



Seniors Living: Can Australia learn from the USA?

A comparison between seniors living communities in Australia and the USA

EXECUTIVE SUMMARY

The seniors living market in the United States has achieved market penetration of approximately 12% of the over-65 population, three times higher than the Australian market share of approximately 4%. Given the cultural, demographic and economic similarities between the two countries, why is this the case?

Our research suggests that the following factors contribute to the greater penetration of seniors living communities in the USA compared to Australia:

- The 'rental model' predominates in the USA market compared to the 'purchase model' that prevails in Australia.
- The availability of the 'continuing care' model in the USA, which enables residents to age in place longer, without the need to relocate to an aged care facility.

- In Australia, the requirement to pay departure fees is a significant deterrent to entry into a retirement village.

Consequently, the following are critical considerations for the Australian industry moving forward:

- The local target market will either continue to accept the current departure fee structures or demand a more simple and affordable alternative.
- The provision of 'continuing care' to enable ageing in place in a manner that is both financially acceptable to residents and economically viable for operators/providers.

In this paper, Jones Lang LaSalle stresses that future penetration into the seniors living market in Australia will increasingly be through the development of seniors living communities at the expense of the traditional retirement village model.

INTRODUCTION

The seniors living market¹ in the USA accounts for more than 12% of the over-65 population, representing about 4.5 million retirees. In Australia, however, the seniors living market has achieved a market penetration of only about 4% or an estimated 108,000 people, of whom approximately 3.5% reside in retirement villages, with the balance in age-restricted communities for the over 55s.

Why is the penetration into the seniors living market in the USA more than three times the Australian market share? Are seniors in the USA more inclined to be attracted to a retirement community style of living? Are the housing options cheaper, more plentiful or varied? Or, do they just do it better?

This paper compares the seniors living options in the USA with those in Australia, with a particular focus on product types and choice, resident payments, the community facilities and amenities provided, and the opportunity to age in place through the provision of care services.

We suggest reasons for the gap in the market penetration rates between the two countries and the potential to adapt any particularly successful seniors living practices in the USA to the Australian seniors living market.

COMPARATIVE OVERVIEW

Although there are a number of differences between the United States and Australia, population size and density being obvious examples, from a cultural, demographic and economic perspective, there are a number of key similarities.

- In Australia, life expectancy at birth is 77.6 years for males and 83.5 years for females, compared with 75.0 years for males and 80.8 for females in the USA.

¹For the purposes of this discussion, seniors living communities in Australia and the United States includes seniors (the target market being over the age of 65) living in retirement communities and age-restricted mobile home parks or manufactured housing estates but excludes communities that only provide care for the frail aged (nursing homes and hostels).

- The proportion of the population aged 65 years and above in Australia is only slightly higher at 13.1% compared to 12.5% in the USA.
- The percentage of the population over the age of 65 years who own their own home is very similar in the USA and Australia at 80.0% and 80.3%, respectively.
- In Australia, 26.2% of the population over the age of 65 years lives alone, compared to 29.6% in the USA.
- Christianity is the dominant religious belief in both countries.
- Finally, in 2001, the average income for a single person over 65 years in Australia was approximately AUD 20,600 compared to the average income of USD 22,200 in the USA.

Consequently, the seniors living markets in the USA and Australia are both underpinned by the same fundamentals. Broadly defined, the key drivers of demand in both countries are:

- An ageing population
- The expectation of a significant increase in demand for retiree housing and care services as the Baby Boomers reach retirement age

A significant difference between the two markets at present is the willingness of many over-65s in the USA to relocate considerable distances from their family home in their retirement years.

In the USA, retirees are more willing to move to a different county or state. For instance, states such as Florida, Nevada and Arizona are attractive to retirees due to their warmer climates, accessibility to recreation, cultural activities and healthcare, as well

as more favourable cost considerations such as lower taxes and lower costs of living.

