

**RETIREMENT VILLAGE
SECTOR INSIGHT**

A TRANS-TASMAN VIEW

OCTOBER 2019

THE NEW ZEALAND AND AUSTRALIAN RETIREMENT VILLAGE SECTORS

This is the first Trans-Tasman survey ANZ has completed and we are delighted to now have insight into some of the similarities and differences between the retirement village sectors in New Zealand and Australia. For the last nine years, ANZ has conducted an annual survey of members of the Retirement Villages Association of New Zealand (RVA). The survey is part of our support for the retirement village sector. This year, we worked with the Property Council of Australia and invited Australian retirement village operators to participate in the survey, in order to identify similarities and differences between the two markets. As a result we are now able to share some of the expectations, issues, priorities and views from across the Tasman.

We would like to thank the operators who completed the survey and the Retirement Villages Association of New Zealand, and the Property Council of Australia for their support. As always, while the overall findings are shared, individual responses are kept confidential.

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INTRODUCTION

The survey was conducted in June and July 2019. To help put responses into context, the survey was completed against a backdrop of:

- A housing market that has been slowing in Australia for some time and is now showing some signs of stabilisation; and is now slowing in Auckland, but remains sound in a number of other centres around New Zealand.
- No significant new entrants into the sector in New Zealand.
- A Royal Commission into Australia's aged care sector.
- An ageing population across both New Zealand and Australia.

The survey asked a mix of questions, with some from previous years (to measure sentiment over time), as well as some new questions to ensure the survey remains relevant in current market conditions and thinking.



KEY INSIGHTS

Expectations for the economy are positive in both New Zealand and Australia. In New Zealand, expectations for the next 12 months are slightly down on previous years, but expectations for the next three years are still good. In Australia, respondents are slightly more optimistic about their economy.

Respondents on both sides of the Tasman expect their company to perform strongly over the next three years - and importantly, they expect to perform better than the economy. New Zealand companies are more optimistic about their business than their Australian peers.

The top three issues for New Zealand are the residential housing market, escalating construction costs and higher wage demands (last year they were higher wages, finding good people and escalating construction costs). The top three issues for Australia are legislation (both current and future) requiring mandatory unit buybacks, the state of the residential housing market and higher levels of compliance.

The top priority on both sides of the Tasman is marketing and promotion of my retirement village. This is significant and perhaps highlights an expectation for greater competition, and a recognition that there will be challenges for any business in the world of 'disruption'.

The majority of retirement village operators expect to raise unit prices in the next 12 months, though this is more likely to be seen in New Zealand than in Australia.

**RESPONDENTS ON BOTH SIDES OF THE TASMAN EXPECT THEIR COMPANY
TO PERFORM STRONGLY OVER THE NEXT THREE YEARS
- AND IMPORTANTLY, THEY EXPECT TO PERFORM BETTER THAN THE ECONOMY.**

1. TAKING THE PULSE OF THE INDUSTRY

In previous years, surveys in New Zealand have pointed to an industry that is confident about the economy but, more importantly, an industry which expects to out-perform the economy. Looking at both countries, the sector today is facing a challenging residential housing market, increased supply, and a changing political landscape. With this as a backdrop, we had been expecting signs of a dip in confidence and expectations in this year’s survey. However, operators on both sides of the Tasman generally have a positive outlook.

EXPECTATIONS FOR THE ECONOMY ARE POSITIVE

We asked respondents for performance expectations for the economy over the next 12 months and the next three years.



Over the next 12 months:

New Zealand operators remain broadly optimistic, but there was a noticeable shift from an average level of optimism (3) to mostly optimistic (4) and a small increase in the number of pessimists compared to 2018. It is interesting to look back at the 2018 New Zealand data and it is clear the sector was expecting a strong year – and this proved to be the case.

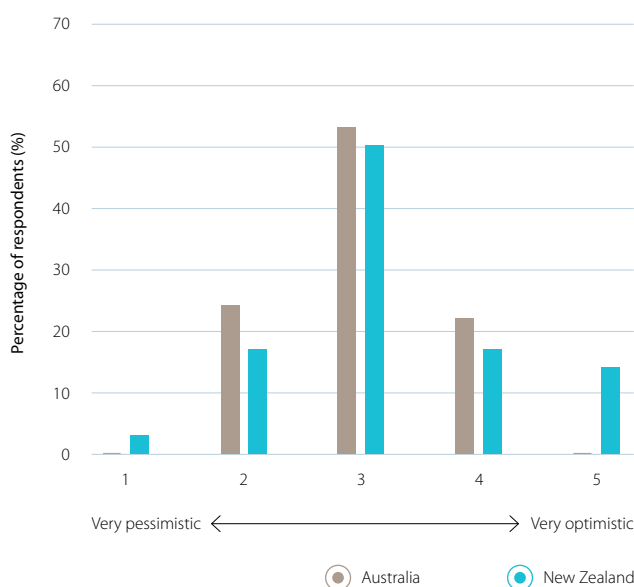
This year, the responses from Australian operators were broadly similar to New Zealand, though none were very optimistic (5) compared to 14% of New Zealand respondents.



