



**ANZ RETIREMENT VILLAGES
ASSOCIATION SURVEY REPORT**

AUGUST 2018

PREPARED BY:
ANZ HEALTHCARE

INTRODUCTION

For the last eight years, ANZ has conducted an annual survey of members of the Retirement Village Association (“RVA”) as part of our support for the retirement village sector. In this paper, we are pleased to be able to share the results of this year’s survey with you.

The survey was conducted just before the annual RVA Conference in Auckland on 26 and 27 June 2018. To help put responses into context, the survey was conducted against a backdrop of:

- Excellent consumer understanding of the retirement village proposition, including both the financial structures and the benefits for residents
- A housing market that is slowing in Auckland but remains good in a number of other centres in New Zealand
- Increasing numbers of Aucklanders starting to retire to villages outside the Auckland region
- No significant new entrants into the sector
- Strong demand from an aging population.

The survey asked a mix of questions with some from previous years (to measure sentiment over time), as well as some new questions to ensure the survey remains relevant in current market conditions and thinking.

We would like to thank the conference delegates who completed the survey. As always, while the overall findings are shared, individual responses are kept confidential. If you have any questions, please do not hesitate to contact ANZ.

KEY INSIGHTS

Survey respondents expect the New Zealand economy to perform strongly. This is consistent with the 2016 and 2017 surveys, but this year expectations have dipped somewhat.

Survey respondents also expect their company to perform strongly over the next three years – and importantly, they expect to perform better than the economy – this is also consistent with the 2016 and 2017 surveys.

The top three issues for companies in the sector are higher wages, finding good people and escalating construction costs.

The top three priorities for companies are building more villas and apartments, developing a care proposition under an ORA structure and developing strategies to bring local community into their retirement village.

The lowest priorities include acquiring other retirement villages and investigating the use of robots for villages.

Operators expect to raise unit prices – but increases are likely to be more modest than in previous years. It’s interesting to note that previous ANZ surveys have been a good predictor of future price increases.

No pressure on the ORA model.

1. TAKING THE PULSE OF THE INDUSTRY

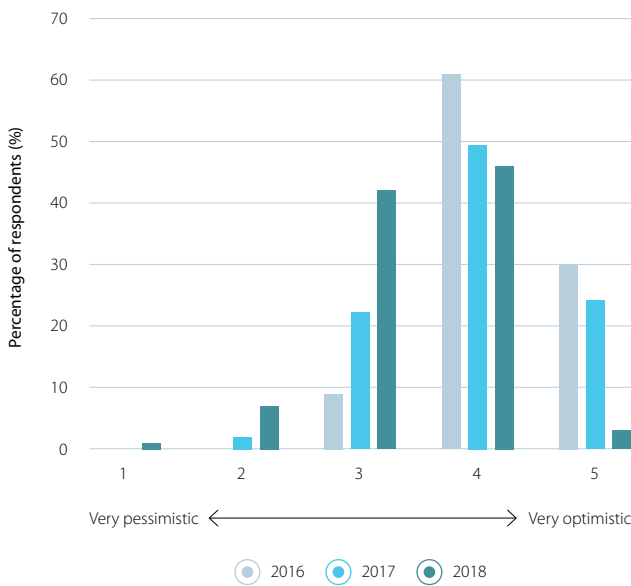
We have seen earlier surveys pointing to an industry that is confident about the economy but more importantly, an industry which expects to out-perform the economy. With this as a background and with a record number of people planning to attend the Conference, we expected the survey to show good levels of optimism, and that proved to be the case.

