

Intelligent Investment

Seniors Housing

REPORT

Australian senior
living – 2024 edition

CBRE RESEARCH
SEPTEMBER 2024





Overview

Scale-up

The retirement villages (210k independent living units) and aged care (220k beds) sector collectively account for approx. 430,000 places. This suggests the senior housing sector is nearly four times larger than student accommodation and 10 times larger than the current build-to-rent sectors.

But the sector has low-levels of institutional ownership and we foresee significant opportunities for consolidation. For example, the market share for top 5 operators in retirement villages is ~13% and aged care ~17%.

Supply and pipeline

Australia's +65 yrs old population is projected to grow from 4.75m currently to 7.0m by 2040. Around 11% of this cohort resides in retirement villages and aged care facilities.

New supply of senior living stock has been growing at a modest 1% - 1.7% pa, lagging +2.4% pa increase in +65 yrs population. Home care has also helped to alleviate the demand/supply mis-match.

Product quality and amenity expectations are likely to keep evolving as new retirees take advantage of larger accumulated asset balances:

- 83% of over 75 years old own their home outright, average dwelling value is \$960,000.
- superannuation savings for a typical +65 yrs old couple is likely to be \$750,000

Transactions

Transaction activity in the sector is vibrant, with at least nine +\$100m deals in Villages and six \$100m deals in Aged Care since 2021. In a similar vein, retirement villages are trading at some of the largest discounts to homes in close proximity, providing fruitful opportunities for incoming investors.

Australian Demographics

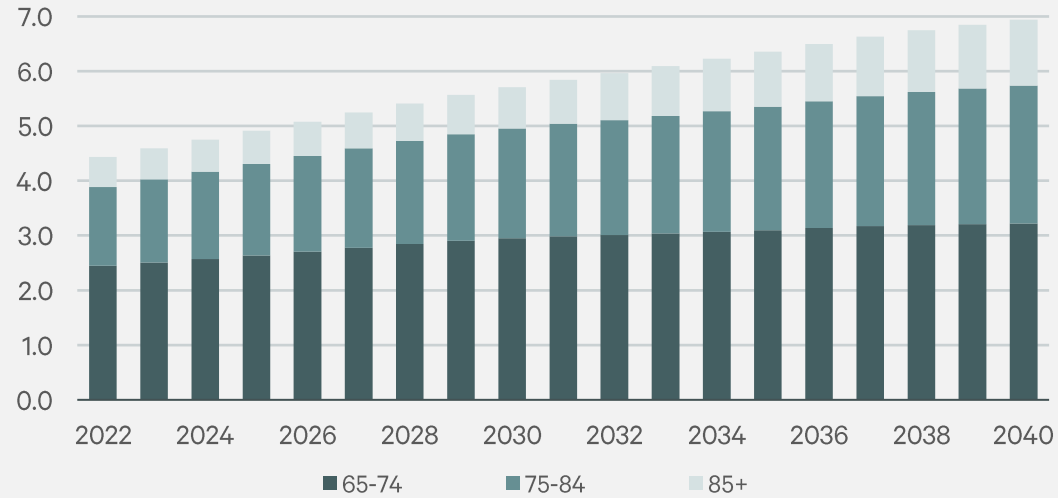
Australia currently has 4.75m people aged 65+ years old.

The Australian Government estimates this will increase to nearly 7.0m by 2040.

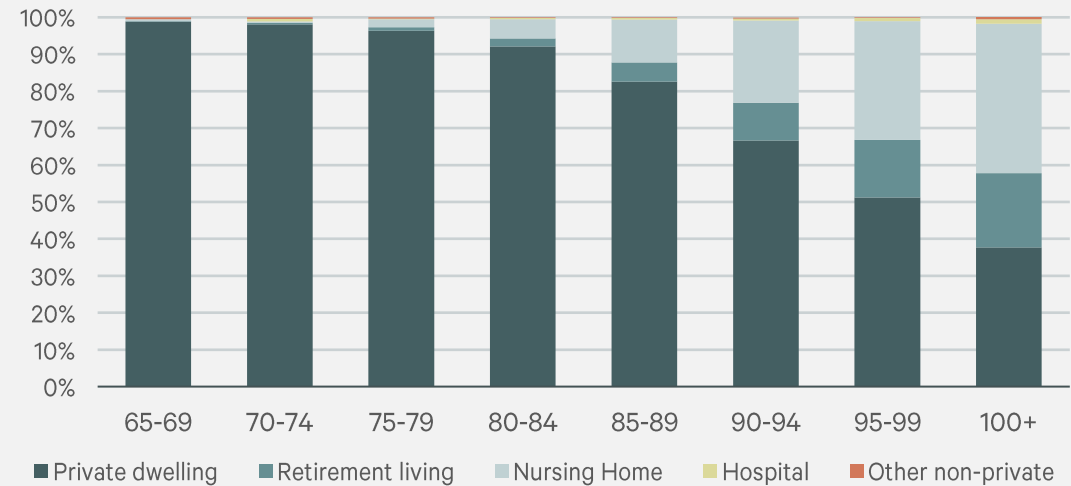
CBRE estimate approx. 11% of the +65 yrs population resides in residential aged care or retirement living communities.

Penetration levels for Retirement Living and Aged care increase with age of population.

