMS	DETAILS FOR RESIDENT/UNIT
When does the resident or their estate receive the capital refund (Less DMF and other fees/ charges)?	☐ When the unit is re-licensed ☐ At the end of the cooling-off period ☐ Some other formula
Do you offer any compensation if a unit is not resold within a specific period?	☐ Yes ☐ No
When leaving the unit is the resident required to contribute to the refurbishment of the unit, and if so, what amount or formula will be used ?	☐ Yes ☐ No
Transferring between units within the village*	
Does the resident have priority over non-residents to transfer to another unit at the village?	☐ Yes ☐ No
For the resident's new unit, is there a credit for any DMF (or equivalent fees) paid by the resident for their earlier unit(s) at the village?	☐ Yes ☐ No
Current aged care options at the village	
Is there an aged care facility currently available at the village?	☐ Yes ☐ No
If so how many rooms are currently available in each care category?	☐ Rest home ☐ Hospital ☐ Dementia care ☐ Other – specify
Does your facility currently contain any standard aged care rooms, i.e. where there is no requirement to pay premium room charges or purchase an ORA?"	☐ Yes ☐ No
Does the resident have priority over non-residents to transfer to the care options outlined above?	☐ Yes ☐ No ☐ N/A

This Summary is a general statement of the key terms of the offer at Village Name.

For full details refer to the disclosure statement and occupation right agreement for this Village.

* Different terms [may] apply if the resident leaves the unit due to a damage or destruction event or if the operator has terminated the resident's occupancy.

Appendix 4 – JLL - New Zealand Retirement Villages And Aged Care Whitepaper

Research

New Zealand | August 2023

New Zealand retirement villages and aged care

New Zealand Retirement Village Database (NZRVD) and Aged Care Database (NZACD) year ending 2022

JLL SEE A BRIGHTER WAY

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Contents

Executive summary

1

Introduction

Pleasure to release JLL's 11th whitepaper based on JLL's New Zealand Retirement Village (NZRVD) and Aged Care (NZRACD) databases.

The population forecasts for this report were sourced from the 2018-2048 projections by Statistics New Zealand. The results provide a snapshot of the year ending 31 December 2022 for the New Zealand retirement village industry, examining the future development pipeline and potential future demand for the sector.

With New Zealand's population getting older, this increases the number of people 75 and over who fit the demographic for the Retirement Village and Aged Care sector by adding to the demand for this type of accommodation. Although the usual starting age for retirement villages is 70 years, some allow entry for residents as young as 65. However, the analysis in this paper is based on population forecasts for those 75 and over, in keeping with the average age of new occupants.

Some of the pandemic challenges of 2021 continued into 2022 alongside the emergence of new challenges:

Retirement villages were not immune to the labour shortages experienced by many industries across the country

The cost of business has been highly impacted by the inflationary environment

While supply chain constraints have eased somewhat, they still have some impact on current and future property developments

Reduction in New Zealand median house prices and impact of days to sell is pushing out in all regions

The performance of the sector throughout these times coupled with the pull-back in the residential property markets through 2022 meant many retirement village operators continued to receive high levels of enquiry, supporting their future development strategies.

New Zealand Retirement Village Database (NZRVD)

JLL's 2022 NZRVD identified 452 villages, with 39,070 units, which is based on an estimated 1.3 residents per unit, resulting in an estimated 50,791 residents currently in retirement villages. By comparison, JLL's 2021 NZRVD identified 425 villages, with 37,489 units, which resulted in an estimated 48,736 residents in retirement villages.

Since our whitepaper series started in 2012, retirement village numbers have grown 32%, from 343 villages to 452 villages, and unit numbers have grown from 21,815 to 39,070, representing an increase of 79%. The significant increase in unit numbers compared to the overall increase in village numbers reflects the continuing trend over the last five years that modern villages are generally larger in scale and feature greater intensification through extension or refurbishment.

5

The Auckland region accounts for the majority of retirement villages with an estimated 23% of the national village stock. The six largest retirement village operators continue to dominate the sector (Ryman, Metlifecare, Summerset, Bupa, Oceania, and Arvida). These operators hold an estimated 48% of villages throughout the country, and 65% of the country's units.

The sector continues to see expansion with several existing villages being extended and refurbished as new villages come online. The development pipeline we have identified suggests this trend is continuing. Therefore, the challenge for the sector is to ensure the units are delivered in the right locations to meet future residents' demands and requirements.

New Zealand Aged Care Database (NZRACD)

The JLL NZRACD records details of aged care facilities across New Zealand and the proportion of rest home, hospital, and dementia care beds located at each facility.

This is closely connected to the retirement village market, as of the 452 villages identified within the NZRVD, 296 (65%) contained an aged care facility. We continue to see villages promoting the synergies between retirement villages and care facilities.

Building care suites into new aged care facilities continues as a response to development feasibility constraints and growing demand for premium accommodation options from residents and their families.

This is also a strategic decision by operators of retirement villages that advertise on the basis that residents can remain in their home in the village or facility in their later years when they require a higher level of health services and support.

Demographic environment

2

The World Social Report 2023 by the Department of Economic and Social Affairs of the United Nations identified that population ageing is furthest along in Europe and Northern America, Australia, and New Zealand, and most of Eastern and South-Eastern Asia. Globally, the number of people aged 80 years or over is rising faster than the number aged 65 or above.

By 2050, the world will have an estimated 459 million people aged 80 or over, almost triple the number from 2021 when it was around 155 million. According to the analysis in the paper for New Zealand, between 2021 and 2050, this age group is projected to increase by more than 60% in our country. New Zealand (along with Australia) also has the highest life expectancy, as seen below:

Figure 1: Life expectancy at birth by sex, world, regions, and income groups – 1950, 2021 and 2050

	1950		2021		2025	
Region	Female	Male	Female	Male	Female	Male
World	48.4	44.6	73.8	68.4	79.8	74.8
Sub-Saharan Africa	38.7	36.2	61.6	57.8	69.1	64.3
Northern Africa and Western Asia	43.4	39.8	74.8	69.7	80.8	76.0
Central and Southern Asia	40.2	41.5	69.6	65.9	79.4	74.9
Eastern and South-Eastern Asia	45.6	40.3	79.6	73.6	84.1	79.4
Latin America and the Caribbean	50.8	46.5	75.8	68.8	83.1	78.1
Australia/New Zealand	71.6	66.7	85.6	82.7	88.6	85.4
Oceania (excluding Australia and New Zealand)	43.9	40.3	70.1	64.6	74.9	68.4
Europe and Northern America	66.6	61.2	80.4	73.9	86.1	81.6
World Bank income groups						
High-income countries	65.0	58.2	83.1	77.5	87.6	83.4
Middle-income countries	44.9	42.2	72.7	67.6	79.6	74.8
Low-income countries	35.1	28.6	65.0	60.0	71.6	66.0

[1]https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2023/01/2023wsr-fullreport.pdf
Source: United Nations (2023) [1]

Although New Zealand is not among the top three countries with the oldest populations or fastest ageing populations, it still has an "inverse pyramid" population, which means that its 75+ population bracket is the biggest, while its 12-18 years bracket is the smallest.

New Zealand demographic drivers

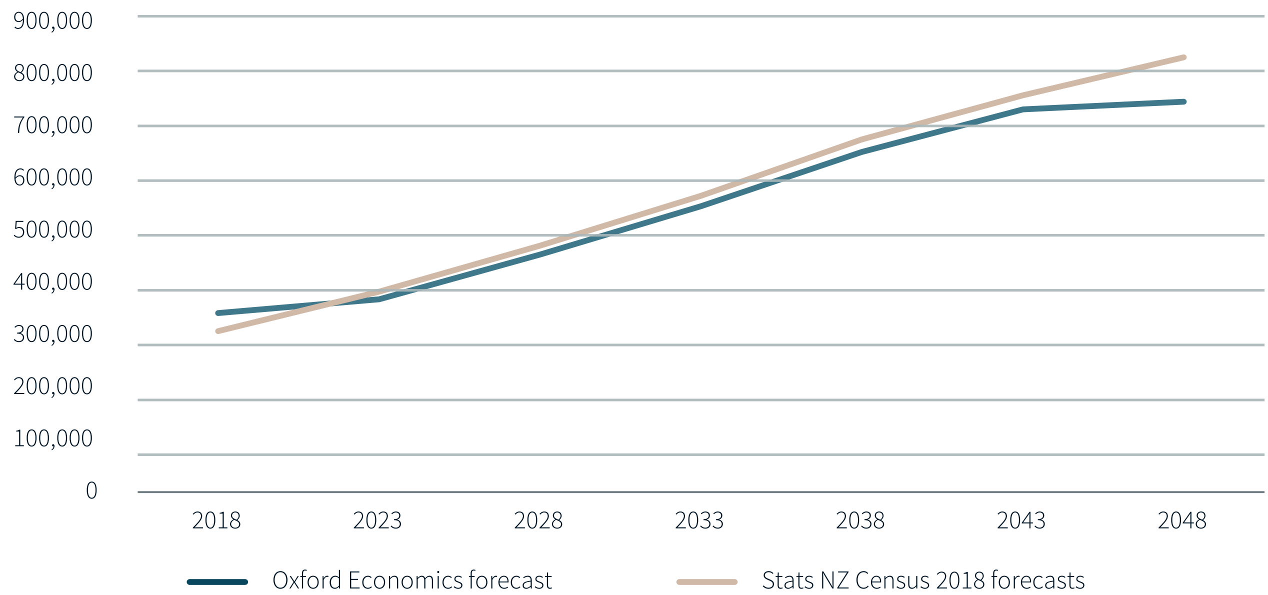
3

Ageing population

The key target population for retirement villages is those who are 75+ years old. According to Statistics New Zealand, there were 308,140 people in the country in this age bracket in 2018. In 2023, this figure is expected to be 383,510, showing an increase of 24.5% in 5 years. By 2043, this key demographic is forecast to increase by 376,120 to reach 759,630, an increase of 98.1% in 20 years.

The increase in population in this age bracket will continue to provide enormous demand for retirement villages. Figure 2 below provides an illustration of how New Zealand's population is expected to grow.

Figure 2: Total New Zealand 75+ years population 2018-2043

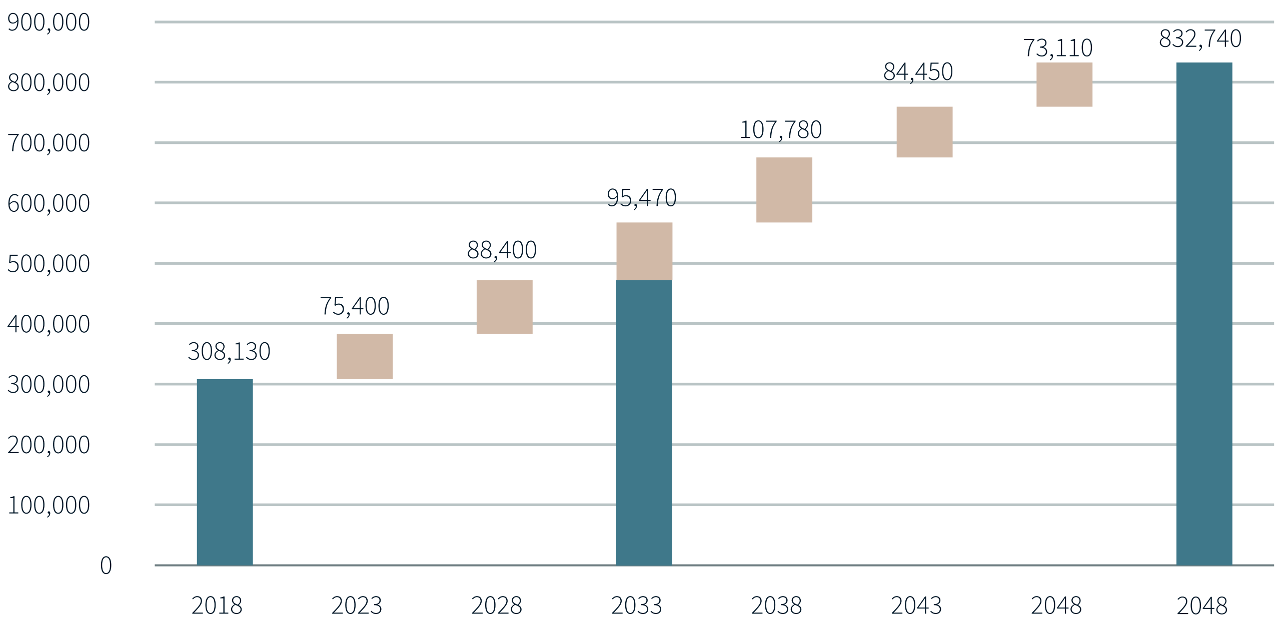


Source: JLL Research; Statistics New Zealand, Oxford Economics

When looking at the forecast growth for the 75+ year age bracket (in 5-year time periods), this shows the number of New Zealanders expanding to this age group is expected to peak in 2038, with an estimated additional 107,780 between 2033 and 2038. After 2038, we expect to see the number adding to this age bracket to reduce, and by 2048 there will be under 10% growth. This is driven by two factors:

The number of New Zealanders entering this age bracket will start to decrease.	In 5-year time periods, the number of 75+ year New Zealanders increases until 2038 when growth numbers start to reduce.

Figure 3: Growing number of New Zealanders in the 75+ age bracket

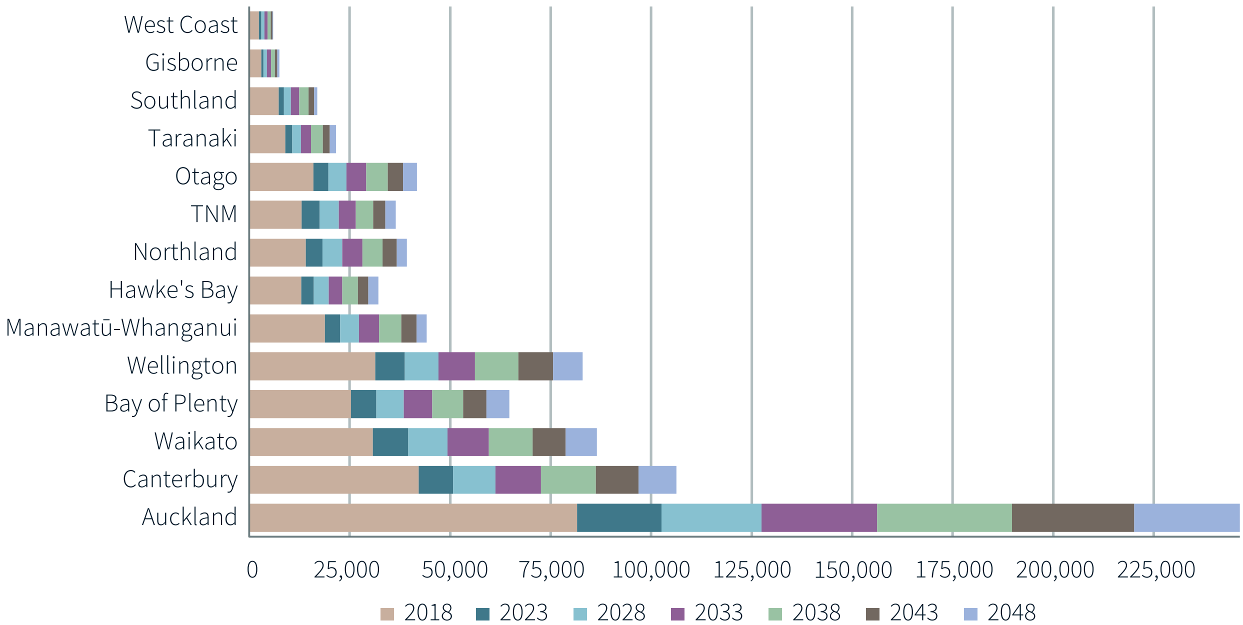


Source: JLL Research; Statistics New Zealand

Figure 4 below illustrates the forecast 75+ years population distribution by region to 2048.

The impact of large populations in Auckland, Hamilton, and Tauranga are likely to continue to be attractive to potential retirement village residents, continuing the demand within the 'golden triangle'. It is estimated by 2033 the 'golden triangle' area will equate to 46% of the total 75+ years population in the country, growing to 48% by 2048.

Figure 4: 75+ years population by region 2028-2048

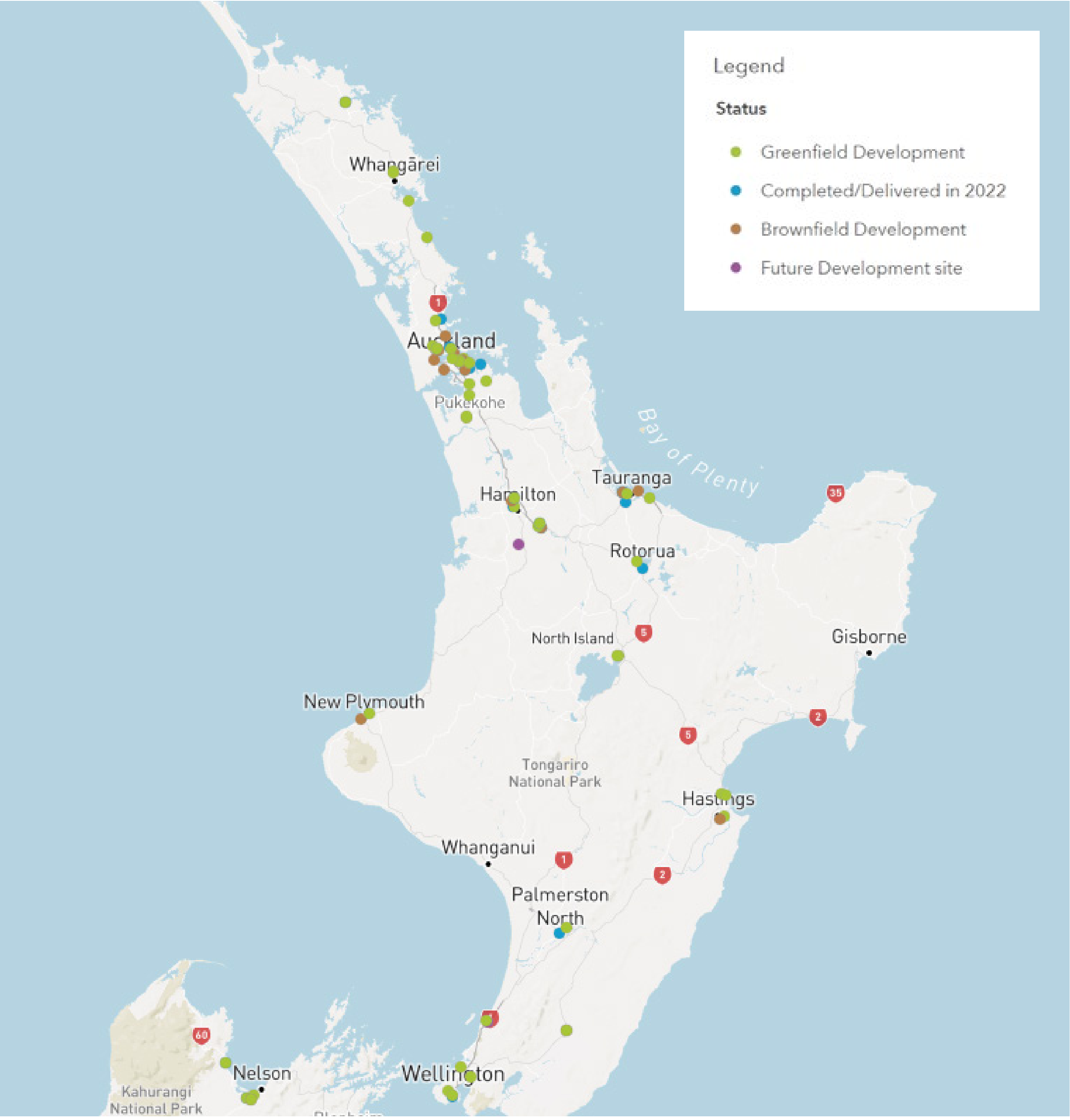


Source: JLL Research; Statistics New Zealand
Note: TNM stands for Tasman, Nelson, and Marlborough

When looking at forecast growth in the regions for the 75+ age group through to 2048, surprisingly Nelson is expected to have the largest growth of 3.27x, with Auckland being the next largest at 3.02x, and the lowest growth is forecast in Southland at 2.29x, and Marlborough at 2.38x.

The distribution of New Zealand's growing population will be reflected in new developments. The following four maps illustrate developments by the 'big six', segregated by type of development and operator. The first map illustrates that the majority of greenfield developments are in Auckland, and that most future development sites are located within the 'golden triangle'.

