

China Senior Housing and Care

Newsletter December 2013

For internal review only

News Update

1

Industrial Analysis

A City Sample of the Recent Policies on Senior Care Industry

--- By Michael Qu

2

Guest Column

Is Close Care the future for CCRC's?

--Could there be a "made in China" variant? (part I)

---By Martin Habell

5

Demand is rigid, but market not necessarily accessible for you
--How does senior housing do marketing in China (Part II)

--- By Jamie Cao

8

News Update in Figures

First National Standard for Senior Living Community

The Standard for Elderly Friend Living Community (the Standard) was published in Beijing on October 18th. It is the first of its kind standard promulgated by China Silver Industry Association and National Institute of Standardization, under the guidance of National Committee on Aging (CNCA) and Standardization Administration. The Standard is formed in due procedure according to the 12th Five-year plan on senior living. It is applied to high-end elderly friend living communities that is newly constructed, repurposed or expanded in respect to the areas of construction, care service, operational management and IT construction, etc. The China Silver Industry Association will first organize trial implementation with some companies and then try to extend the Standard to the senior care facilities all over the country.

According to the Standardization Law, the standardization procedure includes three steps, i.e. setting up, implementation and supervision. Being set up by different bodies, a standard can be national, industrial, regional, or inter-enterprise or association standard. It can be either compulsory or recommended pursuant to the different nature of the standards. As for the implementation and supervision of standards, usually government or competent authorities will be in charge.

First BOT Senior Care Facility Constructed in Jiangsu

Wuxi

On October 10th, the second phase of Wuxi Welfare Center Project was officially commenced construction by means of BOT. BOT (Build, Operate and Transfer) is a special model of investment and finance, in which private capital undertakes investments and operates the facility for a fixed period of time after which the ownership of the property and affiliated infrastructure reverts back to the public sector. According to the news, the municipal government has provided land use right for free and handover by contract to a private investor for construction and operation. The private company can also enjoy all types of preferential policies from Jiangsu and Wuxi. The whole project, the private sector can operate for 40 years before handover to the government, will consist 400 beds in its total construction areas of 18,000 m². Designed as a four-star high-end senior care facility, it is scheduled to complete and open by early 2015.

(to be continued...)

Industrial Analysis



A City Sample of the Recent Policies on Senior Care Industry

By Michael Qu

Having introduced the regulatory landscape in senior and health care industry in Shanghai in our last edition of newsletter, we, this time, find it very necessary to take a look at the policies in Beijing. For many investors, it is no longer a question of whether to invest or not, but the question of which city to choose from for their starting point. Beijing and Shanghai are definitely two places they are struggling in choosing from. Obviously, there will be economic, demographic, or even political reasons, among others, to be factored in. And, don't overlook the regulatory factor—always staying ahead of the curve of the regulatory environment will help you to make the business decision in a more rational way.

The capital city's strategy

Looking into the regional strategy is always the first step we evaluate the business opportunities in one particular city. Slightly different from the national strategic goal of "9073", Beijing's goal is "9064", resulting in more senior care facilities to be built—approximately totally 160,000 beds by year 2020. In light of this target, the government will provide more guidance and support to attract private investors. Indeed, private capital is expected to be the dominant players in the marketplace. As a recent Measure ("Implementation Measure on Speeding up the Construction of Senior Care Facility", hereinafter referred to as the Measure) from the Beijing Municipal government stipulates, facilities constructed by the government is to meet the ends need for citizens as the minimum social security,

PI

The First Listed Senior Care Company from Shandong on Shanghai OTC Market

Early this May, the first private-owned senior care company named Rong Cheng Shen Quan Senior Living Co., Ltd was successfully listed in the Shanghai Equity Exchange Center. It is a good example of financing through capital market for small-to-mediate sized enterprises. As reported, Rong Cheng is a company specialized in providing management service for senior facility, community care solution and in-home care service.

Shanghai Equity Exchange Center is a national OTC capital market. After being listed in the Center, companies can rapidly realize direct and small-sized financing with lower cost by means of private equity fundraising and issuing of additional shares, or, they can indirectly raise fund by means of equity pledge or mortgage.



