Aquilius Investment Partners

Residential land lease communities

Addressing Australia's housing shortage and affordability crisis

Reno Sio, Institutional Real Estate, Inc's managing director, Asia Pacific, recently spoke with **Christian Keiber,** founding partner of Aquilius Investment Partners, and **Rob Nichols,** managing partner with Tasman Capital. Following is an excerpt of that conversation.

Christian, Aquilius has recently made a significant secondaries investment into the residential land lease communities sector in Australia. Can you give us some context on this transaction?

Christian Keiber: Addressing Australia's housing shortage presents a very exciting investment theme for our firm, one that is driven by strong secular tailwinds, such as the country's robust population growth, as well as a rapidly ageing demographic. We believe Australia's residential land lease communities [RLCC] sector is a direct play on this theme. It addresses both the housing shortage and affordability issues. To this end, we have recently completed a significant secondary investment into Serenitas, which, with more than 4,900 homes nationwide, is one of Australia's largest residential land lease community platforms. We have followed the company very closely since its inception in 2017, and when the business underwent an ownership change in 2024, there was an opportunity to partner with Rob, the founder of Serenitas, to recapitalise a 20 percent stake in the business through a secondary continuation fund.

Rob, how did you get involved in the residential land lease communities? What can you tell us about the RLLC sector?

Rob Nichols: Tasman Capital is a mid-market specialist with a long track record in executing buy-and-build strategies in non-discretionary, defensive sectors in Australia. A number of our buy-and-build investments have been in the healthcare sector, such as Healthcare Australia, and the residential land lease sector, through Tasman Lifestyle Continuum and, more recently, Serenitas. As part of our investment strategy, we like sectors aligned to the ageing demographic and that expanding demand wave. One of the key areas we have concentrated on is housing for retirees in Australia, where original retirement villages were the prevailing model of retirement housing. However, we found the consumer experience and ownership model was not ideal, and so we concentrated our review on alternate accommodation, which led Tasman to land lease communities. Since then, RLLCs have become a preferred model of accommodation for retirees looking to enjoy life to the fullest due to its high build quality, its aspirational locations and the creation of inclusive communities.

What are the key advantages in a residential land lease community?

Keiber: First, residential land lease communities provide retirees a mechanism to release significant home equity. RLLC's allow a typical retiree to sell his or her primary residence in a city centre and then move into a lifestyle community located at or nearby a great location, typically close by a beach. In that process, retirees free up a substantial amount of home equity they can use for a comfortable retirement. At the same time, these sales free up housing stock for the younger generation in the cities, a market that's currently quite tight from a housing perspective.

Nichols: Retirees get to move to a community with like-minded and similarly aged people, which is important for community and socialisation. Loneliness is a real issue amongst retirees in Australia. RLLCs enable people to stay connected, remain active, engage with their neighbours and make new friends, which leads to much better mental and physical health outcomes. Retirees move into smaller, low-maintenance homes, and they also have access to fantastic facilities with everything from heated pools to gyms to bowling alleys, golf simulators, bars, and all sorts of forums for socialisation and engagement with each other. These communities are a great place to age well and, ideally, live longer.

What key benefits can investors expect from investing in RLLCs?

Keiber: There are many benefits for investors in this sector. The single largest benefit, from our perspective, is that it has incredibly strong macro-economic tailwinds. The key customer is in the 60 years and older cohort, which is growing one and a half times faster than the underlying Australian population growth. This cohort is likely to increase by 50 percent in the next one or two decades. The strong fundamental underlying demand for the product is a very favourable trend for a long-term investor.

In terms of the underlying asset and operation, residential land lease communities are extremely high-quality businesses. Investors receive a very stable income stream just from collecting rent on the land – in Serenitas' case, collecting rent from more than 4,900 occupied sites. Investors receive that rental income stream every month with virtually no tenant defaults. This is because the rental income stream is collateralised by the value of the house that stands on top of the land. In other words, you're collateralising a A$10,000 annual rental income stream with an unencumbered home that is worth A$400,000 to A$500,000, and in some instances, significantly higher than that. The capital-light development model of this investment is also highly attractive. You essentially have a made-to-order model with high visibility on demand. You build at good margins, and then you recycle sale proceeds into buying more land and developing more homes. From an investor perspective, this ticks as many positive boxes as can be ticked.

Expand on how the RLLC model is taking market share from the retirement villages in Australia.