Map 1: Developments by the Big 6 – North Island – by status



Source: NZRCD 2022; Annual reports 2021-2023

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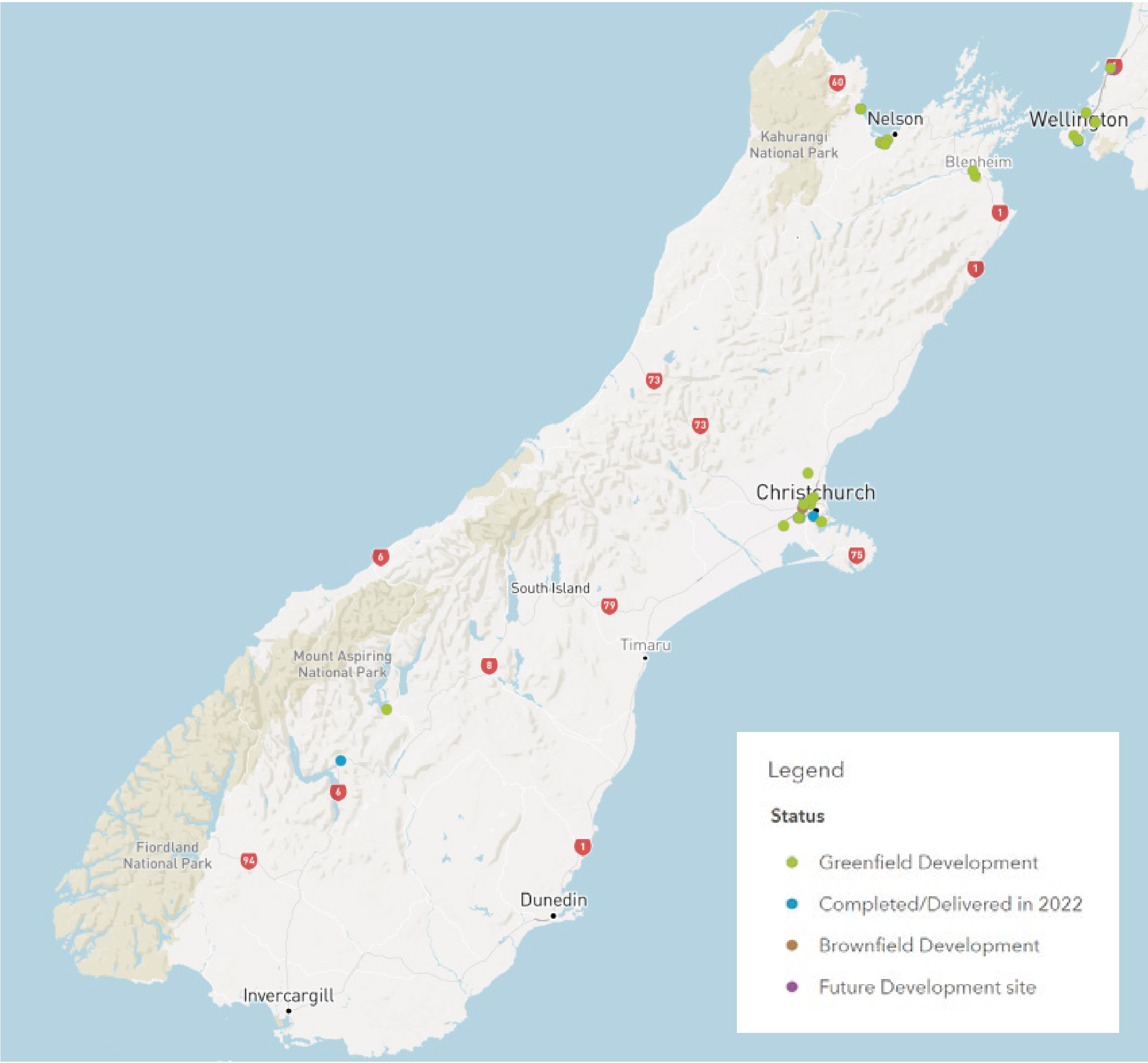
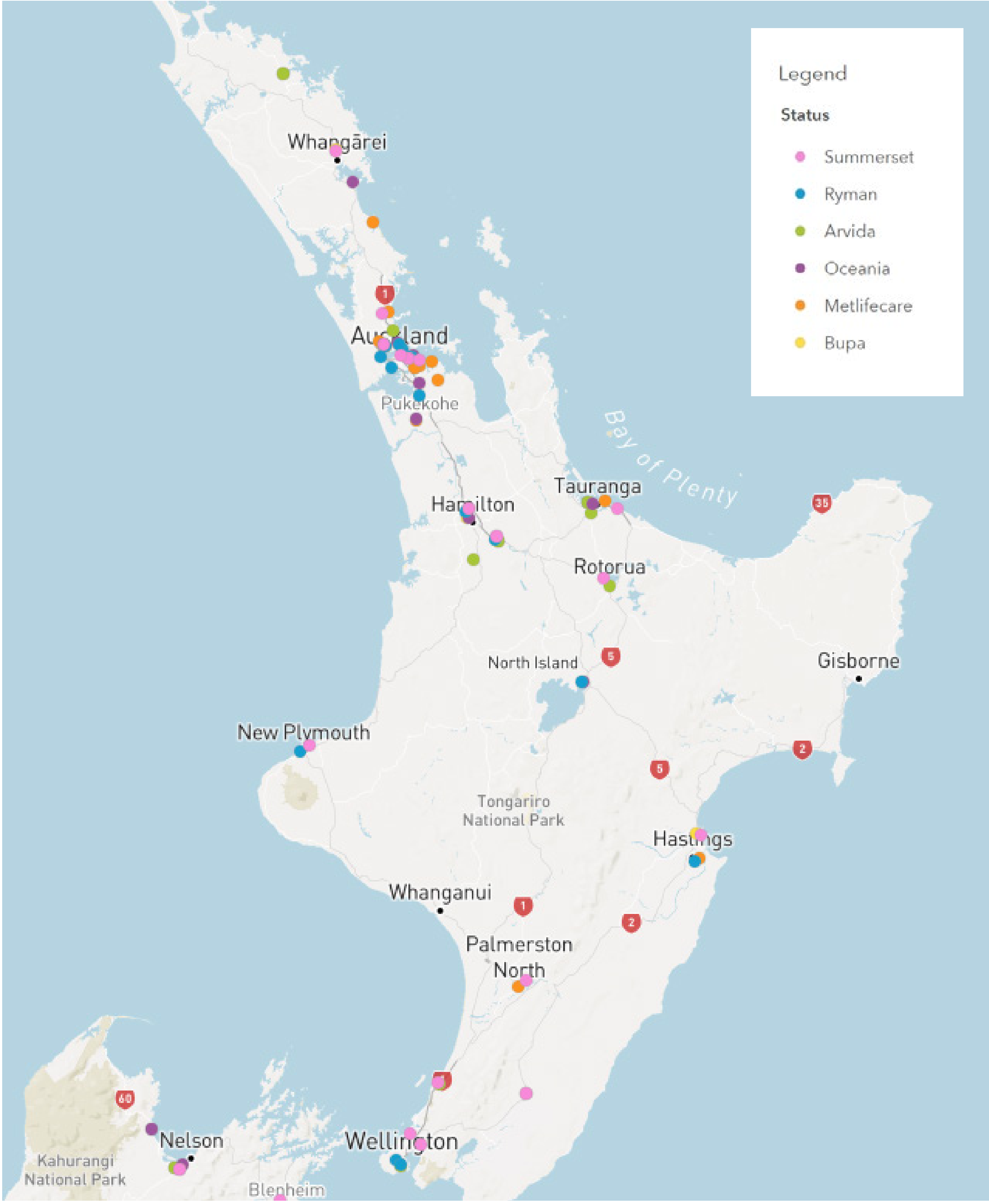
New Zealand retirement villages and aged care

Map 2: Developments by the Big 6 –South Island – by status



Source: NZRCD 2022; Annual reports 2021-2023

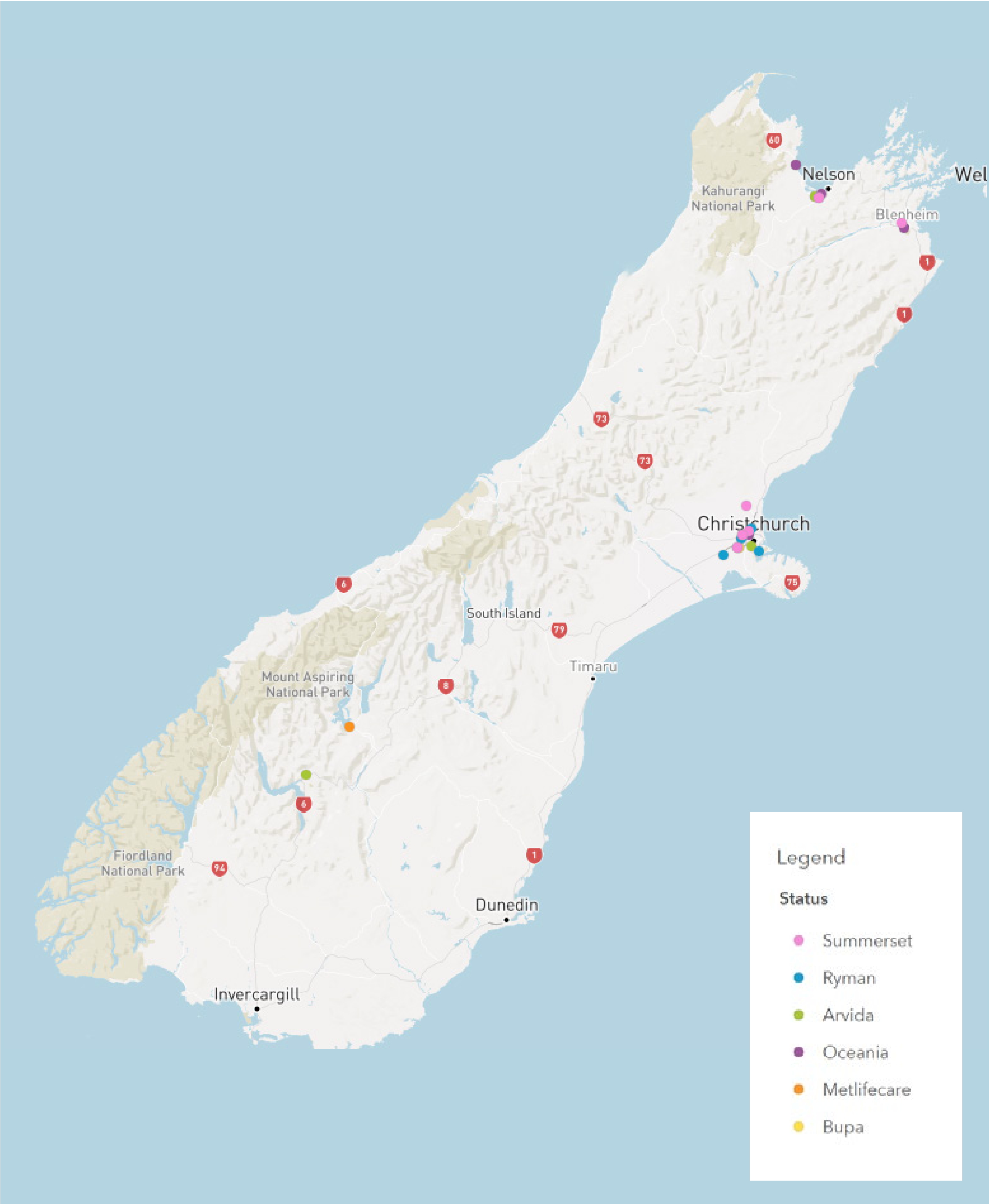
Map 3: Developments by the Big 6 – North Island – by operator



Source: NZRCD 2022; Annual reports 2021-2023

New Zealand retirement villages and aged care

Map 4: Developments by the Big 6 – South Island – by operator



Source: NZRCD 2022; Annual reports 2021-2023

Economic environment

The changing economic environment[2] is also impacting the retirement village sector – construction prices on the supply side and house prices on the demand side. On the supply side, inflation, which currently stands at 7.2%[3], is impacting construction costs. CoreLogic's Cordell Building Index, a construction cost index, registered a quarterly growth of 1.7% and an annual growth of 10.4% for Q4 2022[4].

On the demand side, the New Zealand median house price decreased in the last twelve months from $880,000 to $762,500[5], representing an annual decrease of -$117,000 (-13.6%), with sales volumes significantly down (-27.0%). The median days to sell increased by 17 days to 51 days[6] at the start of the year.

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[2]These factors are discussed in more detail towards the end of the paper.
[3]As at December 2022.
[4]https://www.corelogic.co.nz/news-research/reports/cordell-construction-cost-index
[5]As at February 2023.
[6] As at January 2023.

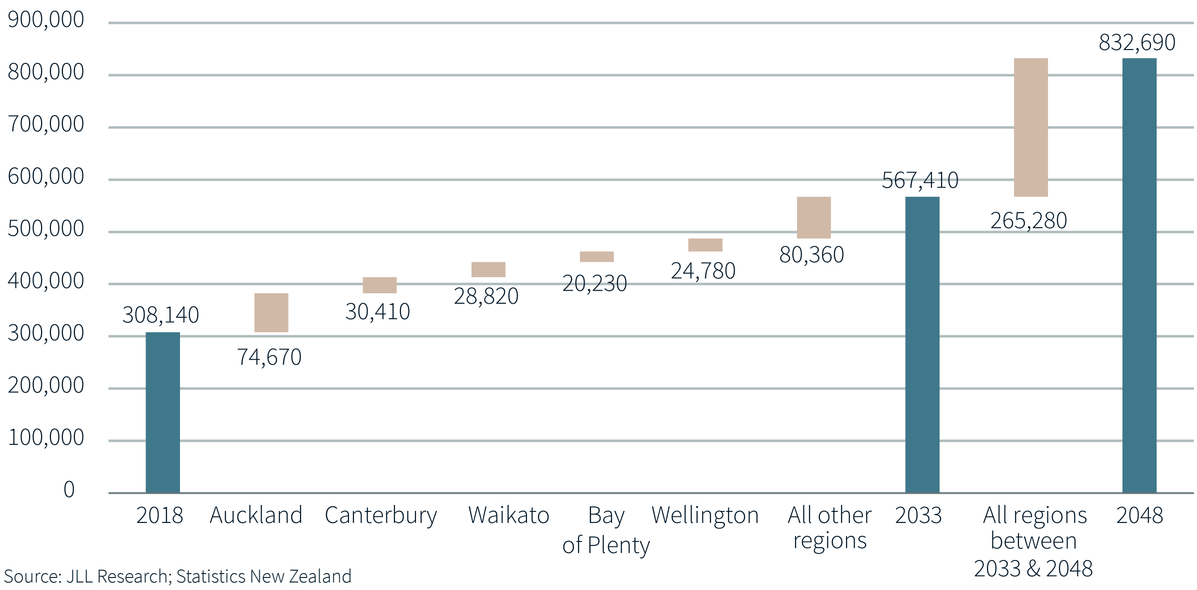
Demand forecasting

For our demand forecasting for developments to 2033, we forecast the population for the 75+ age bracket to be 567,410.

Figure 5 below shows the expected increases regionally in the 75+ years population across New Zealand, with the five largest regions identified separately.

We look at how this translates into unit demand later in this paper, as well as considering how the industry is providing units in response to this demand. Forecast population for 2048 is also shown below to demonstrate ongoing demand for retirement villages over the next 25 years.

Figure 5: 75+ population in 2018 and forecast to 2033 and 2048



Source: JLL Research; Statistics New Zealand

Retirement villages

4

Retirement villages

JLL's 2022 NZRVD identifies 452 villages, with 39,070 units. Based on a historical calculation of 1.3 residents per unit, this results in an estimated 50,791 residents currently in retirement villages. By comparison, JLL's 2021 NZRVD on the same calculation of residents per unit identified 425 villages, with 37,489 units, and an estimated 48,736 residents in retirement villages. The numbers indicate a 5-year rolling average increase of 1,854 units per year and a 10-year rolling average increase of 1,726 units per year.

Since our whitepaper series started in 2012, retirement village numbers have grown 31.8%, from 343 villages to 452 villages, and unit numbers have grown from 21,815 to over 39,000, an increase of 79.1%. The significant increase in unit numbers compared to the overall increase in village numbers reflects modern villages are larger in scale and intensified through extension or refurbishment.

During 2022, there were several changes that impacted the numbers in the NZRVD:

- A total of 36 new villages were added to the development pipeline. While the number of units in several of these villages is not published, these will add a minimum of 1,800 units across the country. Some of the proposed larger villages include Summerset Rotorua (300+ units), Summerset Masterton (300+ units), Putaruru Country Estate Retirement Village (250+ units), West Melton Retirement Village (200+ units), Ryman Taupo (300+ units), and Arvida's Waikanae Beach (200+ units).
- 13 villages were delivered during the year. These included 1,615 units which were delivered by the 'big six'[7].
- Six villages previously reported under development have been removed as the land parcels have been sold and therefore initial plans have been cancelled.
- Construction began at Ryman's Northwood, which will accommodate 350 residents on a 12.9ha site. As well as having townhouses and apartments, it will feature 60 rest homes, a hospital, and dementia-care beds. Ryman has two more villages in the pipeline in the Christchurch area. It has resource consent to build a large complex in multi-storey buildings on Park Terrace in the central city. In Rolleston, Ryman also owns a 9.5ha site on Goulds Road in the Faringdon subdivision, where it plans to build a village for 280 residents.
- Christchurch has several other ongoing retirement village developments:
  - Qestral Corporation has almost completed building its Banbury Park complex on 14.0ha in Halswell. Banbury Park will have 191 free-standing houses, 42 apartments, and a rest home with hospital and dementia care plus a pool and restaurant.
  - In Rangiora, Summerset has bought a 9.0ha site on South Belt where it is planning a 300-home complex.
  - The first stages of Ashford retirement village in Prebbleton have been opened by Porirua-based operator Bupa, with 16 serviced apartments and a 56-bed care home due to open early next year.
- Arvida divested four villages with a total of 161 beds, 39 serviced apartments, and four villas.
- Oceania acquired Remuera Rise Village and Bream Bay Village, with an option to acquire 6.7ha of development land at Bream Bay.
- Metlifecare acquired Selwyn Village, as well as two retirement villages in Christchurch.
- Radius Care acquired a total of four villages from Ultimate Care Group.

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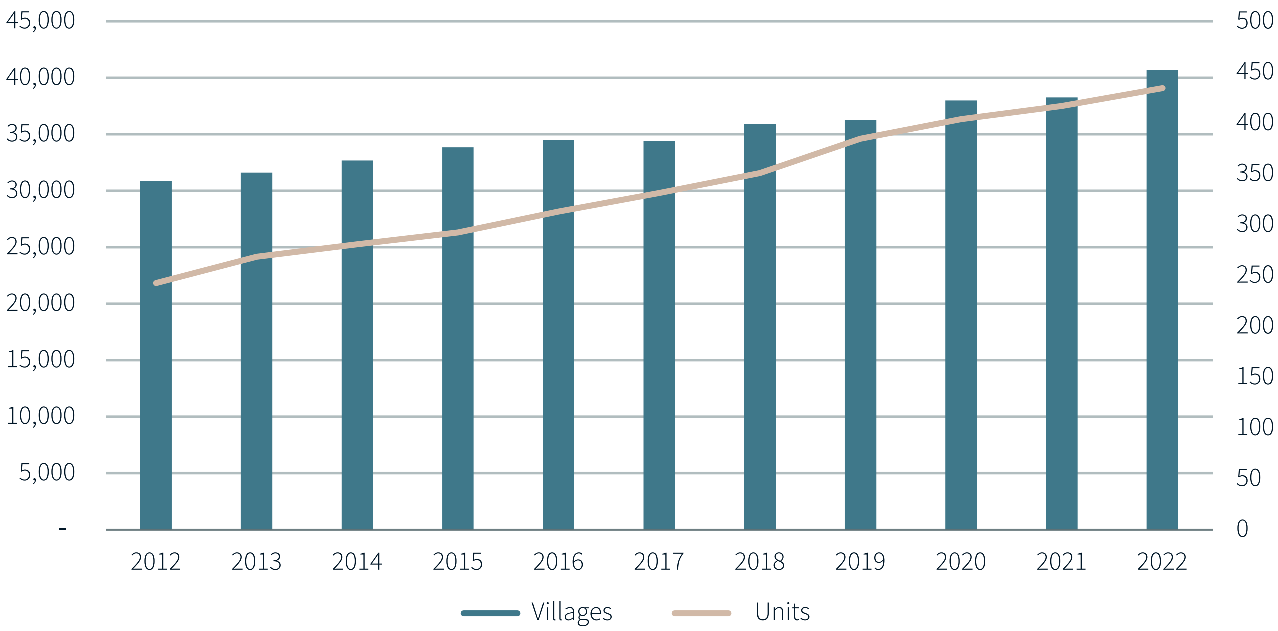
[7]Which operators constitute the 'big-six' is explained below.

New Zealand retirement villages and aged care

Figure 6: New Zealand retirement village sector over time



Source: JLL NZRVD 2022

The following table illustrates the growth of retirement villages over the last five years:

Year	Villages			Units			Residents
	Total	Increase No.	Increase %	Total	Increase No.	Increase %	Number
2018	399	17	4.5%	31,545	1,744	5.5%	41,009
2019	403	4	1.0%	34,592	3,047	8.8%	44,970
2020	422	19	4.7%	36,345	1,753	4.8%	47,249
2021	425	3	0.7%	37,489	1,144	3.1%	48,736
2022	452	27	6.4%	39,070	1,581	4.0%	50,791
5-year average	**14**			**1,854**			

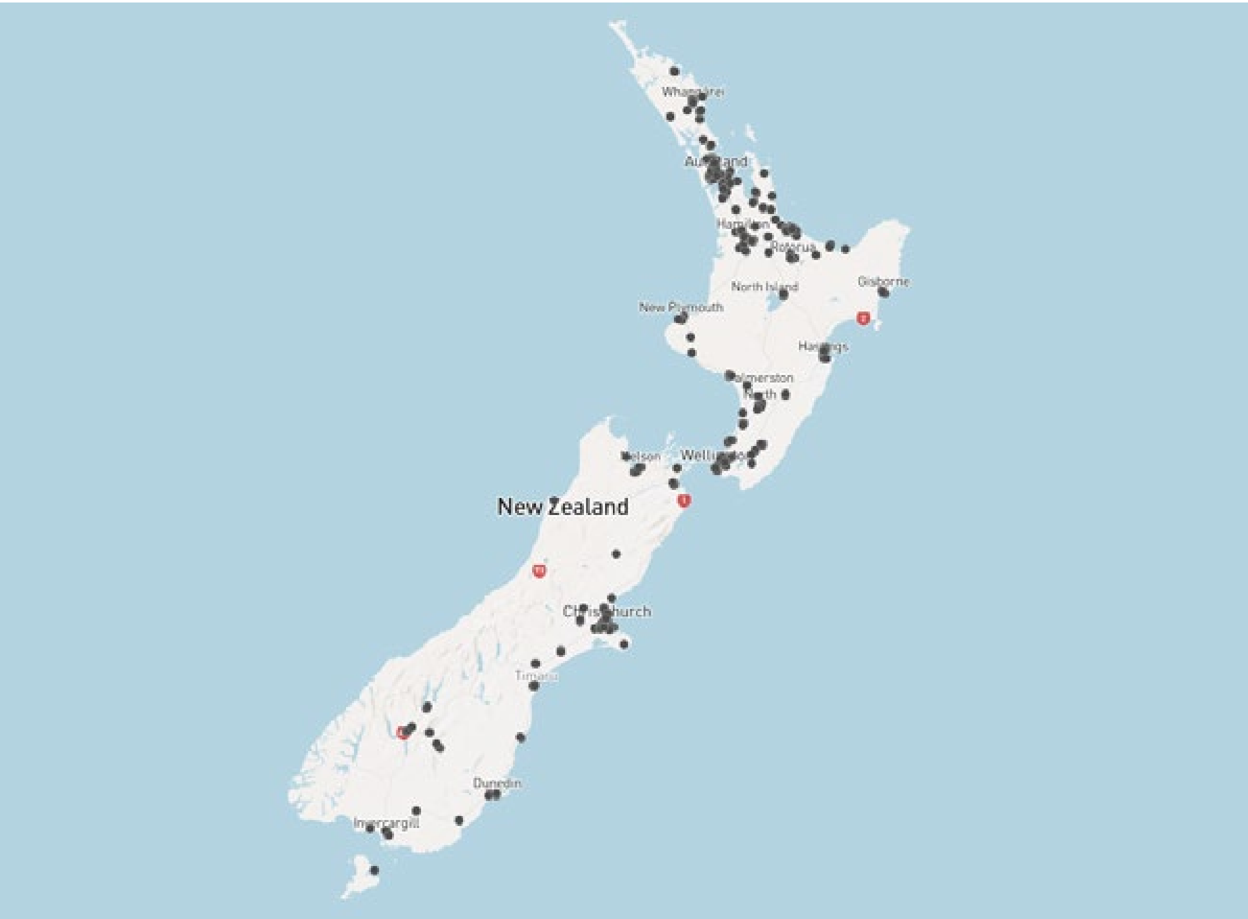
This shows an increase of 1,854 units each year **over the last five years despite the pandemic. There has been a 13% increase in the number of villages and a 24% increase in the number** of units over the last five years.

Retirement village and unit numbers by region

The Auckland region accounts for the majority of retirement villages in New Zealand, with 103 (22.8% of national total). Auckland also has the largest average village size (121 units per village) which is significantly larger than the national average of 78, therefore accounting for 32.0% of unit and resident numbers.

Canterbury has the second-largest concentration of villages with 78 villages (17.3% of the national total), however the average number of units in a village is smaller (64 units per village) so the Canterbury region accounts for 12.8% of the national unit and resident numbers.

