

China Senior Housing and Care

Newsletter February 2013



For internal review only

News Update in Figures

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--Recently, Ping'an Real Property, the company planning to construct "Ping'an Comprehensive Senior Living Service Community" in the city of Tongxiang, Zhejiang Province, initiated a limited partnership equity investment fund for the purpose of investing in its senior living business. The limited partners of this fund are expected to be Ping'an Group, the Pension Fund and other investors. Total volume to be raised will be up to **RMB 10 billion**, with a first closing fund of **RMB 2.5 billion**.

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--This February, Zhongtou Development Co., Ltd, a company incorporated by Greentown, Jianyin Investment and Blackstone Fund acquired in a row two plots in Miyun County, Beijing, at a total price of **RMB 1.387 billion**. The usage of these plots is combined with residential and senior living. Located nearby the Miyun reservoir, the plots, according to the planning, contain totally **400,500 square meters** and can construct properties up to **384,900 square meters**. Average floor price therefore are calculated as **RMB 3,600 per square meter**. It is reported the Land Resource Bureau of Beijing Municipality will continuously release totally **7 plots** for comprehensive senior living purpose in 2013.

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--It was announced by the Shanghai Municipal government that the carrying out effort for realizing better livelihood of local citizens has been fully achieved in 2012, including:

- An addition of **5,227** senior care nursing beds, achieved **104.5%** of the target.

- Provision of community-based in-home care service to seniors who need daily assistance, up to the amount of totally **272,000** individuals, achieved **100.7%** of the target.

- New establishment of **42** community based catering spots for seniors, achieved **105%** of the target.

- New establishment of **26** senior day-care centers, achieved **130%** of the target.

- Provision of mutual-aid elderly care for **100,000** high-aged seniors; and provision of in-home adaption renovation for **1,005** seniors' families with low income, both of which have achieved **100%** of the target.

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Meanwhile, the targets to be achieved for the year 2013, as released, are quite close to that of the previous year, they are: new addition of **5,000** nursing beds, provision of community-based in-home care service to **280,000** seniors, new establishment of **40** catering spots for seniors, new establishment of **20** senior day-care centers, provision of mutual-aid elderly care for **100,000** high-aged seniors, and provision of in-home adaption renovation for **1,000** seniors' families with low income.

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--The Ministry of Civil Affairs in last November signed a Cooperative Agreement with the China Development Bank to together participate and promote the construction of social senior care service system. According to the Agreement, the China Development Bank will provide project loan of more than **RMB 10 billion** each year in line with the cooperate target and planning on specific projects. Beijing Kanglian Co. Ltd will be the major underwriting of such loan. The cooperation aims to support the implementation of pilot projects and eventually establish a financial platform.

--Statistics show that there will be an addition of **76,000** families each year where parents lost their only child (the “Shidu family” in Chinese), and by far there are more than **one million** Shidu families in China. The figure in Beijing is around **8,000**. Recently, a project named the National First Series of Senior Care Bases was kicked off by Beijing Senior Care Extension Center. By means of cooperation with Beijing’s **400** senior care institutions, one purpose of the project is to provide pledge for the senior from the Shidu families in order for them to be able to be admitted by senior care facilities when they are in need of professional care service.

--In order to encourage more private capital to invest into the senior care facilities, the Beijing Municipal Commission of Development and Reform, cooperating with other authorities, has recently released two batches of name lists of private-run senior care institutions that is entitled to acquire capital allowances from the government. The construction allowance allocated to these private operators will vary from **RMB 8,000 to 16,000 per bed**. This incentive is expected to attract private investment of approximately **RMB 900 million** and consequently bring about **5,228** new senior nursing beds. As reported, by the end of the 12th five-year period, there will be totally **120,000** senior nursing beds in Beijing; and in every one of the **16 districts and counties**, there will be at least one public run senior care facility with over **400** beds.

--As the only province in China’s tropical area, Hainan has in recent years accommodated around **450,000** seniors coming from the Northern and Central areas of the country and Yangtze Delta River in every winter. These “Migrant” seniors live in Hainan by two approaches, one is staying at the apartment purchased or leased or along with their relatives; the other is congregate institutional accommodation in nursing homes and motels. Since 2010, Hainan has signed cooperative agreement with **16 districts in 9 provinces** of the Northern China to realize remote reimbursement network for medical expense. To facilitate the seniors’ medical needs, Hainan will continue to establish such reimbursement system with other cities like Xinjiang, Fujian, etc. ■



China Regulates Administrative Measures on Senior Care Facilities

By Michael Qu Qin

On last December 28th, the revision of the Law on Protection of Senior Citizens' Rights and Interests (the "New Law") was promulgated. It will be implemented as of July 1st, 2013. While many paying more attention to the clauses with related to the obligation that children should pay frequent visit to their parents, we would like to focus much on the administration and supervise of senior care facilities that illustrated in the New Law.



