



**ANZ RETIREMENT VILLAGES
ASSOCIATION SURVEY REPORT**

JULY 2017

PREPARED BY:
ANZ HEALTHCARE

INTRODUCTION

We are pleased to present the findings of ANZ's seventh annual survey of Retirement Village Association (RVA) members.

The survey is conducted on a confidential basis and aims to provide a snapshot of current thinking in the sector, and highlight some of the key issues and trends affecting it. This year's survey was conducted prior to the RVA Conference, held in Sydney on 14-15 June 2017, against a backdrop of:

- Good consumer understanding of the retirement village proposition.
- Record prices being achieved for retirement units.
- House sales down year on year.
- Annual house price growth the softest since 2011.
- No significant new operating entrants.

This year's survey asked a mix of similar questions from previous years (to measure sentiment over time). However, we also asked some new questions to ensure the survey remains relevant in current market conditions. This year, for the first time, we sought feedback on technology, what the 5-10 year horizon might look like and engagement with local communities.

We would like to thank everyone who completed the survey. Individual responses are of course confidential, but we are pleased to be able to share the overall findings with you. If you have any questions, please do not hesitate to contact ANZ.

KEY INSIGHTS

- As in 2016, the 2017 survey respondents expect the New Zealand economy to perform strongly over the next 12 months and remain optimistic for the next three years.
- Consistent with the 2016 survey, this year's respondents also expect their company to perform strongly over the next three years and to perform better than the economy.
- The key priority for village companies is the construction of more units. Engagement with local communities is also a major focus.
- The top three issues for companies in the sector are escalating construction costs, higher wage demands and higher levels of compliance.
- We expect to see village companies increasing unit prices over the coming 12 months.
- The ORA model remains strong and is well placed to continue to serve village residents and companies.
- Respondents expect that developing a new proposition, to appeal to the new retiree, will be a major focus over the next 5 – 10 years.

FINDINGS

This report discusses the findings of the survey under four main areas:

1. Taking the pulse of the sector (overall expectations for the next 12 months and 3 years).
2. Key issues and priorities.
3. Financial considerations (expectations for pricing).
4. A glimpse into the future – emerging trends.

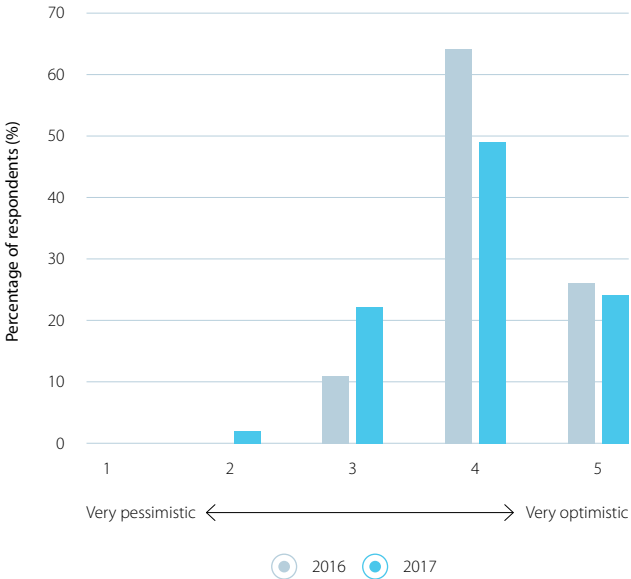
1. TAKING THE PULSE OF THE INDUSTRY

The mood in the sector remains optimistic for the New Zealand economy overall, and for individual businesses. Respondents expect their businesses to outperform the economy over both the next 12 months and three years.

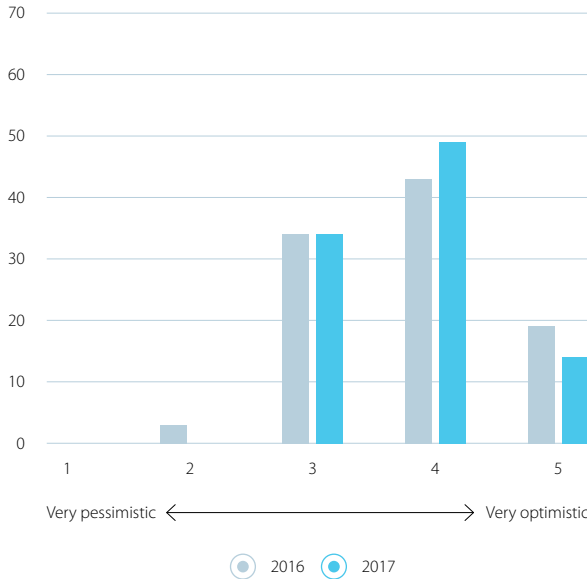
EXPECTATIONS FOR THE ECONOMY: STILL HIGH

73% of survey respondents were either optimistic or very optimistic about the New Zealand economy over the next 12 months (this is down slightly over 2016 responses but the difference is not thought material). Looking out three years, the sector believes the economy is in good shape and is a great base for companies to construct new villages.

