

2019 Review of the Victorian Retirement Village Act 1986

The retirement village concept is excellent, not only for those fortunate enough to be able to afford to enter one, but also for the community in general by freeing up housings for families.

The current Victorian Act definition of a retirement village requiring an “**ingoing contribution**”, that is an interest free capital loan, for the duration of the contract, ruined the concept by adding cost, extraneous complexity, and enabling operators with managements on incentive compensation bonus schemes to reap rich rewards for these past 33 years. The overall effect has been to restrict entry. Australia, with virtually all contracts based on the Victorian model, has only 5.7% of the retiree demographic in retirement villages, whereas the US with simple contracts, has over 15% of the demographic. If anything is any good, Australians generally are right up with Americas.

Attachments show the options. After 16 years devoted to understanding the retirement village market here, in the US, and New Zealand, and having a sister in a relocatable home land lease village, owned by her son, who is building more as fast as he can, it is now obvious that the **independent retiree consumer** must have control of his destiny, if villages are to be the success they deserve. There are at least three successful Owners Corporation community villages operating in Victoria, at Monbulk, Ferntree Gully and Ringwood.

What is needed?

For the most in need, charity and “not for profit” villages, **the ingoing contribution contract** appears best fit. Alternatively, **residential tenancy** would suit some, and some could qualify for rental assist. **Land lease** (essentially land tenancy) retirement villages would also suit regional retirees.

For the typical urban couple, or single, owning their own home of sufficient value to afford to buy into a village unit, and stay in the suburbs close to family or friends, the only choice would be an **Owners Corporation village managed by the owners**. That will cut the developers out of owning and operating village, and they will resist strongly. This model would have the developer take his profit immediately, and handing over each sale to an Owners Corporation (OC). That transition could be seen as problematic by some, but is not something that would present any real difficulty with a suitable retirement village Act. With an OC transaction, documentation would be simpler and total capital cost rate lower by about 20%. More retirees would gain the great social and community support benefit of life in a unit in a retirement village.

Co-location of aged care facilities should be encouraged by legislation enabling more efficient use of facilities, and medical services. An ombudsman is clearly essential too.

Why is the Owner Corporation Village needed?

To provide equitable, more affordable housing with choice and flexibility for retiree consumers. And free market competition, without departure cost penalties.

Attachments.

1. Tabulation of the contract possibilities with Owners Corporations recommended for those urban and regional retirees, funded well enough to afford entry to a unit, as well as residential tenancy for the less funded retirees.
2. Graph of typical distortionate cost pull forward of the current urban loan lease contract over time, that illustrates why operators seek to churn.
3. Spreadsheet for the graph.

