Submission No 26

INQUIRY INTO HOMELESSNESS AMONGST OLDER PEOPLE AGED OVER 55 IN NEW SOUTH WALES

Organisation: Retirement Village Residents Association Inc.

Date Received: 25 May 2022

The Director,

Standing Committee on Social Issues,

Parliament House.   Sydney

Date

Dear Sir

<u>Submission to the NSW Legislative Council's Standing Committee on Social Issues</u>

<u>Inquiry into homelessness amongst older people aged over 55 in New South Wales</u>

Submission from	T Craig Bennett President Retirement Village Residents' Association Inc. (NSW) (RVRA) And the Board of the RVRA

We wish to thank the Committee for broaching this serious issue for the ageing population.

The Board of the RVRA is an entirely volunteer Board – composed of retired people of a "certain age" who actually live in Retirement Villages – these villages being a source of affordable living.

The RVRA has been operating since 1990 and was formed to represent the interests and protect the rights of residents of retirement villages in NSW. It is a Public Benevolent Institution, and a registered charity with DGR status.

As RVRA board members but also having been or being still active in other volunteer roles we are aware of the increasing prevalence of homelessness amongst the over-55's – particularly women.

We do not claim to be experts on this subject (including rental yields across the board and detailed costs of living) – this submission is purely based on some collected thoughts as to a potential partial solution to the pending crisis.

However, we do believe that an adaptation of the retirement living scheme could be one way of addressing a part of the problem, and therefore we respectfully request that the Standing Committee investigate further the possibility of this suggested program.

Introduction - Aspects of the Issue

In addition to the following comments on general risks of homelessness, we would like to draw to the attention of the Standing Committee the situation now facing assisted tenants under the National Rental Affordability Scheme (NRAS).

The NRAS is an Australian Government affordable housing initiative operated by the Department of Social Security (DSS), delivered in partnership with State and Territory governments. The NRAS sought to address the shortage of affordable rental housing by offering annual financial incentives for up to ten years to rent dwellings for eligible tenants at 80% or less of the market value rent. The scheme commenced on 1 July 2008. The NRAS concludes in 2026.

According to statistics there are 6,455 residences in NSW (17.7% of the national total), and 36,370 residences Australia wide that are in the NRAS scheme. In one village that is known to us, the owner has advised tenants that the rental term and assistance will cease in 2023.

In that village at present the rental is $400 pw – however residents under the NRAS pay $251.93pw. When the scheme ends if the people want to stay, they face an increase of $148.07pw, or $592.28 per month increase. We believe that a significant number of older Australians will find themselves unable to find this amount of extra money.

The NSW Registrar of Community Housing issued a 27-page policy paper in May 2019 entitled 'Winding down of NRAS'. The closing paragraph on page 14 of the report is quite telling, it states " overall though there will be increased pressure on social housing scheme and possibly a volatile rental market, especially in Sydney and areas with larger NRAS properties."

Looking through the documentation there does not appear at this time to be any clear state-wide or national policies to overcome the problems the winddown of the scheme will cause.

In a similar manner the Retirement Living Council recently published a report – "Retirement Living – a solution for older women at risk of homelessness". This report provides an eye-opening account of what older women are facing. And the situation is the same for older men in many cases. The submission that we are making is based very much on this report and the research undertaken in compiling it.

The property market in Australia – especially the capital cities- is one of the most expensive in the world. This is not true just in respect of sales but also rentals.

Everyone talks about the young who are struggling to get into the market, but what about those people who have missed out all their lives and are now not able to afford to own a house or rent accommodation?

There are very few housings support services to assist older people who are renting and have modest incomes and limited superannuation and/or savings. In NSW social housing eligibility caps out at some $34,000 income per year.

Consider the situation of someone in a situation who has between $150,000 to $200,000 in superannuation and other savings generating hardly any income and probably needs to work to pay rent at a rate typically equivalent to at least 4% per annum on the value of a unit? On a $500,000 unit in, say, Blacktown, the rent would be $20,500 per annum. If rent equals one-third of your incomes, you will need to be earning some $60,000+ per annum.

Even if someone is earning near $75,000 per annum, banks would not be willing to lend enough to enable the purchase of a home in the property market – because of age, ability to service the debt, low wages and so on.

There is a gap between social housing for those with very limited resources and this segment of the market that could be filled with affordable accommodation.

This is where, we believe, that some small inroads could be made by increasing access of the over-55's to Retirement Villages coming under the Retirement Villages Act and Regulation in NSW.