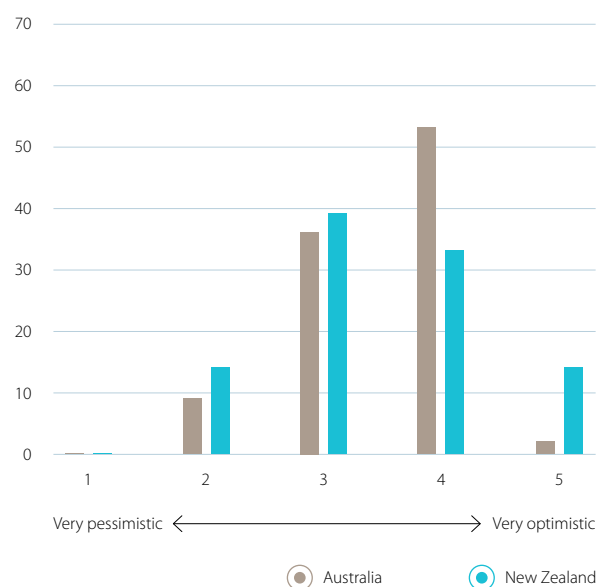
Over the next three years:

We have always asked about the medium term in previous New Zealand surveys, and this year New Zealand operators maintained a positive view on the economy for the next three years. In fact, if anything, New Zealand operators are more optimistic this year than last – for example, 16% were extremely optimistic (5) compared with 3% in 2018. Looking across the two countries at the very optimistic level, New Zealand is slightly more optimistic at 14%. However, looking across the 4 optimism ratings, Australia is more optimistic.

EXPECTATIONS FOR THE NEXT 12 MONTHS



EXPECTATIONS FOR THE NEXT THREE YEARS

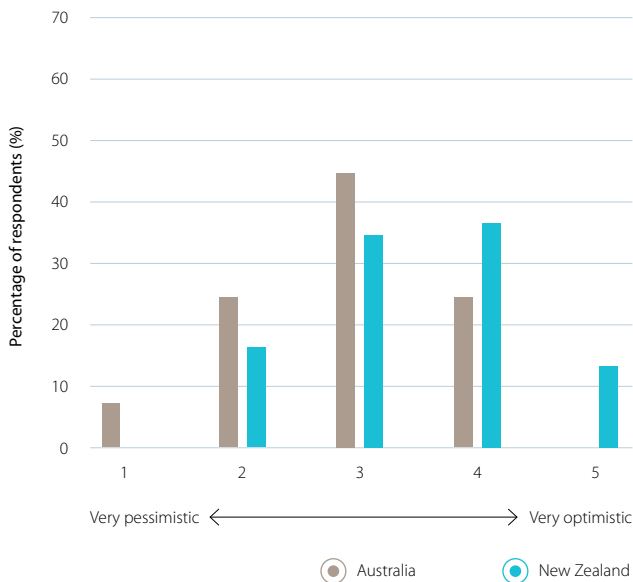


EXPECTATIONS FOR THEIR BUSINESS

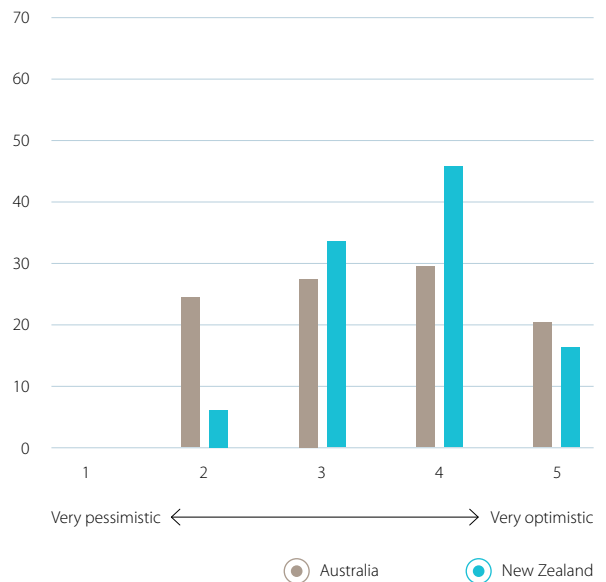
In previous New Zealand surveys, we have often seen operators showing more optimism for their business compared to the economy. 2019 is no exception and probably reflects the known demographic changes in New Zealand. We would also speculate that these results show operators are confident they have the proposition right and few disruptors on the horizon.