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



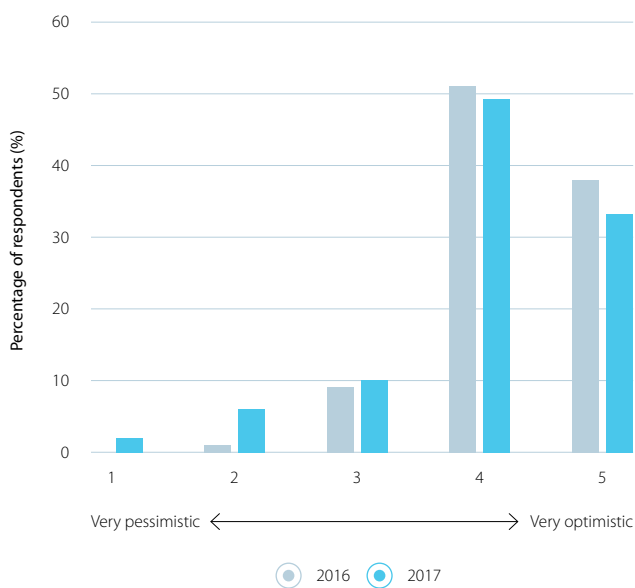
RESPONDENTS' EXPECTATIONS FOR THE NZ ECONOMY IN THE NEXT 3 YEARS



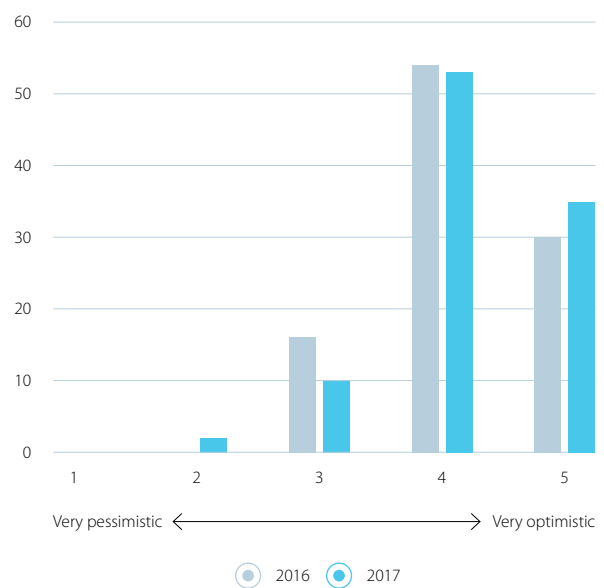
EXPECTATIONS FOR INDIVIDUAL BUSINESSES: EVEN HIGHER

Like last year, people in the sector feel very optimistic and they are confident their businesses will outperform the economy. We assume this is due to the strong demographic profile for the sector. This, along with price increases over previous years (and further increases expected over the next 12 months), is helping to feed the strong optimism levels.

RESPONDENTS' EXPECTATIONS FOR THEIR BUSINESS IN THE NEXT 12 MONTHS



RESPONDENTS' EXPECTATIONS FOR THEIR BUSINESS IN THE NEXT 3 YEARS



2. KEY ISSUES AND PRIORITIES

KEY ISSUES: COSTS AND CAPITAL

As with previous surveys, we asked respondents to list their top 3 issues for the coming 12 months. This year, we added 'escalating construction costs' as an option. This was because last year people told us that new construction was a priority, and also because of recent comments from both village companies and commercial property companies about the difficulties to construct to time and budget.

This proved to be a timely addition, as 'escalating construction costs' was the number one issue in this year's survey, being rated in the top 3 issues by 51% of respondents.

