THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

Champions Trophy Case Competition

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL
CHAMPIONS TROPHY CASE COMPETITION 2010

RYMAN HEALTHCARE

February 2010

Case prepared by Ms. Riddhi Gupta, under the supervision of Mr. Sunny Gu and Mr. Brendon Potter, Director of Student Development, The University of Auckland Business School. This case has been prepared solely for the Champions Trophy Case Competition. All data in this case has been obtained from publicly available sources. This case is not intended to serve as an endorsement, a source of primary data, or an illustration of effective or ineffective management.

Karilee Koha

From: Karilee Koha
Sent: Saturday, 6 February 2010
To: Ryman Healthcare Analyst Teams
CC: Patricia Prizemoney; Geraldine Greenback; Johnny Cash; Peter Profiteer
Subject: Ryman Healthcare Strategy Presentation

Good morning all,

New Zealand is getting old! Who better to have positioned themselves to cater for an elderly population than Ryman Healthcare almost 20 years ago.

It is a six times winner of the Best Retirement Village in New Zealand. Ryman has a name for providing good services when the rest of the aged care industry descended into bad publicity for poor rest home facilities.

A slow economy has been good news for Ryman. Strong demand for villages in tough conditions showed that there was a real need for Ryman's product. Meanwhile, land and building costs dropped, and Ryman had no worries about finding capital for growth due to some healthy cash flows.

It promised investors a growth rate of two new villages per annum, but Ryman's CEO Simon Challies reckons that is the *slowest* the company will grow in the next few years. Right now, all of Ryman's villages are full and it is aiming to keep up with this strong demand.

Over 20 years, Ryman has built a strong brand and word has spread about its lifestyle options. For Simon Challies, delivering good services to meet the needs of the elderly has been a key part of Ryman's success. Meanwhile, the in house design team keeps costs down and Ryman makes a profit on deferred management fees it charges its residents.

Ryman has gone from a small business in Christchurch, to a nationwide aged care provider for 4000 senior citizens, in 21 different locations, covering the full spectrum from independent living to specialised hospital care.

By 2026, more New Zealanders will get old, and will be living longer. Although many people still confuse retirement living with 'last resort' rest home care, there are lots of communities where supply still hasn't met demand.

CEO Simon Challies, CFO Gordon MacLeod, Chairman David Kerr and the board invite you to give a presentation of no more than ten minutes to hear what you believe the key issues facing Ryman are; what strategies you propose they employ to take Ryman into their next stage of growth. Our team has attached information, some of which you may find relevant.

Regards,

Karilee Koha
President
SYG Consulting Group

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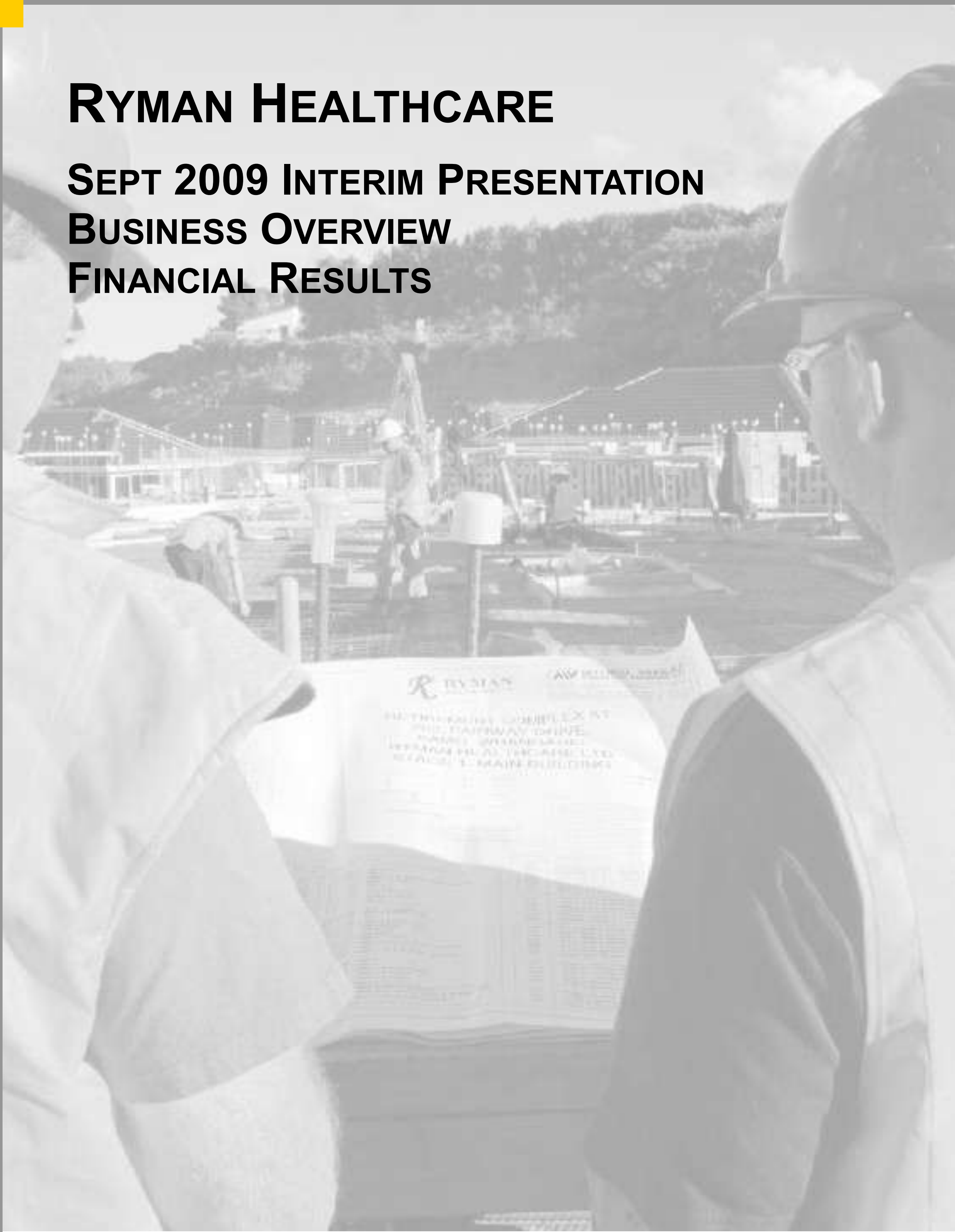
RYMAN HEALTHCARE

SEPT 2009 INTERIM PRESENTATION
BUSINESS OVERVIEW
FINANCIAL RESULTS



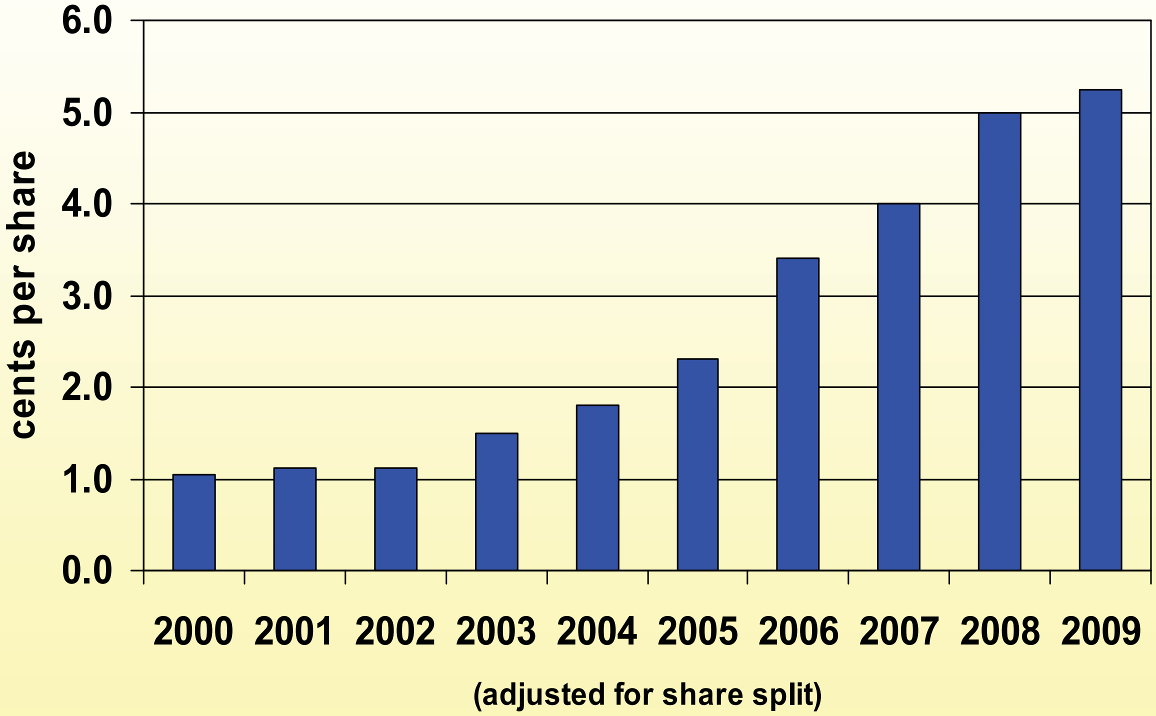
Our Business

- **We offer our residents:**
  - Home
  - Community
  - Companionship
  - Security
  - Peace of Mind
  - Care

Ryman Village

- **Independent Living**
  - Two bedroom townhouse
  - Property services and community activities
- **Assisted Living**
  - One bedroom apartment (not self contained)
  - Housekeeping & Meals (plus care packages)
- **Rest Home / Hospital / Dementia**
- **Village Centre**

Dividend History



Earnings Streams

- **Care fees**
  - Receive weekly fee for service and achieve margin
- **New sales**
  - Achieve development margin on the initial sale
- **Resales**
  - Collect capital gain
- **20% Management Fee on new and resales**

Example

Single Retirement Village Unit	Cash Flows
When First Built:	
Cost to build unit	-$200,000
Receive capital sum from first resident	+$250,000
Net Cash Gain	+$50,000
When Unit Vacated (e.g. after 5 years):	
Repay capital sum to first resident	-$200,000[1]
Receive capital sum from next resident	+$300,000[2]
Net Cash Gain	+$100,000

1. Initial capital sum of $250,000 less 20% management fee (being 4% for 5 years)

2. Initial capital sum of $250,000 plus 20% capital gain (at 4% for 5 years)

Competitive Advantage

- **Brand reputation – over 20 years in sector**
- **Experienced team and Board**
- **Unique integrated villages**
  - 'Needs' focus
  - Greenfields sites
- **Vertical integration – we do it all**
- **Pricing structure – Ryman Peace of Mind**
- **Scale – replicating what we do**
- **Access to capital**