In contrast, the responses from Australian operators are more difficult to read, and probably reflect a sector going through some challenges in the external environment (such as lower observed roll-overs/resales and development sales, proposed mandatory buyback regulation, a weak housing market and to a lesser degree the Aged Care Royal Commission). For example, 24% of Australian operators are pessimistic for the next three years (compared with 6% of New Zealand businesses). However, at the other end, 20% of Australian businesses are very optimistic (compared with 16% of Kiwis). A key conclusion is that many Australian operators expect the challenges mentioned above to be transient. Investors looking at the New Zealand or Australian sector should not expect the demographic grey wave will carry all operators forward at the same pace. Proposition, purpose and people will be key.

EXPECTATIONS FOR THE NEXT 12 MONTHS



EXPECTATIONS FOR THE NEXT THREE YEARS



2. KEY ISSUES

New Zealand:

In New Zealand, the key issues and concerns for operators over the next 12 months are:

- the state of the housing market
- escalating construction prices and
- higher wage demands.

The key difference between 2018 and 2019 is concern over the housing market, which didn't feature in the top three issues in 2018. Looking at the real estate data for New Zealand, it is clear that Auckland has slowed, with housing taking longer to sell and prices falling slightly. While not national, we are seeing a few centres outside Auckland showing similar features. Each issue is significant and will require active strategies from management teams to avoid any earnings deterioration or forecast misses.

Australia:

The key issues for Australian operators are similar, but the top issue, not surprisingly, is legislation requiring mandatory unit buybacks. The state of the housing market and higher levels of compliance were rated as the second and third most concerning issues for those in the sector.

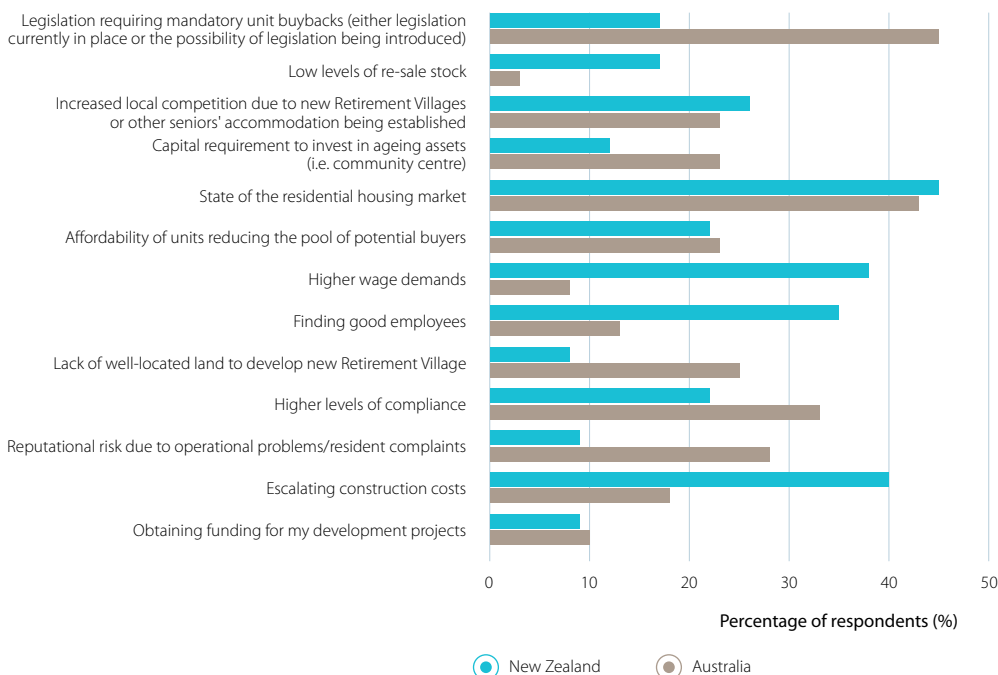
Key differences:

There are some interesting differences across the two countries in terms of the issues people are concerned about, such as:



New Zealand operators, in contrast to their Australian peers, reported significant issues in finding good people, retaining them and rewarding them for a job done well. This does not necessarily mean Australian operators are not experiencing issues around reward and finding good people. However, the difference is notable and some Australian operators have been able to manage this part of their business well, or their other issues are more pressing.