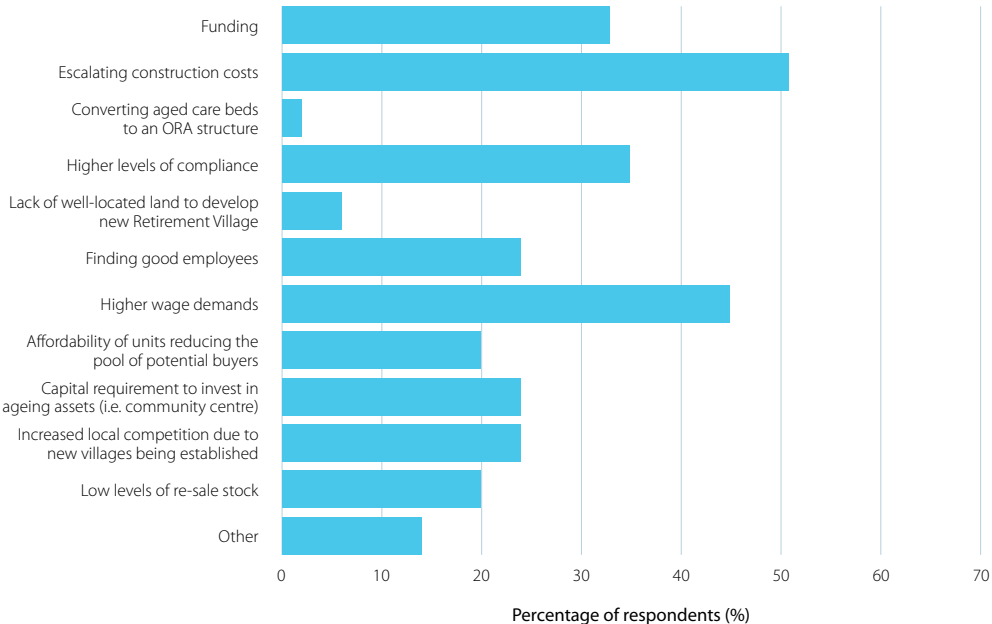
Last year's top issue, 'Finding good employees,' fell from 64% in 2016 to 24% in 2017. While this remains an issue, but given the emphasis on building and the risks involved, it is perhaps not surprising that construction was seen as key in this year's survey.

Other key findings from this year's survey were:

- General funding and finding capital for improving care assets are growing issues for respondents (with both up from 2016).
- Higher wage demands and compliance costs remain of concern.

2017

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



KEY PRIORITIES: MORE BUILDING, MORE CARE SERVICES, MORE COMMUNITY

The top priority in this year's survey was developing more apartments / villas, with 57% of respondents identifying this as one of their three top priorities for the next 12 months. This was up from 41% in 2016.

As in last year's survey, the provision of more care services remains a high priority in 2017.

This year we included some additional options for respondents in terms of their priorities for the next 12 months. For the first time we asked about:

- Future use of robots.
- Whether the village was actively looking at greater community engagement.
- How important an environmental strategy was.
- Whether respondents had plans for a home care business.

Of these, **bringing the local community into the village ranked as one of the top three priorities at 41%**. Interestingly, 80% of respondents said they were already actively engaged with their local community so this is clearly an area of focus for village companies.

The other new options were ranked lowly with robots and the environment recording low levels of interest.