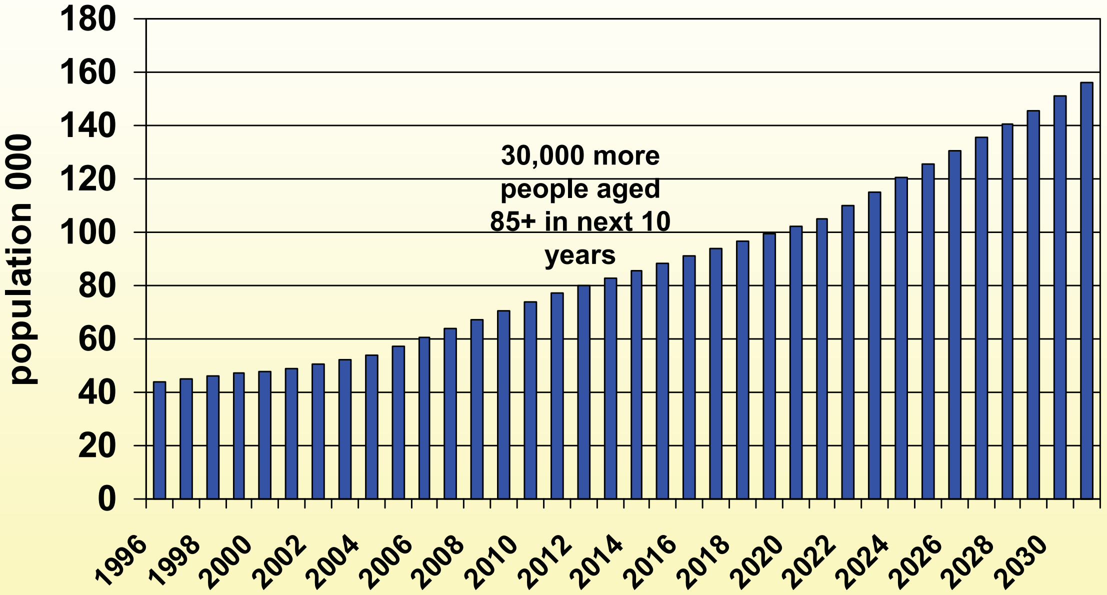
Underlying Growth Drivers

- **Growing elderly population**
- **Long term care demand growing**
- **Developing unique new villages**
- **Growing acceptance of retirement villages**
- **Strength of Ryman brand**

Growing Elderly Population

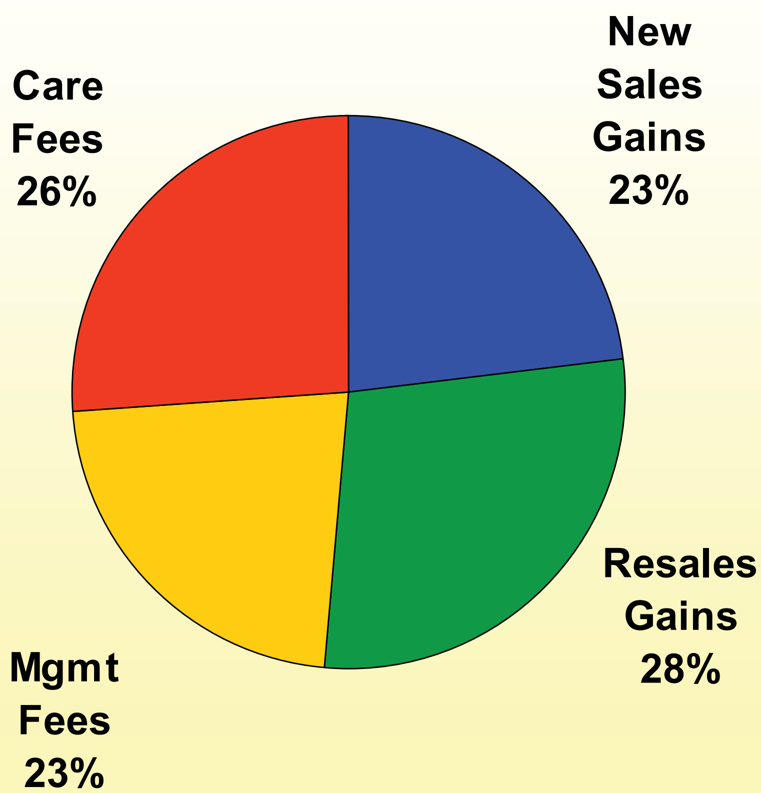
- **Currently 236,000 aged 75+ years**
  - +75 years growing at 5,000 per annum
- **Within this the over 85 population is growing rapidly**
  - From 58,000 in 2006 to 100,000 in 2019
- **Supports our needs based approach**