Map 5: Retirement village unit distribution



Source: NZRVD 2022; ESRI

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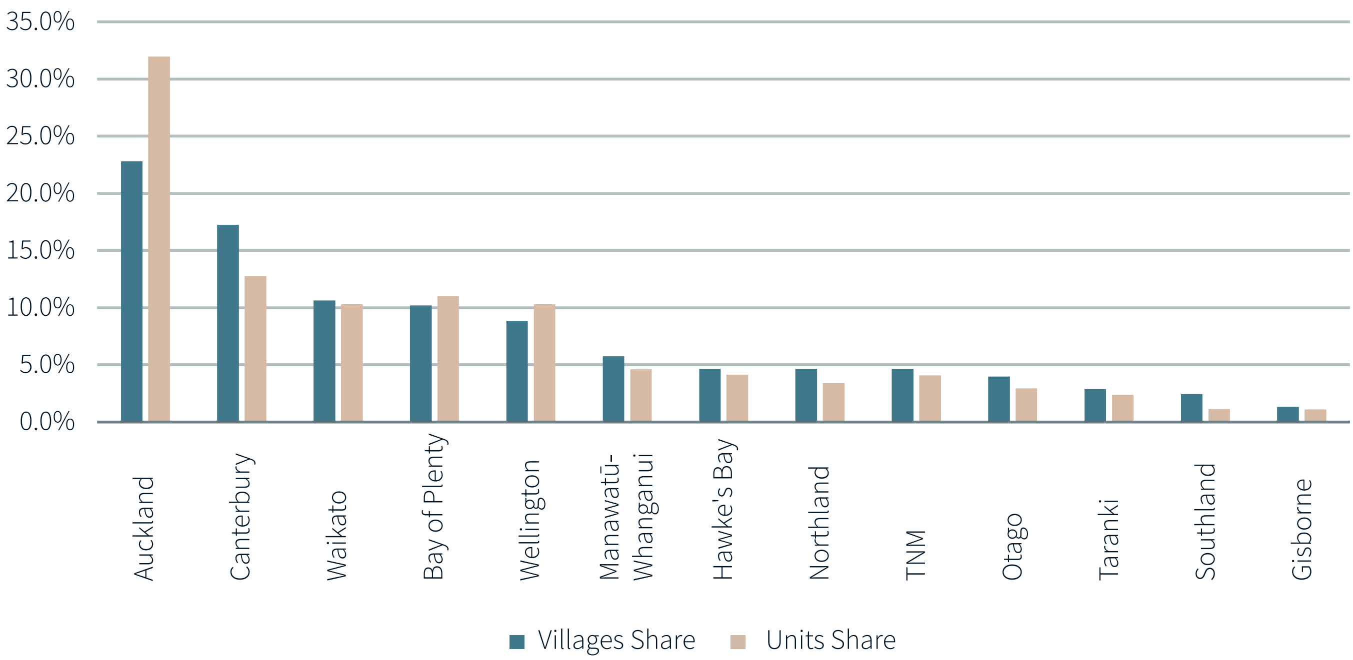
New Zealand retirement villages and aged care

Figure 7: Operating villages distribution by region 2022



Source: JLL NZRVD 2022
Note: TNM stands for Tasman, Nelson and Marlborough

Six large retirement village operators

The six largest retirement village operators – Ryman, Metlifecare, Summerset, Bupa, Oceania, and Arvida – the “big six” are significant players in the New Zealand retirement village market. Between them they hold an estimated 48% of villages throughout the country and 65% of the country’s units.

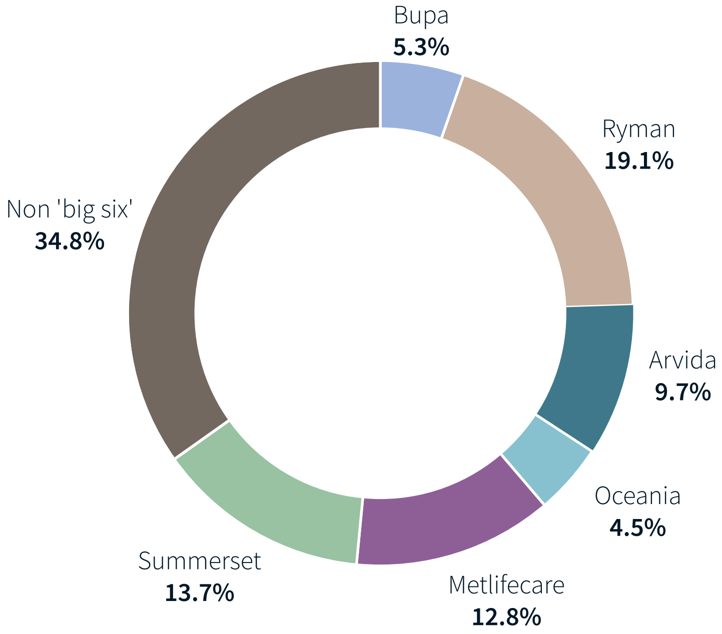
Ryman has the largest average village size at 197 units per village on average, with Summerset just behind at 162 units and Metlifecare with 143.

Most new villages opened by the ‘big six’ are larger, with around 200 units, as operators focus on economies of scale in terms of cost of construction and operating costs. Currently, average village size for the ‘big six’ is 119 units, average village size for the non-‘big six’ is 52, with the overall average retirement village size in New Zealand at 112 units.

Figures 8 and 9 below illustrate the proportion of the industry held by the ‘big six’.

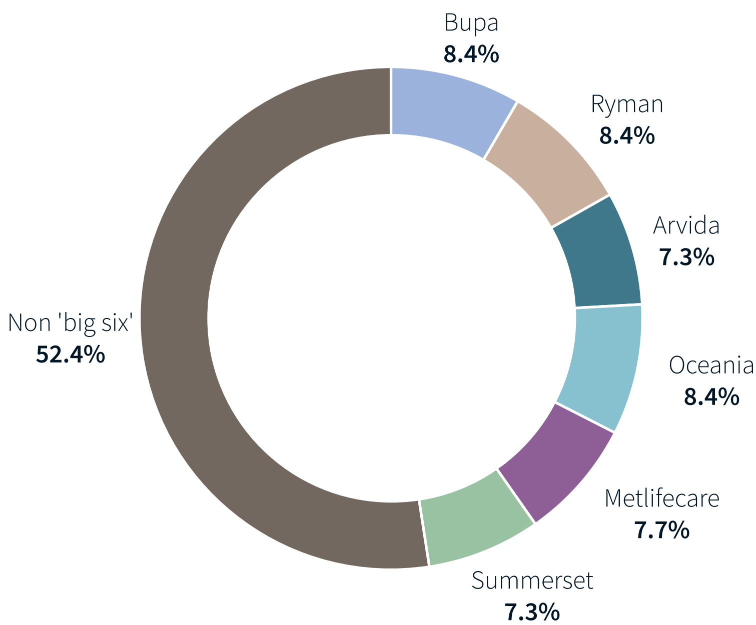
New Zealand retirement villages and aged care

Figure 8: 'Big six' percentage share of national total by unit



Source: NZRVD 2022

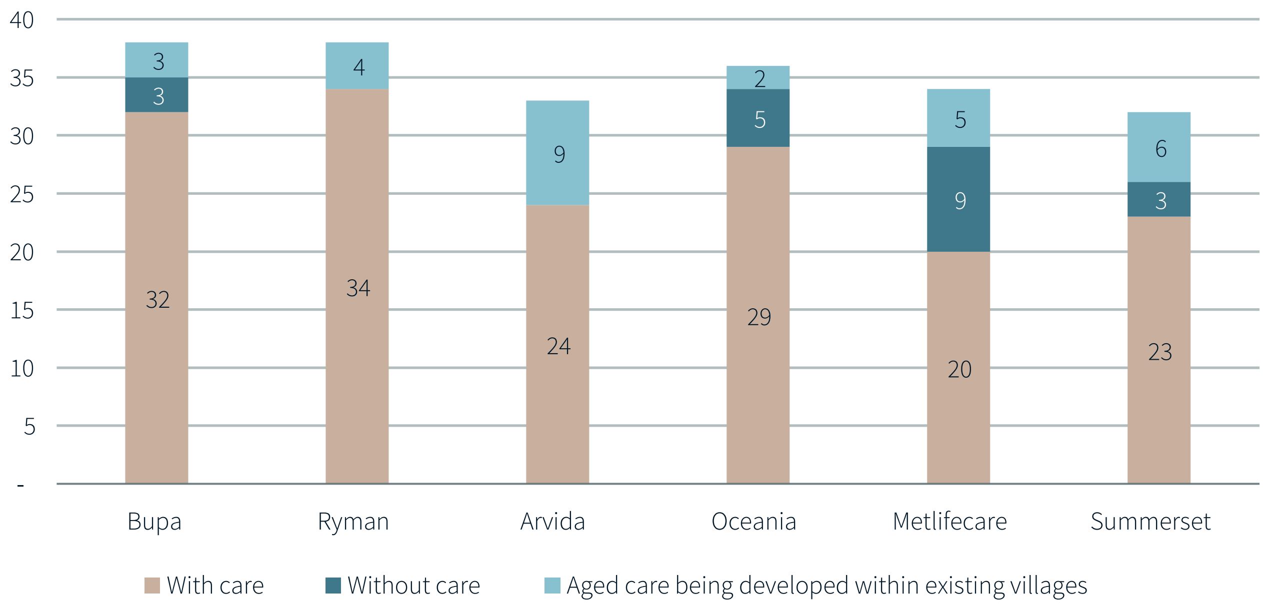
Figure 9: 'Big six' percentage share of national total by village



Source: NZRVD 2022

As identified in last year's paper, associated care facilities are now an important part of a retirement village's "continuum of care" so a resident can remain in the same village if their level of care requirements increases. As a result, 72% of the 'big six' operators have villages offering care. In comparison, Ryman has the highest proportion at 89% currently. Figure 10 highlights where the 'big six' have facilities without care currently, and which of these facilities have future plans for care.

Figure 10: 'Big six' villages aged care offering



Source: NZRVD 2022

The 'big six' retirement villages employ a total of ~19,560 staff and house ~45,420 residents. For 2022, the top three operators reported an occupancy rate of an average of 95% and an average length of stay for their residents of 5.28 years.

Other significant operators include Heritage Lifecare Group with 17 villages, Presbyterian Support with 10 villages, and Ultimate Care Group with six villages across the country.

New Zealand retirement villages and aged care

Penetration rates

5

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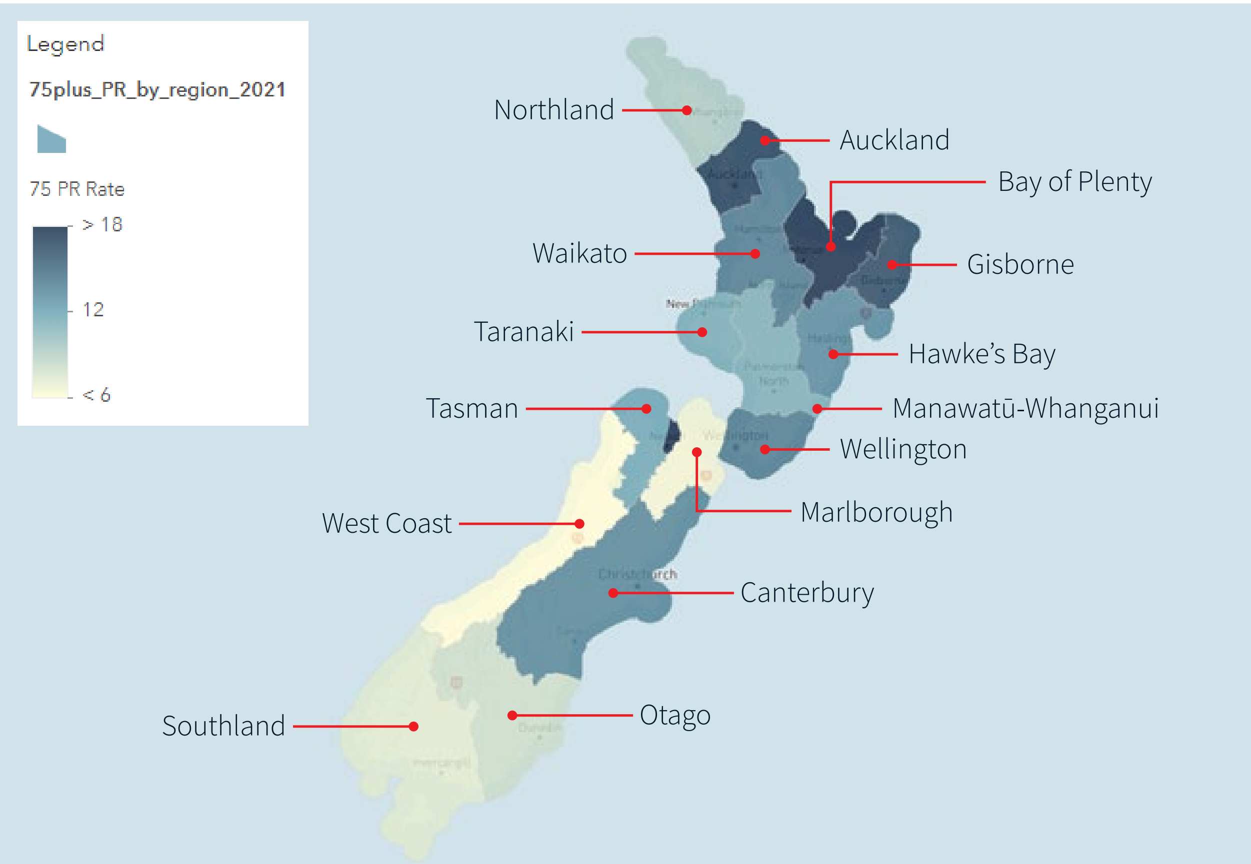
Penetration rates

Penetration rates (PR), which we define as the estimated resident numbers in retirement villages as a percentage of the 75+ years population, gives an indication as to the current demand for retirement village living, and is a key input to forecast future demand.

Overall, the national penetration rate is 14% with the highest regional penetration rates in the Bay of Plenty region (19%), followed by the Auckland (17%) and Gisborne (16%).

Overall penetration rate for the country has remained consistent from 2021 to 2022 at 14%, with only slight variation experienced by some regions. For example, the penetration rate for Canterbury marginally increased, from 13% to 14%, while for Gisborne, it marginally decreased, from 17% to 16%.

Map 6: Penetration rates by region in New Zealand



Source: NZRVD 2022; ESRI

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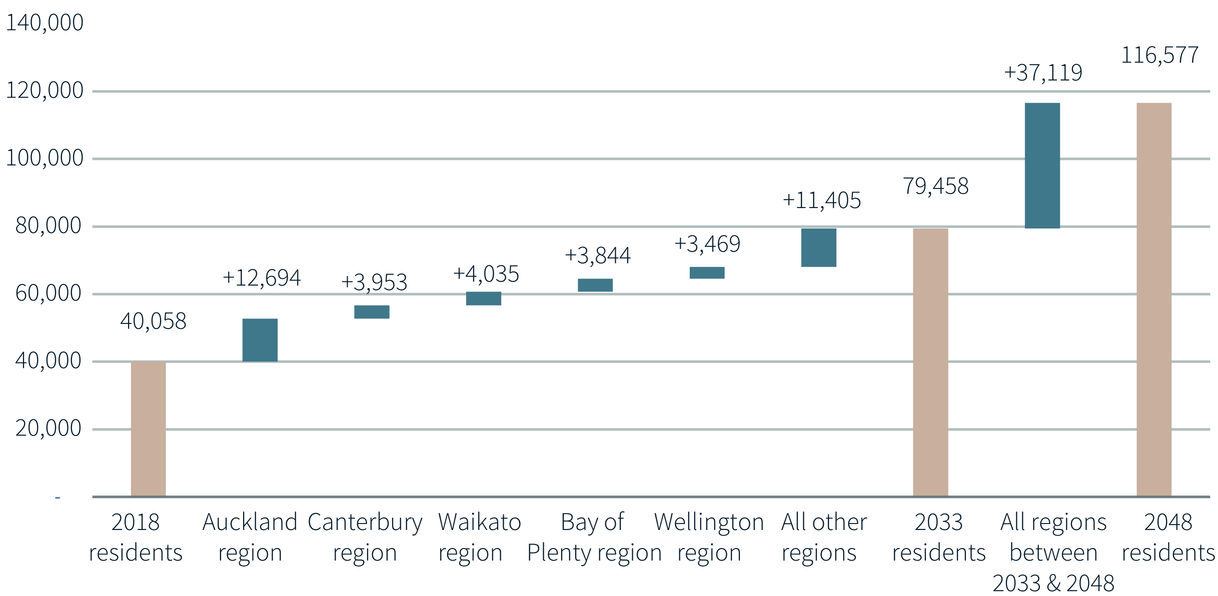
Using the regional penetration rates and combining these with the 75+ population forecast to 2033 (see earlier section), we have the expected resident numbers and can derive expected unit demand.

In Figure 11 below, we set out the expected growth in resident numbers (split out for key contributing regions) over the 10 years to 2033.

It is forecast that total retirement village population would be approximately 79,458 residents by 2033. Assuming the resident-to-unit ratio remains at 1.3, this would mean there would be demand for an additional 61,121 units by 2033. We discuss how this has generated a supply response by the operators below.

Figure 11: Forecast retirement village residents to 2033, then out to 2048



Source: JLL Research; Statistics New Zealand

In the next section we look at how the industry could deliver these units.

Retirement village development pipeline

6

Estimated development pipeline distribution 2022

As part of the NZRVD, we record development, actual and planned, to identify when competing supply is due to come online. The new supply is comprised of both extensions to, and/or refurbishments of existing villages together with the development of new villages.

There are 95 villages in the development pipeline, with 33 being existing villages with expansion or refurbishment plans. These 95 villages have capacity to deliver a total of approximately 24,770 units. These numbers include developments in all stages of development: early planning, in planning, and under construction.

The Auckland region has the largest share of the development pipeline with 29 villages underway, along with enhancements already started in 39 existing villages. This is followed by Canterbury with 14 new and 18 existing villages under development. For Waikato, these numbers stand at 14 new villages and 14 existing villages. Overall, these three regions capture ~55% of New Zealand's retirement village unit development pipeline.

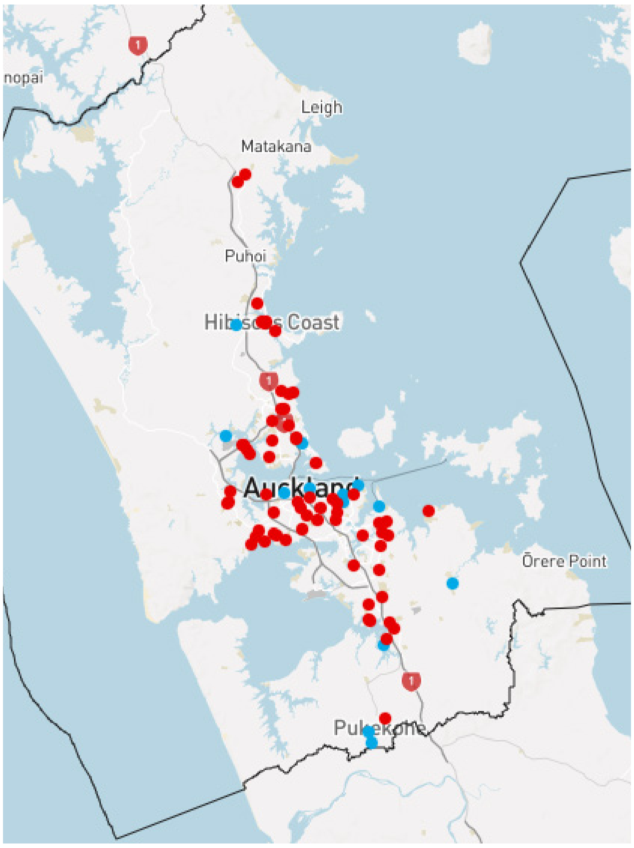
These three regions also make the largest contribution to New Zealand's estimated 75+ years population growth.

According to Statistics New Zealand forecasts for the 75+ year population growth to 2033, we see the Auckland region growing by the highest proportion (29% or 74,670 people), followed by Canterbury and Waikato contributing 12% (30,410 people) and 11% (28,820 people). Overall, these three regions make up 52% of the 75+ year population growth.