The New Law stipulates that establishment of senior care facility shall acquire prior approval from the Civil Affairs Bureau above the county-level government, and upon such approval, a senior care facility shall be registered with competent authority. Local Civil Affairs Bureau is in charge of the guidance, supervision and administration of senior care facilities, and other governmental authorities take relevant supervision role to senior care facilities. Meanwhile, among other requirements for establishment of senior care facilities that provide accommodation and care service to the elderly, an institution name and residence, article of association and capital, qualified staffs for management, technique and service, places and equipment for living and activities are on the list of must haves.

The New Law, in addition, stipulates that government from every local level should regulate the service fee policy in order to discipline the charging activities and standards. In the event any senior care facility is shut down, the governmental authority shall be responsible to arrange the placement of the seniors and provide support. Although many issues yet to be further clarified from the country level, for example, there is no different treatment on administration and regulation for for-profit and not-for-profit senior care facility, the content in the New Law is positive in that the government has realized the importance of regulating the areas of licensing, fee charging and service standardizing in addition to the encouragement of private capital into this industry.

What worth expecting is the Ministry of Civil Affairs is in the process of drafting the Measures for Establishing and Licensing of Senior Care Institutions in order to strengthen the administration of market entrance, facility operation, management and service, among others. The Measure is also expected to be published and implemented before this July 1st. Meanwhile, the Ministry of Civil Affairs has required local governmental authorities to stipulate and enforce a series of standards of service accreditation, construction and fitting, personnel, categorized management and safety and hygiene, and to establish appraisal system for seniors' residence and service demand (initiatives are found in Beijing). We believe these regulations will reduce the illegal operation of senior care facilities, especially in rural areas. Next, we will put more focus on the revision of practical measures on administration of senior care facilities from the local level. ■

Grade Administration Standard for Senior Care Institutions Carrying Out in Some Cities

By Michael Qu Qin

Recent years have seen the implementation of grade administration standard for senior care institutions in some cities or districts. On last September, Qingdao, as the first city in Guangdong Province trial on the STAR ranking for nursing homes, released the Measures for Grade Administration of Senior Care Institutions (the Measures) by the Civil Affairs Bureau. According to the Measure, both public and private run facilities are welcomed to voluntarily participate in the grade assessment upon application. The grade ranges from one to five stars according to the differences in bed amount, greenery rate, living areas and internal equipment, infrastructure for medical, rehabilitation and activities, operational system, personnel, catering and other operation status. At the meantime, the Measure also stipulates the responsible organization in charge of the assessment activities and its rules and procedures, along with the administrative approach on utilization of the ranking result.



Similarly, Beijing has in 2011 implemented the Classification and Assessment Standards for the Service Quality in Senior Care Institutions, while in Shanghai Pudong, the assessment work for senior care facilities was also started as of 2011.

From the contents of these measures or standards, there are highlights worth noting. For example, in the Qingdao's Measure, more emphasis is putting on the construction and execution of the service and operation system, besides the requirement on hardware construction. The Measure especially focuses on the medical service within the facility. It requires the facilities above three star should equipped with internal clinic and rehabilitation room, while facilities at four or five star level shall have standardized and personalized service—for example in a five star facility, seniors with Alzheimer's disease should be kept in record when treatment and assessment is rendered, and psychological counseling for such seniors is also a must have on a regular bases.

However, it is still far from to say these practices have realized the purpose to encourage more senior care institutions to participate and eventually taken shape a standard for the whole industry. The first priority is to address the problem on how to attract more participation from the private-run facilities. Even though in Beijing, facilities granted with stars will acquire funding rewards from tens to hundreds thousand, and Shanghai Pudong government will provide certified facilities with more opportunities of project development and funding resources, apart from certain amount of subsidies, the fact remains that many private-run facilities are inactively echoing to the government's advocate.

