2016 ANZ RETIREMENT VILLAGES ASSOCIATION CONFERENCE SURVEY REPORT

July 2016

INTRODUCTION

ANZ's sixth annual survey of Retirement Village Association (RVA) members was conducted at the RVA Conference in Auckland on 21-22 June 2016.

The survey, which is conducted on a confidential basis, aims to provide current thinking in the sector and highlight some of the key issues and trends affecting it.

Respondents were asked whether the sector can maintain record unit sales, unit prices and company profits; and what CEOs and Boards should be focussed on for long term profit growth.

Coming into this year's RVA Conference, the sector is experiencing

- Strong product demand/prices
- Record house prices in Auckland and across a number of other regions
- Increasing numbers of Aucklanders starting to retire to villages outside the Auckland region
- No new sector players of any material size looking to start a new greenfield business.

Against this backdrop, the 6th annual ANZ RVA Conference Survey asked the same series of questions from previous years to measure sentiment over time but this year we introduced some new options/questions to ensure the survey remains relevant in current market conditions. This year, for the first time, we sought feedback on whether companies were exploring an Occupation Right Agreement ("ORA") wrapped around a care bed/room and we asked how satisfied village residents were in 2016.

We would like to thank the conference delegates that completed the survey and we are pleased to be able to share the results with you.

KEY INSIGHTS

- Survey respondents expect the New Zealand economy to perform strongly over the next 12 months and remain optimistic for the next three years.

- Survey respondents also expect their company to perform strongly over the next three years and to perform better than the economy.

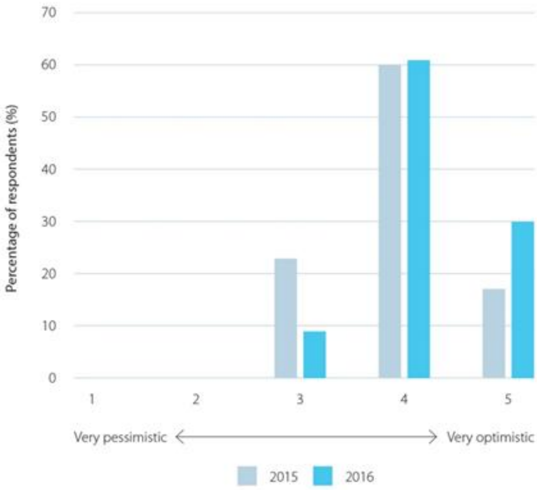
- The key issues for the sector are finding good employees, higher wage demands and compliance requirements. Operators need to have strategies in place to address these issues and ensure their business is not adversely affected.

- Village operators are focussed on enhancing village facilities in order to attract new residents and developing care options under an ORA structure.

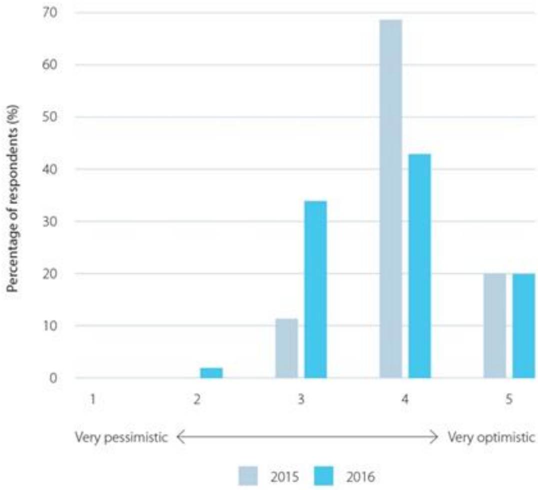
EXPECTATIONS FOR THE ECONOMY

The mood in the sector regarding the **economy remains largely very optimistic**, particularly over the shorter term and slightly improved on last year's expectations. While the longer term expectations for the economy are positive, they are surprisingly lower than what you told us in 2015. It is worth noting that the difference is not material but there is a small softening.

