

## canberra times: q&a

**Q 1: We are considering purchasing into a retirement village but are concerned that the terms are heavily weighted towards the operator with entry fees of \$10,200, ongoing fees and sharing any profits on sale of the property as an exit fee up to 38% of the sale price after 10 years? Does this seem like a good idea?**

Withheld, Canberra

A 1: You certainly need to understand the term and conditions when considering this type of purchase. Here are some thoughts:

- 1) If ongoing levies cover rates, body corp, building insurances, facility upkeep, services and importantly 24/7 access to staff then this is simply the fee you need to feel you are getting value for to access all of these services and can afford to pay this ongoing fee for the rest of your days. There may be a risk that these fees increase more than expected over time so factor this into your thinking so that fee increases do not force you to move out in the future - and trigger the sale costs that go along with it!
- 2) If your motivation is the access to facilities and 24/7 staff access then the sale costs are less of a concern for you as you would likely have a long term view in mind of staying in the retirement village for the rest of your days. However, remember that it is possible that you may need to sell in the future as life changes.
- 3) The concern with these arrangements is what is returned to you upon selling the property, as it is very possible that you receive very little growth at best, and at worst receive quite a bit less than your purchase price back. Effectively you only get a return on your money if the property increases by more than the exit fees and likely if you hold the property longer than 15 years. Long term returns for standard residential property in Australia is around 4% pa. As this property would not be considered 'standard' residential property (due to its niche market) there is a risk that this does not perform like standard property.

For example paying \$550,000 now and getting 4% pa growth over 10 years then a sale price would be some \$814,000, Exit Fee being 38% of sale price being \$309,300 and with a \$264,000 capital gain, you would have a Sublease Termination Payment of negative \$45,300. Therefore you would have returned only \$494,500. Effectively all of the capital growth expected on your property has gone to the operator AND you have paid then an extra \$45,300 AND you have already paid them the \$10,200 in fees to join.

If you held the property for 20 years at 4% pa capital growth then a sale price would be some \$1,205,000, Exit Fee being 38% of sale price being \$457,900 so some \$197,100 capital gain returned to you on top of the \$539,800 being \$736,900. This is effectively a 1.5% pa return on your property.

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A Capital Guarantee option should be considered if you feel the property could be sold within the coming 15 years and you feel the property value growth would not be much greater than 4% pa.

The operator may feel justified in the Exit Fee as an important part of the retirement village regular refreshing, and perhaps this keep the ongoing fees down, but you certainly do not appear likely to get much return on your purchase unless you hold for aiming at 20 years.

In conclusion - if your motivation is to access retirement village living with 24/7 staff access AND you really like this village AND you are not concerned about making much return on your purchase, then go in with your eyes open and enjoy the purchase.

Phil Thompson is a certified financial planner and authorized representative of Rise Financial Pty Ltd (ABN 86350987645), AFSL 311718, an Approved Financial Planning Association Professional Practice. Answers should be used as a general guide only and professional advice should be sought before making investment decisions.

Send your financial questions to [phil@risefinancial.com.au](mailto:phil@risefinancial.com.au)