That being said, we've seen what the government has initiated in unifying the operational management system for senior care facilities, especially, the government has started to consider making use of the resource of industrial association. Such practice is similar to the accreditation procedure in other countries that is conducted by third party organizations. More important is these non-compulsory rules and procedures maybe in the future evolve into compulsory regulation by some local authorities. For instance, the government may categorize the pricing in the senior care institutions in accordance with the accredited grade. So investors should be well aware of these local regulations in doing the senior care business. ■

Industrial Analysis

January 22, 2013

Market Feasibility Study for Development of Senior Housing in China

By: Jim Moore, Founder, President and CEO of Moore Diversified Services, Inc., Fort Worth, Texas

Joseph J. Christian, Asia Fellow, Harvard Kennedy School, Cambridge, Massachusetts

Michael Qu Qin, Lawyer, Co-effort Law LLP, Shanghai, China

Introduction

Real estate development is a complicated business. It requires the assembly of a team of highly skilled professionals, each possessing unique expertise and specialties – design, planning, construction, construction management, financing, legal, and sales and marketing, to name a few; and management of the team by a developer with the professional skills and capabilities to coordinate the work products of the team members throughout the process. Before the actual development team begins work, however, the developer needs to determine the demand for the contemplated project. A thorough review and understanding of the market for the project and its overall feasibility will influence the planning, design and ultimate construction of the project, and is essential to its likely success. We refer to the project's "likely" success because even with the best, most thorough market feasibility study, there is no guarantee of success; but without a market feasibility study prepared by a consultant with the appropriate skills, failure of the project will be far more likely.

There are many examples of unsuccessful projects, which have failed or are foundering due to lack of demand for the product, across China. A few of the more notable examples are:

- The New South China Mall in Dongguan, a city of 10mm people in Guangdong Province, is the

largest mall in the world based on gross leasable area, with 7.1mm square feet of leasable space, plus an amusement park. However, due primarily to its suburban location and lack of access by public transportation and highways, coupled with the largely non-affluent, albeit large, population of Dongguan, its shops have been almost entirely vacant since its opening in 2005. Its amusement park does attract visitors, but too few to generate sufficient demand for the shops.

- There are numerous other "Ghost Cities" or "Phantom Projects" that have been built, but so far, have not attracted occupants:
 - In Chenggong in Yunnan Province, 100,000 apartments stand vacant
 - The Wonderland Amusement Park, in Nankou Town, Changping, north of Beijing, and Thames Town, in Shanghai. Each attracts not its intended visitors, but interested students, photographers and artists
 - The new business district of Yujiapu, Tianjin was envisioned as a Manhattan-like international finance center - "the next Shanghai" - but will likely require a quarter of a century for its office space to be absorbed, according to an article in *Forbes*.

There are many other projects in China that are, to put it kindly, "under-utilized." There may well be many reasons why some of these projects went

forward seemingly without regard for their success, such as the hubris of the developer, the desire to acquire the land use rights whatever the outcome, the over-availability of cheap debt capital during the property bubble, or the government's zeal for spreading urbanization into the interior of the country. Whatever the reason, in these projects, demand for the product clearly fell far short of the supply.

What should a developer do to avoid developing a failed or troubled project? As we already pointed out, there is no guarantee that any amount of pre-development analysis and study will guarantee the success of a project, but without rigorous analysis of the proposed development, there is a far better than even chance that the project will fail. So, the answer is to engage an experienced, first-class firm to conduct a thorough market feasibility study before spending any significant amount of money on planning and design of the project; and certainly before putting a shovel in the ground.

Purpose of a Market Feasibility Study

The essential questions that a market feasibility study aims to address are, "if I build it, will they come?" and a closely related question, "if I build it, will it be worth it?" As such, the studies aim to objectively and rationally uncover the strengths and weaknesses of an existing business or proposed venture, opportunities and threats as presented by the environment, the resources required to carry through, and ultimately the prospects for success. In the simplest of terms, the two criteria to judge feasibility are cost required and value to be attained, both of which should be carefully assessed before significant amounts of money are invested in a project.

As shown later in this article, a market feasibility study prepared by an experienced professional provides a great detail of involved and detailed analysis that can be used to make important internal risk-bearing decisions as well as providing objective

and credible external communications to third parties, such as lenders and investors performing due diligence or loan underwriting.

Senior housing

The development of housing for China's elderly citizens presents a particularly compelling case for a strenuously conducted market feasibility study, in that the product type is still very new in China, and thus is relatively unknown in most regions of the country. Market rate, private pay projects that have been built by domestic developers and operators, such as General's Garden and Yanda in Beijing, and Cherish Yearn in Shanghai, have so far ranged from highly unsuccessful to just barely successful, owing in large measure to the developers' lack of understanding of the market for their products, and of the operating complexities of the projects. To be fair, this is quite understandable due to the newness of market rate senior housing in China, but the need for a comprehensive market feasibility analysis of the proposed project cannot be overstated in these circumstances.