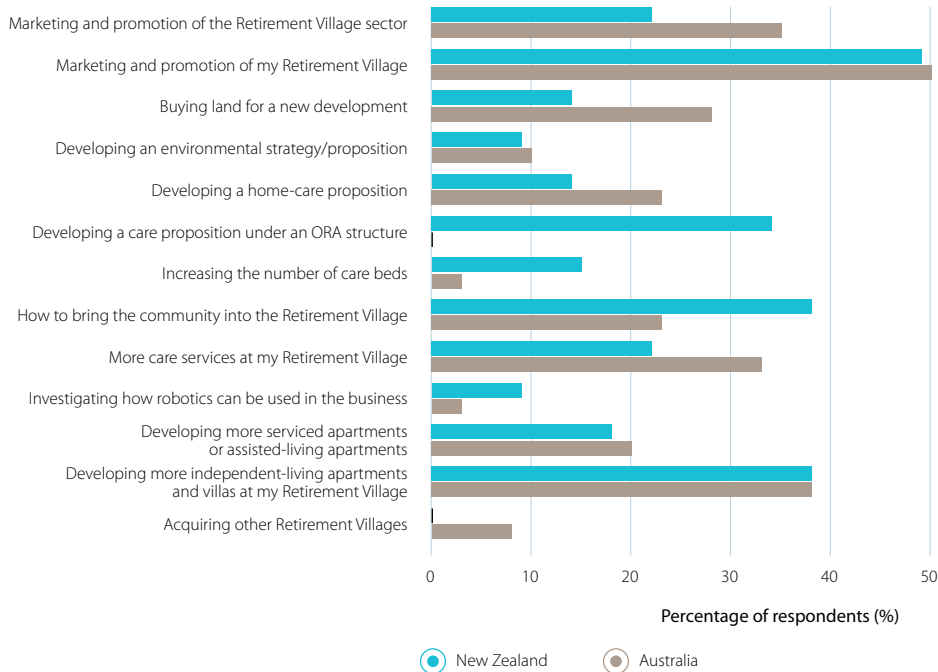
TOP THREE ISSUES FOR THE NEXT 12 MONTHS?



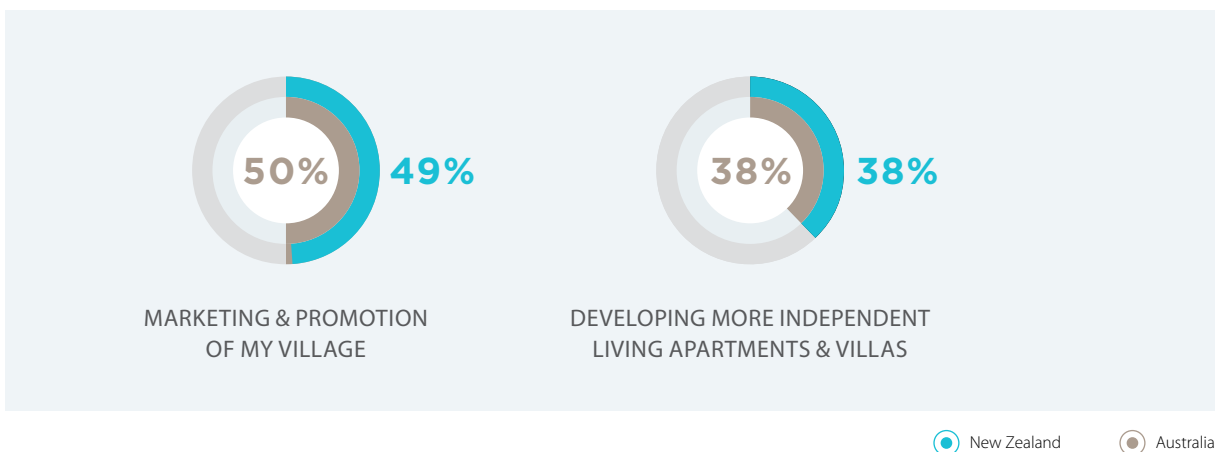
3. KEY PRIORITIES

The survey showed the top three priorities for the New Zealand sector in the next 12 months are 'marketing and promotion of my Retirement Village', 'how to bring the community into the Retirement Village', and 'developing more independent-living apartments and villas at my Retirement Village'. Whilst the first two featured in Australia's list of top three priorities, 'marketing and promotion of the retirement village sector' came in third.

TOP THREE PRIORITIES FOR THE NEXT 12 MONTHS?

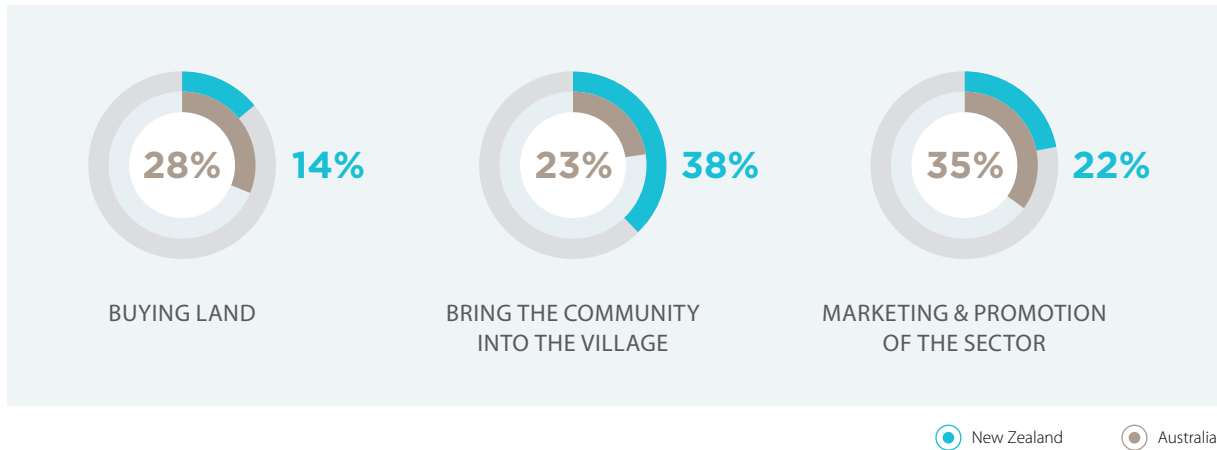


There were a number of similarities between Australia and New Zealand in terms of the key priorities for the next 12 months:



