



The costs of living in a retirement village

Curious about retirement village fees? Find out about entry costs, exit costs, weekly fees, and other financial considerations.





Entry costs

To buy into a village, you're typically required to pay a deposit and a capital sum for an occupation right agreement (ORA). The most common legal title under an ORA is a licence to occupy, which gives you a contractual right to live in a specific property within a village, but no legal ownership of the property itself or the land.

Deferred management fee

Under a licence to occupy, it's common for the operator to retain between 20-30% of your initial capital sum; this is usually referred to as a deferred management fee.

A good way to think of the deferred management fee is that it covers the long-term costs of residing at the village, such as maintenance of facilities and communal areas, and the re-licensing and refurbishment of your property after the licence ends.

The deferred management fee typically accrues between the first 2-5 years of residing at the village and is deducted on the re-sale of your licence. The fee is calculated as a percentage (typically between 20-30%) of the initial capital sum and it accrues to the operator over a period of time (usually 2-5 years).

Example:

If you paid an initial capital sum of \$400,000 for a licence to occupy a unit and the operator of the village had a deferred management fee of 20% accruing at 4% for each year over five years, then:

- **After year one:** your deferred management fee would be \$16,000. On repayment from the operator, \$16,000 would be deducted from the initial capital sum you paid for the unit.
- **After year two:** 8% of the deferred management fee will have accrued (8% of \$400,000 is \$32,000).
- **After year three:** 12% of the deferred management fee will have accrued (12% of \$400,000 is \$48,000).
- **After year four:** 16% of the deferred management fee will have accrued (16% of \$400,000 is \$64,000).
- **After year five:** 20% of the deferred management fee will have accrued (20% of \$400,000 is \$80,000).
- **After year ten:** In this scenario, the maximum deferred management fee was 20%. Therefore after five years, you would have reached the maximum deferred management fee, so regardless of whether you left the village after five, 10 or 15 years the deferred management fee wouldn't exceed \$80,000.

What the fee covers varies between villages, so it's important to discuss the details of the fee and how it's calculated with the sales manager.

Note: Some operators will include costs associated with re-licencing your unit – such as legal, admin and marketing fees – within the deferred management fee. Other villages will have them as separate costs. It's important to consider this when comparing the deferred management fee percentage between villages.

Depending on the village, the deferred management fee may be known by another term such as:

- Membership fee
- Amenities fee
- Facilities fee
- Village contribution fee

Periodic or weekly costs

While you're living in a village, you'll be required to pay periodic (usually weekly) fees to cover day-to-day operating costs such as rates, insurance, grounds maintenance, staff wages and village services. The fee amount (and what's included) varies significantly from village to village, so be sure to ask the sales manager for details.

Fees may increase over time (with appropriate notice from the village), or they may remain the same during your entire occupancy (these are generally marketed as fixed fees).

What's included and excluded from village fees?

Every village is different. However, in most cases, you will be required to pay separately for things like contents insurance, phone & internet, household power, and any additional services you choose, such as housekeeping, meals or healthcare.

Some of these costs may be covered in the fee if you live in a serviced apartment. Be sure to ask the village sales manager for a full breakdown of inclusions and exclusions by property type.



Leaving costs

Exit costs often depend on the circumstances in which you leave the property. For example, whether you leave the village altogether or transfer to a different property within the village (e.g. from a villa to a serviced apartment).

Some potential leaving costs to be aware of include:

- The deferred management fee. If you leave the village, the deferred management fee will be deducted from the capital sum you receive when the operator re-licenses your unit. If you transfer to another property in the village, it's important to ask the sales manager how your deferred management fee will be treated.
- Ongoing weekly or periodic fees. Your occupation right agreement will set out whether weekly fees cease when you provide vacant possession or continue until your unit is re-licensed. If the fees continue, the operator must reduce them by at least 50% by the later of either:
 - The date you stop living in the unit (and remove all your possessions) or
 - Six months after the date your licence to occupy terminates.

Important financial questions to ask the sales manager

Here are some helpful questions to ask to gain clarity around fees and costs:

- What is the initial capital sum, which is often referred to as an entry payment, and what does it cover?
- What percentage of the initial capital sum is the deferred management fee, over how many years does it accrue, and what does it cover?
- How much are the periodic fees, how are they calculated, and what do they include/exclude?
- What costs will I need to pay for myself? For example, power, phone, internet, contents insurance?
- What is the village's policy around increasing or changing periodic fees?
- Will I be required to pay periodic fees if I'm in hospital or on holiday?
- What are the costs of transferring to a new property within the village? For example, will my weekly fee change and how will the accrual of my deferred management fee be treated?
- Will I be entitled to any capital gains or share of capital gains? And if the licence is sold for less, will I incur a capital loss?
- Are there any additional costs I need to be aware of when I leave? For example, marketing, admin or legal fees?