Michael Qu Qin is the managing partner of Law View Partners based in Shanghai, China, where his legal practices cover the areas of real estate, foreign investment and mergers and acquisitions. He has extensive experience as a lawyer for over ten years. Since 2010, he has specialized in the senior housing industry, representing foreign and domestic investors in the sector. In his practice, Michael has successfully represented investors in the real estate, senior housing, asset management, retail and hospitality sectors in dealing with commercial transactions and disputes.

Michael is active in the senior care industry, and he regularly publishes the China Senior Housing and Care Newsletter, a legal publication that provides valuable insight into the development of the China senior housing and care industry and helps investors doing business in China. He is a frequent speaker at real estate and senior care seminars.

Law View Partners is a boutique law firm that specialized in helping foreign investors doing business in China. One of the firm's focuses and strength is assisting private investment in the senior care industry, providing counsel regarding company and capital formation, project development and acquisitions, regulatory issues on operation, corporate finance, and related issues.

Contact information:

quqin@lawviewer.com

while the private-invested facilities are to meet the diversified needs from various seniors. Actually, Beijing is the first city that echoes to the central government's recent politics on the development of senior care industry (*please refer to our analysis on these policies here <http://www.lawviewer.com/upload/file/13811127441866.pdf>*). We may expect many other cities will introduce and implement their detailed measures very rapidly, and more important, some initiatives the capital city has taken might become what the others will follow suit.

The land acquisition regime for senior housing

We are all aware that land price in Beijing is far more expensive than many senior care operators can afford to run a profit business. The government has obviously realized the situation as well. The Measure requires that only three types of land use right can be used for new construction of senior care facilities. The first type is land planned for institutional facility, which is defined as for the construction purpose of social welfare infrastructures. In some cases it means land use right can be allocated to operators without any land premium to be paid. The second is land planned for community-based senior care facility, which is also been categorized in the social welfare system as the city infrastructure of residential communities. Moreover, in the future, the government will set out a capped price in bidding for a residential plot, the winner will be the one who promises to build the most areas for senior care facility in the community, instead of the one offers the highest purchase price in a normal procedure. Such areas will be handover to the government for free for senior living purpose. The third type is land planned for facilities of other services, which is categorized as one type of commercial land use right. For land use right falls out of these three types, certain approval from the Planning Bureau is needed before it can be used for senior living purpose. However, in order to encourage investors to build more senior care facilities, the restriction will not apply to the circumstance where owners repurpose their existing properties for operation of senior care facilities.

Another reform is also expected to the "two pillars" system of China's land ownership. It is used to be a must step for a collective-owned land to be requisitioned by the government before it can be granted to private owners for commercial purpose. The just wrapped up Third Plenary session of the 18th CPC Central Committee set out a reform plan on this land system, along with other significant transformative approaches. It is then expected that collective-owned land use right can, in the future, be circulated at a marketable price as state-owned land use right. According to a national statistic from year 2010, there are approximate 250 million Mu (around 41 million acres) areas of constructional collective-owned land use right, out of which there are an estimated 50 million Mu (over 8 million acres) areas can be used for profitable construction purpose should this alleged land reform been spread out. The relaxed principle to use collective-owned land for senior care purpose, together with the unleashed huge bulk of land use right, will definitely have profound implication to the supply market for real estate—that to the senior housing market should not be overlooked as well.

Subsidies will be increased, but be aware of its adverse effect

Subsidies and preferential policies are the most frequently asked question from investors. To answer it simple, it is now in almost every city only applies to not-for-profit senior care facilities. It will usually lead to another question of whether not-for-profit facility can be “profitable”, or in other words, investors can earn from the not-for-profit business. To answer that question, we must firstly look at what preferential policy can a not-for-profit facility enjoy.