As we know, New Zealand and Australia have a well-established retirement village sector with a healthy mix of large, medium and small sized operators. It is, therefore, perhaps not too surprising to see similarities across the two sectors. The drivers for the businesses are clear - build and make sure your marketing and promotion is good enough to attract buyers and residents.

There were also some key differences:



The difference in priority of buying land for a new development may reflect an Australian sector that is well resourced and has low penetration rates of the Retirement Village product (in New Zealand the listed operators have a long pipeline already).

The survey identified a material difference in how Australians and Kiwis are approaching or prioritising community engagement. In New Zealand, the RVA with market research firm UMR, conducted research into public perceptions on the sector. This suggested the sector is perceived to be expensive and mainly for the rich and, therefore, operators need to build and maintain their social licence through strong community engagement.

We feel community engagement will become an area of stronger focus for both sides of the Tasman. In New Zealand, operators will be competing to be 'best' in their community, whereas Australian operators have highlighted addressing reputational risks brought about by historical adverse media coverage regarding contract complexity and aggressive deferred management fees (DMF).

There was also a significant difference in the emphasis on marketing and promotion of the sector, with this being a higher priority in Australia. Reading between the lines, is it because of a less favourable perception of the industry in Australia? For example, Australian operators reported 'Reputational risk due to operational problems' as a much more important issue than New Zealand operators (over double).



4. LOOKING FORWARD 5-10 YEARS



We asked operators to look into their crystal ball and try and tell us what will feature in their business in 5-10 years' time. We expect the responses reflect some real speculation, but we also expect respondents will already be working on change which will only come through in the medium to long term.

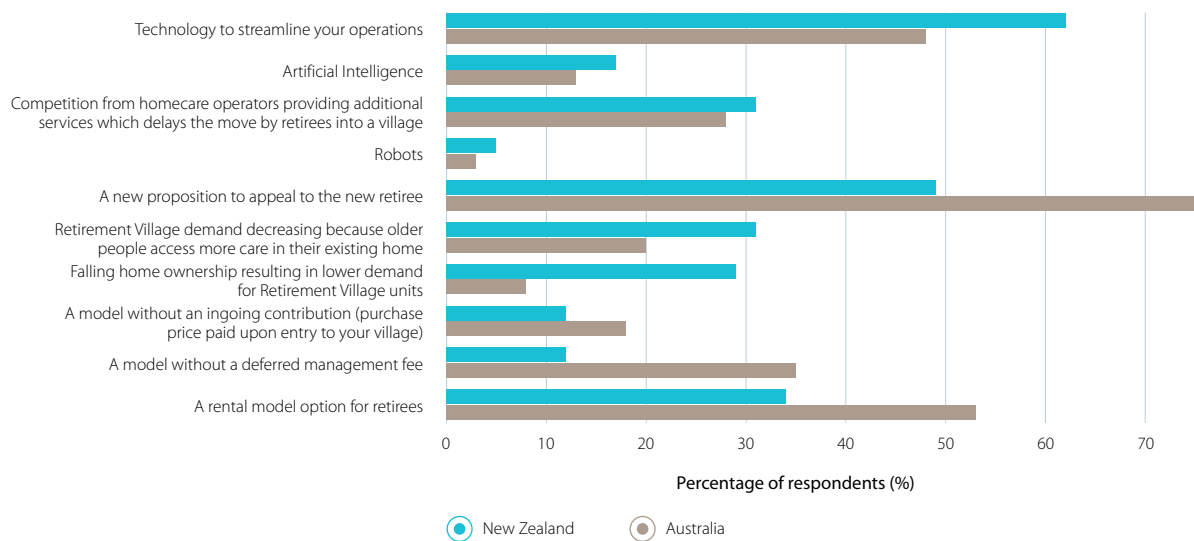
We have shown the responses below, and it's clear that respondents expect new technology to streamline operations, and new propositions to appeal to the new retiree will feature in their business in the next 5-10 years.

It's also clear that AI and Robots are not a priority feature, which is interesting as there is a view that technology used to streamline operations will feature in businesses in both Australia and New Zealand in the future.

Looking forward 5-10 years, some of the key differences between Australia and New Zealand are that New Zealand operators believe that they will see falling home ownership, resulting in lower demand for units, but a new proposition to appeal to the new retiree is less likely to feature in their business than in Australia.