By comparison, entrants into Australian retirement communities have displayed a preference to remain in proximity to their family home and accessible to their family, friends, and trusted medical practitioners. Relocation interstate for instance, is more often the result of a desire to be near children and family who may themselves have moved interstate previously, rather than the desire for a ‘sea change’ or ‘tree change’ experience.

Importantly however, most people over the age of 55 years, irrespective of whether they live in Australia or in the USA, still choose to remain in their own home rather than enter into a retirement community.

Clearly, the challenge for the industry is to increase the appeal of living in a community restricted to seniors.

Bearing in mind the similar attitude to retirement housing in both countries, why is the penetration into the seniors living market in the USA three

times higher than the Australian market? Given that surveys have established that the approval rating amongst residents in seniors living communities in Australia is remarkably high, is the difference simply a case of poor marketing or is it a more fundamental issue?

PRODUCT CHOICE

Senior living communities in both the USA and Australia provide the following two basic living choices:

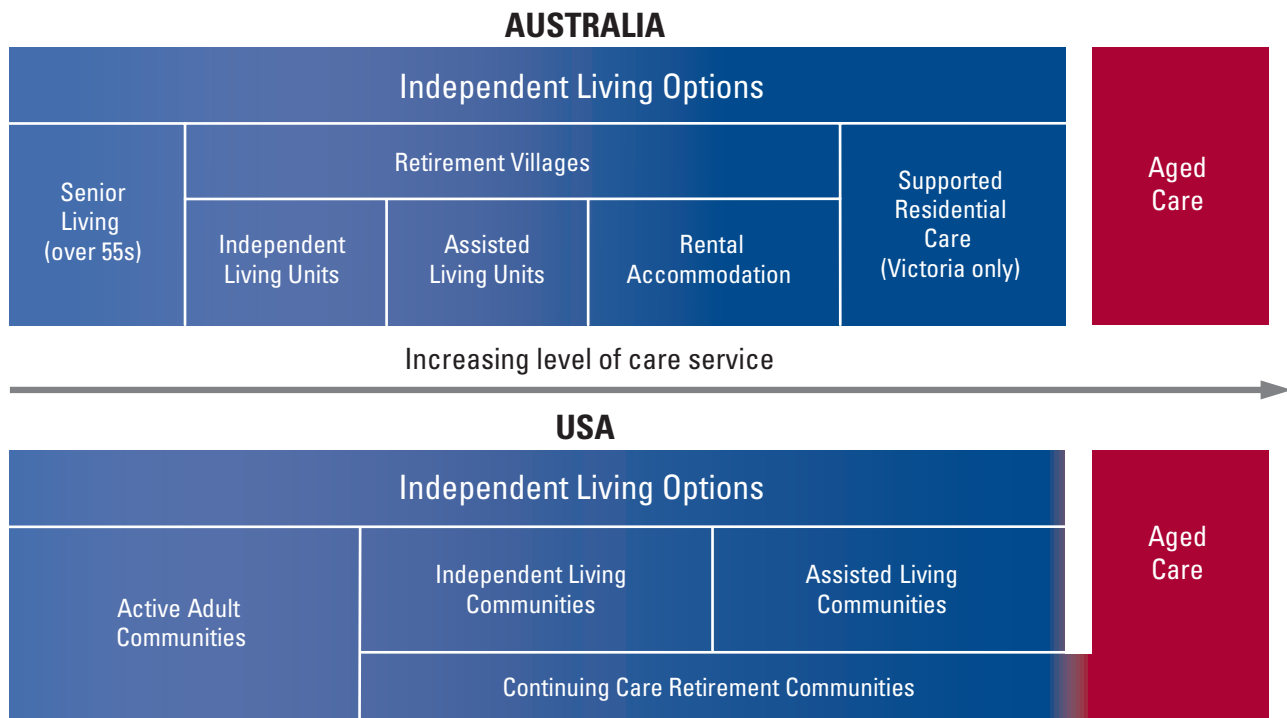
- Independent living
- Assisted living

The diagrams in Figure 1 depict the product choice available to retirees who choose to enter a seniors living community in the USA and Australia.