Under the Beijing’s circumstance, the Measure specifies that a not-for-profit facility can: (a) receive a construction subsidy of RMB 40,000~50,000 per newly-built bed; (b) monthly operation subsidy of RMB 300 (for independent seniors) and RMB 500 (for semi-disabled seniors) per resident; and (c) exemption of relevant taxation, i.e. business tax, corporate tax, real estate tax, land use tax and stamp duty, and relevant government charge arising from construction. In order to enjoy so, operators usually are subjected to government supervision on pricing and operating. In response to the rising subsidies as introduced by the Measure, the government will pay more diligent attention to their routine supervision on the operation of facilities to make sure all subsidies and residency charge are put in the right place.

What about family-based small business

Running a small business is never as easy as it can be pursuit in other western countries. Adding to the complexity of licensing and land issues, family-based facility may not be an attractive business model for many entrepreneurs. However, with the lowered threshold of minimum nursing beds in a senior care facility, a place that can accommodate over 10 residents is qualified to apply for a facility license. The enthusiasm might be ignited soon.

The Measure encourages private investors to open more community-based boarding facilities for seniors (托老所), in the form of either for-profit or not-for-profit. The Measure permits private investors to use residential houses to open boarding or day-care facilities. The concept looks more like family-run residential board and care facilities in the U.S.—similar business model also plays well in other Asia countries, such as Japan. This initiative from the Beijing government will definitely broaden investment channels—in home care providers will have more needs stem from those community-based facilities, real estate developers can use scattered residential properties they possess for this purpose, and there might be opportunities for realtors as well. Furthermore, those facilities can also enjoy monthly operation subsidies as we discussed above. Of course, the government has already realized the urgent need to put in place further administrative approaches, setting-up requirements and operational standards for those small facilities.

Further legislation expected

Pricing is yet to be regulated. Usually senior facility infrastructure is designed to serve three levels of senior citizens. The lowest level is the indigent and disabled group, who are supposed to receive social support as their need of care arises, and usually government shall born all or majority of the cost for care service. The highest level is those from affluent families who can afford living in all kinds of private-run, and mostly high-end facilities, where pricing is freely decided by operators and will be adjusted by the market itself. And, the mid-level group in between the above two, who represents the biggest market need, actually is very sensitive to the price. In order to supervise the mid-level market, the Beijing’s Measure requests all private not-for-profit facilities to follow the government-guided price, while leaves other private-run facilities with more freedom in pricing. We are disappointed not to find any regulation on the selling of membership or lump sum entrance fee. Some investors and developers, as we find, are selling membership card for illegal fundraising before any construction of project commenced; many investors are selling it without consumer protection mechanism in place. The territory needs more supervision, sooner than later.

The Measure also schedules to introduce more rules in respect to assessment mechanism for government-invested facilities, market entry requirements and operation evaluation mechanism for private-invested facilities. More surveillance is also expected on land acquisition regime. Specified land use right for senior care facilities will be subject to certain limitation in usage—usually properties built upon it are unpermitted to sell, and the government is able to enforce it. Can we then expect less real estate development in disguise of senior care projects? Not until the market is maturely regulated. ■



--Could there be a “made in China” variant? (part I)

By Martin Habell Dip Arch ATP RIBA FRSPH

Many developers do not realize that the basic CCRC model that is seen as a US product has evolved separately elsewhere largely to suit national cultural and economic circumstances. There could be great relevance to China in seeing how these different models have evolved, and they offer greater scope for developing a Chinese product totally suited to the national circumstances. The key lessons that come out of my 30 years of producing CCRC's is that a “one size fits all” formula is bad care and bad business; that going for ever larger developments is poor economics and that the industry is moving so fast that many types of specialist concept are evolving. It is a competitive market and the concept has to respond to new pressures and ideas.

This is the irony of the sector. While general housing tends to be driven by a standard idea of what is a good home, elderly housing is, to put it simplistically, a fashion item. It is driven by the changing aspirations and expectations of a particular sector of the population. In the UK, for example, senior living homes thought ideal for the elderly 20 years ago are being demolished as unsaleable now. The marketing is complex, involving resident and family, and the revenue streams unique. However, if you get it right and stay ahead of the pack it is also attractively profitable.

