



## Departure Fee Guide

To find your dream retirement home, please visit our website and search our directories for retirement villages, over 50s manufactured home villages and rental accommodation for seniors. Our listings include village information, photos, contact details, website links and a location map.

[www.seniorlivingonline.com.au](http://www.seniorlivingonline.com.au)

## Introduction

Departure fees, which are sometimes called deferred management fees or exit fees, are one of the most important, difficult and least understood aspects of retirement villages. They are the fees you pay when you leave the village. There are many different structures and they can produce very different financial outcomes.

## What are Departure Fees For?

It is reasonable to wonder, or even ask, what a departure fee is actually for. In our opinion, it will usually have the following components:

- an operator subsidy/reimbursement component, which fairly compensates the operator for expenditure that it cannot as a matter of law or does not otherwise recover through the regular recurrent charges that you pay while you live in the village, including an interest component that reflects the deferred nature of the payment
- an operator profit component, comprising any balance.

Another possibility is that the operator offers entry price flexibility. In other words, it may accept a lower entry price in return for a larger departure fee, which may suit some people.

It is also sometimes argued that the departure fee represents a return to the operator on its investment in the village grounds and facilities, but in reality this cost is more than likely already reflected in the entry price.

## Do All Retirement Villages Charge A Departure Fee?

No, departure fees are usually not payable in over 50s manufactured home villages and conventional lease villages. There is also a strong argument that departure fees should either not be payable, or should at least be lower, in strata title and community title villages.

In each case this is largely because the cost of capital replacement is recovered directly from the residents, either through the recurring charges or, in the case of strata title and community title villages, through contributions to a sinking fund. In other villages this cost may be borne by the operator, in which case it must be recovered through the departure fees.

## How Are Departure Fees Calculated?

Departure fees are usually calculated either:

- by reference to the entry price, with a separate arrangement regarding the apportionment of any capital gain that may accrue.
- by reference to the re-sale price when the unit is sold, leased or licensed to a new resident, which necessarily takes into account any capital gain that may accrue.

It's important to understand that any capital gain that is paid to or retained by the operator is effectively part of the departure fee.

Most departure fees fall into one of the following three categories:

Category	Entry Price or Re-sale Price	Capital Gain
A	The fee is a percentage of the <b>entry price</b> , which accrues over time at a specified rate, for example at the rate of 2.5% per annum.	The operator is entitled to 100% of any capital gain that may accrue.
B	As above.	The operator and the resident share any capital gain that may accrue in agreed proportions. For example, each may be entitled to 50% of the capital gain.
C	As above, except the fee is a percentage of the <b>re-sale price</b> when the unit is sold, leased or licensed to a new resident.	The fact the fee is based on the re-sale price means the operator is entitled to the accrued percentage of both the entry price and any capital gain that may accrue.

There are then variations within each of the above categories:

Rate of accrual	The rate at which the percentage fee accrues can vary greatly, from about 2.5% per annum to 10% per annum in some cases. In some villages the rate may be higher in the first year or the first couple of years. For example, it could be 8% in the first year and 4% in subsequent years.
Minimum and maximum fees	The percentage fee may be subject to a minimum and/or a maximum. For example it could be a minimum of 5% or 10% of the relevant amount and/or it could be a maximum of 25% or 35% or even 50% of the relevant amount. Maximum fees are often described by reference to a number of years. For example, a village that charges a fee of 2.5% per annum for a maximum of 10 years effectively charges a maximum fee of 25% of the relevant amount. If the fee were charged for a maximum of 20 years, the maximum fee would be 50%.
Administration fees	Some villages charge a one-off administration fee when a unit is permanently vacated. It is usually based on the re-sale price and it is usually imposed as an alternative to a minimum fee or a fee that is higher in the first year or the first couple of years.

The key factors that usually determine the size of a departure fee are the:

- entry price
- rate at which the percentage fee increases
- minimum percentage fee level
- maximum percentage fee level at which it stops increasing
- eventual period of occupancy
- size of any capital gain that accrues during the period of occupancy
- basis for the apportionment of any such capital gain
- size of any administration fee that may be payable.

Although departure fee structures that are based on the re-sale price usually don't have a separate apportionment of any capital gain that may accrue, some do. The effect is that the operator takes two bites out of the capital gain, rather than one.