Forecast aging of population (millions)



Dwelling structure by age group



Source: ABS, AIHW, CBRE Research



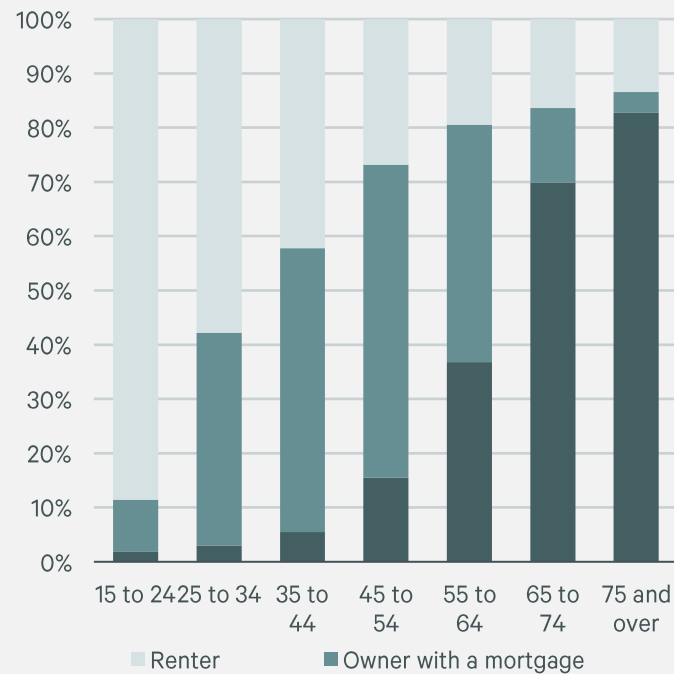


Retirement Wealth

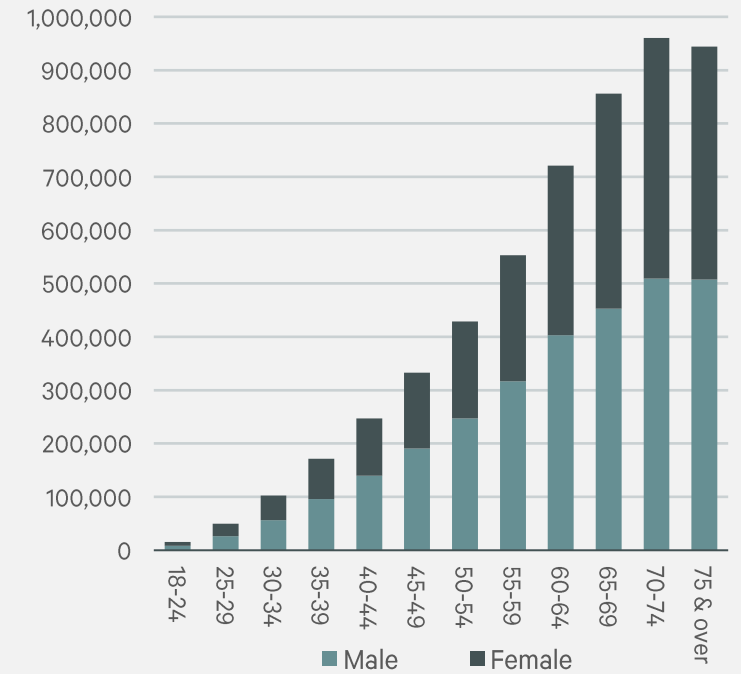
Many senior citizens in Australia have a growing store of wealth. 70% of over 65s and 83% of over 75 years old own their home outright. The average value of a dwelling in Australia is \$960,000.

The superannuation savings for a typical couple where both partners are over 65 years old is likely to be 750,000. This is likely to grow further with rising compulsory superannuation rates, longer working careers and positive investment returns.

Home ownership by age



Superannuation balance by age & gender



Source: ABS, CBRE Research

Business Model – Retirement Villages

The most common type of contract for retirement living villages are license/lease. Other contract-types include land lease and retirement rentals.

Under a license/lease, the resident typically pays an upfront price (say \$500,000) and agrees to an annual fee structure (say 4%). The annual fee is deducted from final sale price (Deferred Management Fee).

At the end of the term, a proportion of the capital gain on sale may be shared with the operator. Alternatively, a pre-agreed proportion of the upfront fee is returned to the resident.

For land lease communities, the resident owns the home but leases the land on which the home sits from the community operator.

Operator – illustrative cash flow model

	Year 1	Year 10
Number of rollovers	4		6
Revenue			
Departure fees	472,000		727,000
Share of capital gains	348,000		1,542,000
Sales commissions	42,000		97,000
Refurbishment	40,000		-
	902,000		2,366,000
Costs			
Refurbishment unit	80,000		504,000
Refurbishment common property	205,000		287,000
Selling costs	56,000		130,000
External manager costs	-		-
	341,000		921,000
Net Income	561,000		1,445,000
Deferred net income	561,000		1,182,000

Source: Retirement Village calculator NSW Government, CBRE Research

Resident - Illustrative models for different contractual term types

	Resident A	Resident B	Resident C	Resident D	Resident E
Entry price	\$350,000	\$400,000	\$400,000	\$400,000	\$400,000
Length of stay	8 yrs	8 yrs	8 yrs	7 yrs	7 yrs
Departure fee structure	Yr 1	3%	3%	5%	5%
	Yr 2	3%	3%	4%	4%
	Yr 3	2%	2%	3%	3%
	Yr 4	2%	2%	2%	2%
	Yr 5	2%	2%	2%	2%
	Yrs 6-10	2%	2%	2%	2%
Departure fee % after 10 years	18%	18%	22%	20%	20%
Annual property value increase	5%	5%	5%	4%	4%
Capital gain to Resident	25%	50%	75%	100%	100%
Return to resident at the end of tenure	\$342,028	\$453,779	\$500,668	\$512,098	\$512,098

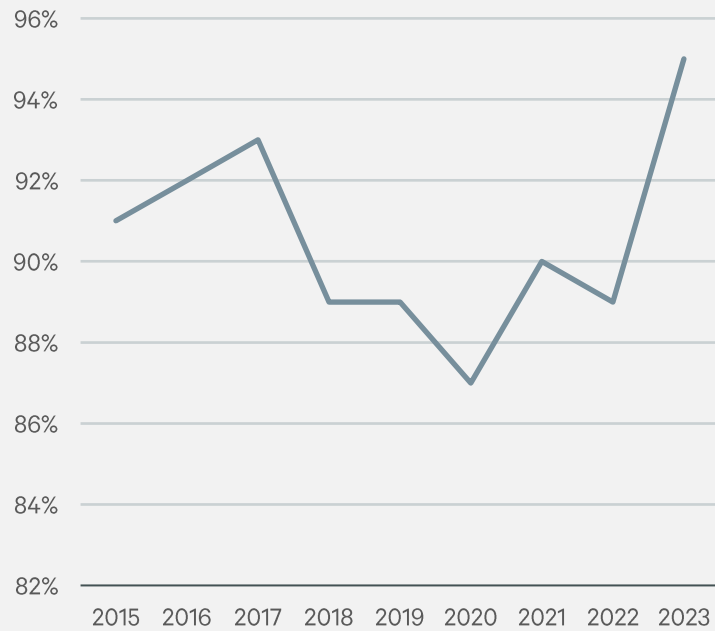
Retirement Living - *Turnover*

Village occupancy has continued to improve and now exceeds pre-COVID levels. New supply is likely to be 2,000-2500 pa, helping to lift occupancy levels further.