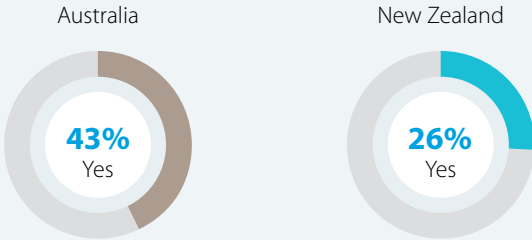
Australian respondents were much more focused on alternative models without DMFs, which have become increasingly topical following adverse media coverage of the sector, the popularity of the Land Lease Community rental model (where the resident owns the home but rents the land underneath from the park operator) and a number of the largest operators offering alternative payment choices to DMF.

WHAT WILL FEATURE IN YOUR BUSINESS IN 5-10 YEARS?

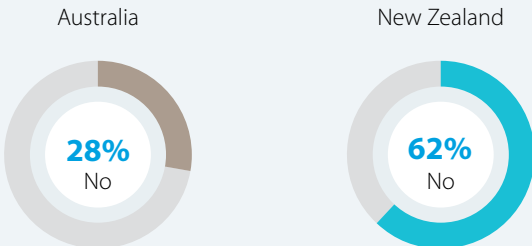


5. TRANS-TASMAN DIFFERENCES - A QUICK SNAPSHOT

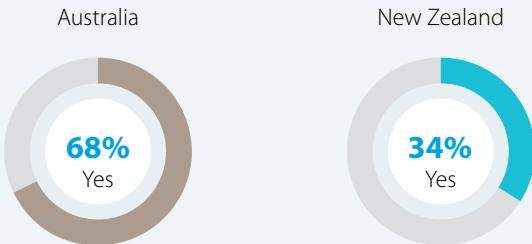
IN THE NEXT 12-24 MONTHS, IF HOUSE PRICES FALL IN YOUR CITY, WILL YOU PROVIDE SPECIAL INCENTIVES OR OFFERS?



DO YOU PLAN TO START SHARING CAPITAL GAINS IN THE NEXT FIVE YEARS?



IS YOUR COMPANY LOOKING TO PROVIDE AFFORDABLE RETIREMENT LIVING?



Looking at these differences, it is possible New Zealand does not feel the sector is facing disruption. Rather, the sector in New Zealand is comfortable with the status quo because it is working for residents, operators and investors. In Australia, operators are open to disruption, an example being the emerging Land Lease Community rental model and some operators offering alternatives to the DMF.

6. KEY FINDINGS

RENTALS

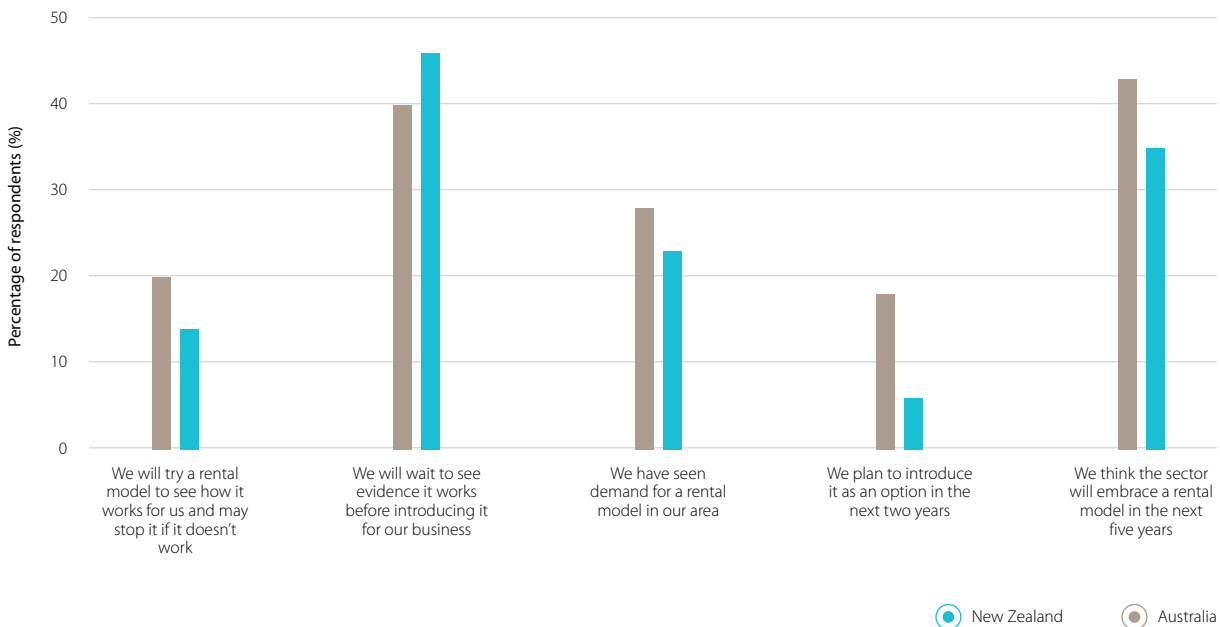
According to the RVA, across 57 villages there are approximately 600 rental units. To put this into perspective, across New Zealand there are approximately 30,000 retirement units. Across other markets, for example in France and the UK, rental options are not unusual. We asked what operators might do on this subject. There was consistency between Australia and New Zealand's views on rental models.