Population 85+



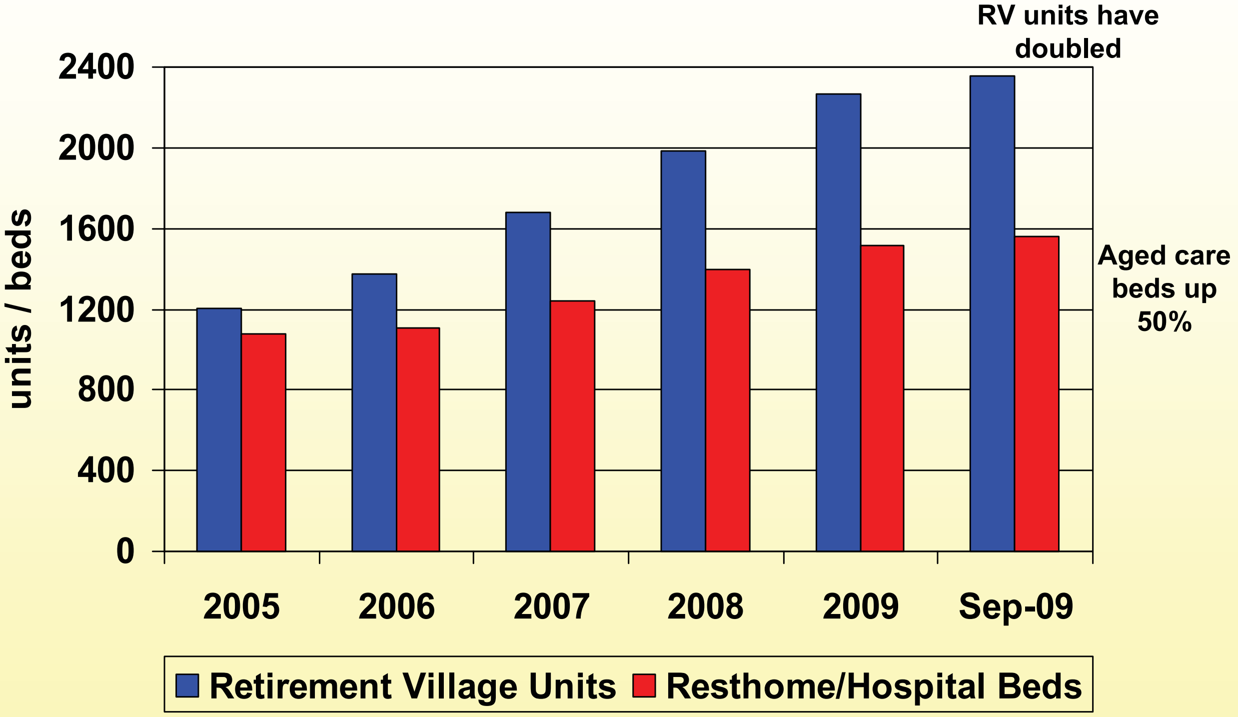
Source: Statistics NZ

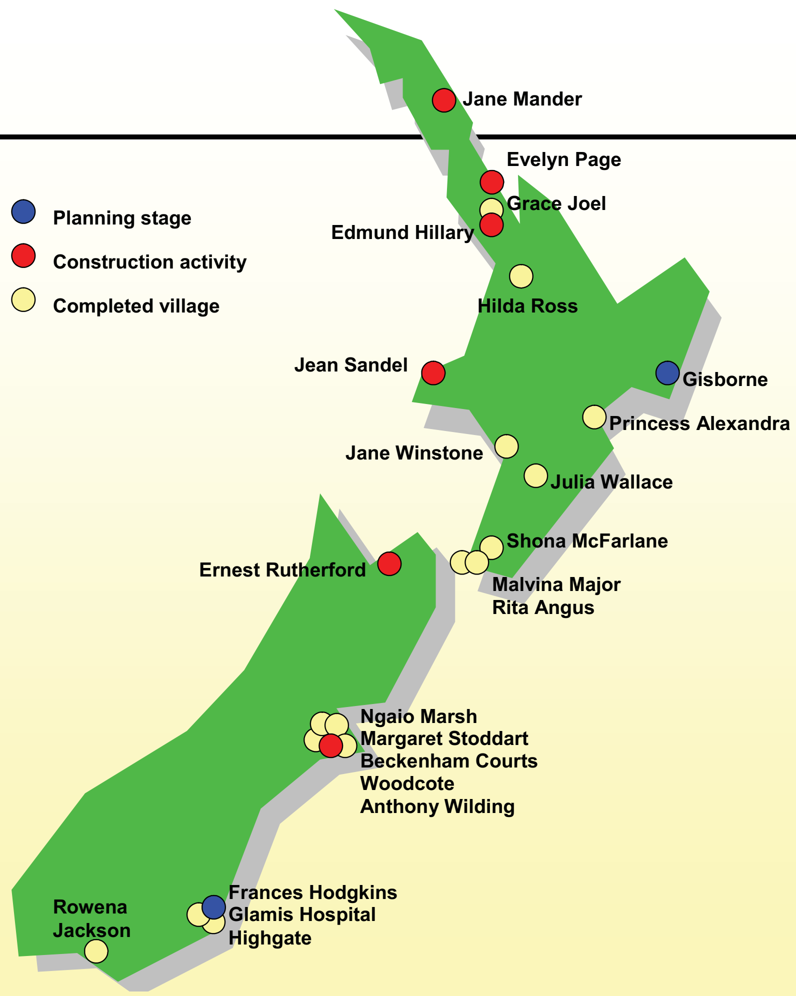
Strong Recurring Earnings 77%



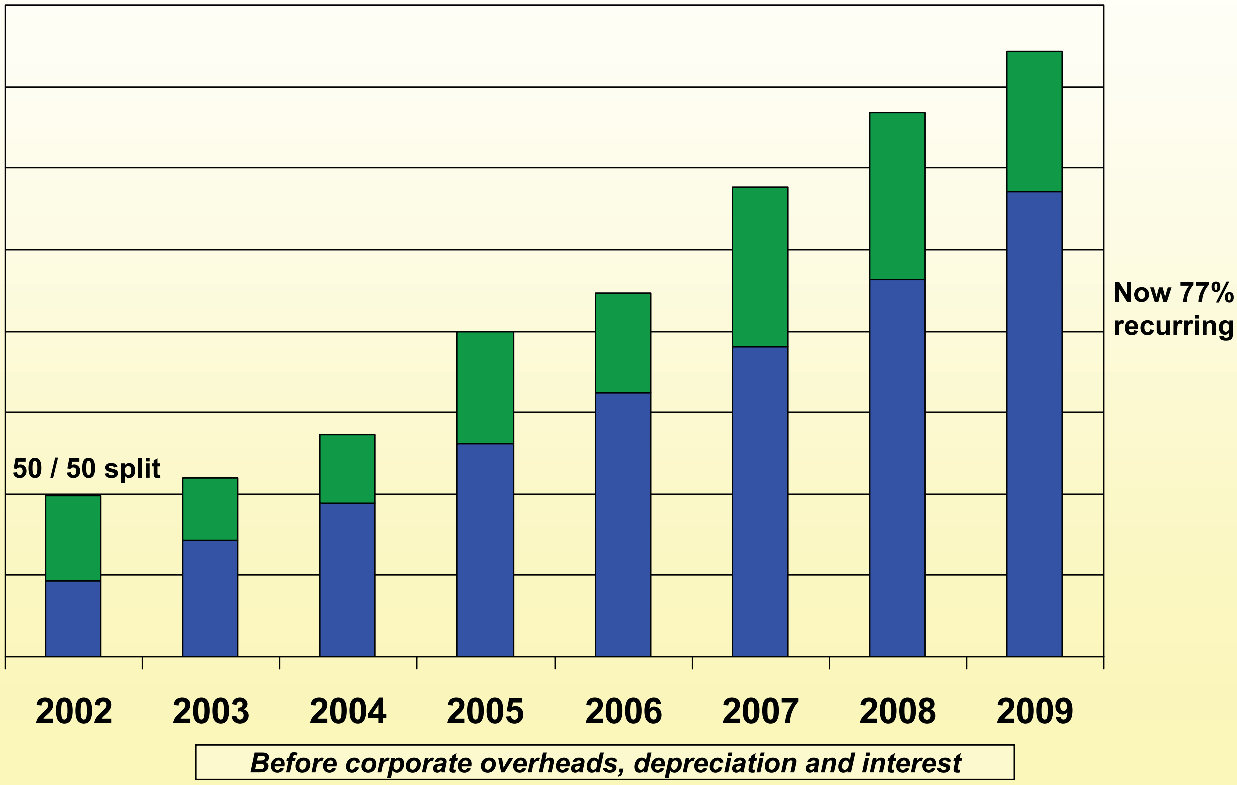
Before corporate overheads, depreciation and interest

Increase due to Portfolio Growth

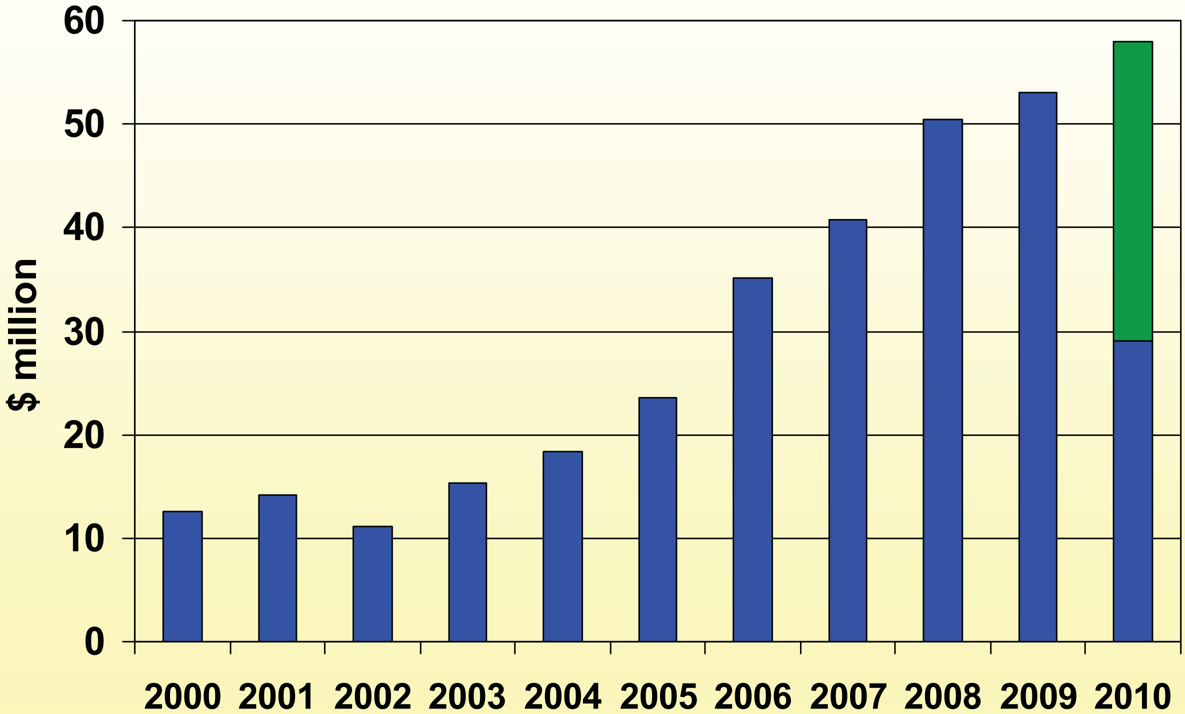




Growth in H1 Recurring Earnings



Realised Profits



Realised Profits excl non cash

Realised Profit	**$29.0M**
Plus Unrealised revaluations of RV units	+$11.6M
Less Deferred tax movement	-$2.1M
Reported Net Profit - IFRS	**$38.5M**

Our emphasis is on trading profits

Strong Operating Cash Flows

- **Very strong operating cash flows of $79M (+30%)**
- **Investing activities $62M**
  - Whangarei and Orewa WIP
  - Settled land acquisitions
- **Debt reduced**
- **Business model where unit margin pays for beds and facilities**

Capital Efficiency

- **$25M at IPO**
- **Dividends of $132M since**
- **Built a $1.2bn portfolio**
- **With no fresh capital**
- **Debt at conservative levels**
  - Operating cash flows of $422M since Sept 05
  - Investing activities spend of $420M

Summary

- **Capacity and capability for growth**
  - Proven execution ability
  - Landbank
  - Financial strength
- **Supported by long term demographics**
- **Strong brand position and reputation**
- **Happy residents**
- **Long term growth proposition**

The following was obtained from Ryman Healthcare website, annual reports and edited by the case writer.

Living Options	Description of Services
Independent Living	Townhouses / apartments. Services e.g. cleaning, home maintenance, garden services, 24 hour back up clinical care, full access to other village facilities & extras like meals.
Assisted Living	Serviced apartment with a lounge, kitchenette and ensuite, and nurse call buttons. Since 2009, full rest home care is offered in serviced apartments.
Rest Home*	Private room and ensuite offering clinical care, daily recreational activities and entertainment for rest home residents.
Hospital*	Each hospital room has a private ensuite where residents can receive clinical care and be part of activities and entertainment programs.
Respite/Short Term	One day to 2 weeks. Residents can opt for short term or post operative care or choose to receive assistance only during the day. Ryman also hosts emergency respite community beds.
Specialised Care	A specialised care unit provides professional nursing care for residents with specific needs such as Alzheimer's.

*Rest home, hospitals employ full time registered nurses and there are regular visits from medical specialists.

Living Options in Each Retirement Village Owned by Ryman		
Independent, Assisted, Rest Home & Hospital	**With Special Care Unit**	**No Hospital**
Grace Joel	Evelyn page	Beckenham Courts
Anthony Wilding	Jane Mander	France Hodgkins
Edmund Hillary	Jean Sandel	Hilda Ross
Ernest Rutherford	Princes Alexandra	Jane Winstone
Malvina Major	Rowena Jackson	Margaret Stoddart
Rita Angus		Woodcote
Shona MacFarlane		
Ngaio Marsh		
Julia Wallace		

Additionally, Glamis Private Hospital is also owned by Ryman and provides 24 hour care for residents with special needs.

Shared facilities in each village could include all or some of: bowling greens, golf, pool, croquet lawn, library, chapel, bar, gym, swimming pools, lounges, gardens, spa, workshop, salons, hair and beauty therapies, and various others.

Subsequent material has been obtained from Chairman and CEO Messages for Ryman Healthcare.

Key Strengths

Ryman Healthcare reported a conservatively geared balance sheet, strong support from its bankers, and the ability to fund upcoming expansion out of its operating cash flows. It is also a six times winner of the 'Best Retirement Village in New Zealand' Award by the Australian Aged Care Association.

All of Ryman villages offer a continuum of care from independent living, assisted living to rest home care. Ryman enjoys almost full occupancy rates over all of its villages. Hospital care and special care for residents suffering from Alzheimer's and Dementia is also offered. Additionally, in 2009 rest home level care was offered to all serviced apartments. Demand remains strong for these living options with strong pre sales seen for upcoming villages in New Plymouth, Whangarei and Orewa. Indeed, the three new villages completed in 2008 are now fully occupied.

Ryman's in-house team acquires the land, manages the consent process, undertakes the detailed design, tenders the sub-contracts, and manages the building site. Ryman undertakes the marketing and selling, and operates the village in the long-term. Given the softer property market and construction industry in 2009, the company currently faces lower costs in building, labour and land acquisition. The company plans to roll out two new villages per annum and has given a growth promise of 300 new units or beds each year to its shareholders.

Other Services

'To lift the bar' in terms of services offered to residents, their families, and employees, Ryman engages in other initiatives. The Ryman Triple A exercise programme was launched with exercise classes specifically designed for residents. In 2007, 700 residents nationwide participated every week and this number grew to a total of 2000 residents participating in 2009. A new low impact class was extended to an even wider group of residents in 2008.

Health and safety programmes for staff include Ryman 360˚ with Well-Health days for staff, and a joint partnership with the government to provide an 'Up Skill Yourself' literacy programme. The Operations team recently adopted the Liverpool Care Pathway, a programme to support best practice for end of life care. In addition, employee share schemes provide financial assistance via interest free loans for senior staff wishing to invest in ordinary shares.

Following reports of abuse in aged care by other business in the industry, and bad press for retirement homes in general this year, Ryman adopted new systems of communication with residents and their families about core clinical services.

Ryman is a sponsor of Senior Citizen of the Year Award in New Zealand. Each year it also selects a charity for which residents participate in fundraising activities and Ryman matches the total money raised dollar for dollar before giving it to charity.

Government

The Government lifted the "managed bed policy" in 2008, which removed the restriction on the opening of new Government-funded rest home, hospital and dementia facilities. This change allowed Ryman to extend existing care facilities and to offer hospital and dementia care. Simon Challies writes, 'the rest home/hospital part of the business remains challenging due to the Government controls on fees, the tight labour market and the increasing acuity of the residents referred to us.'

Nevertheless, the New Zealand Government, through local district health boards (DHBs) continues to contract aged care services to private firms. DHBs also sponsor beds/units through needs assessed residential care subsidy provided to elderly people in New Zealand.

Future Plans

- Growth targets, currently at 300 units and 100 beds per annum
- Building program – expansions to Ernest Rutherford in next 2 years; major extension planned for Edmund Hillary, continued building in Nelson and Christchurch.
- Acquisition of new greenfield sites likely
- Reduce development costs
- Penetrate new NZ communities
- Offer wide range of services to keep up with residents' concerns and needs

Source: Annual Reports, edited by case writer

NZX Company History

1984	Established to design, construct and operate retirement villages in NZ. Operations were confined to the South Island.
1999	Listed on the NZX followed a public offering of 30m shares at a price of $1.35, set through a book building process by institutions.
1997	Equity participation in the company by Ngai Tahu and formerly listed Direct Capital Partners, the group expanded to locations throughout the North Island.
2007	The company implemented a 5:1 share split. Acquired land in Gisborne, a 3.65 hectare site to build a $40m retirement village for 150 residents; the completed development costs on a 6 hectare Whangarei site (Jane Mander) was $60m for 450 residents.
2009	'Evelyn Page' in Orewa is the 21st retirement village with an estimated total cost of $140 million and will eventually support 500 residents. Land bank is sufficient to build 1700 further retirement units or hospital beds.