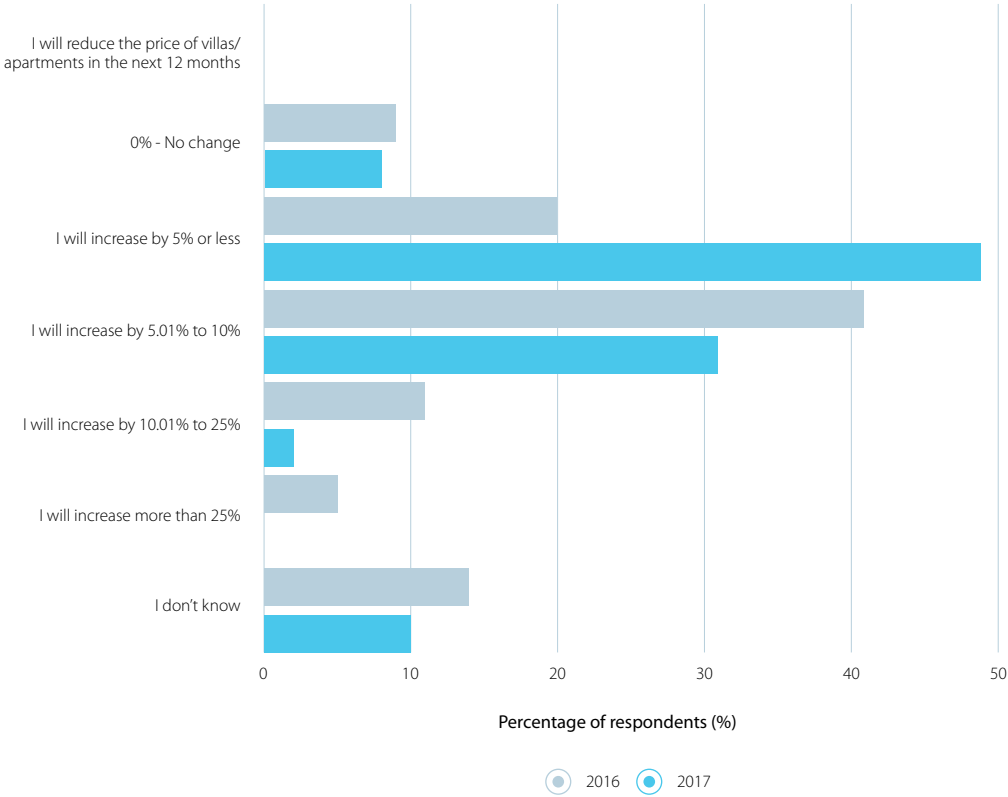
3. FINANCIAL CONSIDERATIONS

PRICING: ON THE RISE

As in previous years we asked respondents how much they will increase the price of their villas or apartments within the next 12 months. This has proved to be a reliable forward view on prices.

This year's survey indicates prices are set to rise, only 8% of villas expecting to make no changes to prices over the next 12 months. 49% expect to increase prices by 5% or less, while 31% expect to increase prices between 5% and 10%.

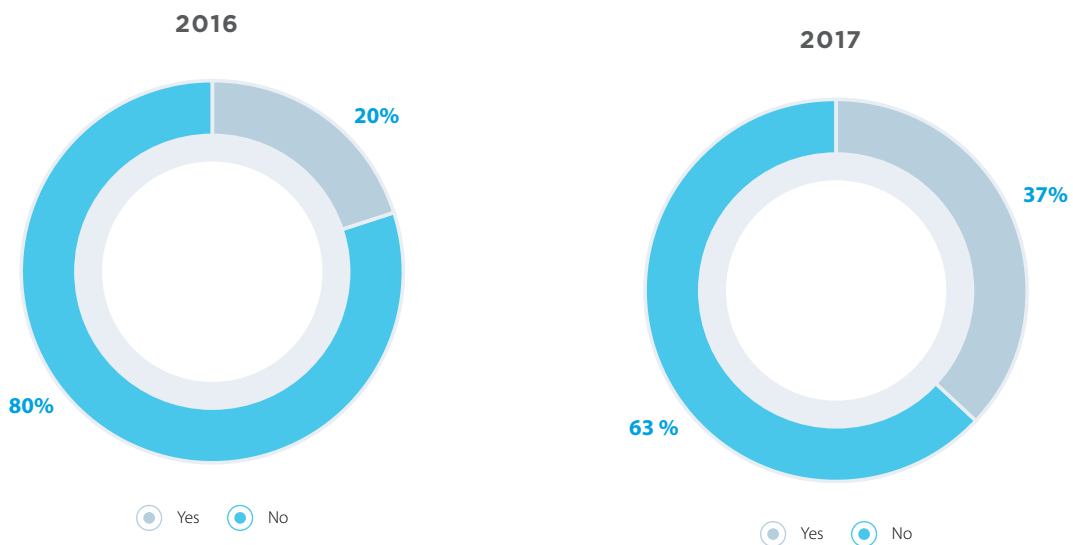
HOW MUCH WILL YOU INCREASE THE PRICE OF YOUR VILLAS OR APARTMENTS WITHIN THE NEXT 12 MONTHS?



SHARING CAPITAL GAINS: A SLIGHT SHIFT

This question has been asked for many years and is often an encouragement for people to consider alternative models. However, as yet no one has created a material/viable alternative and there is a natural conclusion that the status quo will remain. Comparing 2016 and 2017 responses, there has been a slight shift in views on whether companies would be willing to share capital gains with residents. However, it is difficult to read too much into this at the moment.

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?



ORA VS FREEHOLD MODEL: STEADY AS SHE GOES

While people appear to be happy with the current structure, slightly more respondents in this year's survey felt there could be pressure for change at some stage compared with 2016.