Tenure for ILU tends to be higher than for serviced apartments, reflecting difference in age of residents. Just over half of residents leave villages to move into aged care.

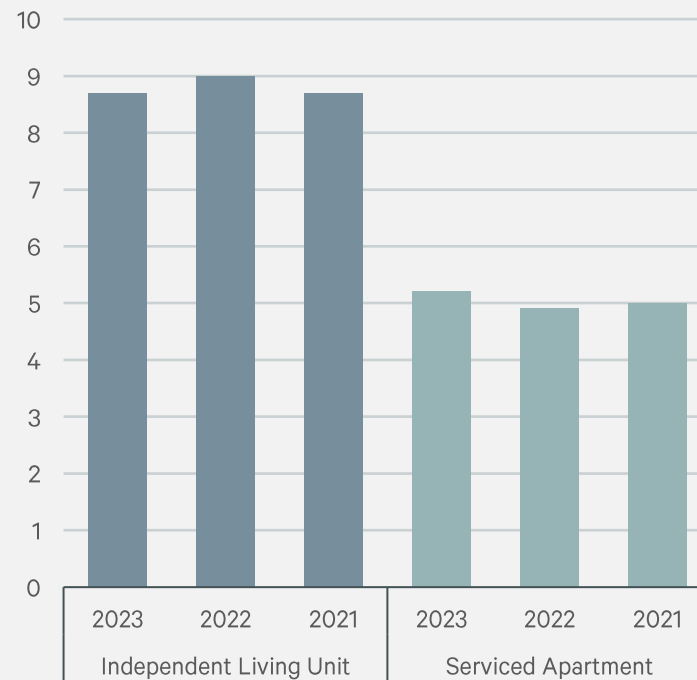
It's not uncommon for a unit to stay vacant for around 6 months between new and previous residents. This period allows for refurbishment.

Occupancy rate

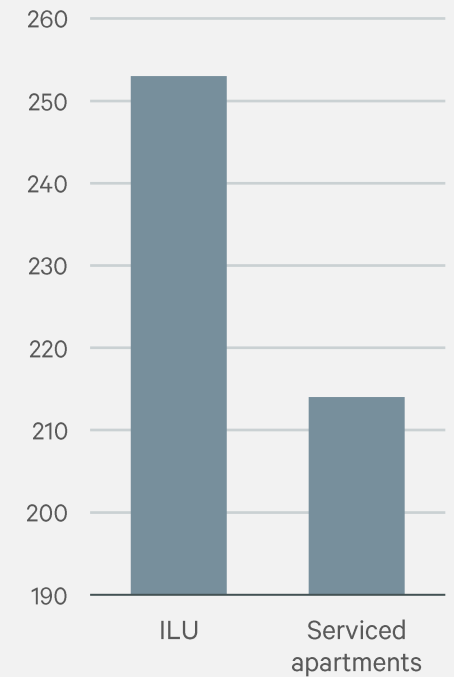


Source: PWC/PCA Retirement Living Census, CBRE Research

Resident tenure (years)



