RETIREMENT LIVING COUNCIL FACT SHEET

Retirement Village Contract & Finance Model

To live in a retirement village, a prospective resident enters into a contract with the operator. All retirement village contracts deal with a number of issues including the nature of the tenure (in particular long term lease, purchase or rental) and costs associated with moving into, living in, and leaving the village.

For people moving from their own home into a retirement village, the contract and financial model used can seem unusual or complex. A retirement village contract is different to contracts used to purchase a regular residential home or apartment.

What's different?

One size does not fit all, either for retirement village residents or village operators. By negotiating a contract with the operator, the right "fit" between upfront and exit costs can be found for both parties.

Below are some of the common tenure and payment types offered by village operators.

Tenure	Ingoing fee	Ongoing costs
The operator may offer: • freehold or strata title, • lease, • licence, • company title, or • rental agreement.	The ingoing cost will vary. It is based on many factors, including: • age of the unit, • quality of the unit, • location of the village, and • facilities in the village.	Ongoing fees may be charged weekly, fortnightly or monthly. They are a contribution to the day-to-day costs of running the village. Costs will vary, depending on the extent and age of communal facilities and the type of services provided.
Exit payment (deferred fee)	**Exit entitlement**	**Capital gains**
This payment is often a percentage of the ingoing fee, or the sale price, and is agreed to in the contract upfront. The fee is often paid to the operator when a resident leaves the village and the unit has been sold to a new incoming resident.	A resident who leaves a village receives an amount from the operator when the unit is sold to a new resident. The terms used to calculate this amount is documented in the resident's contract.	The parties can agree whether the resident receives all, some, or none of the capital gains on their unit when they leave the village. Whether a resident receives a share of the capital gain often affects the exit payment.

Security of tenure

Many retirement village residents do not own the freehold title in their unit. Instead they occupy their unit pursuant to a lease or licence agreement with the operator. The lease or licence tenure is secure, owing to the residency contract and government legislation designed to protect residents' rights. A resident decides how long they want to live in the village, not the operator.

The deferred (exit) fee

The exit fee – which is used by the majority of retirement villages – is a payment model that is unique to the retirement village sector. As such, its purpose is often misunderstood.

The exit fee helps to compensate the village owner for the cost of building the village, and allows the resident to part-pay for this at the end of their residency rather than the start. The exit fee is designed to ensure the entrance price (ingoing fee) into the village is more affordable. Retirement village units are often priced lower than comparable homes in the same area.

The exit fee is designed to give purchasers flexibility in how they pay for the investment made by the owner of the village. Some prospective residents may not be able to afford to pay full market price for a village unit when they move in, and are happy to pay for some of the value of their residency by way of a larger amount retained by the operator when they leave.

The exit fee is commonly calculated as a percentage paid per year of residency, and is capped at a maximum, for example, 2% per year capped at 20% after 10 years. It may be calculated on the ingoing cost that the resident paid, or the amount the unit is sold for when the resident leaves. The calculation method varies between providers, and may even vary within a village, as different residents opt for different payment options.

The amount agreed to be paid by a resident upfront (the ingoing contribution) or upon leaving (the exit fee) can also alter the share of capital gain the resident is entitled to. It is up to the prospective resident and the operator to agree upfront to an exit fee that both parties consider fair, and a reflection of the value of village life.

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