Feasibility Study for the Augusta Lifestyle/Retirement Village
Shire of Augusta-Margaret River

Final
March 2013
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Executive Summary

Background

The township of Augusta is located on the south-west coast of Western Australia, approximately 310 kms south of Perth and around 40 km south of Margaret River. The township is a popular retirement destination and has a very old age profile. As a consequence of the town’s demographics, the Shire of Augusta-Margaret River Council has identified a site in Augusta that could potentially accommodate a lifestyle / retirement village. The site is around 26.5 ha and currently zoned Public Purposes and Parks and Recreation under the currently planning scheme. The report explores the relative merits of the development of a retirement village in Augusta and on the subject site.

Site Overview

The western portion of the site is heavily vegetated and has road access from the south along Hillview Road whilst the east of the site is predominately occupied with community sporting facilities. The site is well suited for a retirement village given its proximity to the main retail strip, with key services and facilities within the township of Augusta located at a reasonable walking distance from the site.

Residential Market Conditions

The Augusta-Margaret River LGA housing market is dominated by detached dwellings with only a minimal number of non-detached dwellings approved over the past decade. In total the average number of non-detached dwellings approved since 2003 has averaged just 16 per annum. This level of demand clearly indicates a preference against unit / townhouse style living and therefore a retirement village that is developed on a scale that is too large risks oversupplying the market.

Demand Analysis

At present 33% of Augusta's population is aged over 65 years, with a median age of 58. With a significant proportion of the population aged in the 45 to 64 year cohort, this number of retiree aged persons in and around Augusta is likely to increase in coming years. However, the majority of population growth in terms of total persons and those aged over 65 is forecast to occur in Margaret River.

The current supply of Independent Living Units (ILUs) within the Augusta-Margaret River Shire is 68. This number is contained within the Baptistcare Silver Vines Retirement Village in Margaret River (52 units) and the Leeuwin Aged Units in Augusta (16 units). This total supply represents a market penetration rate of 4.2% (that is, 4.2% of the residential population aged over 65 years a residing in retirement villages). Nationally the total is 5.5%.

A demand analysis was conducted to estimate future demand for ILUs through to 2021. The key findings from this exercise were:

- It is estimated that by 2021 across the entire LGA of Augusta-Margaret River there will be demand for between a further 116 and 155 new ILUs.
- It is estimated that by 2021 there will be demand for between 31 and 52 ILUs in Augusta, with such demand expected to be drawn from the broader Augusta-Margaret River LGA market, rather than exclusively from the township of Augusta. This level of demand equates to a market penetration rate of 6.8% and 11.3% respectively.

The average number of ILUs per retirement village in the South-West region is 94. However, this figure is inflated by a number of very large developments in larger population centres such as Bunbury and Busselton which have a number of villages in excess of 140. Outside of the major cities retirement villages with less than 40 ILUs are common.
Cash-out Market

A large proportion of households approaching, or of retirement age, lacks the necessary income and savings to fund their retirement at an acceptable quality of life. However, the significant growth in house prices over the past decade has created substantial wealth for households who would otherwise have limited assets. This asset price growth has created a “cash-out” component of the residential market through households who fully own their own home and are seeking to release equity from their primary asset to fully or partly fund their retirement.

It is estimated that households aged 55-64 and above 65 years who fully own their home represent around 22% of the total number of households in the LGA. This equates to around 950 dwellings. It is from this market segment that the majority of prospective ILU purchasers are most likely to be drawn.

Price Point Analysis

Generally retirement villages across WA can be segmented into three key markets:

- ILUs with low price points (i.e. less than $300,000) representing an affordable product.
- Prices between $300,000 and $400,000 with products targeted at the core of the retirement village market – couples with houses at or slightly above the median house price seeking standard quality ILU product.
- A premium market priced above $400,000.

Currently the affordable and standard markets account for the largest share of available ILUs, comprising nearly two thirds of the market.

With only a limited sample size (Baptistcare Silver Vines) the Augusta-Margaret River LGA is estimated to have an average ILU price of approximately $295,000. The average ILU price across the South-West region is $379,000. However, it is important to note that at present ILUs in the South-West do not trade at a discount indicating that ILUs in high amenity locations can be marketed at price points similar to the median house price.

Given the median house price in Augusta at present is around $530,000, there is significant scope for a retirement village on the subject site to target the higher end of the intermediate market segment (i.e. around $400,000) and stimulate demand on the site for ILUs by targeting the cash-out market.

Retirement Village Market

The retirement village industry is characterised by a relatively high degree of market concentration, with a few corporations or groups controlling the majority of villages and the market. Some of the key players in WA include Amana Living and Uniting Church Homes (not-for profit) and Lend Lease and St Ives (for profit).

Retirement village types and operators vary significantly in terms of size and their profit orientation. Not-for-profit organisations continue to represent the largest component of the retirement village sector in Western Australia, owning 3 in every 5 villages. However, for-profit organisations have been increasing market share in recent years, as a result of large corporate developer investment activity and increased market consolidation.

Site Capacity and Composition

Based on our analysis it is estimated the subject site could accommodate 25 ILUs by around 2018. This site capability would allow for an alternative retirement village of a similar size elsewhere in the LGA (most likely Margaret River) by the same date.

Despite Augusta's relatively small population overall, it does have a sizeable number of persons over 65 years and it is this market in which the majority of demand could expect to be drawn. This factor combined with high median house prices is conducive to a relatively high median ILU price. For this analysis was have assumed an average median
ILU price of $400,000, which equates to a ILU price discount of around 32% over the median house price. The current ILU discount for metro Perth is currently 25% and 30% for Augusta-Margaret River LGA (albeit from a small sample).

Other key assumptions relating to the site composition and proposed staging on the site include:

- An average of 2 bedroom single storey ILUs.
- A single storey amenities building is provided on site.
- The site is developed in a single stage over a three year period.
- Overall it is estimated a site area of 0.8 ha is required.

Operating and Delivery Structures

There are five main ownership structures under which resident can occupy a unit. Each has its own pricing and fee structures which often makes them difficult to compare and evaluate. The main structures are:

- Freehold.
- Leasehold: where the resident buys the unit but leases the land
- Deferred management fee (DMF): the resident buys the right to occupy, then pays annual fees and an exit charge.
- Company title.
- Strata title.

The long term lease structure using a DMF is by far and away the most popular mechanism employed within Australian retirement villages.

A DMF operates broadly in the following fashion:

- The village owner retains ownership of the land generally and grants a lease or licence to the resident.
- The resident pays an up-front lump sum amount (generally approximating to the property’s market value).
- During occupation the resident pays periodic amounts to meet their share of ongoing village costs.
- On termination, the resident receives a payment reflective of the ingoing amount less a DMF (depends on length of stay but can amount to 30% of ingoing amount). The village operator usually takes a share of the capital gain.

With respect to delivery options, there are six key models that could be utilised for Council to achieve its aim of construction of a retirement village on the subject site. These include:

1. Council sells the site to a Retirement Village Developer / Operator
2. Council sells the site through Development Consent. This model ensures Council can retain control over the land uses and development parameters.
3. Development Lease with Private Sector Developer: Council leases site to a developer with an agreement to sell the site at a future stage once development milestones have been achieved.
4. Public-Private Partnership: Involves Council entering into a venture with a private sector developer with Council providing the land and undertaking infrastructure upgrades and the private sector developer financing the project, developing the site and selling the developed units.
5. Council develops the site and sells / leases to a retirement village operator
6. Council develops the site and operates the facility.
Financial Feasibility Assessment

A financial feasibility was produced for the proposed site scheme. Two results have been produced, one which excludes the value of the land (option 1) and another which includes the value of the land (option 2). Key points to note are:

- If the net present value (NPV) is positive the option should be considered as it will return a positive financial result for the developer based on the assumptions.
- Under Option 1 which excludes the value of the land, the financial feasibility returns a good positive NPV. However, under Option 2 which assumes the site must be purchased at market rates the proposed scheme returns a NPV of close to zero. Consequently, the decision to develop the scheme is marginal.

Table 1: Summary of Financial Feasibility Assessment

<table>
<thead>
<tr>
<th>Option</th>
<th>Scenario</th>
<th>NPV ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1</td>
<td>Excluding Land Value</td>
<td>2.5</td>
</tr>
<tr>
<td>Option 2</td>
<td>Including Land Value</td>
<td>0.1</td>
</tr>
</tbody>
</table>

The results of the demand analysis and this financial feasibility study indicate that by around 2018 a retirement village will be feasible on the site provided the true market rate of the land is not included. Whilst a larger development (i.e. more ILUs) may help the development economics through greater efficiencies in infrastructure and other associated on-site facilities, the level of risk associated with the project would also increase due to the size of the market and limited demand. Increasing the number of units may also have the effect of lowering the median ILU price to the detriment of the project.

Risk Assessment

There are a number of risks that need to be considered with respect to the development of a retirement village on the subject site which include market, demographic, site and financial risks. Some of these risks include:

- Risk of cost blow-outs during the project.
- Construction delays.
- Movements in property prices adversely affecting the take-up of ILUs.
- Issues with sales impacting cash-flow during the important early years of the project.
- Take-up of ILUs is slower than expected and that residents in Augusta are more resistant to retirement villages than in other regions.
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1. Introduction

1.1 Background

The township of Augusta is located on the south-west coast of Western Australia, approximately 310 kilometres south of Perth. The town is a popular retirement destination due to its relaxed, coastal lifestyle and high level of amenity. The region has experienced significant social change in recent years as a result of the continual migration of retirement aged people towards the area.

Due to the high proportion of the area’s population that is in or approaching retirement age, the Augusta-Margaret River Shire Council has identified the need to develop a dedicated lifestyle and/or retirement village.

The Augusta-Margaret River Shire Council has identified a site in Augusta for a lifestyle / retirement village and is currently in discussion with the Department of Regional Development and Lands as to the suitability of this site for such a use. The site is located in close proximity to the Augusta Town Centre and currently encompasses part of the Augusta Golf Course to the north. The site is approximately 265,000 sq.m and is currently zoned Public Purposes and Parks and Recreation under the current planning scheme.

AECgroup was engaged by the Augusta-Margaret River Shire Council to prepare a feasibility study to explore the relative merits of the development of a lifestyle/retirement village in the township of Augusta on the subject site.

1.2 Report Scope and Council Objectives

The purpose of this report is to provide a high level assessment for the Augusta-Margaret River Shire Council on the feasibility of a retirement village on the subject site, and to inform Council of the project potential to achieve Council’s desired objectives. The report’s objective is to make recommendations to Council regarding if the project will be sustainable, therefore providing input to guide preparation of a potential master plan and determine the merit of further planning and design.

Some of the key objectives associated with the project include:

- High level demand assessment to determine the relative need for a retirement village in Augusta.
- Identification of the relative timing of such project, including the potential project roll out and staging.
- Financial analysis assessment to determine viability of the project.
- Assessment of delivery risk associated with proceeding with the project.

In this regards, some of the key Council’s objectives associated with the project include:

- The provision of a lifestyle/retirement option for residents when independent living becomes difficult or undesirable.
- The creation of an opportunity for the State and Local government and potentially other relevant parties to realise an income from the development long term.
- The establishment of all year round employment opportunities from the development and ongoing operation of the facility.
- Delivery of the project within relevant legislative constraints.
- Realisation of a net financial benefit for the Local Government and broader community.
- Achievement of a triple bottom line sustainability associated with the project that satisfies economic, social and environmental aspects.
- Application of a risk based approach for both Council and the community in the assessment of the project feasibility.
1.3 Report Structure

The report has the following structure:

- **Introduction** - Overview of the project’s background and purpose of the study.
- **Site Overview** – Outline of the site characteristics, legislative and regulatory environment with regards to the development of a retirement village, and the potential capacity of the site.
- **Residential Market** – Discussion of both the regional and local residential market how the performance of this sector impacts on the development economics of retirement villages.
- **Demand Analysis** – Assessment of the key socio-economic characteristics within the Shire underpinning demand for a retirement village, existing and potential supply, current and future estimate of demand, supply and demand balance, and the implications for the Shire and the subject site.
- **Cash-out Market** – Discussion of the size of the retirement cash-out market (i.e. the ability of residents to downsize their house).
- **Price Point Assessment** – Examination of likely price points that could be achieved from a retirement village on the site.
- **Site Capacity and Composition** – Draws a number of the market metrics and demand results together to devise a likely site composition for the proposed retirement village.
- **Operating Structures** – Examines a number of operating models in the retirement village industry and how they generate revenue.
- **Financial Feasibility** – Assessment of the feasibility of a retirement village on site, including sensitivity analysis and implications for Council in terms of staging options and Council’s project objectives.
- **Risk** – Overview of the key risks associated with the delivery of the project.
- **Action Plan** – Maps out a likely timeframe and required steps to deliver a retirement village on the site.