Days on market

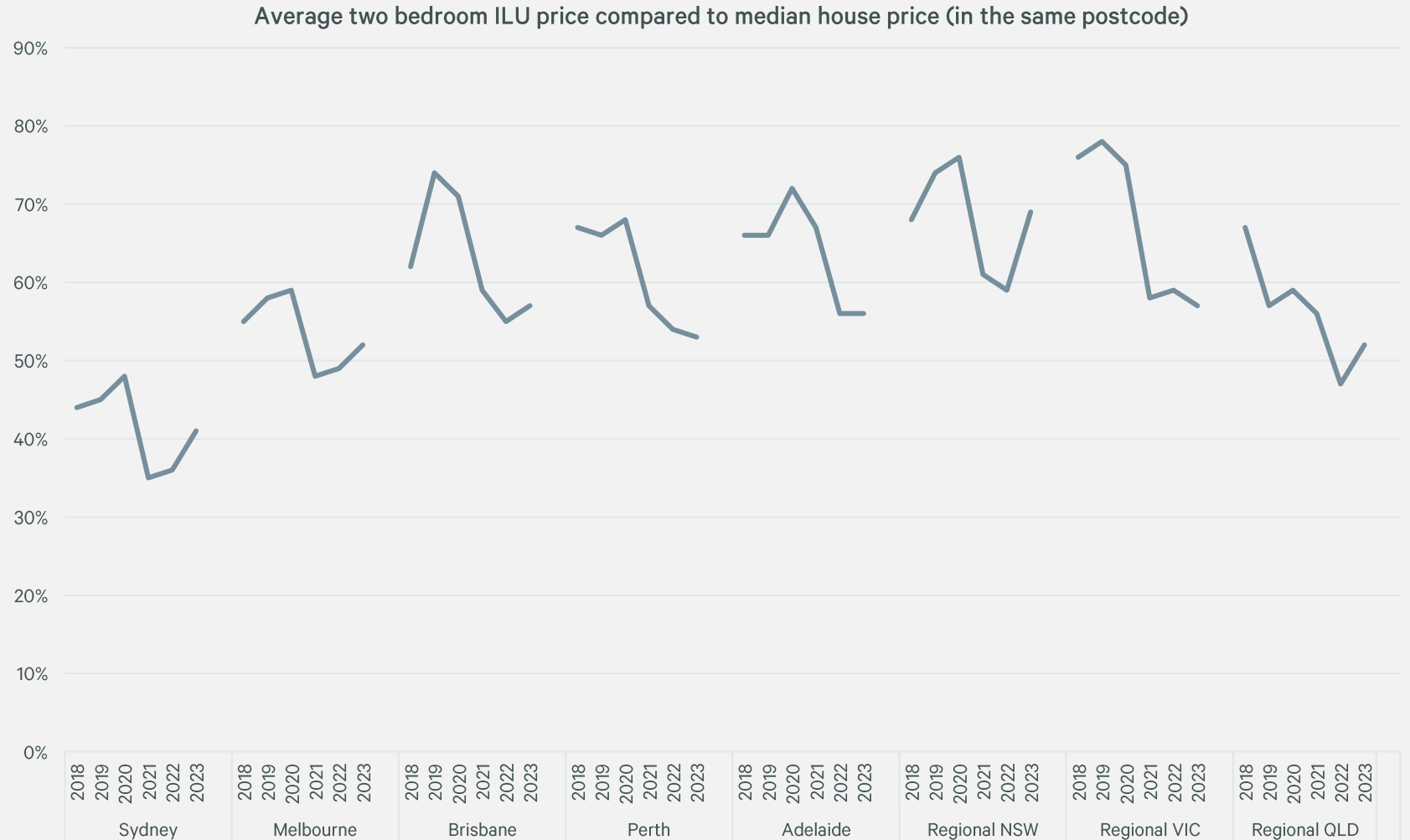


Retirement Living *Relative Value*

Retirement living units (ILU) typically trade at a 30%-50% discount to homes in close proximity. New residents in retirement villages benefit from “freed-up equity” while transitioning from home ownership.

The discount is typically larger for more expensive metropolitan markets such as Sydney and less for regional markets.

Retirement living units experience lower price volatility than homes in surrounding suburbs. Consequently, the discounts are wider during periods of strong residential value growth.



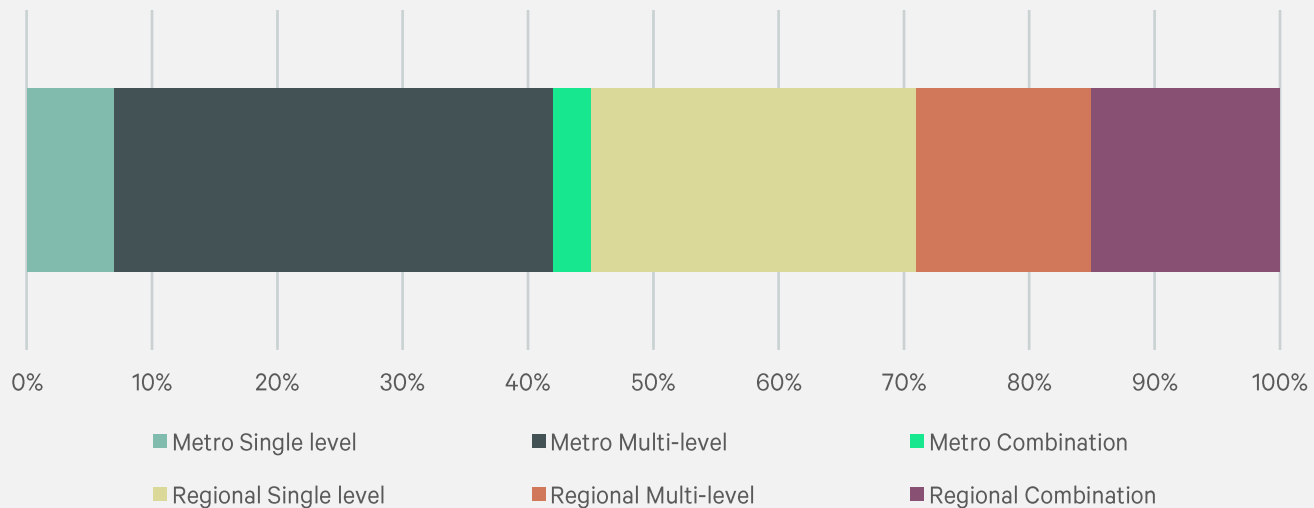
Source: PWC/PCA Retirement Living Census, CBRE Research

Vertical Retirement Living

We estimate ~70% of new villages under construction have some aspect of vertical living. This allows for new villages to be situated in urban centres, with easy access to hospitals, transport, cultural attractions and proximity to loved ones.

A selection of recently completed vertical retirement villages includes: Ardency Kennedy Place, AVEO Carindale, Australian Unity's The Alba, Bupa Sutherland Retirement Village and Uniting Bowden Brae.. Other examples include The Grace at Albert Park and Campbell Place at Glen Waverley.

Development pipeline by type



Source: PWC 2023



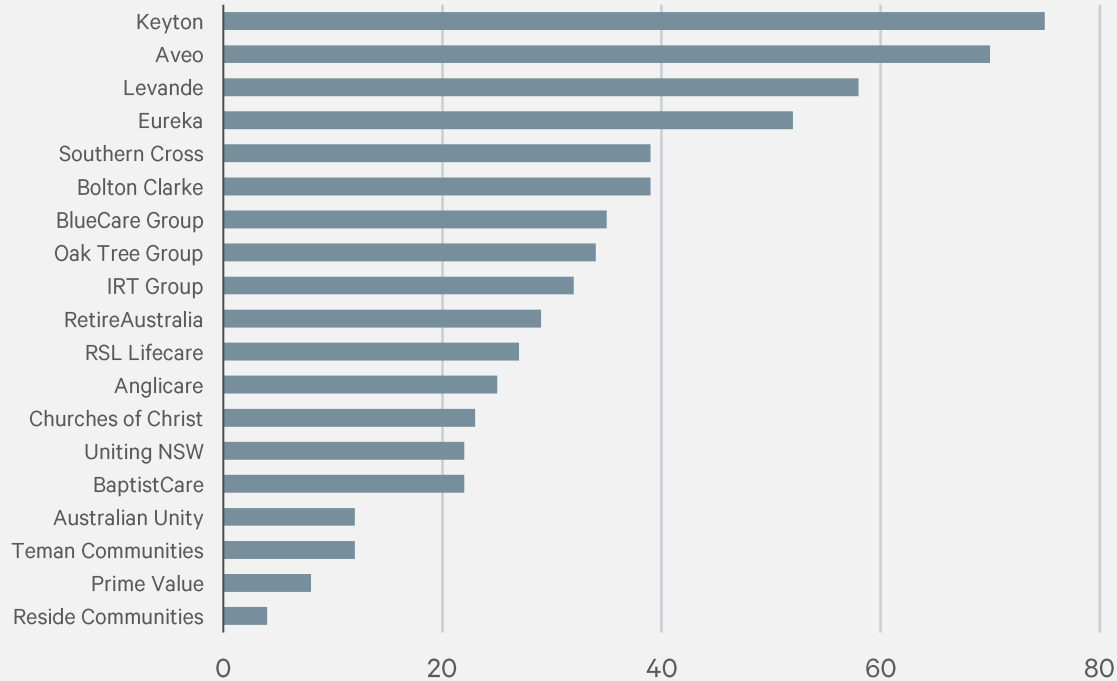
Retirement Living - Providers

CBRE estimate that the Top 5 operators of retirement villages account for just 13% market share.