Five Year Business Summary

		NZ IFRS			PREVIOUS GAAP [1]	
		2009	2008	2007	2006	2005
Financial						
Realised Profit	$m	53.0	50.5	40.7	35.1	23.5
Net Profit After Tax	$m	66.1	72.6	59.4	35.1	23.5
Net Assets	$m	408.2	372.2	260.5	243.7	185.8
Interest bearing Debt to Equity ratio	%	35%	39%	44%	28%	27%
Net Operating Cash Flows	$m	114.2	125.8	73.8	55.4	53.5
Dividend per Share [2]	Cents	5.25	5.0	4.0	3.4	2.3
Sales of Occupation Rights [3]	No.	597	578	480	355	316
New facilities						
Built during year:						
Resthome/Hospital Beds	No.	125	153	131	33	104
Retirement Village Units	No.	278	308	300	175	145
Land bank (to be developed) [4]	No.	1,790	1,767	1,715	1,653	1,257
Completed facilities						
Resthome/Hospital Beds	No.	1,519	1,394	1,241	1,110	1,077
Retirement Village Units	No.	2,264	1,986	1,678	1,378	1,203

1 Comparative amounts for 2005 to 2006 are shown in accordance with Previous NZ Generally Accepted Accounting Practice ('Previous NZ GAAP').

2 Adjusted for 5:1 share split in January 2007.

3 New and existing retirement village units.

4 Includes retirement village units and Resthome/Hospital beds.

Source: Annual Report 2009

RYMAN HEALTHCARE LIMITED
KEY STATISTICS

	Sept 09 Half Year unaudited	Sept 08 Half Year unaudited	Mar 09 Full Year Audited
Realised Profit ($m)	**29.0**	**25.9**	**53.0**
Less: Deferred tax expense ($m)	(2.1)	(1.4)	(3.3)
Plus: Unrealised fair value movement ($m) (note 3)	11.6	10.6	16.4
Reported Profit after tax ($m)	38.5	35.1	66.1
Operating Cash Flows ($m)	**79.2**	**61.1**	**114.2**
Earnings per share (cents)	**7.7**	**7.0**	**13.3**
Dividend per share (cents)	**2.7**	**2.4**	**5.25**
Net Tangible Assets per share (cents)	**86.5**	**78.0**	**81.6**
Sales of Occupation Right Agreements			
New Units (no.)	123	146	292
Existing Units (no.)	196	148	305
Total (no.)	319	294	597
New Units ($m)	41.6	43.8	92.8
Existing Units ($m)	58.0	39.9	84.3
Total ($m)	99.6	83.7	177.1
Asset Base			
Retirement Village Units (no.)	2,353	2,117	2,264
Residential Care Beds (no.)	1,558	1,437	1,519
Total (no.)	3,911	3,554	3,783
Landbank - to be developed			
Retirement Village Units (no.)	1,044	1,197	1,138
Residential Care Beds (no.)	613	611	652
Total (no.)	1,657	1,808	1,790

Source: 2009 Half Year Financial Result

RYMAN HEALTHCARE LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Six Months Ended 30 Sept 2009 unaudited $000	Six Months Ended 30 Sept 2008 unaudited $000	Year Ended 31 March 2009 audited $000
Revenue			
Care fees	43,961	37,675	77,085
Management fees	8,382	7,032	14,446
Interest	253	399	781
Other income	19	66	89
Total revenue	**52,615**	**45,172**	**92,401**
Fair value movement of investment properties (note 3)	32,510	31,001	57,198
Total income	**85,125**	**76,173**	**149,599**
Operating expenses	(39,169)	(34,671)	(70,592)
Depreciation expense	(2,542)	(2,184)	(4,500)
Finance costs	(2,820)	(2,815)	(5,067)
Total expenses	**(44,531)**	**(39,670)**	**(80,159)**
Profit before income tax	**40,594**	**36,503**	**69,440**
Income tax expense	(2,141)	(1,391)	(3,372)
Profit for the period	**38,453**	**35,112**	**66,068**
Earnings per share Basic and Diluted	**7.7 cents**	**7.0 cents**	**13.3 cents**

Note: all profit is attributable to Parent Company shareholders and is from continuing operations.

OCCUPANCY ADVANCES (non interest bearing)

Occupancy advances comprise the following balances:

	As at 30 Sept 2009 unaudited $000	As at 30 Sept 2008 unaudited $000	As at 31 Mar 2009 audited $000
Gross occupancy advances	673,516	555,015	614,108
Less: management fees & resident loans	(63,763)	(48,373)	(54,176)
Closing balance	**609,753**	**506,642**	**559,932**

Gross occupancy advances are non interest bearing.

RYMAN HEALTHCARE LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009

	Six Months Ended 30 Sept 2009 unaudited $000	Six Months Ended 30 Sept 2008 unaudited $000	Year Ende 31 March 200 audite $00
Operating activities			
Receipts from residents	159,061	125,901	244,67
Interest received	145	285	61
Payments to suppliers and employees	(39,091)	(36,401)	(68,675
Payments to residents	(37,254)	(25,829)	(57,115
Interest paid	(3,619)	(2,811)	(5,254
Net operating cash flows (note 2)	**79,242**	**61,145**	**114,24**
Investing activities			
Purchase of property, plant and equipment	(14,514)	(6,083)	(10,849
Purchase of investment properties	(45,580)	(30,789)	(65,831
Capitalised interest paid	(2,376)	(3,689)	(6,888
Advances (to)/repaid by employees	684	46	26
Net investing cash flows	**(61,786)**	**(40,515)**	**(83,306**
Financing activities			
Drawdown (repayment) of bank loans	(3,000)	(3,500)	(4,500
Dividends paid	(14,250)	(14,000)	(26,000
Purchase of treasury stock (net)	(1,600)	(1,650)	(1,650
Net financing cash flows	**(18,850)**	**(19,150)**	**(32,150**
Net (decrease)/increase in cash and cash equivalents	**(1,394)**	**1,480**	**(1,216**
Cash and cash equivalents at beginning of period	1,303	2,519	2,51
(Bank overdraft)/Cash and cash equivalents at the end of period	**(91)**	**3,999**	**1,30**

RYMAN HEALTHCARE LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2009

	As at 30 Sept 2009 unaudited $000	As at 30 Sept 2008 unaudited $000	As at 31 March 2009 audited $000
Assets			
Cash and cash equivalents	-	3,999	1,303
Trade and other receivables	51,200	54,847	67,261
Advances to employees	1,733	217	1,267
Property, plant and equipment	232,208	211,253	221,710
Investment properties	959,242	817,659	882,246
Total assets	**1,244,383**	**1,087,975**	**1,173,787**
Equity			
Issued capital	33,290	33,290	33,290
Asset revaluation reserve	85,573	85,573	85,573
Interest rate swap reserve	(2,483)	(1,048)	(3,200)
Treasury stock	(4,573)	(5,389)	(4,123)
Retained earnings	320,865	277,706	296,662
Total equity	**432,672**	**390,132**	**408,202**
Liabilities			
Bank overdraft	91	-	-
Trade and other payables	16,111	11,960	21,991
Employee entitlements	4,827	4,236	4,460
Revenue in advance	11,596	7,227	8,293
Interest rate swaps	3,548	1,500	4,571
Bank loans (secured)	140,000	144,000	143,000
Occupancy advances (non interest bearing)	609,753	506,642	559,932
Deferred tax liability (net)	25,785	22,278	23,338
Total liabilities	**811,711**	**697,843**	**765,585**
Total equity and liabilities	**1,244,383**	**1,087,975**	**1,173,787**
Net tangible assets per share	**86.5 cents**	**78.0 cents**	**81.6 cents**