1.4 Geography

Data in this report is primarily presented for the Local Government Area (LGA) of Augusta-Margaret River. The LGA comprises the two smaller areas of Margaret River (corresponding to Margaret River township and surrounding areas, and hereafter referred to as ‘Margaret River’) as well as Augusta, which comprises the remainder of the LGA, including the township of Augusta (hereafter referred to as ‘Remainder of Augusta-Margaret River Shire’). While statistics are primarily provided for the overall Augusta-Margaret River LGA, where relevant data is reported for the township of Augusta as well (hereafter referred to as ‘township of Augusta’).

In addition, for benchmarking purposes data is reported for the WA South-West region (comprising the LGAs of Augusta-Margaret River, Bunbury, Busselton and Manjimup), as well as Western Australia.

1.5 Definitions

It is important to differentiate between a retirement village and an aged care facility, terms that are often used interchangeably. This study explicitly examines the demand for retirement village facilities on the subject site and not an aged care facility. Consequently, the supply and demand assessment contained in subsequent sections of this report does not consider the supply of aged care facilities as they generally cater to a different market which has very specific requirements. The difference between a retirement village and an aged care facility is detailed on the following page.
Retirement Village

Retirement villages cater to the needs of healthy, mobile and socially active people, with a minimum aged requirement of 65 years generally. A retirement village promotes independent living in a safe, secure and social peer setting, with shared recreational facilities to facilitate an active lifestyle. Personal care and support services are available although this is not the focus of retirement villages, and these are usually offered on a ‘fee for service’ basis.

Aged Care Facility

An aged care facility provides support for people for whom daily personal care and health management is a challenge. For this reasons, aged care facility residents are more likely to be represented by an older age demographic than retirement villages, which primarily caters for independent, active, social demographics on the other hand.

Aged care facilities receive funding from the Federal Government specifically for the purpose of providing support and care for older people that have been assessed as needing daily personal and medical care. Aged care facilities range from those that provide low levels of medical and personal assistance – i.e. help with the activities of daily living such as dressing, eating, to those that provide high levels of support and care, which supports people who need almost complete assistance with most activities of daily living with 24 hour care, either by registered nurses, or under the supervision of registered nurses.
2. Site Overview

This section contains an overview of the key characteristics of the site including its suitability for a retirement village. It also provides a brief discussion related to the legislative and regulatory environment as it relates to the operation of retirement villages in Western Australia.

2.1 Site Characteristics

Located on the fringe of the Augusta township, the subject site covers 26.5 hectares. Access to the majority of the site is limited, with Hillview Road and Allnut Terrace. The site is currently zoned Public Purposes and Parks and Recreation under the current planning scheme.

The western portion of the site is heavily vegetated and access to the majority of this area is limited. The eastern portion is of site is occupied by a number of public uses such as Augusta Civic Park, Augusta Civic Park Library and Augusta Golf Course.

Bordering the south-western site The Augusta Art Club is located at the corner of Hillview and Allnut Terrace whilst the Augusta Men’s shed is located along Hillview Road. The site boundaries are illustrated in Figure 2.1.

Figure 2.1: Subject Site

Source: Google Earth

The following comments relate to the suitability of the site for retirement village facilities:

- The current road network and location of existing community facilities limits the potential location of a retirement village largely to sites along Hillview Road. Future development of the site towards the north is unlikely over the medium term, with no land designated for development under the Augusta Townsite Local Planning Strategy.
- The site lies relatively close to Blackwood Avenue the town’s main retail facilities. The flat topography of the town means that pedestrian access between the site and Blackwood Avenue is simple.
• The site does not enjoy views of the coastline or Hardy Inlet channel. However, the site is located at walking distance from some of the town’s key facilities and services. While other sites with a view of the coastline or Hardy Inlet channel may accommodate a similar facility, these sites are likely to trade off such increased amenity with the easy and convenient access to key facilities for prospective residents that the existing site provides. In addition, the relative easy access and short distance to the coastline is expected to benefit residents, and compensate the lack of the coastline view from the site.

• The location of the Silver Vines Retirement Village in Margaret River is testament that views and proximity to the coast are not essential to a successful development, with quality of development and ease of access to retail and other community facilities superseding these characteristics in stimulating demand.

• There are no known easements on the site.

• Augusta has a small hospital that provides emergency, outpatient, physiotherapy and aged care. Proximity to these facilities is an important consideration for prospective residents.

Given the likely scale of the retirement village on the site, it is recommended the ideal location for a facility be in the south-western corner of the site along Hillview Road between the Men’s Shed and Art Club. Key reasons for this recommendation are:

• Good access to road network via Hillview Road. No need to provide additional headworks to service the site.

• Consolidation of development to southern portion of site.

• Greater ability to leverage off existing infrastructure network (water, sewerage, power).

• Provides flexibility to portion off other areas of the site in the future should the need permit.
2.2 Legislative and Regulatory Environment

Each Australian State and Territory has enacted different legislation that regulate the operation of retirement villages. Retirement villages in Western Australia are regulated by specific legislation, the most relevant being the:

- Retirement Villages Regulations 1992 (WA)

Under this legislation, a memorial in a form approved by the Registrar of Titles must be registered against any land which is to be used for a retirement village. The retirement villages legislation applies to:

- Residents, prospective residents and former residents of retirement villages.
- The owners and operators of retirement villages (referred to in the legislation as administering bodies).

The main objective of the legislation is to protect the interests of residents and prospective residents, and specifically:

- Define what does and what does not constitute a retirement village facility.
- Declare particular rights and obligations of residents and operators.
- Promote fair trading practices in operating retirement villages and in supplying services to residents.
- Facilitate disclosure of information to prospective residents of a retirement village to ensure the rights and obligations of the village residents and operators may be easily understood.
- Provide the following information to prospective residents before entering into a contract, amongst others: premium and refund entitlements, operating costs, reserve funds, amenities and services, insurance, village management, resident voting rights, refunds details.
- Encourage the continued growth and viability of the retirement village industry in the State.
- Encourage the adoption of best practice standards by the retirement village industry.
- Provide a clear regulatory framework to ensure certainty for the retirement village industry in planning for future expansion.
- Facilitate participation by residents, who want to be involved, in the affairs of retirement villages.
- Provide for processes for resolving disputes between residents and operators.
- Prescribe various matters that either must or must not be included in the legal documentation.

In addition to the legislation outlined above, particular legal structures and contractual arrangements may also attract the application of other legislation, such as strata title, community title, companies and securities or tenancy legislation. For example, retirement villages with ‘freehold’ title are also regulated under the Strata Titles Act 1985 (WA).

There is a broad range of other legislation that may also be relevant for retirement village facilities. For example, legislation that regulates general trading matters, including advertising and marketing; specific residential dispute resolution legislation that applies to retirement village disputes; or contract review legislation that allows unfair and unconscionable contracts to be modified or set aside.

Given the amount of legislation that apply to the operations of retirement villages and their associated legal complexity, this section aims to provide an overview and summary of the key legislative matters governing retirement villages. Therefore, it is recommended that specialist legal advice is sought for a more detailed understanding of relevant legal matters.
2.2.1 Industry Accreditation

The Retirement Village Association (RVA) is the peak industry body for the retirement village industry, and plays an important role in the ongoing growth and sustainability of the industry. The RVA was established in 1989 to act as the peak body to represent the interests of retirement village owners and operators across the country. The RVA administers a quality assurance Accreditation Program for retirement villages. The process of accreditation is undertaken through the appointment of a survey team to conduct an accreditation survey for any individual retirement village.

The objective of the accreditation program is to establish and review a set of minimum standards for retirement villages in Australia by which housing and associated facilities, management and the support services, which constitute a retirement community may be assessed. The accreditation merely seeks to identify those villages which operate in a manner that meets acceptable standards set by the RVA.

Accreditation is compulsory for RVA members, and is available to all retirement villages in Australia regardless of their membership status.

Specifically, a retirement village must have certain aspects in order to be accredited, and must meet 27 standards across the categories of resident services and lifestyle, organisational management, human resources and physical resource environment, with some of the key standards as part of the accreditation program being the following:

- Inform residents of the premises conditions before entering into any contractual commitment.
- Inform residents of the availability, range and cost of services within the village.
- Put in place a dispute resolution or comments and complaints system.
- Ensure that the village’s financial systems and contractual arrangements are documented and are in accordance with relevant requirements.
- Provide appropriate insurance to the village assets and operations, residents, staff and visitors.
- Guarantee safety and security for the comfort of residents, staff and visitors.
3. Residential Market Conditions

This section provides an overview of the local residential market in Augusta and forms the basis of comparison in terms of identifying the purchasing power of residents and the likely price points for independent living units (ILUs) on the subject site.

3.1 Housing Market Overview

3.1.1 Median Prices

Western Australian has been characterised by a large increase in prices within the last decade. Large price increases have been experienced across the Perth metropolitan region (Figure 3.1) as well as parts of regional WA, in particular in the early 2000s period, as a result of strong global economic growth, global confidence, and the resources boom.

Figure 3.1: Perth Historic Median House Price

![Figure 3.1: Perth Historic Median House Price](source: REIWA (2012))

Pricing data for the South West region indicates that house prices have been somewhat declining over the 2008 to 2012 period (refer Figure 3.2 and Figure 3.3), with relatively large fluctuations on a yearly basis. In particular, this has been the case for the township of Augusta, which experienced annual price changes of up to 30%, primarily driven by the limited number of yearly sales (approximately 15-20 sales per year), rather than structural changes in the residential market.

The township of Augusta displays some of the highest median house prices across the South-West region. This highlights the opportunity to target the retirees in the town as they seek to downsize and unlock the equity in their house to fund their retirement. However, given the small size of the market, and consequently a potentially longer timeframe required to sell houses, the retirement market in Augusta is expected to be particularly sensitive to local residential market conditions and price movements. Therefore, under slow market conditions, there may be a potentially large disincentive for local retirees to sell their houses and buy into retirement villages.
3.1.2 New Dwelling Approvals

There has been a significant decline in new dwelling approvals (NDAs) over the past two years in the Augusta-Margaret River LGA. The total number of NDAs peaked in 2010 at 270; however, this has since declined to around 150 in recent years (refer Figure 3.4).
The market is dominated by detached dwellings, with only a minimal number of other residential dwellings (i.e. townhouses, apartments) being approved. Any ILUs that are approved would be reflected within the ‘other’ residential category. Over the past decade the number of other residential approvals has averaged 16 per annum. This relatively low figure is an important indicator in assessing the potential demand for ILUs on the subject site as it reveals:

- Demand for units (including ILUs) is very low.
- There is a very high risk of oversupplying the market. The year 2005 marked the highest year for NDAs and that year was followed by two years of below average NDAs.

Figure 3.4: Building Approvals, Augusta-Margaret River LGA

3.1.3 Short Term Market Trends

There is limited expectation in the market for significant price growth in residential property over the next 12 months, with rebounding approvals, affordability issues and poor purchaser sentiment constraining overall demand. Despite this, it is very unlikely the market will witness a significant softening of prices with a strong economic environment and a structural undersupply of housing providing some support for price levels.

Strong business investment growth in Western Australia, particularly in the mining sector, is expected to continue driving strong interstate and international migration, which will reinforce demand and potentially influence pricing levels. This will certainly be the case if supply remains constrained by a contracted construction sector, onerous planning regulations and delayed infrastructure investments.

3.1.4 Implications to Retirement Village Development

The retirement village market is inexorably linked to that of the broader residential market. A large portion of the market is attracted to retirement village product as a mechanism for “cashing out” of the family home to fund retirement. As such, the ability of the household to sell their home is a critical precondition to the take-up of an ILU.

While house prices are soft at present, they remain broadly in line with historical highs. Households that have owned their home since 2003/04 have seen their equity double and slight declines in price in the short-term is unlikely to significant diminish this wealth. However, sales activity remains the key issue for retirees and for the development of
ILUs. Retirees need an active market in which to sell their home and current first home-buyer and investor market segments are below long-term averages. Until broader residential market activity returns in response to accelerating employment-generated population growth and migration, ILU take-up and village demand is likely to remain somewhat subdued.

However, underlying demand for retirement-based accommodation, driven by key demographic drivers, will continue regardless of current market condition. This means the development of retirement villages will need to grow at a faster rate than the long-term trend to absorb this latent demand, creating a short-to-medium term opportunity for development in the sector.
4. Demand Analysis

This section addresses some of the key drivers of demand for both residential and more specifically independent living units (ILUs). It provides an overview of the population and demographics of the Augusta-Margaret River local government area (LGA) and how these factors will drive demand for ILUs in the future. Discussion is also provided as to the penetration of ILUs into the broader residential stock and their future demand.

4.1 Methodology

The methodology used to calculate the potential demand for ILUs within both the Augusta-Margaret River LGA and more specifically on the subject site is outlined in Figure 4.1 below.

**Figure 4.1: ILU Demand Projections Methodology**

Source: AECgroup

4.2 Socio-Economic Demographics

Table 4.1 shows demographic statistics from the ABS 2011 Census for the Augusta-Margaret River LGA relative to the South West WA region and Western Australia. Areas of note with respect to the retirement village market include the following:

- Around 12.5% of the Augusta-Margaret River LGA population is aged over 65 years. This compares to 13.8% of the South West region and 12.3% of Western Australia. The greater proportion of people aged in this age cohort for the South-West region is consistent with the greater level of supply of retirement village facilities in areas such as Bunbury and Bussleton.