The Top 5 operators of land lease communities have just over 120 sites and 15,000 units in operation. There is sizable land lots which could add to developed pipeline over time.

Retirement villages

Number of villages

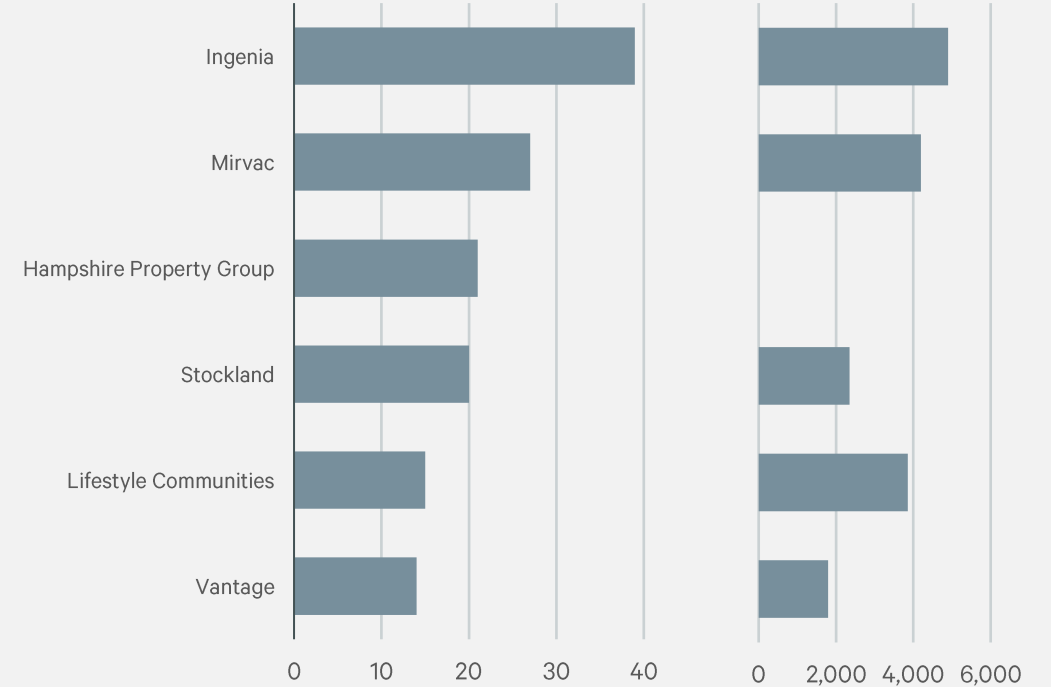


Source: Company reports, CBRE Research

Land lease

Number of sites

Number of Units



Retirement Living *Transactions*

There have been at least nine transactions with +\$100m value since 2021, as portfolios are re-positioned to focus on land lease or retirement villages.



Valuation approaches

Discounted Cashflow of owner/manager's interest

- Deferred Management Fee structure (eg 25%)
- Capital value growth rate
- Turnover, number of times a unit is likely to be sold over lifetime (eg 3-4)
- Capital expenditure
- Management expenses

Capital value per unit (eg \$250k-\$350k)

DMF price as percent of capital value

Select transactions

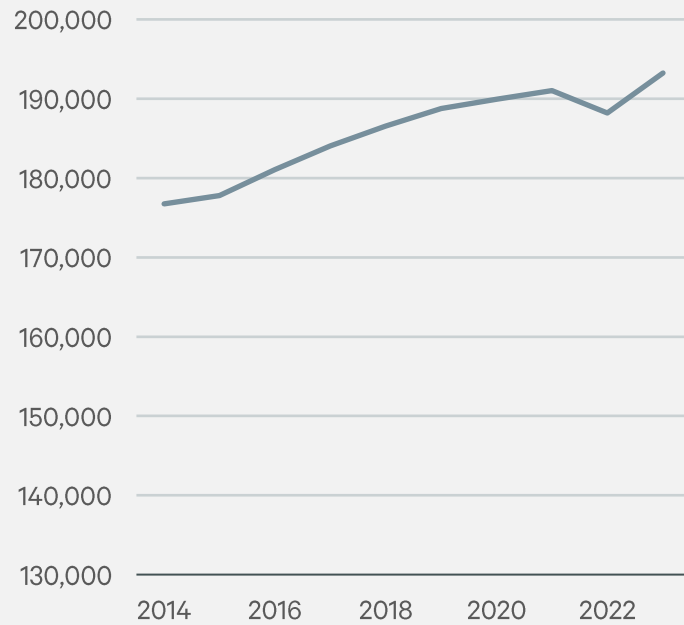
Date	Seller	Buyer	Deal value	Facilities	Places
Oct-17	Lendlease	APG	\$470m	71	12000
Dec-20	Stockland	Prime Value Asset	\$89m	4	
Feb-21	Lendlease	AWARE Super	\$460m		
Jul-21	Halcyon	Stockland	\$620m	13	1,500
Nov-21	Acacia Living Group	Bolton Clarke	n/a	7	265
Apr-22	Lendlease	AWARE Super	\$490m	75	
Aug-22	Stockland	EQT/Levande	\$987m	58	
Oct-22	Eureka Group	Ingenia	\$12m	2	98
Jul-23	Stockland	Living Gems	\$210m	8	1280
Aug-23	Oak Tree Group	AWARE Super	n/a		
Oct-23	Serenitas	Mirvac	\$1,010m	27	4200
Nov-23	Ingenia	Eureka	44	6	321
Mar-24	Retirement Communities	Prime Value Asset	\$105m	4	
May-24	AVID	Living Gems	\$285m	8	1818
Jul-24	Aveo	Teman Communities	n/a	5	
Aug-24	Aveo	UnitingCare	\$122m	13	1033

Source: CBRE Research

Aged Care - Residents

There are just under 200,000 aged care residents in Australia, growing at 1% pa over the past decade.