EXPECTATIONS FOR THE ECONOMY: STILL GOOD BUT WEAKENING

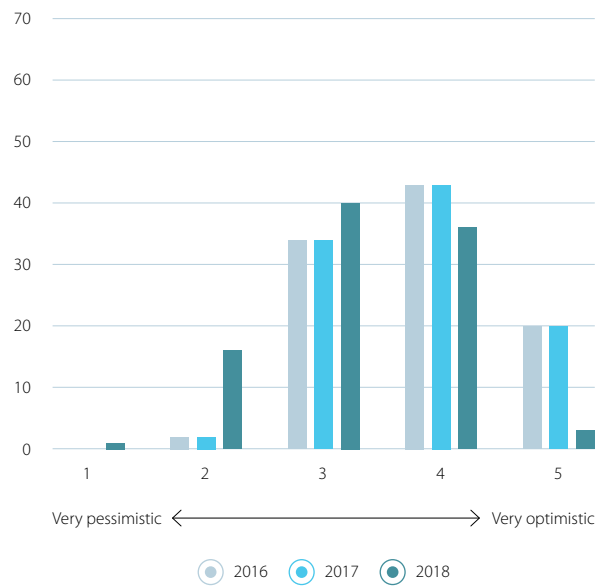
Looking at the expectations for the economy in the next 12 months, operators are telling us they are less optimistic than they were in the last two surveys. This shift shows people are moving to a more neutral position for the economy over the next 12 months.

The cautious 12 month view flows into respondents' expectations for the next 3 years. Operators are no longer 'Very Optimistic' for the economy and we have a sizeable increase in people who are pessimistic for the next 3 years. How this impacts growth decisions for operators will be interesting to monitor.

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



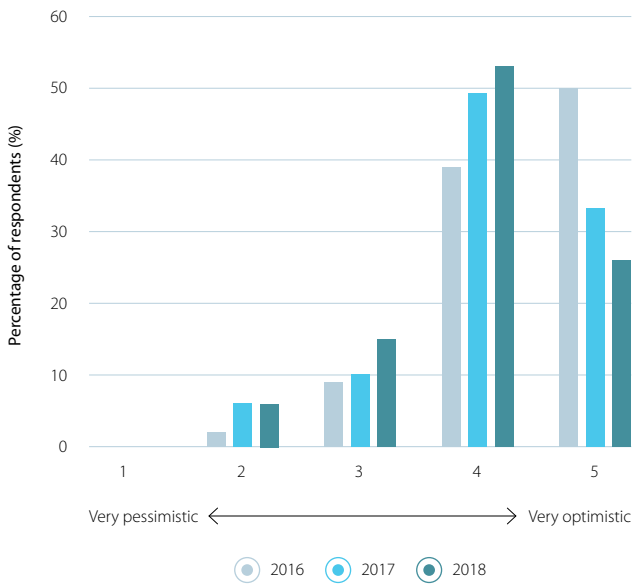
RESPONDENTS' EXPECTATIONS FOR THE NZ ECONOMY IN THE NEXT 3 YEARS



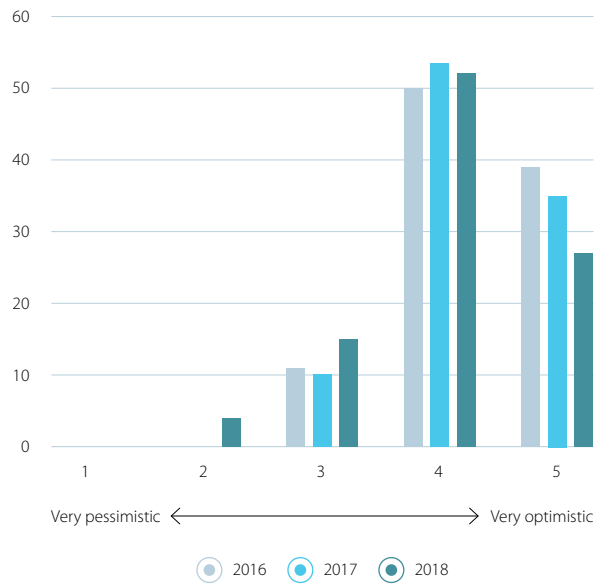
EXPECTATIONS FOR INDIVIDUAL BUSINESSES: COMING OFF HIGHS BUT STILL FEELS GOOD

At the Conference, ANZ's Head of Healthcare Richard Hinchliffe suggested 2018 would be a 'stonking good year' for the sector because of a number of factors (e.g. momentum, great product, strong demand, good economy, and well located villages). That's reflected in respondents' views on their own business with the level of optimism being higher than for the economy in general. It must be noted the number of people who were 'Very Optimistic' has fallen again after also falling in 2017. However, putting this into perspective, those showing optimism across the next 3 year period are still very high at around 75%. We therefore believe the sector operators remain confident and will continue to execute current strategy.