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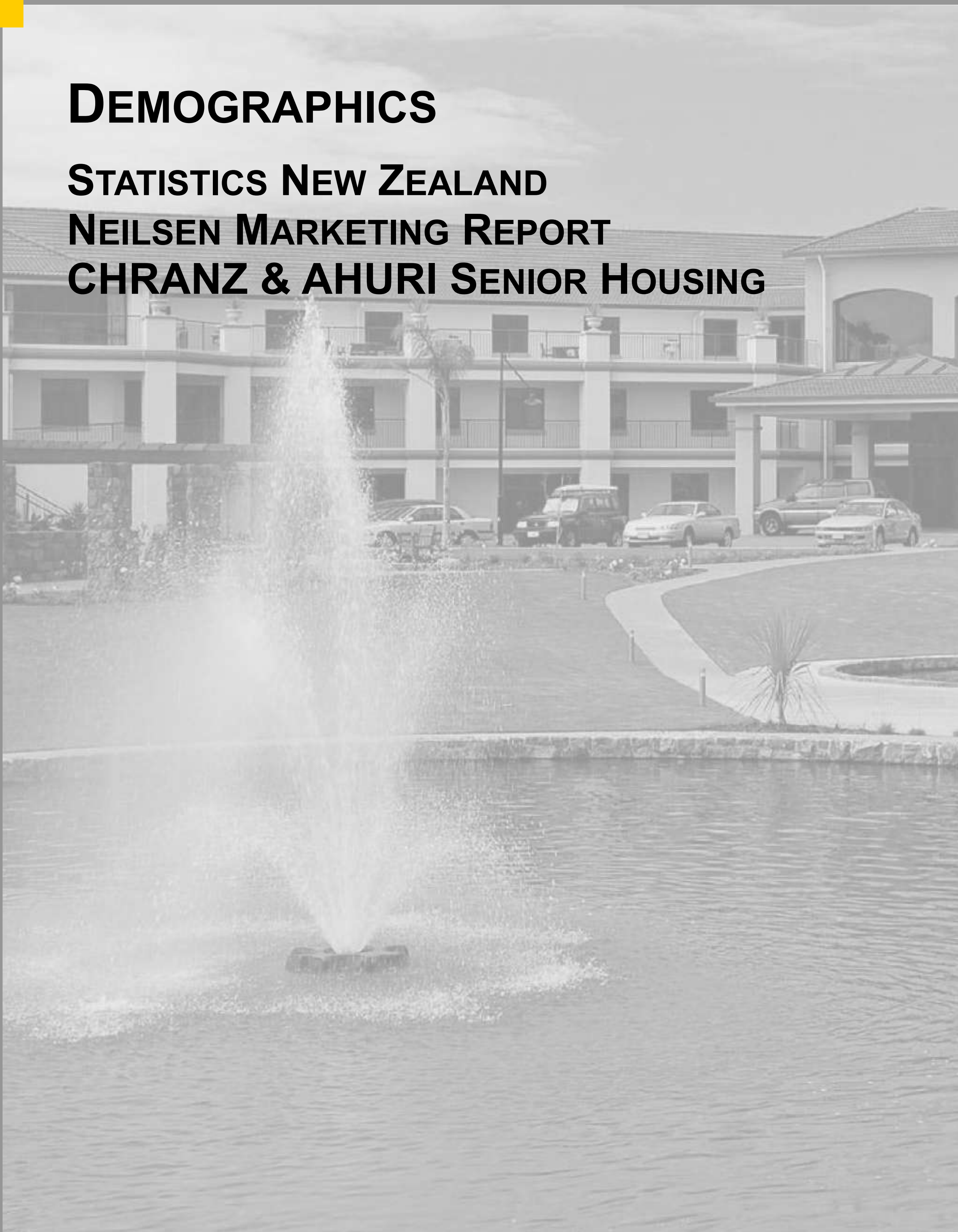
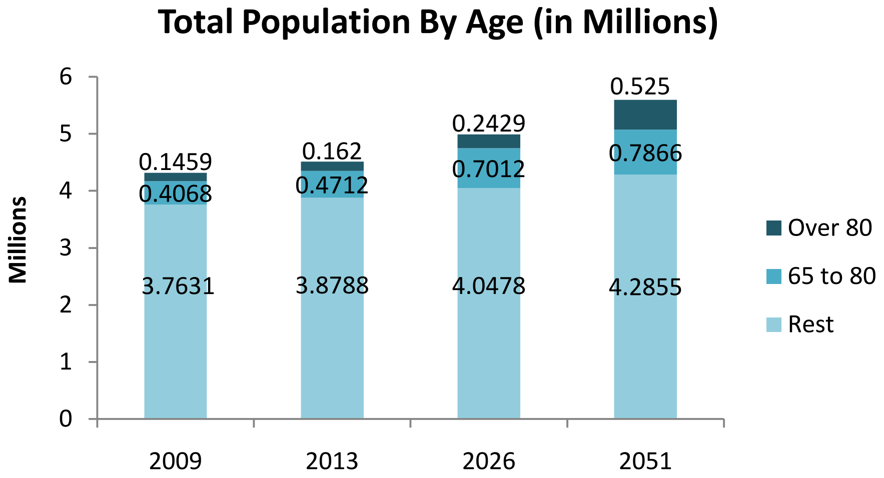
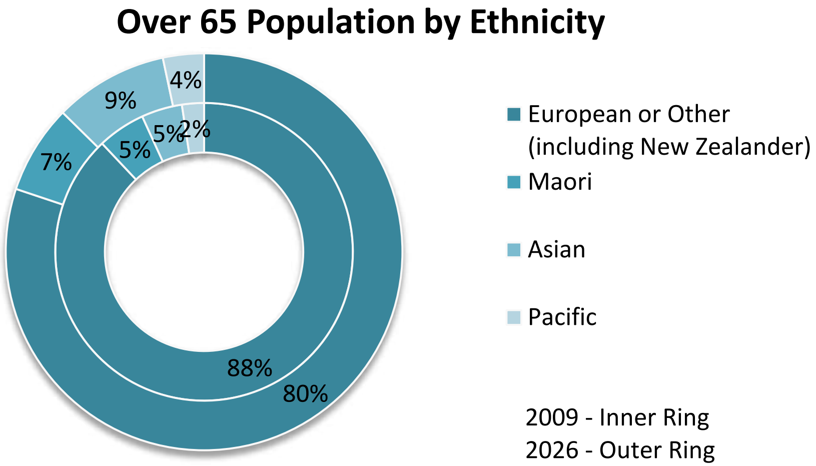
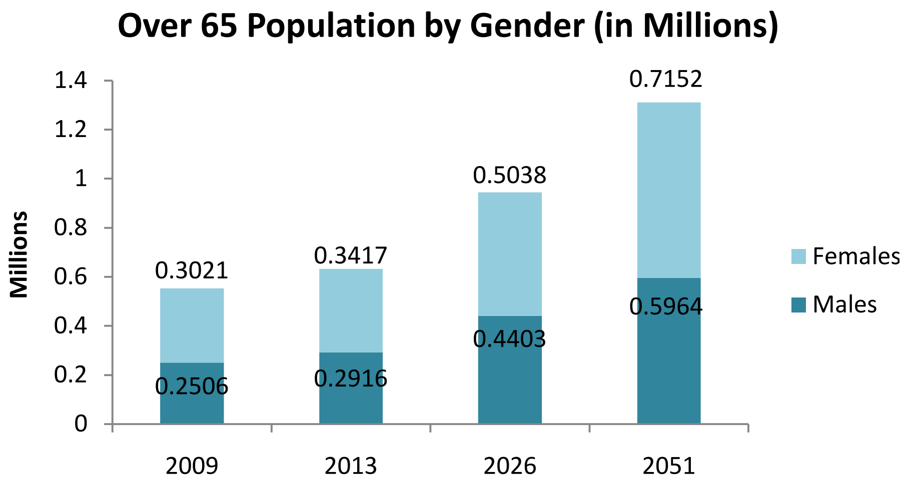
DEMOGRAPHICS

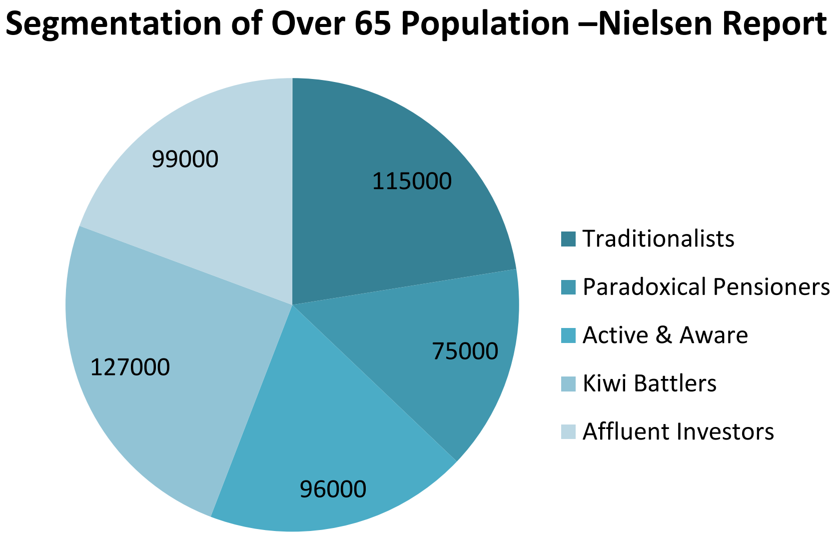
STATISTICS NEW ZEALAND
NEILSEN MARKETING REPORT
CHRANZ & AHURI SENIOR HOUSING











Source: Statistics NZ Population Forecasts & Population By Ethnicity

Segmented Over 65 Population

A Special Report into the Lives of the Over 65s and Considerations for Policy Makers, Strategists and Marketers. Prepared for the HOPE Foundation for Research on Ageing by Sustainable Advantage Ltd and the Nielsen Company July 2009.

Traditionalists
Male dominated
Younger end
Homeownership with mortgage
Two thirds married
One in five widowed
Mainly couples
Least likely to exercise

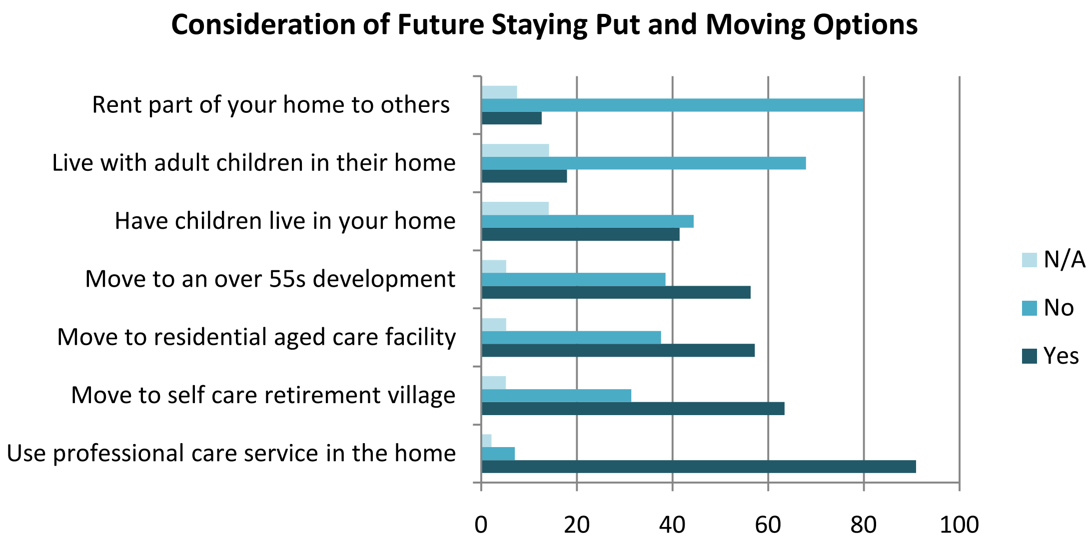
Paradoxical Pensioners
Renting
Majority married
More likely to be separated/divorced
Like the good things in life but money is tight
Aim for low fat diet but eat what they like

Active and Aware
60% female
Skew towards 75-79 yr
More likely to be home owners
Financially healthy but budget carefully
Exercise and volunteer regularly

Kiwi Battlers
Strong female skew
One in three over 80yr
75% own homes
Highest proportion widowed
Financially tight.
Often lonely & most stressed group

Affluent Investors
Even gender split
Younger , but 20% are over 80 yrs
Highest income levels
Financially optimistic
Exercise, volunteer and go to movies

		All Seniors 65 yrs +	Traditionalists	Paradoxical Pensioners	Active & Aware	Kiwi Battlers	Affluent Investors
Total Population	**(000)**	**512,000**	**115,000**	**75,000**	**96,000**	**127,000**	**99,000**
Male	%	44.7	52.4	46.5	38.3	38.1	49.3
Female	%	55.3	47.6	53.5	61.7	61.9	50.7
65-69 Years	%	31.3	36.1	30.7	30.7	23.2	37.4
70-74 Years	%	24.9	26.3	26.1	24.7	23.0	24.8
75-79 Years	%	20.8	18.7	20.3	22.1	23.5	18.8
80+ Years	%	23.0	18.9	22.9	22.4	30.3	19.0
Owned With Mortgage	%	8.5	12.5	8.3	7.6	7.3	6.2
Owned No Mortgage	%	79.7	76.4	76.5	83.8	75.9	87.1
Rented	%	9.4	8.9	13.3	7.2	13.5	4.2
Other	%	2.4	2.2	1.9	1.4	3.3	2.5
Married	%	59.6	65.7	57.3	58.6	49.8	67.7
Live With Permanent Partner	%	2.2	1.4	2.2	1.9	1.9	2.8
Single	%	4.3	5.0	3.5	4.5	4.5	3.5
Divorced/Separated	%	6.6	6.4	8.8	7.9	6.7	4.0
Widowed	%	27.3	21.5	28.1	27.1	36.2	22.0
Avg. Personal Income	$	22,036	22,497	19,359	21,285	18,826	29,370
Avg. Household Income	$	38,590	38,585	34,162	38,501	29,284	54,320
Location in NZ							
Northern	%	49	53	54	50	45	45
Central	%	24	21	23	21	27	25
Southern	%	27	26	23	29	28	30
Metropolitan	%	47	41	46	52	45	51
Non Metro/Rural	%	53	59	54	48	55	49



Senior Housing Decisions. Source: AHURI Presentation to CHRANZ 2009.*

Towards 2051, it can be expected that the majority of older people will have constrained incomes and fall within the lowest income quartile. This has profound implications for older people's housing affordability and their ability to invest in their own health and welfare. Declining affordability of home ownership is influenced by a combination of factors including:

- Household debt levels
    - In the last decade, New Zealand households have become quite exposed to debt.
    - Older cohorts with debt means intergenerational transfers will likely fall.
    - Options to supplement post-retirement incomes through home equity release may be compromised.
    - Entry into home ownership may be delayed even if house prices fall for younger cohorts due to greater debt.
- Household income/ residential property values: house prices over the past five years have outpaced rises in average household income
- Cost of housing finance

Source: Housing NZ Website, CHRANZ Older People's Housing Future in 2050 edited by case writer.*

* Centre for Housing Research Aotearoa New Zealand (CHRANZ) set priorities for the total NZ housing market, promotes and invests in independent policy relevant housing research. AHURI is an Australian based consortium of research centres funded by Australian State and Commonwealth Governments, as well as by member universities.

