Grant Thornton

The path to profitability

Separating fact from fiction in New Zealand's retirement village sector

June 2025

Contents

Foreword

Retirement villages are more than just places to live – they are part of a much larger social infrastructure that will, in some way, touch the lives of every New Zealander.

Whether your work is associated with the sector, you're planning your own retirement, helping a loved one explore their options, or simply visiting someone in a village, at some point you're going to engage with the sector.

And yet, how much do we truly understand about what it takes to build, operate, and sustain a retirement village? The answer to that question matters more than you might realise.

If people stopped investing time, effort and capital in these businesses, our already strained public health system would buckle under the increased demand of unmet care, and families would face impossible choices between staying in full time work or caring for elderly relatives.

This report lays bare the realities of investing and operating in New Zealand's retirement village sector. It reveals a complex and often misunderstood business model. It also challenges assumptions about profitability, and it exposes the risks and long timelines involved in achieving sustainable business outcomes.

Unlike most other businesses, retirement villages sit at an unusual intersection of commercial viability and the provision of vital services. So, it's our hope the findings in this study reach far and wide – from the corridors of decision makers in parliament to the boardrooms of financial institutions, and the offices of regulatory agencies.

By taking an evidence-based approach to our research, we welcome a more informed conversation about the future of the sector. Because this isn't just about financial returns, it's about ensuring our aging population continues to have security and choices for how they want to live in retirement, while easing pressure on the public systems that support all of us.

And, going forward, whenever the question, 'why should villages be so profitable?' is asked, we want the resounding answer by all to be: So they can survive, thrive and continue to look after people.

Acknowledgements

It takes a village to produce meaningful insights, and we want to thank everyone who contributed their time and energy to sharing their knowledge with us.

We are particularly grateful for The Retirement Villages Association of New Zealand and the members who gave us deep insights into every nuance impacting the survival of these vital businesses.

Pam Newlove
Partner, Retirement Village & Aged Care Services Lead
Grant Thornton New Zealand
M +64 27 692 0271
E pam.newlove@nz.gt.com
Connect with me on LinkedIn

Setting the scene: A sector steeped in misunderstanding

The success of the retirement village sector is intrinsically linked to supporting public interests like housing and health. It provides our elderly population with lifestyle choices in local communities and a clear journey through the stages of aging.

Our analysis reveals the payback period for an average retirement village can be more than 20 years. That's a long time for any investor to wait for a return.

Yet, owners face intense public scrutiny and ongoing criticism about the retirement village business model disproportionately benefitting operators financially. This stems partly from a misconception that building and operating retirement villages is akin to developing and selling residential property: operators build units, sell them, buy them back at a discount and sell them again for more, repeating that process every few years as residents come and go. In reality, the investment profile and returns for retirement villages are quite different to standard residential properties.

You only need to scratch the surface of the sector's inner workings to see a different and more complex picture emerge - one that demonstrates being a retirement village owner is not for those seeking short term property development gains.

Yes, retirement villages can and often do become profitable businesses. Large profits have been reported during periods of strong house price growth and growing demand as New Zealand's aging population increases.

But when traversing this path to profitability, operators must navigate a tough regulatory environment, a financial model that's more complicated than it appears, and significant business risks. And while some owners are more profitable than others, anyone building and operating a retirement village requires substantial investment, patience, long-term commitment, and the ability to overcome complex operational challenges as well as uncontrollable external risks.

Meanwhile, financial reporting standards can paint an overly optimistic picture of retirement villages' performance. Financial reporting often focuses on non-cash gains such as fair value gains under NZ IFRS 13 for certain village property assets.

These accounting treatments boost reported earnings without corresponding cash inflows, masking the reality that high operating costs and capital commitments can leave operators with limited liquidity. So, while the reported financial statements may appear strong, the underlying cash position can be precarious and pose real risks if unexpected costs arise.

Our analysis reveals the payback period for an average retirement village can be more than 20 years. That's a long time for any investor to wait for a return. Yet they do, and in that time, retirement villages are still giving New Zealand retirees lifestyle choices, reducing the pressure on taxpayer-funded services for the elderly, and easing the load for public hospitals and funded aged care facilities, all while creating tens of thousands of jobs. Residents also free up real estate for other buyers in New Zealand's tight housing market when they move into a retirement village.

When commercial viability becomes a social issue

New Zealand needs more retirement village units. There is an estimated shortfall of more than 8,300 units by 2033 based on demand and development, according to the Retirement Villages Market Review by JLL which states: *"We estimate a shortfall of 23,242 units in the longer-term by 2048. This means that an additional 932 units need to be built each year, for the next 25 years, for the industry to meet its demand by 2048."*

Our research demonstrates a key reason for the shortfall is that developing a retirement village is high risk and understandably, an unattractive prospect for new market entrants. Couple that with existing operators who can no longer afford to maintain a village, and the impact on supply becomes a social issue. Poorly maintained units will become undesirable and reduce the available pool and choice for retirees. And there's also a wider impact on housing supply if retirees do not have attractive alternative living options.

These are just some of the reasons why it's in New Zealand's wider social and economic interests that any changes to the regulations governing the sector are fair and balanced to encourage entrepreneurs to continue taking risks with their capital. More clarity around the financial variables that impact the profitability of villages will aid the understanding of all key stakeholders, and ensure a balanced approach to policy and investment decisions.

Research methodology: Dispelling myths through modelling

The commonly held belief that retirement villages throughout New Zealand enjoy excessive margins and big profits can be disproven with evidence-based data. This starts with establishing a more accurate picture of the sector.

The retirement village and aged care specialist team at Grant Thornton New Zealand developed a financial model based on two scenarios representing a cross-section of the sector.

Our experience in the sector and publicly available information were used to define the parameters of each scenario as well as the subsequent data used to populate the model. The scenarios and the model were then tested, refined and validated with a range of retirement village operators in the market.

The scenarios

The following scenarios were developed to represent regional variables in cost, and varying lifestyle options available to the market like basic and premium packages. They are both 'for profit' organisations and don't include rest home level care or hospital level care, but they do acknowledge the inevitable subsidisation of 30-40 care suites that would ultimately need to be incorporated into a development so it can compete in the current market.

	Scenario one: **Rural South Island, Canterbury Region** A Greenfields development comprising 150 low-density, premium two-bedroom villas.	**Scenario two:** **Urban Auckland** A Greenfields development comprising 200 high-density, multi-storey, two-bedroom apartments of standard quality.
ORA sale price	$925k	$800k
Weekly fee	$200 per week	$180 per week
Per unit cost (building only)	$525k	$500k
Number of units	150	200
Land	$2.2m per ha	$13m per ha
Land size	8ha	2.25ha
Planning and earthworks	$21m	$22m
Average stay	7 years	7 years
DMF % / term	30% / 3 years	30% / 3 years
Average occupancy	95%	95%

Average land and build costs are based on 2024 figures.

The model

Our modelling covers a 25-year period from sourcing land, breaking ground and construction, to project completion and generating revenue. Reliance has been placed on forecast economic data from Statistics NZ, including factors such as forecast housing prices, forecast interest rates as well as forecast construction cost inflation rates.