RESPONDENTS' EXPECTATIONS FOR THEIR BUSINESS IN THE NEXT 12 MONTHS



RESPONDENTS' EXPECTATIONS FOR THEIR BUSINESS IN THE NEXT 3 YEARS



2. KEY ISSUES

COMPARING THIS YEAR'S KEY CONCERNS VS LAST YEAR'S

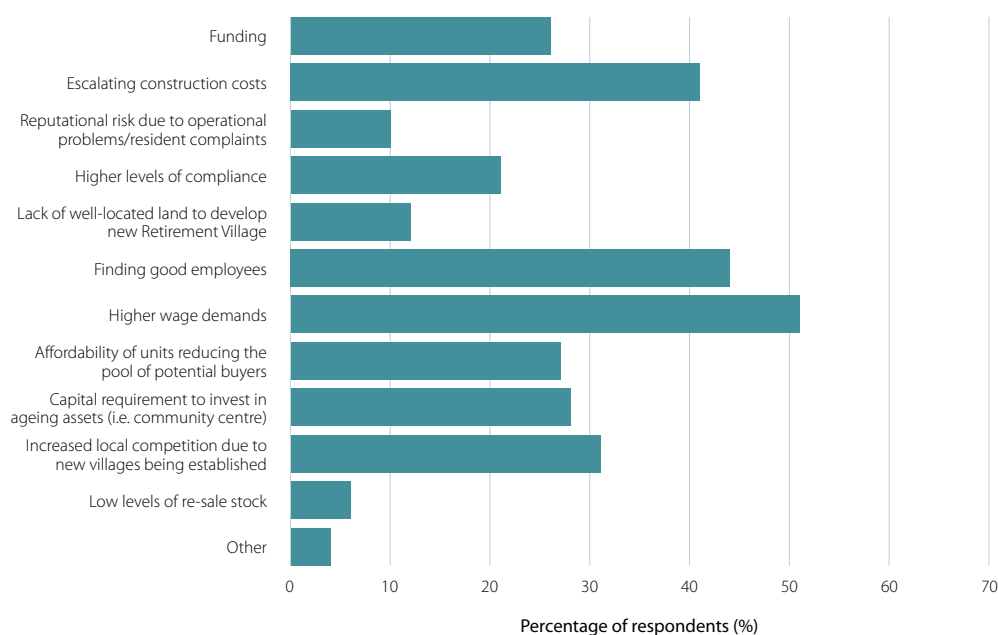
Ranking	2017	2018
1	Escalating construction costs	Higher wage demands
2	Higher wage demands	Finding good people
3	Higher levels of compliance	Escalating construction costs

In the 2018 survey, operators put the top three issues as higher wage demands, finding good people and escalating construction costs. With the top 2 issues employee related, it was appropriate the conference theme was 'people'. Retirement village companies are recognising the importance of people for the long term success of the sector.

It is interesting to note that while 'escalating construction costs' remains a significant issue, it was less of a concern for respondents in this year's survey. When we introduced 'escalating construction costs' as a new option for this question in the 2017 survey, it went straight in as the number one issue. At last year's conference, ANZ's Richard Hinchcliffe suggested operators needed to manage construction risk carefully and insist on the 'A Team' from the main contractor, and it appears that this message has been taken on board. Over the last 12 months, operators have faced increased costs but they have become better at managing the risks and costs. Talking to conference attendees, there appears to be signs of some early optimism to suggest some construction costs may have peaked.

The fourth most pressing issue for respondents to this year's survey was increased competition due to new villages being established in the local area. There has been comment in the press recently that supply seems to have got ahead of demand in some areas, and it will therefore be interesting to watch how survey respondents cover this issue in future surveys. Our sense on this subject points to new and well-designed units in villages continuing to sell well and at prices ahead of last year.