Map 7: Retirement village unit distribution

Source: NZRVD 2022; ESRI

Map 8: Retirement village development pipeline, Auckland region: Existing and new



Source: NZRVD 2022; ESRI

Auckland development 2021

New build   Existing

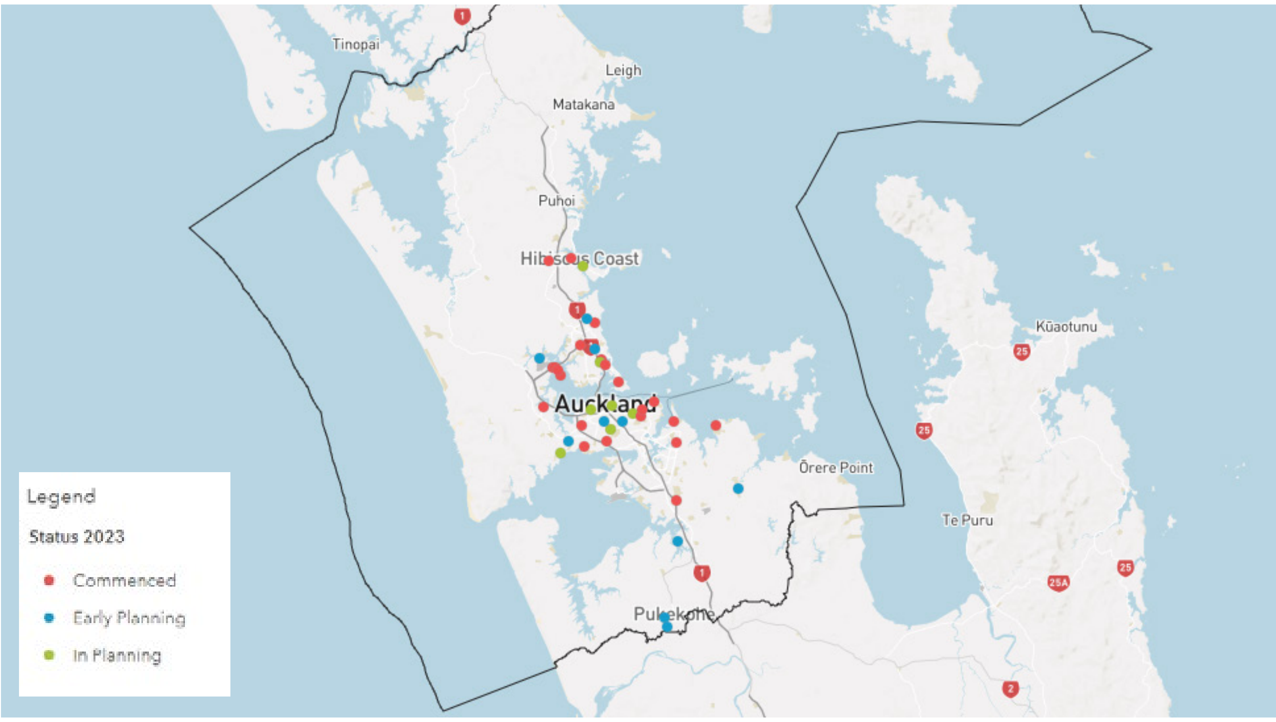
Map 9: Retirement village development pipeline: Status

Source: NZRVD 2022; ESRI

Status

Commenced   Early planning   In planning

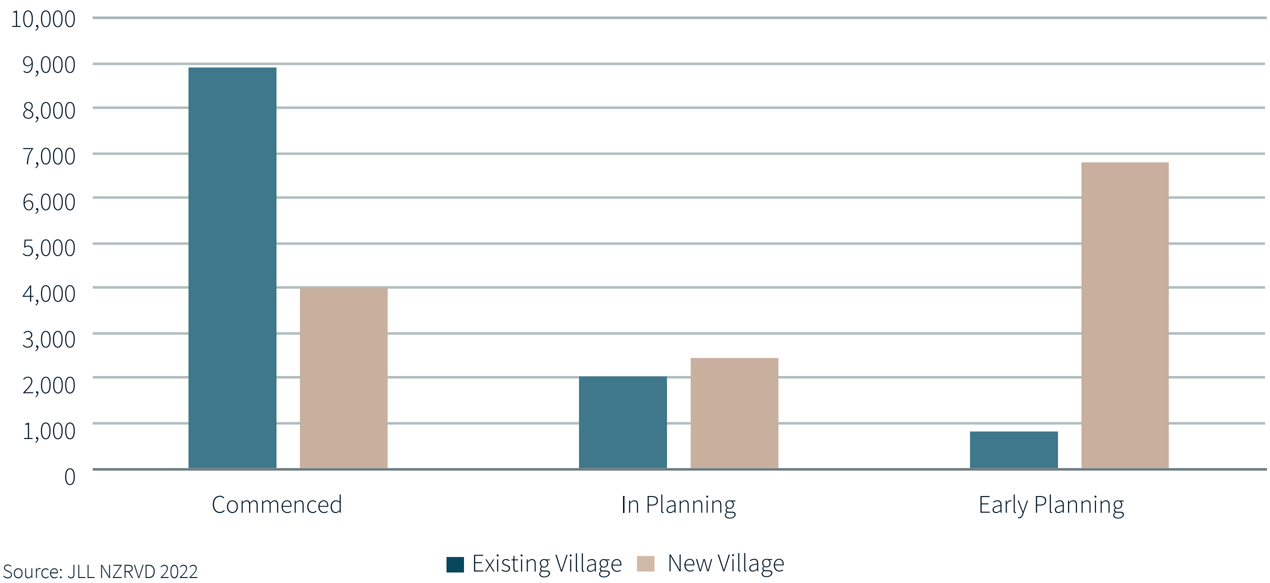
Map 10: Retirement village development pipeline, Auckland region: Status



Source: NZRVD 2022; ESRI

Figure 12 below shows that within the development pipeline, a greater proportion of extensions at villages have commenced construction, whilst the proposed new villages (which in total account for a larger proportion of development units) have a much lower proportion that have commenced, therefore a higher proportion are still in planning.

Figure 12: Development pipeline by status



Source: JLL NZRVD 2022

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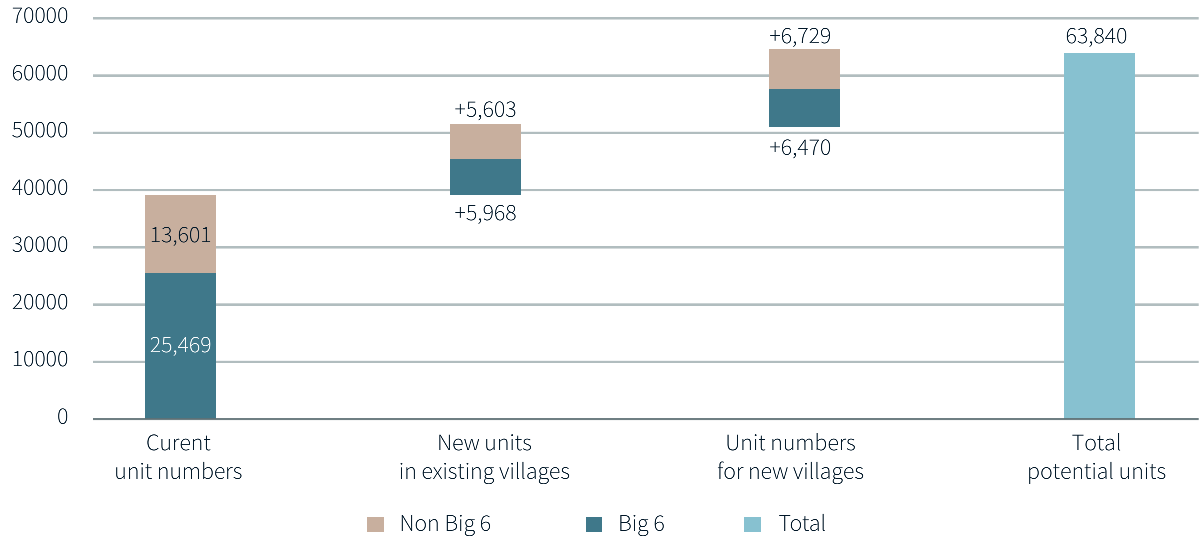
Estimated development pipeline – six largest operators

The 'big six' operators are significant contributors to the development pipeline data. Together they have an estimated development pipeline of 11,259 units, of which 46% are located at existing villages and 54% at new villages.

Figure 13: Development pipeline split between 'big six' and 'non-big six'.



Source: NZRVD 2022

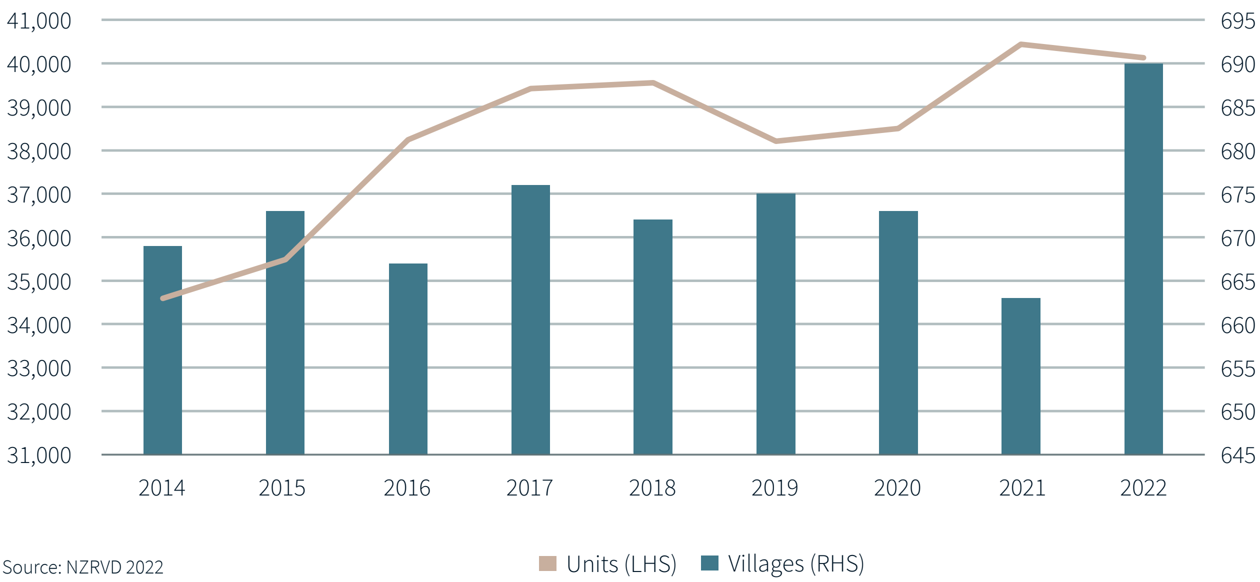
Aged care facilities 2022

7

Aged care facilities 2022

JLL's Aged Care database recorded 40,081 beds across 689 facilities. The figure below illustrates the New Zealand aged care sector over time:

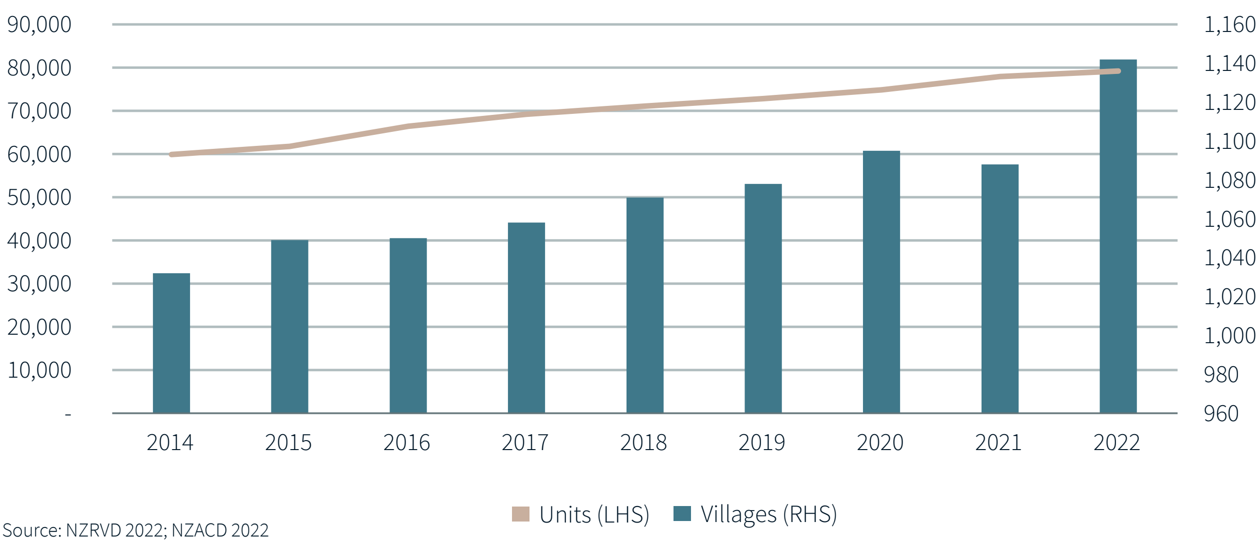
Figure 14: New Zealand aged care sector over time



Source: NZRVD 2022

The figure below combines Figure 6 and Figure 14 to illustrate the total number of units over time.

Figure 14A: New Zealand retirement village and aged care sectors over time



Source: NZRVD 2022; NZACD 2022

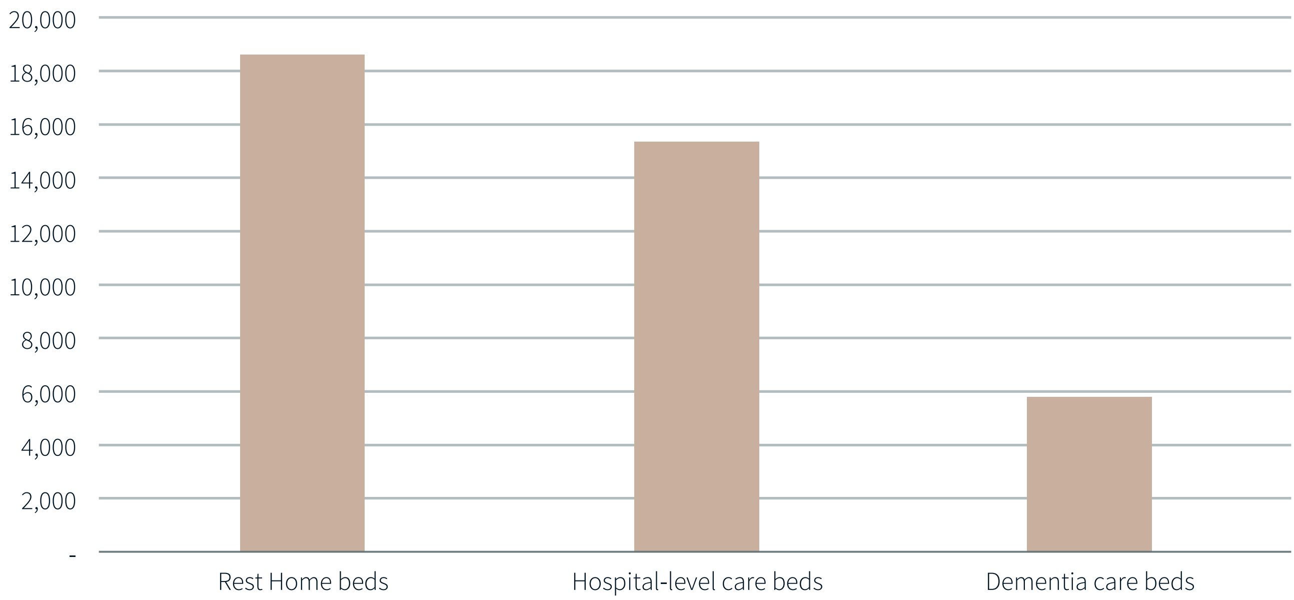
The distribution of aged care bed numbers by region is aligned with the distribution of New Zealand's population aged 85+ years. For example, the Auckland region had an estimated count of 22,520 residents aged 85+ years (27% of national 85+ population) as at the most recent Census. The Auckland region contains approximately 10,800 aged care beds, which also represents 27% of the national stock.

Figure 15: Regional distribution of care beds against population 85+

Source: JLL NZRACD 2022; Statistics New Zealand
Note: TNM stands for Tasman, Nelson, and Marlborough

These beds are divided into three types, as shown in the figure below:

Figure 16: Classification of aged care beds 2022



Source: JLL NZRACD 2022

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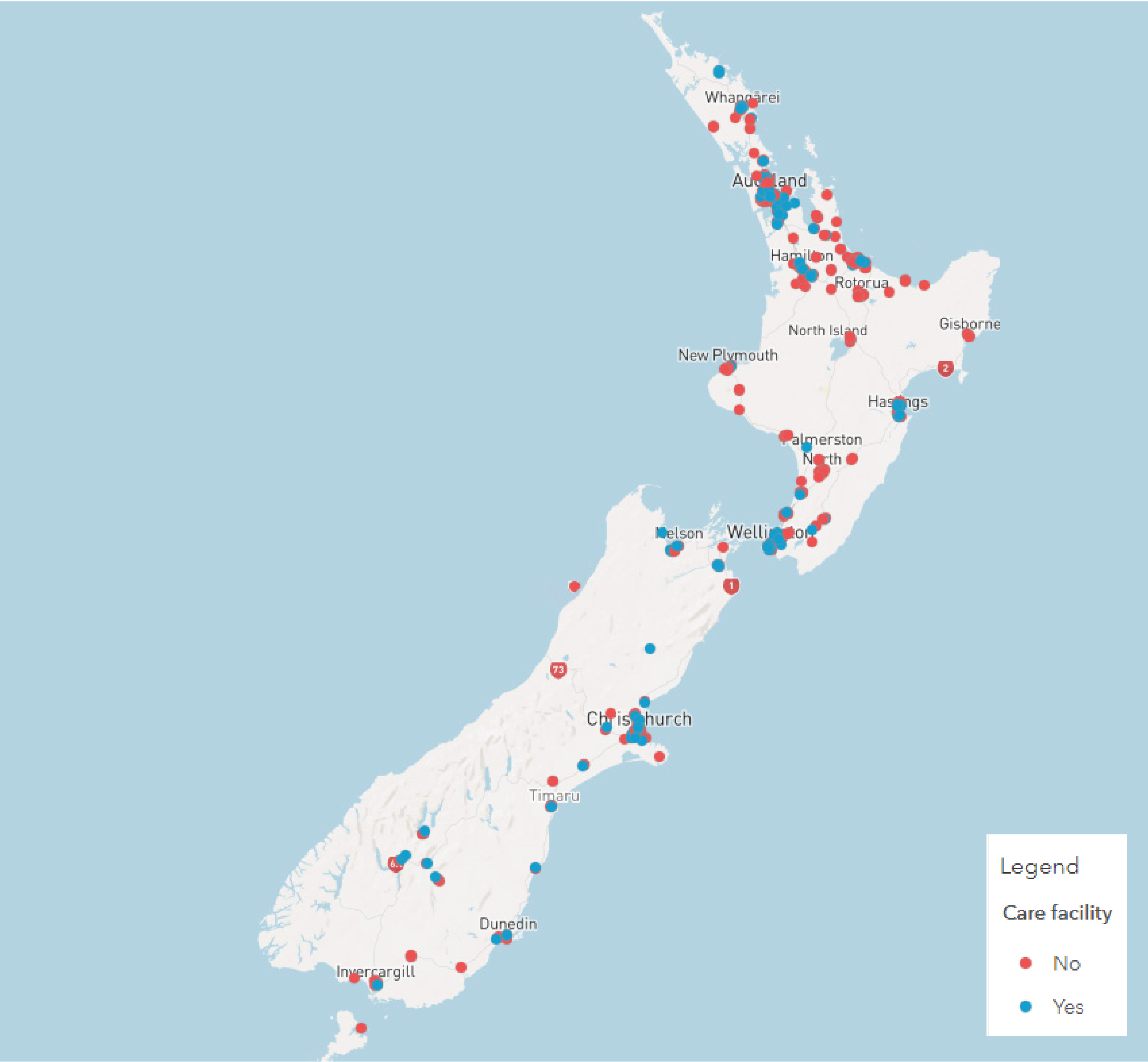
Aged care facilities within retirement villages

Of the 425 villages identified within the NZRVD 2021, we estimate that 275 (65%) contain an aged care facility. Among the 'big six', 74% of villages contain an aged care facility.

Map 11: Retirement village unit distribution



Source: NZRVD 2022; ESRI

Future supply and demand

8

New Zealand retirement villages and aged care

Analysis of future supply and demand numbers

Analysis of future supply and demand is based on the following assumptions:

01

Region-specific penetration rates as set out in the section above will stay consistent at least for the next 10 years with a country average of 14%

02

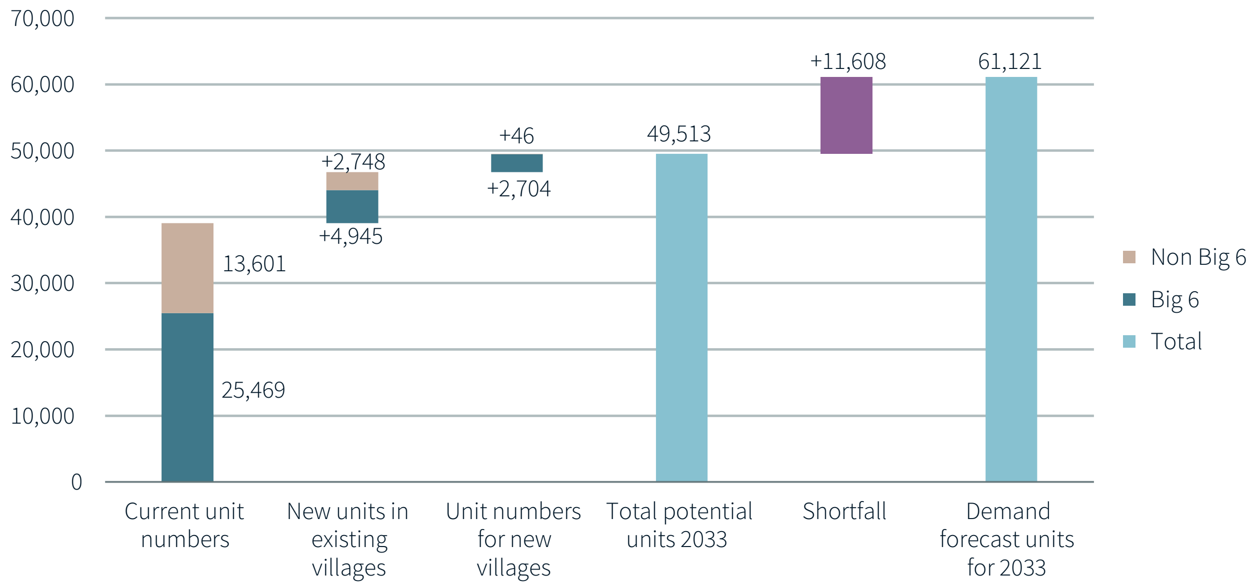
Unit to resident ratio of 1.3

03

The actual timing of developments is not overly transparent as to when these will be available for occupancy. We consider two scenarios: First, we consider whether those units which have commenced construction will be ready by 2033, and second, we consider whether those units which are currently under early planning or planning will also be ready by 2033

Considering only the units that have commenced construction (exclusive of aged care), we estimate there will be a shortfall of 11,608 units by 2033. This is based on the 10,443 units which are currently under construction to be ready for occupancy by 2033.

Figure 17: Comparison between forecast unit demand and commenced units



Source: JLL NZRACD 2022

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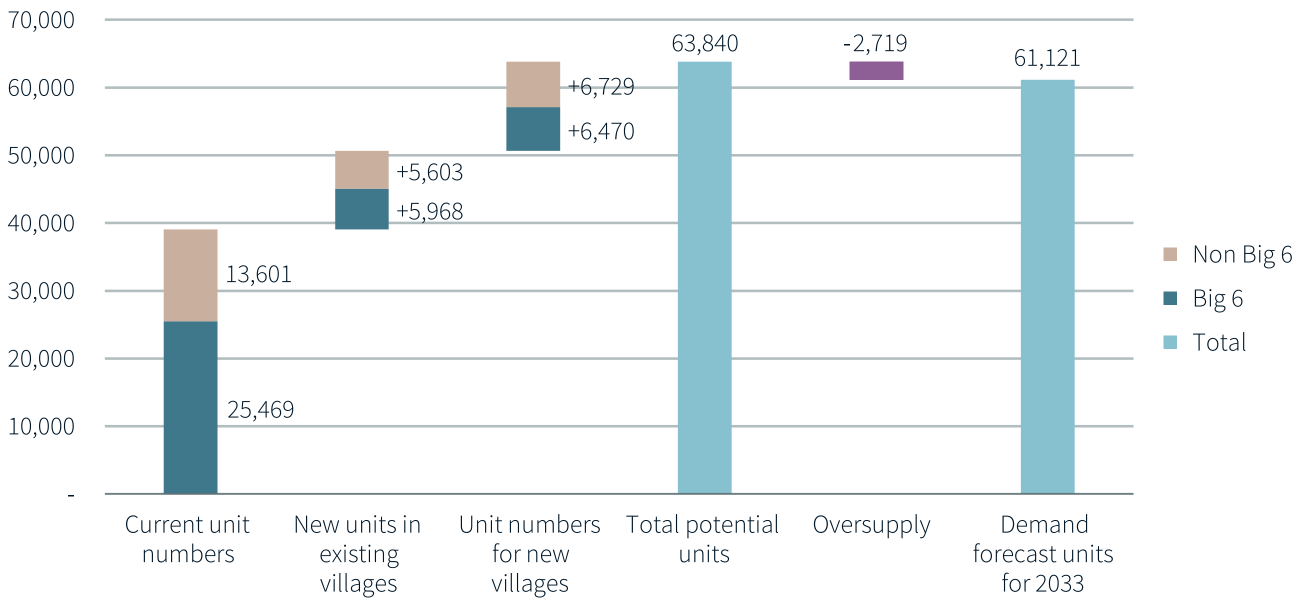
However, when we add in the 14,327 units in ‘planning’ (categorised as planning or early planning), the forecast of new units increases to 24,770. Should all the 24,770 units be completed within the next 10 years, this would represent an oversupply of 2,719 units.