The market feasibility study should address the regulatory environment and preferential policies that will apply to the project. The senior care industry is an emerging market in China, and most of the applicable laws and regulations are outdated and under revision, and many new ones are or will be promulgated in the future. The developer needs to be sure that the market feasibility analysis takes into account this dynamic regulatory environment, and the policy preferences that will help the project to achieve better performance. An analysis of policies applicable to the project is essential to integrate the regulatory environment into the structuring, pricing and market positioning of the product.

Objectives of a market feasibility study for a senior housing development

A market feasibility study for a senior housing development prepared by a skilled and experienced consultant such as MDS will meet the following objectives and produce the following outcomes:

Establish Overall Market Feasibility. Establish the overall market feasibility for the project.

Make Risk-Bearing Decisions. Assist the Development/Sponsor Team in making the right internal risk-bearing decisions.

Define Business Mission. Provide a clear understanding of the Business Mission - the products and services which can be provided and the specific markets that these products will serve at the subject site.

Project Capture Rates. Determine the required capture rates or size and depth of the age and income qualified market for each of the products/services to be provided.

Establish Project Absorption Rate. Develop realistic and achievable unit absorption projections to reach stabilized project occupancy.

Determine Project Phasing. Where relevant, determine how phasing can be implemented and risks hedged in order to optimize the overall development of the project.

Identify Strengths and Weaknesses. Evaluate the project's strengths and weaknesses within the market area and with respect to the existing and announced competition.

Provide Objective Communications Document. Provide an objective and professional communication package for professional staff, board members and lenders. It may also be necessary to submit the study results to planning and zoning panels and bond inducement committees.

Provide Executive Summary Report. Provide detailed technical analysis, Executive Summary information, professional opinions, and implied strategies for consideration by the Development/Sponsor Team and other interests.

Develop Project Success Profile. The market feasibility study results and recommendations - properly executed by the client - forms the basis for a successful project.

The methodology for achieving these objectives that MDS would employ is discussed in the following section of this article.

Outline of Market Analysis/Feasibility Study

1. Conduct Demographic/Economic Base Study

The economic base study consists of a complete analysis of past population and housing trends, along with projections for the future - with special emphasis on senior market segments. It will include an evaluation of the mix of the market area population and households by age cohorts, income cohorts, owner vs. renter mix and other key demographics. The end result of this task will provide the basis for determining the relative size, depth and quality of the potential market for the proposed senior housing products and services. In addition to the senior market, MDS will also evaluate and express a professional opinion regarding the potential impact of the very important decision influencer market or adult children of seniors.

MDS will obtain current demographics for the project's primary and secondary market areas from its data base and from available sources in China, and utilize the data from these demographic reports in a computer demand model in order to determine the required capture rates/demand for independent living, assisted living and health care products and services.

Specific tasks will include:

- Determine total number of age & income qualified households
- Conduct age cohort segmentation/projections

- Establish qualifying income (affordability) criteria
- Determine impact of senior's home equity on income thresholds/affordability
- Identify other forecasting safety margins - utilizing conservative assumptions

2. Determine Relevant Market Areas

This effort specifically determines where the majority of the unit absorption will come from for the subject project. By properly defining the primary, secondary, and, in some cases, tertiary market areas, MDS will establish clearly and succinctly where project absorption or fill will originate.

This evaluation will be conducted in part during MDS's field trip to the market area. Migration propensities, natural/man-made geographic barriers and psychological or other types of barriers will be considered in this analysis.

Specific tasks will include:

- Definition/philosophy for establishing the primary and secondary market areas
- Impact of adult children mobility trends on seniors
- Determine impact of decision influencers (children)

3. Conduct Specific Site Analysis

A detailed analysis of the physical and qualitative characteristics of the site - clearly defining both superior advantages and competitive market challenges. An analysis will be conducted of the overall compatibility/suitability of the site with respect to the immediate surrounding neighborhoods and overall primary market area.

Specific tasks will include:

- Existing site evaluation and analysis
- Development description
- Surrounding development; impact on subject site, site challenges and opportunities

- Site supporting amenities
- Evaluate and rank alternative sites - where applicable

4. Conduct Comprehensive Regulatory Analysis

There are a number of legal issues – particularly local issues – that have the potential to significantly affect the feasibility – and success or failure – of a project. Careful review of these make-or-break issues as part of the market feasibility study by skilled and experienced counsel is an essential part of the market feasibility study.