WHICH OF THE FOLLOWING ARE YOUR TOP 3 ISSUES FOR THE NEXT 12 MONTHS?



3. KEY PRIORITIES

Against the background of an aging New Zealand population, optimism for the economy and high expectations for their own business, it should come as no surprise to see the top two priorities as:

- Developing more apartments and villas
- Developing a care proposition under an ORA structure.

However, this year the third priority was 'How to bring the community into my retirement village'. Increasingly, retirement villages are recognising the importance of the community on their business. At the same time, communities are now becoming aware of the importance of retirement villages to the local economy.

In the survey, we asked respondees for examples of how they bring the community closer to the retirement village. There were many examples provided, and below are a few examples:

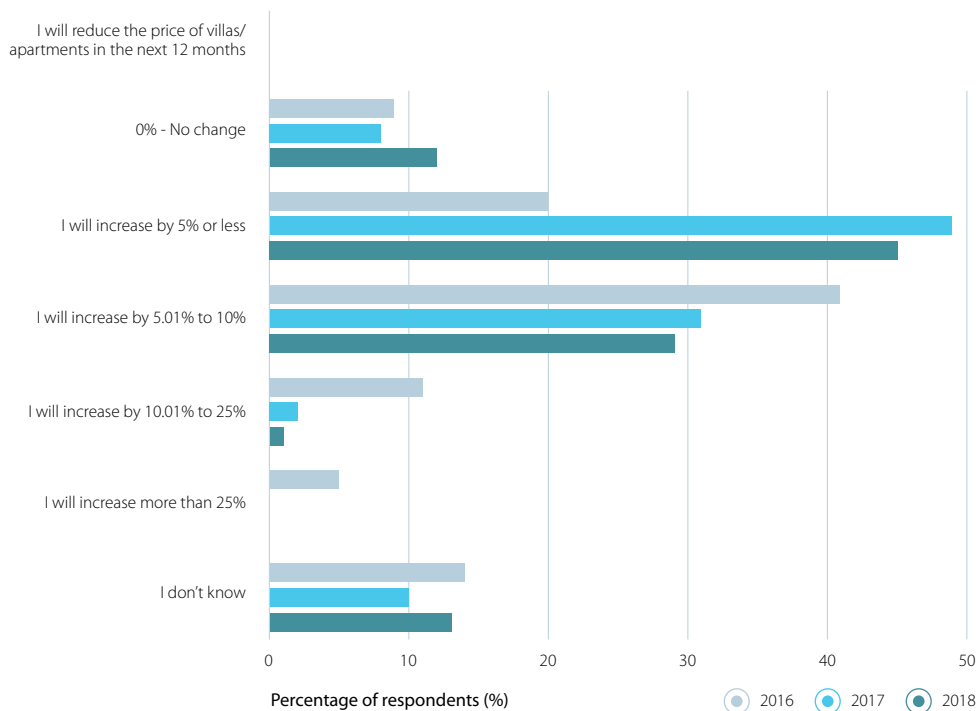
- Establish a childcare centre on-site
- Develop outwardly facing activities
- Engage with local schools and sport clubs
- Support environmental projects.

4. FINANCIAL CONSIDERATIONS

PRICING: MODEST INCREASES LIKELY

In previous surveys, responses to the question below have been an accurate indicator of what operators will do in the next 12 months. The responses to this year's survey clearly indicate that prices will generally rise, but the levels will be more modest than in previous years and off the peaks of 2016 and 2017.