- Nonetheless, the age distribution within the Augusta-Margaret River LGA varies considerably, with Augusta comprising 33.4% persons aged over 65 years, in comparison to 8.9% within the township of Margaret River. Therefore, not surprisingly the median age in the township of Augusta is 56 years, compared to 35 years in the township of Margaret River.

- A higher proportion of households in the Augusta-Margaret River LGA comprise families without children households (29.7%) compared to the benchmark areas, reflecting a potentially large proportion of empty nester households.
• Lower average household incomes across the LGA (approximately $69,369) relative to the South West region ($75,898) and Western Australian ($87,159) averages.

• A comparatively large proportion of households are renting (33.0%) relative to 28.4% in the South West region and 29.2% across the State, highlighting the relatively ‘transient’ population that resides in the LGA, with a large proportion of seasonal visitors/workers seeking to rent dwellings while residing in the region as opposed to purchasing them.

Table 4.1: Augusta-Margaret River LGA and South West WA Demographics, 2011 Census

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Augusta - Margaret River LGA</th>
<th>South West Region</th>
<th>Western Australia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Age Distribution</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-19 years</td>
<td>15.5%</td>
<td>26.5%</td>
<td>27.9%</td>
</tr>
<tr>
<td>20-44 years</td>
<td>17.7%</td>
<td>33.0%</td>
<td>31.0%</td>
</tr>
<tr>
<td>45-64 years</td>
<td>33.3%</td>
<td>28.0%</td>
<td>27.3%</td>
</tr>
<tr>
<td>65+ years</td>
<td>33.4%</td>
<td>12.5%</td>
<td>13.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,293</td>
<td>11,758</td>
<td>158,104</td>
</tr>
<tr>
<td><strong>Family Composition</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Couple family with no children</td>
<td>Na</td>
<td>29.7%</td>
<td>29.2%</td>
</tr>
<tr>
<td>Couple family with children</td>
<td>Na</td>
<td>57.7%</td>
<td>57.1%</td>
</tr>
<tr>
<td>One Parent family</td>
<td>Na</td>
<td>12.1%</td>
<td>13.0%</td>
</tr>
<tr>
<td>Other Family</td>
<td>Na</td>
<td>0.5%</td>
<td>0.7%</td>
</tr>
<tr>
<td><strong>Household Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Household Income</td>
<td>Na</td>
<td>$69,369</td>
<td>$75,898</td>
</tr>
<tr>
<td><strong>Household Type</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owned outright</td>
<td>48.0%</td>
<td>30.9%</td>
<td>31.9%</td>
</tr>
<tr>
<td>Owned with a mortgage</td>
<td>17.6%</td>
<td>32.7%</td>
<td>36.3%</td>
</tr>
<tr>
<td>Rented</td>
<td>29.5%</td>
<td>33.0%</td>
<td>28.4%</td>
</tr>
<tr>
<td>Other</td>
<td>4.9%</td>
<td>3.4%</td>
<td>3.5%</td>
</tr>
</tbody>
</table>

Source: ABS (2011)

Of particular interest to this assessment is the age profile of Augusta itself. Figure 4.2 illustrates this profile as it would be expected that these residents will potentially be a primary source of ILU demand on the subject site should the project proceed.

The skew of the age profile towards those aged greater than 50 years is clearly apparent. Given the timeframe for this feasibility assessment and the likely scale of the project it is really those aged 65+ that is of most concern. Positively for the site potential, Augusta possesses a large number of persons across all age cohorts greater than 65 years. However, this alone cannot guarantee a direct transferal into ILU demand. In a small market such as Augusta there could be other factors that aged persons find Augusta as an attractive destination (i.e. current residential amenity) that a retirement village on the subject site cannot fulfill. Consequently, it is recommended that Council undertake some primary research of local Augusta residents to determine their propensity to relocate to a retirement village.
4.3 Population Growth

Figure 4.3 illustrates the annual change in population growth for the Augusta-Margaret River LGA over the past twenty years. This assessment is important in highlighting where the population growth has been occurring and providing direction as to future growth. Some of the key points to note include:

- The Augusta Margaret River LGA grew from approximately 6,200 residents in 1991 to 10,200 residents in 2001 and further to 12,200 residents in 2011, representing an average growth rate of 3.4% or 300 people per annum. This average growth rate was significantly higher than the Western Australian average (1.8%) over the same period.

- As apparent, the majority of the LGA’s population growth occurred during the 1991 to 2001 period. Since 2001, population growth within the LGA as averaged just 1.8% or 200 people per annum.

- Margaret River comprises the majority of the LGA’s population, with approximately 7,600 residents, as opposed to the remainder of the LGA, which has a population of approximately 4,500 people.

- Population growth across the LGA has not been uniform, with Margaret River comprising 90% of the LGA’s total population growth (approximately 5,400 residents out of the 6,000 population increase) over the 1991 to 2001 period, with the remainder of the LGA recording growth of only approximately 600 people. Furthermore, the population of the remainder of the Augusta-Margaret River LGA increased by only 120 residents over the 2001 to 2011 period.

- The Township of Augusta’s population has increased by approximately 200 people within the 2001 to 2011 period to reach approximately 1,300 people by 2011, with most of the growth (150 people) occurring in the 2006 to 2011 period\(^1\).

\(^1\) However, the boundaries of Census collection areas have changed for the 2011 Census. Accordingly, the population increase may also reflect boundary changes of Census collection areas as well as population growth per se.
Whilst the Augusta-Margaret River LGA has exhibited good population growth over the past two decades, the overwhelming majority of this growth has occurred around Margaret River itself. The population of Augusta has only increased marginally. This suggests that for an appropriately sized retirement village to be feasible in Augusta, a large number of retirees will need to be drawn from the wider region as opposed to a solely local reliance.

### 4.3.1 Population Forecasts

A number of population projections have been developed for the Augusta-Margaret River LGA in the last few years, with significantly different results achieved based on the different growth assumptions that have been used. Table 4.2 summarises some of the projections that have been recently developed for the LGA, which include the following:

- **Department of Health and Ageing (2007)**: prepared for the Australian Government Department of Health and Ageing by the ABS. The projections are based on 2006 Census data and are expected to be somewhat out-dated.

- **WA Tomorrow (2012)**: prepared by the Western Australian Department of Planning in 2012. These projections have been updated from the previous release in 2007, however, do not take into account 2011 Census data and therefore indicate a different base figure for the LGA for 2011. The median series projections are reported in the table below.

- **Shire of Augusta-Margaret River and AECgroup (2011)**: projections prepared for the Shire of Augusta-Margaret River, assuming implementation of the "SuperTowns" initiative for the township of Margaret River. These projections have assumed the population of Margaret River township will double over the 2011 to 2031 period (in line with the strategic inspirations of the SuperTowns initiative) with ongoing urban development in other areas, implying a significant annual growth rate forecast for the remainder of the Shire. Therefore, these projections represent an aspirational target or ‘ultimate’ projection scenario, rather than a conservative population growth scenario.
Table 4.2: Previous Forecasts, Augusta-Margaret River LGA

<table>
<thead>
<tr>
<th>Augusta-Margaret River LGA</th>
<th>2011</th>
<th>2016</th>
<th>2021</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Health and Ageing (2007)</td>
<td>12,820</td>
<td>14,218</td>
<td>15,637</td>
<td>17,040</td>
</tr>
<tr>
<td>WA Tomorrow, WA Department of Planning (2012)</td>
<td>13,000</td>
<td>14,400</td>
<td>15,800</td>
<td>17,200</td>
</tr>
<tr>
<td>AECgroup and Shire of Augusta-Margaret River (2011)</td>
<td>12,219</td>
<td>14,020</td>
<td>16,175</td>
<td>18,680</td>
</tr>
</tbody>
</table>

Source: WA Department of Planning (2012), Department of Health and Ageing (2007), AECgroup

The medium series WA Tomorrow projections for the LGA have been used as the base to develop projections for the LGA, with forecasts rebased to 2011 taking into the account the latest 2011 Census data released by the ABS.

Table 4.3 shows population forecasts up to the year 2026 for the Augusta-Margaret River LGA, relative to the State average. The LGA is forecast to grow from a population of approximately 11,800 in 2011 to approximately 15,600 in 2026, representing an average growth rate of 1.9% per annum (or 250 persons per annum), slightly higher than the average annual growth rate for the State.

Whilst the growth rate of the LGA is forecast to decline in percentage terms over coming years, in absolute terms it is expected to remain relatively consistent at around 255 persons per annum.

It is expected that most of the population growth within the Shire (approximately 70-80%) will continue to occur within and around the township of Margaret River, with the remainder of the Shire expected to continue experiencing moderate growth, in line with historic trends, and comprising approximately 20-30% of the Shire's overall population growth over the 2011 to 2026 period. It is estimated that Augusta may account for around 10% of the LGA’s total population growth.

Table 4.3: Population Forecasts

<table>
<thead>
<tr>
<th>Region</th>
<th>2011</th>
<th>2016</th>
<th>2021</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Augusta &amp; Suburbs</td>
<td>1,292</td>
<td>1,417</td>
<td>1,542</td>
<td>1,667</td>
</tr>
<tr>
<td>Augusta-Margaret River LGA</td>
<td>11,758</td>
<td>13,094</td>
<td>14,342</td>
<td>15,606</td>
</tr>
<tr>
<td>Western Australia</td>
<td>2,239,170</td>
<td>2,472,999</td>
<td>2,682,876</td>
<td>2,897,298</td>
</tr>
<tr>
<td>Average Annual Population Growth (no.)</td>
<td>2011-16</td>
<td>2016-21</td>
<td>2021-26</td>
<td></td>
</tr>
<tr>
<td>Augusta &amp; Suburbs</td>
<td>25</td>
<td>25</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Augusta-Margaret River LGA</td>
<td>267</td>
<td>250</td>
<td>253</td>
<td></td>
</tr>
<tr>
<td>Western Australia</td>
<td>46,766</td>
<td>41,976</td>
<td>42,884</td>
<td></td>
</tr>
<tr>
<td>Average Annual Population Growth (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Augusta &amp; Suburbs</td>
<td>1.9%</td>
<td>1.7%</td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>Augusta-Margaret River LGA</td>
<td>2.2%</td>
<td>1.8%</td>
<td>1.7%</td>
<td></td>
</tr>
<tr>
<td>Western Australia</td>
<td>2.0%</td>
<td>1.6%</td>
<td>1.5%</td>
<td></td>
</tr>
</tbody>
</table>

Source: DCAC (2008), ABS (2011), AECgroup
4.4 Retirement Village Supply

There are currently two retirement villages within the Augusta-Margaret River LGA. The Baptistcare Silver Vines Village is located in the township of Margaret River and comprises 52 independent living units (ILUs). At the time of writing there were no vacancies at Silver Vines and two ILUs advertised for sale.

The Leeuwin Aged Units are located in Augusta and comprise 16 ILUs. Six units are rented and 10 units are life tenancies. Two of these units are currently rented pending sale. This village, although registered under the Retirement Villages Act 1992, is not a typical retirement village as defined in Section 1.5 of the report. The age limit is 55+ rather than the normal 65+ and the facility does not offer ancillary amenities such as sporting and recreational facilities.

There are also two aged care facilities within the LGA: Mirambeena aged care facility, which is located adjacent to Baptistcare Silver Vines Village (although with separate functions and facilities) Margaret River; Leeuwin aged units, located in the northern part of the township of Augusta. These facilities represent aged care facilities, which provide a higher level of medical and social support and care for older residents that are unable to live independently (see definition in Section 1.5), and serve a different market than retirement villages. Therefore, these aged care facilities have not been included in the analysis in this Section.

The adjacent Shires in the South West region comprise nine retirement villages, reflecting a larger overall market, as well as a generally older age profile of residents compared to the Augusta-Margaret River LGA. In particular, the larger centres of Bunbury and Busselton comprise the majority of retirement villages within the region.

It is estimated that there are 962 ILUs across retirement villages within the South West region (refer Table 4.4 and Figure 4.4). It is expected that this figure will increase to 1,100 in the next couple of years, as two retirement villages under construction, Australind Rise in Australind and Bethanie Esprit at Eaton are fully developed and absorbed by the market. The Augusta-Margaret River LGA therefore represents only approximately 5.1% of the existing retirement village market across the region.

We are not aware of any other retirement villages proposed within the Shire of Augusta-Margaret River.