RESPONDENTS' EXPECTATIONS FOR THE NZ ECONOMY IN THE NEXT 12 MONTHS



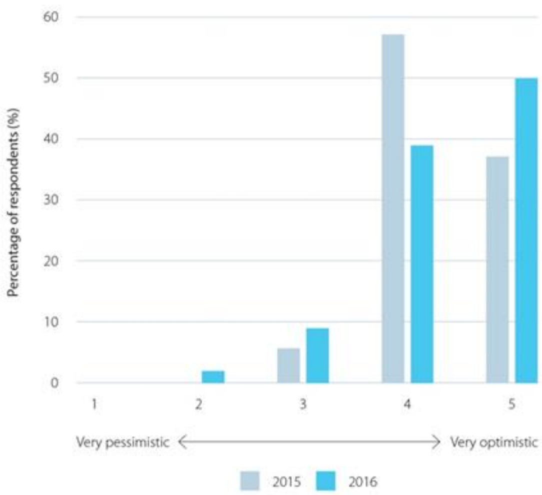
RESPONDENTS' EXPECTATIONS FOR THE NZ ECONOMY IN THE NEXT 3 YEARS



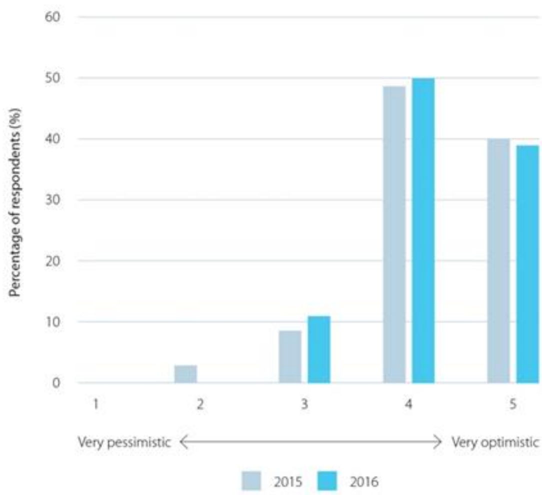
EXPECTATIONS FOR INDIVIDUAL BUSINESSES

In line with their expectations for the New Zealand economy, respondents were positive about the prospects for their own business/company and they expect business performance to be better than the New Zealand economy. When comparing the 2015 and 2016 results, there is very little change in the performance expectation for the New Zealand retirement villages. The 2015 survey showed an expectation for strong performance, and we have seen this expectation being proved correct. **There is an expectation for the sector to continue to perform well over the next 12 months**.