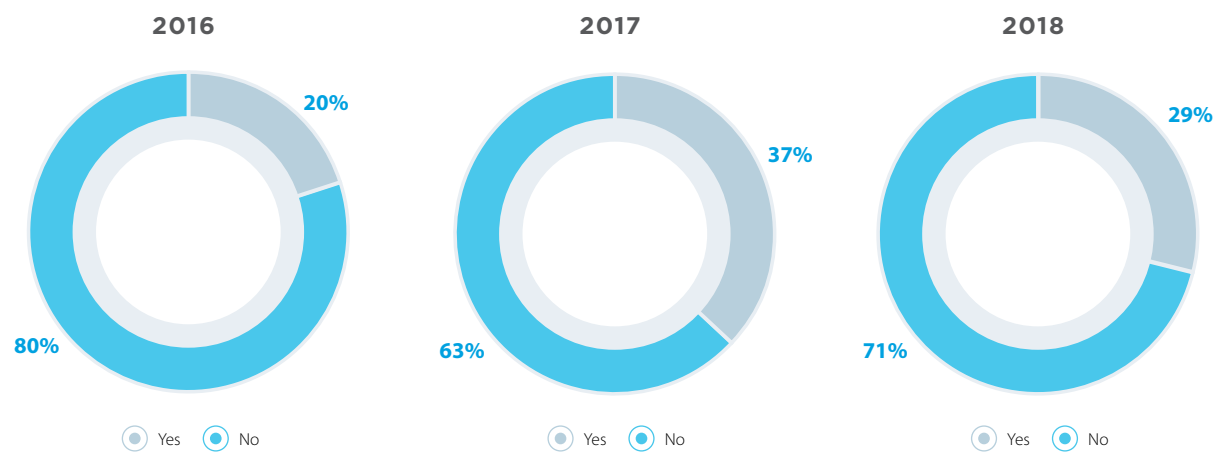
HOW MUCH WILL YOU INCREASE THE PRICE OF YOUR VILLAS OR APARTMENTS WITHIN THE NEXT 12 MONTHS?



CAPITAL GAINS: “TO SHARE OR NOT TO SHARE, THAT IS THE QUESTION”

Capital gain is an important part of the cash flow of all retirement villages. Last year’s survey showed an increased expectation amongst respondents over the willingness of companies to share capital gains with residents. At the time we cautioned against reading too much into that. Views on this subject have always been mixed and there has been no materially sized sector player in the market sharing capital gains. The option/risk will always be discussed but in 2018 it would appear to be less likely to happen, compared with 2017. It is also interesting to note that the question on reducing DMF rates had a similar response – 71% of operators do not think DMF rates will fall.

CAPITAL GAINS IN THE SECTOR IS MAINLY RETAINED BY THE VILLAGE COMPANY. DO YOU EXPECT TO SEE COMPANIES WILLING TO SHARE CAPITAL GAINS WITH RESIDENTS?



5. A GLIMPSE INTO THE FUTURE

AUCKLANDERS

KiwiSaver research conducted by ANZ in 2016 showed that 20% of Aucklanders plan to retire outside of Auckland. As a result, in 2017 we introduced a question asking whether non-Auckland villages had witnessed the impact of Aucklanders retiring outside of Auckland – with 31% saying they had. In the 2018 survey, that number rose to 37%.

The key take-away from this is that Village operators, when building, need to think about how the building, proposition and marketing will appeal to Aucklanders.

USE OF TECHNOLOGY

81% of respondents in this year's survey believed trends in technology and digital advancements are becoming either important (40%) or very important (41%). Two years ago the RVA Conference had a key note speaker covering technology and the use of robots, and since then we have seen some companies introducing technology to improve healthcare and productivity. However, on the subject of robots, our sense is that as costs rise, companies will have no choice but to investigate how robots will improve productivity and residents experience in the retirement village. Perhaps Amara's Law applies to New Zealand retirement villages i.e. we tend to overestimate the effects of robots/technology in the short term and we tend to underestimate the effect in the long run.