While the sector expects a rental model in the next five years, a very large number (40% Australia and 46% New Zealand) are waiting to see evidence before introducing it themselves.

So why is New Zealand not embracing a rental option? Two possible reasons spring to mind, the first being the current Occupational Rights Agreement (ORA) model has worked so well and is well understood by residents, lawyers, bankers and investors. The second reason is more complex and reflects how villages fund their businesses. If a village uses the ORA model, it will buy land, commence building stage one and then sell ORAs to repay the development debt associated with stage one. This is repeated through further stages until the village is complete and often debt is fully repaid. A village using the rental model will not be able to repay debt as it works through each stage. This means villages have to be funded differently and importantly, the funding must be long term. The New Zealand retirement village sector has been developing for over 40 years and its roots are with entrepreneurs who have not typically had access to long-term funding (i.e. equity or institutional money). As a result, the ORA model has allowed the sector to grow and for the resident to enjoy some wonderful villages and facilities.

In Australia, rental models have been offered as an alternative to the traditional DMF model. However, this proposition remains in its infancy in retirement villages. Growth of the adjacent Land Lease Community sector is providing Australian operators with more visibility of the opportunity and the need to innovate given the crossover of target markets. The rental model also requires a substantial, long-dated capital commitment that can be challenging to procure, particularly with the backdrop of compulsory buyback rules in most states.

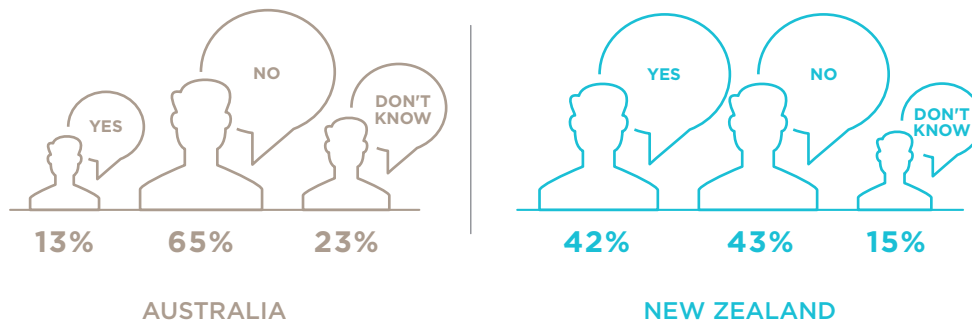
RENTAL MODELS



A VILLAGE USING THE RENTAL MODEL WILL NOT BE ABLE TO REPAY DEBT AS IT WORKS THROUGH EACH STAGE. THIS MEANS VILLAGES HAVE TO BE FUNDED DIFFERENTLY AND IMPORTANTLY, THE FUNDING MUST BE LONG TERM.

LOCATIONS OF VILLAGES

Have you seen an increasing number of people leave large metropolitan areas for a retirement village in a regional area?



Kiwis are more likely to leave the big cities for retirement than Australians, which is likely to be driven by:

- a desire to return to their home town
- seeking a quiet location for their retirement, or
- releasing valuable equity by moving from a high-priced housing area to a lower-priced area.

In New Zealand, anecdotally we often hear of provincial villages marketing in the larger towns (e.g. Auckland, Christchurch) in order to attract a larger pool of retirees and possibly a wealthy retiree, though the results for New Zealand show operators are evenly split on whether there has been an increase in the number of people leaving large metropolitan areas for a retirement village in a regional area.

The survey results indicate that Australians like to stay in their community, rather than leaving metropolitan areas for a retirement village in a regional area, possibly because they want to maintain links with their family, friends and services (eg their own Doctor).

RESOURCING

In New Zealand, the sector employs around 19,000 people and according to a recent report, another 9,500 jobs will be created over the next seven to eight years. In the survey, we wanted to understand this in greater detail and asked 'In what areas will you be adding additional resources to your business in the next 12 months?'