Local Master Planning. A careful legal analysis will determine whether and to what extent local master planning for senior facilities will affect the occupancy and profitability of the project. In many jurisdictions, senior care facilities are currently in short supply, but some local governments have already instituted master planning on where future senior facilities are to be built, in very specific locations and detailed scale (for example, in Beijing and Chengdu). This analysis can help the investors to estimate the supply-demand trend in the long term and determine the product positioning strategy in differentiated segments of senior housing.

Local Restrictions on Pricing. Some local authorities have specific requirements or restrictions on pricing, market entry or licensing on their for-profit and not-for-profit business registries. Understanding the pricing model is crucial to determining profitability, ratio among mixed-use properties in the contemplated project, and so forth. In addition, in cities that prohibit lump-sum or life-time entrance fees, such as Wuhan, and provide no guidance on pricing of services, these issues will be identified and appropriate deal structures devised in the course of the market analysis process.

Local Reimbursement System. The local medical reimbursement system needs to be taken into consideration. For example, whether a hospital should be built in the project will depend on the outcome of market research on the range of medical coverage and the targeted residents' preferences and

habits. In designing a product, there will also be many elements to be considered in calculating the consumers' income level, their needs and consumption capabilities. Building what they need is the first step, and investors need to find way to attract elderly to come and stay. Prior research has shown the elderly focus heavily on availability of medical care close by and the reimbursement system in the senior care community; but that does not necessarily mean that a hospital must be included in every project. The market feasibility report, including the analysis of legal issues, will advise on how to design the project for optimal acceptability - profitability - and meet the needs of the consumers, based on the combined factors of the nature of the project, the results of the market analysis and local policy.

Preferential Treatment. Whether preferential treatment, such as a tax preference or the contribution of infrastructure cost, is available from the local government, and if it is, to what extent, should be carefully investigated, as it can affect the financial performance, market/sales strategy, the investment model – e.g., for profit or non-profit, the model for acquiring the property from the local partner – e.g., purchase, lease or entrustment, etc. in a competitive market. Even a minimal difference can make a noticeable difference in the profitability of the project. In China, preferential policies are introduced almost every day in every city.

Evaluation of Construction and Service Standards. Whether the local government has construction or service standards, or a certain accreditation system to be followed, needs to be considered. For example, in Shanghai and Beijing, there are government-run assessments for senior care facilities to accredit their service levels, based on the facility's scale, faculties, services, etc. As a result, the market positioning and pricing can be totally different for different levels of service. To meet all these requirements, analysis and planning need to be done at the very beginning of market research.

5. Conduct Analysis of the Major Competition

Having a clear definition of the competition (if any) in terms of number of units, as well as size, design, pricing characteristics and services and amenities, is necessary in order to develop a unique and effective market positioning strategy for the project being contemplated.

A comprehensive evaluation of the competition will be conducted using a number of approaches/techniques:

- Analysis of MDS's internal China database
- Review of data provided by the client
- "Mystery shopping"/visit to key competition during MDS's field trip to the market area

Competitive projects analyzed will include:

- Independent living/congregate care
- Assisted living/personal care /Alzheimer's-dementia
- Nursing homes
- Community-based services
- Other senior housing products/services
- Hospital/acute care/managed care impacts - where relevant
- Analyze both existing and announced competition

6. Estimate Overall Project Capture Rates

The consultant will estimate the required project capture rates for the subject project - giving consideration to net available age and income qualified households, both existing and announced competition and unit turnover or natural attrition which will occur at existing communities. The estimate of these capture rates will also give consideration to the expected absorption to be realized from each key age cohort, as well as the units estimated to be absorbed from the primary market area, secondary market area, and, in some cases, tertiary market areas.

MDS, for example, has developed a computer demand model which utilizes a combination of

accepted industry factors/ratios and specific market area data such as number of households and income screening percentages by age cohort. Using its model, MDS will run several scenarios that show the impact of changing one or more of the factors (such as qualifying income criteria or number of units to be absorbed) and quantify the impacts of forecasting safety margins - such as home equity impact or the potential impact of the adult children decision influencers.

Capture rates will be estimated:

- By age cohort
- By qualifying income criteria
- Primary market area vs. secondary market area impacts
- Considering existing and announced competition
- Considering resident turnover

7. Conduct Project Fill-Up/Unit Absorption Scenarios

The economic base study and competitive analysis will establish supply and demand trends. The study will establish three unit absorption scenarios - a pessimistic, an expected, and an achievable or optimistic schedule of unit absorption over time. This will provide the project team complete visibility as to realistic prospects for the project in terms of construction phasing and relative risks during the fill-up period.