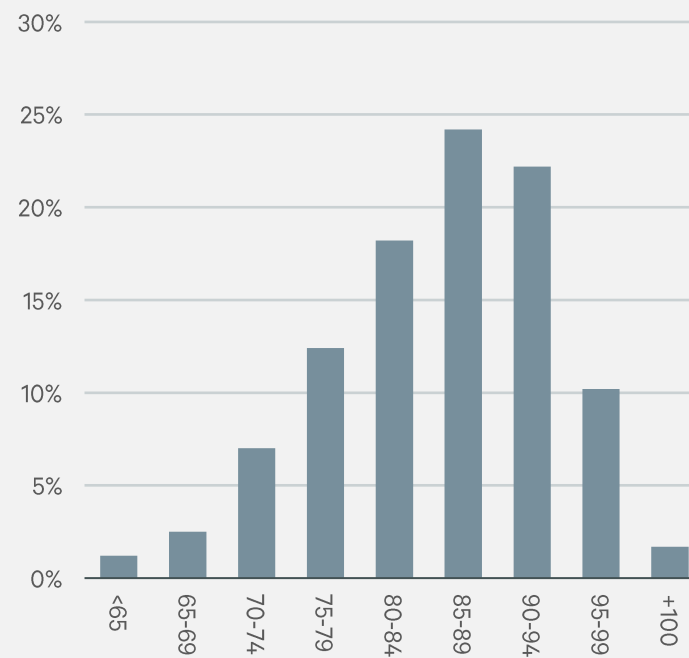
Number of residents in aged care facilities



Source: Financial report on aged care sector 2022-23, CBRE Research

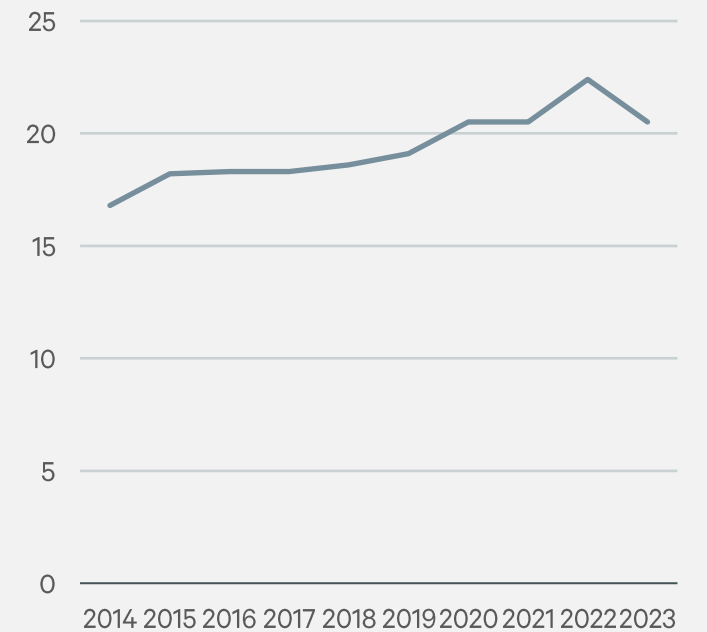
90% of residents in Aged Care are 75+ years old, with two thirds aged 80-95 yrs old.

Residents by age group



Typically, residents stay in Aged Care for 1.5-2.0 years, with females staying longer.

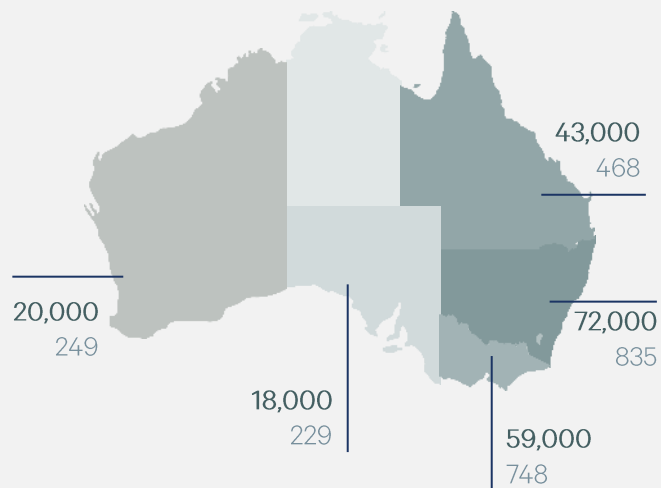
Tenure (months of stay)



Aged Care - Providers

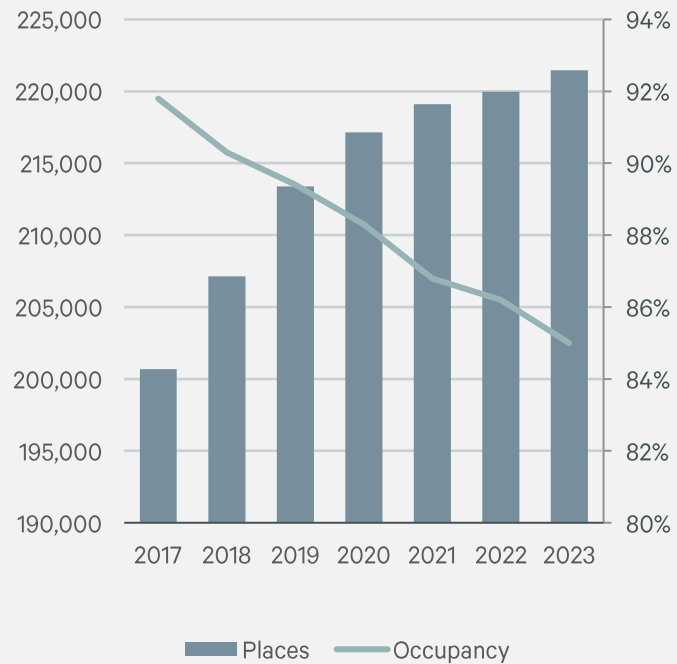
The Aged Care market comprises ~2500 facilities. Around 80% of Aged Care places are in the Eastern Seaboard, comprising NSW (33%), VIC (27%) and QLD (20%).