Nichols: Retirees typically sell their four- or five-bedroom home in the suburbs of regional and capital cities, which frees up this housing stock for younger buyers. The price point they receive on that sale is usually enough to buy a RLLC home and put some equity aside to live on in the future. The median entry price of a land lease community is typically 80 percent of owning typical residential accommodation in a similar area because it does not involve ownership of the underlying land. Rather, they lease the land from us. Traditional or non-RLLC retirement village models are very different. Culturally, Australians are very wedded to ownership of the home, but with the traditional retirement village model, residents only have a license to occupy but do not own the home. That arrangement is very complex and unfamiliar for Australians. The opportunity to actually own the home is one of the key reasons why the RLLC sector has experienced strong growth historically and why we take market share from traditional models.

Another key reason market share shifts away from the retirement village sector is that the rent the homeowner pays on the land on which the house sits qualifies the retiree — subject to an asset and income test — to receive a rental supplement from the federal government. Their site rent also includes all the costs of normal suburban home ownership — land rates, government rates, garbage collection. All the costs you would normally pay in a residential setting are covered within the land lease site rent. Residents still have to maintain their homes, but it's a much simpler and more affordable way to retire.

Keiber: The true ownership element is a clear differentiator between a residential land lease community and traditional retirement villages. It gives residents the full control of their home. If you don't want to own it anymore, you can sell it. If you want to you pass it on to the next generation, you can pass it on. Being in full control of your home, of your investment, has driven that shift in market share.

How many stakeholders are involved, and how complex is it to run the entire ecosystem in this community?

Nichols: For an RLLC community to be successful, you need a strong, hands-on operator to see the community through from master planning, to developing, all the way to operating and maintaining the community — as Serenitas does today across all of its communities. From the beginning to the end of the process, we buy a piece of land, put in the infrastructure — roads, water, gas, electricity, internet and a perimeter fence with access control — and then we build aspirational community facilities, which all residents get to use as part of their enjoyment of the community. We then build homes and sell those. Once the home is occupied by the homeowner, we enter into a lease which goes into perpetuity, in which that homeowner has the right for their home to remain on the operator's land as long as they pay the site rent. Homeowners don't default on the rent in RLLCs. These retirees are very responsible, and they are funded largely by the Australian government, which creates a very secure cash flow.

With more than 4,900 occupied sites today and a landbank of almost 2,000 sites, what are Serenitas' growth plans?

Nichols: Our strategic plan is centred around the retiree population in Australia. We will continue to find opportunities where there is high consumer demand in terms of location. Ours is an Australian expansion story — and we believe there continues to be significant white space. Given the strong underlying demand growth for the RLLC product, for us to only maintain our market share, we're going to have to be moving our annual production of new homes we build from approximately 400 today towards 1,000 during the next three to five years just to keep pace with the growth of the ageing demographic in Australia. There is a huge wave of demand coming our way, and we are well positioned to capture it.

Anything else you would want investors to know about diversifying into the RLLC sector?

Keiber: Investors looking into the RLLC sector will want to invest with an operator that is, first and foremost, building high-quality product in an excellent location. That is fundamentally what drives these communities. You must make sure you have the right, high-quality product and the available land bank to build your product on. From our perspective, that was why Serenitas was particularly attractive — they had already secured a very large part of the land bank that Serenitas will need for its future growth projections. Then, you want an experienced operator and management team with a very hands-on approach that can build the homes and manage these communities. These lifestyle communities do not run on autopilot; they are living organisms. Backing the right operator with a roll-up-the-sleeve attitude, deeply vested into providing a community feel, is absolutely key.

Nichols: Residential land lease communities are a fundamentally equitable model for everyone. They are good for the homeowners, because they keep their capital gains, which mirror the residential market they're located in. It's a good model for the operator. The government supports it, because it frees up housing stock and addresses the housing shortage. By grouping a community of similarly aged people, it facilitates the efficient delivery of medical services as people age in place. Whilst we are an independent living operator, nursing or home-care agencies can be very efficient on behalf of the government, delivering health in the home. Everyone wins in this business model, and that is why it has become so preeminent and successful for residents and investors alike.

CONTRIBUTORS

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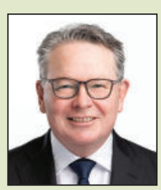
Based in Singapore, Aquilius Investment Partners is an independent asset management firm focused on private equity and real estate secondaries investments across Asia Pacific. The firm manages more than US$1.5 billion of assets on behalf of global institutional investors with 25 dedicated professionals based in Asia.



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Tasman Capital is a leading Australian private equity firm specialising in mid-market businesses operating in nondiscretionary, defensive sectors. The firm focuses on companies with stable cashflows and strong resilience across economic cycles, leveraging deep expertise in operational improvements and buy-and-build strategies. Tasman currently manages more than A$1 billion of assets for its institutional clients, including sovereign wealth funds and family offices.

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