The best way to analyse how a particular departure fee structure works is to calculate what the financial outcome would be in a range of scenarios. To do this properly you may need to estimate the rate at which you think the market price of the property will increase in future years. This obviously involves some guesswork, but as a general proposition it is probably reasonable to assume that there will be a strong positive correlation between movements in the market price of retirement village properties and the broader residential property market. There is also a strong argument that demographic changes such as the impending retirement of the "baby boomers" and generally increasing life expectancies will create continuing demand for housing that meets the requirements of seniors. Another factor to keep in mind is the relative scarcity of development sites in metropolitan areas, which will limit supply in these areas in the face of rising demand.

## Free Departure Fee Calculator

As the mathematics can be complicated and laborious, we included a free interactive Departure Fee Calculator on our original It's Your Life Retirement Village Information website at <http://www.itsyourlife.com.au/calculator.htm> You can use it to estimate how much particular departure fees could be in a range of scenarios.

### Examples

Some examples may help to illustrate how departure fees work.

#### Example 1.

Entry price:	\$200,000
Period of occupation:	5 years
Re-sale price:	\$250,000
Departure fee percentage:	2.5% per annum, capped at 25% (ie after 10 years), based on the <b>entry price</b>
Capital gain apportionment:	Shared equally between the resident and the operator

In the above circumstances, the total departure fee, including the capital gain apportionment, would be calculated as follows:

$$\text{Departure fee} = \$200,000 \times (2.5\% \times 5 \text{ years}) + (\$250,000 - \$200,000) \times 50\%$$

$$\text{Departure fee} = \$200,000 \times 12.5\% + \$50,000 \times 50\%$$

$$\text{Departure fee} = \$25,000 + \$25,000$$

$$\text{Departure fee} = \$50,000$$

In the above example, if the period of occupation was 15 years and the re-sale price was \$350,000, the 25% cap on the departure fee percentage would come into operation. The total departure fee, including the capital gain apportionment, would be calculated as follows:

$$\text{Departure fee} = \$200,000 \times (2.5\% \times 10 \text{ years}) + (\$350,000 - \$200,000) \times 50\%$$

$$\text{Departure fee} = \$200,000 \times 25\% + \$150,000 \times 50\%$$

$$\text{Departure fee} = \$50,000 + \$75,000$$

$$\text{Departure fee} = \$125,000$$

### Example 2.

Entry price:	\$200,000
Period of occupation:	5 years
Re-sale price:	\$250,000
Departure fee percentage:	2.5% per annum, capped at 25% (ie after 10 years), based on the <b>re-sale price</b>

In the above circumstances, there is no separate capital gain apportionment because any capital gain that may accrue is already incorporated in the calculations as it forms part of the re-sale price. The total departure fee would be calculated as follows:

$$\text{Departure fee} = \$250,000 \times (2.5\% \times 5 \text{ years})$$

$$\text{Departure fee} = \$250,000 \times 12.5\%$$

$$\text{Departure fee} = \$31,250$$

In the above example, if the period of occupation was 15 years and the re-sale price was \$350,000, the 25% departure fee percentage cap would come into operation and the total departure fee would be calculated as follows:

$$\text{Departure fee} = \$350,000 \times (2.5\% \times 10 \text{ years})$$

$$\text{Departure fee} = \$350,000 \times 25\%$$

$$\text{Departure fee} = \$87,500$$

## More Information?

The Senior Living Online website offers a wealth of free information for seniors, including:

- a downloadable Senior Living Guide, which includes detailed information regarding retirement villages, over 50s manufactured home villages and rental accommodation for seniors
- a searchable directory of retirement villages and other seniors housing communities, with listings that include information, photos, contact details, website links and a location map
- a searchable directory of products and services that are particularly relevant to seniors, including law firms that may be able to act for you in retirement village and other related matters
- information fact sheets covering important topics such as residential care and wills and estates
- a handy moving home checklist
- a vast array of useful links to websites that offer information regarding important topics and issues such as advocacy, carers, consumer protection, disabilities, government, health etc.

You can find the Senior Living Online website at <http://www.seniorlivingonline.com.au>