This raises the question of whether operators can develop 24,770 units in 10 years. Historically, over the last five years, the average number of units completed each year has been 1,854. Based on a similar completion rate, the risk of oversupply is not expected to occur, or at least be minimal.

Figure 18: Comparison between forecast unit demand and all units in development pipeline



Source: JLL NZRACD 2022

Demand beyond 2033

For the first time, we also analysed demand and supply up to 2048, that is, for the next 25 years. We use the following assumptions:

01
Units currently under early planning or planning stages will all proceed as expected

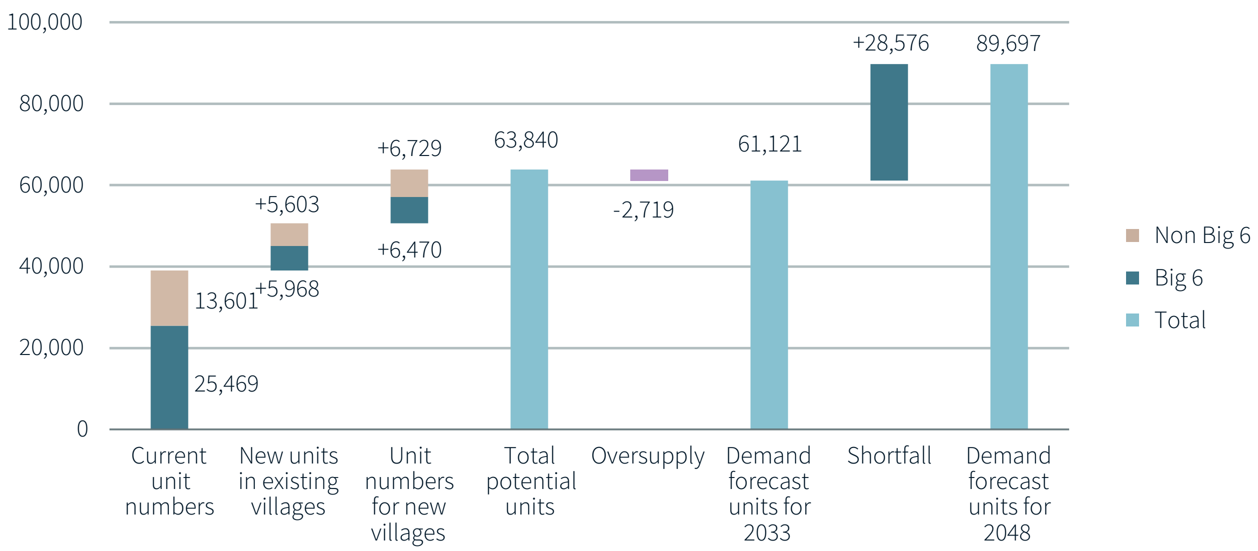
02
Resident-to-unit ratio will stay consistent at 1.3

03
75+ years population will be 759,630 (based on estimates by Statistics New Zealand)

04
For penetration rate, we consider two scenarios: First, we assume that it will stay consistent at 14.0%; and second, based on the trend that it has been marginally declining over the years, we assume it will drop to 12.8%

The following figure depicts that there will be a shortfall of 28,576 units by 2048.

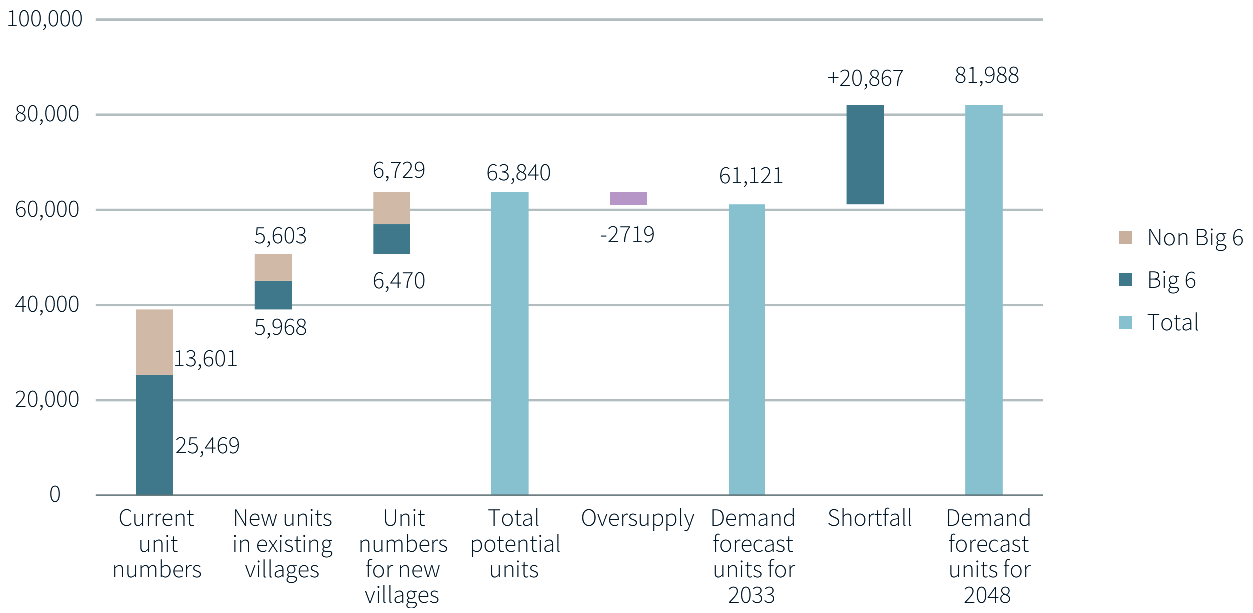
Figure 19: Comparison between forecast unit demand by 2048 at current penetration level



Source: JLL NZRACD 2022

The following figure depicts that even with a fall of penetration rate to 12.8%, there will be a shortage of 20,867 units by 2048.

Figure 19A: Comparison between forecast unit demand by 2048 at a lower penetration level



Source: JLL NZRACD 2022

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Influencers of future supply and demand

- Factors impacting future demand and supply: Our demand analysis is based on population forecasts for 2033 and assumes that current penetration rates and the resident per unit ratio across the regions will continue to define the industry. As mentioned at the start of this paper, future supply and demand for retirement villages is influenced by economic factors in addition to the country's ageing population:

01

On the supply side, inflation, which stood at 7.2% is impacting construction costs. CoreLogic's Cordell Building Index, a construction cost index, registered a quarterly growth of 1.7% and an annual growth of 10.4% for Q4 2022[8].

02

On the demand side, the New Zealand median house price has decreased in the last twelve months from $880,000 to $762,500[9], representing an annual decrease of -$117,000 (-13.6%), with sales volumes significantly down -27.0%. The median days to sell increased by 17 days to 51 days[10] at the start of the year. The residential real estate market is expected to see further softening in house prices during 2023, driven by the tighter lending environment, higher interest rates, and low consumer and business confidence.

- As discussed in last year's paper, the introduction of care suites into new aged care facilities continues as a response to development feasibility constraints and growing demand for premium accommodation options from residents and their families:

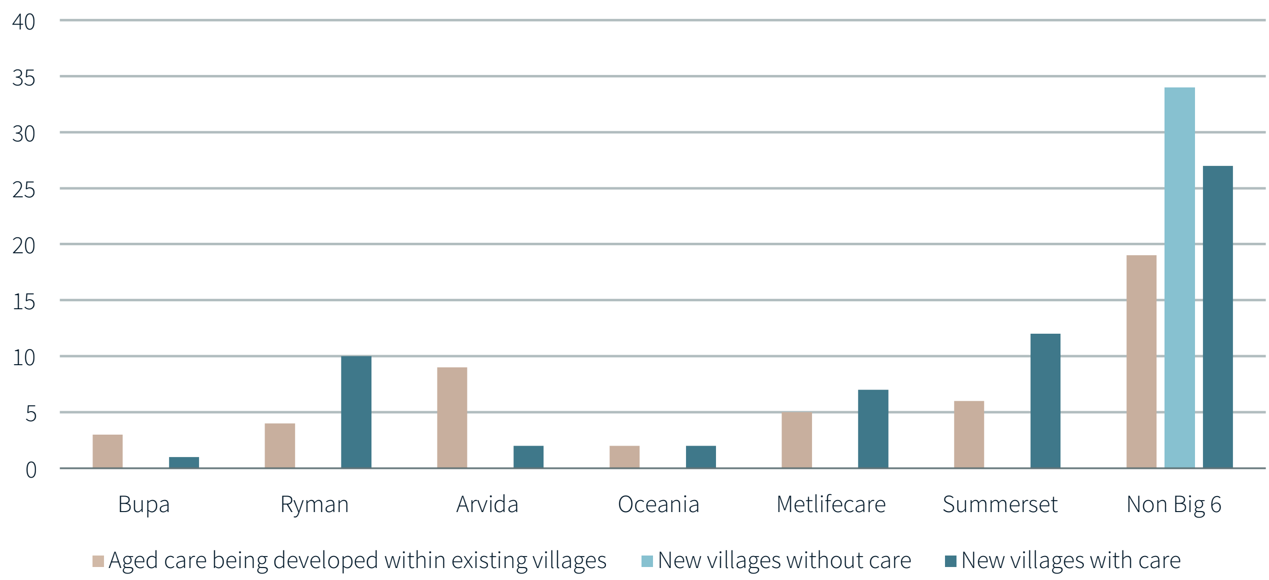
01

On the supply side, this is a strategic decision by operators of retirement villages who advertise on the basis that residents will not have to move to a different location in their later years if they require aged residential care services. However, a concern for any new integrated village will be the development cost of the care facility and the ability to run the operation profitably facing cost pressures and staff resourcing constraints. Construction of a village with a continuum of care comes with its own challenges

02

On the demand side, the call for care suites has already risen as older couples realise they can still live together if one or both require aged residential care services

Figure 20: Number of retirement villages within development pipeline

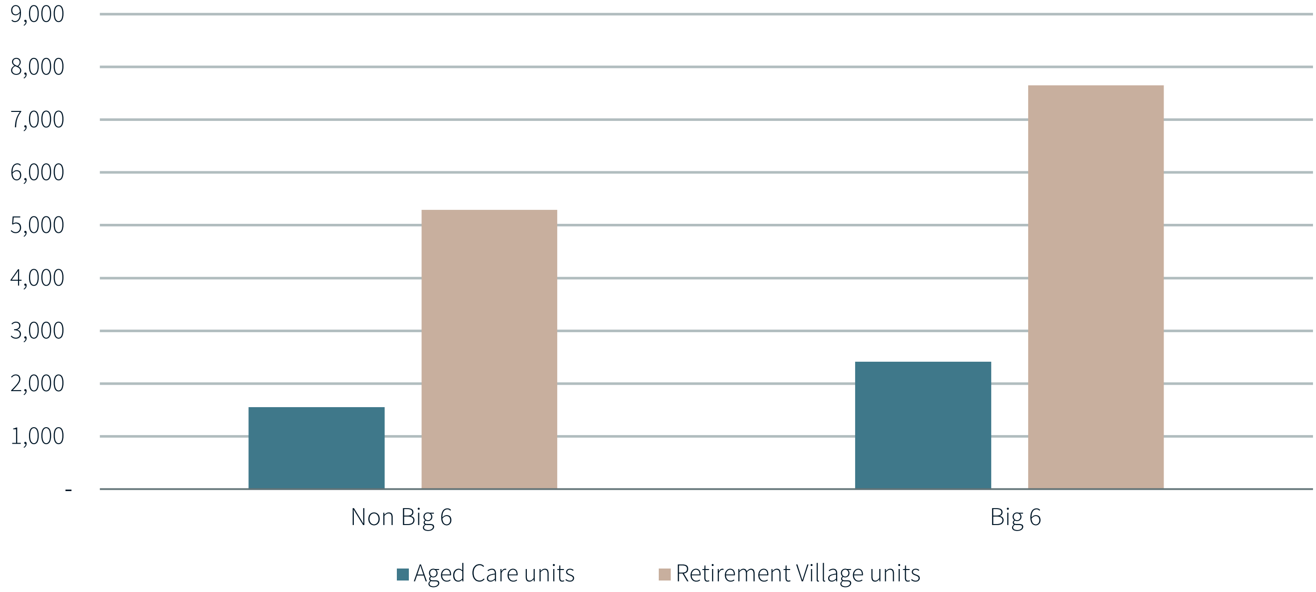


Source: JLL NZRVD 2022

[8]https://www.corelogic.co.nz/news-research/reports/cordell-construction-cost-index
[9]As at February 2023.
[10]As at January 2023.

- A comparison of the number of retirement village units versus the number of aged care units under development is shown below. In addition to the aged care units shown, there are 38 villages which have plans to add aged care units, but information on the number of these units was not available at the time of writing.

Figure 21: Retirement village versus aged care units within development pipeline



Source: JLL NZRVD 2022

- The 'big six' operators are seen to invest in Environment-Social-Governance (ESG) credentials, especially for their ongoing developments. For example:

01

Arvida has stated they will have best practice governance ready for FY24 Task Force on Climate-Related Financial Disclosures (TFCD) reporting

02

Metlifecare, Ryman and Oceania have all signed up to International Science-Based Targets Initiative (SBTi). Oceania plans to measure material scope 3 emissions inventory, has increasingly diverted rate of construction away from landfill, and will put out climate risk disclosures soon

03

Metlifecare's new development called Gulf Rise, based in Red Beach in Auckland, is 6 Green Star. It joined the Carbon Disclosure Project. In addition, it plans to build six new aged care villages with a 6 Green Star rating

04

Summerset's latest development is a net carbonised village, with 1,276 tonnes of construction waste diverted from landfill. It also reported a 16% reduction in CO_2 emissions per $1 million of revenue against 2017 baseline. In addition, it has three new lightweight sustainable main buildings planned

- Apart from ESG credentials, a number of developments by the 'big six' will be compliant with New Zealand's Healthy Homes standards:

01

Bupa's newest village, Foxbridge in Hamilton, has a Homestar L6 rating

02

73% of Arvida's portfolio meets gold standard ministry certification in accordance with the Ngā Paerewa Health and Disability Standard introduced in February 2022

03

All refurbishments for Metlifecare now follow Healthy Homes standard including LED lighting

Summary

The JLL Retirement Village team has a wealth of data, knowledge, and location analysis tools to deliver a range of services for the retirement village industry. JLL recognises that the retirement village and aged care industry in New Zealand is world-leading, and plays an important social role, providing communities for New Zealand's ageing population as well as contributing to the nation's general economic growth through jobs and investment.

The development and completion of the NZRVD and NZRACD whitepaper for now 11 years, together with the efforts undertaken by JLL's Retirement Village team in compiling the NZRVD and NZRACD, has allowed us to provide greater transparency and understanding of various important influences affecting New Zealand's retirement village industry to all stakeholders. We hope this whitepaper proves to be a valuable resource and we look forward to discussing the findings with industry participants.

Conclusions and key takeaways

1

Retirement villages across New Zealand continue to deliver new units to meet increasing demand, however demand will continue to challenge forecasted future development numbers

2

New Zealand's ageing population will continue to support present and future demand for retirement villages

3

Even with a challenging economic backdrop, this is not expected to materially impact future supply for retirement villages

4

The market share of the 'big six' operators has remained high and is expected to continue given their growth and development strategies. The 'big six' operators help raise awareness of the retirement village product, which benefits the industry as a whole. Niche operators can provide bespoke products catering to local markets

5

The aged care market provides a key part of the continuum of care that is offered by the private sector, however any significant reduction in this investment has the potential to impact future demand for hospital care/services from the public sector. We continue to monitor the introduction of care suites in villages

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Appendix 5

SENSE PARTNERS
UNCOMMON KNOWLEDGE

16 November 2023

Review of MartinJenkins report

Purpose

The Retirement Villages Association commissioned Sense Partners to review the overall approach and key assumptions in the MartinJenkins (MJ) 2023 **cost-benefit analysis on proposed changes to the Retirement Villages Act 2003**.[1]

Key points

Some elements of the approaches adopted by MJ to quantify costs and benefits are broadly reasonable. But we have identified several important weaknesses.

A key weakness is that the MJ report does not adequately consider the potential outcomes and risks of unintended consequences of the proposed changes – financial stress for marginal operators, higher costs and less choice for residents, and reduced investment.

Sensitivity testing is lacking. The MJ report quantifies the effect of some very limited alternative policy scenarios. But our testing shows results are *highly* sensitive to modelling assumptions.

The MJ report does not make any allowance for the impact of the Association's *Blueprint*. The latter asks the sector to voluntarily adopt many of the proposals being analysed. We understand there is already a high adoption rate, which may increase in time. This means proposed legislative changes may have only limited or no benefits to counter the added costs.

In conflict with standard practice in cost-benefit analysis, the MJ report includes transfers (or estimated returns on such transfers to vacating residents). It is only a minor aspect of the quantified financial impact of the proposed maximum repayment timeframes. But we consider the reader cannot rely on the quantified estimates of the proposals on interest payments and stopping weekly payments.

The qualitative assessment of benefits and costs raised questions for us. For example, we do not follow the logic of the MJ assessment that maximum repayment timeframes would:

- increase incentives for operators to speed up the relicensing of units – operators already have strong incentives to relicense quickly to start earning management fees
- give operators greater certainty – instead, they may *reduce* certainty, as repayments before units are relicensed may need to be based on estimates of market value.

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1 https://www.hud.govt.nz/assets/Uploads/Documents/RVA-Consultation/Cost-benefit-analysis-on-the-RVA-review-large-text.pdf

Proposals being evaluated

The MJ cost-benefit analysis covers five proposals related to payments and one proposal on dispute resolution:

- a maximum timeframe to repay residents after vacating units
- payment of interest on capital sums after a given timeframe
- stopping weekly fees once a unit is vacated
- treating capital gains the same as capital losses in determining repayment[2]
- stopping the accrual of the deferred management fee once a unit is vacated
- changes to dispute resolution.

Key concepts to frame the review

Cost-benefit analysis of a legislative or regulatory proposal seeks to identify whether its benefits to society exceed the costs.

Efficiency vs equity

Cost-benefit analysis considers the efficiency impacts of a proposal – whether it promotes:

- the supply of goods and services of a certain standard at least cost
- the optimal allocation of society's scarce resources given their costs and consumers' preferences and budgets
- investment and innovation over time.

This analysis excludes transfers – the redistribution of dollars between individuals or businesses.[3] This is because a transfer from one person to another does not change the *real* use of resources in the economy; the loss of one is cancelled out by the gain of the other. Inappropriately, however, the MJ report does include transfers in its calculations – specifically estimates of the value of returns on such transfers. This goes against the fundamental economic principle that we cannot presume to *know* how much any individual values an extra dollar compared to another individual (and so little can be said about their efficiency impacts).

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[2] This proposal and the following one were not evaluated in the MJ report.

[3] This is a well-accepted principle in conducting cost-benefit analysis. For example, see:

- page 10 of the Treasury's guide on cost benefit analysis (referred to in the MJ report): https://www.treasury.govt.nz/sites/default/files/2015-07/cba-guide-jul15.pdf
- page 58 of the United Kingdom Treasury's Green Book: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1063330/Green_Book_2022.pdf

Depending on the topic, redistribution can be of interest to policymakers for equity reasons, which is why policymakers may seek a distributional analysis. But this is separate from estimating efficiency impacts, which is what cost-benefit analysis is about.

Compared to what?

Policy proposals are often assessed relative to what would happen under current policy settings – the status quo. MJ's report references the *Blueprint for New Zealand's Retirement Villages Sector*, but its modelling of the status quo does not appear to make an allowance for it.

This is odd as the Blueprint calls for the sector to voluntarily address the issues targeted by the proposals – such as paying interest on outstanding amounts or stopping weekly fees once a unit is vacated. We understand the adoption of such practices is already high among RVA members.[4] But MJ's report implicitly assumes that the Blueprint will have zero effect, and thus likely overstates the size of any problem and the benefits, and maybe costs, of addressing it.

Dealing with uncertainty

Inevitably, the MJ report relies on assumptions. This introduces uncertainty in modelling. This is normal, but it is good practice to analyse the sensitivity of results to assumptions.

The MJ report includes only some rudimentary sensitivity analysis – taking some assumed low and high value for one modelling assumption (such as solvency threshold, or number of complaints). But it presents little or no evidence to inform those choices. Other assumptions are not tested at all, but we find results are highly sensitive to these other assumptions.

Subsequent outcomes and risks of unintended consequences

The MJ report includes some brief comments that increases in operator costs could flow through to resident charges. But the flow-on effects on consumers and operators have not received adequate attention. If costs cannot be passed on to residents, then a reduced rate of return could dampen future investment in units. And some operators may struggle to finance the proposed changes, threatening their ongoing viability. Ultimately, these effects could negatively affect competition, consumer access, and choice.

The five proposals related to payments appear to cover matters that are, or could be, resolved through the Occupation Rights Agreements. That would offer operators and residents the flexibility to agree to terms and conditions that best match the capabilities, circumstances and preferences of both parties.

A downside of using legislation is that it is less flexible, and so could stifle adaptation and innovation. That may cause residents to be worse off in the long run. Repayment before the sale price is confirmed may create new issues. Such potential costs were not considered.

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4 RVA, June 2023. *An update on the retirement village sector's Blueprint*.

Review of the MartinJenkins CBA of proposals

Mandatory timeframe to repay

A mandatory repayment timeframe would require operators to hold more reserves, which comes at a cost.

Overall approach

We were able to replicate MJ's calculations and broadly agree with the approach taken to modelling these costs, subject to several issues as set out below.

MJ's estimates differ from PwC's estimates prepared in 2022 for the RVA, for obvious reasons. PwC assumed repayment after 28 days of a resident vacating their unit, whereas the MJ report considers repayment after 6 or 12 months. The latter naturally reduces the volume of cases where payments would be made before vacated units are relicensed.

The MJ report also aggregates costs over 10 years, expressed in present values by applying a 5% discount rate. The latter is consistent with Treasury guidance.

The choice of a 10-year timeframe is not explained. Treasury guidance prefers whole-of-life valuations, as shorter periods could understate impacts. However, a longer valuation timeframe increases the degree of uncertainty around key assumptions. As there is no major difference between the timing of costs and benefits, the choice of a 10-year timeframe does not seem to distort the results in any major way.

The cost of capital assumption is important

The MJ report agrees with PwC that reserves would likely be equity-funded. But it adopts a lower cost of capital (10%) than the cost of equity that was assumed by PwC (13%).

MJ takes 10% from PwC's 2022 Cost of Capital report. However, the latter is concerned with the weighted average cost of capital (WACC), that is, equity and debt not just the cost of equity which usually exceeds the cost of debt. In any case, except for Arvida, the WACC of listed aged care providers is 11%+. And it seems reasonable to assume that on balance smaller, unlisted operators face a higher cost of capital.

Whatever the appropriate assumption for the cost of capital might be, the key point is that the assumption has a material impact on the estimated cost, and thus should have been subject to sensitivity analysis. For example, using 13% increases the 10-year present value cost of option 1A (6-month maximum repayment timeframe, with a 3-12 month solvency threshold) by approximately a third, from $265m-$1,103m to $364m-$1,454m.

