# New Zealand Equity Monthly
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Retirement sector strong across the board, demographics point to favourable long-term outlook

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## New Zealand retirement sector seeing strong performances and valuation gains

This month we are looking at the near-term prospects and long-term outlook for the New Zealand retirement sector. Recent results in the sector have been strong almost across the board, with operators of retirement villages (collections of multiple residential units for elderly people) posting high sales of both new stock and existing units. Unit price rises have accelerated over time and are underpinning strong earnings. Independent valuations of retirement village assets have also increased significantly across all operators. Valuations have been supported by unit price growth and other data such as recent observable transactions. In addition, the sector benefits from a "buffer" between retirement village unit price increases and median house price increases. This reflects operators' practice of setting unit prices at a lower level than nearby average house prices to support demand from prospective residents when they sell their homes. The gap with house prices provides a measure of confidence regarding the sustainability of unit prices and current valuations.

## Near-term challenges exist, but sector remains resilient

Although it is in a strong position, New Zealand's retirement sector faces certain near-term challenges. The first is a recent material slowdown in the housing market coupled with forecasts of negative year-on-year house price inflation. A housing market slowdown puts downward pressure on unit prices as operators act to maintain the buffer with median house prices. Slower house sales also dampen retirement village sales by causing prospective residents to take more time to sell their homes before purchasing residential units. Even so, the sector is unlikely to be damaged by the housing market slowdown unless house price inflation turns negative by 15% or greater. With less severe negative growth, sales and unit prices should still be supported by the strong supply and demand situation as well as the buffer between house prices and unit prices. In common with other sectors, however, the retirement sector also faces challenges from inflation. Although the sector has proved resilient to building cost inflation thanks to the procurement processes and relationships operators have in place, wage inflation poses a greater challenge given the sector's need to compete with New Zealand's district health boards for nurses. Even so, we expect competition for staff to ease after the country fully reopens its borders in July 2022.

## Tailwinds favourable for sector's long-term future

Structural tailwinds suggest a favourable long-term outlook for the retirement sector. One reason for this is demographics. The ratio of New Zealand's population aged over 65 sits at 18-19% at present, but the figure is set to rise to 23% in ten years' time and will continue to trend higher thereafter. An increase in the number of retirees will clearly push up demand for retirement village units and care. The penetration rate (the extent to which potential residents accept and have access to retirement villages) is also trending favourably given that it is currently around 14% after seeing levels in the low single digits two decades ago. The sector looks well placed to benefit from inflows of wealth from future retirees in the long term.

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