The diagrams do not include the following options that are available to senior citizens and retirees:

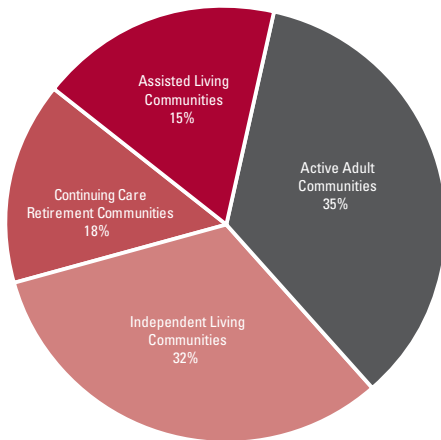
- Remaining in their own home or downsizing to a smaller home or apartment
- Living with relatives
- Staying in nursing homes and hostels

Figure 1: Independent Living Options in the United States and Australia



Source: Jones Lang LaSalle

Figure 2: Product Preference in the USA



Source: American Seniors Housing Association; Jones Lang LaSalle

It is also evident from Figure 2 that Active Adult Communities and Independent Living Communities that target the 55 plus age cohort provide the most popular seniors living housing options in the USA. The Continuing Care Retirement Communities and Assisted Living Communities target an older age cohort and have a reduced penetration into the total seniors living market.

By comparison, the most popular seniors living housing option in Australia at present is independent living in retirement villages.

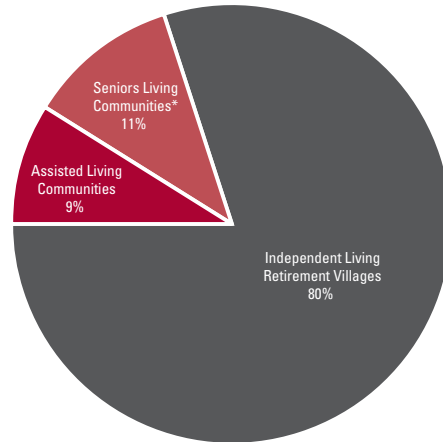
A clear differentiator between the seniors living products available in the USA and Australia is the absence of ‘continuing care’ within Australian communities which enables residents to age in place for longer without the need to relocate to facilities providing higher levels of care.

PRODUCT TYPES

In Australia and the USA, the standard of accommodation in new independent living and assisted living communities is not dissimilar.

In both countries, **Independent Living Units** in retirement villages and seniors living communities

Figure 3: Product Preference in Australia



*Seniors Living Communities incorporates manufactured housing estates, rental villages and seniors living estates.

Source: Jones Lang LaSalle

are age-restricted and generally consist of stand-alone dwellings, condominiums or apartments which provide accommodation to residents who are independent and require little, if any, assistance with daily living activities.

Accommodation can vary between one and three bedrooms although demand is trending towards the upper end of this range. Unit sizes are increasing, 2 bathrooms are more common, and on-site garaging is mandatory. High rise villages and hotel style apartments are more common in the USA whereas apartment style development is increasing in popularity, particularly in resort and high land value areas.

Assisted Living Apartments in both countries have traditionally been in apartment style complexes with





their own community facilities, kitchen and common dining area. They offer both domestic support and personal care services for seniors who wish to remain independent but require regular help with activities of daily living. Assisted Living Facilities do not provide nursing care, and residents requiring a higher level of care must transfer to a nursing home.

Continuing Care Retirement Communities

(CCRC) or Life Care Communities are unique to the USA market and provide seniors over the age of 62 with the opportunity to age in place, with the level of services increasing commensurate with the resident's needs. A resident's status upon entry to the community may be totally independent, but as the person ages they can progress through to nursing care as required without leaving their dwelling.