INDUSTRY INFORMATION

NEW ZEALAND
AUSTRALIA - LEND LEASE GROUP LIMITED*
DATAMONITOR GLOBAL INSIGHTS
JLL SENIOR HOUSING OUTLOOK 2010

Information on the Australian aged care industry is sourced from Lend Lease Group CEO Rob Fehring's presentation in 2009, publically available on the Lend Lease website. Lend Lease is a provider of real estate and retirement services.

New Zealand Industry Tables

Rest Home Industry

- Rest homes are for those who can't care for themselves.
- DHBs contract rest home care services to rest home operators. Care fees determined by contract with the local DHB – about $100/day.
- Rest home industry is regulated, subsidised by the state (but potential residents are means-tested).
- NZ Nurses Organisation and Service and Food Workers Union have campaign for an industry-wide employment collective.

Retirement Living Industry

- Retirement villages offer other living options for elderly including independent living.
- Residents buy a right to occupy, so after an average 7to 10 year cycle, the units can be resold giving reoccurring earnings.
- Retirement villages may have a rest home and hospital attached, for consumer's reassurance that if one of them falls ill, a "continuing care" service is accessible.

Key Trends

- Industry is fragmented even among top players. More than 600 aged care providers are registered with the Retirement Village Association.
- New investment for rest homes difficult to get, so number of new standalone rest homes are scarce.
- The government funnels its funding to rest homes through its DHBs. Health boards have been accused of not passing on all this funding and trying to pass cost of assisted care to rest home operators. This resulted in court action in the past.
- Some small rest home operators are bolstering their business by building villages or villas. Large corporate firms are currently the only active builders of from-scratch rest homes. More corporate firms are taking over both the remaining mum-and-dad operations, and the pool of homes run by church and welfare organisations.
- Ever-tightening margins mean only bigger operations can capitalise on economies of scale.
- Rest homes are required to have registered nurses on their staff but those nurses earned 20 to 25 percent less in 2008 than nurses in the public hospital system. Their union wants pay parity. For most firms, increased spending on wages would make profit margins disappear.

Source: Nelson Mail, NZ Herald, NZ Listener edited by case writer.

NZ Healthcare & Social Assistance Sector $(millions)	2004	2005	2006	2007	2008
Total income	15,407	16,888	18,314	19,596	21,354
Sales of goods and services	4,046	4,385	3,883	4,464	4,630
Government funding, grants and subsidies	11,032	12,204	13,798	14,476	16,060
Total expenditure	14,273	15,601	16,840	18,019	19,842
Surplus before income tax	1,418	1,650	1,812	1,956	1,933
Total assets	10,076	11,165	11,675	12,649	14,435
Fixed tangible assets	6,304	7,108	7,302	7,509	8,635
Total equity and liabilities	10,076	11,165	11,675	12,649	14,435

Source: Statistics New Zealand

Government Regulation and Contracted Care Services

As of 2009, it was estimated that there are 34 000 elderly people in 715 rest homes in New Zealand. All rest homes and hospitals must be certified and maintain certification by regular audits from Ministry of Health and DHBs.

Example of Affected Areas	Greenfield Sites	New Buildings, Maintenance	Bed Referrals & Maximum Pricing	Consumer Protection	Service Standards
Legal Landscape	Land Consents (Resource Management Act)	RMA, NZ Building Codes Retirement Village Act	DHB Contract Care Services Agreement	Codes of Practice for Aged Care Operators	Health & Disability; Staff Competence & Awareness

Only rest homes or hospitals that have achieved Certification under the Health and Disability Services (Safety) Act 2001 and comply with the Health and Disability Sector Standards (2001) can have a contract with District Health Boards. Contracted care services are funded, monitored and negotiated locally via DHBs and the rest home provider. Long-term residential care does not include independent living in a retirement village.

Contracted Services to Providers	Example of Services Excluded
Food services Comfortable accommodation Laundry Nursing and other care General practitioner visits Prescribed medication Continence products All health care that is prescribed by a general practitioner Transport to health services	Specialist visits (not funded by the DHB or ACC) Transport to other services /social functions Personal services e.g. dieticians, podiatrist etc Recreational activities, where those are not part of the normal programme Health accessories e.g. spectacles, hearing aids and dental care

Source: Ministry of Health and Department of Building & Housing Websites; Auditor General Overview Report 2009: *Checking the Standard of Services in Rest Homes*.

Public Information on Key Players

Ryman	**Retirement villages with independent and assisted living, rest home care, hospital and special care units.**	**4500 residents 2000 staff**	**21 locations**
BUPA NZ	Formerly Guardian Healthcare. Health insurance, assessment, care homes & hospital services in 180 countries.	3200 staff	16 villages 45 rest homes
Oceania Living Group	Merger of ElderCare and Qualcare. Independent living, rest home, hospital, specialist, respite & palliative care. Recently received bad press for poor care services and industrial action.	3000 staff	58 locations
Metlifecare	NZX listed, owner and operator of retirement villages nationwide offering full spectrum of care including 10 specialist care facilities and 8 hospitals.	3300 residents	17 locations
Radius Care Solutions	Rest home, village, dementia, palliative, respite, long and short term aged care services.	1200 staff 1400 residents	22 facilities
Summerset	Lifestyle services and village options.	360 staff 1450 residents	12 locations
Vision Senior Living	Luxury independent living options.	800 residents	6 villages

Selected Competitor Profile for Metlifecare
Information Obtained From Metlifecare Investor Presentation 2009

Metlifecare operates 17 lifestyle retirement villages incorporating 10 care facilities. In all, Metlifecare operates 2,469 villas and apartments and 466 care beds providing a continuum of care for more than 3,300 residents. Stage 1 of Metlifecare Takapuna opened on 20 June 2009 with strong attendance from the public. Occupancy levels remain high with an average occupancy of 87.2% across villages and 96.7% across care facilities. Recession has deterred prospective residents in FY09 resulting in a decrease in cashflows from licensing and relicensing activities ($27.2min FY09 v $38.9m in FY08). Reported loss of $115.7m for year driven by non-cash, non-operating items including the revaluation of investment properties ($106.9m). A new CEO, Alan Edwards and a new General Manager Sales, Jan Martin was appointed in August 2009.

Over 2009, all expenditure was reviewed and supply agreements renegotiated where possible. Discretionary spending throughout the business was reviewed in detail. Capital expenditure projects were reviewed and only those with near term returns initiated (others were deferred). Maintenance expenditure was reviewed to ensure ongoing compliance with regulations. In March 2009, the company raised $34.5 million of new capital through a renounceable rights issue. Future growth is focused on completion of Stage 2 in Takapuna by 2010. However, future developments are possible in existing villages as demand grows. This potential capacity includes 353 available developments including 69 independent units, 269 independent apartments and 15 serviced apartments within existing villages.

The ability to enter a retirement village almost always requires the sale of the family home and low sales volumes negatively impact the saleability of principal residences. Pricing of the residential property market has not been as significant an issue as volume during the last 12 months. Additionally, tight credit markets means that Metlifecare has adopted incentives to attract new residents. It will aid with the costs of moving into a retirement village including legal costs, marketing costs in relation to sale of own home or moving costs.

Retirement Living & Aged Care Different Businesses

Lend Lease

Senior Living Sector

	Retirement Living		Aged Care	
	ILUs →	Serviced Apartments →	Low Care →	High Care
Care Level	None	Personal Services	Low Level	High Level
Regulation	Moderate (State Based)		High (Federal Based)	
Revenue Sources	New Sales, Re-Sales, Resident Fees		Government Subsidies, Accommodation Bonds, Resident Fees	
Key Risks	Property Market, Valuations		Operational Expertise	

Market for these products/services is changing. Government funding of Aged Care shifting toward funding the individual consumer of services rather than maintaining the assets of the service provider eg. CACPS funding packages & ageing in place

5

Retirement Living – Future Demand Growing

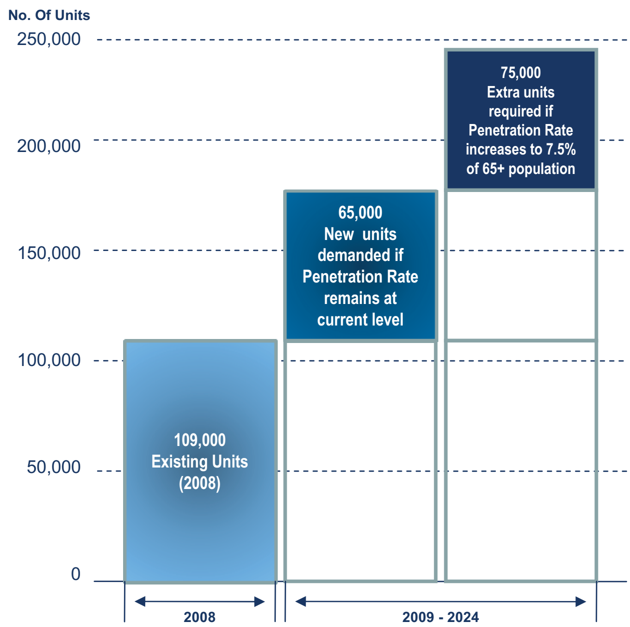
Lend Lease

Increasing Acceptance of Retirement Living in Australia

- Penetration Rates have increased to above 5.25% of over 65s from 3% to 3.5% less than 10 years ago
- Penetration rates expected to continue to increase towards the higher rates seen in US (12%)
- Up to 140,000 new retirement living dwellings needed over the next 15 years to meet projected demand
  - This equates to circa $42 billion in new construction

Source: Jones Lang LaSalle

Additional retirement units required to meet future demand



8

Aged Care – Industry Structure "For Profit Sector"

