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NATIONAL SENIORS LIVING INSIGHT

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Land Lease Sector Grows in Appeal for Retirees and Investors

This Insight provides an overview of the Seniors Living sector in Australia, with a special focus on Land Lease Communities which is growing in appeal for both retirees and investors as an asset class.

OVERVIEW OF THE LAND LEASE SECTOR

Land Lease Communities are communities in which residents acquire and own their own individual home (movable dwelling) but lease the land upon which the home is built from the owner of the estate under long term Site Agreements. In Land Lease Communities, the operator (park owner) retains ownership of all land in the residential park and is responsible for maintaining the park.

Land Lease Communities are predominantly marketed at the retirement market. Developments are designed to provide a desirable low-maintenance lifestyle for retirees and usually provide a range of suitable facilities such as common rooms, swimming pools and lawn bowling rinks. Due to the lifestyle attributes sought by purchasers, parks are often situated in coastal lifestyle locations. The other major driver of demand for this accommodation is affordability, so parks are therefore often situated in outer metropolitan locations.

Compared with legally defined retirement villages, moveable homes in Land Lease Communities offer a number of advantages to residents such as lower cost comparable with retirement village self-care units; no legal or hidden costs; rent assistance for eligible pensioners; no stamp duty, entry fees or exit fees for the majority of villages; rental assistance; and more.

Furthermore, the prevalence of deferred management fees (DMFs) on departure is less prevalent in Land Lease Communities compared to retirement villages. Whilst Victorian communities predominantly have a deferred management fee structure in place for Land Lease Communities, it is rarer in other states / territories. New South Wales, Queensland, South Australia and Western Australia have specific Acts and regulations in place for Land Lease communities, whereas the ACT, Northern Territory, Tasmania, and Victoria do not have specific legislation, with communities in these states / territories generally held to a mix of residential tenancy and caravan park legislation.

Demand for Land Lease dwellings is expected to continue on a strong growth trajectory, being driven largely by the ageing population and declining housing affordability.

LAND LEASE COMMUNITIES GROW IN APPEAL FOR INVESTORS

There is increasing portfolio transactions and acquisition mandates by both local and foreign groups for the land lease sector across Australia due to the strength in the market. Some institutional investors have amassed large portfolios in the sector in a relatively short period of time. Private investors have also been active including both single asset and portfolio owners. Land Lease Communities are typically underpinned by large land holdings and secure long-term income streams. Furthermore, owners receive weekly rental payments that are often backed by government rental assistance programs.

In a reflection of the high unit prices achieved, construction and quality of improvements is significantly increasing in the sector.

There remains robust demand for high quality Land Lease Communities with strong cash flows. However, like many sectors of the property market, the market for secondary assets is more difficult. Fully established Land Lease Communities provide a stable income stream, and such parks are highly sought after but tightly held and infrequently transact. Historical sales activity has been limited with low volumes of Land Lease Communities being offered to the market. This is not a reflection of demand, but rather a lack of supply.

Larger operators in the Land Lease market include Ingenia Communities, Palm Lake Resorts, Lifestyle Communities, Stockland, Hometown Communities, Hampshire and Serenitas.

Stockland acquired a portfolio of 3,800 land lease lots from Queensland operator Halcyon for circa $625 million in mid-2021.

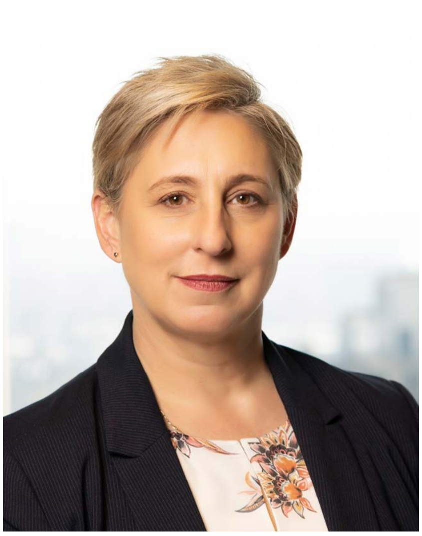
More recently, Mirvac, in partnership with Pacific Equity Partners, purchased a combined 95% interest in Serenitas for circa $1.01 billion reflecting a blended yield in the order of 5.4% for the established villages. Serenitas is one of the largest LLC groups in Australia with 27 developed and planned communities. The sale reflects a portfolio premium in the order of 10%.

Yields for Land Lease Communities have compressed considerably over the past decade. Increased interest and competition from institutional funds for established communities has been a driver behind some of this compression. Yields remain higher than comparable offshore markets and other commercial property classes and this will continue to encourage investment in the sector. Yields remain strong in the sector, currently at 5.00% to 7.00% (previously at 4.50% to 7.00% in June 2023). Parks located in regional areas typically generate slightly softer yields and lower rates per site.

The outlook for the sector is positive. Whilst the industry is relatively immature in Australia, occupier demand is expected to continue to strengthen as a result of the ageing population and declining housing affordability. Institutional investors are expected to continue to increase their presence in the market and the market is forecast to become more consolidated over the medium-term.

Contact the team at M3 Property to find out more about the Healthcare sector.

CONTACT THE TEAM



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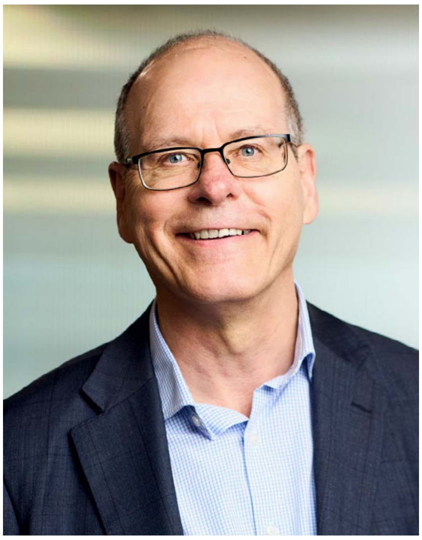

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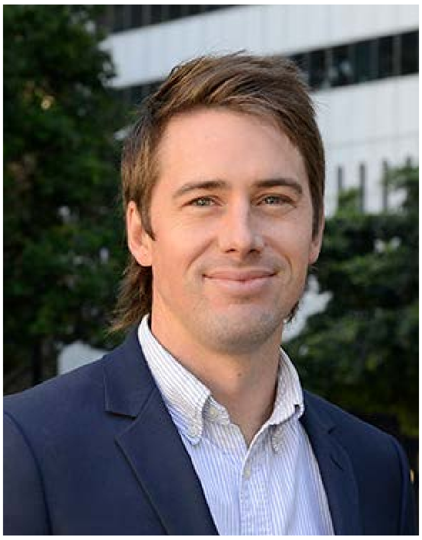

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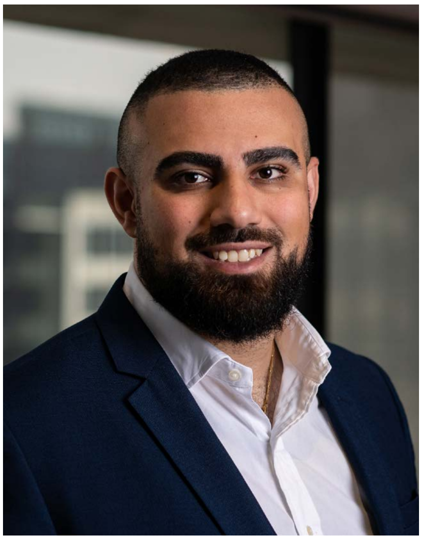

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