

For the last decade the seniors housing sector has been virtually ignored by the institutional investment community. However in the last year the sector has been targeted as an attractive alternative to the more traditional sectors of commercial, industrial and retail. It is now visible on the investment radar.

In this article, we investigate some of the key factors behind this new interest, such as population ageing and projections, the strong link between the age group and accommodation and the emergence of market activity to provide investment parameters that attract institutional investors.

The seniors housing market comprises two distinct sub-markets – Aged Care and Retirement housing. Both submarkets have undergone significant structural reforms in the last decade – one as a result of government regulation, the other via market forces. Through this has emerged a more desirable investment product.

Foremost, Australia's population is ageing at an increasing pace. The main reasons for this are the increasing age of the baby boomer generation and the decline in the number of babies being born to provide a counter-balance. This change in the composition of the population has attracted widespread attention as it has major implications for both social and economic factors in Australia's medium term future. Recent developments also show that the property industry is responding to this impending demographic shift.



FACTORS INFLUENCING POPULATION AGEING

There are three main factors which impact on the age composition of the population, namely fertility rates, mortality rates and net overseas migration.

Fertility Rates have declined since the peak in the 1960's and by 2003 had levelled at around 1.75 babies per woman. The rate may fall to around 1.6 births by 2011.

At the same time that fertility rates have been falling, the mortality rate is also decreasing. According to the Australian Government's *Intergenerational Report 2002-03* the life expectancy at birth of Australians has increased by 8.3 years for men and 7.6 years for women in the past 40 years. The report projects that life expectancy at birth for males will increase from 77.2 years currently to 82.5 years by 2042. The increase over the same period for females will be from 82.6 years to 87.5 years. The increase in life expectancy has resulted in a fall in the death rate. Australia's death rate fell from 8.5 per 1,000 persons in 1971 to 6.9 per 1,000 persons in 2001.

Incoming migrants are on average younger than the average and median age of the existing population, and net overseas migration is increasing Australia's population overall. This is placing downward pressure on the overall age composition of the Australian population.

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NATIONAL POPULATION PROJECTIONS

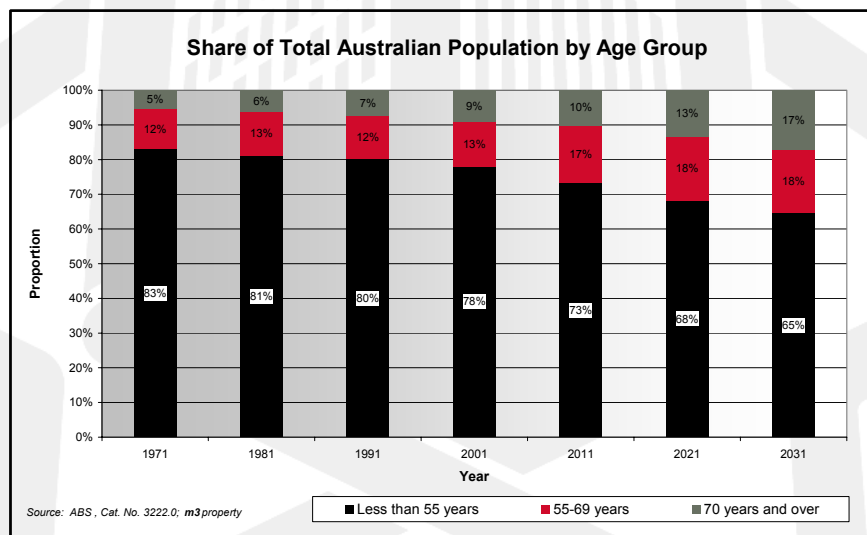
It is clear that the overall age composition of Australia's population will be increasingly skewed towards older age brackets. However, the extent to which the population ages will depend on the outcomes achieved in relation to the factors influencing population ageing.

Based on the commonly adopted assumptions regarding fertility, mortality and migration, Australia's population is expected to increase from its estimated current level of around 20,111,300 persons (as at June 2004) to 21,524,200 persons by June 2011 and further to just below 25,000,000 persons by June 2031. The population is therefore forecast to grow at an increasingly slower rate over the next 26 years, falling from the current annual average increase of 1.0% per annum to 0.6% per annum between 2021 and 2031.

| Australia, Total Population Projections | | | | | |
|---|------------|------------|------------|------------|------------|
| | 2004 | 2006 | 2011 | 2021 | 2031 |
| Estimated Resident Population | 20,111,300 | 20,533,200 | 21,524,200 | 23,368,400 | 24,915,500 |
| | | 2004-06 | 2006-11 | 2011-21 | 2021-31 |
| Average Annual Increase (%) | | 1.0% | 0.9% | 0.8% | 0.6% |

Source: ABS, Cat. No. 3222.0; m3property

There is expected to be a change in the composition of the Australian population by age group. The following chart shows the share of total population represented by persons aged less than 55 years, aged 55 to 69 years and aged 70 years and over from 1971 through to 2031, based on the aforementioned assumptions.