It doesn't take into account the occurrence of black swan events like natural disasters and health crises.

All calculations in this report are based on cash accounting with no adjustment for requirements under International Financial Reporting Standards (IFRS) which may alter the recognition of income and result in other accounting adjustments.

Revaluations of assets have been modelled only to the extent necessary to monitor debt to equity levels and determine the maximum level of debt a village can carry. They are not reflected in any net present value calculations.

What the numbers tell us

Our analysis reveals a payback period of just over 21 years for our rural complex of villas. For our urban apartment-style retirement village, the timeline is more than 25 years.

That isn't to say these villages are making an operating loss for two decades. They will have profits coming in; however they won't always be sufficient to meet the cashflow required to fund capital refurbishment demands and debt repayments on a development. On average, based on the two scenarios modelled, it will be more than 20 years before they recover their investment using the discounted cashflow model.

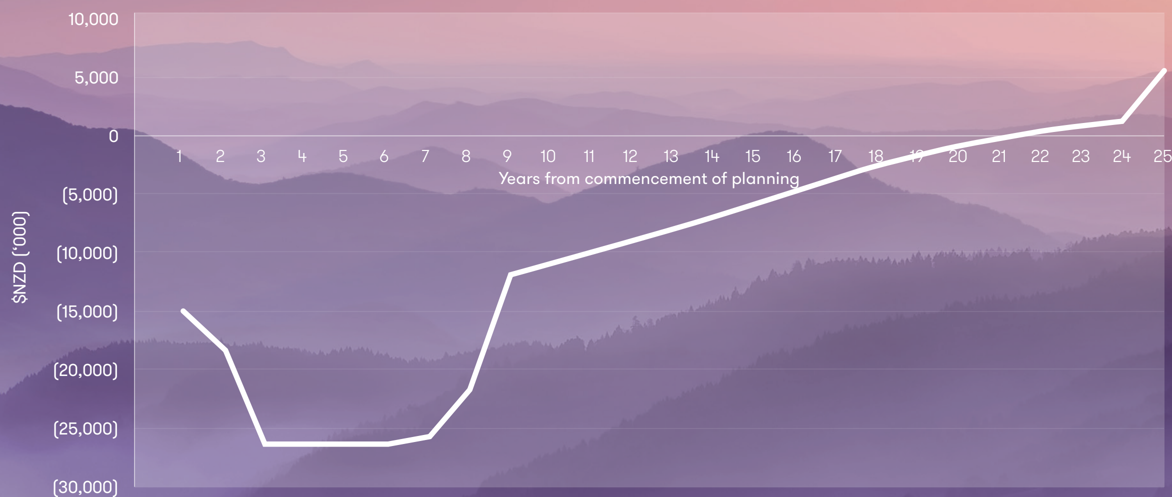
The villa project in our study has an internal rate of return (IRR) on equity of 16.5% p.a. This means that by using a 16.5% p.a. return on equity rate for the project, the net present value (NPV) of equity cashflows is nil. A project is considered to have paid itself off when the net present value of future cashflows reaches zero.

For the 25-year period modelled, the apartment project showed an Internal Rate of Return (IRR) on equity of 11.9% p.a. however as the apartment project did not reach payback during the period, this cannot be considered the final IRR on equity for apartments.

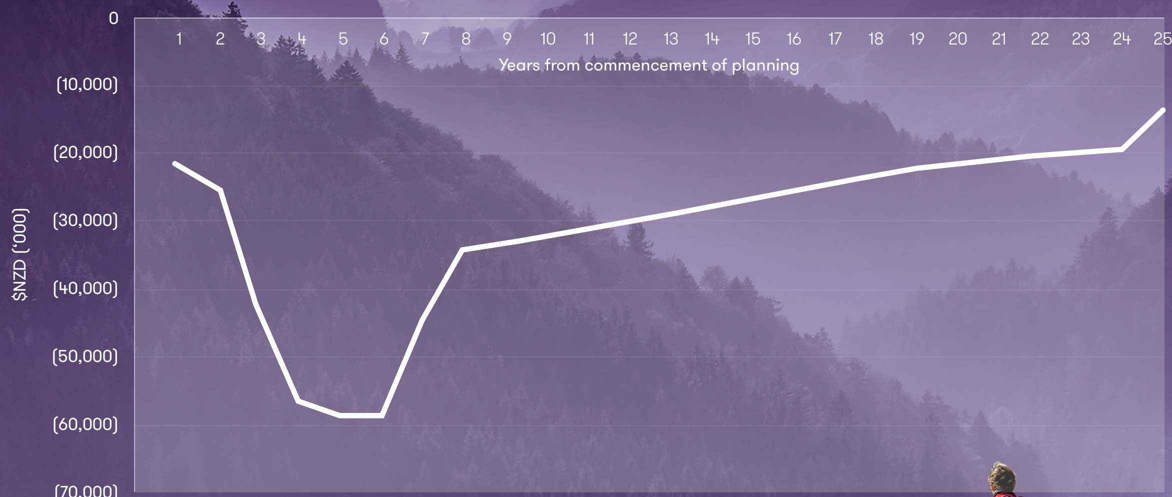
Based on our findings, investors focussed on a fast payback period alone are not likely to find a retirement village development very attractive compared to other options available to them.

	Villas	Apartments
Project level IRR	14.9%	10.9%
Weighted average cost of capital (WACC)	14.0%	13.7%
Simple payback period (undiscounted)	9 years	8 years
Discounted payback period	21.5 years	>25 years

Rural villas: Cumulative net present value of cashflows



Urban apartments: Cumulative net present value of cashflows



Retirement villages require an incredibly high initial upfront investment and experience long discounted payback periods. The Auckland land price used in our model is far higher than the cost of purchasing land in Christchurch. The villas provided a return on investment sooner as the build can be done in stages, with units available to sell while others are still under construction. This typically can't be achieved with apartments; moving into a building still being completed floor by floor isn't appealing to potential buyers due to the noise and disruption created on other floors of the building. This also presents a raft of safety issues and other risks which means it's just not practicable.

Accordingly, the payback period for the Auckland apartments in our study is beyond the 25-year period we modelled. The rural villa scenario shows a better outcome, but it would still likely take more than 21 years before the cost of the investment was recovered on a discounted cashflow basis.