The absorption rate analysis will be influenced by absorption rates of existing major competitors, if any.

Obviously, there will be other qualitative factors that will surface during the feasibility analysis. These factors will be given consideration in determining the most realistic absorption scenarios.

The analysis will include:

- Initial absorption/net fill-up per month
- Estimate time to reach stabilized occupancy

8. Develop Product/Project Definition and Market Positioning

Where appropriate, MDS will offer complete product mix recommendations, including the types of products to be offered at a particular site, specific design and pricing details and services/amenities to be provided by these products. In addition, MDS will offer recommendations regarding how to strategically position such products in the competitive marketplace and when to appropriately sequence their development and introduction into the marketplace.

Specific tasks will include:

- Establish/recommend appropriate product mix:
 - Independent living
 - Assisted living
 - Alzheimer's-dementia
 - Memory care
 - Active adult
 - Nursing - if applicable
 - Other products
- Recommend Specific Living Unit Characteristics:
 - Mix of living arrangements and unit types
 - Sizes/living areas
 - Pricing structure(s)
- Recommend services and amenities vs. pricing
- Suggest alternative pricing systems

9. Prepare Final Report

Results of all of the above research tasks will be documented in a final report. This report will summarize market feasibility and provide supporting data with both clarity and comprehensiveness. One of the purposes of the report should be to communicate with other external interests, such as lenders and joint venture partners. The report will be written in that context.

The report will include:

- Technical exhibits
- Detailed narratives
- Professional opinion of project feasibility

Special Strategic Consulting Tasks

As part of the normal scope applied to feasibility studies, MDS will also include certain strategic consulting efforts that are of high value to the client. These include, but are not necessarily limited to, the following:

Special Emphasis on Affordability and Pricing Models

In today's complex marketplace, senior consumer affordability and willingness to pay must be carefully integrated with project cost analysis to insure that the market research results are consistent and realistic. Each market area has unique responses and propensities to accept the variety of pricing models that exist in the industry. MDS will determine affordability versus size and depth of the market by applying the sponsor/development team's cost estimates to appropriate pricing analysis models. MDS will also suggest alternative pricing models - consistent with both the market and the sponsor/development team's objectives.

Design Concept Critique

MDS will perform a design concept critique for the project - based on available design concepts that will exist and are provided to MDS during the market feasibility period. While we do not practice architecture, our significant experience allows us to help the team evaluate design concepts in order to clearly show what works and what does not in this

very selective market sector.

Provision of Miscellaneous Resources

MDS retains a complete file of hundreds of beneficial items to an emerging congregate project. These items include:

- Design and campus "footprints" & building elevations
- Innovative living unit design configuration
- Typical common area amenities and features
- Sales aids and marketing brochures
- Typical advertising campaigns
- Sample residency contracts
- Key industry financial factors/ratios
- Lists of qualified architects, interior designers and marketing/management firms.

MDS will make these resources available as part of its consulting engagement involvement.

Conclusion

We trust that this article has provided useful information and guidance to our readers. Senior housing is a complex product type – perhaps more than any other real estate product type – and the involvement of a top-notch, first-class advisory firm, early in the planning process and continuing through opening of the development, is critical to the potential success of the project. ■

About the authors:**Jim Moore****Contact information:**

jimmoore@m-d-s.com

Jim Moore, the founder, President and CEO of Moore Diversified Services, Inc. (MDS), a leading provider of market feasibility studies, financial pro forma analysis, operations analysis and investment advisory services to the senior housing and healthcare industries in the U.S. MDS has also been active in China, advising investors and operators as to market size and depth for senior living and healthcare services. Jim Moore has over 45 years of industry experience and for the past 39 years the company that Moore founded - Moore Diversified Services, Inc. - has served myriad national and international clients. MDS is heavily involved in market feasibility studies, detailed financial pro forma analysis, strategic planning, operations analysis and investment advisory services.

Moore spends most of his time in the trenches - the real world of senior housing. Jim has personally conducted over 2,000 major senior housing and health care consulting engagements in over 750 markets in 49 states - experience that is unmatched in the industry today. He has also conducted over 40 major international consulting engagements in Japan, Australia, China, Canada, Europe, Central America and Mexico.

