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Signs of recovery in Australia's retirement village market

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Financiers and retirement village operators have pointed to the First Home Owner's Grant as a factor behind an embryonic recovery in the retirement village sector.

Speakers at this week's Retirement Village Association Breakfast Networking Conference in Sydney said encouraging signs were emerging in the retirement village market, as the First Home Owner's Grant spurred increased sales rates, based on potential residents being better placed to sell their existing homes.

It has been a tough period for the sector, which has been heavily impact by the Global Financial Crisis.

RVA President Simon Owen told attendees at this week's conference, which was sponsored by CB Richard Ellis, that well over \$1 billion had been written off asset values, as falling sales and poor sentiment took a toll on what had been a boom market sector.

"There are encouraging signals, however, which might mean the worst is behind us," Mr Owen said.

"Sales rates are beginning to improve and new equity is coming into the industry, including some of the stalwarts who sold during the boom and are now returning to the market."

However it still remains a buyer's market according to CBRE Retirement Housing & Healthcare Transactions specialist Shane Nicholson.

"There is a certain sense of momentum coming back into the market and the best gauge of that is some of the more astute operators who had sold their portfolios at the top of the market are now coming back into the fray and starting to ask questions about retirement property," Mr Nicholson told attendees at this week's conference.

"We're seeing more joint ventures occurring and deals where the banks are prepared to leave some of their capital in. So doing a deal today can be quite an imaginative process and one where using all your equity can be avoided."

He cited the unconditional sale last week of a DA-approved greenfields site as a sign of the increased momentum in the sector. While the sale details could not yet be disclosed, Mr Nicholson said the site was located around 25 kilometres outside of a major city and had sold for just over \$16 million - or over \$60,000 a unit site.

"The fundamentals of the market place include an ageing population and a low uptake level of retirees moving into villages in Australia - say 4%-5% compared with other westernised countries like the US at over 10%," Mr Nicholson.

"These fundamentals are still the same and haven't changed since the stock market crashed in October 2008 and I think that is really the key to why this transaction occurred. So whilst this transaction is probably the exception rather than the rule my belief is we are seeing more momentum in the seniors and aged care market."

Issues raised at yesterday's conference included funding constraints, with only a limited number of financiers now providing a dedicated offering to the niche retirement village sector. Questions were also raised about the likely impact the phasing out of the First Home Owner's Grant would have on sales rates.

BankWest National Director, Retirement Living and Aged Care, Nick Carter said the First Home Owner's Grant had clearly stimulated the lower end of the market, priced up to \$600,000 and created a chain reaction, with retirement unit sales now running at a six-month high.

However, there remained a question mark over whether these increased sales rates were sustainable.

"With the First Owner's Grant being withdrawn, this could slow the market again," Mr Carter said.

Notwithstanding that, Mr Carter confirmed that a number of the "stalwarts" who had sold out of the market during the recent consolidation phase were reviewing current market opportunities and looking at outright purchases or joint ventures.

BankWest had also fielded approaches from a number of overseas groups, who were currently "testing the waters", Mr Carter said.

Valuations were another focus of this week's RVA conference. CBRE Senior Director, Retirement Village & Healthcare Valuation, David Bruce-Clarke said good village management and operational prowess are the keys to maximising valuations and to potentially increasing unit sales and pricing going forward.

Deferred Management Fees were another crucial consideration.

"Crucially, if struggling to sell down units do not offer discounts on deferred management fees - reduce price before DMF and have a look at why units aren't selling," Mr Bruce Clarke said.

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