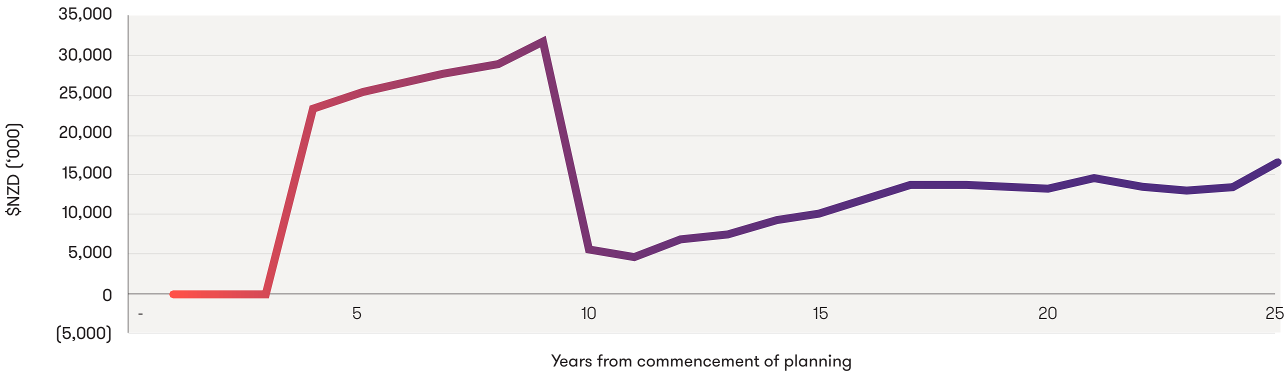
The villages in our scenarios experience strong early cashflows from the initial sale of occupation right agreements (ORAs), but this often declines sharply between the 7.5 and 10-year marks respectively as ongoing operational costs start to eat into annual profits. The average stay of residents is also seven to eight years, which means cashflows from the resale of ORAs decrease due to reduced inflows of new residents. This highlights the importance of resident turnover to maintain profitability.

Weekly fee income typically only just covers operating expenses, and general feedback during our research was that many operators are struggling to cover operating expenses in the current economic environment.

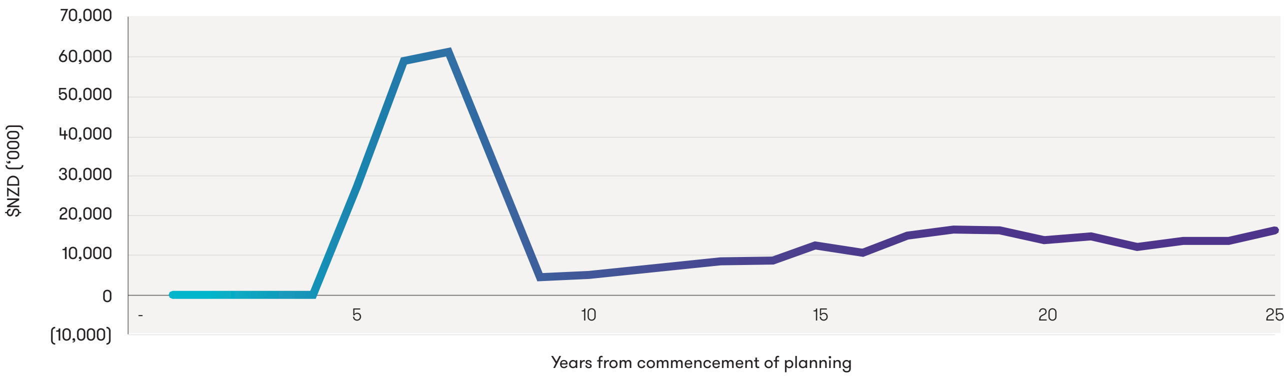
Net operating cashflows for the purposes of our graphs include the sale of ORAs and outgoing cashflows for repayment of ORAs.

We don't tend to see village operators generating significant cash surpluses from the initial development and sale of the ORAs. The cash coming in at that point is almost entirely used to repay the development debt and ongoing costs for several years until further net cash inflows are generated from ORA resales.

Rural villas: Net operating cashflow



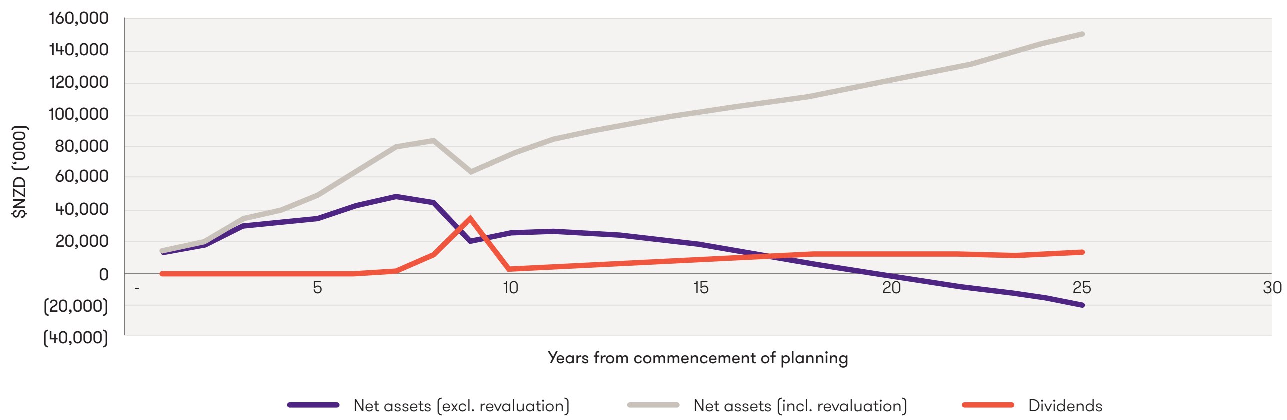
Urban apartments: Net operating cashflow



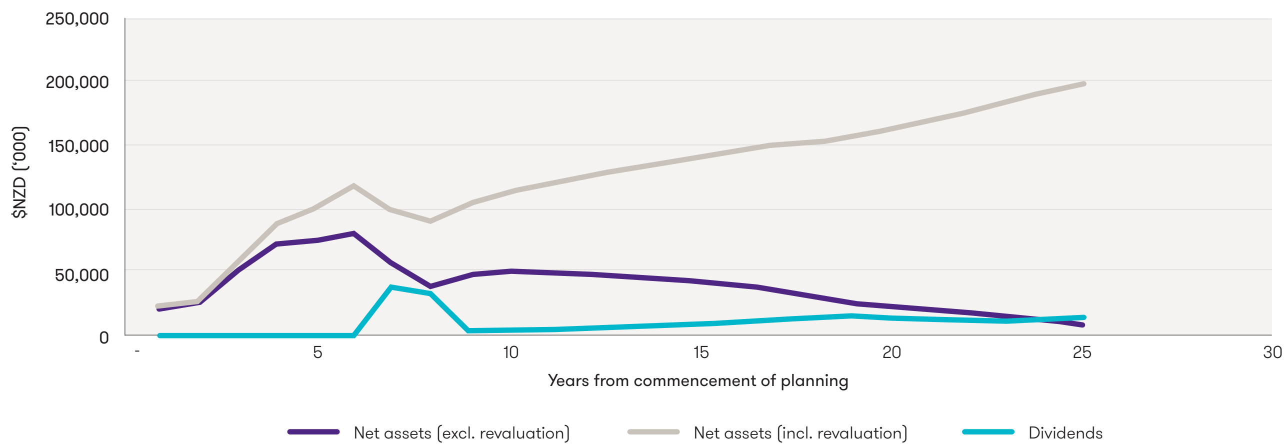
Net assets (excluding revaluations) start to erode at year seven for villas and at year six for apartments. This is because an increasing portion of newer ORA sales will be funding operating deficits rather than improvements to facilities. Underlying profit calculations undertaken by operators which influence dividends declared, do include the realised gains on the resale of ORAs, as well as the realised development margin generated on the initial sale of an ORA. Dividends declared by companies do need to meet the solvency test under the Companies Act.