Places, Facilities by state



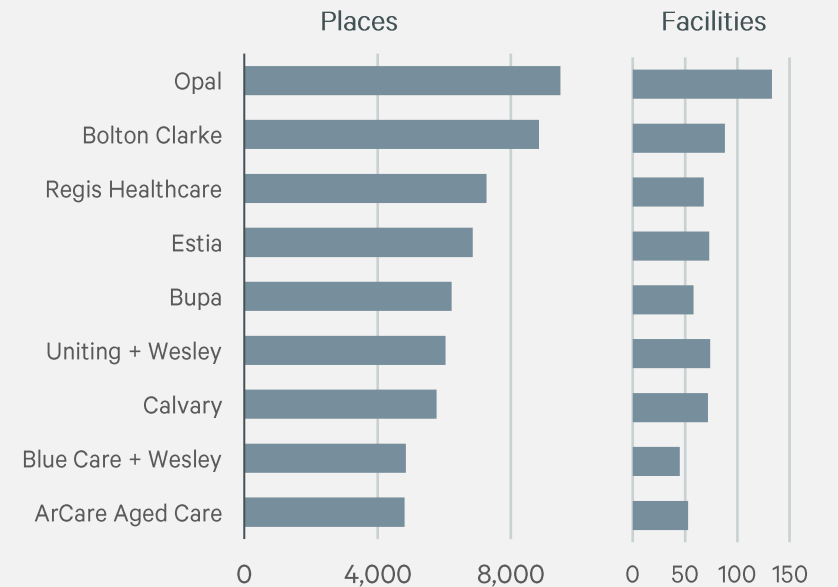
There are just over 220,000 aged care places, growing at +1.7% pa. Occupancy levels for aged care has declined to 85%.

Growth in places, occupancy



The 5 largest operators account for just ~17% of total market size. There are likely to be significant opportunities to grow scale through consolidation.

Select top 10 providers



Source: GEN Aged Care data, KPMG, Company reports, CBRE Research

Aged Care - *Financials*

Funding for services is through a mix of Government (66% of revenue), Resident fees and Interest income on RADs. 1H FY24 saw nearly 83% of aged care providers report positive EBITDA, with margins at nearly 10%.

However, minimum wage increase and higher care minutes will add to growth in Care expenses.

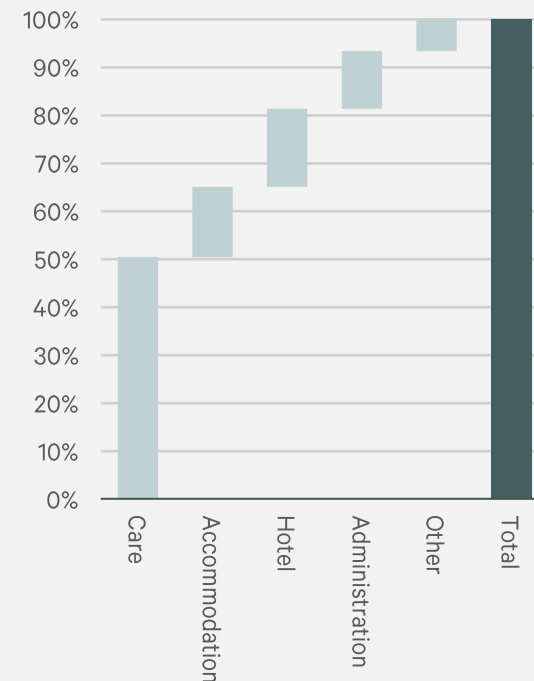
Refundable Accommodation Deposits (RADs) are the largest source of investment capital. Alternatives models include PropCo/OpCo

Residential care provider revenue sources per resident per day



Source: Financial report on aged care sector 2022-23, CBRE Research

Expense breakdown



Balance sheet \$bn

	\$bn
Financial assets	6.7
Fixed assets	31.0
Right of use assets	3.1
Other assets	16.7
RADs	38.1
Lease liabilities	3.2
Other liabilities	10.2
Net assets	5.9

Aged Care Transactions

There have been at least six transactions with +\$100m value since 2021 as sector participants look to re-scale portfolios.



Valuation approaches

Capitalisation rate on EBITDAR (eg 12%-16%)

Value per bed (eg \$250k-\$350k)

Select transactions

Date	Seller	Buyer	Deal value	Facilities	Places
Nov-21	Japara	Calvary	\$380m	51	4725
Dec-21	Allity	Bolton Clarke	\$700m	43	
Dec-22	Bolton Clarke	Australian Unity	\$220m	9	
Jan-23	Infin8 Care	Retreat Care	\$100m	2	350
Feb-23	McKenzie Aged Care	Bolton Clarke	n/a	9	
May-23	Marco Polo	IRT	n/a	2	335
May-23	Aveo Group	Queensland Government	\$9m	1	30
Jun-23	Regis	Hesperia	\$53m	1	84
Aug-23	Life Care	Opal HealthCare	n/a	5	
Nov-23	Estia Health	Bain Capital	\$838m	75	8000
Nov-23	Vital Healthcare	Catalyst Health REIT	\$65m	5	
Mar-24	BlueCross	Opal HealthCare	\$450m	31	2600