RESPONDENTS' EXPECTATIONS FOR THEIR BUSINESS IN THE NEXT 12 MONTHS



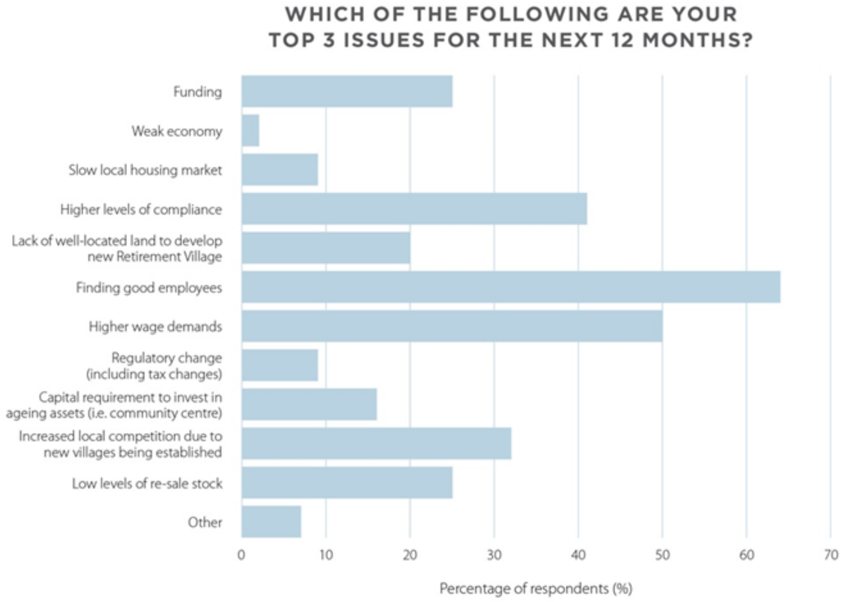
RESPONDENTS' EXPECTATIONS FOR THEIR BUSINESS IN THE NEXT 3 YEARS



KEY ISSUES AND PRIORITIES

KEY ISSUES

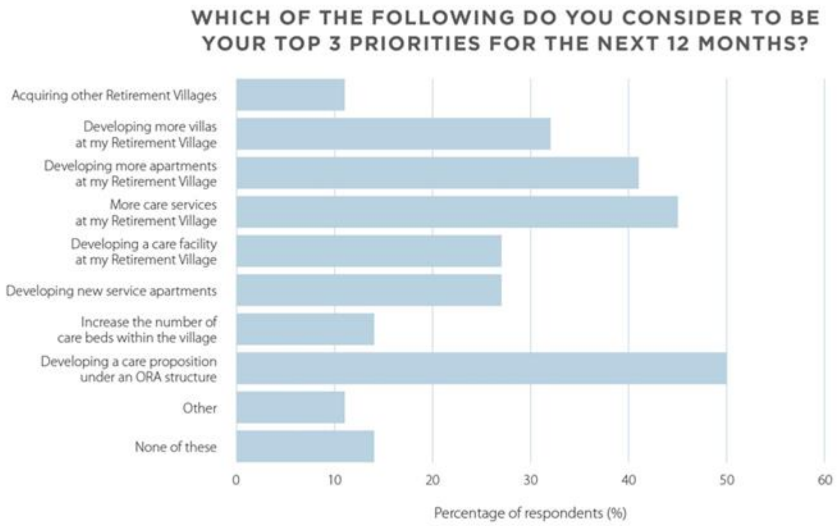
Each year we ask respondents for the top three issues facing their business. Over recent years, the response has consistently put **finding good employees** as the number one issue. In 2016, 64% of respondents still highlight a shortage of good people as being their main concern. The other two major issues are **higher wage demands** and **higher level of compliance**. At the bottom of the issue tree is a slow housing market and a weak economy.



KEY PRIORITIES

When we look at the three priorities for village operators, the third most important priority is to **develop more apartments**, closely followed by **providing more care services**. We think these priorities provide a subtle insight into what is happening in the sector. There is now a clear trend for development sites to have care facilities and for the site to have greater intensification through apartments (either independent living or serviced).

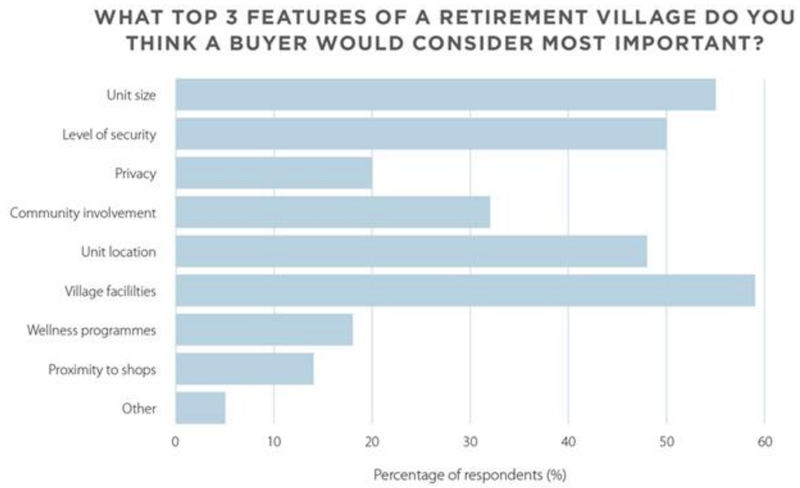
The main priority for the next 12 months is to **develop a care proposition under an ORA**. This was a new option in 2016, reflective of what we're hearing in the market, and it has gone straight into the number one position.