Table 4.4: Retirement Village, South West Region

<table>
<thead>
<tr>
<th>Retirement Village Name</th>
<th>Suburb</th>
<th>Total No ILU's (Capacity)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Augusta-Margaret River LGA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Silver Vines Margaret River</td>
<td>Margaret River</td>
<td>52</td>
</tr>
<tr>
<td>Leeuwin Ages Units</td>
<td>Augusta</td>
<td>16</td>
</tr>
<tr>
<td>Other South West</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Existing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amana Living Treendale</td>
<td>Australind</td>
<td>29</td>
</tr>
<tr>
<td>Bethanie Fields</td>
<td>Eaton</td>
<td>145</td>
</tr>
<tr>
<td>Woodstock West Village</td>
<td>Bunbury</td>
<td>123</td>
</tr>
<tr>
<td>Leschenault Village</td>
<td>Bunbury</td>
<td>38</td>
</tr>
<tr>
<td>Ocean Star Villas</td>
<td>Bunbury</td>
<td>40</td>
</tr>
<tr>
<td>Bethanie Elanora</td>
<td>Bunbury</td>
<td>76</td>
</tr>
<tr>
<td>Busselton Lifestyle Village</td>
<td>Busselton</td>
<td>226</td>
</tr>
<tr>
<td>Novacare Lifestyle Village</td>
<td>Busselton</td>
<td>194</td>
</tr>
<tr>
<td>Peppermint Tree Villas</td>
<td>Busselton</td>
<td>23</td>
</tr>
<tr>
<td>Total Existing</td>
<td></td>
<td>962</td>
</tr>
<tr>
<td>Under Construction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bethanie Esprit</td>
<td>Eaton</td>
<td>100</td>
</tr>
<tr>
<td>Australind Rise</td>
<td>Australind</td>
<td>38</td>
</tr>
<tr>
<td>Total South West Region</td>
<td></td>
<td>1,100</td>
</tr>
</tbody>
</table>

Source: AECgroup
4.5 Retirement Village Demand

4.5.1 Ageing Population

While the population has grown at an average annual growth rate of 1.8% per annum over the 2001 to 2011 period, the proportion of the population aged 65+ years grew at a rate of 3.4% per annum, a clear indication of the changing demographics of the region.

The age profile of the LGA’s population is forecast to progressively increase in the future (refer Figure 4.5 and Table 4.5). While the median age is estimated to be 38.1 years in 2011, this is expected to increase to 41.9 years by 2026. In particular, there is expected to be a significantly larger proportion of older adults, aged 65 and over. While less than 10.9% of persons were in this age group in 2011, approximately 19.3% persons are forecast to be in this age group by 2026, indicating significant growth in demand for retirement facilities.

In this respect, while approximately only 1,500 people were in this age group, 65+, in 2011, this is forecast to increase to approximately 3,000 people by 2026, representing a 100% increase of people living in the LGA within this age group.

Therefore, the ageing of the population combined with a growing population overall indicates increasing need for additional retirement villages to accommodate such growth.
Figure 4.5: Population Growth, Augusta-Margaret River LGA

Table 4.5: Population Growth, Augusta-Margaret River LGA

<table>
<thead>
<tr>
<th>Region</th>
<th>2011</th>
<th>2016</th>
<th>2021</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Population</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aged 65+ years</td>
<td>1,467</td>
<td>1,914</td>
<td>2,455</td>
<td>3,014</td>
</tr>
<tr>
<td>Total Population</td>
<td>11,758</td>
<td>13,094</td>
<td>14,342</td>
<td>15,606</td>
</tr>
<tr>
<td>Average Annual Population Growth (no.)</td>
<td>2011-16</td>
<td>2016-21</td>
<td>2021-26</td>
<td></td>
</tr>
<tr>
<td>Aged 65+ years</td>
<td>89</td>
<td>108</td>
<td>112</td>
<td></td>
</tr>
<tr>
<td>Total Population</td>
<td>267</td>
<td>250</td>
<td>253</td>
<td></td>
</tr>
<tr>
<td>Average Annual Population Growth (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aged 65+ years</td>
<td>5.5%</td>
<td>5.1%</td>
<td>4.2%</td>
<td></td>
</tr>
<tr>
<td>Total Population</td>
<td>2.2%</td>
<td>1.8%</td>
<td>1.7%</td>
<td></td>
</tr>
</tbody>
</table>

Source: WA (2012), ABS (2011), AECgroup

Looking forward, whilst modest population growth is forecast for the Augusta-Margaret River LGA the proportion of those aged over 65 is forecast to grow rapidly. Approximately 38% of all population growth in the next decade will be from those aged greater than 65 years.

4.5.2 Retirement Village Market Penetration

The size of the residential population aged 65+ in a region is not an automatic determinant of retirement village demand. In fact, nationally, retirement villages accommodate only approximately 5.5% of households aged 65 and over, meaning the remainder of older population is either in aged care or, more likely, continues to reside in traditional residential accommodation.

Therefore, the market penetration of a retirement village – effectively a proxy of the acceptance of village living - in a region can have a large impact on the market size for ILUs.

However, the penetration rate varies across regions, and even within regions. Some key factors that determine the relative penetration rate of retirement villages include:

- The diversified nature of the regional housing market (i.e. proportions of semi-detached and apartment style housing).
- Size of the market (i.e. critical mass to support retirement village uptake).
- Socio-economic characteristics (home ownership, incomes etc.).
- Proximity to community and health facilities (i.e. hospitals, transport, clubs etc.).
- Amenity of the region (i.e. is it a place people may seek to may a sea change or tree change?).

The market penetration for both the South West region and Western Australia has been estimated at 6.4%, a figure greater than the Australian average. Therefore, 6.4% of people aged 65+ in the South West region and Western Australia lived in retirement villages in 2011. On the other hand, Augusta-Margaret River LGA’s penetration rate has been estimated at 4.4% well below the State and regional average (refer Figure 4.6).

Given the size of the LGA and existing stock of ILUs, the penetration rate will be highly susceptible to new supply. Whilst retirement villages elsewhere in the Western Australia regularly average in excess of 100 units, it is likely that any retirement village on the subject site will be relatively small (i.e. less than 50 units) to reduce the risk associated with potentially oversupplying the market.

**Figure 4.6: Retirement Village Market Penetration, 2011**

Source: ABS (2011), AECgroup

AECgroup’s research indicates that market penetration rates have grown over the last decade by approximately 2 percentage points. This reflects increasing market acceptance of retirement villages living across Australia and the entrance of new players – particularly in the private sector – marketing the virtues of retirement villages.

### 4.5.3 Forecast Demand

Given the relatively small size of the LGA and its natural features, there will be a level of supply led demand. As a consequence, we have prepared both a low and high scenario in order to estimate the likely future demand for ILUs across the region. Some of the key assumptions in this assessment are:

- The number of residents per ILU is assumed to remain constant at 1.25.
- Under the low scenario, growth in retirement village market penetration is forecast at 3% per annum. This growth rate is in addition to the average growth of 5.3% per annum in the number of persons aged over 65 years.
- Under the high scenario growth in the retirement village market is forecast at 6% per annum.
The key results of this demand analysis are shown within Table 4.6, based on the methodology presented in Figure 4.1:

- Given the timeframe of potential development for the subject site, under the low scenario it is estimated that by 2016 there will be demand for an additional 26 ILUs within the LGA. This total is approximate to the minimum number of ILUs within retirement villages.

- Looking further forward, cumulative new demand by 2021 for the LGA is forecast at 54 ILUs in the low scenario.

- Under the high scenario, it is forecast that by 2016 there will be demand for approximately 39 new ILU units, only a relatively minor increase over the forecast from within the low scenario. At this point the retirement village penetration rate will be 5.9%, a total marginally below the current South West Region average.

### Table 4.6: Retirement Village Demand, Augusta Margaret River LGA

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Calculation</th>
<th>2011</th>
<th>2016</th>
<th>2021</th>
<th>2026</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retiree Population (65+)</td>
<td>(1)</td>
<td>1,467</td>
<td>1,914</td>
<td>2,455</td>
<td>3,014</td>
</tr>
<tr>
<td><strong>Low Scenario</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement Village Penetration Rate</td>
<td>(2)</td>
<td>4.4%</td>
<td>5.1%</td>
<td>5.9%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Retirement Village Residents</td>
<td>(3)=(1)*(2)</td>
<td>65</td>
<td>98</td>
<td>145</td>
<td>207</td>
</tr>
<tr>
<td>Residents per ILU</td>
<td>(4)</td>
<td>1.25</td>
<td>1.25</td>
<td>1.25</td>
<td>1.25</td>
</tr>
<tr>
<td><strong>ILU Demand</strong></td>
<td>(5)=(3)/(4)</td>
<td>52</td>
<td>78</td>
<td>116</td>
<td>165</td>
</tr>
<tr>
<td>ILU Demand (Cumulative from 2011)</td>
<td>(6)=(5)-(6)</td>
<td>26</td>
<td>65</td>
<td>114</td>
<td></td>
</tr>
<tr>
<td><strong>High Scenario</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement Village Penetration Rate</td>
<td>(2)</td>
<td>4.4%</td>
<td>5.9%</td>
<td>7.9%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Retirement Village Residents</td>
<td>(3)=(1)*(2)</td>
<td>65</td>
<td>113</td>
<td>193</td>
<td>318</td>
</tr>
<tr>
<td>Residents per ILU</td>
<td>(4)</td>
<td>1.25</td>
<td>1.25</td>
<td>1.25</td>
<td>1.25</td>
</tr>
<tr>
<td><strong>ILU Demand</strong></td>
<td>(5)=(3)/(4)</td>
<td>52</td>
<td>90</td>
<td>155</td>
<td>254</td>
</tr>
<tr>
<td>ILU Demand (Cumulative from 2011)</td>
<td>(6)=(5)-(6)</td>
<td>39</td>
<td>103</td>
<td>203</td>
<td></td>
</tr>
</tbody>
</table>

Source: AEC Group

As noted previously, Augusta has a very old population with an estimated 33.5% of the population aged over 65 years. Therefore, despite only accounting for 11% of the total LGA population, Augusta contains around 29% of persons aged over 65 years within the entire LGA. Consequently, it is reasonable to suggest therefore that Augusta could potentially accommodate a large proportion of the forecast LGA demand. Based on the LGA demand forecasts for 2016 outlined above, Table 4.7 provides a market share assessment to estimate the potential demand for a retirement village on the subject site. The key points to note from this analysis are:

- If new demand for ILUs in Augusta was consistent with the current proportion of persons aged over 65 years in 2016 it is estimated that there would be demand from between 8 to 12 residents of Augusta for an ILU on the subject site. This is based on Augusta attracting 30% of the potential demand in the Augusta-Margaret River LGA.

- Given that there are only two units for sale in the Leeuwin Aged Units in Augusta, and the fact that this facility is not a typical ‘state of the art’ retirement village, it is reasonable to suggest that Augusta could attract greater than 30% of the LGAs projected ILU demand. Augusta’s coastal location may also encourage people to retire there rather than inland centres. If Augusta accounted for 50% of new demand by 2016, it is estimated the site could accommodate between 13 and 19 units. A development of this size would be smaller than any other retirement village in the region and unlikely to be able to yield sufficient economies of scale through the development process to make it viable.

- Also shown are the demand projections for 2021. By this time due to a combination of increased population and a higher proportion of persons aged above 65 years, the demand for new ILUs across the Augusta-Margaret River LGA is estimated at between 65 and 103. If Augusta accounted for half of this demand it is estimated that the subject site could accommodate between 32 and 52 ILUs, a size easily consistent with
other retirement villages in the region. This number of ILUs in Augusta would represent a market penetration rate of between 7% and 11%.

Table 4.7: Augusta & Suburbs Share of LGA Forecast ILU Demand

<table>
<thead>
<tr>
<th>Factor</th>
<th>2016</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Augusta-Margaret River LGA New Demand</td>
<td>26</td>
<td>39</td>
</tr>
<tr>
<td>Augusta Current Share of Persons Aged 65+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Augusta &amp; Suburbs Share of Demand</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Augusta &amp; Suburbs ILU Demand</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Market Penetration Rate</td>
<td>2.0%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Augusta High Share of Persons Aged 65+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Augusta &amp; Suburbs Share of Demand</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Augusta &amp; Suburbs ILU Demand</td>
<td>13</td>
<td>19</td>
</tr>
<tr>
<td>Market Penetration Rate</td>
<td>3.3%</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Source: AECgroup

4.6 Conclusions

The key points to note from this section that will influence both the composition and feasibility of a retirement village on the subject site are:

- Across the entire LGA of Augusta-Margaret River over the past 10 years, demand for non-houses (i.e. units, townhouses, ILUs etc.) has been low averaging only 16 units per annum.

- The current supply of ILUs within the entire LGA of Augusta-Margaret River at present is only 52. This represents a market penetration rate of just 4.2%. Assuming the market penetration rate climbs to 10.5% and based on the official population forecasts, it is likely that there will only be demand for an additional 203 ILUs by 2026. This relatively small number means that any development in the region will most likely need to contain less than 50 ILU units in order to minimise the risk of oversupplying the market.

- The average number of ILUs per retirement villages in the South-West region is 94. However, there are a number of existing developments that contain less than 30 (Amana Living Treendale in Australind and Peppermint Tree Villas in Bussleton).
5. Cash Out Market

This section quantifies the size of the current market able to “cash-out” of the family home. This is an important market segment for retirement village developers and operators as retirement ILUs traditionally trade at a discount to the broader residential market in order to provide an opportunity for older households to “cash-out”.