Although revaluations of property are non-cash, we have modelled them only to the extent necessary to monitor debt to equity levels to determine the maximum level of debt a village can carry. It also highlights how reliant village owners are on these unrealised gains when measuring their net worth; ultimately, the real upside for village investors is the prospect of being able to realise that gain one day in the very distant future - if at all.

Rural villas: Net asset growth



Urban apartments: Net asset growth



Digging deeper: Sector-specific sensitivities impacting profitability

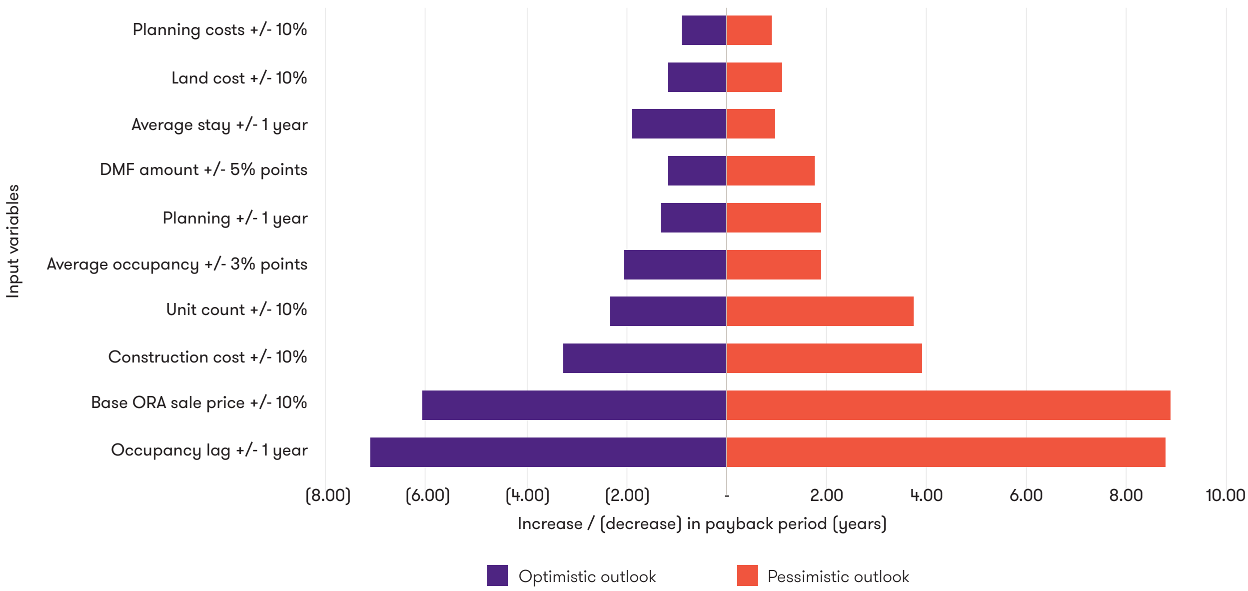
The path to profitability for retirement villages isn't an easy one – there are some big rocks unique to the sector along the way.

Prolonged payback periods

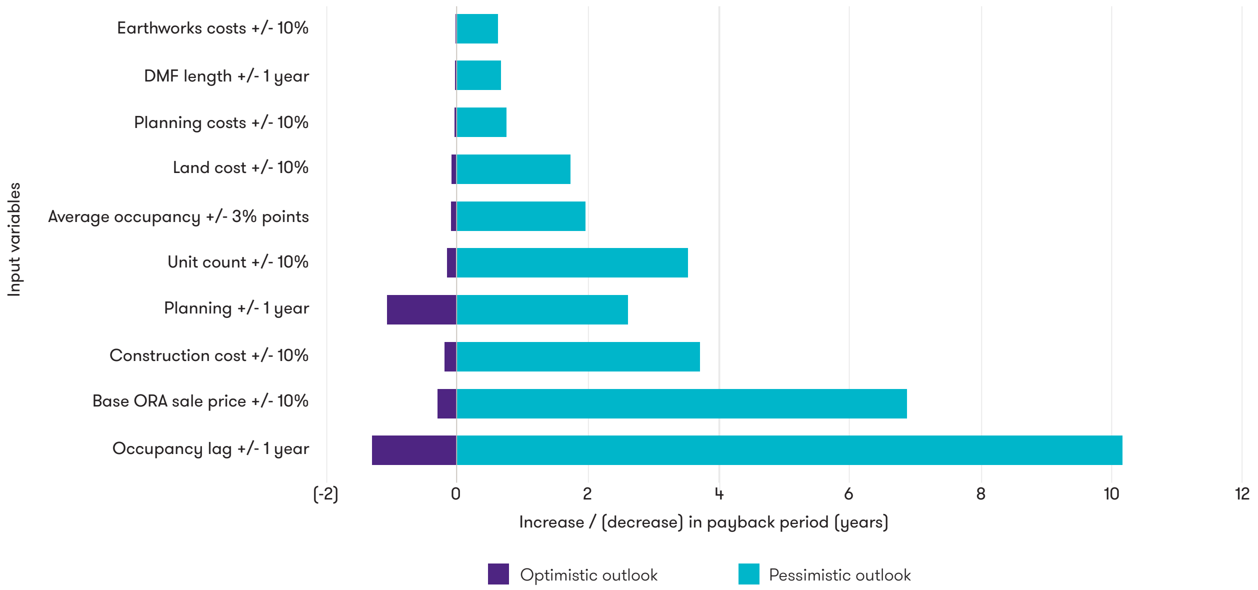
Like all business owners, village operators want to see a return on their investment. But unlike other industries, the headwinds battled by the retirement village sector can be particularly turbulent – and long. For each scenario, we analysed the variables that can impact a payback period in our model.

Not only does this create a clear picture of the industry-specific sensitivities impacting the sector, it also dispels the misconceptions and assumptions held by those external stakeholders who believe the path to profitability for operators is a fast and easy one.

Rural villas: Top 10 variables with the greatest impact on payback period



Urban apartments: Top 10 variables with the greatest impact on payback period



Occupancy lag has the biggest impact on payback periods. A one-year delay in achieving full occupancy in a villa development can extend the payback period by almost nine years, and just over 10 years for apartments. Time is therefore one of the biggest threats to retirement village viability. Factors impacting that lag period will include how long consenting takes, delays in construction and the ability to fill the completed village in whatever market conditions exist at the time.

New retirement villages attract younger residents which can reduce profits as they tend to stay longer, so operators need to set the minimum age carefully. Ideally, in the case of villas, the debt should be entirely paid down from that first tranche of sales, as this sets the retirement village up for earlier profitability.