Inappropriate treatment of transfers

The MJ report also estimates the value to the resident of getting their capital sum returned earlier than expected under the status quo.

We consider that the MJ's approach is inappropriate as it:

- *assumes* residents benefit from being able to put their money in a term deposit (earning 3% per year) sooner
- *omits* the offsetting loss to the operator of the 'cost-free' use of this money (opportunity cost of 10-13%?).

Whatever the right rate of return or opportunity cost might be[5], as noted above, transfers should be excluded from social cost-benefit analyses. Further, as a fundamental economic principle, we lack knowledge about who would benefit more from an additional dollar, stymying interpersonal comparisons.

In the context of the proposal being analysed, the impact on the result from this inappropriate treatment of transfers is small, however.

Other economic costs

Given the potential cost impact, this option also warranted comment on the subsequent economic impacts.

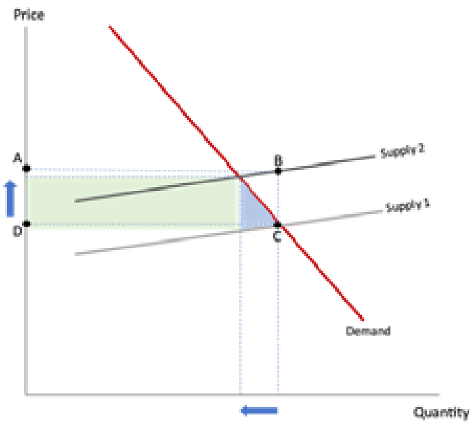
It seems reasonable to assume that, to maintain their margins, operators would try to raise prices. This may reduce demand for units, all else constant.

If operators cannot raise prices, reduced margins would discourage investment in units and put marginal operators out of business. This would reduce supply, all else constant.

The MJ report does make some minor qualitative comments along these lines, but these effects are not explicitly captured in the quantitative analysis and appear underdone.

If price and volume effects are small, it may be reasonable not to quantify them, but that judgement should be made explicit. If the price and volume effects are likely to be material, then these should be estimated, including any 'deadweight losses'. See Figure 1.

FIGURE 1



The figure (not to scale) shows an increase in costs of supply (Supply 1 to Supply 2).

MJ's estimate of cost is represented by rectangle ABCD – possible if demand was not responsive to price (the demand line would then be vertical).

If demand were responsive to price (as shown), quantity consumed would reduce (as would-be residents select alternative accommodation).

After this adjustment, the proposal's cost (increase in resources used) is shown by the green box plus the blue triangle which is the deadweight loss.

5 Based on the treatment in other options. Assuming reasonably efficient capital markets, the presence of such material differential in rates suggests estimated returns are not risk-adjusted.

Results are sensitive to assumptions about volumes and sale price growth

We note that the 10-year projections that underpin the MJ report assume an 8% annual growth in the number of units and a 5% annual growth in the sale price (with reference to recent trends). We have not verified these assumptions but note they have a material effect and should have been subject to sensitivity testing too.

For example, halving the growth rates would take the present value cost estimates for option 1A down 8%, from $265m-$1,103m to $243m-$1,010m.

Similarly, the analysis should have revealed the sensitivity of the result to MJ's assumption of a 10% 'capital adequacy buffer' (which increases the potential proportion of units that take longer than 6 months to relicense, from an assumed 23% to 33%).

The reason for this buffer in addition to the solvency thresholds is unclear. We consider the 3- and 12-month solvency threshold scenarios already deal with uncertainty about how much operators may need to pay ahead of relicensing. Setting the assumed buffer to 0% would reduce the cost of option 1A by 30% (to $185m-$769m).

Qualitative assessment raises questions

The qualitative assessment of unquantified benefits seems to consider mostly relevant effects.

However, we do not consider it credible that a mandatory repayment time would increase incentives for operators to maintain and improve villages or generally hurry up the sales process.

Our impression is that operators already have strong incentives to relicense units as quickly as possible. This is because it allows them to charge new deferred management fees and weekly fees sooner than if they go slow.

It also seems a stretch to assume that operators would benefit from greater certainty provided by a requirement to repay within a certain timeframe. The requirement shifts price risk from the vacating resident to the operator. That is, the operator faces greater *un*certainty.

Payment of interest on capital sums

The MJ report estimates the cost of paying interest on outstanding capital sums after a certain time. The interest rate paid to residents is assumed to be 3.15% p.a., with operators funding these payments from more debt (assumed to cost 9.4%). The proposal increases the cost of delivering retirement village services.

While the incidence of this increase in costs is unclear, the costs will be shared by residents and operators, through some combination of increased charges, lower quality, and reduced margins. Increased charges would likely dampen demand, and reduced margins would discourage investment, compared to the status quo.

We note that there is evidence that a high proportion of RVA members already make compensatory payments if the capital sum remains unpaid for any period, and this proportion could increase over time.[6] This means the additional impact of legislating for it may be small.

We are unsure about the calculations underpinning table 14 in the MJ report.[7] We have not been able to replicate the numbers based on the assumptions and data set out in the report.

However, we do not think it appropriate to subtract from the cost estimate some estimate of the return on the funds transferred from operators to residents (for reasons discussed above).

Stop weekly payments

Our comments on this are similar to those set out directly above. The estimated impacts over 10 years, which are small, are solely related to transfers.

We note that the sector is also already implementing this proposal voluntarily.

Dispute resolution

We were able to (more or less) replicate the status quo costs cited in the MJ report. The approach to making this estimate seems reasonable (though an analysis of the sensitivity of results to assumptions used is missing).

Some assumptions used to estimate the costs of the different proposals seem arbitrary.

The key assumption is the assumed increase in complaints due to a new dispute resolution approach. This can have a major effect on modelled costs. The costs of Option 2 for example range between +$3.5m (or +47%) to +21.2m- (+276%) depending on the impact on complaints volumes.

Uncertainties around other values (average cost of, for example, mediation or legal costs) are not considered in the sensitivity analysis.

The options have different start dates (eg option 2 starts at year 2, option 3 at year 3). This makes the costs of option 3 look relatively cheaper, making it hard to compare the present value of options (eg table 21).

Option 2 is said to save legal costs (p60), by 50% per case according to the appendix. But the same paragraph on p60 then states that legal costs increase, as does table 24 on p61. The numbers in the text do not align with the numbers in that table. It is unclear whether this is an editorial slip or represents issues with the estimates.

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6 RVA 2023, op cit.

7 If vacating residents present value return on invested funds at 3.15% (p77) is $66.8m, it implies they were paid (and invested) a present value of $2,210m. But a present value $70m cost to operators suggest a cost of borrowing of 3.3% ($70m/$2,210m), rather than the 9.4% cited.

The qualitative assessment needs to be taken with a grain of salt (table 22). For example:

- strong effects are assumed in terms of reduced stress or increased satisfaction. There could be some effect, but no evidence is cited to back up the strength of this effect
- some increases in operators' productivity are assumed due to changes in and streamlining of complaints processes. However, any productivity effect could prove illusive as operators would still need to understand the facts of and appropriate response to all complaints, *and* MJ assumes the number of complaints to increase compared to the status quo
- somewhat greater cohesion among residents is assumed, but it seems a stretch to assume that, when disputes between residents are serious enough to require outside help, the method of dispute resolution would improve cohesion among residents.

MJ comments on p55 that commissioners would generally be government-funded because they provide a public good, like health services. However, we consider dispute resolution services are in fact a private good, since they are clearly rivalrous and excludable.

It is possible that the authors simply mean that there is merit in spreading the cost of the dispute resolution services across all residents and operators who may use it – like insurance or club membership fees. There may or may not be merit to this, but it cannot be declared. Government funding would take these insurance or club-fees concepts a step further, and socialise the costs of commissioners among all tax-payers. The MJ report does not offer reasons why this would be appropriate.

END

Appendix 6

Best Practice Guidelines for Disclosure of Right to Transfer to Care in a Retirement Village

Regulation 31 of the Retirement Villages (General) Regulations 2006 sets out the requirement to make various disclosures relating to moving into a rest home or hospital care institution in a retirement village. The RVANZ recommends that the following disclosures should as a minimum be addressed when complying with this Regulation.

1. Whether the retirement village shares premises with or includes as part of the village a rest home and/or hospital care institution.

2. Whether the retirement village operator offers a resident the right to move from the village to a rest home and/or hospital care institution located elsewhere, whether owned or operated by the operator, an associated party or a third party.

3. If the operator answers yes to either question 1 or 2 or both above, describe the care levels currently offered in the relevant care institution, e.g. rest home, hospital, dementia or psychogeriatric.

4. State the total number of rooms and how many rooms are currently available in each care category.

5. Whether a resident has priority over non-residents to move to the care institution.

6. Whether an independent assessment required before a resident can transfer to the care facility? If not, explain that a resident will not be able to access subsidies administered by the government.

7. Whether a resident is obliged to pay any additional resident funded charges in addition to the daily care fee set in the Territorial Local Authority. If yes, describe the charges, e.g. daily premium room charges or a capital payment for an occupation right agreement.

8. If an independent resident elects to purchase an occupation right agreement in the care institution explain the key financial terms, e.g. whether a transfer policy is applicable.

In addition, where relevant, all operators must ensure that their ORAs comply with clauses 24 and 25, Retirement Villages' Code of Practice.

Appendix 7

ORA Relicensing Data Report

Retirement Villages Association

October 2023

Primary Purpose

UMR

Methodology

- The RVA sent an excel spread sheet template to all villages on their data base and requested them to insert their data on ORA relicense times for 2022. The completed spread sheets were then sent to Primary Purpose for analysis.
- ORA units that were in scope for this study needed to be empty in 2022 and relicensed within 2022.
- The unit may have become empty in 2021 but if they were still empty at the start of 2022 they qualified. Also, if they became empty at any time during 2022, they were included. However, we excluded from calculations any ORAs that remained empty at the end of 2022 (this is to avoid double counting as these units will then fall into the 2023 data calculations). From the 85 retirement village businesses that participated in this research there were:
  - 352 individual retirement villages with a total of 33,971 ORA units
  - 4,947 of these were empty at the start of 2022, or became empty during the year
  - 3,042 of these units were relicensed in 2022.

Note on rounding:

- All numbers are shown rounded to zero decimal places. Hence specified totals are not always exactly equal to the sum of the specified sub-totals. The differences are seldom more than 1%.

Summary of findings - Time taken to re-license ORA units

Six-month relicense rate remain steady with previous years

- Across New Zealand, 74% of ORA units that were empty in 2022 and relicensed within that year were reported as being re-licensed within six months, this is down from 77% reported in 2021 but is similar to the 75% figure recorded in 2020.
- The fastest six-month re-licensed rate of ORAs was reported in the Otago/ Southland region (89% down 2% from the previous year). This was followed by the Hawkes Bay/ Gisborne region where 84% (down 3%) of units were re-licensed within six months.
- The Auckland region reported the lowest six-month ORA re-licensed rate of 63% (however this is up 9% from the previous year). The next slowest rate was reported in the Nelson/ Marlborough/ Tasman/ West Coast combined region with a six-month re-licensed rate of 67% (down 20%).
- Auckland and Canterbury were the only two regions where the six-month re-licensed rate improved this year. Auckland (up 9%) as already reported and Canterbury up 6%. This is the reverse of last year when these two regions were the only ones to report a drop in their six-month re-licensed rate from the previous year.

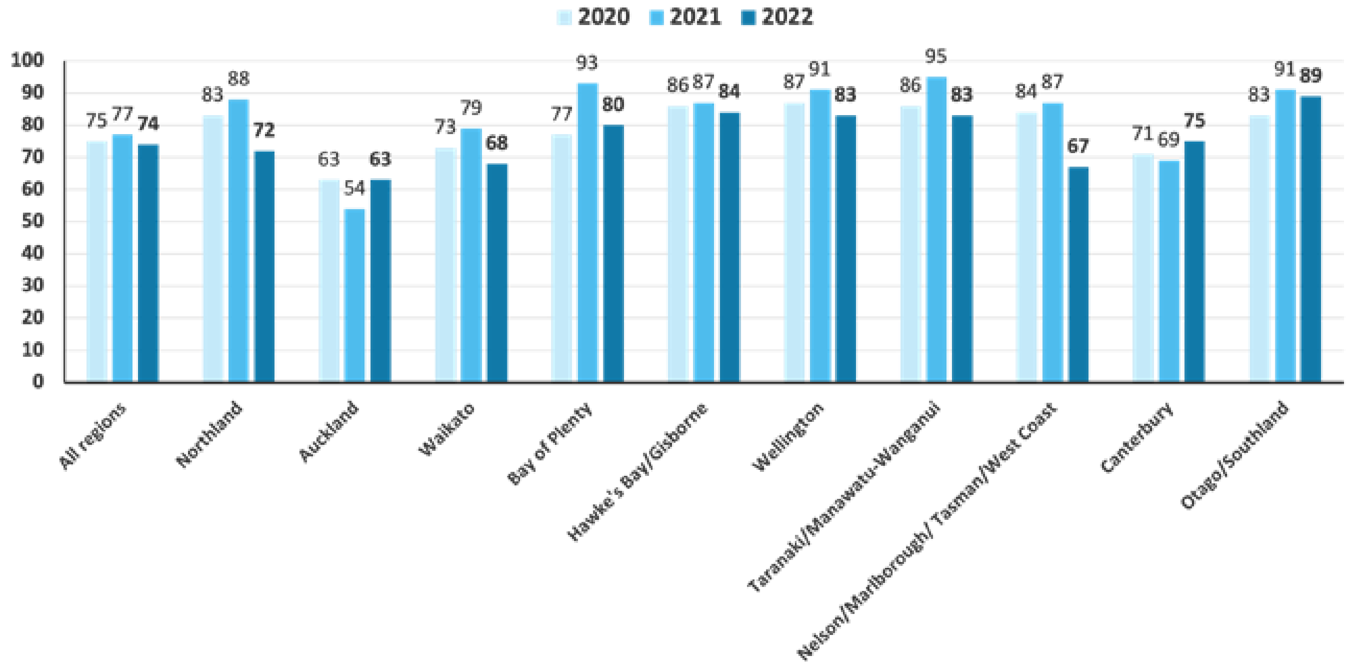
Main reasons for ORA re-license rate taking longer than six months

The four main reasons for ORA units taking longer than six months to settle in 2022 were:

- ORA units for relicensing were less appealing than others in the village/ new apartments impacted on sale of older units (20% of mentions down 4%).
- An increased supply in their region/ competitive market (19% up 4%).
- Low number of enquires (13% - was not mentioned in the 2021 data and was 4% of mentions in 2020 data).
- A range of issues leading to applicant holding up the sale such as failed to sell their own home/ a health event/ longer settlement/ changed their mind/ held up estate and probate issues (12% down 3%).

Percentage settled in less than six months– comparing 2020/2021/2022 - Out of those relicensed and settled in each year

For the units that were under an ORA how many were re-licensed within each of the following time periods?



Note: *The total population for deriving percentages are based on units that were either empty at the start of 2022 or became empty during that year –but also re-licensed within 2022. Any units that were not relicensed at the end of 2022 were excluded from the percentage calculation.*

Base: All respondents (n=1,692)

Time taken to settle ORA units during 2022 (Out of units re-licensed in 2022)

For the units that were under an ORA that were empty at the start of 2022 or become free during that year how many were re-licensed within each of the following time periods?

Region	In less than 6 months		More than 6 months	
	n=	%	*n=*	%
All regions (n=3042)	*2239*	74%	*803*	26%
Northland (n=83)	*60*	72%	*23*	28%
Auckland (n=953)	*601*	63%	*352*	37%
Waikato (n=269)	*184*	68%	*85*	32%
Bay of Plenty (n=304)	*242*	80%	*62*	20%
Hawke's Bay/Gisborne (n=178)	*149*	84%	*29*	16%
Wellington (n=372)	*307*	83%	*65*	17%
Taranaki/Manawatu-Wanganui (n=230)	*192*	83%	*38*	17%
Nelson/Marlborough/Tasman/West Coast (n=122)	*82*	67%	*40*	33%
Canterbury (n=368)	*277*	75%	*91*	25%
Otago + Southland (n=163)	*145*	89%	18	11%

Note: *The total population for deriving percentages are based on units that were either empty at the start of 2022 or became empty during that year –but also re-licensed within 2022. Any units that were not re-licensed at the end of 2022 were excluded from the percentage calculation.*

Summary of reasons for ORAs taking longer than six months to re-license

Summary of reasons for ORA's taking longer than six months to re-license *What are the range of reasons for these ORA units taking longer than six months to re-license?*			
Reasons	% of mentions 2022 n=95	% of mentions 2021 n=93	% of mentions 2020 N=149
ORA unit for relicense was less appealing than others in the village/ new apartments impacted on sale of older ones	20	24	21
Increased supply in their region/competitive market (mainly Auckland and Tauranga in 2020) (mainly West Auckland in 2021)	19	15	4
Low number of enquires	13	-	4
A range of issues leading to applicant holding up the sale such as failed to sell their own home/ a health event/ longer settlement/ changed their mind/ held up estate and probate issues	12	15	19
Time taken to undertake remedial work/ refurbishments required/ extension renovations	7	16	26
COVID-19 lockdown – prevented some viewing of units by potential residents	2	19	26
Other	22	8	7
Unsure/ does not apply	6	-	-

Base: 2022 n=95 village business, 2021 n=93 village businesses , 2020 n= 149 village businesses,
Note: due to multiple mentions total will not equal 100%

Time taken to settle – comparing 2020/2021/2022 - Out of those re-licensed and settled in each year

For the units that were under an ORA how many were relicensed within each of the following time periods?

Region	*Sample size n=*			In less than 6 months %			More than 6 months %		
	2020	*2021*	*2022*	*2020*	*2021*	*2022*	*2020*	*2021*	*2022*
All regions	*3,127*	*3,147*	*3042*	75	77	**74**	25	23	**26**
Northland	*103*	*173*	*83*	83	88	**72**	17	12	**28**
Auckland	*888*	*882*	*953*	63	54	**63**	37	46	**37**
Waikato	*303*	*242*	*269*	73	79	**68**	27	21	**32**
Bay of Plenty	*280*	*288*	*304*	77	93	**80**	23	7	**20**
Hawke's Bay/Gisborne	*173*	*161*	*178*	86	87	**84**	14	13	**16**
Wellington	*365*	*356*	*372*	87	91	**83**	13	9	**17**
Taranaki/Manawatu-Wanganui	*300*	*235*	*230*	86	95	**83**	14	5	**17**
Nelson/Marlborough/ Tasman/West Coast	*142*	*157*	*122*	84	87	**67**	16	13	**33**
Canterbury	*420*	*467*	*368*	71	69	**75**	29	31	**25**
Otago/Southland	*153*	*186*	*163*	83	91	**89**	17	9	**11**

Note: *The total population for deriving percentages are based on units that were either empty at the start of 2022 or became empty during that year –but also relicense within 2022. Any units that were not re-licensed at the end of 2022 were excluded from the percentage calculation*

Appendix

Time taken to settle ORA units during 2022 (Out of units re-licensed in 2022)

For the units that were under an ORA that were empty at the start of 2022 or become free during that year how how many were relicensed within each of the following time periods?

Region	*0-3 Months %*	3-6 months %	*6-9 months %*	9+ months %
All regions (n=3042)	32	41	17	10
Northland (n=83)	49	23	6	22
Auckland (n=953)	23	40	20	17
Waikato (n=269)	34	34	22	10
Bay of Plenty (n=304)	37	43	15	5
Hawke's Bay/Gisborne (n=178)	33	51	12	4
Wellington (n=372)	34	49	15	3
Taranaki/Manawatu-Wanganui (n=230)	37	47	11	5
Nelson/Marlborough/Tasman/West Coast (n=122)	34	34	23	10
Canterbury (n=368)	29	46	16	8
Otago + Southland (n=163)	58	31	9	2

Note: *The total population for deriving percentages are based on units that were either empty at the start of 2022 or became empty during that year –but also re-licensed within 2022. Any units that were not re-licensed at the end of 2022 were excluded from the percentage calculation*

Time taken to settle – comparing 2020/2021/2022 - Out of those re-licensed and settled in each year

For the units that were under an ORA how many relicensed within each of the following time periods?

Region:	*Sample size n=*			0-3 months %			3-6 months %			6-9 months %			9 + months %		
	2020	*2021*	***2022***	*2020*	*2021*	***2022***	*2020*	*2021*	***2022***	*2020*	*2021*	***2022***	*2020*	*2021*	***2022***
All regions	*3,127*	*3,147*	*3042*	28	38	**32**	47	39	**41**	14	14	**17**	11	9	**10**
Northland	*103*	*173*	*83*	40	56	**49**	43	32	**23**	9	7	**6**	9	5	**22**
Auckland	*888*	*882*	*953*	15	16	**23**	48	38	**40**	18	27	**20**	18	18	**17**
Waikato	*303*	*242*	*269*	42	36	**34**	31	43	**34**	19	11	**22**	8	11	**10**
Bay of Plenty	*280*	*288*	*304*	34	51	**37**	43	43	**43**	15	4	**15**	8	3	**5**
Hawke's Bay/Gisborne	*173*	*161*	*178*	31	48	**33**	54	39	**51**	10	9	**12**	4	4	**4**
Wellington	*365*	*356*	*372*	29	48	**34**	58	43	**49**	10	6	**15**	3	3	**3**
Taranaki/Manawatu-Wanganui	*300*	*235*	*230*	35	61	**37**	51	34	**47**	9	4	**11**	5	-	**5**
Nelson/Marlborough/ Tasman/West Coast	*142*	*157*	*122*	39	39	**34**	44	48	**34**	9	12	**23**	7	1	**10**
Canterbury	*420*	*467*	*368*	21	36	**29**	50	33	**46**	15	18	**16**	14	12	**8**
Otago/Southland	*153*	*186*	*163*	46	55	**58**	37	37	**31**	7	5	**9**	10	4	**2**

Note: *The total population for deriving percentages are based on units that were either empty at the start of 2022 or became empty during that year –but also re-licensed within 2022. Any units that were not re-licensed at the end of 2022 were excluded from the percentage calculation*

Time taken to settle – comparing 2019/ 2020/ 2021/ 2022 for the large group retirement village businesses (8/ 10* in total) - Out of those re-licensed and settled in each year

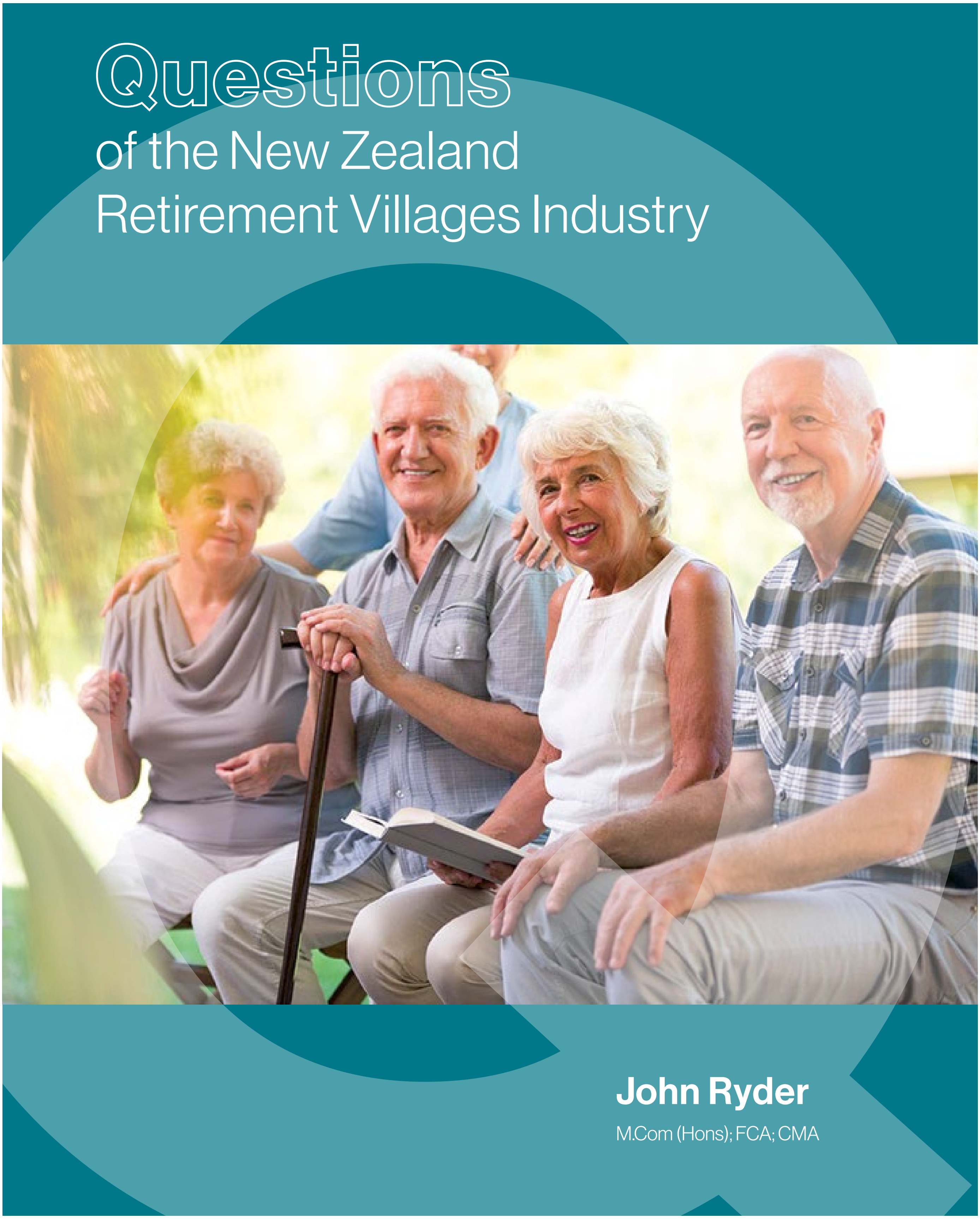
For the units that were under an ORA how many relicensed within each of the following time periods?