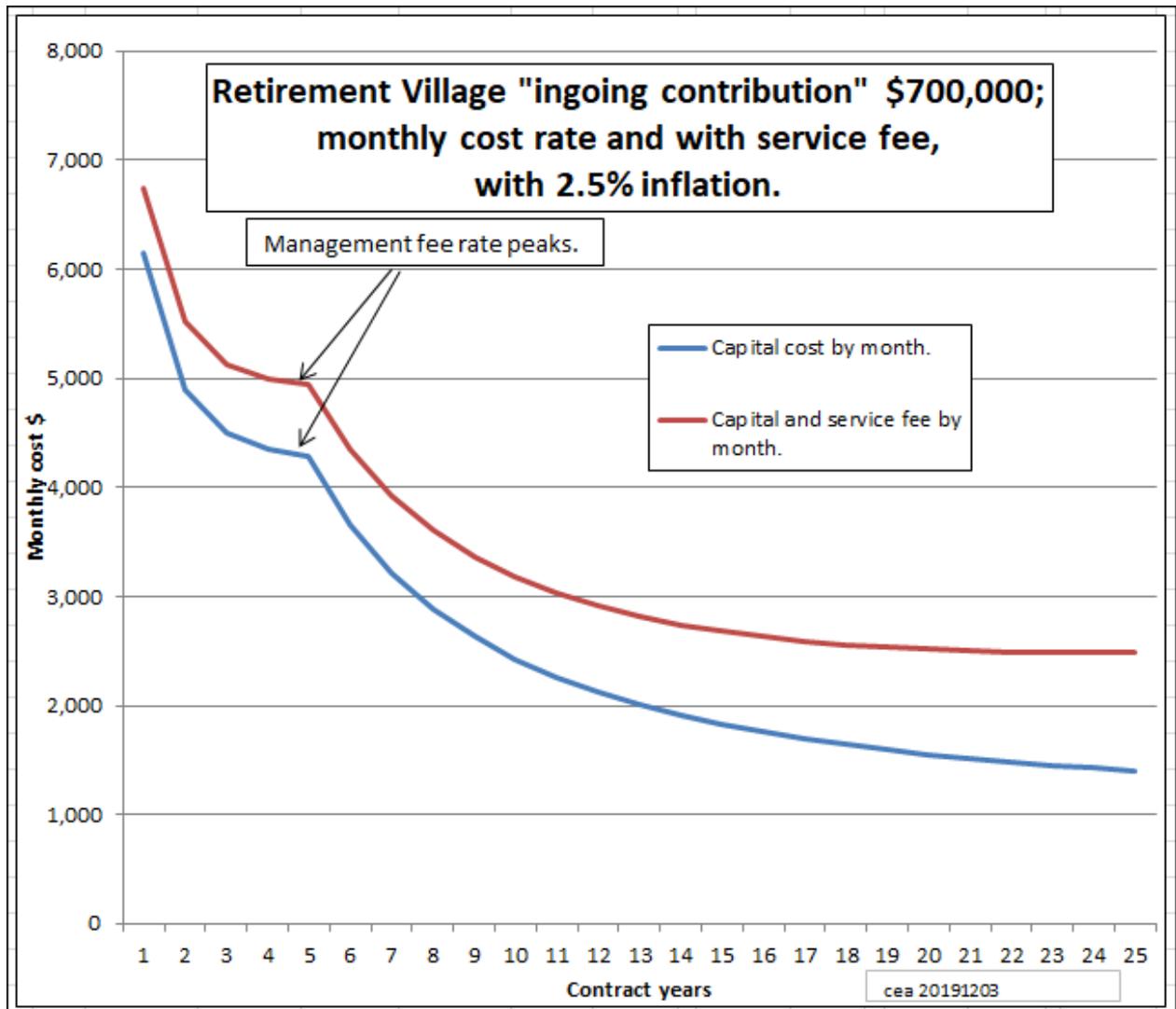
Comparison of Retirement Village Contract Models, dependent on Retirement Village Definition and fair effective legislation.

Contract model	Advantages to Resident	Disadvantages to Resident	Advantages to Operator	Disadvantages to operator
1 Residential Tenancy	Transparent cost rate before entry. Short contracts. Capital not required. Simple to enter and exit. Would allow dissatisfied to leave. Rental assistance may be available. Better legal advisers understanding.	May limit taxation and pension benefits	Simpler understood contracts.	Needs to be competitive with other available rental property
2 Loan Lease ie current Victorian RV Act definition Contract model with DMF. Retirement Village Act unfit for purpose.	Capital invested in ingoing contribution counts as an owned home for taxation and pension purposes.	Limits entry to successful retirees (only 5.7% of those over 65 years) Costs not disclosed until months after exit. Once contract signed cost to exit is prohibitive for majority. Contracts inordinately long, complex and incomprehensible to of lessees	Highly profitable. ROA 15 - 18% quoted. ROE 15 – 18% probable. Return on Investment 300% – 360% depending on the accounting treatment of the interest free capital loan called and ingoing contribution in most contracts. Long contracts full of distracting sludge.	Sometime need to make costly concessions to pacify residents
3 Loan Lease under current Victorian RV Act definition contract model with DMF for “Not for profit” church or charity village.	Capital invested in ingoing contribution counts as an owned home for taxation and pension purposes.	Management may not be competent, witness Salvos, so may employ unscrupulous operator. Church villages can obtain exemptions from the Act. eg- exemptions from audit.	Not all villages structured with benevolent focus on residents.	Not applicable since the residents are the owners corp.
4 Owners Corp managed by developer	For those with assets to purchase a contract generally similar to loan lease	High cost rate of developer managed contract	Basically same as 2 above,.	The “owners” can control maintenance and frustrate operator.
5 Owners Corp managed by owners, not a developer.	By far the most attractively priced for those who can afford to buy a unit. Capital invested in ingoing contribution counts as an owned home for taxation and pension purposes. No exit penalty. Should lower cost rate by about 20%	Requires a minimum size to have sufficient competent residents to manage an Owners Corporation administrative manager. Municipal councils might provide some management oversight assistance	As owner and operator are a single corporate entity, there is no conflict of interest.	Needs enough competent residents to manage the village through an appointed manager.

