

## INQUIRY INTO RETIREMENT HOUSING SECTOR

Some 4 years back I explored the options for relocating, from the Illawarra region of NSW, back to suburban Sydney to be closer to my family.

The options included moving to retirement village accommodation but, while that prospect was superficially attractive, the sense of doing so was dashed by a bit of arithmetic – the economics of the deals being offered were offensive.

The sense of that assessment additionally borne out by increased house prices since.

My take on what was being offered is set out in the following text of a letter sent to a raft of state and federal politicians and government departments, with responsibilities for housing and the aged, as well as various seniors associations and village operators (some with religious foundations).

I received not one empathetic or sensible response: related suggestions -- to industry-fund superannuation funds -- to do a group deal with members not surprisingly perhaps said it was not their realm of expertise.

In a public policy sense one ‘answer’ seems to have been an array of community services intended to help the aged stay in their own homes – but nothing to bust-up the business model that is so apparently lucrative to village operators.

Considered at a national level it is hardly sensible to be locking old folk into their current homes when it would be more sensible to use that housing stock for families – unfortunately an obvious solution, retirement villages, and preferably high-rise villages over rail and transport hubs, is apparently ruled out by a private business ‘cartel’ exploiting its customers.

Hopefully the inquiry will propose at least a limited government-owned initiative to see if the operation of a village can be viable on commercial terms but not the apparently exploitative terms now available.

This submission is not confidential.

Peter Mair

3 August 2016

## **[ LETTER SENT TO VARIOUS MINISTERS, GOVERNMENT DEPARTMENTS, INDUSTRY BODIES ETC -- 31 OCTOBER 2012]**

### **RETIREMENT LIVING -- THE ECONOMICS OF RETIREMENT VILLAGES**

There are some public policy issues about the pricing of retirement living accommodation which may benefit from being more forthrightly reassessed ahead of the expected surge in demand for specialised retirement accommodation.

I recently spent a few days exploring some options for independent living in retirement villages around Sydney. While there are a number of excellent facilities, including some with adjacent aged care centres, it seemed to me that the typical terms on which these facilities are being offered make the effective cost excessive. More generally, while village arrangements generally are covered by legislation, no provision is made for the regulation of entry and exit prices.

On the face of it, what stands is an apparently a free market outcome with the considerable uniformity that suggests either a competitive market outcome or, perhaps, a convenient one clustering around a de-facto market agreement on a pricing model that unduly favours the operators. That is the question.

#### **Too expensive or not?**

Illustrative figures on entry and exit prices for residential rights to a one-bedroom unit comprise an initial entry 'price' of some \$450,000, contributed as an interest free loan to the operator, and from which some 3%, being \$13,500 p.a., is forfeited each year to a maximum of 30%, being \$135,000, after 10 years. To this 'cost' of \$13,500 p.a. is added some \$6,000 p.a. being the annual cost of a daily levy of some \$20 per day to cover rates and village maintenance expenses.

Importantly also, no provision is usually made for capital gains to accrue to residents although a couple make provision for residents to take or share capital gains – but at the cost of additional exit fees. While prospective capital gain is a bit speculative, a no capital gain provision might be fairly costed at the value of the lost opportunity to invest the \$450,000 at 5% p.a. – some \$22,500.

Taken together, the all up annual cost of buying an entitlement to reside in a one-bedroom village-unit on the usual terms approximates some \$42,000 p.a. – about \$800 per week.

The value of what-you-get does need to be rounded up marginally to reflect the benefits of some shared facilities and emergency care services available to the village community but even so the cost does seem to be grossly excessive, especially given the additional daily levy.

**How did this happen and can it be fixed?**

On the face of it the apparently very high cost of village accommodation raises questions about the history of the prevailing market model and its durability into the future.

Historically, similar issues about fair-trading might be addressed by government sponsored business enterprises charged to operate on fully commercial terms but at demonstrably fair prices intended to bring competitive disciplines to an otherwise free-market. There may be some approximation of this outcome in the various public housing schemes in place and that may guide judgements about fair-trading for village accommodation.

These days it is probably unlikely that governments will be directly involved in such businesses and more likely that a beneficial 'official' competitive-market influence might be fostered by encouraging private interests to enter the market. The general sense of having aging retirees clustered in a village style arrangement – to minimise costs of subsidizing in-house care and community assistance support – may even make a case for subsidies to be given to village operators.

Whatever, this industry probably needs a circuit breaker to put it on a better footing. For the time being it seems that sensible first steps might be mainly about giving potential investor-promoters -- super funds? -- a bit of a push to get into the business as well as ensuring that there are no red-tape impediments to competitive new entrants to this industry. Equally government should be alert to the possibility that a de-facto pricing agreement is in place as a matter of established practice – and, if so, some initiative to free-up the market may be needed.

**Other relevant background?**

While a bit of googling has not turned up much in terms of an explanation for why the industry operates as it does – and as apparently expensively as it does – it may still be that both industry and government have conducted and published reviews of this industry that may better reconcile and rationalize current practices. If so I would appreciate being given some help to find and access that material, please.

Yours sincerely

Peter Mair