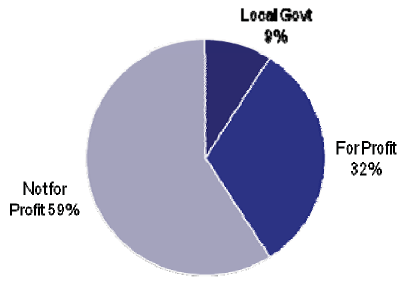
Lend Lease

Australian Aged Care Industry

- LLP fifth largest For Profit operator in Australia (2,313 beds)
- 183,000 allocated residential aged care places
- 59% of bed licences held by Not for Profit Sector

Highly fragmented industry

- Largest provider controls only 3.4% of the market



Top five For Profit Providers

1. AMP	4,500 beds	500 in pipeline
2. Regis (Macquarie)	3,500 beds	500 in pipeline
3. BUPA (previously DCA / Amity)	3,500 beds	
4. Japarra	2,600 beds	Unsure due to recent sanctions
5. LLP	2,300 beds	

Aged Care – Industry Overview

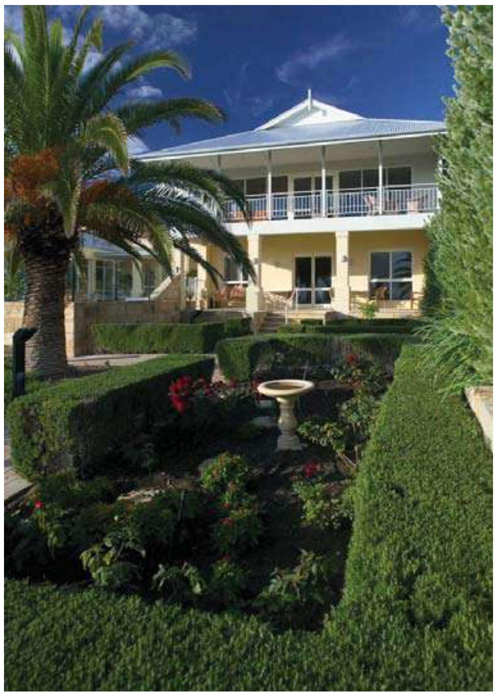
Lend Lease

Industry does not operate in a 'free market'

- Heavily regulated by Federal Government
- However this results in stable and predictable cash flow
- Operations respond well to scale and systems
- High barriers to entry
  - Bed license allocations; Approved provider qualifications & competence; Capital expenditure & maintenance

Aged Care Accommodation – not a lifestyle choice

- Little financial consideration by incoming residents
- Demand driven by care needs resulting from:
  - Chronic Illness
  - Disability
  - Reduced Mobility
  - Isolation
  - Inability/unwillingness of family to provide required level of care
- Result of assessment by Department of Health & Ageing ultimately determines if individual is eligible for a bed



Harbourside, Mindarie, WA (Retirement Village)

Global Health Care Services & Facilities

This industry overview was obtained from Data Monitor Global Health Care Services and Facilities:

- Spiralling populations and increasing standards of living have been strong factors in the growth of the global healthcare facilities sector in recent years.
- The rapidly expanding Asia-Pacific market could emerge as the primary growth market in the coming years as its regional healthcare systems develop. Many leading players in this field have sought expansion outside the US market in order to increase growth rates.
- A problem (and an opportunity) for the healthcare industry as a whole is the rising demand for services. People are living longer and need more care. Taking care of patients requiring expensive drugs and other specialized care needs is a drain on the budgets hospitals, nursing homes, and long-term care centres.
- Rising cost of care, and demand exceeding capacity, are two of the largest cited issues that need to be addressed. Another trend in countries with national medical care is the rising number of people taking out private insurance policies.
- Healthcare facilities have also been faced with a shortage of capable workers due to the labour-intensive nature of the healthcare industry. Increasing labour requirements have resulted in increased competition in the procurement of skilled healthcare professionals at favourable costs, compelling companies to pay higher salaries and benefits, impairing, as a result, profitability within the global industry.
- The proliferation of limited-service, or niche hospitals, focusing on cardiac, orthopaedic and surgical procedures, as well as ambulatory surgical centers and diagnostic testing centers, could drain essential resources needed for full-service community hospitals to continue providing a wide array of health services moving forward.

Jones Lang LaSalle's 2010 seniors housing outlook shows real estate industry must adapt as seniors come of age

Technology, comprehensive diagnostic programs and architecture must adapt to aging population

Stalled developments, rising vacancy rates and prolonged residential market malaise have all contributed to the depressed state of the seniors housing sector—a normally robust division of the commercial real estate market which continues to face headwinds due in large part to a lack of liquidity in the market. However, Jones Lang LaSalle's 2010 Seniors Housing Outlook notes that major technological advances and new architectural designs will play a significant role in keeping the industry vital as future demand for innovative amenities increases.

"While operators from every facet of the continuum of care persevere in their efforts to appeal to seniors, it is the economy that continues to throw roadblocks in their way," said Michael Berne, Managing Director, and the head of the firm's seniors housing capital markets team at Jones Lang LaSalle. "Seniors wary of selling their homes in a down market have delayed even thinking about their future housing dilemmas, and many have even moved back in with their children. However, in the next 20 or so years, the number of seniors in the United States will more than double to 75 million people and society must adapt to this aging population."

Jones Lang LaSalle's Seniors Housing Outlook for 2010 foresees the demand for independent living, assisted living, skilled nursing facilities, dementia facilities and continuing care retirement communities will continue to grow once the credit markets stabilize. However, the amenities of the future will be vastly different to those offered today.

For many generations, nursing homes were considered a refuge of last resort. To counteract this perception, the seniors housing industry has readjusted to attract ever more knowledgeable and educated clients and will make even more dramatic changes in the near future. Residents of yesterday's nursing homes will not recognize the seniors' communities of the future.

Seniors housing in the future will be defined by technology, medical and medical-related programs and architectural creativity. Jones Lang LaSalle envisions residents will demand these attributes and those companies that understand, develop and implement them will survive and thrive.

- Technology: No longer will mere Internet access in a computer room or a gaming console in the recreation room satisfy seniors. Tomorrow's seniors want to be connected and technologically advanced facilities will make that happen. All rooms will have voice and visual instant access to family and friends, as well as to a wide variety of medical sources ranging from physicians to nutritionists. Technology will be capable of measuring calorie intake, weight gain and loss, changes in hearing, eyesight, blood pressure and vital signs—all through sensors located throughout the room, on the furniture, and on the senior's body. Communication connectivity will be seamless and as constant as desired, facilitating the residents' ability to maintain a healthy and vibrant lifestyle.

- Medical and Medical-Related Programs: Seniors housing owners and operators will promote a proactive approach towards health care by providing medical programs and guidance customized to the individual resident. These individually designed programs will use technology to connect the resident to doctors, hospitals, home healthcare companies and other medical professionals. This will allow residents to take control of available disciplines—including hormones, vitamins, supplements, diet and exercise—and have a personalized, comprehensive, diagnostic program in partnership with the facility.

- Architecture: Seniors of the future will demand less institutional and more home-like facilities. The ability to socialize in an integrated, welcoming gathering place will be paramount. Better and creative use of light, sound, water and greenery are among the details that will define the most successful seniors housing. Consideration must be given to space that welcomes and encourages use by schools, social and religious organizations as well as the residents themselves. Residents also want to maximize the companionship of pets including dogs, cats and birds. No longer will seniors be on the outside looking in—new design means they will be fully integrated members of the community.

"As our population ages, seniors housing residents and their families will be seeking out, and securing, a far different living environment. The facilities that fail to meet these expectations in the years ahead will be at a serious competitive disadvantage," said Berne.

Jones Lang LaSalle Capital Markets is composed of a broad range of real estate investment debt and equity specialists, and corporate finance experts, working on all property types and in all the major national markets on behalf of major institutional and local investors and developers, as well as corporations. The firm's Capital Markets professionals are highly skilled at pinpointing and tailoring the right capital solutions for each of these client's needs. The Development and Asset Strategy team specializes in the sale of non-income-producing properties in their various forms from surplus buildings to raw land to entitled parcels and partially completed subdivisions. The Investment Sales teams assist investors in developing and executing asset recapitalization strategies for office, industrial, retail, multifamily, healthcare and seniors housing product. The firm's Real Estate Investment Banking experts raise debt and joint venture equity for investors and developers, and provide derivatives structuring and loan sale advisory services. The Corporate Capital Markets professionals help corporations develop and execute strategies that bridge their occupancy, capital deployment and financial reporting objectives for their facility portfolios. The firm's Value Recovery Services assist clients affected by the current financial crisis by creating value while managing risks through evaluating operational and occupancy needs, assisting with challenged assets and liabilities on their balance sheets, providing receivership services, asset management, raising capital through sales-leasebacks and providing leasing and recapitalization strategies for distressed assets. In the past two years, the firm's Capital Markets team handled $117 billion of transaction volume.

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SELECTED PRESS ARTICLES

NZX Media Release
Date: 23/11/2009 09:36
Company: Ryman Healthcare Limited
Headline: Ryman posts record six month profit

Leading aged care and retirement village operator Ryman Healthcare has posted a realised profit of $29 million for the first half, up 12% on last year and a new record for the company. Unrealised property valuation increases lifted the reported profit to $38.5 million, up 10% on the previous year.

An interim dividend of 2.7 cents per share has been declared, up 12% on last year. Operating cashflows were up 30% to $79 million for the half, as a result of the strong demand for the retirement village units.

"We are very pleased with the first half performance and we expect to match this result in the second half in terms of realised profits," said Ryman chairman Dr David Kerr. "Our occupancy across the board is at all time highs and the recurring earnings from our completed villages are just getting stronger."

The building of new villages continues unabated with significant investment during the half in the two new large scale villages in Whangarei and Orewa, which will both be operational in the second half."We are currently building across five sites and are on track to complete our stated target of 300 retirement village units and 150 aged care beds for the year" said Dr David Kerr. "And all of this development activity is being funded out of operating cashflows."

Resource consent has been granted for the new Dunedin village and building works will commence shortly. The company is actively considering a number of new site opportunities. In May this year Ryman reported a 5% increase in annual profits and dividends, and NZX confirmed that Ryman was the top performing company on the exchange over the previous ten years. Since listing in 1999 the company has increased profits and dividends nine-fold without seeking any fresh capital from shareholders.

Ryman currently owns 21 villages nationwide and plans to open two new villages each year. The villages are all designed, built and operated by Ryman. The company is a six times winner of Best Retirement Village in New Zealand, serves over 4,500 New Zealanders and employs over 2,000 staff.

Note: "Realised profit" excludes deferred tax charges and unrealised fair value movements in investment properties.

We're Not Shy About Retiring

13/09/2009
Sunday Star Times
Greg Ninness

Retirement villages are providing an increasingly popular way of life and an important part of this country's property market. The Retirement Villages Association lists 277 villages on its website, spread throughout the country. That suggests there could be about 20,000 people living in retirement villages, equivalent to a town the size of Levin. That's still only 4% of the population aged 65 and over, but with the total number of people in that age group increasing and the number and variety of retirement villages also growing, it is likely that more people will consider buying into a retirement village. Over the past 25 years the retirement village market has become increasingly sophisticated, with some of the largest operators, such as Metlifecare and Ryman Healthcare, being listed on the NZX.

