High-quality senior living a resilient investment underpinned by long-term demand

Recently, **Reno Sio,** Institutional Real Estate, Inc's managing director, Asia Pacific, spoke with **Andrew Heithersay,** managing director and partner of SC Capital Partners, and **Tim Russell,** director and co-founder of Aura Holdings. Following is an excerpt of that conversation.

Could you both give us a little background about yourselves and your firms?

Andrew Heithersay: I am a managing director, partner and investment committee member of SC Capital Partners (SCCP). I joined the firm in 2013, and my primary responsibility is to invest capital across our RECAP Fund series. I have been based in Asia since 1997, and prior to joining SCCP, I was one of the three founding members of LaSalle Investment Management's Asia Pacific team.

Tim Russell: I am the director and co-founder of Aura Holdings, which my business partner Mark Taylor and I launched in 2016. The Aura strategy is a greenfield strategy to develop retirement villages in South East Queensland. Prior to that, I was the founder and managing director of another retirement village business known as Retire Australia, which I started in 2005.

SC Capital Partners has been increasing its exposure to Australia's senior living market since 2017. What attracted you to this sector?

Heithersay: SCCP's investment thematic is to invest in sectors that are driven by long-term underlying occupational demand and are resilient through cycles, such as logistics, data centres, education and senior living. Senior living is a sector we have spent several years evaluating how to best capture the real estate opportunities arising from the ageing demographic. When we met Tim and Mark in 2017, we found they had a very like-minded approach, with the thesis that seniors are enthusiastic about downsizing, but not downgrading. There was a real market gap to develop upscale, medium-density retirement living in established affluent locations, where seniors could maintain their social linkages with the community, family and friends.

Where does Australia stand in terms of the demographics of ageing population? I've seen projections of 12 percent of Australia's population over 65 now, and that is likely to double by 2051.

Russell: There is that natural ballooning of the population over 65 in Australia, but only 7 percent are moving into retirement villages. This is well below the penetration rates in other countries, e.g. United States' 12 percent to 13 percent and New Zealand's 10 percent. We see a double kick to demand: natural growth in the underlying ageing population, and our ability to deliver the right product that will further increase penetration. In the senior living space, operational capability is key. You simply cannot be a developer in this space without it. Being both a developer and operator allows us to align the interests of maximising profit, while building a long-term relationship with the residents to ensure a quality product that will stand the test of time. This goes hand-in-hand with the high level of homeownership in Australia, which means people have the ability to convert the equity they have in the family home into senior living.

Heithersay: Australia's relatively low penetration rate of over-65-year-olds living in retirement villages, compared with the United States and New Zealand, is primarily driven by their cultural preference to age in place and stay in their current homes. Moreover, the bulk of existing supply caters to the low-end demographic, with minimal upscale product in affluent locations. Aura's projects are really quite superb in terms of the lifestyle and amenities for residents, with a focus on health and wellness. Seniors are getting younger in many ways and certainly discerning for a beautiful living environment, with informal stylish public areas, state-of-the-art gyms, swimming pools, wine cellars, which collectively make this a very attractive lifestyle decision.

Do you have any plans to expand your footprint by going into other markets within Australia?

Russell: Besides South East Queensland, we are also looking at opportunities in greater Sydney and northern New South Wales. We will consider a co-location strategy, especially in great locations, where there is underutilised land or where there is the ability to co-locate or co-invest. An example is golf courses — the golf business goes through cycles, so co-locating makes sense. The golf course will have a captive market that can utilise their facilities, and members of the golf club have an opportunity to live alongside an activity they participate in multiple times a week. This creates a great relationship between both businesses. We have created a village at a golf course in Brisbane and are developing another in Toowoomba. Our expertise is being recognised, and we are starting to field calls from golf courses around the country.

Do you think there are any opportunities in other Asian markets?

Heithersay: The ageing population in Asia certainly create opportunities to develop and operate suitable retirement-living communities, albeit a different business model is required. Culturally, the Asian value of filial piety often culminates in the first-born son taking care of his parents, though this custom is being stressed with growing urbanisation and children moving to big cities away from their parents' hometown. Also, given predominantly apartment living in Asia, there is less economic benefit to sell your home and downsize into a senior living community. That said, one of our competitors is developing a senior living community in the Qingpu district of Shanghai, which is a really interesting development, and resort locations in Thailand are also attractive to European seniors looking for a high-quality lifestyle with good-quality medical care. Whilst we are open to exploring opportunities in Asia, Australia remains our key focus in the near term.