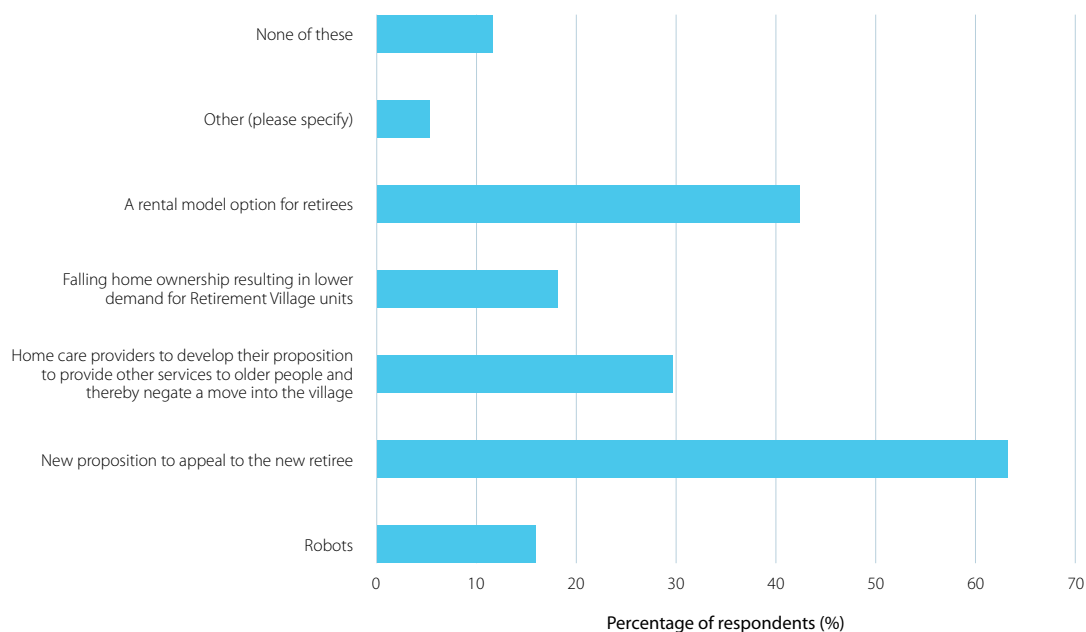
NEW PROPOSITIONS

With most sectors/industries going through various degrees of disruption, it is not unreasonable to assume that the retirement village sector will face its own disruption. With this in mind, we asked operators to look forward 5-10 years and consider what new models could feature in their business.

63% of respondents identified the need to develop a new proposition to appeal to new retirees. This was up on last year's survey and reinforced the need to consider the changing expectations, greater wealth and different perspectives of those New Zealanders now approaching retirement, and the need to remain relevant to this group.

The second most favoured response was around a rental model for retirees. This perhaps reflects the fact that home ownership is falling in New Zealand, so it is therefore reasonable to assume that demand for a rental model will rise.

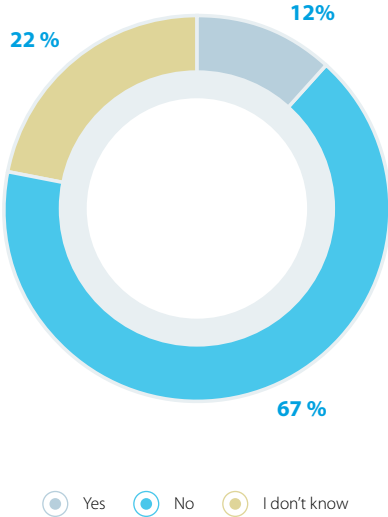
LOOKING FORWARD 5-10 YEARS, WHICH OF THE FOLLOWING WILL FEATURE IN YOUR BUSINESS?



CAPITAL REPAYMENTS ON EXIT?

When a resident exits their unit, the usual process is for the unit to be sold and the settlement with the exiting resident or family is then made. There has been sector and market discussion on this subject and accordingly we introduced this new question to get a gauge on whether this approach might change. We therefore asked if companies were considering offering repayments on exit.

OVER THE NEXT 1-2 YEARS, DO YOU EXPECT TO SEE MOST RETIREMENT VILLAGES OFFERING CAPITAL REPAYMENTS ON EXIT?