Source: CBRE Research

US Insights

Cap Rates

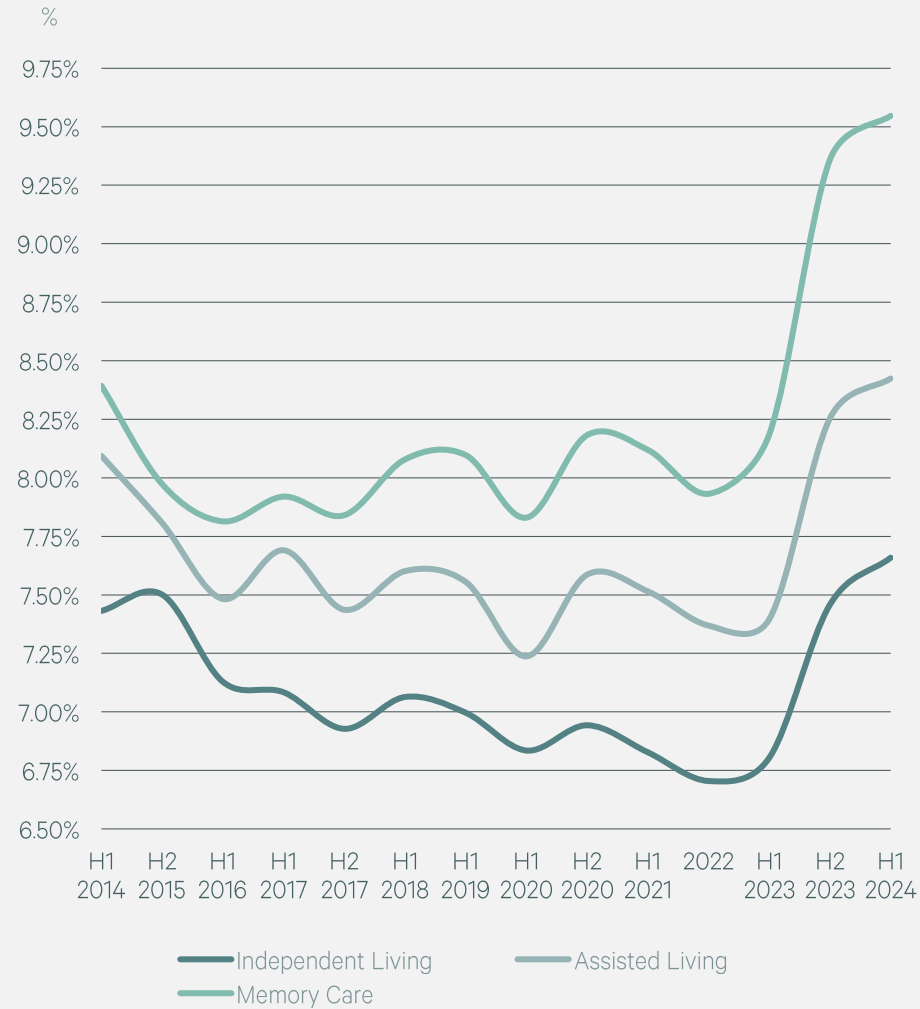
The US market is segmented by living features, degree of care provided and grade of asset.

The average cap rate for US senior housing increased by a modest 16 bps in 1H 2024.

In the current higher bond yield cycle, cap rates in the US have expanded by c75bps-150bps. Cap rate expansion has been more modest for Independent Living and higher for product that involves enhanced care. (akin to aged care).

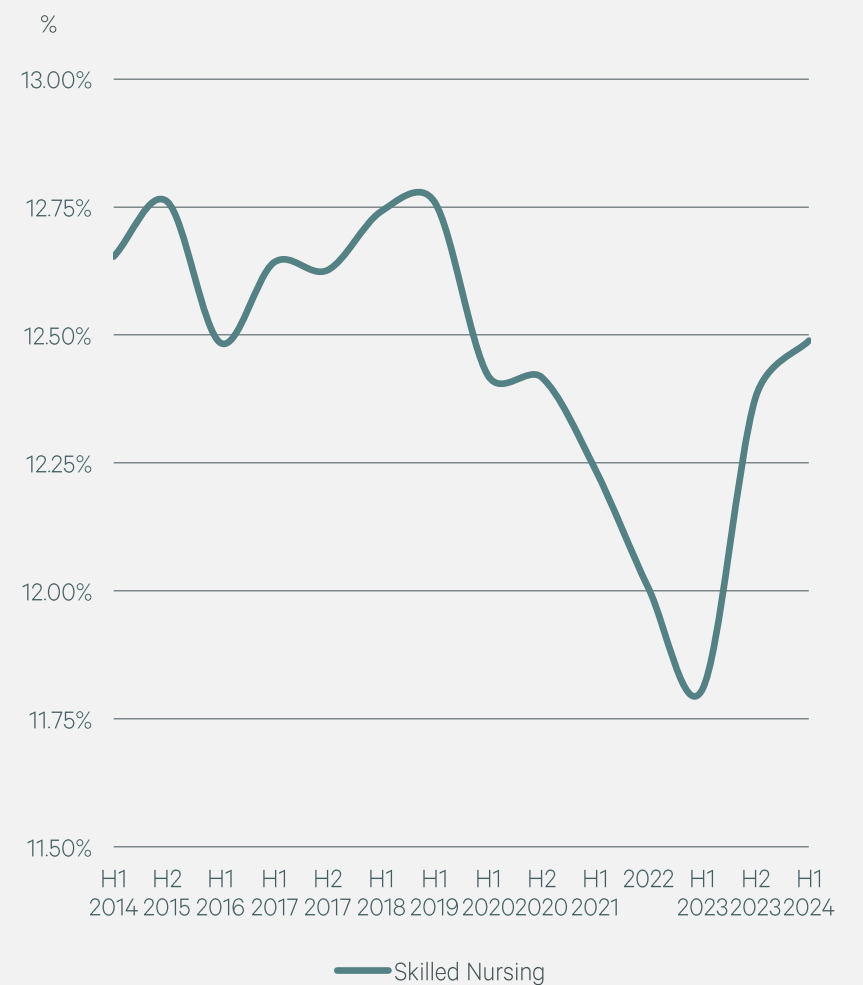
Participants in CBRE's U.S. Senior Housing & Care Investor Survey expect rental rate increases of 3.0% or more over the next 12 months.

Senior Housing: Independent Living, Assisted Living & Memory Care



Source: CBRE Research

Senior Housing: Skilled Nursing



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