How has the pandemic affected your business model and the security of the cashflows?

Russell: We actually saw an increase in enquiries and strong sales off the back of the pandemic. COVID-19 has highlighted some of the upsides of living in a community like our retirement villages. During the pandemic, staying at home on their own heightened anxiety and risks for seniors. In contrast, through our management and operating platform, we understood the needs of our residents and were able to put in place safety measures and protections, such as providing contact-free groceries to their front doors, removing their trash, conducting welfare calls on a daily basis, etc. These services would not be available in a regular residence or traditional apartment buildings.

How is senior living different from the more general built-to-rent/multifamily sector?

Russell: Unlike general built-to-rent/multifamily, the retirement-village business in Australia follows a deferred-management-fee model. When a resident moves in, they pay a premium upfront, which roughly equates to the cost of a residential apartment. Throughout their stay, they pay weekly general services charges on a cost-recovery basis. When the resident departs the retirement village and the unit is sold to the next incoming resident, the operator receives the deferred management fee out of the proceeds. This model allows the seniors to have more cash to live on. As the portfolio becomes larger, the cashflows become a longer-term annuity.

Heithersay: Aura has a very customer-centric model, and there is a real sense of community amongst the senior residents. This compares favourably with the alternative option of residing within a more traditional residential apartment building, which often lacks support and socialisation with other residents.

Do you have a target size for your overall Australian portfolio in mind for the next three to five years?

Heithersay: Currently the Aura portfolio comprises 900 units across nine projects. Given the compelling demographic proposition and favourable supply/demand dynamic, the plan is to grow towards 2,000 units over the next three years.

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What would you say to investors who are on the fence about whether this sector is right for them?

Heithersay: The independent retirement-living sector offers attractive stable, long-term returns to investors underpinned by demand from the growing seniors demographic, coupled with shortage of high-quality retirement housing. As the asset class matures with more high-quality developments, market acceptance and penetration will continue to grow. Accordingly, we consider this segment to be one of the more interesting investment strategies in Australia during the next several years.

Russell: We love the long-term demand story here. The numbers are there; it is irrefutable. The independent retirement village is a great opportunity to leverage the underlying demographic trend and demand, while avoiding operational and funding risks around the aged-care sector. Retirement villages are self-funded and are not exposed to changes in government regulations. The key is to be selective and focus on high-quality assets in good locations, which is our investment thesis.

CONTRIBUTORS

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CORPORATE OVERVIEWS

SC Capital Partners Pte Ltd (https://www.sccpasia.com/) was established in 2004 and is a privately owned Asia Pacific real estate investment manager headquartered and MAS-licensed in Singapore. The firm manages the Real Estate Capital Asia Partners (RECAP) series of opportunistic real estate funds, as well as an open-end, core-plus fund, SC Core Fund (SCORE+). With US$7.3 billion of assets under management, the SCCP Group also manages two listed REITs, Japan Hotel REIT (https://www.jhrth.co.jp/en/), the largest hospitality REIT in Asia, and TPrime REIT (http://en.tprimereit.com/), an office REIT in Thailand. SCCP has an 18-year track record across Asia Pacific and has raised approximately US$2.9 billion in equity commitments from a diverse pool of institutional investors. The firm has 52 team members and a presence in Singapore, Hong Kong, Tokyo, Shanghai, Seoul, Ho Chi Minh City and Adelaide.

Aura Holdings (https://auraholdings.com.au/) was founded in 2016 by Tim Russell and Mark Taylor and has several luxury mid-rise retirement communities in various stages of council approval, development and operation in South East Queensland. Together, Russell and Taylor have more than 35 years working within the retirement-living industry. At Aura, this experience has taught us how important it is to focus on our residents. Happy residents are our No 1 priority, and we structure our entire business to put their needs — now and in the future — ahead of all else. Our focus is on fostering truly connected communities that are in tune with the way retirees want to live their lives. That means, in addition to creating a fun, receptive and inclusive environment within our retirement communities, we also value and leverage strong connections with both the local community, as well as other businesses that are aligned to our vision, to the benefit of our residents.

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