He has moderated over 800 senior consumer and business focus groups. As part of his consulting practice, he has actually lived briefly in over 100 retirement and assisted living communities. His clients include a broad spectrum of national leaders and small organizations - with a balanced mix of both for-profit and not-for-profit clients.

Moore is the industry's leading independent living and assisted living author. He has authored several hundred industry technical papers, trade journal articles, and a weekly business column for two major newspapers. He is the author of several books on seniors housing. His previous book *"Assisted Living 2000 - Practical Strategies for the Next Millennium"* was an industry best-seller. His latest book *"Assisted Living Strategies for Changing Markets"* was released in May, 2001 and is in its second printing. His newest book, *"Independent Living, Congregate Care and CCRCs"* was released in 2009. For over 14 years he has authored the monthly column entitled, *"Senior Housing"* for *Contemporary Long Term Care Magazine* - a leading industry trade periodical. Jim also writes on a regular basis for three other leading Senior housing and health care publications, including the *"Assisted Living Executive"*, the *"National Investment Center's Key Financial Indicators"* and *"McKnights Assisted Living"* periodical. Moore also writes a nationally syndicated Senior housing and health care column provided directly to senior living communities and for inclusion in major state association newsletters and periodicals. Moore also publishes a monthly email newsletter that is distributed to industry CEO's, CFO's and COO's.

As a recognized national expert, his courtroom testimony as an expert witness is frequently in demand across the U.S. He has provided expert witness support and testimony in over 60 cases at the local, state and national levels.

He is past president of a major industry trade association. He is currently active in five major industry trade associations and serves on the Advisory Boards of several senior housing and health care organizations. He is also on the Board of Directors of a major public senior living company traded on the New York Stock Exchange. Jim has been a guest lecturer for "The Business of Seniors' Housing & Care" at Johns Hopkins University's Graduate Division of Business & Management and The Erickson School of Aging Studies at The University of Maryland.

Jim holds a Bachelor of Science degree in Industrial Technology from Northeastern University in Boston and an MBA in Marketing and Finance from Texas Christian University in Fort Worth, Texas. Mr. Moore and MDS provided the details of the market feasibility study described in this article.

Joseph Christian



Contact information:

joseph_christian@hks.harvard.edu
joseph.christian@gmail.com

Joseph Christian is a fellow at the Harvard Kennedy School in Cambridge, Massachusetts, where he is researching and writing on the senior housing industry in China, with particular focus on the applicability of the U.S. experience in the industry to China’s nascent industry.

A practicing attorney for over thirty years, the primary focus of his practice has been real estate, representing institutional investors and developers in large commercial transactions across the U.S. and in Asia. A specialty of his practice has been the senior housing industry in the U.S., where he has represented institutional investors in the sector since 2000. From October 2008 to December 2011, he was based in Hong Kong, where he co-headed the Asia real estate group of DLA Piper. During that time, he worked closely with several U.S.-based operators and investors, as well as Chinese developers and insurance companies, in their exploration of the senior housing market in China.

His professional experience has earned Mr. Christian the reputation as an expert on the senior housing industries in the U.S. and China, and he has chaired, presented and spoken on panels at several senior living conferences in Shanghai and Hong Kong. A speaker and writer on U.S. and Asian real estate issues, Mr. Christian is an Instructor at the Harvard Graduate School of Design’s Executive Education program.

Mr. Christian is a member of IAHSA and of the Pacific Council on International Policy, based in California. While in Hong Kong, he was a member of the Asia Pacific Real Estate Association; the Asian Association for Investors in Non-Listed Real Estate Vehicles; the Urban Land Institute – Asia Pacific, where he served on the Executive Committee; and the American Chamber of Commerce, where he served on the Real Estate Committee.

Michael Qu Qin



Contact information:

quqin@co-effort.com

Michael Qu Qin is a PRC-qualified lawyer in Co-effort Law LLP based in Shanghai, China, where he practices in 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. Prior to joining Co-effort Law LLP, he was in-house counsel in METRO Group China. Prior to that, he had been practicing in another law firm since 2002. 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.

A legal professional who has been involved in the emergence of the senior care industry for years, Michael is now focusing primarily on assisting private investment in the field, providing counsel regarding company and capital formation, project development and acquisitions, regulatory issues on operation, corporate finance, and related issues.

The Home Care Journey

By Paul Goldenberg

“Tea tempers the spirit and harmonizes the mind; dispels lassitude and relieves fatigue; awakens thought...”

