Cashing in on the wrinklies

Ageing is funding a rest home boom

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Issue 8 / Sunday, 1 August, 1999

Get old, will travel. To the rest home that is. As baby boomers edge ever so close to their 60s, they and their parents are driving a demand for rest homes and aged care.

According to one “life-care village” marketer, publicly-listed Ryman Healthcare, the target market for nursing homes and hospitals is forecast to increase from 41,000 in 1997 to 260,000 by 2051.

The number of people in Ryman’s core market, 85-year-olds and over, is expected to quadruple over the next 30 years to around 130,000. By 2031, New Zealand will have close to a million people aged over 65.

Part of this growth story is wired to the government’s hands-off approach to elderly care. Recent closures of most CHE-operated nursing homes and many stand-alone rest homes make the horizons of big operators like Ryman and co that much sweeter.

The Health and Disability Services Act 1993 created a fully contestable market for the provision of health and disability services. And there’s plenty of cash to fund the growth; government moves to means-test the state pension and healthcare subsidiaries is forcing more retirees to sell their family homes for retirement. Revenue from New Zealand’s long-term aged-care industry is already estimated at more than $1 billion annually. And like the *New Zealand Herald* used to say about the Sky Tower — it’s not getting any smaller!

Hence the bullishness of companies such as Ryman. It plans to raise $54 million through a public float to fund an aggressive foray into the North Island. Ryman listed late June at $1.35 a share.

Started in 1984 by Can-tabrians John Ryder and Kevin Hickman, Ryman builds and develops rest home sites. It generates its income from sales and resales of “occupational rights” to independent apartments and serviced studios; and from care and management fees from hospitals, rest homes and serviced studios.

Prospectus forecasts expect net annual profit to more than double from $6.2 million in 1999 to $14 million in the year ended March 2000.

What’s driving this optimistic outlook is a projected annual compound growth rate of elderly in retirement villages from 2.5% in 1999 to 8.6% in 2031. At 3% per capita, New Zealand’s penetration of retirement villages remains low compared with OECD counterparts like the US where it’s 15%.

If the success of its rival operator, Metropolitan Lifecare, is anything to go by, Ryman will show similar growth. While well down on its post Asia-crisis peak of $2.63 a share, Metropolitan Lifecare’s shares are trading at double the original 1994 list price of $0.85.

John Ryder, Ryman’s joint managing director says, “This is as non-recessionary as any business gets. Even a sharp uplift in interest rates will have limited impact on our core business. 83% of the elderly own their own homes and 90% of these are debt free.”

Mark Story