Region	*Sample size n=*				In less than 6 months %				More than 6 months %			
	2019	*2020*	*2021*	*2022*	*2019*	2020	2021	*2022*	*2019*	2020	2021	*2022*
All regions	*2,909*	*2089*	*2361*	***2264***	73	75	74	**73**	27	25	26	**27**
Auckland	*990*	*678*	*719*	***782***	58	61	53	**62**	42	39	47	**38**
Hamilton	*201*	*153*	*179*	***190***	67	63	71	**58**	33	37	29	**42**
Bay of Plenty	*202*	*210*	*240*	***241***	72	78	93	**83**	28	22	7	**17**
Wellington	*370*	*223*	*266*	***289***	89	89	91	**84**	11	11	9	**16**
Rest of North Island	*546*	*414*	*405*	***325***	87	88	90	**87**	13	12	10	**13**
Christchurch	*350*	*276*	*340*	***269***	74	77	68	**75**	26	23	32	**25**
Rest of South Island	*250*	*153*	*212*	***168***	86	84	88	**76**	14	16	12	**24**

*Arvida absorbed Arena living in late 2021 AND Selwyn didn't return a form this year hence there were only 8 village groups

Note: *based on 8/10 retirement village groups that participated in the 2019 to 2022 research includes 208 individual retirement villages. The total population for deriving percentages are based on units that were either empty at the start of 2022 or became empty during that year - but were also re-licensed within 2022. Any units that were not re-licensed at the end of 2022 were excluded from the calculation.*

Appendix 8 – John Ryder Report on Questions of the New Zealand Retirement Villages Industry



Questions
of the New Zealand Retirement Villages Industry

John Ryder was a founding shareholder and joint CEO of Ryman Healthcare, is Executive Chair of Qestral Corporation, a Fellow of the New Zealand Institute of Accountants and has been inducted into the New Zealand Business Hall of Fame.

Introduction

In May 2023 the New Zealand Commerce Commission said it will be launching an investigation into potential breaches of the Fair Trading Act by retirement villages. This was after a series of complaints, including from Consumer NZ and village residents, about what they claim are unfair contract clauses that leave retirees out of pocket.

It was also in spite of retirement village legislation that rules that all occupational right agreements for residents should be signed off only after appropriate legal advice.

A key issue was potentially misleading advertising, with some retirement villages pitching a continuum of care to potential residents and not able to fully provide it. Consumer NZ also took issue with retirement village occupation rights agreements (ORAs) which they said "clearly" benefited village operators.[1]

They said that residents pay large capital sums for ORAs and get their capital back, minus a large "deferred management" fee when they leave. Residents usually do not get the benefit of any capital gains during the period. Many were "being required to keep paying weekly management fees for months after vacating a unit".

The Retirement Villages Residents Association have a range of demands, which were first set out in its 2021 Framework for Fairness document. It includes making village operators repay the capital sum soon after they leave a village, perhaps as soon as 28 days.[2]

This paper looks at how arrangements arose in the industry, the contribution that retirement villages are making to the healthcare system in New Zealand, and whether the new demands on the industry are reasonable or fair.

Executive Summary

- The number of elderly people in New Zealand is rapidly increasing, and personal healthcare costs rise exponentially with age.

- To keep a lid on funding requirements, government assessment units have been continually raising the entry level criteria for resthome residents – leading to growth in the unsubsidised retirement villages sector as an alternative.

- It is no longer economic to construct stand-alone private aged care facilities. They are only being built as part of integrated retirement villages – which (compared to Australia) have predominantly adopted a "continuum of care "model.

- Home care is only a partial solution, because of the number of elderly who live alone.

- Privately operated care facilities are an essential safety net to keep the elderly out of public hospitals.

- The industry is a large contributor to the New Zealand housing stock.

- Residents are protected by the 2003 New Zealand Retirement Villages Act.

- The government makes no financial contribution to the retirement villages sector.

- Operators do not sell units as they need to continue to operate the villages. Any property gains are unrealised.

- Because there is no sale of units, occupation loans were introduced to help fund village development. They are also a quid pro quo for deferring management charges until the end of the residency. It enhances the weekly cashflow of residents, allowing many to live off their pensions.

- As a result, the New Zealand retirement villages industry is extremely popular.

- Retirement villages are complex, integrated businesses, not just providers of accommodation.

- A private tax, by the resident, on the unrealised capital gains of part of a village, would be an unprecedented arrangement for property and business rights in this country.

- Relicensing of units occurs in an orderly manner.

- The industry has resident occupation and bank loans exceeding $20 billion. Legislating to place licence repayments on short-term call would financially destabilise the industry. Banks would reappraise their commitments to the sector.

- The profits of retirement village companies, under official international accounting standards, are largely unrealised. It is difficult to make an overall cashflow surplus on the development of retirement villages.

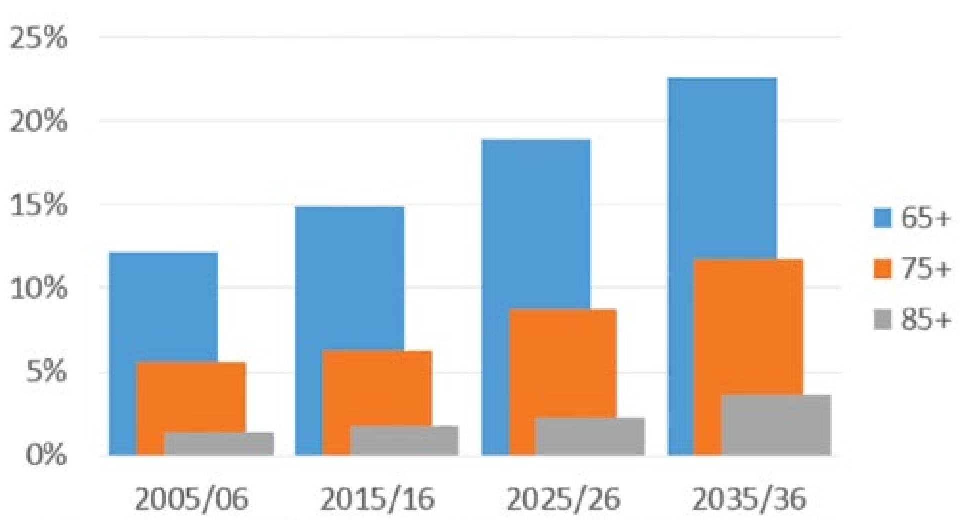
- The Retirement Villages Association has made a number of recommendations to improve practices in the industry.

- There are high levels of satisfaction among retirement village residents.

Resthomes, Private Hospitals and Dementia Centres

The number of elderly people in New Zealand is rapidly increasing. The baby boomers are retiring, and medical science is assisting people to live longer. Statistics NZ say that there will be 1 million people in New Zealand over the age of 65 by 2028.[3]

Percentage of population in older age groups



Source: Statistics NZ, National population projects by age and sex, 2014 (base)–2068

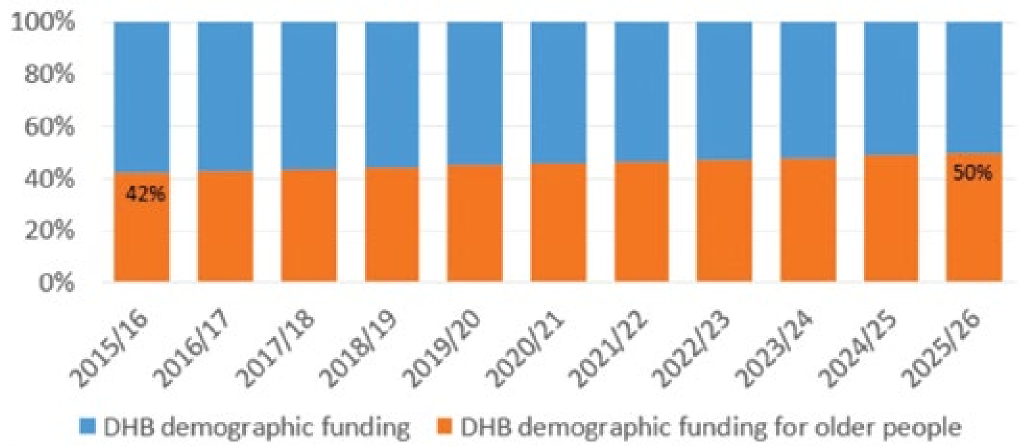
This has created a problem for the Government when allocating the limited healthcare dollar. To help solve funding issues they have adopted a strategy over the years of consistently raising the care subsidy criteria - until the entry level criteria for resthome residents has become close to what was previously used in private hospitals. Average care levels per resident (and therefore costs to operators) have escalated.

People unable to qualify for subsidised resthome and hospital level care instead have turned to the private retirement villages sector, to give them security, indirect healthcare assistance and a continuum of care. The industry has become increasingly popular and a useful solution for issues arising from the ageing process.

Personal healthcare costs rise exponentially with age.

A 2016 New Zealand DHB study reported that the elderly (over 65) group made up 15% of the population but consume 42% of the health services. This was expected to rise to 50% by 2025/26.[4]

Share of health services used by people aged 65 and over



Source: Ministry of Health, estimate of future demographic-based funding for DHBs based on population growth alone

They said:

> ***Over the last 10 years, DHB spending on services for older people has increased twice as fast as their [DHB] overall expenses... and 5 times as fast as the consumer price index (CPI).***

How are elderly health problems being serviced?

A 2020 survey by the NZ Aged Care Assn reported that there were around 40,000 private aged care beds in New Zealand.[5] This compares with just under 8,000 public hospital beds.[6]

At a cost, including land, of around $250,000 a bed, it is no longer economic to construct stand-alone private aged care facilities. By themselves they are not being built – and are only viable as part of integrated retirement villages.

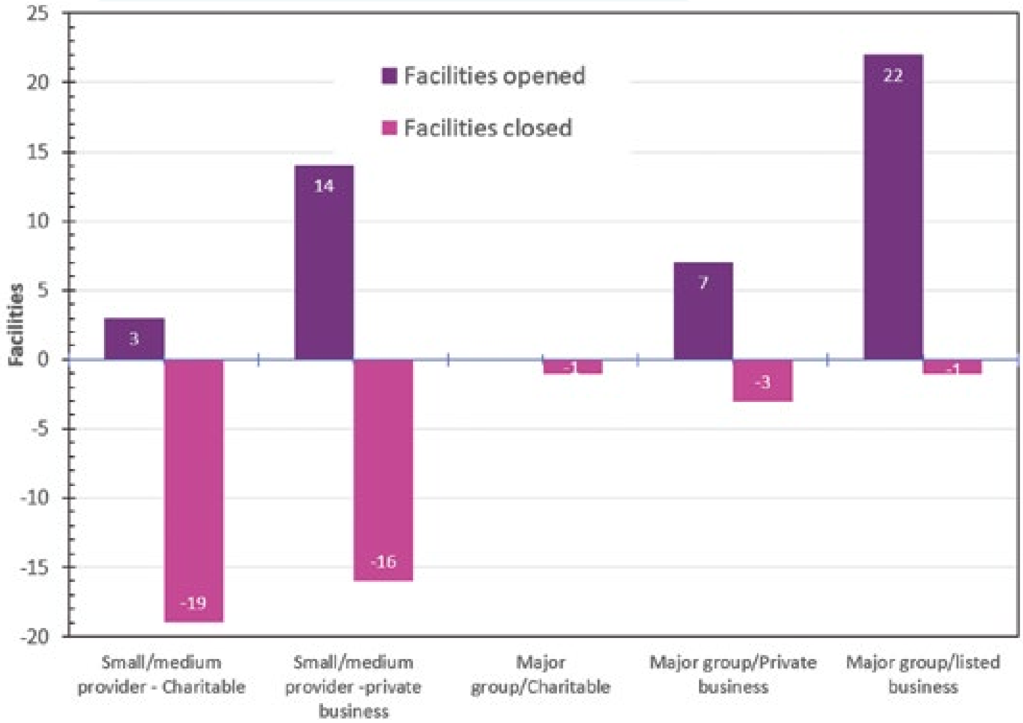
More than 50% of aged care facilities (resthome/hospitals) in New Zealand are over 30 years old and the median age is 33 to 35 years.[7]

The sector is also under significant operating financial stress.

According to a May 2022 article by Newshub:

> ***New data shows more than a third of aged care facilities may be forced to close this year due to a lack of funding.***
>
> ***A survey by Aged Care Matters reveals 35 percent of facilities said it's very likely, or likely, they will wind up over the next 12 months.***[8]

Facilities opened and closed since June 2017



The above chart shows the changes (opening and closing) since 2017 in aged care facilities (resthomes, private hospitals and dementia centres) and how dependent they now are on expansion by the large retirement village operators.[9] The smaller and charitable aged care operators have become unprofitable and are closing facilities - 1260 beds were shut in 2022.[10]

However, the larger operators are also scaling down the size of their care facilities, with Ryman announcing that they will significantly decrease their bed numbers for new facilities in future, due to commercial viability concerns.[11]

Home care is a partial solution, but over 50% of women in the 75+ age group in New Zealand live alone, making it difficult for them to live independently.[12]

The Government does not owe operators in the aged care industry a living. However, let us be clear - resthomes, private hospitals and dementia centres are a triage system and safety valve for public hospitals – and they are now only being built as part of retirement villages.

And with the growth in the supply of private care facilities lagging significantly behind expanding demand, there is a danger that a lack of private care facilities will cause elderly people to cascade into the public hospital system.

Which leads us to the first major assertion on aged care by this paper:

> ***Privately operated care facilities are an essential safety net to keep elderly people out of public hospitals.***

The Contiuum of Care Model

In New Zealand over 70% of retirement villages have integrated care facilities, in comparison to just 30% in Australia.[13]

Former Minister of Health and now New Zealand High Commissioner to Australia, Dame Annette King, said in September 2022:

> ***The Continuum of Care model – widely used in New Zealand but only in its infancy in Australia – offers a strong basis on which to address two key issues facing the aged care sector: financial viability and, most importantly, improving the quality of care delivered to residents.***[14]

The CEO of Ryman Australia recently said:

> ***I'm a fiercely proud Australian, but the simple truth is the Kiwis' approach to aged care has been streets ahead of ours for decades.***[15]

It has been frequently said in the media that the Australian aged care industry is "in crisis".[16]

The continuum of care model in retirement villages provides greater healthcare solutions in New Zealand.

Retirement Villages

Increased assessment criteria for care facilities caused many New Zealanders to turn to retirement villages. As popularity grew, many operators expanded facilities on offer to also include swimming pools, bars, cafes, restaurants, gyms, movie theatres etc. As well as providing health solutions, the complexes also became "lifestyle villages".

Which leads us to the second major position by this paper:

> ***The government subsidises suitably assessed elderly people into resthomes and hospitals but makes no financial contribution to the retirement village sector.***

Independent units in retirement villages cater just for the private market.

The Housing Stock

Apart from providing essential healthcare services and acting as a gatekeeper to the public hospital system, the retirement village industry is a major contributor to building new houses and apartments across the country.

According to PwC :

> ***Between 2014 and 2019, approximately six to seven percent of all new building consents issued in New Zealand were retirement village units. In 2018, Ryman Healthcare, the country's largest village operator was also named the biggest residential builder with a total project value of circa $900 million across 39 projects, ahead of Fletcher Construction at $867 million. Summerset, Metlifecare, Oceania and Arvida were all ranked in the top fifteen.***[17]

Elderly people, moving into retirement villages, also free up housing stock for the balance of the population.

Legislation

The New Zealand Retirement Villages Act was established in 2003 to recognise the interests of residents. A village needs to be registered, have a statutory supervisor to represent resident rights and loans from residents have priority over other creditors, including banks. This provides financial security.

A resident must receive independent legal advice before an occupation right agreement is valid and villages must have a code of residents' rights. Financial statements must be audited and provided to residents on an annual basis.

Occupation Loans

In the early development of retirement villages there was debate over the ownership structure of independent units. They couldn't be sold in the manner of a property developer, as there was an ongoing obligation for the operator to maintain the village and service future residents... irrespective of the ebb and flow of occupants. The operator could not just sell, then up stakes and leave. The units were part of an "integrated" concept, rather than something that could be "hived off" in the property market.

Which leads us to the third fundamental rule in the aged care industry:

> ***Retirement village operators do not sell units. Any valuation gains are unrealised.***

The question at the outset was: if you can't sell units, then how do you fund village development?

An associated but important factor was that residents were generally retired and wanted to mainly live off their pensions. They no longer had wages or salaries to supplement accommodation costs. They had their own homes, but in commercial terms could be described as "asset rich, but cash poor". They could not afford large amounts of service charges to come out of their weekly cashflow. There were no government subsidies.

Integrated retirement villages can employ up to 100 staff - in roles like management, nursing, general care, activities, maintenance, cleaning, laundry work, and in reception. Behind the scenes there is a multitude of administration workers. There are specialised activities staff and free access to a wide range of events and activities. These are available to residents, who also usually have priority access to higher level nursing care in resthomes, hospitals and often dementia centres on site.

Which leads us to the fourth fundamental position in the aged care industry:

> ***Retirement villages are complex and integrated businesses, not just providers of accommodation.***

The government subsidy for a private hospital bed in New Zealand is (depending on the region – the example is for Canterbury) around $2,038 a week (including GST) and $1,283 for a resthome bed.

This compares to the estimated cost of a public hospital bed of between $1,200 and $1,500 a day.[18]

So, what would occupants of independent units in an integrated retirement village normally pay for the accommodation, village facilities and services?

A reasonable charge for a motel in New Zealand, with basic services, is around $130 a day, or over $900 a week. Also, consider what it costs for a week in a resort in Fiji. Retirement villages are more complex, so around $1,000 to $1,200 a week would be a fair estimate.

As the industry developed the operators knew that this type of weekly figure would be untenable to the average pensioner, and so a "quid pro quo" arrangement was offered:

- To fund the village the resident would be asked to provide an interest free occupation loan, repayable when a new occupant is secured.

- The charges would be simplified, and similar to the rates system – based on the capital contributed by the occupation loan.

- The charges would be capped and deferred – not payable until the occupant exited the premises (and then deducted from the loan amount). This meant a low weekly cash inflow to the operator, and a low weekly outflow for the tenant. The deferral on average was for 8 to 10 years.

It worked. The resident had clarity. They knew the capital sum, that it would be repaid and the exact deferred fixed charges – providing certainty. There would be a regular service fee, currently only around $150 a week, to cover rates and insurance. In many villages this weekly fee is permanently fixed, and the daily cost of living for many can be contained within the pension.

The New Zealand retirement villages industry became exceptionally popular. There are now over 50,000 residents in around 38,500 houses and apartments [19] and about 1,800 new units are developed each year. The elderly embraced the concept.

Capital Gains

It has been popular for the media and the Retirement Village Residents Association to demand that legislation be introduced for residents to receive a share of the capital gains in retirement villages, but no mention of sharing capital losses. They are effectively seeking a share of the business gains. In spite of existing contractual arrangements, they also believe it should be retrospective – which is not the usual procedure for new legislation in New Zealand.

Let us discuss this.

As previously mentioned, retirement village operators (with a few exceptions) do not sell independent houses or apartments. They receive a loan, pay it back and deduct deferred charges. They then receive another loan, and the same applies. There is no sale and resale, and *titles do not change.*

The demand therefore is for a private tax, by the resident, on *unrealised capital gains* of a part of a village – an unprecedented arrangement for property and business rights in this country.

Although New Zealand may in future have a capital gains tax, it is generally recognised that this would not apply to *unrealised* capital gains.

The suggested structure would have serious implications for the commercial world. Retirement village residents, like tenants in flats, motels, hotels, resorts, and commercial buildings, do not generally have a share of ownership. The business needs to continue providing services to each successive resident, and an accommodation unit is just part of the overall complex. For a resident to be guaranteed a share of the unrealised capital gain of the accommodation portion of an integrated commercial facility would be highly unusual. It has implications across all property and business markets.

And how do you assess the value of a unit – when the resthome, hospital, community centre and availability of staff all contribute to this figure? Valuers will tell you that there are many moving parts to a retirement village.

Which leads us to the fifth fundamental principle:

> ***It is unprecedented for governments to legislate for residents to be paid a share of unrealised business gains.***

Repayment of Loans

As previously discussed, instead of selling a unit the operator usually receives an interest free loan to compensate for deferring the management charges until the end of the residency. It is similar to a mortgage but ranks above mortgages, bank loans and bonds for security. In most villages, it is repaid when a new resident is secured.