Changes in the base ORA sale price also have a major effect, with a 10% increase reducing the payback period by six years for villas. Under-pricing ORAs seems to be one of the most significant variables for apartments, with even a small reduction in an ORA sale price potentially adding close to seven years to the payback period.

In contrast, variables such as planning costs, land cost, as well as the DMF amount and length have relatively smaller impacts.

In the case of villas, clubhouse construction is usually delayed until the second tranche of units is built. The extent of the investment in the clubhouse presents an opportunity to delay costs. However residents usually have a vested interest in the size and quality of their long-awaited clubhouse. There are also trade-offs for building a sufficiently sized clubhouse to accommodate future growth in resident numbers versus a cost-conscious option to fulfil early demand. If a clubhouse build is delayed by one year, our modelling shows this will improve the payback period of the venture by two years. But that needs to be weighed up against any impact delaying the clubhouse construction could have on the marketability of the village, and how quickly full occupancy is reached.

The construction conundrum

A project's construction timeline heavily influences how soon – or how late – operators can start selling ORAs, generating revenue, and achieving positive cashflows.

Land purchases and upfront construction costs are substantial and require large capital sums, presenting risks to investors.

Naturally, operators are keen to get these projects off the ground quickly, so they will often pay a premium for land that's already been zoned and consented – another significant cost, but one that reduces the time and expense needed during the construction phase of the project and can significantly de-risk the early stages on construction.

Funding is essential to meet land and construction costs, and when those costs increase rapidly, the retirement village's viability starts to deteriorate. The supply chain disruption we saw in 2021 shows how quickly the market can turn. When this happens, lenders tend to lose their appetite for funding construction projects – sometimes they will apply pressure to current projects or withdraw funding from those about to get underway.

On the plus side, the proposed changes to the RMA would likely have a more significant impact on retirement village developments. For example, the proposed RMA changes could significantly benefit retirement village developments by streamlining consent processes, reducing delays, and creating more consistent national rules. By requiring councils to plan for aging populations and aligning land use with infrastructure, the proposed reforms would support faster, more predictable delivery of retirement housing. Clearer planning expectations will also lower costs and improve certainty for developers, helping to meet growing demand for senior living options across New Zealand.

The Government is also trying to free up construction material choices and has recently made an announcement which will allow building firms, plumbers and drainlayers to sign off their own work in certain cases – and they're enabling looser constraints on land supply. These are all positives for the retirement village industry.

Margin management

Retirement villages are particularly vulnerable when inflation drives up the cost of construction as this narrows the gap between ORA sale prices and actual costs.

Our modelling shows that if the margin on an actual ORA sale price is more than 10%, all things being equal, a positive payback can be reached within 25 years. If the ORA margin drops below 10%, a positive payback within the first 25 years is unlikely to to be achieved.

There is a close relationship between the gross margin achieved on the first ORA sales and the discounted payback period. From an optimistic standpoint, a small increase in the ORA sale price can significantly improve gross margins and materially shorten the payback period. It can be difficult to operate in a competitive market if sale prices are too high. The next most influential factors that can improve margins and the subsequent payback period are carefully contained construction costs and maximising the unit count per site. These are variables a village owner has more influence over and could be the 'sweet spot' for operators.

NIMBYism (not in my backyard)

Prospective operators can be delayed by NIMBY attitudes. Residents near the development site who object strongly to a retirement village can put up barriers that are expensive and time consuming to overcome.

Take for example one operator we spoke to who had invested significant effort to engage with everyone in the community about their site. Any concerns were resolved, changes were made and everyone was happy. However, once advertising began for pre-sales, it only took one person to make a submission to the Environment Court before others started raising objections again. This was incredibly complex and expensive for the operator to resolve.

GST

Unlike most businesses, retirement villages can't claim back the GST they pay on labour and materials during construction, and when the village is up and running, they can't claim GST on their ongoing operating costs because they are in the business of supplying residential accommodation which is exempt from GST. This has a significant negative cashflow effect during the early years of the village which needs to be funded by debt.

Some operators try to mitigate this GST cashflow cost by restructuring their contractual arrangements with residents to include separate charges for services and compulsory services packages for example. While these sorts of measures can work, extreme care is required to ensure different contractual arrangements don't impact the saleability of ORAs and the position taken meets with Inland Revenue's expectations. GST is complex for retirement village operators; it's easy to get wrong and can be very expensive to fix.

Big loss leaders

To attract future residents, retirement villages need to plan to offer a 'continuum of care' so residents can move from independent living to care units on the same site that meet the levels of care they need. This means the retirement village's profits from independent living units are often used to subsidise this care, which can include assisted living suites and rest home care. Assisted living facilities rarely turn a profit, and aged care facilities almost always run at a loss. But, without the continuum of care on offer, it's hard to sell units. One of the most common reasons for resident dissatisfaction is delays in the completion of care facilities, particularly as residents' needs change.

No care; no come. You have to include care suites.

Retirement village industry leader and research participant

Pricing

Limited ability to set prices

The price of retirement units, deferred management fees (DMFs) and weekly fees are heavily dictated by New Zealand's highly competitive market. In fact, units are typically priced two years before they hit the market.

While there's a spectrum of quality, where some units with higher-value attributes can demand higher prices, operators can't automatically increase prices to recoup higher construction costs. They must meet the market, or people will simply buy a cheaper comparable unit in the next village over or stay in their own home.

Incoming residents need to be able to purchase a unit in a village that meets their expectations in terms of quality and amenities, plus, at the same time, generate a sufficient cash surplus after the sale of their own home to provide the retirement lifestyle options they desire. If a village's ORA prices don't meet those needs, they will not achieve the occupancy levels they need to succeed.

Weekly fees dictated by trends in NZ Super

Residents usually rely on New Zealand Superannuation to pay their weekly fees. This means villages often index their fees to the value of NZ Super or the consumer price index (CPI). Some operators (increasingly fewer) charge fixed fees, which are appealing to buyers, but create a risk for operators, particularly during periods of rising inflation.

Fixed or variable, weekly fees are not usually sufficient to meet costs, which include maintenance, rates, insurance, and other services. Operators we spoke to calculate their losses on weekly fees to be around 20%. Those offering fixed fees plan to move to variable fees as soon as they can, noting that losses on weekly fees put upward pressure on ORA prices so village owners can still generate cashflow to cover their operating costs.

Increasing weekly fees to cover costs could make units look unaffordable to new residents. As at April 2025, NZ Super after tax is $1,076.84 per fortnight for individuals or $828.34 each for couples (M tax code). The average weekly fee charged is $155, according to an April 2025 Retirement Villages Residents' Association (RVRA) survey, which reflects lower existing fixed fees.

For the purposes of the model, we have assumed the operator is losing 20% on weekly fees charged.

