



## Buying into a Retirement Village

Deciding to buy into a Retirement Village is an important decision and can have many financial and legal implications. It is different to buying a house. Villages vary considerably in their accommodation, legal and financial structures, and management. The Retirement Villages Act 2003 provides intending residents and current residents with certain rights.

### **What am I typically liable to pay for?**

1. **A Capital Sum** – this is similar to a purchase price. In most cases, in return for payment of the capital sum you will get a licence to occupy the unit. This gives you the right to live in the unit but you do not own the unit.
2. **A Village Fee** – this is a weekly fee and covers costs such as rates, insurance, maintenance, security and gardening.
3. **Utilities** - such as electricity, telephone, sky and contents insurance.
4. **Your own personal expenses** – such as medical costs, normal household and personal expenses; and
5. **Extra costs** – some villages include a greater range of services in their fees while others let you choose and pay for the services you want or need. Some villages add a premium for these services.

### **Will I get any money back when I leave the unit?**

Usually, the Village Operator controls the sale of the unit when you vacate. You will often have to wait until the unit is sold before getting your money back and will often be responsible for continuing to pay the weekly village fee until the unit sells.

There are significant costs associated with leaving a village and selling the unit. In most cases, you will end up with significantly less money than when you entered the village.

### **The following costs may be deducted from the Capital Sum:**

1. A Deferred Management Fee – this is a percentage of the Capital Sum over a number of years. The Deferred Management Fee is usually calculated at approximately 4% of the Capital Sum per annum for a maximum period of 5 years. This covers costs such as communal facilities, management or long term maintenance;
2. Any costs associated with restoring the unit back to the condition it was in when you moved in, less fair wear and tear; and
3. Marketing, legal and administration costs associated with selling the unit.

In many instances, you do not share in any capital gain on the resale of the unit, and in some cases, you may also be required to pay for any capital loss made on resale of the unit.

## What is the difference between buying into a retirement village and owning my own home?

1. Usually given the ownership structure of the village, you will not own the unit. Most villages give you a licence to occupy the unit, this licence applies personally to you until you are no longer able to live in the unit.
2. The village retains any capital gain on the unit when it is sold.
3. Generally:
  - You will be responsible for interior maintenance of the unit while the village will be responsible for exterior maintenance;
  - You cannot make additions and alterations to the unit without the prior written consent of the village operator; and
  - You are not responsible for insuring the unit, but you are responsible for your own contents insurance.

## The Key Documents

You must be provided with the following documents by the village operator:

### 1. The Disclosure Statement

This document provides information about the ownership, management and supervision of the village. It includes information about the state of the village, the services and facilities offered and the arrangements for maintenance and refurbishment of the unit. The costs of entering the village, living in the village, and what you can expect to get back after you leave the unit must also be explained.

### 2. The Occupation Right Agreement

This is a legally binding agreement between you and the village operator. It sets out the terms and conditions of your right to live in the village and repeats much if what is contained within the Disclosure Statement.

### 3. The Code of Practice

This sets out the minimum requirements to be included in every resident's Occupation Right Agreement.

We are experienced in advising clients buying into retirement villages and can assist you with this important decision.

## **Mee & Henry Law Limited** **Barristers & Solicitors**

45 Gala Street, P. O. Box 934, DX YA90039, Invercargill 9840

Telephone 03 218 9855 Facsimile 03 218 9853