



## *Discussion Forum*

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The comments and opinions expressed herein do not necessarily reflect those of the Retirement Village Residents Association (RVRA) or its Members.

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### **Retirement Village v Home Unit**

Posted: Wednesday, 3 November 2010 8:14am - By **JE**

Having lived in a retirement village since 1988 I can say that had I known then what I have since learnt that I most certainly would not have gone into one. I would have bought a home unit or a villa in a small private strata villa complex.

During the two years I spent as secretary of the Retirement Village Residents Association one of the main causes of disputes between residents and owners referred to us in NSW was stress caused to residents by owners and managers with no people skills. Unfortunately this lack of ability to deal with people in a fair, courteous and understanding manner only becomes apparent after one moves into a village.

I have been a victim of this type of stress for 22 years because after a few years it was not financially viable to leave.

Another problem is that after dithering with a new Act for over three years the State Government has come up with an Act and Regulations slanted heavily in favour of owners, not residents. To quote an RVRA Newsletter "RVRA has concerns in many areas of the Regulations and forsee many actions before the CTTT which deals with RV disputes

Anyone thinking of moving into a retirement village – especially one owned for profit as distinct from a charitable or church village – should be aware that they could be greatly reducing their children's inheritance.

An increasing number of big investors are buying or building retirement villages because of the potential for profit as baby boomers increase the demand for retirement accommodation. Retirees should consider the financial advantage of buying into a home unit, town house complex or villa complex instead of going into a retirement village

### **EXAMPLE CAPITAL SITUATIONS**

A couple we know who paid an entry fee of \$56,000 to lease a villa in a for profit retirement village on the Central Coast in 1985 would receive a departure refund of about \$55,000 in 2010.

Had they bought a home unit on the Central Coast for \$56,000 in 1985 it would be worth about \$350,000 in 2010.

This capital gain would have preserved the purchasing power of their \$56,000.

Although maintenance, rates and insurance on the home unit would have been higher than the maintenance fee in the retirement village, the difference is covered handsomely by the capital gain.

If the same couple went into the same retirement village in 2010 they would be even worse off financially when they left.

This is because the entry fee is a lot higher and the method of calculating the departure refund has changed to the benefit of the operator.

The entry fee for the same villa is now about \$265,000 and larger ones are up to \$400,000. (Incidentally, entry fees in some of the more recent up market for profit villages range up to \$1,000,000)

But the big slug comes because the departure refund is now calculated by applying a deferred management fee of 7.5% in the first year plus 5% in each of the 2nd and 3rd years and 2.5% in each subsequent year up to year 10. So anyone leaving in say year 4 would lose 20% of their entry fee and in year 10 and subsequent years 35%. The deferred management fee is capped at 35%.

In addition to the deferred management fee there is a minimum exit fee of \$5,500 plus an extra amount for each year of residence

Some for profit villages offer a strata title and any capital gain is shared with the operator. A capital loss would of course be borne only by the resident.

Entry fees to charitable and church villages are usually much lower than for profit villages but departure refunds could still take up to 30% of the entry fee to charitable and church villages.

## **OTHER POINTS TO PONDER**

Lots of people are attracted to retirement villages by the services they offer.

It is not generally realised that many of these services are available from various community organizations to everyone whether in retirement villages or living outside.

1. Retirement villages have various types of emergency call systems but response times and levels of assistance can vary widely. People not in retirement villages can have an emergency call system installed on their phone. However by far the best emergency system wherever you live is to call 000 on your phone.

2. Larger retirement villages have their own LIMITED bus services. In many areas councils, health services and service groups such as Rotary and Lions provide community bus transport to anyone needing it. Lots of retirement village residents use this wider service to get to medical appointments when their village bus is not available.

3. Health care services such as home nursing, showering, physiotherapy, occupational therapy, cleaning, meals or assistance with shopping are available to everyone assessed as needing them wherever they live.

4. Retirement villages usually offer self care and assisted care accommodation.

Before entering a retirement village you should enquire what it would cost to transfer from one

to the other. It could be better financially to wait until you needed the assisted care.

## **SOME IMPORTANT QUESTIONS TO ASK RETIREMENT VILLAGE OPERATORS**

How much is entry fee?

Is title by lease or strata title?

How much is current maintenance levy?

Is this levy set as a percentage of the single age pension or is it based on the yearly estimate of expenditure.(Latter method causes lots of disputes).

How is departure refund calculated?

Is there an additional exit fee?

Do you charge legal fees upon departure, if so, how much?

**JE**

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