CURRENT MARKET THINKING

Referencing the graph below, we introduced this question in the 2015 survey and it was designed to get a gauge on what the industry believes residents are looking for in a village. The key finding from this question is that residents are clearly attracted to features such as **village facilities (59%)**, the **size of the unit (55%)** and the **level of personal security (50%)**. In 2015, the top features were village location (74%), size of villas/apartments (60%) and personal security (52%).

We are seeing a significant shift in demand for village units and the facilities that a village can offer is the number one consideration for potential residents. Reflecting on why this would be, it could be that potential buyers are looking at the range of facilities a village can offer them as the key differentiator, especially as villas and apartments are perhaps becoming equally comparable across all new villages.



Features like **wellness programmes** and **proximity to shops** do not appear to be a consideration. This is a surprise, given the trend for people to manage their health better. When we asked "**what would you consider as the most influential trigger as to why a retirement village unit is bought?**", the stand out response was **health issues** and it is, therefore, surprising to see wellness programmes not appearing in a higher position. Perhaps the retirement villages have yet to make adjustments for health driven motivators.

WHAT WILL HAPPEN TO PRICES AND CAPITAL GAINS?

PRICE INCREASES

This question has been asked in previous years and it has become a strong gauge for whether prices will rise. 41% of respondents will be increasing prices between 5.1% - 10%, 20% will increase by less than 5%, 11% will increase prices by 10.1% - 25% and 5% will increase prices by more than 25%.

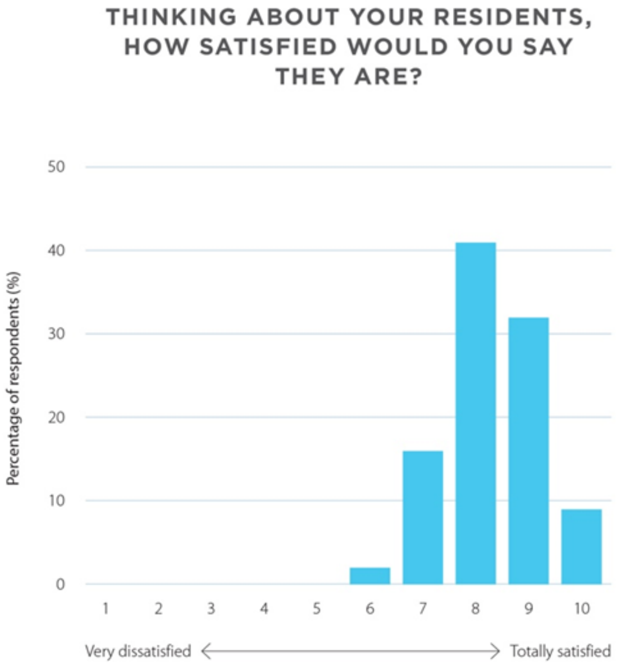
CAPITAL GAINS

This is an area that investors are very interested in, because of the growth in supply and the significant movement in house prices in New Zealand. Sharing capital gains is a common feature in the Australian market. The question we asked respondents was: "**do you expect to see companies willing to share capital gains with residents?**" It was interesting to note that **20% of respondents said they did**, although no specific timing was given. This is down from 25% in 2015 and there have been no new examples of gains being shared.

ARE RESIDENTS HAPPY?

This year we asked respondents to tell us how satisfied they believed their residents were. Increasingly we have seen companies monitor resident engagement and we were interested to gauge how satisfied village owners perceive their residents to be.

Using a scale of 1 (very dissatisfied) to 10 (totally satisfied), the results were strong and confirm our own impressions of residents' happiness.