But there are many smaller operators as well and there can be big differences in the facilities provided. There are two main aspects people should consider if they are contemplating a move to a retirement village: the standard of services and facilities it provides, and the financial and legal arrangements involved. Most modern retirement villages are built to a high standard and the larger ones generally offer a choice of accommodation styles, from freestanding townhouses to apartments. Newer villages, particularly the larger ones, will also offer a wide range of shared recreational facilities. These vary considerably, but can include such things as indoor swimming and spa pools, gymnasium, bowling green, mini golf putting green, library, movie theatre, restaurant and function room and club lounge with pool tables or other games equipment.

The standard of these facilities can range from basic but functional to luxurious, and at the top end of the market, the standard of facilities offered by the most expensive villages can be as high as those of a good hotel. Overlaying these bricks and mortar recreational facilities, villages will also usually offer their residents a range of additional services which can include window cleaning, lawn mowing, maintenance of the resident's unit and use of a village minibus.
But one of the biggest points of difference between villages is whether they offer residential nursing or other personal care for residents who require it. At one end of the scale, villages such as those operated by Vision Senior Living offer a high standard of recreational facilities but no residential nursing services. At the other end, villages operated by Ryman Healthcare incorporate residential nursing homes into their villages and in some cases offer hospital level care as well. Often there will be intermediate care facilities such as serviced apartments, where residents stay in their own apartment but have services such as cleaning, meals and moderate nursing care provided.

Having such a range of services and living options will usually allow residents to continue living in a village as their healthcare needs change. So when people are considering buying into a retirement village, they have many things to consider, but in particular:
*The standard of the particular townhouse or apartment they are interested in, and how well this would suit their needs.
*The range and quality of recreational amenities provided.
*Their likely future health care requirements.
Most people do not require nursing care when they move to a retirement village, but they may require it in the future. Some people will place a high value on having nursing and other personal care services available should they need them. For others that is not so important.

Then there are the financial considerations. A retirement village is very different to an ordinary collection of suburban homes. People buy into a village in the expectation it will continue operating in a certain way and provide them with the services and facilities that first attracted them to it, for the rest of their lives. So the financial arrangements are different to those involved in buying a normal home. These can vary, but the following describes the most common financial arrangement, which usually involves two main costs a lump sum purchase price for the unit and ongoing fees to cover the village's operating costs.

The purchase price: The cost of a unit in a village will depend on such factors as whether it is a townhouse or apartment, its size and the standard of its construction and fit out, and the location of the village itself. So prices vary widely, from under $300,000 to $1 million or more. Because the village itself usually owns the freehold title to the land, the resident's interest in their unit is generally a licence to occupy, a legal document which gives them the right to live in the particular unit for the rest of their life. Usually this amount is refunded to the resident (or their estate) when they leave the unit. The terms of this refund can vary, in some cases it is within a specified time, in other cases it is when the unit is resold. The resident does not get any capital gain if the unit has increased in value, but does not suffer a capital loss if it has declined. On top of this, the resident also needs to pay for a proportionate share of the common recreational facilities a village may offer, such as swimming pool, restaurant or bowling green. In most cases, the village does not charge a second lump sum for this on top of the cost of the unit, but deducts it from the refund of the unit purchase price. This amount is generally set as an annual percentage of the unit price, capped at a predetermined maximum. In the better quality villages it can be 3-4% of the purchase price for each year of occupation, capped at a maximum of 20-30% in total.

So how does this work in practice? At Ryman's Edmund Hillary Village at upmarket Remuera in Auckland, a modern two-bedroom apartment with balcony and carpark would cost $450,000. The contribution towards the recreational and other shared facilities would be deducted from that amount at the rate of 4% a year, capped at a maximum of 20% after five years. So if you left your unit after one year, your refund would be $450,000 less 4% ($18,000) leaving a refund of $432,000. So if you left after five years or more, your refund would be $450,000 less 20%. This would leave a refund of $360,000. The quid pro quo of this arrangement is that while residents will inevitably end up with less money than they started with, it probably reduces the entry cost to the village.

In the example above, a similar Remuera apartment in a different complex with comparable facilities, purchased on a freehold title, would probably cost much more than $450,000. Of course the cost of operating a village, such as maintaining the grounds and buildings and facilities such as swimming pools, paying rates and insurance and generally administering the complex, must be paid for by the residents, because these things are provided for their benefit. These costs are usually recovered from a fee which is payable weekly or monthly. These are based on actual costs so will vary by village. At the Edmund Hillary Village it is $99 a week, while at Ryman's Ernest Rutherford Village in Nelson, it is $79 a week. So retirement villages are not a cheap option, but their costs generally reflect the high standard of services and facilities they provide. And their increasing popularity suggests many people who can afford it are deciding they offer a lifestyle which is worth the price.

The Secret To Their Success

04/07/09
BUSINESS—NATIONAL, The Press
Tina Law

In 1999 Ryman Healthcare's second attempt at listing on the New Zealand Exchange almost failed following a lack of interest. Since then it has become the country's top performing listed company. TINA LAW finds out why Ryman has been so successful. Ryman had a difficult birth, says chairman Dr David Kerr. The virtually unknown retirement village company had to abandon its first shot at becoming a listed company in 1996 because there were not enough people willing to invest. Three years later it had another crack and succeeded, but only just. "Even in 1999 it was a close call. We were disappointed at the interest in 1999 and disappointed at the capital we raised," Kerr says. Ryman's shares were initially valued at 150c to 180c but the price dropped to 135c when it listed on June 29, 1999. Grant Williamson, a director at sharebroker Hamilton Hindin Greene, recalls there was little interest in Ryman in the first 12 to 18 months after it listed. "It just was not considered a growth sector back then. I think it was Ryman that proved just how well you can do in the retirement village sector," Williamson says. Ryman's growth has been impressive. In 1999 it had seven retirement villages in the South Island with 1000 residents and it employed 500 people.

Now it has 21 villages across New Zealand with 4500 residents. It employs 2000 staff and has assets worth $1.2 billion. Its listing value was $135 million. Today Ryman has a value of $800m, making it one of the top 10 listed companies in the country. The return to shareholders has been just as impressive, especially considering Ryman has not asked them to stump up with more cash to achieve that growth. Those who took a punt and invested in 1999 have seen returns not experienced by any other listed company over the last 10 years, the NZX said this week. The investors who paid $1.35 a share have received returns of $9.46 a share, Williamson says. Some of Ryman's biggest shareholders include Canadian- based Emerald Capital and Ngai Tahu Equities, who were both involved before it listed. In early 2007 Ryman did a five-for-one share split, making its shares easier to trade, after they climbed as high as $11.41. "The company is considered by many to be the best quality operators in the retirement village sector. It's a great sector to be in. It's a high-growth sector in the economy as the population gets older and older," Williamson says. Kerr says the company's success can be attributed to many factors, but mostly because it has stuck to its knitting.

Ryman chief executive Simon Challies agrees, saying its investment strategy is almost identical to one submitted when it listed in 1999. "We have refined it and done it better, but we've stuck to doing the same thing. It's quite easy to get distracted from what you know," Challies says.
Even when the company was formed in Christchurch in 1982, founders Kevin Hickman and John Ryder had similar goals and strategies. The founders were joint managing directors until 2002 when Ryder retired and Hickman took on the role by himself before retiring four years later. Hickman is still a director and jointly owns about 7 per cent of Ryman. "As people joined us we built a model and a built a culture. The culture today is a very good culture. The aims are the same, we're still trying to exceed people's expectations and try and improve every village we do," Hickman says.

Ryman's villages offer independent living in townhouses, assisted care in units, rest home beds and hospital care. The villages are promoted as resort-style and have facilities including a swimming pool, library, internet cafe, movie theatre, tennis courts, beauty salon, bowling green and gym.
Ryman builds and designs its own villages, making the company a property developer and a pretty big one at that. It is spending $120m each year on new developments so it can meet its goal of opening two new villages each year which equates to beds for 400 people. It has a policy of only building new villages rather than acquiring existing buildings and has a land bank big enough to house 1600 people.

Money is made initially by building the units at less than the sale price. When a person moves out, the unit is sold back to Ryman for a maximum of 20 per cent less than the purchase price. Ryman then refurbishes the unit and sells it at a higher price than it bought it back for. It appears to be a winning formula if Ryman's profits are anything to go by. In the year ended March 31, Ryman's realised profit (which did not include movements in property values) was $53m, up five per cent. Total income rose 6.1 per cent to $149.6m.

THE SECRET TO THE SUCCESS OF RYMAN.

There is no other operator developing at the same rate and it is not because of a lack of demand, but because not many other people in the sector have access to that level of capital, Kerr says. Demand for retirement village beds is set to balloon as the number of New Zealanders aged 85 and over is projected to grow by 26 per cent in the next five years and by 2031 the number will have increased almost threefold. Kerr says 3000 people are turning 85 each year and Ryman is projecting to build units to house a further 400 people each year which is still only meeting a fraction of potential demand. The growing domestic demand is one of the reasons Ryman has never looked to expand offshore and does not plan to in the future.

"If we continue doing what we're doing we've got huge growth potential. Why would you distract yourself doing something else?" Challies says. The downturn in the property market has not had a big impact on Ryman. Challies says he has noticed people have been more reluctant to put their homes on the market, although moving into a retirement home was often a decision people could only delay for a certain length of time. Sales and occupancy rates are up, but its sales people have had to work a lot harder to achieve that, he says. Despite falls in property prices, Ryman has no plans to drop its prices to meet the market, just like it did not raise prices to meet the peak of the price boom, Challies says. Most of the people buying Ryman's units have not been in the property market for years and have not been impacted by the severe increases or decreases in the market. It is rare for Ryman's residents to have a mortgage; many of them would have bought their homes years ago when New Zealanders were still paying with pounds, Challies says.

To achieve its goal of opening two new sites a year, Ryman is often working on five to six sites at varying stages. It is working on villages in Whangarei, Orewa, Auckland and New Plymouth and was also continuing work in Nelson. Building will start on new sites in Gisborne and Dunedin this year. The property downturn has made it easier for Ryman to find sub-contractors to work on its sites. "It means we've been able to move a bit faster than 18 months ago," Challies says. It no longer has to personally invite firms to submit a tender for its developments and is instead receiving double the number of firms wanting the work. "The tradespeople in Orewa and Whangarei were very pleased to see us starting up this year. At this time when there's not a lot of construction going on, it's a real boon to some of those trades people," Kerr says. There are about 300 tradespeople working on its developments across New Zealand. With demand continuing, the future for Ryman is bright, says Williamson. "They are forever growing and they're not standing still and I think that's what makes them a great investment."

RYMAN HEALTHCARE

* Owns and operates 21 retirement villages from Whangarei to Invercargill.
* 4500 people live in Ryman- owned villages.
* 75 per cent of them are aged over 80.
* Company valued at $800m on the NZX.
* Owns assets worth $1.2 billion.