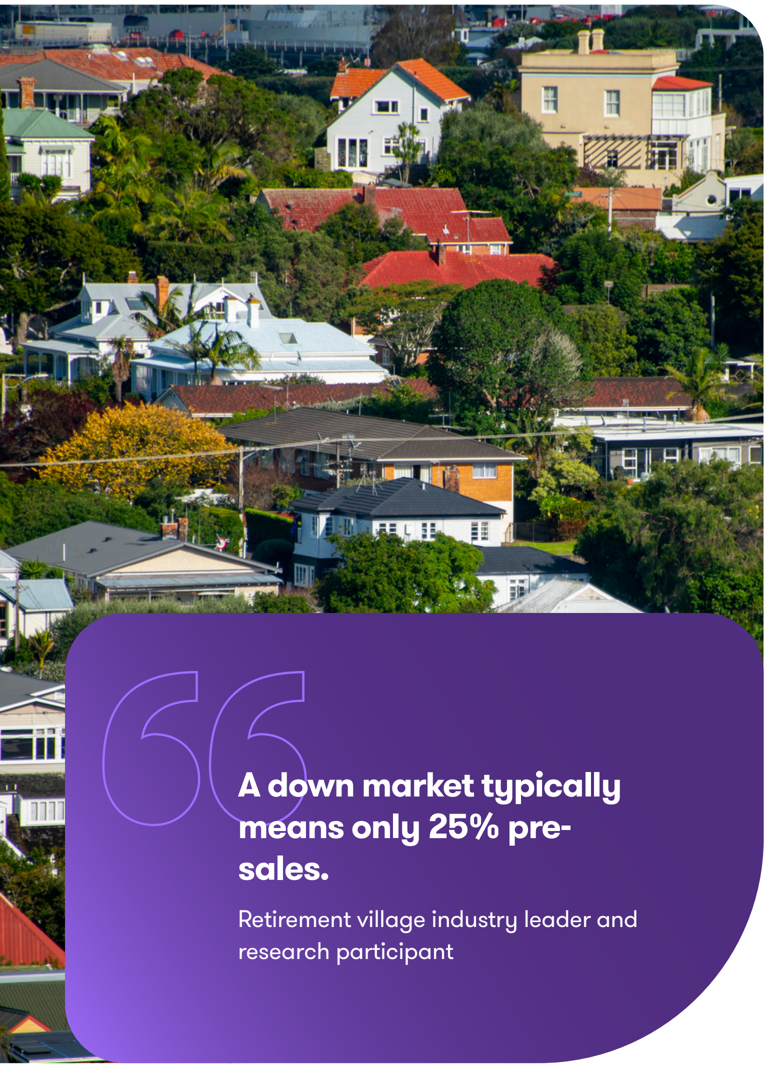
> **Weekly fee rises relative to National Superannuation increases are common.**
>
> Retirement village industry leader and research participant

Exposure to the housing market

The retirement village industry sits parallel to the residential housing market. They rise and fall together, and influence each other, but have quite different investment profiles and returns for investors.

The sector has much lower profits in periods of house price stagnation or decline. Last year, some listed retirement village operators experienced substantial drops in profit, and even losses.

When the residential housing market is flat or declining, it becomes harder for prospective residents to sell their own houses. Prices are lower, which impacts how much they can pay for units at a time when construction costs may also be rising. This makes it harder to sell units off the plans during construction, and it slows the sale of refurbished units.



A down market typically means only 25% pre-sales.

Retirement village industry leader and research participant

The review of the Retirement Villages Act is creating noise and is having [a negative] effect on sales.

Retirement village industry leader and research participant

Regulatory environment

There are potential regulatory changes on the horizon that could impact retirement villages, including a review of the Retirement Villages Act (RVA). The review is being informed by various white papers that have been issued about the sector. The Retirement Commission's 2020 white paper floats the idea of compulsory unit buy-backs once residents vacate, or a mandatory timeframe to return the capital sum paid (less the DMF), amongst other changes. Recognising it can take up to two years to sell an empty unit, this delay in repayment of funds tends to be unpopular with residents' families, even though residents themselves understand this when they buy. Compulsory buybacks would create a requirement for massive cash reserves to be held by operators. As evidenced by our model, this would decimate the financial viability of almost all villages; the industry view is this would be disastrous if it were enacted.

Another potential change to the RVA would be to require operators to stop charging weekly fees when a unit is vacated. The current regulations say operators can continue charging weekly fees until the unit is vacated, although the fees must be reduced by at least 50% once a resident has vacated, or six months after the ORA termination date, whichever is the later. According to an analysis by Martin Jenkins, "*44% of operators stop charging weekly fees within a month after a resident vacates a unit, and this proportion is increasing each year.*" If this regulatory change went through, it would make some difference to village profitability, but it is unlikely to have a 'make or break' impact.

In addition to changes to the RVA, changes to the Resource Management Act and council development levies could also create potential roadblocks on the path to profitability. Financial sustainability is important for the sector as both residents and operators alike would be financially impacted if regulatory changes resulted in materially greater financial risks for operators.

Striving for success: Factors within operators' control

There are levers operators can and do pull to influence their payback period. Our model measured the impact of each variable, and revealed which are most effective and others that perhaps aren't worth the time or investment for operators.

We found some levers are likely to be overvalued by operators – changes an operator thinks may make a difference to profitability but have minimal impact. Others are probably underrated – they are seen as minimally influential or just 'the cost of doing business' when in fact they can cut years off a village's timeline to profitability. The most influential levers are the decisions made long before the first resident arrives.

Once the village has reached the selling stage, there are fewer levers available that will improve the operation's profitability, and they make less of an impact.

Four of the most overrated levers

Deferred management fee term adjustments

The deferred management fee is the residents' contribution to the costs of the communal facilities and the refurbishment of their unit. It is set as a proportion of the resident's up front ORA price and is deducted from the amount due to the resident when they leave. A typical ORA might set out a 30% DMF spread over four years. In that case, the resident would receive 92.5% of the value of their unit if they vacated it after one year, 85% after two years, 77.5% after three years, and 70% after four years or more.

Operators may increase DMF periods as a marketing differentiator, hoping to make their units more attractive to buyers. Alternatively, they might hope to improve their profit margins by reducing the DMF from four years to three.