5.1 Defining the Cash Out Market

A large proportion of households approaching, or of retirement age, lacks the necessary income and savings to fund their retirement at an acceptable quality of life. This reflects the fact that compulsory superannuation at the current rate of 9% (regarded as the minimum contribution level; over a life time, to support retirement) has only been in place for two decades.

Significant growth in house prices over the past 5-8 years has created substantial wealth for households who would otherwise have limited assets. In fact, for many households, the family home represents the only source of wealth sufficient to even partly fund a quality post-retirement lifestyle. Such households therefore have the need to “cash-out” of the family home.

AECgroup defines the “cash-out” component of the residential market as:

“Households, aged 55 and over, who fully own their own home (i.e. without a mortgage), and are seeking to release equity from their primary asset to fully or partly fund their retirement.”

An effective way to achieve this goal is to downsize the family dwelling from the traditional large detached house to a small dwelling (apartment or townhouse). This is only effective when the price of such smaller dwellings is sufficiently low for the family home to be sold at a premium – thereby releasing additional equity.

The current Deferred Management Fee (DMF) structure of retirement villages is advantageous to prospective village residents by providing an upfront discount on the ILU price in return for a portion of future capital gains being secured by the developer/operator. This approach makes demand retirement villages strongly linked with the size of the “cash out” component of the residential market.

5.1.1 Methodology

AECgroup has calculated the size of the current and short-term cash-out market by examining the proportion and number of households aged 55-64 and 65+ that fully owned their home in 2011. This data has been collected from the ABS 2011 Census. This approach recognises that the number one factor in determining the likelihood of a household fully owning their home is the age of the household members, with older households having had longer to pay down their mortgage.

This methodology is outlined in Figure 5.1.
5.2 Full Ownership Rates

AECgroup estimates that of households with members aged 65 and over in the Augusta-Margaret River LGA, 73.3% fully own their own home (refer Table 5.1). This compares to 52.3% of people aged 55-64 and only 29.6% for people aged 45-54. These variations in full home ownership across the different age groups is expected and illustrates the role that age plays in determining the propensity of households to fully own their own home.

The South West Region highlights similar ownership rates to the LGA across households in the above mentioned aged groups, while the Perth metropolitan region and WA comprise generally lower ownership rates, reflecting differences in:

- Household income and wealth.
- Cost of housing.
- Type of housing.

Table 5.1: Full Ownership Rates, by Age Group, 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>&lt;=44</th>
<th>45-54</th>
<th>55-64</th>
<th>65+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Augusta Margaret River LGA</td>
<td>12.4%</td>
<td>29.6%</td>
<td>52.3%</td>
<td>73.3%</td>
</tr>
<tr>
<td>South West Region</td>
<td>12.1%</td>
<td>28.4%</td>
<td>53.4%</td>
<td>72.2%</td>
</tr>
<tr>
<td>Greater Perth</td>
<td>12.9%</td>
<td>25.5%</td>
<td>49.4%</td>
<td>71.3%</td>
</tr>
<tr>
<td>Remainder of WA</td>
<td>12.9%</td>
<td>28.9%</td>
<td>53.2%</td>
<td>72.1%</td>
</tr>
<tr>
<td>WA</td>
<td>12.9%</td>
<td>26.2%</td>
<td>50.3%</td>
<td>71.5%</td>
</tr>
</tbody>
</table>

Source: ABS (2011) and AECgroup

5.3 Current and Future Cash Out Market

5.3.1 Households Aged 65+

The number of households aged 65 and over whom fully own their own homes are a measure of the current size of the "cash-out" market. At the ABS 2011 Census, there were approximately 570 households in the 65+ age bracket in the Augusta Margaret River LGA that owned their dwellings outright. This accounts for over 13% of all households in the LGA, highlighting the relatively important nature of this market.
The number of households in the Augusta Margaret River LGA with occupants aged 55-64 and 65+, including the number of households in these age groups capable of cashing-out of the family home is outlined in Table 5.2.

### Table 5.2: Households, by Age Category and Tenure, Augusta Margaret River LGA, 2011

<table>
<thead>
<tr>
<th></th>
<th>55-64 years (future ‘cash out market’)</th>
<th>65+ years (current ‘cash out’ market)</th>
<th>Total cash out market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned outright</td>
<td>398</td>
<td>569</td>
<td>968</td>
</tr>
<tr>
<td>Other Tenure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>363</td>
<td>207</td>
<td>571</td>
</tr>
<tr>
<td>Total Dwellings</td>
<td>762</td>
<td>776</td>
<td>1,538</td>
</tr>
</tbody>
</table>

Source: AECgroup

#### 5.3.2 Households Aged 55-64

The number of households aged 55-64 who fully own their own homes represent the future “cash-out” market. While additional households in this age group will progressively pay off their mortgages, those who have already done so will be influenced by marketing and product types targeted at those households aged 65 and over and therefore represents both a secondary market for retirement village living at present and a future primary market as they continue to age over the next ten years.

In 2011, there were approximately a further 400 households aged 55-64 who fully own their own home, in addition to those already aged 65 and over. This represents approximately 9.4% of households, revealing depth to this secondary, near-future market for retirement villages.

#### 5.4 Key Findings

As at 2011, households aged 55-64 and 65+ who fully own their home represent over 22% of the total number of households in the LGA, comprising approximately 950 dwellings. This means that over one in every five households in the LGA can potentially “cash-out” of the family home and enter a retirement village, either now or in the near future. The degree to which this “cash-out” potential is realised is dependent on the ability of the development community to present to the market tailored, attractive, quality retirement products at price points that enable households to release the equity of the family home to fund their retirement.
6. **Price Point Analysis**

This section provides an overview of current independent living unit (ILU) pricing relative to median house prices.

The relationship between retirement villages and the housing market is critically important. This analysis provides a unique perspective on the discount to house prices at which ILUs are being sold in the market and forms an important input into the feasibility assessment contained later in the report. Such a discount is standard practice as it provides an incentive for older Australian’s to “cash-out” of the family home and take-up an ILU while retaining a portion of the released equity.

The analysis in this section draws upon advertised pricing information published in the West Australian newspaper and a review of village owner and developer websites.

### 6.1 ILU Price Points

Generally, retirement villages across WA can be segmented into three key markets, defined by different market prices.

- **ILUs with low price points** (<$300,000), representing an **affordable** product.
- **Prices between $300,000 and $400,000**, with products targeted at the core of the retirement village market – couples with houses at or slightly above the median house price seeking **standard quality** ILU product.
- **A premium market** generally priced **above $400,000**, with a number of villages offering ILUs in line with or at a premium to local house prices, suggesting that this product is for the aspirational component of the market. However, many villages with ILU price points above $400,000 continue to discount their prices at or even slightly higher than the average for the whole market. This suggests that such villages are targeting the “asset rich-cash poor” component of the premium market – households with high value homes but needing to “cash-out” to release equity to fund retirement.

Currently, the affordable and standard markets account for the largest shares of available ILUs, comprising nearly two thirds of the market. This is in line with historical trends, though it can be argued that the current softness in the residential housing market is inflating these segments due to the need for villages to offer greater price discounts as inducements.

A review of available ILUs across Western Australia reveals considerable variation in the price points advertised. As at September 2012, prices for ILUs varied from as low as $139,000 at Baldivis (near Rockingham), to as high as $850,000 at Wembley (inner Perth). These price variations reflect a range of drivers including:

- The quality of the product.
- The target market segment (affordable vs. premium).
- The capacity of the local market to pay.
- The underlying land value of the location.
- The amenity and attractiveness of the surrounding area/region.

**AECgroup** has calculated the average ILU price as at September 2012. The Augusta-Margaret River LGA had an average ILU price of approximately $295,000, while the average ILU price was approximately $379,000 across the South West region and approximately $342,000 across regional WA (refer Figure 6.1).

However, the LGA’s data is based only on the ILUs available at Baptistcare Silver Vines Village in the township of Margaret River as there was no recent sales data for the Leeuwin Aged Units and this may skew the results. Nonetheless, it indicates the LGA’s relatively higher market affordability compared to the broader South West region for retirees aged 65+ looking to move into a retirement village.
6.2 ILU Discounting

AECgroup has compared ILU price points in the regions to house prices to quantify the current size of the ILU price discounts currently offered.

For the Augusta-Margaret River LGA, the average ILU price is 29.9% (or $126,000) less than the median house price ($421,000). This is somewhat similar to the ILU discounting across Perth metropolitan region (24.1%), though price discounts in regional Western Australia are significantly smaller, as ILUs are discounted by only 7.3% to median house prices. Nonetheless, the South West region stands out as ILUs do not trade at a discount, with ILU prices generally comparable (0.7% higher than the regional median house price) (refer Figure 6.2).

Therefore, this indicates that there is likely considerable variation on an individual village level in the price points and discount rates of villages. In addition, such discounting variations reveal that, although ILUs are generally discounted to local median house prices, high quality product, in high amenity locations can be marketed at price points at or higher than local house prices.

Given the median house price in Augusta at present is around $530,000, there is significant scope for a retirement village on the subject site to target the higher end of the intermediate market segment (i.e. around $400,000) and stimulate demand through targeting the cash-out market.
Figure 6.2: ILU Discounts to House Prices, WA Select Regions, 2012

*Based on Margaret River township data as the township includes the Baptistcare Silver Vines Village.
Source: AECgroup
7. Retirement Village Market

This section provides an overview of some of the major trends in the current retirement village market in terms of both operators and design types. This assessment helped inform our recommendations with regard to the most appropriate structure and composition of the proposed retirement village on the subject site.

7.1 Retirement Village Market Overview

7.1.1 Major Players

The retirement village industry is characterised by a relatively high degree of market concentration, with a few corporations or groups controlling the majority of villages and the market. Some of the key players in WA include Amana Living and Uniting Church Homes (not-for-profit) and Lend Lease and St Ives (for profit).

7.1.2 Retirement Village Types

Retirement village types and operators vary significantly in terms of size and their profit orientation.

Not-for-profit organisations continue to represent the largest component of the retirement village sector in Western Australia, owning 3 in every 5 villages. Despite this, for-profit organisations have been increasing market share in recent years, as a result of increased large corporate developer investment activity and increased market consolidation.

The not-for-profit sector accounts for approximately 62% of the Western Australia retirement village market, with Amana Living the largest not-for-profit retirement village owner in Western Australia with 19 villages. This is followed by Uniting Church Homes, The Bethanie Group, and Southern Cross Care. Additionally, a small proportion of villages are owned individually by separate owners (namely community group organisations) illustrating the diversity of players in the not-for-profit segment of the retirement sector.

The for-profit sector accounts for approximately 38% of the Western Australia retirement village market, which has been growing steadily in recent years in response to increased for-profit investment activity in the sector. Lend Lease Prime Life and St Ives Group are the largest for-profit retirement village owners in Western Australia with 10 villages each, which is approximately half the size of the largest not-for-profit organisation. There are only a limited number of villages owned individually by separate owners, therefore this is a smaller component of the market, reflecting the general desire of for-profit organisations to develop retirement village portfolios.

7.2 Trends in Retirement Village Development

The retirement village sector has and continues to undergo a period of transition associated with its maturity as a market. This reflects the achievement of market size critical mass due to demographic drivers and greater levels of demand segmentation and supply diversification. This has led to a shift away from the historical relatively standardised nature of ILU supply towards greater levels of product and village diversification and innovation.

This sub-section provides an overview of trends in the development of retirement villages.

7.2.1 Niche Retirement Villages

While larger corporate developers and not-for-profit organisations will continue to provide quality, integrated product for the core of the market, this environment is also seeing the emergence of niche retirement villages.

The emergence of niche retirement village developments will require increased flexibility on the part of construction and development sectors, in order to ensure that each village meets the requirement of the market segment being targeted.
7.2.2 Integration of Villages into Master Planned Estates

Part of the attraction of the retirement village sector to large corporate developers in recent years has been the capacity for villages to be integrated into existing and new master planned estates. There are a number of benefits to retirees as well as developers from such an arrangement including:

- **Full Lifecycle Housing** - the integration of a village into a master planned community provides older households looking to transition from houses to ILUs in the future, with a defined housing pathway.

- **Increased Acceptance of Retirement Village Living** - retirement villages in master planned communities have greater take-up levels because of greater levels of exposure to older households living in traditional housing in the broader estate.

- **Proximity to Family/Social Networks**.

- **Delivery of Affordable Housing**.

- **Broader Use of Community Facilities** - by providing non-village residents of the broader community access to the retirement village community facilities, a higher quality offering can be supported.

7.2.3 Health Oriented Developments

Health oriented developments (HODs) are analogous with transit-oriented developments, or TODs which are a common part of modern urban planning. However, instead of being anchored by a type of public transport infrastructure, HODs are anchored by a major health facility.

There are a range of socio-demographic, economic, fiscal and market drivers within Australia that necessitate an increased application of HOD principles to future health-related development opportunities. These include issues such as population growth, ageing, labour force participation, fiscal and budgetary constraints, recognition of the holistic nature of the health sector and innovation in health delivery.