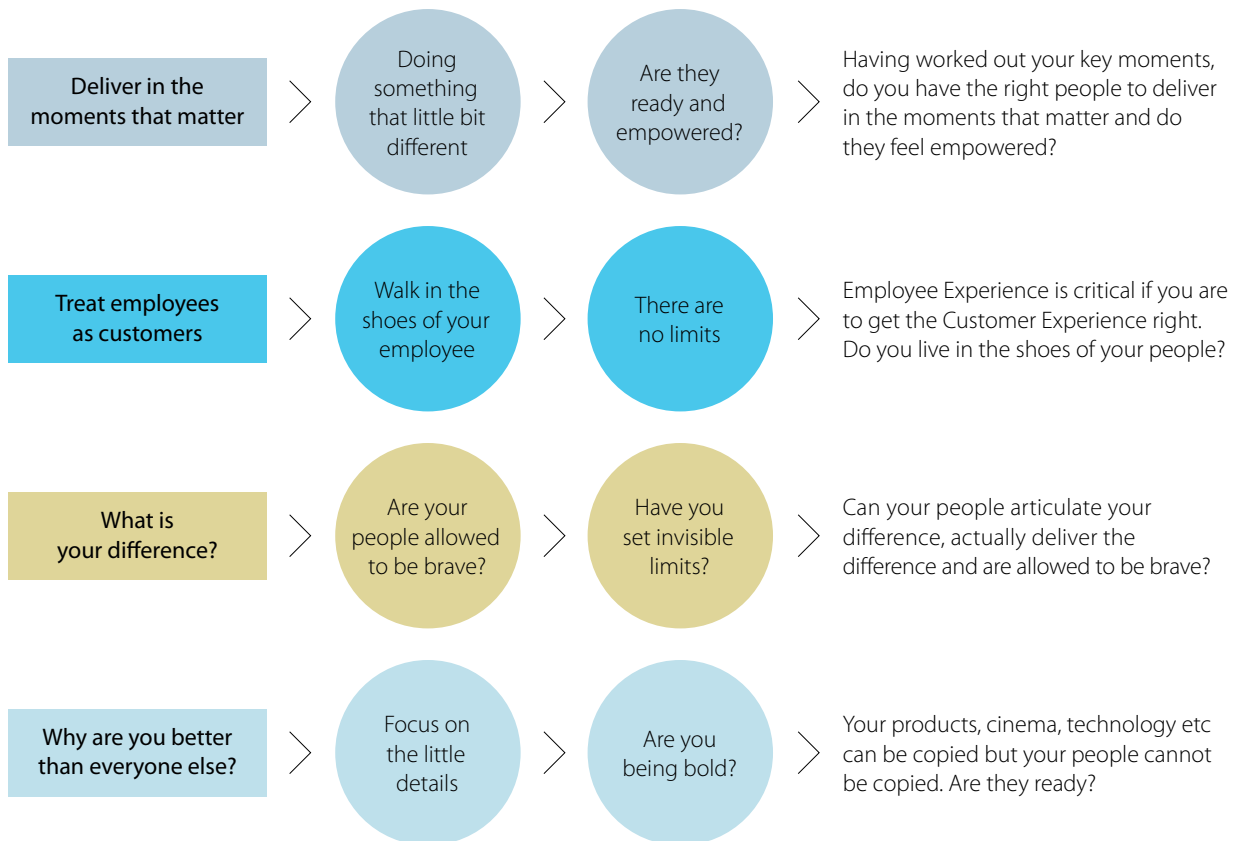
6. CONCLUSION

HE TĀNGATA – IT IS PEOPLE

The overwhelming feedback on the sector from people completing the survey and from attendees at the conference was one of optimism for its further growth, despite expectations of a slowing economy. With a conference theme of 'People', and the top two survey issues also being people-related, the sector is clearly demonstrating it is a people business, and not a property business.

If it is indeed a people business (and we think it has always been a people industry), and with competition between operators increasing, the cost base for operators will be under pressure and employee experience will be a critical priority for Boards. Some of the key areas for Boards to consider in this environment are outlined in the extract below from Richard Hinchliffe's conference presentation (which included a video of gold winning athletes also talking about these critical success features).

MAKE A DIFFERENCE – 4 KEY AREAS TO THINK ABOUT



The good news for Boards is that they can have confidence to invest in their people, because the sector looks set to continue to benefit from:

- A strong demographic profile
- Attractive propositions for older retirees
- Continued increases in unit prices
- Continuing high levels of optimism for the economy and the sector.

Once again, we would like to thank everyone who responded to the survey. We hope this report is a relevant and useful input into your planning for another successful year.

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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