Active Adult Communities in the USA offer up-market townhouses, condominiums and stand-alone dwellings in an age-restricted resort-style environment, which are often bought off the plan and built to the owner's specifications. Active Adult Communities target the more affluent retirees and those nearing retirement age.

These communities are usually developed as a master-planned integrated estate encompassing retail and recreational uses, and can vary between 2,000 and 5,000 dwellings. Due to their size they can offer far more extensive resort-style facilities such as:

- Country club
- Putting green
- Clubhouse

- Swimming pool
- Banquet room
- Lap pool
- Ballroom
- Whirlpool
- Fine dining restaurant
- On-site boat and motor home storage
- Aerobic and dance studio
- Marina
- Gift shop
- Bocce court
- Business centre
- Softball field
- Wellbeing centre
- Private beach
- Championship Standard Golf Courses (in some instances, more than one)
- Floodlit tennis courts (usually more than one)

By comparison, few independent living communities in Australia exceed 400 dwellings, and consequently have less extensive community and recreational facilities as scale is a determining factor in the provision of these amenities.

However, changes are occurring in Australia in resort style 'up market' developments such as those undertaken by FKP at Peregian Springs, Living Choice at Kawana Island and Twin Waters on the Sunshine Coast, and the new 'Resort' development at Torquay on the Surf Coast.

Congregate Care in the USA is aimed at retirees in good health who want both independence and companionship. It combines private living quarters with shared dining and living spaces, and may offer transportation, domestic care, rehabilitative and other support services. Congregate Care represents only a small proportion of the seniors living market in the USA.



RESIDENT TENURE

As previously indicated, 35% of the seniors in retiree housing in the USA reside in Active Adult Communities where residents purchase their dwelling or unit upon entry to the community. The remaining 65% live in independent living and assisted living communities where, according to the American Seniors Housing Association, 99% of the residents enter into rental agreements. Of the 1% of Independent Living Communities which do not adopt the rental model, the majority are typically operated under a condominium title or co-operative scheme.

This is a significant point of difference with the Australian seniors living market where the rental product accounts for about 7.8% of the market.

Furthermore, in Australia the resident tenure in seniors living communities normally takes the form of:

- Strata Title
- Leasehold Title
- Loan Lease Agreement
- Loan Licence Agreement
- Company Title
- Rental Agreement

It is evident from the above that there is a far greater variety of resident tenures in seniors living communities in the Australian market than in the USA. However, this variety does not necessarily translate to greater choice. Rather, it is the result of an industry which has struggled in the past to identify the most marketable and commercial option within a changing regulatory regime imposed by State and Federal governments. For instance, the imposition of GST on new developments subject to certain tenures and exemption from GST in others.

One of the major differences between the USA and Australian markets is the ease of transfer between independent living and assisted living within an integrated community.

In the USA, where the greater majority of residents are on rental agreements, the transfer can be as simple as surrendering an existing tenancy on an Independent Living Unit and entering into a new tenancy for an Assisted Living Unit. By comparison, in Australia, residents considering a move from an Independent Living Unit to an Assisted Living Apartment must first terminate their lease or licence, or in the instance of a strata title unit sell the unit to another resident. They are then required to pay the operator a departure fee, and finally with the proceeds received from the operator, pay the ongoing contribution for the Assisted Living Apartment.

PRICING/AFFORDABILITY

The following table provides a cost comparison between the seniors living product types in the USA and Australian markets.