251119-Executive summary of the response to Consumer Affairs Victoria review of the retirement village act 1986 R1.docx

The two following two attachments are included to show the inequity produced by contracts produced by the “ingoing contribution” in the current Act definition.

The graphs below show the high early cost rate and profit of a typical present **loan lease contract**, with ingoing contribution and a 5% sinking fund, and so-called deferred management fee. With developer operators' managements on incentive compensation bonuses based on profits, it is obvious why resident churning takes place.



This current RV ACT - 1986 ingoing contribution model contracts puts the financial beneficiaries' priorities as:-

1. **Developer/operator managements on incentive compensation bonus schemes**
2. Corporate shareholders
3. Residents

Spread sheet for the graph above. The refurbishment cost in is not included in the graph above.

Typical urban Retirement Village unit \$700,000. Mgt fee schedule 5 years @ 5.5 % plus sinking fund 5% at exit.											
With refurbishment cost from year seven											
Yrs	\$700,000 ingoing contrib, with 2.5% inflation	Mgt Fee @ 5.5% pa for 5 yrs + 5% sinking on Exit	Mgt Fee on Exit Price	Capital value minus mgt fee *	Avg Mgt Fee by year	Avg Mgt fee by month.	Monthly service fee first mth 2.5% inflation	Mthly capita l cost + servic e fee	Annual refurb cost @ exit.	Mthly refurb cost @ 2.5% infl.	Total Mthly Rental Equiv w service & refurb
1	717,500	10.5	75,338	642,163	73,800	6,150	600	6,750	0	0	6,750
2	735,438	16.0	117,670	617,768	58835	4,903	615	5,518	0	0	5,518
3	753,823	21.5	162,072	591,751	54024	4,502	630	5,132	0	0	5,132
4	772,669	27.0	208,621	564,048	52155	4,346	646	4,992	0	0	4,992
5	791,986	32.5	257,395	534,590	51479	4,290	662	4,952	0	0	4,952
6	811,785	32.5	263,830	547,955	43972	3,664	679	4,343	0	0	4,343
7	832,080	32.5	270,426	561,654	38632	3,219	696	3,915	9,000	107	4,022
8	852,882	32.5	277,187	575,695	34648	2,887	713	3,601	9225	96	3,697
9	874,204	32.5	284,116	590,088	31568	2,631	731	3,362	9456	88	3,449
10	896,059	32.5	291,219	604,840	29122	2,427	749	3,176	9692	81	3,257
11	918,461	32.5	298,500	619,961	27136	2,261	768	3,029	9934	75	3,105
12	941,422	32.5	305,962	635,460	25497	2,125	787	2,912	10183	71	2,983
13	964,958	32.5	313,611	651,346	24124	2,010	807	2,817	10437	67	2,884
14	989,082	32.5	321,452	667,630	22961	1,913	827	2,741	10698	64	2,804
15	1,013,809	32.5	329,488	684,321	21966	1,830	848	2,678	10966	61	2,739
16	1,039,154	32.5	337,725	701,429	21108	1,759	869	2,628	11240	59	2,687
17	1,065,133	32.5	346,168	718,965	20363	1,697	891	2,588	11521	56	2,644
18	1,091,761	32.5	354,822	736,939	19712	1,643	913	2,556	11809	55	2,610
19	1,119,055	32.5	363,693	755,362	19142	1,595	936	2,531	12104	53	2,584
20	1,147,032	32.5	372,785	774,246	18639	1,553	959	2,512	12407	52	2,564
21	1,175,707	32.5	382,105	793,602	18195	1,516	983	2,499	12717	50	2,550
22	1,205,100	32.5	391,657	813,442	17803	1,484	1,008	2,491	13035	49	2,541
23	1,235,227	32.5	401,449	833,779	17454	1,455	1,033	2,487	13361	48	2,536
24	1,266,108	32.5	411,485	854,623	17145	1,429	1,059	2,488	13695	48	2,535
25	1,297,761	32.5	421,772	875,989	16871	1,406	1,085	2,491	14037	47	2,538