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Lesson type: Think like an investor

## Why seniors living is set to become a mainstream investment sector

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Australia's population is ageing and with it accommodation requirements are evolving. Adrian Harrington, head of funds management at Folkestone, explains what options are available to those exploring seniors living; why it's best to discuss this with your adviser; and the potential investment opportunities that can arise.

At present, the seniors living industry has three key accommodation components:

- Manufactured housing estates (MHE) – operate under a ground lease agreement in which the resident owns the relocatable home and leases the right to occupy the site from the village owner/operator;
- Retirement living communities/villages – a facility comprising units/apartments or villas in which the residents does not own the unit but will live in it subject to a lease or license to occupy. Retirement villages typically operate under a deferred management fee (DMF) structure; and
- Aged care – a special-purpose facility which provides accommodation and other types of support from assistance with day-to-day living through to intensive forms of nursing care to frail and aged residents who can longer live independently due to health reasons.

Older Australians are increasingly moving along the spectrum of seniors housing, from independent living at home, to accessing low level support services in a retirement living community or an MHE, to ongoing nursing care in a residential aged care facility.

As a result, the industry is undergoing significant change.

As part of the evolution of the industry, there is also a growing move toward integrated facilities – offering a 'continuum of care', through the integration of an aged care facility within, or adjacent to, an MHE or retirement living community.

The wave of baby boomers coming through over the next 10-20 years will have a higher level of affluence, and greater expectations in the standard, quality and services of seniors living accommodation than the previous generation of seniors. Many of these customers will be prepared to pay more for facilities and services but they will also expect higher standards in return.

The Federal Government wants more people to age in place, and has committed to increase funding for home care packages, as it's more cost effective to provide care in someone's home than have them occupying an aged care bed 24/7. In addition, the government is moving to a system where consumer choice and control is at the centre of the future aged care system (This is known as consumer directed care or CDC). From February 2017, home care packages will no longer be allocated to providers. Instead, eligible older Australians will be assigned a home care package that they will be able to direct to their preferred provider. MHE's and retirement living communities will increasingly look to offer additional services including home care packages within their communities.

There is no hiding from the fact the cost to government of subsidising aged care is set to blow out in next few years. The Federal Government is committed to making the system more transparent and fairer but as it tweaks the funding model and rules around how much and how people can pay to access aged care (i.e. between a refundable accommodation deposit (RAD) – a standard bond price set by the respective aged care facility and a daily accommodation payment (DAP) – effectively a daily payment to the operator) it is causing some confusion for the people and their families who are considering entering an aged care facility. Seeking professional advice is essential to stepping through the maze of accessing and paying for aged care and home care services.

Going forward, the seniors living sector will continue to professionalise, consolidate and become more attractive as an investment asset class.

The sector will require a substantial amount of capital, and we see significant opportunities for investors taking a long term investment view to participate in the evolution and growth of this sector either through investing in the operations and/or the underlying real estate via both the ASX and unlisted funds.

*Folkestone, is an ASX listed real estate funds manager and developer, providing real estate wealth solutions. Last year it launched its first seniors living fund to acquire the Watermark Retirement Living in Castle Cove, Sydney and is set to launch further funds in 2017 to allow investors to participate in the ownership of seniors living communities.*

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