A better care of the frail elderly

Close Care was born of the realization that in the right care environment we can reverse or alleviate many symptoms of ageing to the degree that a frail person can be in their own home rather than in an institution, if only it is designed correctly and with the right nursing care. While traditional CCRC's try to maximize fit retirement

life they are in fact badly suited to the psychological and physical breakdown that occurs in later years. Close Care makes an important philosophical statement: Ageing is not a sad journey through states of irreversible decline. Instead it can be an educational experience in which we learn new ways of living to suit our new condition. As a result, rather than accepting an inevitable transition through ever more institutional environments until death, it is actually possible to stay in a familiar home, probably owned by oneself, and end one's days there helped to adapt to new ways of living.

How it began: inverting the pyramid

A different type of building established the philosophy that now underpins Close Care and we are still building them with great success today. In the 1990's in the UK private investors were allowed to displace state-led elderly care. We were presented with a challenge: can you sell frail elderly care (as opposed to retirement living) to good effect? The appeal to business was strong because it would be driven by need not whim and so be a guaranteed and growing market with significant add-on profit centres. We conceived a Total Care Unit designed to minimize the institutional feel of traditional care homes. So looked upon care as a market-led product where the elderly are consumers of a service, rather than simply powerless recipients under a regime delivered to a formula.

To reinforce this everything was done to remove the labeling and iconography of institutions. We made the environment act therapeutically to encourage stimulus and interaction and foster exercise. We created sensory areas that give a sense of time, place and season using smell, taste, touch and sound, related to interior and outside nature. Tasting tables to encourage eating, self-preparation of food, and Horticultural pursuits are important. Staffs are not given a meeting room, they are expected to be part of the family and have "time out" among the residents. In other words the lines of authority are blurred. Indeed staffs are expected to talk about their own families and homes with residents, bringing the outside world in. Always the intention is to prevent the "surrender" of old people which hastens decline by encouraging their own decision making and action. Building modeling and design are there to reassure and stimulate. All the decisions on design were made on the basis of encouraging interaction and exercise, to stop withdrawal and depression.

In other words the environment becomes a tool for care.

This had a remarkable effect on the residents and presented us with a problem: they were much improved and could to a degree look after themselves with the right support, but there was no appropriate housing to go to. Traditional sheltered housing and assisted living did not adequately cover the frailty or offer full nursing cover. Traditional CCRC's were no longer appropriate. What is more the homes were not appropriate to the disabilities.

Rather than a central medical facility that would become nothing more than a geriatric ward, what was needed was an *invisible nursing home* adjacent to *pecially designed dwellings* that could serve all the different processes of assistance. Such homes would have 24 hour access to qualified nursing cover and an ability to provide meals and communal activity; but the heart of the concept was the individual home. This concept we called Close Care.

Certain attributes came with this concept. Increasing frailty brings with it depression and anxiety and it is very important to design the enclaves with a clear visual link to the centre where the carers are based. Living in ones own home needs, at that age and in that frailty, very apparent safety nets that reassure. Distances to the shared facilities should be short and level. The aim is to replicate normal life and the challenges it presents. Thus residents go on small journeys and have small challenges, be outside and inside, experience the change of weather and passing



Martin Habell
Dip Arch ATP RIBA
FRSPH

Martin Habell is a leading expert on health and care environments and a pioneer of new types of CCRC' s.

A professional architect, he has designed and built schemes around the world. Alongside his architectural and project management practice, Maybourne Projects, he also acts as advisor to health care groups and the British Government on new types of elderly care and special facilities for dementia.

In recent years he has developed the Close Care concept for both State and Private sectors in the UK and elsewhere in Europe. He has also produced specialist elderly care facilities, particularly for severe dementia, where the environment is a tool for care.

Contact the Author:

habellmartin@aol.com
and
maybournerich@aol.com

acquaintances.

There is also a cultural aspect. It is very important to understand how individuals in different cultures interact. Social interaction is vital for avoiding depression and yet the subtleties of how this can be achieved vary across cultures. We have to engineer this back.