The following submission is very much a “bare bones” discussion. There are many legal and other issues that would be needed to be studied to put more meat on the bones.

The assumptions underlying the submission are that

1. *Financial institutions are not willing to lend to this segment of the population in amounts necessary for them to acquire home ownership.*
2. *This segment therefore typically needs to rely principally on short term rentals for accommodation with consequent uncertainties.*
3. *There is a cost to the Government and support groups with respect to a homeless population.*
4. *Those costs could be allayed by the Government supporting entry into affordable accommodation in the retirement village sector of the economy.*

<u>The Retirement Village Scenario</u>

The characteristics of a contract for an Independent Living Unit in such a retirement village are typically as follows:

- Long term lease contract – over 50 years and typically 99 years
- Lessor is a retirement village operator
- Lessee is the person(s) who are over-55 - median age in the villages is 80 years approximately
- Age of entry into the village – currently 75 approximately
- Entry payment consists of a lump sum (“Ingoing Contribution”)
- The Ingoing Contribution is typically between 50 to 70% of the comparable real estate property market residence
- Ingoing Contribution is dealt with typically as follows
    - Loan from Lessee to Lessor of 100% of the Ingoing Contribution
    - Lessor immediately has right to retain 10% of that price
    - Lessor also retains an additional 2% per annum over the next 10 years
- The lessee pays monthly charges (Recurrent Charges) to cover maintenance and repairs to the ILU, gardening, security system etc. Typically, these charges range from 1% to 2% annually of the entry value.
- Upon exit from the residence the resale value gain is typically shared 50/50 between the resident and the operator.

As an example*, let us assume that a 2BR unit in an area sells for $500,000.*

The equivalent Ingoing Contribution for an ILU in a retirement village is $300,000.

- *The resident Lends $300,000 to the operator*
- *$30,000 is immediately accrued to the operator*
- *Over 10 years a further $6,000 pa accrues to the operator ($60,000)*
- *After 10 years the resident exits and the ILU is valued at $500,000*
- *The capital gain is shared 50/50*

The amount of the exit price available for the resident is calculated as follows.

($300,000 - $30,000-$60,000) + ($500,000 - $300,000)/2

= $210,000 + $100,000

= $310,000

The operator retains $190,000.

In other words, retirement living is a choice for a way of life and not an investment focus. It provides an affordable independent living for reasonable monthly charges as a result of the "shared equity" in the Ingoing Contribution – between operator and resident.

The Submission

The Federal Government has already adopted the Home Equity Access Scheme whereby pensioners can unlock some of their equity in their property against a payment from the Government of a loan whereby principal plus accrued interest is repaid when the property is sold.

We would submit that a similar mechanism could be adopted for residents in retirement villages and – in fact- those also in Land Lease villages.

Of course, the main difficulties to be overcome are:

- The resident does not own the property – he is a long-term lessee
- The "equity" in the property is already partially accruing to the operator/lessor
- The Lessor/operator would need to agree to another party having equivalent access to the resale value

That being said, it is submitted that the NSW Government could put in place a facility which would reduce the Ingoing Contribution payment of the resident on the following conditions – purely by way of example.

Entry Value $300,000

Government lends 60% - $180,000 to the incoming resident and the resident pays $120,000 from own resources - Entry value paid to operator is $300,000.

Interest on the Government loan is at a concessional rate – accruing until resale of the unit.

Upon resale of the unit for $500,000 as above the proceeds are shared as follows:

Operator retains $190,000 as above.

Government receives $180,000 + interest – assumed total $210,000.

Resident or family receives $100,000.

This example demonstrates that there is more than sufficient resident value in these lifestyle residences to permit a government to subsidise the cost of entry to those people who are otherwise locked out of social housing and the property ownership market as well as the rental market.

In the example above, we have a person of 55 or over with earnings of $60,000 per annum and savings of $200,000 paying rent at the rate of $20,000 per annum.

Sooner or later that person will stop working and will be relying on savings and the income earned thereon; ineligible for social housing but with insufficient income to pay rent. Homeless?

However, if that person could use part of their savings for part of the Ingoing Contribution and the Government could provide a limited recourse loan for, say, 60% of the entry value, then the risk of homelessness will be eased for part of the ageing population. The interest could be accrued, or the resident may choose to repay some or all of the loan plus interest.

The Recurrent Charges burden on the resident would be some $4,000 to $5,000 per annum as compared to $20,000!

Of course, the resident will still need some income – whether by way of pension, wages or income on assets. Eligibility criteria would need to be established.

T Craig Bennett

President

Retirement Village Residents Association Inc.