This year:

- 61% of respondents said there was no pressure on the ORA model (compared to 68% in 2016).
- 16% thought there could be pressure, but only in 5-7 years' time model (compared to 7% in 2016).
- 16% said they didn't know model (compared to 23% in 2016).

We also asked if companies were under pressure to reduce the level of DMF. In 2016, 73% said no and this has fallen to 67% in 2017. However, the change is small for any conclusion to be drawn.

While we have seen people look to challenge the ORA model, nothing material has been developed as yet. It is therefore reasonable to conclude the model is still fit for purpose.

4. A GLIMPSE INTO THE FUTURE

Ten years ago, the typical retirement village was different to today's villages in some significant ways (e.g. lower DMF, no care, no ORA wrapped around a care suite). Equally, villages in 2027 will look different than they do today. In this year's survey, we asked respondents what they expected to see emerging over the next 5 – 10 years. The key trends mentioned were:

NEW PROPOSITIONS FOR NEW RETIREES

59% of respondents said that a new proposition to appeal to the new retiree would be a feature of their business over the coming 5-10 years. The baby boomer demographic approaching retirement is not a homogenous group of people. They have more money, more life experiences and high expectations. Villages may need to reshape themselves to remain relevant and appealing to this group.

RENTAL MODELS AND AFFORDABLE OPTIONS

41% of respondents identified a rental model option for retirees as likely to feature in their business. 51% also said they were looking at how they can provide affordable retirement options for people who cannot afford their current product range.

COMMUNITY INVOLVEMENT

As already discussed, bringing the community into the village was identified as a key priority by many respondents. Many villages are already doing this – for example through sharing facilities with the local community – and we can expect to see more initiatives in the future to create a closer relationship with the communities they are part of.

NEW TECHNOLOGY

The vast majority (88%) of respondents said that trends in technology and digital advancements were becoming more important. From resident care (for example using technology to monitor resident heart rates, movement patterns and other health indicators), to site management (more efficient utilities management, improved security, etc.) to connecting residents with their families, service providers and the wider community, technology has significant potential to benefit both residents and village operators.

AUCKLANDERS RETIRING OUTSIDE AUCKLAND

Another new question this year was based on recent KiwiSaver research conducted by ANZ which showed that 20% of Aucklanders plan to retire outside of Auckland. 31% of respondents said this trend had impacted their village. We will continue to monitor this in future surveys.

PREPARING FOR THE FUTURE

There was a lot of discussion during the conference itself about the changes in the sector over the last 20 years, and how the industry may need to reshape itself in the future. Richard Hinchliffe, from ANZ, spoke about the subtle changes in the market over the last 12 months, as companies have sought to enhance their propositions through technology, food, uniforms, care etc. Richard's message was that 'perfect storms do not last forever' – so Boards should be taking advantage of the current benign environment to strengthen their business.

This was echoed by John Ryder, during an interview session involving three industry icons, at the 2017 RVA Conference. John made the point that businesses need to adapt and change to ensure they remain relevant and competitive. The responses to our survey questions about what businesses are expecting in the future gives us confidence that the sector can - and will - adapt to changes in the market.

CONCLUSION

Previous surveys have proved to be good predictors of activity in the sector. When respondents have expressed high levels of optimism, we have seen this come through over the following 12 months. This year's survey responses suggest the sector is set to enjoy another exceptional year.

The survey clearly highlights some immediate priorities for the sector, including:

1. Construction. Building units to meet current demand.
2. Engagement with the community.
3. Providing more care.

These priorities are reflected in the three main issues for sector players, which are:

1. Escalating construction costs.
2. Higher wage demands.
3. Higher compliance costs.

At the conference, ANZ's Richard Hinchliffe talked about managing construction risk and cost escalation. Richard's recommendations included choosing the right contractor and more importantly, making sure you have the contractors 'A' team. Higher wage demands have often been mentioned and probably reflect the challenge of growing fast and trying to ensure high quality staff are attracted and retained.

This year we saw people making comment on funding and 33% of respondents put this in their top 3 issues. At ANZ we have been funding new villages for many years and we would be keen to talk to anyone looking for funding for land, new villages or for the construction of new care services.

Last year we said **"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."**

We think this still applies. However, companies need to have an eye on the future and make sure they are able to adapt to any market changes.

We would like to thank everyone who responded to the survey – we hope you find it useful and interesting. The results are always shared but we keep individual responses confidential. Please contact us if you have any questions.

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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