Retirement villages are identified as a key component of HODs. The benefit of such integration reflects the increasingly holistic approach to health care provision and role of hospital proximity in the attractiveness of aged care and retirement village developments to prospective residents.

A primary example of the application of HOD principles is Health City Springfield (Qld) - a 52 hectare integrated health precinct, which is part of Greater Springfield, voted the world’s best master planned community in 2010. Health City aims to deliver a health and wellness experience for the community through the provision of quality healthcare, medical education and research as well as aged and seniors living.
8. Site Capacity and Composition

The report up to this section has outlined a number of key variables and trends which are likely to shape the composition, price point and structure of any retirement village on the subject site. This section ties these factors together and develops a proposed scheme that could be accommodated on the site. The proposed composition of the site is outlined in Table 8.1.

8.1 Site Capacity

The large extent of the site means there are few impediments with regard to its ability to accommodate a retirement village. Key points that have influenced the proposed Augusta retirement village scheme are:

- Across the South-West region and indeed Western Australia more generally, there are very few retirement villages consisting of less than 20 units.
- The demand analysis indicated that it is unlikely there would sufficient demand by 2021 for a retirement village of around 50 units or if it is would be highly risky and susceptible to any new supply in the region.
- Given the size of the Augusta-Margaret River market, retirement villages leaning towards the smaller size as opposed to much larger facilities make more sense. Silver Vines in Margaret River contained 52 units but is also subject to a much larger catchment than Augusta.

Based on our analysis it is estimated the subject site could accommodate 25 ILUs by around 2018. This site capability would allow for an alternative retirement village of a similar size elsewhere in the LGA (most likely Margaret River) by the same date.

Given the characteristics of the site, adjacent land uses, proximity to key facilities and services within the township of Augusta, it is recommended that any development preferably occur along Hillview Road.

8.2 Price Point

As indicated in the report, ILUs can be segmented into three markets: affordable market (below $300,000), standard quality market ($300,000-$400,000) and premium market (above $400,000).

The majority of ILUs are accounted for in the affordable and standard quality market, as highlighted by the median ILU prices across different regions, and shown in Table 8.1.

Table 8.1: Median ILU Price

<table>
<thead>
<tr>
<th>Region</th>
<th>Median ILU Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Augusta - Margaret River LGA*</td>
<td>$295,000</td>
</tr>
<tr>
<td>South West Region</td>
<td>$379,000</td>
</tr>
<tr>
<td>Regional WA</td>
<td>$342,000</td>
</tr>
<tr>
<td>Metro Perth</td>
<td>$357,000</td>
</tr>
</tbody>
</table>

*Includes only Baptistcare Silver Vines Village in the township of Margaret River

Source: West Australian (2012) and AECGroup

Despite Augusta’s relatively small population overall, it does have a sizeable number of persons over 65 years and it is this market in which the majority of demand could expect to be drawn. This factor combined with high median house prices is conducive to a relatively high median ILU price. For this analysis was have assumed an average median ILU price of $400,000, which equates to a ILU price discount of around 32% over the median house price. The current ILU discount for metro Perth is currently 25% and 30% for Augusta-Margaret River LGA (albeit from a small sample).
8.3 Site Composition

Reflecting a similar composition to Silver Vines Margaret River the composition of units and facilities on site is as follows:

- An average of 2 bedroom single storey ILUs.
- Residential parking assumes an attached garage for a single car with a roller shutter door.
- A single storey amenities and social centre building is provided on site. This building would also house the retirement village administration functions.
- An additional outdoor communal facility such as a tennis court or pool has also been allowed for on-site.

The details of the proposed site composition are shown in Table 8.2.

8.4 Site Staging

Given the proposed number of units on the site and associated facilities, it would not be appropriate to undertake a phased approach to development on the site. A critical mass of units is required to support the cost of headworks, the social centre and other facilities. Furthermore a site that has ongoing construction planned greatly reduces the attractiveness of the development. Given that for most residents this may be their final property transaction they require a certain level of surety the proposed scheme will be developed in its entirety.
### Table 8.2: Subject Site Proposed Site Composition

<table>
<thead>
<tr>
<th>Use</th>
<th>Units</th>
<th>Av. Size per Unit (sq.m)</th>
<th>Gross Floor Area1 (sq.m)</th>
<th>Net Lettable Area (sq.m)</th>
<th>Average No. of Levels</th>
<th>Ground Floor Building Footprint (sq.m)</th>
<th>Building Site Coverage (%)</th>
<th>Parking Provision Total (No.)</th>
<th>Parking Garage At Grade (No.)</th>
<th>Garage/ Parking Bldg Footprint (sq.m)</th>
<th>Total Buildable Area Footprint (sq.m)</th>
<th>Total Required Site Area (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BUILDABLE AREA</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Townhouse ( # units)</td>
<td>25</td>
<td>90</td>
<td>2,250</td>
<td>2,250</td>
<td>1.0</td>
<td>2,250</td>
<td>56%</td>
<td>1.0 per unit</td>
<td>25</td>
<td>25</td>
<td>0</td>
<td>375</td>
</tr>
<tr>
<td>Social Centre Building</td>
<td>1</td>
<td>250</td>
<td>250</td>
<td>250</td>
<td>1.0</td>
<td>250</td>
<td>38%</td>
<td>5.0 per unit</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>75</td>
</tr>
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<td>5</td>
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<tr>
<td>Open Space</td>
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<td></td>
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</tr>
<tr>
<td>Other Facilities</td>
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<td><strong>Total Ancillary Area</strong></td>
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<td></td>
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</tr>
<tr>
<td><strong>TOTAL SITE AREA</strong></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: AECgroup
9. Operating Structures

This section provides an overview of the tenure arrangements associated with the operation of a retirement village. It also includes a discussion related to the commercial structuring and delivery of the retirement village.

9.1 Tenure Arrangements

There are five main ways in which resident can occupy a unit. Each has its own pricing and fee structures which often makes them difficult to compare and evaluate. The main structures are:

- Freehold.
- Leasehold: where the resident buys the unit but leases the land.
- Deferred management fee (DMF): the resident buys the right to occupy, then pays annual fees and an exit charge.
- Company title.
- Strata title.

Direct rental is another option which may sit beneath any of the above. The long term lease structure using a DMF is by far and away the most popular mechanism employed within Australian retirement villages.

9.1.1 Leasehold or Licence Tenure (DMF)

A typical non-strata resident occupation agreement generally has the following features:

- The village owner retains ownership of the land and provides occupation rights by granting either a lease or a licence to the resident.
- The resident pays an up-front lump-sum amount (often approximating the property’s market value) upon commencement of the occupation period.
- During the occupation period, the resident pays periodic amounts to meet his or her share of the village operating costs.
- On termination, the resident receives a lump-sum payment very broadly reflecting:
  - The refund of the ingoing amount.
  - Less the deferred management fee (DMF).
  - Plus a share of the increase or loss in value of the accommodation unit over the period of occupation.

Advantages

The following advantages are identified for leasehold and license tenure:

- In general the stamp duty rates are lower for leasehold or licence title in comparison with Strata Title which is subject to higher ad valorem rates of duty.
- Scope to recover the whole or part of the legal costs from the incoming residents.
- From an operator’s perspective, there is notionally a greater degree of control if the underlying asset is owned. In the long run an owner / operator has a greater commitment to the future success and harmony of the village.
- The majority of recurrent charges will are GST free, being treated as the equivalent of the resident rent.

Disadvantages

The following disadvantages are identified for leasehold and license tenure:

- Leasehold operators may be liable for the costs of capital replacement, refurbishment, depreciation and some maintenance charges.
From a marketing perspective, some have argued that a leasehold title is not as acceptable as Strata Title.

9.1.2 Strata Title

Residents with Strata or Freehold Title to their units are considered to be the owners of their unit. A separate certificate of title is issued to each unit. Associated with home ownership are Council rates, land tax, services and body corporate levies and maintenance fees. All unit owners by way of their membership of the body corporate hold ownership of the common facilities. The body corporate is generally responsible for the insurance of all buildings and the maintenance and upkeep of the common areas. Such items often become the responsibility of the village management at the request of the body corporate.

**Advantages**

The following advantages are identified for Strata Title tenure:

- Generally capital expenditure on an individual unit and community facilities is the responsibility of individual residents and the operator. The community facilities are generally funded through strata sinking fund. Village maintenance fees can be recovered by means of strata-title levies without any liability being imposed on operators.
- The exemption of strata villages from many of the provisions of the state-based retirement villages legislation may reduce legislative restrictions and compliance costs for strata-title villages. These exemptions may be particularly important in the areas of dispute resolution, budget processing, termination of village contracts and by-laws. But there are additional legislative restrictions and compliance costs imposed by relevant strata-title legislation.
- The restrictions on developers taking over the voting rights from incoming residents make it more difficult to manage a strata village, particularly in the establishment phase.
- There is no scope to recoup legal cost in initial sales.

**Disadvantages**

- Full ad valorem stamp duty is payable.
- As the operator does not own the individual units, it is more difficult to control management and operation of the village. Thus, contract documentation is generally more extensive and complex.

9.2 Financial Charges and Structures

A variety of fees are charged to residents either before entry (in the form of a deposit) or upon entry to a village. The standard fees are:

- **Entry contribution:**
  - Lump-sum amount payable before a resident moves into a village.
  - Often entitles (but not necessarily) the resident to a legal interest in the unit.
  - Not payable by residents who rent their unit.
- **Regular service fee:**
  - Payable on a weekly, fortnightly or monthly basis.
  - Generally used to maintain the facilities, cover management costs, etc.
- **Deferred management fee:**
  - Village’s method of recouping the remainder of the cost of the unit.
9.2.1 Entry Price Setting

The entry contribution (or ingoing contribution) may describe entry costs as entry price or purchase price of a unit. Under a DMF structure retirement village units are usually cheaper than similar, privately owned units in the same suburb. In general, retirement village units tend to be priced between 80% to 90% of the median house price. Research by the Retirement Villages Association (RVA) suggests that 94% of residents in a retirement village used the profits from the sale of their house to finance their move to a retirement village. This underlines the importance of the cash-out market in the feasibility of this assessment. As to be expected the prices charged by an individual retirement village are dependent on a number of factors:

- Tenure arrangements (discussed in following section).
- Residential property values in the area.
- Range and quality of facilities and services provided.
- Size and design of unit.
- The capability of the potential residents from the catchment area from which the village will draw its clients to pay.

By deferring payment of the exit fee until after the period of occupancy, rather than requiring it “up-front”, the advantages for residents include:

- The purchase price of the unit remains more affordable.
- Residents are guaranteed of the operator’s ongoing commitment to manage the village, to provide services and to maintain the facilities.
- The operator has a vested interest in reselling the resident’s unit as soon as possible after the conclusion of the period of occupancy.
- The exit fee is dependent on the duration of occupancy and is capped after a fixed period.

9.2.2 Regular Service Fee Levels

In addition to the entry price residents are generally levied with what may be variably called ongoing, maintenance or recurrent fees. These fees are the contribution to the ongoing running costs. At present fees tend to be around $10 to $12 per day per unit, however, the more facilities a village provides, the higher the ongoing fees.

9.2.3 Deferred Management Fee Levels

All resident-funded retirement villages require a DMF (or exit fee). Examples of how a DMF may be calculated include:

- The operator is entitled to 100% of any capital gain on the sale of the unit. In addition the owner pays a set percentage of the entry price for each year they have lived in the village,
- Fees are based on a percentage of the entry price per year of occupation but the operator and resident share any capital gain (in proportions set out in the contract).
- Fees are based on a percentage of the resale price when the unit is sold, leased or licensed to a new resident. The operator is also entitled to a percentage of any capital gain – and this can be as high as 100%.

The percentage rate at which the fee accrues per year of occupation can vary from around 2.5% to 10% of the entry or resale price. Sometimes the rate is higher in the first year or first couple of years of residence. The fee may also be subject to a minimum or maximum. For example, if a village charges 2.5% per year for a maximum of 10 years, the maximum fee is capped at 25% of the relevant amount. A one-off administration fee may also be charged, which is generally based on the resale price.
9.3 Delivery Models Available to Council

There are a number of models that could be considered to facilitate development of the retirement village on the subject site involving both Council and the private sector. These are briefly discussed below.

- **Model 1: Council Sells Site**: The model involves Council advertising the subject site for sale and selling the site to the private sector with the expectation that the land will be developed for a particular use (i.e. retirement village). The process would likely involve advertising for Expressions of Interest (EOI) from the private sector. The EOI process allows Council to source information from potential developers/operators relating to their intentions for the future development of the site. The process allows Council to maximise financial and other benefits for the community balanced with achieving Council’s economic, social and environmental objectives. The EOI may also outline Council’s commitment to upgrade and extend infrastructure to the site should it be required with these costs incorporated into the sale price. The option involves minimal Council involvement with the development of the site left to the private sector. The greatest risk associated with this model is the loss of control related to development on the site.

