

TRANSFERRING WITHIN A VILLAGE

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The ability to transfer between types of accommodation is one of the many flexible options village operators can offer residents.

Transfers are particularly common where a Village has villa, apartment and serviced apartment options, regardless of whether there is a rest home included in the Village. The decision to transfer from a villa to an apartment or serviced apartment often arises because of loss of a partner or increasing frailty. As such, the decision is usually reached only after careful thought and consideration and sometimes there is a wait for the appropriate accommodation to become available. Operators will be aware of the emotional stress that can accompany such a decision.

Another issue is affordability. This is so especially in the case of a long-term resident. There may be an issue as to whether the resident will receive sufficient proceeds from the termination or sale of a licence or title for a villa to enable them to pay the current market amount for a licence or title for an apartment. Some village operators promise to the resident that they will never have to pay more for an apartment than they receive when they move out of a villa. Other operators prefer to deal with this issue on a more informal basis depending on the circumstances at the time.

One issue that is almost always dealt with in the residency documents relates to the portability or otherwise of a facilities fee (or membership fee, amenities contribution, deferred management fee, etc.). The general philosophy appears to be that the facilities fee relates to the right (in part) to use the facilities for as long as the resident remains in the Village. Residents should therefore, only have to pay

the facilities fee once. Thus it has become common for village operators to credit residents with all or some of the facilities fee that has already expired in respect of a villa.

Notwithstanding this philosophy, some operators treat the transfers on a straightforward basis with no recognition of the facilities fee already paid.

The calculation of a credit or allowance of the facilities fee varies considerably between villages and can be rather complicated. There is not only the question of the amount to be charged to the resident for the apartment but also the length of time over which the agreed facilities fee is to be amortised.

We set out below some common approaches. In each case, the amount to pay for the new apartment will be the then current market rate. The facilities fee is usually calculated as a percentage of the total amount, whether it is payable at the beginning or end of the occupancy.

- The operator may recognise that the facilities fee payable in respect of the apartment will not exceed the unexpired part of the facilities fee payable for the villa. Apart from this, the facilities fee for the apartment will be calculated on the standard terms and over the standard period for an apartment.
- Other operators give a credit against the facilities fee for the apartment, of the amount of facilities fee already paid in respect of the villa. For example, if the

facilities fee for the apartment is \$50,000 and the resident has already paid a facilities fee of \$30,000 for the villa, then the facilities fee for the apartment will only be \$20,000. If the facilities fee paid for the villa is more than the market facilities fee for the apartment, then no facilities fee is payable.

- Where there is a reduced facilities fee, sometimes the period over which it amortises will be the period set out in the original licence for the villa and sometimes it will be the standard period for an apartment.
- Yet another approach is that the facilities fee for the apartment will be reduced proportionately to the same ratio that the facilities fee for the villa has amortised. For example, if the facilities fee for the villa has amortised to the extent of 50% of the villa facilities fee, then the facilities fee for the

apartment will be 50% of the apartment facilities fee. In this case, if the facilities fee for the villa has fully amortised, then there is no facilities fee payable for the apartment.

With the move towards an increased facilities fee which includes refurbishment costs and other incidental charges, many operators will be revisiting their transfer approach. Whilst they will wish to continue to be fair to residents, there does seem to be no commercial reason why a resident should not pay the refurbishment costs and other costs associated with the termination of one licence and may not necessarily therefore receive a credit for these payments in relation to the new licence.

In any event, it is important to decide on the general approach that suits your Village.

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Contact Us

The information in this article is necessarily general.

Please feel free to contact us for more specific advice or about any other matter relating to your retirement village.

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