One of the critical differences between affordability in the USA and Australian markets is the prevalence of the departure fee structure in the Australian

retirement village industry, which requires the outgoing resident to make a payment to the operator upon exiting the village. There is no single industry-wide formula for assessing the departure fee to be paid, as the accrual of the departure fee over the time in residence can vary significantly from village to village, and it can be calculated on the ‘incoming contribution’ paid by the resident or the ‘re-sale’

Table 1: Pricing Levels in the USA and Australia

Type	Entry Costs	Ongoing Costs	Departure Costs
USA			
Active Adult Communities	USD 150,000 - USD 5 million +	Monthly Homeowner’s Association Duties	Flat percentage of ingoing contribution, commonly 10%. Capital gain may be shared in an agreed ratio.
Independent Living Communities	May incur a community service fee (for example, USD 5,000 for the first resident and USD 650 for the second occupier).	Monthly rental which generally falls between the single and couple pension allowance for ‘all-inclusive’ packages. Rental-only packages incur a lower monthly levy.	Nil.
Continuing Care Communities	USD 20,000 - USD 500,000+	Monthly levies of between USD 1,500 and USD 5,000 depending on the level of care required.	Varies depending on the entry fee paid and the level of care required during the resident’s stay.
Assisted Living	Nil.	From USD 2,000 per month, averaging USD 2,900 nationally.	Nil.
Australia			
Retirement Villages	AUD 50,000 - AUD 1,000,000+	Ongoing service fee ranging between AUD 200 and AUD 450 per month.	Departure Fee payable
Assisted Living Facilities	AUD 50,000 - AUD 250,000	Monthly service fee ranging between AUD 850 and AUD 1,200.	Departure Fee payable
Seniors Living Communities	Market value of the dwelling	Ongoing monthly service fees.	Nil.
Rental Villages	Nil.	Weekly rental which is generally limited to 85% of the aged pension and 100% of Commonwealth Government rent assistance, which covers accommodation, meals and some domestic services.	Nil.

Source: Jones Lang LaSalle

price. It may also include a percentage of any capital gain depending on whether the resident enters into a participating or non-participating arrangement with respect to capital gain sharing.

The wide range of formulae for assessing departure fees is one of the industry's obvious weaknesses, and is a significant deterrent to entry into a retirement village.

CARE SERVICES

In the USA, where the greater majority of residents in independent and assisted living communities pay rent, there is less pressure on people to leave as their dependency increases, as a departure does not necessarily trigger a receipt of revenue. Consequently 'all inclusive rentals' and 'fee for service' packages are popular.

In Continuing Care Retirement Communities, which provide personal care and some nursing care services, the level of care services can increase commensurate with the residents needs. By comparison, in Active Adult Communities personal care services are not available as a general rule, and domestic services are provided on a user pays basis.

Likewise, in Australia, personal care services are not generally available (or discouraged) in Independent Living Units, and domestic services are provided on a user pays basis. This is to encourage residents to transfer to a higher level of care as their dependence increases, thereby triggering a 'rollover'. However, domestic services and some personal services are provided in Assisted Living Apartments.

As previously discussed, a clear differentiator between the seniors living products available in the USA and Australia is the availability of the 'continuing care' model in the United States, which incorporates domestic, personal and some nursing services to enable residents to age in place longer

without the need to relocate to facilities providing higher levels of care.

CONCLUSIONS

We believe that one of the reasons for the wider market penetration in the retirement living sector in the USA is the fact that the rental and purchase options available to retirees have received greater acceptance.

'Rental' Model

At present, the Australian 'rental' model is largely targeted at the lower socio-economic elderly demographic, and consequently relies heavily on government funding as rents are based on a percentage of the pension and rental assistance received by residents. By comparison, rental accommodation in the USA is targeted at all sectors of the retiree market, including the more affluent.

We believe that an opportunity exists in Australia to provide rental accommodation to the broader retiree market, thereby increasing market penetration into the seniors living sector, for the following reasons:

- Changes to the Australian superannuation rules allowing people over 55 to access some of their superannuation through an annuity, while still working part time, will increase their disposable income
- Residents in rental accommodation are not tied down by ownership, departure fee considerations, or the timing of 're-sales', and generally have greater flexibility to relocate should they so desire
- Renting provides retirees with greater flexibility to downsize as their accommodation requirements change, for instance on the death of a spouse or partner
- The rent paid is generally an all-inclusive cost depending on the 'package' of care services a resident may elect to include. This differs from the typical retirement village where there are several layers of cost – the ongoing contribution, the departure fee, recurrent charges for village

operating costs, personal and domestic services if required, and possibly refurbishment costs, agent’s commission on sales etc.