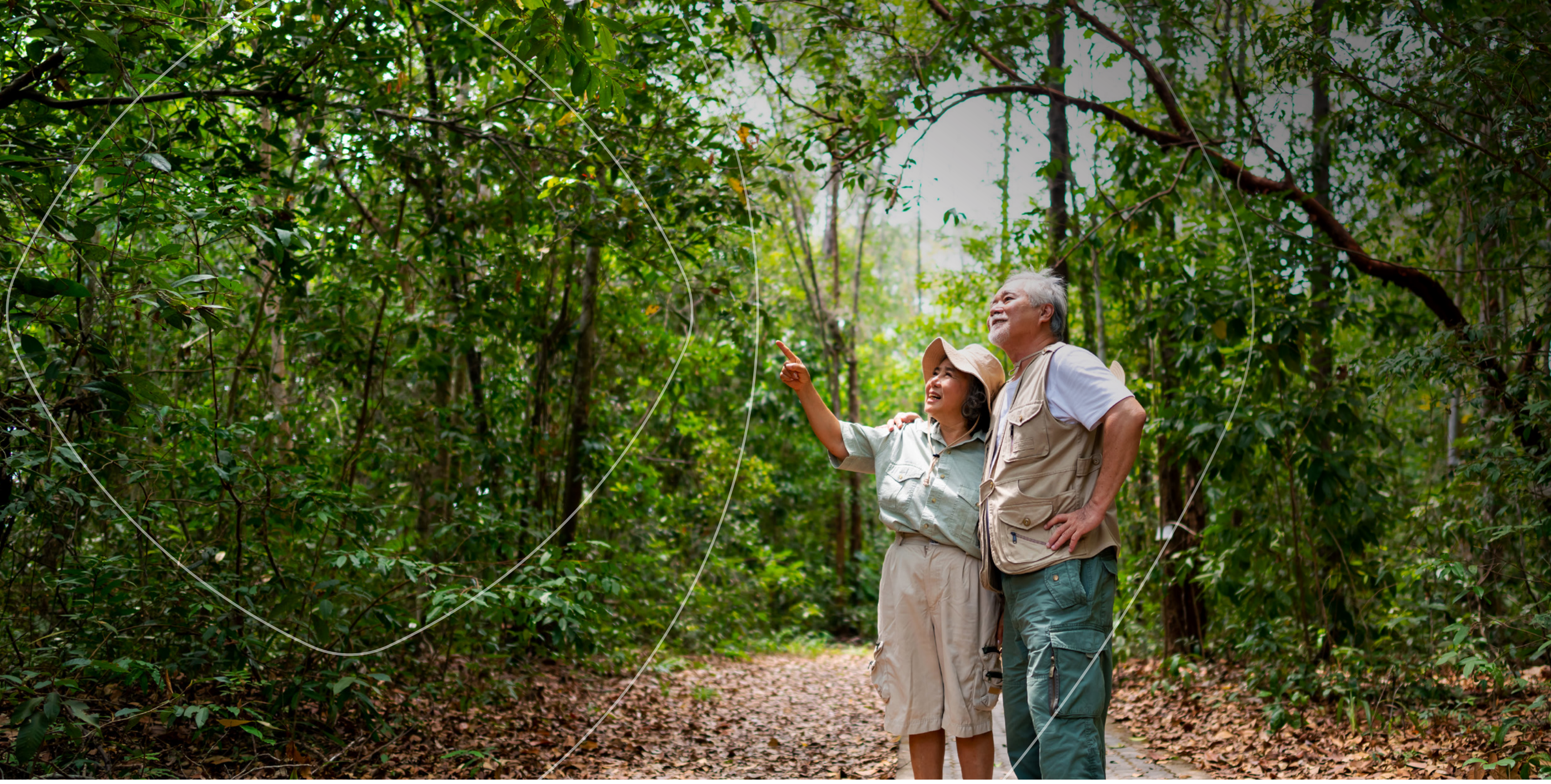
Our analysis shows changing the DMF period doesn't have much impact on profitability because the average stay is seven to eight years. However, this also means that because shifting to a five-year DMF won't make a significant dent in profitability either, it could be well worth the time to test it as a marketing tool anyway.

Capital gains sharing in units

Capital gains sharing has the potential to suit both parties if the numbers are right, and a few operators told us they had experimented with this offering with residents. However, despite an apparent public appetite for sharing capital gains, sales of units where this is offered are low.

Units that allowed residents to share in capital gains were more expensive than those sold under the traditional model and typically had higher DMFs. Operators told us residents prefer a lower-cost unit, immediately freeing up cash, instead of paying more for an uncertain future gain. Cash now is worth more than cash later for retirees.

> **Capital gains sharing inevitably means higher DMFs.**
>
> Retirement village industry leader and research participant



> **Sustainability features can add $4,000 to $6,000 per villa. The market does not yet truly value this extra cost.**
>
> Retirement village industry leader and research participant

Premium sustainability features

The same "cash now, please" driver means trying to market sustainability features as a differentiator is an overrated lever. Some operators have spent more on building with sustainable materials, such as carbon-neutral concrete and green insulation. Prospective buyers are happy to see those materials being used, but aren't necessarily prepared to pay the extra $6,000 it cost per unit to deliver greener buildings. This may change in future as the market matures or building standards require use of different products.

Four of the most underrated levers

Reducing occupancy lag

Occupancy lag, which is essentially the time required to bring completed units to market, had the biggest impact on the payback period in our modelling for both villas and apartments.

Many factors impact occupancy including planning time, design and construction delays, funding holdups, operational inefficiencies, poor governance and slow sales. There will also be external factors outside of an operator's control that cause delays. We are seeing some of those factors playing out today during a period of market volatility and uncertainty.

However, there is a lot within the control of operators. Improving overall project and business management and focussing on the needs of customers should be ongoing high priorities. Anything a village can do to get more residents into their village earlier will be time well spent.

A one-year delay on completing a project and selling the first round of ORAs means almost an additional nine years is added to the payback period for villas and just over 10 years is added to an apartment project. For some operators, those outcomes are make or break for their viability.

Site selection

We hear a lot of stories about sites gone wrong – and when a site has problems, they tend to be costly to fix. Extra costs cannot be recouped by raising the price of units, and once the village is complete, buyers don't care what went on behind the scenes to bring units to market.

The most common challenges involve planning and consenting, earthworks, and site contamination. Sometimes it's bad luck; a site has issues that couldn't have been foreseen. More often, the problems could have been prevented with more geotechnical consultation or research. The frequency with which these problems arise suggests the importance of site choice is underrated.

These issues cast a long shadow over a development, lengthening the payback period by decades. Spending more on due diligence upfront to find the right site might be the smartest investment an operator can make towards building a profitable retirement village.

It's often worthwhile investing more in a site that has already been consented for a retirement village, to eliminate or reduce the risks on a project, keep the project running on time and ultimately reduce occupancy lag.

> **Villas generate cash earlier. Easier to access and sell.**
>
> Retirement village industry leader and research participant

Construction cost management

Ruthless efficiency of project management also improves occupancy lag. It can also drive better procurement outcomes and sharper construction costs which play a significant role in improving profitability for any village. Every single choice an operator makes needs to go under the microscope. Design, materials selection, main contractor selection, and general project management resourcing: every decision made can expand or contract a village's payback period.

From the outset, careful consideration needs to be given to the size and shape the village is going to take and how to attract residents. Operators need to weigh up the pros and cons of building villas vs apartments or developing a complex comprising both options to meet the current and future demands of retirees.

Scale can move the needle – the largest operators are often the most successful thanks to economies of scale and hiring inhouse expertise. Also, a large site comprising villas can be the better option as they are easier to sell than apartments, and early sales help cashflow.

On the other hand, the densification of existing sites with apartments makes more use of land and will help meet demand as New Zealand's aging population increases – particularly for up-and-coming retirees who are used to apartment living. Apartments will also have more appeal for purchasers who can't manage independent living, and they often turnover more frequently due to shorter tenures. Apartments can also be more easily converted to care suites, but it should be noted the cost to convert them back to independent living units is more expensive than a standard refurbishment.