- **Model 2: Council Sells Development Consent**: Under this approach, Council would move through the planning approvals process and obtain development consent for the project. This would ensure Council can retain control over the land uses and development parameters. However, selling the development consent for the site can mean Council risks losing control of the development quality. A key aim of this model is to set an urban design standard for the subject site. There is also the risk of a lower yield being achieved given the stage of the process.

- **Model 3: Development Lease with Private Sector Developer**: The approach is similar to Model 2 though involves Council leasing the site to a developer with an agreement to sell the site at a future stage once development milestones have been achieved. The model involves Council advertising for EOIs from private sector property developers interested in developing the subject site. The EOI process allows Council to pursue their economic, social and environmental objectives for the site while also facilitating a competitive process to maximise their financial return. Following the receipt of EOIs, Council would shortlist developers/operators and negotiate a development lease for the site with a preferred developer. Once development is completed, Council would sell the site and transfer title to the developer (at an agreed price). The EOI may also outline Council’s commitment to upgrade and extend infrastructure to the site with these costs incorporated into the sale price.

- **Model 4: Public Private Partnership**: A public private partnership involves a business venture between government and one or more private sector companies. In this case, it would involve Council entering into a venture with a private sector developer with Council providing the land and undertaking infrastructure upgrades and the private sector developer financing the project, developing the site and selling the developed lots. This would likely require the creation of a new entity with both Council and the developer as part owners. The partnership would require extensive negotiation and a detailed agreement between both parties relating to the organisational, legal and financial structure of the project.

- **Model 5: Council Develops Site and Sells / 99 Year Lease**: This model involves Council acting as a property developer and undertaking the whole development including site planning, achieving development approval, upgrading and extending infrastructure, developing the site through to selling or leasing operation of the site to a retirement village operator.

- **Model 6: Council Develops Site and Operates**: This model is similar to Model 5, with Council acting as a property developer and undertaking the whole development, however, Council does not sell or lease the site upon completion but rather operates the facility internally.

There are various advantages / disadvantages to Council for each management model. These are outlined in Table 9.1.
## Table 9.1: Review of Delivery Models Available to Council

<table>
<thead>
<tr>
<th>Model</th>
<th>Advantage</th>
<th>Disadvantage</th>
</tr>
</thead>
</table>
| **Model 1: Council Sells the Site** | - EOI process allows Council to source information from developers with regards to built form of development  
- Development of the site left to the private sector  
- Can generate more immediate revenue for Council  
- Does not require capital investment  
- Risks assumed by developer not Council | - Operator / Developer may not deliver the project in time or according to plan  
- Council may risk losing control of the development quality / outcomes  
- Subdued market interest for the site may delay sale and planned outcomes  
- May generate community backlash |
| **Model 2: Development Consent** | - Council to obtain development consent and therefore to retain control over land uses and development parameters  
- Council can maximise its economic, social and environmental objectives  
- Set a design standard for the site  
- Development of the site and associated risks left to the private sector | - Council may risk losing control of the development quality  
- Risk of lower investment yield being achieved  
- Operator / Developer does not deliver on the project  
- Subdued property market delays interest by the private sector and delivery of project |
| **Model 3: Development Lease** | - Council can maximise its economic, social and environmental objectives for the site  
- Council evaluates preferred development type  
- EOI process facilitates a competitive process and maximises potential financial returns  
- Development of the site and associated risks left to the private sector  
- Rely on expertise of private sector for project development | - Relatively untried model in Australia compared to other models  
- Holding costs on land until sale of assets  
- Developer does not deliver on the project  
- Council may risk losing control of the development quality / outcomes  
- Risk of legal issues and disputes arising between Council and retirement village operator / developer. |
| **Model 4: Private Public Partnership** | - Allows flexibility in role and responsibility of Council for each site – i.e. can vary from a minor role to a significant involvement in all aspects of the development  
- Takes advantage of the respective strengths, areas of expertise of Council and developers in delivery of the project  
- Potential transfer or risk management to private sector  
- Legal risk can be minimised – creation of a new entity with Council and the developer / operator as part owners | - Sharing investment, risk, responsibility and reward between Council and developers  
- May require extensive negotiation between Council and the developer with regards to organisational, legal and financial structure of the project  
- Significant lead time may delay delivery of project  
- May not be the best delivery model in terms of value for money |
| **Model 5: Council Develops and Sells / Leases** | - Council has entire control of project, from planning to sale of final product  
- Ability to retain control over land uses and development parameters  
- Council can maximise its economic, social and environmental objectives  
- Council can set a design standard for the site and provide a benchmark for future development  
- Control of staging of development to manage long-term risk and property cycles | - Increased capital investment (debt and equity)  
- Possible construction cost blow-outs  
- May not be able to attract a buyer(s) upon development  
- Holding costs until sale  
- May not achieve highest investment yield  
- Limited development experience within Council – only suited to relatively simple / low risk projects |
| **Model 6: Council Develops and Operates** | - Council has entire control of project, from planning to finished product  
- Ability to retain control over development parameters  
- Council can maximise its objectives for the site  
- Limited market, legal, planning and financial risk given general nature of development that would be delivered under this model (i.e. open space) | - Potential construction cost blow outs but limited risk given that this model would be considered for small capital expenditure developments i.e. open space  
- Requirement to import knowledge to develop and operate |

Source: AECgroup
The above models all have differing requirements regarding funding. The Models 1, 2 and 3 all require relatively little funds from Council to facilitate development, with the project a primarily private sector led project. Model 5 and 6 would require a significant funding contribution from Council and there is significant risk associated with these options to Council given the assumed lack of experience associated with the delivery of such a project.

It is recommended that Council approach a number of retirement village operators / developers to gauge their motivations, preferences and level of interest in investing in the site. This will enable Council to be more informed as to the appropriate development model to pursue.
10. Financial Feasibility Assessment

This section provides an overview and explanation of the relevant methodology, variables and assumptions which have been utilised in the financial feasibility of the proposed scheme. Detailed development costs and cash flow projections are contained within Appendix A.

10.1 Methodology

The methodology used in the financial feasibility assessment of the proposed Augusta retirement village scheme involves a number of steps which can be summarised as follows:

• Compose a likely development composition for the site including number of units, gross floor area, parking provision, site coverage and ancillary areas.
• Estimate the cost of development for the entire site and then allocate these costs over an assumed development period.
• Estimate the sales and income revenue by year. Revenue is estimated by unit sales, deferred management fee, capital gain revenue and regular service fee. Expenditure items include sales costs and commission and operating expenditure.
• Prepare an annual cash flow for the project having regard to all expenses and projected revenue over a 20 year period.
• Whilst costs and revenue are estimated initially in current 2013 terms they are then escalated out to the year in which they apply having regard to an assumed average annual escalation rate.
• On the basis of the above information and using AECgroup’s Discounted Cash Flow (DCF) feasibility model, from the net cash flow projections it is then possible to determine the net present value (NPV) of the proposed scheme. The viability of any eventual development will depend on any number of commercial factors. The relative attractiveness of each investment decision on the subject site has been assessed on the net present value (NPV) of the asset. NPV is a financial analysis tool used to calculate the value of a project (in current terms) based on projected capital costs and future cash flows. Future cash flows are discounted back to the present based on a discount rate. The discounted cash flows are then compared to the cost of developing the project. If the NPV is greater than $0, the project is deemed to have a positive viability and should be considered for development.

The discount rate used to calculate the NPV of a project depends on a number of factors such as risk associated with the project and the cost of capital. The discount rate has an important effect on investment decisions. A typical project involves upfront costs, with the benefits coming later. If so, the lower the discount rate, the more attractive is the project (the higher its net present value). If the discount rate is set too high, desirable projects may be rejected. If it is set too low, undesirable projects may be approved. The size of the discount rate makes a huge difference to project such as retirement villages where benefits occur in the distant future, due to revenue from deferred management fees and capital gains. A discount rate of 14% has been adopted in the assessment however the impact of this assumption is tested in a sensitivity analysis. Generally commercial operators will require a rate around this level to trigger investment. Our research has indicated that retirement village operators, Stockland, use a discount rate of 12.5% whilst Aevum adopts a rate of 13.9%. For the purposes of this assessment we have adopted the more conservative rate of 14.0%, which is tested further in a sensitivity analysis.

The internal rate of return (IRR) is the rate at which the anticipated future cash flows have to be discounted to make them equal to the initial investment outlay, such that the present value is zero. When the IRR is higher than the investor’s ‘hurdle’ rate of return (i.e. the cost of financing the project), the investment represents an acceptable commercial opportunity.


10.2 Assumptions in the Feasibility Analysis

10.2.1 General Assumptions

- The analysis is based on the construction of 25 ILUs
- A cash flow period of 20 years has been adopted (2015-2034).
- Cost are initially estimated in 2013 dollar terms and escalated to the relevant year.
- The construction costs are provided by Rawlinsons (2012) for the Perth metropolitan area and then adjusted for Augusta based on the regional index provided.
- Professional fees are assumed to comprise 8% of construction, headworks and landscaping costs. A project contingency of 5% of construction, headworks and landscaping costs has also been included.
- Cost escalation on development costs is assumed at 3.0% per annum.
- A discount rate of 13.9% has been applied to the scheme assessment.
- The unimproved value of the site is estimated at around $2.8 million. This equates to a rate of $350 per sq.m.

10.2.2 Site Composition Assumptions

The proposed floorspace and site composition of the proposed scheme is shown in Table 10.1. Key points to note from this table are:

- Assumed unit typology is a single storey, two bedroom, self-care housing with medium standard finish and air-conditioning.
- The average GFA for each unit is assumed at 90 sq.m (excluding parking).
- Residential parking assumes an attached garage for a single car with a roller shutter door.
- A single storey amenities and social centre building is provided on site. This building would also house the retirement village administration functions.
- Roads and other headworks are estimated to account for 20% of the total site.
- A common use facility such as a tennis court has been allowed for in the site area.
- The overall site area required to accommodate the proposed scheme is 0.8 hectares.

10.2.3 Development Assumptions

The main assumptions related to the development of the site are:

- The entire site is developed in a single phase
- Construction is assumed over a three year period (2015 to 2017) with the majority of expenditure and building construction assumed in Year 2 and Year 3.

10.2.4 Revenue Assumptions

In the initial years of the cash flow, the majority of revenue is derived from unit sales, whilst towards the end of the forecast period the majority of revenue comes from the DMF and capital gain revenue. The main revenue assumptions are:

- Unit sales are assumed over a three year period (2015-2017).
- Price escalation for the units is assumed at 4% per annum over the forecast period.
- Sales costs and commissions represent 4% of the forecast unit sale price
- Unit occupancy of 100% is assumed.
- Units are assumed to be turned over every ten years. A gradual increase in annual unit sales is assumed over Years 3 to 11.
• Revenue from the DMF is capped after 8 years at 30% of the entry contribution for the leasehold / purchase price.

• Revenue associated the sharing of capital gains between resident and management is assumed at 50% for the resident and 50% for management.

• Expenses associated with the day to day operation of the retirement village are recouped on a cost-recovery basis via regular service fees. Consequently, this income and expenditure is neutral on the cash flow. These fees are escalated at 3% per annum.

• Funded depreciation (or capital replacement) is a significant expense for any retirement village. Under a licence / lease arrangement capital replacement is wholly the responsibility of the scheme operator since it owns all the income producing capital items. The costs of capital replacement are inflated at 3.0% per annum in line with construction costs inflation assumptions.

10.3 Feasibility Assessment

Table 10.1 details the key project details, including site composition and development costs. It is estimated that the total development cost associated with the construction of 25 ILUs is around $8.55 million (expressed in constant 2013 dollar terms). This includes around $5.76 million for the construction of the units themselves and $0.70 million for headworks on the site to service the units.

<table>
<thead>
<tr>
<th>Component</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Units</td>
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<tr>
<td>Average GFA per unit (sq.m) - Excluding parking</td>
<td>90</td>
</tr>
<tr>
<td>Social Centre (sq.m)</td>
<td>250</td>
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<tr>
<td>Total Building Footprint (sq.m)</td>
<td>2,500</td>
</tr>
<tr>
<td>Car Spaces - Garage</td>
<td>25</td>
</tr>
<tr>
<td>Car Space - At Grade</td>
<td>5</td>
</tr>
<tr>
<td>Total Car Spaces</td>
<td>30</td>
</tr>
<tr>
<td>Total Parking Footprint (sq.m)</td>
<td>450</td>
</tr>
<tr>
<td>Landscaping (sq.m)</td>
<td>1,738</td>
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<td>Roads (sq.m)</td>
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<td>Open Space (sq.m)</td>
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<tr>
<td>Other Facilities (sq.m)</td>
<td>160</td>
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<tr>
<td>Total Site Area (sq.m)</td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component</th>
<th>Total ($2013)</th>
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</thead>
<tbody>
<tr>
<td>Site Preparation</td>
<td>16,000</td>
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<tr>
<td>Unit Construction Cost</td>
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<td>Social Area Construction Cost</td>
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<tr>
<td>Headworks</td>
<td>703,125</td>
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<tr>
<td>Garage Parking</td>
<td>328,125</td>
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<tr>
<td>Landscaping</td>
<td>115,173</td>
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<td>Other Facilities</td>
<td>61,250</td>
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<td>Professional Fees</td>
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<td>Project Contingency</td>
<td>377,790</td>
</tr>
<tr>
<td><strong>Total Development Cost</strong></td>
<td><strong>8,554,052</strong></td>
</tr>
</tbody>
</table>

Source: Rawlinsons, AECgroup

Table 10.2 summarises the results of the financial feasibility for the assessed option. Two results have been produced, one which excludes the value of the land (option 1) and
another which includes the value of the land (option 2). The detailed cash flow assessment is presented in Appendix A. Key points to note are:

- As noted previously in this report, if an NPV is positive the option should be considered as it will return as positive financial result for the developed based on the assumptions.
- Under Option 1 which excludes the value of the land, the financial feasibility returns a positive NPV. However, under Option 2 which assumes the site must be purchased at market rates the proposed scheme returns an NPV of just $100,000. Consequently, the decision to develop the scheme is marginal.