There is a demand by the Retirement Village Residents Association for an automatic repayment period, such as 28 days, on vacating the premises.

Let's discuss this.

At last count (from their audited balance sheets), the four major publicly listed retirement village companies (Ryman, Summerset, Arvida and Oceania) as well as unlisted Metlifecare - had $11.5 billion of occupation loans from residents and $6.2 billion in interest bearing loans (mainly banks and bonds) – a total outstanding of $17.7 billion.

The listed corporate sector is estimated to comprise about 65% of the retirement village market.[20] This suggests that when accounting for the balance of the market the total figure for occupation loans, banks and bonds is well over $20 billion.

This is equivalent in size to 5% of the New Zealand economy[21], or 29% of the net New Zealand Government debt (of $70.2 billion), as at 30 June 2022.[22]

These loans, from residents, banks, and bonds, are classified in company balance sheets as long-term liabilities. The average resident stays for about 8 to 10 years.

Because most occupation right agreements provide for repayment on the reoccupation of a new resident, repayments tend to occur in an orderly manner, fluctuating up and down according to new resident demand and the real estate market. If the repayment was "on short-term demand", then the $11.5 billion would be reclassified by auditors as short-term liabilities, as potentially all residents could leave and demand repayment immediately. The statutory supervisors would require operators to have large amounts of cash reserves to cover this contingency. Loans would be repayable irrespective of the circumstances, such as the state of the property market or economy. The orderly market would become disorderly.

PwC has calculated that based on CBRE valuation data, a repayment period of 28 days, and an orderly 9 to 12% turnover a year, then the financial cash reserves for funding repayments would need to be around $2.2 billion for the industry.[23]

But this assumes an orderly market. Markets can be severely disrupted, from property crashes and financial crises (such as the GFC). If confidence fades there can be a run on markets. The potential for business liquidity events would be greatly enhanced.

PwC comment:

> ***Whilst larger operators (such as the listed entities) may have additional sources of working capital to draw from, the additional cost requirement is likely to disproportionately impact smaller or not-for-profit operators. These operators are typically more capital constrained and therefore would be exposed to liquidity or financial viability issues, particularly in market down-turns. Ultimately, the cost and risk associated with a mandatory repayment period may lead to less smaller scale development and therefore a reduced range of village options for residents. In many instances, these operators are located in rural or provincial New Zealand, and there could therefore be a disproportionate impact on these areas.***[24]

In the history of commerce there have occasionally been much-feared situations when industries have collapsed due to a syndrome known as "borrowing short and lending (or investing) long". This is where an industry has a predominance of creditor funds on call and cannot quickly repay these because the related assets are unable to be readily realised.

Prior to the Global Financial Crisis, the New Zealand finance company industry was reasonably sound. However, because of the mismatch between call terms and investment terms 51 finance companies in New Zealand between 2006 and 2012 either went into liquidation or receivership or had payments frozen.[25]

Many New Zealanders, particularly the elderly with retirement funds on term deposits, lost their money.

By instigating an automatic repayment regime, irrespective of the circumstances, the retirement village industry (with funds invested in fixed assets such as houses, apartments, care facilities and community centres), would be in exactly the same position.

Realising the exposure, the banks (who rank behind residents in priority) would reappraise their positions and likely reduce their commitment to the sector – becoming concerned (if not alarmed) at the new risk. There would be a good chance that the development of retirement villages would grind to a halt, puting further pressure on the health system.

Because they make a financial and lifestyle commitment, residents are exposed to retirement village risk. Although residents have priority over other debt instruments, they don't want village operators to become financially unstable. Owner instability leads to resident stress.

Which leads us to the sixth major assertion by this paper:

> ***Making occupation loans repayable on demand could financially destabilise the industry***

This does not mean that the operator should not accept responsibility for occupation loans. Most loan agreements have a clause saying that after a fixed period (such as 6 months) the resident can use their own agent to market the unit, and good operators also have a clause paying interest on the loan if not repaid after a reasonable time.

Financially there have been multiple incidences of stand-alone care facilities in New Zealand becoming illiquid and being forced to close, because government funding is insufficient to cover expenses.

However, this is rare with integrated retirement villages. The industry to date has been stable and financially resilient (particularly compared to Australia).

Financials

Pundits often look at the financial results of retirement villages and comment on the significant profits being made. For example, Ryman healthcare reported an after-tax profit of $257.8 million in the financial year ended 31st March 2023, and Summerset to 31st December 2022 made a profit of $269.1 million. However, Ryman's figures were down 61% (from $692.9 million in the previous year) and Summerset's fell 51% (from $543.7 million).

Why the fluctuation?

Under International Accounting Standards (IFRS), retirement village earnings are calculated from operating net revenue (but excluding development margins, as they do not sell houses) as well as gains from incremental property values... for the whole village. This is the same as international accounting rules for all property holding companies. Valuations are based on expectations of a future stream of earnings, adjusted for time and risk by a discount rate. This rate fluctuates according to economic and real estate circumstances and the ongoing addition of fixed facilities for residents at the village (i.e. to the extent that the village is integrated).

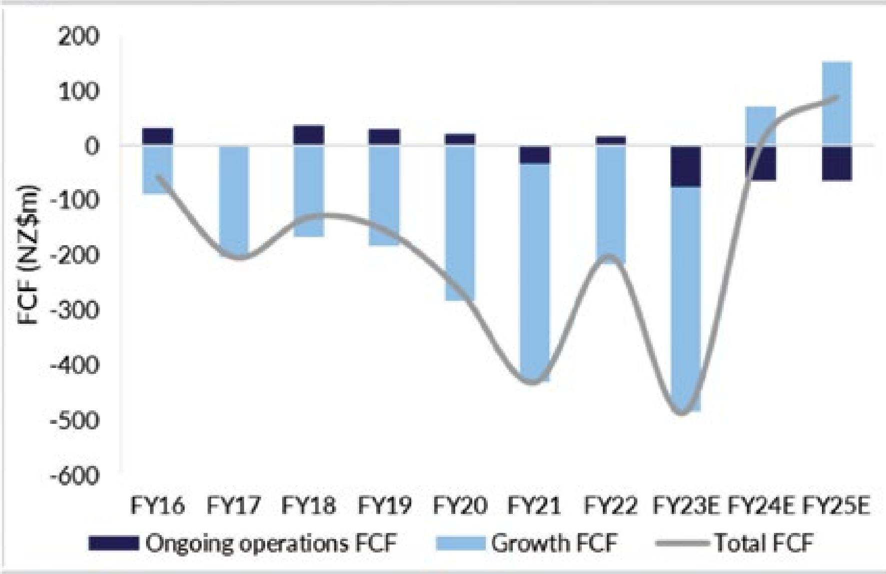
The point being made is that they are not realised figures and are not cash figures.

When looking at earnings on a cash basis it is a characteristic of New Zealand retirement villages that it is very difficult to make a cash surplus on the development of a village just from occupation loans received from residents. This is why the companies also require bank debt and why Ryman recently had a capital raise from shareholders of over $900 million to strengthen their balance sheet (along with suspending dividends). Analysts calculated that they had been making development shortfalls for a number of years.

Forsyth Barr said (February 2023):

> ***Ryman added $2.5 billion of net debt to its balance sheet between the 2016 financial year and now, despite not having a single year of positive free cash flow since the 2014 financial year.***[26]

RYM free cash flow



Source: Forsyth Barr analysis, Company reports

Note from the above chart that it has even been a struggle to generate a free cashflow from "ongoing operations" – indicating the difficulty in making care facilities profitable.

Summerset, in their December 2022 results presentation, for 18 villages currently under development (totalling $3.5 to $3.8 billion), calculated that they would have a projected net cash surplus of approximately (just) 7% on completion of the projects.

Which illustrates the following:

> ***It would not be equitable to pay a percentage of unrealised gains on accommodation to residents… and putting occupation loans on short-term call would destabilise the industry.***

RVA and other recommendations

The Retirement Villages Association has articulated a number of shortfalls in the industry and recommended that:

- Service fees and deferred management charges cease after terminating the residency.
- The responsibilities for repairs and maintenance of operator-owned chattels be clearly set out to residents.
- Operators pay interest on occupation loans if not setled within 9 months.[27]

The RVA says that in a member survey the average time to repay was four months, with 77% of units relicensed within six months, and a further 14% within a further three months. Six months is probably a more appropriate time to start paying interest on loans.

The Ministry of Housing and Urban Development "Retirement Village Code of Practice 2008", issued under the Retirement Villages Act 2003, also stipulates under S51 and S52 the process for remarketing a unit, with a disputes procedure available if the occupation loan has not been repaid after 9 months.

Most occupation loan agreements allow for residents to appoint their own agents if a unit is not relicensed within a specified period of time.

The RVA said that the average time to relicense a unit in Australia is in the order of 240 days (eight months), whereas the period in New Zealand is less than half that.

Misleading advertising on the availability of care beds within a village is a concern, but this is a matter for the Commerce Commission to spell out, with warnings, to the industry. S26 of the 2003 Retirement Villages Act says that operators must ensure that advertisements are not misleading or deceptive.

However, operators – like public hospitals - do not keep beds empty, waiting for unannounced transfers... but instead rely on the natural rotation of care bed participants.

The RVA has said that numerous independent surveys show high satisfaction levels among retirement village residents. The last reporting period to the Retirement Commissioner resulted in 271 complaints from a total of 50,000 residents.

> ***Despite a faltering economy, falling real estate markets and negative media attention, demand remains strong... and there are high levels of satisfaction among retirement village residents.***

June 2023

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27 RVA Assn website.

Appendix 9 – Ross Currie's Report

Te Tuapapa Kura Kainga (Ministry of Housing and Urban Development) Review of the Retirement Villages Act 2003 Discussion Paper. A Retired Bankers Feedback on Moving Out - the Proposed Mandatory Buyback Regime.

Section 1 – How the Retirement Village Sector is currently funded.

To assess the impact of the mandatory buyback proposal outlined in Te Tuapapa Kura Kainga's discussion paper on banks' funding appetite for the retirement village sector, we first need to review the role of debt financing to the sector and how banks assess the risks of funding the sector.

Valuers note that retirement villages are a micro market that reflect a higher level of risk than other forms of property. There are limited buyers and sellers reducing sector liquidity in addition to sector specific legislation/regulations, non-compliance with which would adversely impact the value of a village or portfolio of villages. Valuers also note that retirement villages require a greater level of re-investment than other forms of property to remain attractive to future residents and therefore achieve re-sales when units become available. Re-investment should be funded from working capital, being the cashflow from village operations including new unit sales and re-sales. In addition to these market risks lending to retirement villages carries a higher level of risk compared to lending to other sectors including:

- Debt repayment is limited to cashflow from operations. Generally, banks require two viable exits being cashflow from operations plus one or combination of: (i) new equity; (ii) realising on security provided; (iii) refinance by another lender; or (iv) sale of the assets or business. Alternate exits, other than new equity, are unlikely to be viable if a retirement village operator is in financial difficulty owing to limited market liquidity and alternate lender appetite.
- Reputational risk. While a lender could exercise its security if all other options to remedy a default have failed, which is subject to the consent of the Statutory Supervisor and limited to selling the village/s as a going concern, plus other conditions included in the Security Sharing and Priority Deed being met, banks would be reluctant to take such action owing to the risk of adverse publicity and damage to their own reputation.
- Industry complexity. Understanding the drivers of cashflow from village development and operation requires industry specific knowledge and takes time.

For the above reasons some banks choose not to fund the sector or limit their funding to the listed operators only. Those banks that do fund the sector generally limit funding to experienced operators who are appropriately capitalised, provide an offering demanded by the market and have a long-term investment horizon.

In theory debt funding should be limited to village development, subject to relevant development controls. Once a village is fully developed and sold down, all debt funding should be repaid from sale of the Occupation Right Agreements ("ORA's") and the village should be funded by the amounts due to existing residents on re-sale of their units, the associated deferred management fees that accrue to the operator over time and equity.

However, in practise, bank funding does extend to working capital and acquisition funding in addition to brownfield and greenfield development funding where, among other things; (i) the operator has a sound operating track record; (ii) the village/s meet market demand (right product at the right price in the right location); (iii) there is sufficient critical mass in the number of ORA's to reduce re-sales volatility, noting that when units will become available and can be relicensed is uncertain, and provide sufficient surplus cashflow to service and repay debt; and (iii) the village/s have a resident maturity profile such that re-sales are expected to occur in line with sector benchmarks.

Where banks provide working capital and acquisition funding (core funding), they require financial covenants which include that the cashflow available for debt servicing, (surplus cashflow after meeting all operating expenses, re-investment in the village/s referred to above, repairs, maintenance, capital expenditure and tax), will be sufficient to cover interest expense. The covenant includes a buffer, with cashflow available for debt servicing covering interest by at least two times being a common covenant. A loan to valuation ratio is also included. All debt financing requires the consent of the Statutory Supervisor who will also require the operator to meet certain terms and conditions in consideration of consenting to debt financing.

Excluding development cashflows, cashflow is derived from; (i) weekly fees charged to residents; (ii) fees for service packages if these are offered and residents choose to take these up which are generally provided at a nominal profit; and (iii) net cashflow from re-sales (re-sale prices, less payments to the formers residents or their estates, less refurbishment and selling costs). In the early days of the sector weekly fees were set to cover village operating costs assuming a village was fully occupied, therefore largely a breakeven cashflow for the operator. As the sector grew, fixed fees for life were introduced, providing certainty of outgoings for the residents. However, subsequent increases in rates and insurance, and more recently general inflation above what operators had allowed for when setting fixed fees means that weekly fees, in most cases, no longer cover village operating costs. Other than high end villages, operators often set fees at a level that allows residents to cover weekly fees and other living costs from their superannuation which maybe their only source of income. Operators are therefore reliant on achieving ORA re-sales to cover the shortfall between weekly fee income and village operating costs, often referred to as the village subsidy. The amount of the village subsidy varies from village to village, although could be a material percentage of total operating cashflow. Banks are mindful of this expense when calculating cashflow available for debt servicing. Operators are incentivised to achieve re-sales to cover villages operating costs and comply with banking covenants.

Section 2 – Impact on bank funding appetite of a mandatory buyback regime.

My opinion is that if a mandatory buyback regime is introduced it will reduce or eliminate bank appetite to fund the sector. The high-level reasons for this include:

- Where banks already fund operators, they would need to support the operators with buybacks, subject to the capital resources of an operator, to protect their existing exposure. In a severe market downturn, a bank's requirement to fund buybacks, would effectively be uncapped. This is because the total number of buybacks is unknown, the cash outflows to repay departing residents is significant and the timing of re-sales is difficult to forecast. Opened ended funding lines are outside all banks' policies that I am aware of.
- While listed operators should have access to further capital from the market (although this may be dependent on market conditions) the ability of private operators to provide further equity depends on their financial resources. In addition to the capacity to provide further equity there needs to be the willingness to do so. A bank's ability to enforce further equity injection will depend upon security/support provided to a bank by the shareholders, generally personal guarantees, and absent the shareholders voluntarily providing further equity and subject to a bank enforcing security over the village, making demand under those

guarantees. Banks only make demand under guarantees as a last resort and the increased risk of needing to do so to fund mandatory buybacks would likely exceed bank risk appetite.

- Introducing new equity shareholders to private operators is unlikely if the existing shareholders are unable to fund buybacks unless those potential new shareholders are of the view that re-sales can be achieved in time and, they will earn an acceptable return on investment for the risks involved.
- Where banks are already funding operators, regardless of their policies discussed above, they would be implicitly compelled to fund buybacks, subject to the capital resources of the operators, so that the villages can keep operating with a view to obtaining full debt repayment in time. The higher debt servicing costs resulting from increased funding at a time when cashflow from re-sales is reduced would likely lead to breaches of financial covenants. Banks may be willing to provide covenant relief for a period, although that would be dependent on a pathway to usual banking covenants being re-instated within an agreed period. In a severe market downturn that is difficult to forecast.
- A likely breach of financial covenants, or an unresolved breach of financial covenants which would be an event of default under a financing agreement, would require reporting to the Statutory Supervisor, the residents, and in the case of the listed operators, the market. If an option is to sell the village/s (either voluntarily by the operator, or by enforcing security with the consent of the Statutory Supervisor and selling the villages/s as a going concern) the village/s would be known distressed assets likely leading to a sale at a discount to valuation and potentially a loss to a bank.
- Absent a sale a bank may have no alternative other than to continue supporting an operator, or replace the operator, with a view to debt being reduced/repaid as the market recovers and re-sales can be achieved. However, the debt burden may exceed the village/s debt capacity, possibly requiring a bank to discount its debt to return the village/s to an acceptable financial position.

The increased risks mandatory buybacks would impose on banks combined with the sector risks discussed in Section 1 would make much of sector an unattractive financing risk, exceeding bank risk appetite. Banks would likely; (i) cease further lending to the sector; (ii) require all operators to reduce debt over time from operating and if relevant, development cashflows; (iii) require operators to increase capital; (iv) exit relationships completely from those operators considered most at risk; and (iv) consider existing the sector completely.

Section 3 – Discussion Paper Option 1 - Mandatory buybacks and the repayment timeframe

A six or twelve month mandatory repayment timeframe is unlikely to alter a banks view on its appetite to fund the sector for the reasons outlined in Section 2.

<u>Large Operators (the Big Six)</u>

Banks may be willing to continue funding large operators including providing liquidity facilities to fund mandatory buybacks. Such facility amounts would be assessed as best as possible based on each operators' total number of units, their re-sales history and resident maturity profiles with a buffer added to address a severe market downturn. In consideration banks would likely require operators to increase capital by possibly increasing the interest cover ratio and reducing the loan to valuation ratio. This would require operators to utilise cashflows from sales of new unit developments to reduce development debt with banks then reducing the amount of development new unit development leading to unmet demand. JLL's 2022 White Paper notes that the known development pipeline is less than forecast demand to 2030.

Where large operators enjoy core funding facilities, they can buyback units funded by those facilities, subject to banking covenants being met, although the amount able to be spent on buybacks in often capped by an undertaking in the funding facility agreements. No operator wants a reputation as "easy in, hard out" as that can negatively impact their reputation and future sales. Large operators also have the financial resources to vary purchase terms for future residents to stimulate sales.

It would be up to each operator whether or not it passed the increased costs of the increased capital and/or financing cost on to residents.

<u>Larger Private Operators</u>

Banks would be unlikely to provide liquidity facilities to fund mandatory buybacks for the reasons outlined in Section 2.

Where banks provide development facilities to these operators' banks may require repayment from new unit sales with the development facilities then reduced/terminated meaning that any further unit development would need to be equity funded. New unit development by these operators would significantly reduce and possibly cease again leading to unmet demand.

As no operator wants a reputation as "easy in, hard out" operators have, in need, bought back units with equity/cash reserves. Banks have also agreed to fund buybacks on a case-by-case basis where operators have the financial resources to service the debt.

A mature village should re-sell 10% - 12% of its units each year. As cashflow from re-sales is also required to fund the village subsidy and village re-investment, it is unlikely that a twelve-month introduction period for a mandatory buyback regime would provide sufficient time for an operator build up capital from village operations alone to meet a mandatory buyback obligation. There is also a risk that operators would reduce village re-investment to build up capital reducing the attractiveness of the villages to future residents and the existing residents' enjoyment of the villages.

The undue financial hardship exemption proposal is noted, although how undue financial hardship would be determined is not specified. Larger private operators may not meet the test owing to their relative size and financing arrangements. Banks would be uncomfortable with this uncertainty, hence why they may reduce or terminate their exposures to these operators.

<u>Smaller Private Operators</u>

These operators generally do not have any bank funding for the reasons outlined in Section 1. Small villages vary from older to modern with limited community facilities reflecting village size. Banks would not be willing to provide liquidity facilities to fund mandatory buybacks. For micro villages, less than 50 units, and assuming re-sales of 10% - 12%, they would not have the capacity to build up capital from village operations alone, even by reducing village re-investment. They would likely be reliant on the proposed hardship exemption to continue operating.

<u>Not For Profit Operators</u>

Most not for profit operators, with a few exceptions, provide affordable accommodation. This reflects their history as either charitable or faith-based operators. Their villages are generally older offering smaller units and limited community facilities compared to the large operators and larger private operators.

As they have no access to further capital banks are unlikely to provide liquidity facilities to fund mandatory buybacks. Where banks are providing development facilities they may reduce or terminate these, the same as the larger private operators.

<u>Capital Gains Sharing</u>

Many operators already offer a capital gain sharing option. The exemption from the proposed mandatory buyback regime is noted. Banks are ambivalent whether or not operators offer capital gains sharing. In simple terms the inward and outward cashflows for a village are what they are. Where operators offer capital gains, they need to increase cash received from other sources to offset the capital gain payment, either higher deferred management fees or higher weekly fees.

<u>Fixed Deductions or Deferred Management Fee</u>

Any proposal to cap fixed deductions or the deferred management fee may reduce bank appetite to fund the sector. The deferred management, along with net re-sales cashflow is used to fund the village subsidy in addition to village re-investment, repairs, maintenance, and capital expenditure, for villages to remain attractive to future residents and existing resident enjoyment. Operators need to be able to set fees to achieve these objectives, meet financing costs, and in the case of commercial operators, earn an acceptable return. This fee should be set by market forces rather than being imposed by regulation which may impact on the financial viability of the sector.

<u>Other Observations</u>

There are other ORA arrangements that the discussion paper does not address when proposing a mandatory buyback regime. These include the deferred management fee calculated on the re-sale price rather than the purchase price and residents or their estates responsible for re-selling their units. If a mandatory buyback regime is introduced, then presumably there would need to be exemptions for these types of ORA's.

Section 4 - Conclusion

A mandatory buyback regime is likely to reduce or eliminate bank appetite to fund the sector. The increased risk to banks in addition to existing sector risks that are greater than lending to other sectors will likely exceed bank risk appetite.

Reduced bank appetite to fund the sector would likely lead to reduced new unit development. The consequences of this include: (i) unmet demand with many intending residents unable to enter a village; (ii) fewer family homes being vacated for younger families requiring an increase in housing supply; and (iii) increased demand on the health system and home care services where senior citizens that are partially dependent and would take up service packages in a village are unable to enter a village owing to undersupply.

My experience is that older, smaller, and affordable units that are less desired by the market and are mostly provided by not-for-profit and smaller private operators that operate on limited cashflows take the longest to re-sell. If 75 percent of units are relicensed within six months of being vacated and 90 percent within nine months as the Retirement Villages Association indicates, it is logical that the remaining 10 percent are those less desirable units provided by operators which would either be exempt or obtain an exemption (on a case-by- case basis) from the mandatory buyback regime.

capital sum. Large operators and larger private operators already have the ability and do buyback units where required to protect their reputation. Therefore, it is questionable if a mandatory buyback regime would achieve the stated objectives. The counterfactual is that large operators and larger private operators should be able to operate within the proposed mandatory buyback regime, although this is more than outweighed by the risk of reduced bank funding to the sector.

Finally, changes proposed in the discussion paper including if a mandatory buyback would apply to all units after the regime is introduced or only those units relicensed after the regime is introduced, and proposed exemptions will make understanding, analysing, and sensitising an operators cashflows more complex for a bank potentially reducing appetite.

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