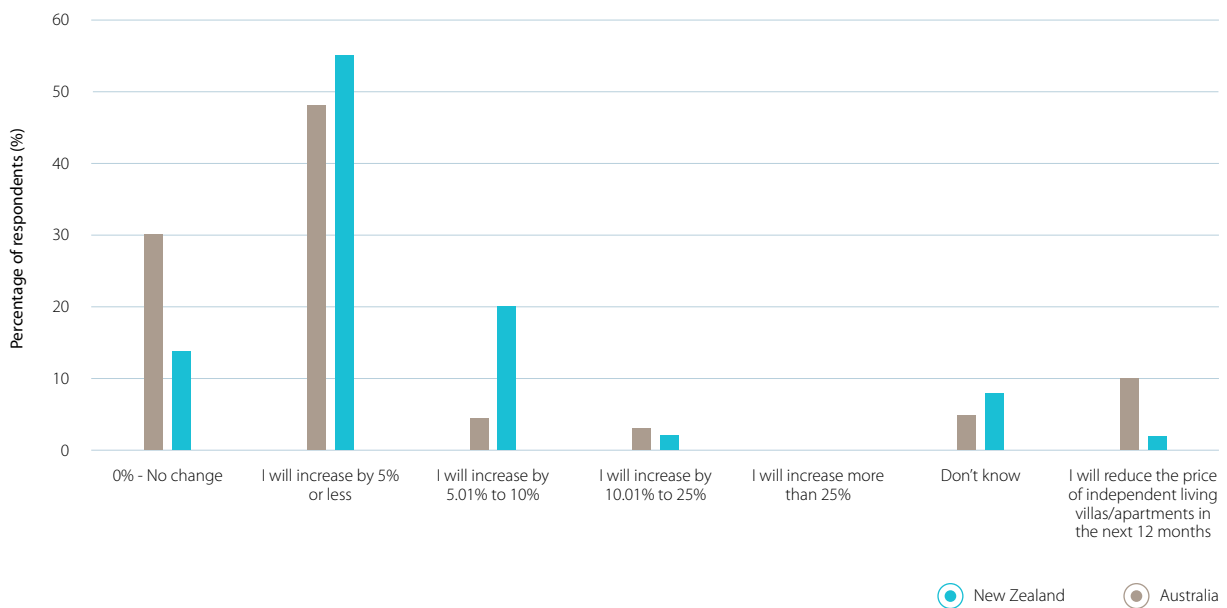
In Australia, additional resources will most likely be focused on compliance (50%) or marketing (48%), which is likely to be largely a result of recent media scrutiny and proposed buyback legislation, whereas in New Zealand, resourcing will largely be focused on construction and marketing.

In what areas will you be adding additional resources to your business in the next 12 months?	Australia	New Zealand
Compliance	50%	17%
Marketing	48%	43%
Village Management	45%	34%
Construction	40%	45%
Sales	38%	35%
Other	0	3%

ARE PRICE INCREASES LIKELY?

Comparing both countries, Australia appears more likely to reduce prices or keep prices flat. An increase of 5% or less in Australia (48%), is in line with operators' views in New Zealand (55%). In New Zealand, 20% will increase prices by 5-10% compared to 29% in 2018; and 55% will increase by 5% or less compared to 45% in 2018. The change for 2019 is fairly subtle and shows confidence with the operator's proposition in both Australia and New Zealand.

HOW MUCH WILL YOU INCREASE THE PRICE OF YOUR VILLAS OR APARTMENTS WITHIN THE NEXT 12 MONTHS?



CONCLUSION

We often refer to Australia and New Zealand as cousins, as there are similarities in who we are, but we all know there are some big differences! The same can be said for the retirement village sector in Australia and New Zealand.

New Zealand is wrestling with growth pains off a strong legislative base while Australia is working through media scrutiny and legislative issues while trying to meet growth in demand. This is shown clearly in the Key Issues. New Zealand's key issues are construction prices, higher wage demands and the housing market (although it only relates to part of the country). However, Australian operators are working through legislative and compliance changes at a time when they want to be growing to meet the demographic change. The message for New Zealand and Australian operators is that they must continue to respect the resident and be transparent.

A key reason for the survey is to gauge views about tomorrow and thereby help operators better prepare. Looking at the data, it is noticeable that operators are looking to be innovative and provide a broader proposition for retirees. Looking at the next 5-10 years, Australian operators appear to be more open to change. They are looking to introduce a new proposition for the new retiree, rental models for greater choice and to consider an alternative pricing model. While New Zealand operators are also looking at these, there is a sense that New Zealand operators are more comfortable with the existing model but will make changes where necessary. A key change for New Zealand is not a new proposition but rather technology to become more efficient and effective with residents.

The sectors in Australia and New Zealand remain confident about their business and the economy. This is feeding through to an intent to increase prices with 77% of New Zealand operators stating they will increase prices while in Australia, 56% will be increasing prices.

To conclude, the overall impression from the survey is one of an industry in good shape across Australia and New Zealand, and operators on both sides of the Tasman are working hard to provide an outstanding proposition for the resident. Yes, there are similar and different challenges for both countries and we hope this survey has provided a document to encourage discussion and some ideas for how you approach the sector. There is no doubt the retirement village sector will continue to grow; it will become more important to the respective countries' GDP and ANZ looks forward to helping operators with their respective growth strategies. Please give us a call to talk about your next village.



ANZ CONTACTS

For more information on how ANZ can help you build your next Retirement Village, please contact one of our retirement village specialists:

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