### Table 10.2: Summary of Financial Feasibility Assessment

<table>
<thead>
<tr>
<th>Option</th>
<th>Scenario</th>
<th>NPV ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1</td>
<td>Excluding Land Value</td>
<td>2.5</td>
</tr>
<tr>
<td>Option 2</td>
<td>Including Land Value</td>
<td>0.1</td>
</tr>
</tbody>
</table>

Source: AECgroup

### 10.4 Sensitivity Analysis

Sensitivity analysis is used to assess the impact of a change in key model assumptions (both positive and negative) on the key outputs of the model. It is used to test the robustness of a model and identify how sensitive certain variables are to the output of the model.

Under all scenarios when the price of the land is excluded from the analysis, the development returns strong positive NPVs, largely as a result of the strong sales price which is possible due to the high median house prices in Augusta. However, the marginal nature of the project once the full market price of the land is considered is apparent by the fact that any increase above the assumed sale price of $400,000 makes the project feasible, but once the assumptions are turned less favourable (i.e. lower sales price or higher development costs) the project become unfeasible.

### Table 10.3: Sensitivity Analysis ($M)

<table>
<thead>
<tr>
<th>Sensitivity Analysis</th>
<th>Excluding Land Cost</th>
<th>Including Land Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>2.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Sensitivity 1: Discount Rate @16%</td>
<td>2.3</td>
<td>-0.2</td>
</tr>
<tr>
<td>Sensitivity 2: Sale Price +10%</td>
<td>3.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Sensitivity 3: Sale Price -10%</td>
<td>1.5</td>
<td>-0.9</td>
</tr>
<tr>
<td>Sensitivity 3: Development Cost +10%</td>
<td>1.8</td>
<td>-0.6</td>
</tr>
<tr>
<td>Sensitivity 4: Development Cost -10%</td>
<td>3.2</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: AECgroup

### 10.5 Summary

The results of the demand analysis and this financial feasibility study indicate that by around 2018 a retirement village will be feasible on the site provided the true market rate of the land is not included. Whilst a larger development (i.e. more ILUs) may help the development economics through greater efficiencies in infrastructure and other associated on-site facilities, the level of risk associated with the project would also increase due to the size of the market and limited demand. Increasing the number of units may also have the effect of lowering the median ILU price to the detriment of the project.
11. Risk Assessment

The following section provides an overview of the risk factors that need to be considered with respect to the development of a retirement village on the subject site. These can be broadly separated into market risk, demographic, site and financial risks.

11.1 Construction Risk

There are risks related to construction of infrastructure and land development that could impact Council and the project, including:

- The risks of cost blow-outs during the project that will negatively impact the profitability of the project.
- Construction delays due to potential issues with contractors, suppliers and bad weather that could result in missed deadlines agreed with businesses buying lots.
- Potential defects and issues with the quality of development.

11.2 Financial Risk

Risks are associated with financing aspects associated with the development can include:

- Risks associated with securing funding for the development. The more involvement that Council has in the project, the higher the risk.
- Potentially lower occupancy rate than anticipated due to lower demand.
- Higher than average length of stay of residents in the village, resulting in lower turnover of units and revenue for management.
- Expenses associated with operating the facility, and how they relate to weekly services fees.
- Movement in property prices that may adversely affect take up of ILUs.

11.3 Market Risk

Market risks refer to potential changes in the property market that could impact the viability of the project and future revenues. Market risks associated with the development include:

- The retirement village market is linked to the broader residential market. A large portion of the market is attracted to the retirement village product as a mechanism for “cashing out” of the family home to fund retirement. As such, retirees need an active market in which to sell their home, with the ability of households to sell their home representing a critical precondition to the take-up of an ILU.
- In this regard, below average sales activity remains the key issue for retirees in the current market, particularly with subdued current first home-buyer and investor market segments. This may influence take up and development of ILUs, particularly in the short term.
- However, driven by key demographic drivers, such as an aging and growing population, underlying demand for retirement-based accommodation is expected to be strong and counteract the impact of a subdued residential market. Therefore, it is unlikely that there would be ongoing market risk for an ILU development, driven by strong underlying demand.
- While the underlying demand for such product is expected to be strong, there is always the risk that take up of ILUs would occur at a slower rate than expected. This may be particularly relevant for a smaller township, which is not so proximate to other larger urban centres, such as Augusta. Furthermore, a retirement village in Augusta would be the first of its kind in the township and therefore buyer and occupants may be a bit more hesitant to enter the market. Nonetheless, given the relatively small scale of the development and the strong underlying demographics, market risk is not expected to constitute a key risk.
11.4 SWOT Analysis

A brief Strengths, Weaknesses, Opportunities, Threats (SWOT) analysis is presented that draws together some of the results of the preceding analysis and applies it to the subject site and its potential to accommodate a retirement village.

Strengths

- Proximity to the township, with the site being located in proximity to the main retail strip/commercial street of Augusta.
- Potential to offer a conveniently located retirement village for retirees.
- Located adjacent to August Civic Park, the golf course and extensive open space, this provides an attractive option for a retirement village.
- Ability to cater for ‘sea-change’ retirees with the subject site being located in proximity to the coastline.
- Local and regional demographic data suggests ongoing growing demand for retirement villages.

Weaknesses

- Located east of a light industrial area, which could potentially reduce the attractiveness of the development.
- Distance to major retail and institutional facilities, in particular, hospitals and associated services, with retirement villages generally located in relative proximity to these to cater for residents’ needs.
- First development of its kind in Augusta in recent times, meaning it could take some time for the product to be taken up by the market and for the township of Augusta to become an established location for retirees to move.
- Development of a retirement village without associated aged care places may constrain absorption.

Opportunities

- Increasing the population of Augusta will help invigorate the township.
- Increased demand for various services and facilities across the township will generate jobs and positively impact the economy.
- The subject development may ‘promote’ Augusta as an alternative ‘sea change’ destination for retirees, stimulating other similar developments.
- Introduction of a new product in Augusta, thereby diversifying the local residential market.

Threats

- The development will yield a loss of public open space that may not be to the benefit of the entire community, potentially causing some community backlash.
- The development may further accelerate the township’s ageing population, impacting its growth prospects, and increasing pressure on existing facilities (i.e. medical centres).
- Residential market activity continues to be subdued, affecting the ability of retirees to ‘cash out’ and move into retirement villages, thereby influencing demand and take up rates.
- Another competing development emerges in or in proximity to Augusta, potentially saturating the market and affecting take up rates.
- Political risks, such as changes to legislation governing retirement villages, impacting developer’s ability to bring the product to the market in time and at affordable prices.
This section examines in more detail the indicative schedule and action plan which Council should broadly undertake to deliver the potential retirement village in the township of Augusta, as indicated in Table 12.1.

Table 12.1: Indicative Action Plan

<table>
<thead>
<tr>
<th>Task</th>
<th>Description</th>
<th>Responsibility</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Concept Testing</td>
<td>• Concept testing to gauge market attitude to development models, preliminary price setting, marketing arrangements etc.</td>
<td>Council, Consultant</td>
<td>Start</td>
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<tr>
<td>2. Feasibility Study</td>
<td>• Formal feasibility study undertaken by relevant consultants.</td>
<td>Consultant</td>
<td>Start</td>
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<tr>
<td>3. Presentation and Review of Feasibility Study</td>
<td>• Presentation of feasibility study to Council and review of outcomes. Further investigations may be required.</td>
<td>Council, Consultant</td>
<td>3 months</td>
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<td>4. Internal Approvals &amp; Project Decision</td>
<td>• Council to seek all necessary internal approvals for a decision as to whether to proceed with the project.</td>
<td>Council</td>
<td>6 months</td>
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<td>5. Development Application</td>
<td>• Council to formulate a Development Brief and engage consultants. Consultants to prepare Development Application for submission to Council.</td>
<td>Council, Consultants</td>
<td>6 months - 1 year</td>
</tr>
<tr>
<td>6. Development Approval</td>
<td>• Council to review Development Application and provide development approval for the project.</td>
<td>Council</td>
<td>1 year</td>
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<tr>
<td>7. Operating Structures</td>
<td>• Council and relevant stakeholders to make a decision as to the preferred tenure arrangement for the village, along with the preferred management arrangement (i.e. Council or some other retirement village operator). It is expected that legal advice is also to be required as to the possible implications of each tenure option and management arrangement. Specialist tax advice may also be sought from appropriate specialists. Pricing strategies should also be finalised. The preparation of an Operating Structures Manual should be completed and used as an information base for all subsequent marketing and advertising material.</td>
<td>Council, Legal consultants, Accountant consultants, Other specialist consultants</td>
<td>6 months - 1 year</td>
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<tr>
<td>8. Schematic Design and Costing</td>
<td>• Consultants to develop detailed schematic designs and costings for the project.</td>
<td>Consultants</td>
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<tr>
<td>9. Financing</td>
<td>• Council to secure financing for the project.</td>
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<td>6 months - 1 year</td>
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<tr>
<td>10. Marketing Agent</td>
<td>• Council to engage a Project Marketer to be responsible for pre-sales marketing. A commission arrangement will need to be negotiated. The marketing agent will begin preparation of all marketing mediums.</td>
<td>Council, Project Marketer</td>
<td>1 year</td>
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<tr>
<td>11. Pre-sale Marketing Campaign</td>
<td>• Pre-sale marketing to begin including distribution of marketing mediums, including radio, newspaper and television. Pre-sales marketing will respond to market take-up rates in terms of sales prices and supply of unit types.</td>
<td>Council, Project Marketer</td>
<td>1 year - 1.5 year and onwards</td>
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<td>12. Approval of Final Development Model</td>
<td>• Council to determine the scale of development and the nature of this development including procurement model.</td>
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<td>1.5 year</td>
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<tr>
<td>13. Design Development</td>
<td>• Design development to be completed based on Step 8 (schematic design &amp; costing).</td>
<td>Council, Consultants</td>
<td>1.5 year</td>
</tr>
<tr>
<td>Task</td>
<td>Description</td>
<td>Responsibility</td>
<td>Timeframe</td>
</tr>
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<tr>
<td>14. Procurement, Construction Documentation</td>
<td>• Depending on procurement model chosen construction documentation to be prepared by consultants or contractor&lt;br&gt;• Depending on procurement model chosen, tender before or after completion of construction documentation.</td>
<td>• Council&lt;br&gt;• Consultant</td>
<td>1.5 year - 2 year</td>
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<tr>
<td>15. Construction</td>
<td>• Construction of retirement village subject to satisfactory process so far.</td>
<td>• Developer&lt;br&gt;• Other relevant agencies</td>
<td>2 year - 3 year</td>
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<tr>
<td>16. Registration of Retirement Village/Staffing/Contractors</td>
<td>• Registration of Retirement Village. Management team to be established and recruit staff for the village. Contractors should also be established where applicable via open tenders or negotiation with existing suppliers.</td>
<td>• Council Management team</td>
<td>2 year - 3 year</td>
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<tr>
<td>17. Opening of Retirement Village</td>
<td>• Management team to formally open the retirement village. Residents to move in and entry fee to be settled.</td>
<td>• Council Management team</td>
<td>3 year</td>
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<tr>
<td>18. Industry Accreditation</td>
<td>• Management to engage Retirement Villages Association (RVA) to send a team to evaluate the village's operations and to award RVA industry accreditation.</td>
<td>• Council Management team&lt;br&gt;• RVA</td>
<td>3 year - 4 year</td>
</tr>
</tbody>
</table>

Source: AECgroup
References

RDA (2008), Augusta Townsite Strategy, Chippendale, NSW.
Sustainable Development Services Division (2012), Local Profile, Shire of Augusta Margaret River, Margaret River, WA.
Western Australian Planning Commission (2012), Western Australia Tomorrow, Perth.
### Table A1: Proposed Augusta Retirement Village Cash Flow

#### Key Assumptions

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<td>Years In Which Property Sales Occurred</td>
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#### Forecast Year

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