SUPPLIERS – WHAT ARE THEY THINKING?

We asked some questions of the suppliers attending the RVA Conference to gain their insights and views on the sector. This year, we asked what they thought the performance expectations were for retirement villages. The 12 month outlook was more optimistic than the longer term (three years). For the next 12 months, **87% of suppliers ranked their optimism between 4-5** (with 5 being very optimistic and 1 being very pessimistic). Looking out to three years, the optimism fell to 64%.

77% of suppliers said sales to retirement villages had grown in the last 12 months and **90% expect sales to grow in the next 12 months**. There is no doubt the sector is attractive and we would expect to see more suppliers target the sector. However, the current suppliers recognise this risk and 77% of them expect to allocate greater resources (FTE) to the sector.

KIWIS ON THE MOVE IN RETIREMENT

Prior to the ANZ RVA Conference Survey, ANZ conducted a survey of ANZ customers[1] and asked them many questions about retirement. Over 550 people responded and the data could provide some areas of concern as well as opportunities for the retirement village sector. We have summarised some the key findings that could impact the sector.

Just **15% of New Zealanders plan to stay in their current home when they retire,** with **24% of people planning to downsize to a smaller home**. We see this as an exciting challenge for the Retirement Village Sector and we think the sector should target the 24% as future residents (and help lift the penetration levels).

[1] 2016 ANZ Retirement Expectations Survey

The survey found that almost half (49%) were unsure where they would be living in their retirement:

> 15% intended to stay in their current home
> 16% planned to move to another town or city
> **6% planned to move to a retirement village**
> Less than 1% of people intended to sell their current home and rent.

The survey showed that Aucklanders were the most inclined to move to a new town or city, with 20% planning to do this compared with 12% of people living outside Auckland in the North Island and 16% of South Islanders.

The implications for the sector include:

> Companies planning a village in Auckland need to reconsider their potential market if 20% of future retirees are planning to leave the region.
> Companies with village plans outside Auckland need to plan for the retiring Aucklanders looking to leave the region and what they need to do to attract them to their village/s.

While many people were planning to downsize or move, just 14% were intending to use the equity in their homes to help fund their retirement.

The survey found that the vast majority of people (75%) expected KiwiSaver to fund their retirement, as well as some contribution from NZ Super and other savings. It is clear that home ownership remains at the heart of people's retirement plans and after years of saving and paying down a mortgage, people are clearly reluctant to use the equity in their home to fund their retirement. The implication on the retirement village sector is not clear but there is no doubt that some people move into a village to release equity to live on. Accordingly, if KiwiSaver does provide people with enough money for their retirement, we may find people are less inclined to move into a village.

CONCLUSION

We have seen previous surveys provide responses that indicate respondents had high expectations for the economy, their business, price increases and overall demand. As we have seen over the last two years, the actual outcome was in-line with the survey results. This suggests the sector will enjoy another exceptional year.

While it is not clear at the moment, we are possibly seeing the start of a split in retirement villages. On one side, villages are focussed on more care with an ORA (*i.e.* focussed on health needs of residents) and, on the other side, village operators are expecting demand from retirees for better village facilities that suit their lifestyle needs. If this plays out, we might see some operators focussed on one aspect of the expect demand (this demand could be the baby-boomers and their expected demand for something different).

In terms of issues for the sector, finding and retaining good staff remains an ongoing issue. The sector has not yet addressed this issue and it does create an environment where IP can move between companies and, as a result, it will be hard for companies to retain a competitive advantage.

While not fully covered in this survey, ANZ's KiwiSaver survey provides some interesting insights and identifies opportunities and concerns for the sector. On balance, we think the non-Auckland based villages have an ideal opportunity to attract Auckland retirees.

In summary, we expect to see villa/apartment prices rise, village facilities to become 'bigger and better', care options increase and businesses will have another strong year. Now is the time to be selling new product.

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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