A new aspect is the result of latest research showing how different nations in different latitudes have differing abilities to absorb sunlight and generate vitamin D. In these days of large scale population movements this is a big and unaddressed problem. The tendency of old people to retreat to dark interiors, often because of rising anxieties, is the opposite of what they should do. Dietary supplements are, we now know, not nearly as efficient as daylight for vitamin generation. Yet bone weakness, falls, fractures, infection and depression are all brought or exacerbated by lack of light, in fact with Alzheimer's, fractures are a major problem.

The service side is based on 24 hour back up of qualified nurses on site and all ailments from stroke, arthritis, diabetes through to dietary, movement problems and terminal care can be handled.

How is Close Care different from normal CCRC's?

Whereas CCRC's are essentially offering lifestyle for older persons, Close Care offers care. So it is targeting an older age. The senior citizen communities that evolved in the United States were largely a continuation of the Condominium model widely known there, but targeted at retired people with money to spend on leisure pursuits on site. Thus vast acreages contain thousands of dwellings and even hospitals and always leisure and shops. Here again we have a cultural distinction that can cause problems in other countries: the United States citizens are used to condominiums and accept the idea of significant service charges, often quite high. In the United Kingdom condominiums are rare and the elderly have great suspicion of service charges. The Chinese too have a suspicion of such charges. They would rather have control or administer jointly.

Often the CCRC has a hospital, being so large. Yet we are learning that hospitals are exactly what is not needed for the long term illnesses and disabilities of the aged. In fact the geriatric ward is a thing of the past. So while it is still believed that a hospital is an answer to healthcare it really only suites the fit elderly for acute or elective occasional treatment. A hospital becomes very uneconomic for old people because recovery times are so slow. For the elderly requiring continuous support and monitoring it is inappropriate.

Service charges are of course the second profit centre for developers but some cultures will only contribute to this in certain circumstances. With a wariness of service charges in the UK the business formula for such circumstances has refined itself to follow the burgeoning demand for acute care of the frail elderly where families do not resent expenditure.

A move to standard CCRC's tends to be a lifestyle statement not a care statement. By contrast entry to Close Care is usually triggered by crisis. A severe fall, onset of phobias, heart attack, need for constant dressing changes dialysis etc. force self reassessment and family decisions. One scenario is a husband who has had a stroke and the couple need assistance but the wife wishes to lead as normal a life as possible but stay together. Other scenarios are severe mobility problems, terminal conditions, or complicated medication. There is the unwritten undertaking that no matter the illness or the state you do not have to move on. Secondly, unlike general CCRC's, the ambience is one of reassurance and safety---almost as if the community is wrapping protective arms around you.

The developments are high density and this is significant. It has benefits not simply in the ambience and feelings of company around you, but is crucial in the efficient response times in cases of emergencies. Staff must get to the problem fast to deal with collapse or failure, from the staff base.

So we have a fundamental: the normal CCRC has a buyer moving in with a set agenda of life choices and a large ability to self-help. Pleasure and leisure are key components. They seek company and activities among like-minded individuals. They have reassurance that if they are ill there is some help. The Close Care is for the much frailer where the major crisis has occurred, a measure of disability has happened, and medication care and support is now going to be permanent, and psychological support is as important as medicine. ■

(...to be continued)

Demand is rigid, but not necessarily for your business

--How does senior housing do marketing in China

(Part II)

By Jamie Cao

Jamie@stormouth.com

Founder and GM, STORMOUTH Digital Marketing Company, Shanghai, China

STORMOUTH has focused on online digital marketing for 5 years and provides various online services in social media for its clients including China Mobile, TMALL, LVMH, HTC, Bayer and famous advertising agency like JWT, Mindshare. STORMOUTH can offer a comprehensive online service from strategy, creative, interaction, IWOM, ePromotion, to crisis PR. From 2013, STORMOUTH began to sever for senior care clients and has been the digital marketing partner to IAHSA in China.