However, building apartment blocks presents challenges including delayed start dates due to planning and consenting challenges. Height reductions can also reduce the financial viability of an apartment project, and developing a single building can also delay sales. Building a villa-style operation can be done in stages, with some units available to sell while others are still under construction. This is not realistic with an apartment development. One operator told us they had done a feasibility study on releasing apartments floor by floor, and it was not promising due to the disruption to tenants caused by the ongoing build.

Apartments are also more expensive to build due to the materials required and the need for basement carparking in many cases.

Number of units per site

Unsurprisingly, increasing the number of units per site has a significant impact on reducing the payback period. In the case of both villas and apartments alike, our modelling showed that a 10% decrease in the number of units on the site increased the payback period by approximately four years. While there are trade-offs to be made for the overall ambience of a village and pressure on facilities, the potential financial gains from taking advantage of economies of scale cannot be underestimated.

> **Villas everyday as far as sales are concerned. Apartments are not so easy to sell.**
>
> Retirement village industry leader and research participant

The path forward

If there's one message we'd like to resonate with readers of this report, it's that while retirement village living isn't for everyone, there will always be demand for this product no matter what views are held about the sector. If that demand isn't met, we will see the end of a symbiotic relationship between operators, government agencies and all levels of society that indirectly benefit from the existence of retirement villages.

Having a viable independent retirement living option is an essential part of New Zealand's housing equation as it frees up general housing stock in the community while providing safe, quality accommodation options for our elderly population. These options also free up public sector resources which are already scarce – particularly in the health sector.

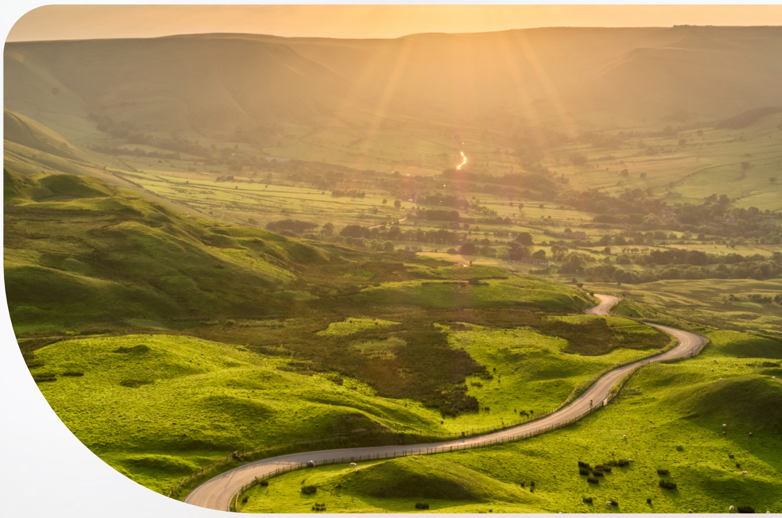
Understandably, like many other sectors, how the retirement village industry services its customers will always be closely scrutinised. However, while the calls to make the financial aspect of departing a village more resident-friendly by enforcing mandatory buybacks will naturally appeal to residents' families, the trade-offs to achieve this are significant and legislators should proceed with caution.

As demonstrated by our model, operators have limited financial resources to fully fund repayments before an ORA has been resold. If legislated, ongoing ownership of retirement villages will quickly become untenable for many operators and deter new market entrants. This will result in an even larger reduction of retirement accommodation which New Zealand is already struggling with, and an increase in deferred management fees for residents as operators try to fund this cost.

This means living in a retirement village will also become untenable for retirees. One of the main reasons people move into villages is to free up some of the capital they have in their own homes to fund their retirement - and eventual care. If higher fees start to chew through that capital, existing residents will struggle with the extra cost, a retirement village may no longer be an option for prospective residents, and eventually, those scarce public sector health resources will become even scarcer.

Our recommendation is for the payment of interest on capital balances still owing nine months after a resident has exited, as this is a more sustainable option for operators to bear and recognises the loss of access to capital for those awaiting repayment.

While writing this report we asked ourselves, has New Zealand got it right? Are there alternatives? Looking across the Tasman to explore other models currently in action, it quickly became evident those used in Australia are somewhat more diverse from state to state, and even within each state. This demonstrates New Zealand's relatively consistent model simplifies things for residents and operators, and provides a solid foundation on which we can continue to build a positive path forward for all stakeholders – together.



Our work in the sector

When meeting the needs of our aging population is at the heart of what you do, achieving the delicate balance between mission and purpose, service delivery and standards, and financial purpose can sometimes be overwhelming.

The need for housing and healthcare for elderly Kiwis is growing as fast as the list of issues facing the retirement village and aged care sector. Regulatory requirements, strained capacity, available and affordable land, construction constraints, supply of labour and the challenges that come with your day-to-day operations are all coming together to create the perfect storm for the industry.

These factors coupled with the increasing cost of villages and care units is also making it difficult for smaller operators to survive. Increases in care funding at a government level have not kept pace with rising costs, and this has resulted in the consolidation of operators and the closure of facilities.

How can you weather the storm?

Our passionate industry experts understand these complex and far-reaching issues. We go deeper to deliver the tailored solutions your organisation needs to survive now, and well into the future. In addition to our suite of traditional services like accounting, audit and tax, some of our services include:

- business strategy and planning
- succession planning
- financial modelling
- data analytics
- IT privacy and security
- cloud services
- payroll assurance

Sources

1. Business and Economic Research Limited (BERL), Retirement Villages: International Scan of Operating Models, Te Ara Ahunga Ora Retirement Commission: Annual Report 2024.
2. JLL, Retirement Villages Market Review 2024, 28 August 2024.
3. Martin Jenkins, Costs and benefits of proposed changes to the Retirement Villages Act 2003, 2023. Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development (HUD).
4. Retirement Village Residents Association of NZ, Weekly Fees Survey Results, 24 April 2025.
5. The Reserve Bank of New Zealand, The Official Cash Rate, retrieved 12 May 2025.
6. StatsNZ
7. Commission for Financial Capability, Retirement Villages Legislative Framework: Assessment and Options for Change, 2020.
8. Ministry of Housing and Urban Development, Retirement Villages Act review – outcomes of public consultation and next steps
9. Discount Rates and CPI Assumptions for Accounting Valuation Purposes
10. Work and Income, How much you can get for NZ Super, retrieved 7 May 2025.
11. Auckland Council, Unitary Plan.

Auckland
L4, Grant Thornton House
152 Fanshawe Street
Auckland 1140
T +64 9 308 2570
E enquiries@nz.gt.com

Wellington
L15, Grant Thornton House
215 Lambton Quay
Wellington 6140
T +64 4 474 8500
E enquiries@nz.gt.com

Christchurch
L3, Grant Thornton House
134 Oxford Terrace
Christchurch 8140
T +64 3 379 9580
E enquiries@nz.gt.com

Grant Thornton

grantthornton.co.nz