

28th June 2016

The Committee,

Attached is the Submission to the inquiry on behalf of the residents of Sackville Grange Retirement Village.


We did not have sufficient time to go through a full consultative process with all our residents but our Owners Corporation Committee was fully involved.

We are in the process of interacting with all our residents on the attached submission and will have their feedback prior to our personal appearance at the Inquiry

In that respect we request that two members of our committee be invited to appear before the Inquiry Committee.

Yours sincerely

Colin Smith
chairperson


On behalf of the Owners Corporation Committee of Sackville
Grange Retirement Village

Submission to the Parliamentary Inquiry Into Retirement Living

Appointment of the Village manager

There is a wide spread frustration among residents that they have no involvement in the appointment of the Village Manager whose competence and personality has a substantial influence on their wellbeing. The contracted Manager, the organistaion that is providing the service to the residents, obviously has the final say but it would be mutually beneficial if the residents, who have an intimate feel for their village and know what they do and do not want in their manager, have some involvement in the selection process; even as observers of the interviews of the Manager's final short list

Sales Process

Even though the contracts allow a resident to brief an independent agent to undertake the sale of their apartment the reality is that there is a limited market – incoming residents must be over 65/60; have the financial means to afford the ongoing fees, have a preparedness to live in a village environment etc and be prepared to commit to the Deferred Management Fee that is as high as 35% of the selling price as early as 2 or 3 years after purchase. And thus a normal estate agent will not be too interested.

The sale is therefore generally conducted through the village owners' sales person working within the Owners rules etc. – where there can be stringent rules as it applies to apartment refurbishment, sales photos and the like. Which can become even more overbearing if the seller needs to remain a resident until the sale is finalised,

The common 3/3.5 % commission for this restrictive circumstance is comparatively high; particularly as the Owner's income from the DMF is at that point assured and no longer part of an actuarial formula. Perhaps the commission should be a notional 1%.

Ombudsman

Buying an apartment in a retirement village is a complicated process. Especially so if the apartment is subject to strata title legislation. Naturally a prospective buyer must engage a solicitor to assist his decision. Even so many buyers remain confused or ignorant about all the implications, which can impinge on their investment.

Village Managers are there to assist but at the end of the day they may be conflicted depending on the issue,

An important example is the complicated nature of identifying whether the body corporate or the owner is responsible for the maintenance of various walls. It seems highly desirable that an Ombudsman becomes available to explain and arbitrate on significant matters of difference within the aegis of the Owners Corporation Act (2006)

An Ombudsman would soon accumulate a substantial in-depth knowledge of all aspects of formalised retirement living.

Many of the issues have common sense solutions but which, because of human nature, require an umpire; but not an expensive lawyer. Many retired people do not have the financial means or the background to brief a lawyer. Many issues do not warrant a VCAT type resolution body, which is relatively formal and legalistic.

An Ombudsman office should not require direct funding by the taxpayer but rather be financed via a levy on all managers involved in the industry; and via the incorporation of that levy into their charges, the residents.

We are all aware of the increasing age of the population. So the number of problems requiring resolution will multiply

The establishment of an Ombudsman Office for retirement living issues should be welcomed by all involved in retirement living - the residents, the managers and the owners.

Deferred Management Fee (DMF)

We do not deny that the developer needs to make a return on his investment that is commensurate with his risks.

However the DMF is the common and consistent concern among residents in retirement living facilities.

This we believe is because the DMF is not sufficiently clearly defined or transparent and is thus able to be argued by the developers to be appropriate for various reasons that suit their then current purpose at a particular village.

- One argument is that it allows an appropriate return on the original total investment in the facility that would not occur if the apartments were priced to be competitive in the retirement village market. He is arguing in effect that the income from apartment sales was not enough to provide an adequate return on his total outlay.
- Another argument is that inter alia it allows for the recovery of the manager's administration overheads (the manager is generally only compensated for the staff directly involved)

But some simple arithmetic shows that a 3% accumulation in the favour of the owner /manager for an \$800,000 apartment is \$24,000 per annum. Thus four or five apartments would fund a senior administrator who could surely look after more than 4 or 5 apartments; probably an entire facility.

- Another argument of the developer has been that a 3% DMF is substantially less than the rate of capital appreciation and therefore the 'surplus' appreciation is essentially to the owner's dependents' eventual benefit. But what if analysis shows that for various reasons (for example over supply of village and normal apartments, retirement villages becoming less attractive to retirees) appreciation is obviously less than 3%pa?
Should the DMF be then changed from that point in time for both new and incoming residents in that village?

An excessive DMF is a form of death duty paid not to Government but to the developer. If a resident has in fact suffered a capital loss he is still subject to the DMF.

It is not difficult to consider and believe that the DMF appears to be more than sufficient to provide both a solid return on the capital investment not covered by the apartment sales and on the manager's administration costs, effort and expertise. The latter is certainly the case if the manager is involved in numerous villages; over which the costs of his corporate structure can be recovered. But of course the time value of money is a factor given that it may be some years before the DMF is paid,

The developer should have to articulate in detail, and justify, the basis for DMF at a particular village. If circumstances change, either in his favour or in the residents' favour, the rate of accumulation from that point should change for the existing and incoming residents.

Another consideration with respect to the DMF is that there are substantial differences in the capital value of apartments across the sector.

Given the obvious importance of the DMF to the developer/ manager's finances the owners of lower value units cannot expect the same level, or quality of, services as those in villages having higher apartment values. Nor should villages with a higher unit value be cross subsidising others

Perhaps there should be no DMF. And that full administration costs including profit and some kind of "capital use charge" should be a current charge. That would certainly be transparent. And make sense of differing charges across the sector. But there would be a rebalancing of apartment worth etc.

Minimum Age (for retirement villages)

In our village the minimum age has been increased from 60 years to 65 years; without reference to the existing residents.

There is a point at which vibrancy and energy levels decrease in most lives. A range of ages is essential to ensure an active village that is a joy to live in. There should be no bar to younger entrants. We appreciate that people have to work longer or choose to. But we cannot think of a reason that village residents cannot continue to work provided there is no disturbance to fellow residents. Most of us are active on our computers without ill effects to our neighbours.

We believe that 60 years is an appropriate legislated minimum age. As is often the case the partner can be younger.