Low occupation rate is a common problem senior care facilities may encounter. To be honest, newborn products and services have to endure some 'bad days' before the market brisks up. Our purpose is to use marketing methods to shorten the 'bad days'. In order to acquire some useful experience, first let us study the case of 'Brain Platinum', a successful newborn health product for the aged in 1997.

1、 Infusion of new idea

Before the launch of 'Brain Platinum', its manufacturer published a 100-paged book named 'Sweep Across the Globe' and sent it to target consumers by direct mail. The book introduced an essential human hormone, Melatonin, and performed a propaganda function of its health effects for the aged. Though, there is little content about 'Brain Platinum' but much about Melatonin, actually the Melatonin is the core element of 'Brain Platinum'. For this reason, when 'Brain Platinum' appears, the target consumers will not get unfamiliar with it. Professor Luo jianxing, Zhejiang University of Media and Communications, has read this book and said in 1998, 'at that time, I did not know that the book was published by Shi yuzhu, the inventor of 'Brain Platinum'. The content tells a subversive idea for human being's health. It is a brainwashing. I am rational person, but still was brainwashed by the book.'

2、 Atmosphere of "being sold-up"

The first launch was in Ningbo, Zhejiang Province. 'Brain Platinum' company arranged his staff to buy all the 'Brain Platinum' by garbing as consumer. When the real consumer came, they were told that the products were sold out. Then, consumer believed that 'Brain Platinum' was a good health product, while the dealer believed its sale would be very good and in turn increased order amount. As a result, the 'sold-up' situation became a kind of word of mouth spreading in other areas by intentional propaganda and impressed more people.

3、Reason for consumption: a perfect gift for the aged

The Slogan, ‘This year, the host does not accept a feast but Brain Platinum.’ was almost known by everyone in China during that time. Its insight is very accurate. In traditional festival, people used to give gifts to show goodness and blessing to the aged. The Slogan tells people that gift should be good to health and ‘Brain Platinum’ is the best one. In another word, it tells people why they should choose the products. In the period of Spring Festival and Mid-autumn Festival, Brain Platinum also launched big advertising campaigns to convey the slogan.

So, what can we do? Firstly, we should infuse an idea: when ageing, people need professional care service. We should use various ways of publication, social media, PR event by specialist to show the advantage of senior care facility.

Secondly, give consumer, mainly the son and daughter, a reason to pay for our service. The reason could be like that ‘it is time to let them have a rest, after being busy for several decades’ and be exposed and spread in various advertising channels.

Thirdly, it is also very important to let target consumer feel that living in senior care facility is popular. As we know, the truth is unpopular and we should not tell lies. However we can leverage some incentives to achieve good sales performance among a small circle. In some high-end communities of Shanghai, we can launch one-week-free trail activity and high discount for the extended time. After the trail, the word of mouth that senior care facility is popular in high-end community could be spread widely by PR methods.

However, there is still a big problem. It is unreasonable for a single senior care facility to spend as much marketing budget as ‘Brain Platinum’ has spent. Whatever the capacity is, any senior care facility has its limitation, which results in the limitation of total profit within a period time. Additionally, to educate the consumer is a tough and risky task. Therefore, a feasible way is to let facilities all cooperate to get the work done. ■

If you want to know more about our newsletter, please contact:

Michael Qu Qin

Managing Partner, Law View Partners

Chief Editor of China Senior Housing and Care

Tel: 86-21-63770228

86-13817878607

E-mail: quqin@lawviewer.com

Having represented international companies in their investment in the Chinese market, our clients can benefit from our deep industry knowledge and experience, and from our creative, solution-oriented and responsive approach. Especially we can assist senior care investors and developers with the following issues:

- Advice on structuring business models
- Conduct legal due diligence on project acquisition
- Business incorporation and licensing and negotiate with joint venture partner
- Draft and standardize documents on (i) construction, operation and business transaction; (ii) third-party agreements and vendor’s contracts; (iii) policies and procedure for residency
- Advice on finance, tax and government relation
- Deal with issues on intellectual property, licensing, general liabilities and employment.