POLICY EVIDENCE SUMMARY December 2022

How well is the retirement village model working for older Australians?

Based on AHURI Final Report No. 392: Business models, consumer experiences and regulation of retirement villages

What this research is about

This research looks at the appeal, benefits and disadvantages of living in retirement villages, as well as at the business models employed and how they could be improved.

The context of this research

Retirement villages are a fast-growing housing sector, projected by 2025 to house 7.5 per cent of the Australian population aged over 65. The sector does not currently receive direct funding from Commonwealth or state and territory governments.

The key findings

Living in retirement villages saves the health care system $2.16 billion, with $1.98 billion of those savings achieved by postponing residents' entry into government funded aged care facilities.

In Australia, four types of tenure are typically on offer to retirement village residents:

1. a loan or license arrangement, where the resident pays an entry fee that grants them a licence to live in the property. When a resident departs the community, the entry contribution is refunded, less a delayed management fee (sometimes known as an 'exit fee'). The license agreement is not registered with the Land Titles Office, and provides less tenure security than a leasehold or freehold title. The model was developed as a means of making housing affordable to home owners by reducing the entry price and recovering fees when residents leave villages.
2. a long-term lease (commonly for 99 years) in exchange for a lump sum payment. Leases are registered with the relevant Land Titles Offices, which provides security of tenure but may also attract stamp duties. Residents who leave the village and have their apartment resold are entitled to a lease termination payout based on a percentage of the selling price.
3. a strata or community scheme, where the resident pays the agreed purchase price to the unit's owner under a sale of land contract and is then considered as a 'registered interest holder'.
4. freehold and other tenure types (such as company titles and rental villages).

Retirement villages are governed by state and territory legislation in Australia, with each jurisdiction enacting its own set of regulations. The legislations govern the contracts signed between operators and residents, define the various tenure types offered by operators, fees payable, cooling off periods and dispute resolution. A state tribunal in each jurisdiction provides independent, low cost and accessible dispute resolution in consumer or tenancy disputes.

The major providers active in the retirement village industry are for-profit companies who market their product as a 'lifestyle choice' to entice wealthy Australians to purchase accommodation. There is little prospect that small not-for-profit organisations will expand their retirement provision without significant government funding (in the form of tax breaks, subsidies etc.). The Australian Government has not invested funds in subsidising the industry or initiated policy reforms for the sector.

How many people live in the sector

The number of retirement villages in Australia is increasing, with predictions the number will reach approximately 3,000 villages by 2023. In 2014 approximately 184,000 Australians lived in retirement villages, equivalent to 5.7 per cent of the population aged 65 and over. Between 2006 and 2016, the number of retirement village residents increased by 78,848 people nationwide, equivalent to a 62 per cent increase.

The majority of these increases were experienced in NSW (+28,006) and QLD (+22,469) while Tasmania (excluding the two Territories) had the lowest numeric increase (+1,032). NSW also saw the largest proportional increase of retirement village residents during this period (+81%) followed closely by the Australian Capital Territory (+80%); Western Australia (+32%) and South Australia (+37%) had the lowest proportional increase.

Who moves into the sector

Around half of research survey respondents first moved to a retirement village when aged in the immediately post-retirement age group of 65–74 years. Just over one-quarter first moved in the pre-retirement age group of 50–64 years, likely to accompany a partner in the post-retirement age group.

The vast majority of survey respondents had lived in only one retirement village, and three-quarters had lived in their current retirement village for four years or longer. This may reflect both the challenges older people experience relocating in older ages as well as the barriers encountered in moving within and out of the retirement village sector

Table 1: Living arrangements and income of survey respondents, Australia

	Australia
I live by myself	43%
I live with a partner	56%
A small unit (2 bedrooms or fewer)	41%
A larger unit (3 bedrooms or more)	24%
Main source of income- Superannuation	44%
Main source of income - Age pension	42%

Source: AHURI Final Report No. 392

More than two-thirds (72%) of survey respondents noted that they owned (or owned a share of) the retirement village dwelling that they currently live in. Just less than one-tenth (9%) continue to own other properties, including their previous residences and investment properties. Less than one-quarter do not, or did not, own property now or prior to moving to a retirement village.

Why people move into retirement villages

There were a range of factors that compel moving into a retirement village (push factor) or that make retirement village living desirable (pull factor). Survey respondents often selected multiple responses. Across the three states surveyed (NSW, Queensland and Tasmania), location of the retirement village was of most importance, followed closely by the facilities and services that the village offered. Other factors that were also of importance included safety and security and expanding their social circles.

Push factors that persuade an older person to live in a retirement village include declining health (the most cited reason); the need to reduce responsibility and maintenance; the need for assistance while not being a burden on families; social isolation and loneliness; and a desire to take control over their future.

Survey participants believed that they would experience increasing degrees of dependency as they aged even though they are yet to experience this.

The co-location of a residential aged care facility with a retirement village was a significant influence on the decision-making of participants whose partners needed residential aged care—they could live in the retirement village with their partner close by in a residential aged care facility and therefore could easily maintain their close bonds.