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Seniors Housing Appears on the Investment Radar

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As the chart shows, the proportion of the population represented by persons aged less than 55 years has decreased from 83% in 1971 to 78% in 2001. By 2031, it is projected that this age group will account for less than two-thirds of all persons.

There has been a minor increase in the total proportion of the population aged 55 to 69 years of age over the last thirty years. However, the increase in the total share of the population is expected to be far more significant over the next 26 years as more baby boomers begin to move through this age bracket.

The largest increase for an age grouping in proportional terms over the next 26 years will be amongst persons aged over 70 years. From a share of 5% in 1971 and 9% in 2001, this age bracket is forecast to represent 17% of all persons living in Australia by 2031.

PROPERTY FACTORS

The preceding analysis demonstrates the increasing influence that mature aged persons will possess in Australian society over the next quarter of a century. It follows that this will result in significant social and economic change which will cause resource allocation to shift dramatically as older Australians become a dominant consumer segment.

The market for seniors housing and aged care is expected to grow at a tremendous rate.

Accommodation for the elderly is provided in two groups –

- Residential aged care such as high care nursing homes, low care hostels and extra service facilities, which are controlled by the Federal Government via the Aged Care Act; and
- Seniors Accommodation such as residential funded retirement villages, donor funded villages and senior rental housing.

Presently Aged Care is primarily aimed at persons aged over 70 years, which will almost double in the next 25 years. At July 2004 there were 142,087 aged care places in 2,872 facilities around Australia. In February 2005 the Federal Government allocated a further 12,093 places for Aged Care, mostly in Community Aged Care and Extended Aged Care at Home packages. Approximately 7,000 places are to be allocated in each of the next two years.

In the short (2-3 year) term the stock of aged care facilities faces an awesome capital works program as operators race to upgrade or rebuild existing facilities to meet certification requirements by the end of 2008. Not only will age care providers need to build more places, but the existing places need to provide better privacy, safety and security for the resident.

The market is moving away from highly fragmented cottage, family, church or charitable operations. Increasingly, private enterprise is building business in both markets and several groups are emerging as major operators.

The Seniors Accommodation market is also evolving to meet the changing demands of residents. Within the last five years a rental housing model has emerged, created in Queensland and expanded throughout Australia. By its nature it has evolved to cater primarily for low income, low asset base elderly, particularly eligible pension recipients. Many of the rental models are geared to and heavily reliant on age pension and rental assistance payment provided by the Commonwealth Government. Whilst not without its difficulties and challenges this model has grown rapidly and attracted institutional attention.

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Seniors Housing Appears on the Investment Radar

continued

Retirement Villages have evolved with more sustainable financial structures and more diverse product including the introduction of larger scale vertical villages within apartment complexes. Specialist Retirement Village management groups have expanded their operations from individual states to a broader national coverage and new groups have entered the market. The slowing of the traditional residential property market has led some of the larger property groups to consider taking positions in this sector.

INVESTMENT CLIMATE

Around Australia, the investment community is seeking ways to participate in this growing and evolving market sector and several groups have recently invested in different parts of the sector.

| Investor | Operator | Sector |
|-------------------------|-----------------------------|--------------------------|
| AMP Capital Investors | Moran Health | Aged Care |
| Australian Unity | Residential Living Services | Retirement Villages |
| Abacus Funds Management | Undisclosed | Retirement Villages |
| APN Funds Management | Primelife | Retirement Villages |
| ING | Village Life | Seniors Rental |
| Macquarie Bank | Tri Care | Retirement and Aged Care |

Source: m3 property

Further, retirement village and aged care groups are appearing more frequently on the Australian Stock Exchange, including FKP Ltd, Primelife, Village Life, Ramsay Healthcare and DCA Group. Cashed up investors have been active in the last 6 months, with in excess of \$265 million invested in Australia. Further investments in overseas markets by Australian groups shows more than \$820 million has been spent during 2005.

Recent Australian transactions include:

| Name | Date | Price | Description | Purchaser |
|--------------------------|--------|---------------|--------------|---------------------------|
| Tudor Village | Dec-04 | \$11,000,000 | 200 units | Pinnacle Living |
| Castle Ridge | Jan-05 | \$21,000,000 | 113 units | Aevum Ltd |
| Ellis Residential Care | Feb-05 | \$51,000,000 | 438 places | Ramsay Healthcare |
| Central Park | Mar-05 | \$38,750,000 | 178 places | Aged Care Services One |
| Hayville | Mar-05 | Undisclosed | 130 units | Tricare |
| Salvation Army Portfolio | Mar-05 | \$125,000,000 | 2,246 places | Retirement Care Australia |
| Montclair | Jun-05 | \$3,000,000 | 39 places | Primelife |
| Trevi Court | Jun-05 | Undisclosed | 50 places | APCH Limited |
| Glen Woodley | Jun-05 | Undisclosed | 74 units | APCH Limited |
| Vermont Estate | Jun-05 | Undisclosed | 118 units | APCH Limited |

Source: m3 property

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