

Growing demand in retirement sector sees developers facing numerous challenges

The number of South Africans over the age of 60 is expected to double over the next 30 years, putting significant pressure on the residential development sector to meet this growing demand. According to Brent Townes, commercial property COO for Lew Geffen Sotheby's International Realty in Cape Town, this is easier said than done as developers in this space face a number of challenges.



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“The traditional concept of apartment block-styled old age homes which offer little more than a roof over one’s head and three-square meals a day now falls far short of needs and expectations which range from active lifestyle estates to residential villages that offer frail care.

“Modern retirement options centre on offering a quality lifestyle in a secure community for mature people, with many now accepting residents from the age of 55.

“These developments recognise that there are different stages of retirement and therefore offer a choice of packages so that retirees can settle for life, knowing that they will be cared for in their homes or in frail care if it becomes necessary.

“However, such developments are not only more expensive to develop, they require considerably more land than single apartment blocks and finding suitable available land is an obstacle in itself.”

Land assembly challenges

Townes says that location is only one aspect, because land assembly has its own set of challenges: “In order to determine the size of the land required, a decision must be made regarding the level of specialisation because a retirement facility which offers more specialised services can be more compact whilst one that offers only basic services will have to be on a larger site to make it economically viable.

“At the upper end of the market, we are seeing a shift towards specialised care and smaller developments at this level are viable projects.

“Developers are also likely to be faced with zoning regulations and land use rights which may need to be changed before the project can begin.”

According to Townes, sourcing land has become especially challenging in Cape Town which has already seen extensive densification in recent years and, because much of the city is nestled between mountain and sea, further development is severely curtailed.

“In several areas like the City Bowl and the Southern Suburbs, developers will have little choice but to develop vertical structures and they will have to be extremely innovative in their design and offerings.

“In the Northern Suburbs, land is still more readily available and the area can therefore accommodate horizontal sprawl and, with the Western Seaboard being a relatively young area with few retirement facilities and room for expansion, it offers developers more opportunities.”



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Steadily growing waiting lists

With retirement accommodation already being in short supply and waiting lists growing steadily longer at many establishments, particularly the newer developments, the retirement sector is also under pressure from a new but fast-growing trend.

“Further fuelling the growing demand for retirement properties is the fact that investment buying is becoming more prevalent as a growing number of people are planning for their retirement from an earlier age.

“These buyers are purchasing homes in which they plan to live at a later stage but, in the meantime, they rent them out which means that not only are they ensuring that their golden years are comfortable at today’s prices, a sizeable chunk of the bond is being covered by the rental return.”

Location the most important factor

Townes says that there are a number of important factors to consider when assembling a site for retirement accommodation, with the most important being location.

“The market place for assisted living will have affordability price points in that over 55's and general retirement schemes are usually location specific to both the development and its clientele.

“As one grows older, the resistance to change increases and relocating to a new area is a fundamental barrier so ideally the site will be in close proximity to suburbs in which the development's potential residents currently reside.

“This also facilitates the option to price it right because, with the pricing of the land and/or top structure being the base cost, the future residents and the property are already in the same income/affordability bracket.”



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Taking the specialised approach

He says that developers should also carefully consider whether they want to take the specialised approach and, if so, to what degree.

“There are multiple levels to specialised care and there are also residents who require specialised assistance so, over and above finding the right location, the primary consideration is the financial feasibility of providing these services and appointing a coterie of professional service providers.

“Other important decisions to make are the funding model and also the format of ownership as the latter has far-reaching implications for both the developers and buyers.

“There are primarily two funding options available with the most typical being that developers use their own cash flows and normal gearing from banks to fund their developments.

“However, they could also approach traditional retirement fund pay outs to secure a life right purchase with a batch of clients who are withdrawing from their retirement fund structures in a similar time frame.”

Life Rights model

Townes says that of all the ownership models, Life Rights is the fastest growing scheme on the South African retirement landscape and it has also created a secondary market.

“With waiting lists at some establishments now as long as eight years, the fact that the developer buys the unit back according to the contract, means that it can be resold at the current higher price and it also puts the property back on the market to meet demand.

“As Sol Kerzner once said, if you provide the service they will come, however, despite the growing gap between demand and supply, this sector has changed dramatically in recent years and developers need to be cognisant of current trends and buyer's expectations and needs,” says Townes.