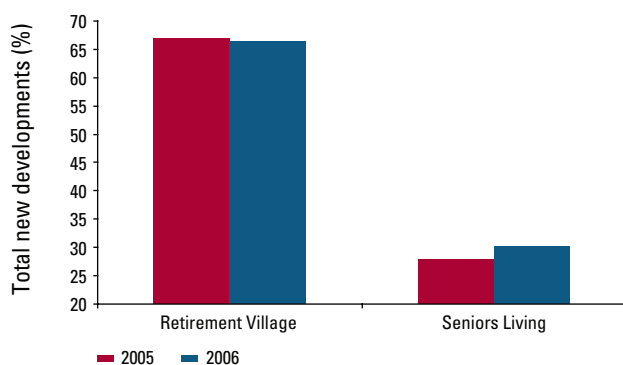
‘Purchase’ Model

Under the ‘purchase’ model where one either acquires an interest in the property, as is predominantly the case in the USA, or one acquires a ‘lifetime’ interest as is mostly the case in Australia, the USA model is much less complex than the Australian model. Where a departure fee is payable in the USA model it is often a simple calculation (e.g. 10% of the ingoing contribution), unlike the more complex departure fee structures that apply in Australia.

A critical issue for the Australian industry moving forward is whether the local market will continue to accept the current departure fee structures, or whether it will demand a more simple and affordable alternative.

An indication of a shift in demand away from the traditional resident funded retirement villages with their reliance on departure fees to over 55s communities with no departure fees is highlighted below in Figure 4.

Figure 4: Mix of Seniors Living and Retirement Village Developments (2005 and 2006)



Source: Seniors Aged Care Housing Weekly; Jones Lang LaSalle Research & Consulting

Whilst the number of development applications for retirement villages remains considerably higher than that for seniors living developments, we believe a trend has begun towards the latter. This is due in part to the fact that seniors living communities have more appeal to the younger retirees, and in particular the financially astute Baby Boomers.

We believe that future penetration into the seniors living market will increasingly be through the development of seniors living communities at the expense of the traditional retirement village model.

Continuing Care

In Australia, the departure or exit fee mechanisms prevalent in retirement villages which require ‘rollovers’ to trigger revenue inflows are a major deterrent for operators to providing ‘continuing care’, which will only prolong a resident’s stay and delay the receipt of revenue from rollovers.

Further, the separation of responsibilities for legislating and regulating retiree housing and residential aged care facilities between the State and Federal governments, creates barriers to the provision of continuing care in retirement villages. At present, if a resident’s dependency increases to the extent that nursing care is required, invariably that person must transfer to a residential aged care facility.

Changes in legislation to enable Community Aged Care Packages (CACPs), Home and Community Care (HACC) and Extended Aged Care at Home (EACH) to be more readily accessed by residents in retirement villages could improve this situation. However, this is not a long-term solution as the hours of care are restricted.

The provision of ‘continuing care’ to enable ageing in place in a manner that is both financially acceptable to residents and economically viable for the operators/providers will be a major challenge for the industry going forward.

Operators who can successfully introduce ageing in place are more likely to meet future resident expectations.

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Peter McMullen is Jones Lang LaSalle's National Director for Health and Aged Care Services. Having joined the Firm in 2006, he is responsible for providing consultancy, and transactional and risks analysis services to clients in this specialist sector. Peter has 30 years of property experience and is a qualified valuer, with experience at Ernst & Young, Arthur Andersen, Raine & Horne Commercial, and the Roads and Traffic Authority. He has spent a large part of the last 12 years of his career in the health and aged care sector.



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