What people want in retirement villages

People are attracted to retirement villages where they are near to family and friends; have a clientele of similar age; are in a familiar place; close to services and facilities; provide safety, security and informal care; have lifestyle options; and are affordable.

As they grew older, retirement village residents expected to need transportation support and universal accessible design in their housing as well as their surrounding environs. Having staff who provide maintenance services was seen by participants as a way to reduce the physical and temporal demand of maintenance work including minimising the degree to which family members may need to provide help and assistance.

An important factor of retirement village living is how community is formed through light sociality or flexible and informal friendships. Such casual contact appears to provide a balance between the need for social interaction with a desire for privacy.

Costs

For some survey participants, living in the general community was more expensive (as well as more challenging) compared to the costs of retirement village living. In addition, participants also noted that the range of services and facilities provided in the retirement village increased their dwelling's affordability.

It was also noted that the financial arrangements, such as flexible entry fees, were important for allowing diverse populations of older adults the ability to contemplate and access such living arrangements. However, some participants also noted that living in a retirement village meant needing to pay more attention to their finances so they could stay in the retirement village. In addition, it was noted that while living in the village was an affordable option, the cost of doing so was located in the exit fees

Participants further noted that it was important to see their retirement village unit, villa, or apartment as an investment in lifestyle, not as a profit-making investment.

Hierarchical power relationships and inequality

When operators and management did not seek to meet with and directly engage with residents, it was seen as undermining feelings of belonging in the retirement village through not seeking to build relationships and understandings. The result is a sense of distrust. Some retirement village residents also indicated that slowness of management to act on required repairs and maintenance caused tensions.

Issues raised by consumer advocates

It is claimed that mis-selling in marketing brochures often omitted or concealed important legal details, with many purchasers believing that they had purchased a freehold or leasehold investment property that they could sell for a capital gain. In fact, the resident consumer had purchased a lease or licence subject to an exit fee. The survey and interviews indicate that many residents did not read contracts carefully or consider legal advice (one-third of survey respondents experienced some degree of difficulty when reading their contract).

Excessive exit fees

The incoming price made properties in a good area affordable, and often appeared to give excellent value for money. What was concealed or mis-represented were the excessive fees that were deducted from the sale price at the end of the tenancy. Following regulatory reform, the fees have to be clearly stated in a description provided with the contract.

Other fees and disputes

Unscrupulous managers, or companies facing financial pressures, could raise fees even though increases had to be reasonable, both as stated in the contract and state regulation. This was cited as a major difficulty for consumers as they are in a weak bargaining position. Consumers can try to hold management to account through residents' associations, often required by regulation. They also have a legal remedy of making an application to a tribunal.

Approximately two-thirds of survey respondents reported that they had encountered disputes with their retirement village operator; around one-fifth of those disputes concerned fees or the financial management of their village. The next most common issue encountered concerned their retirement village's management and service quality.

Participants who had pursued a dispute with the retirement village operator to a tribunal body for resolution consistently indicated in interviews that tribunal bodies were inadequate and ineffective in supporting older people to have their matter heard fairly and equitably. Participants indicated that they had limited support to understand and participate in the process. This left older residents to fend for themselves legally and financially against the village operator's legal team.

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International comparisons

In the UK, US and NZ, retirement villages are seen by policy makers as 'residential real estate rather than an aged care facility'. The major factor that acts as a brake on increasing supply is the large capital investment required to purchase land, maintain provision and pay taxation. In practice this has made it very difficult for smaller providers to develop their portfolio. Increasingly, the costs of development are paid for by new residents through the high charges for services and property fees.

What this research means for policy makers

Limited support from Commonwealth, and state and territory governments would arguably be best used in supporting lower-income and vulnerable groups through home-care packages and public housing rather than subsidising wealthier home owners to live in villages.

This report recommends:

- a national ombudsman be established to support and advocate for the rights of older people navigating disputes with retirement village operators
- more affordable housing solutions for older Australians
- greater transparency into ongoing charges for retirement village residents
- better standards of service including turnaround times for repairs and maintenance
- building standards that ensure retirement village operators are responsible for providing accessible, universally designed residences and facilities
- the provision of ethical and impartial dispute resolution processes for retirement village residents
- regulation of the financial management practices of retirement village operators
- repositioning of retirement village contracts as a financial product, instead of a housing investment product, and ensuring greater consumer education and protection.

Recommended improvements to the retirement village model

- ✓ A national ombudsman
- ✓ More affordable housing solutions
- ✓ Greater transparency
- ✓ Better standards of service
- ✓ Accessible building standards
- ✓ Ethical and impartial dispute resolution processes
- ✓ Regulation of the financial management practices
- ✓ Repositioning of retirement village contracts as a financial product

Source: AHURI Final Report No. 392.

Methodology

This research analysed Census data, surveyed 855 residents in New South Wales (NSW), Queensland and Tasmania, and interviewed residents and industry professionals.

To cite the AHURI research, please refer to:

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Available from the AHURI website at ahuri.edu.au/research/final-reports/392