--Lu Yu

Looking down on the world from a high place provides the gift of viewing lives being lived at the same time. The decisions that people make seem to take them in various directions, yet it is not understood how they affect others until their paths cross. This story is about three people who are facing choices that will bring them together at a point in the future. The common theme is their need or desire to enter the world of the elderly who are dependent on others for their care.

The first person is Mrs. Wong who is infirm and whose husband has just passed away and her married son who has his own family and child to raise. This is why she realizes that she needs support, but she does not want to leave her home of almost 40 years and does not want to be a burden on her family. Her son has just arrived at her home to have a discussion with her regarding her future. It is a Monday morning just after breakfast and tea has been made and they are sitting at a table drinking the tea trying to have an honest conversation.

Prior to this discussion, her son and his wife talked about how much they could afford to support their mother at home. Mr. Wong had spent some time looking at his finances trying to understand what this would cost, and whether this option is affordable. (All of the amounts quoted are in US dollars.) Mr. Wong has one four-year-old child who will be going to a private school, which the family feels will be the best for him to further his future. He and his wife are both college-trained professionals, with Mr. Wong getting his teaching degree in the United States. They currently earn \$30,000 a year. His mother is currently on a pension that pays her about \$450 per month, and she also was able to save some money since she worked as a secretary for a medium-sized bank in Shanghai. Mr. Wong and his wife felt that they could contribute about \$2400 a year to her care and still pay for their son's tuition and support their apartment. The combination of Mrs. Wong's reimbursement of insurance policy and the monthly income from her savings would be an additional \$300 a month. The total amount that Mrs. Wong is could count on for support is \$950 a month. In conversations with the potential agency that was just getting itself established, he found that a live-in aide would cost about \$450 a month, plus the expenses for her food.

His mother was able to survive on her government pension, any additional income was for savings, or buying those extras that would make her life more enjoyable. Their

discussion led to the fact that if they wanted her to stay in her apartment she would have to sacrifice that extra income to pay for most of the support that she would be receiving from a live-in nurse aide. Realized with her son contributing \$200 per month combined with her savings returns, she could afford the \$500 a month that this will cost. Mrs. Wong felt that staying in her home close to her family and grandchild was well worth the sacrifice. Mr. Wong knew his family would have to reduce their standard of living to support his mother. They were willing to make the sacrifice because of their commitment to their elderly parent. This helped them cope some of the guilt they would feel, if their mother to leave their apartment and go into a supported nursing home environment. Logically they knew that this commitment financially will not have to go on forever, but they would always have to live with their guilt if they did not do this.

At the same time, on the same Monday morning, a young woman is contemplating her future over a cup of tea. Chin Loo is her name and she is facing the probability that the farm where she is living will not be able to support her. She has just returned from a walk in a shopping district of her village, where she visited the office of the local authority and spent time looking at the postings for employment in Shanghai. There was a posting for homecare services for the elderly. Never having contemplated a change in her life as dramatic as leaving her small village, she's being faced with this choice.

She has heard that becoming a nurse is a proud profession that will support her, so the free training with housing is being offered, the fact that she lacked any formal education, this choice might start her on a path that is exciting, rewarding and could support her in the future. She decided to apply for the position and take the risk of moving away from her family to create another future for herself.

Mr. Lee sits at his desk in his office on the 20th floor of a modern office building. The steam is rising from his cup of tea that has been brewed at the same time on the same Monday morning as Chin Loo and Mr. Wong are about to take their first sip and begin their conversations with their loved one and themselves. Mr. Lee is an investor who has decided to buy a controlling interest in a newly formed home health agency that will provide nurses aides and nurses to give care in homes. He had been contemplating some type of healthcare investment that would be separate from those real estate projects that he had investing in. Some of his colleagues have been investing in senior housing projects, such as apartments with support for the elderly, with the assurance that if the project does not work out they still had the real estate to rely on. This investment was essentially in a company without walls or land, put a service company that would realize its profit from the margins that are charged in relationship to their actual costs.

The homecare industry is beginning to grow at an amazingly fast pace due to the increasing elderly population and people who need to be discharged from hospitals to their homes and require nursing and rehabilitative care to support them for extended periods of time as they recover. The United States has had an 1100% increase in home care services over the last 40 years. It is an investment that has seen staggering growth around hospice services; nursing services and having home health aides residing in people's homes as they recover. At one time, most of these agencies were nonprofit community-based services. The newer entries into the market are for-profit entities that





are trying to attract investors and are showing strong returns on their investments. Many of these firms have single owners whose growth is dependent upon cash flow that is provided through equity ownership positions.

He understood the potential the homecare industry had, because of the concept of a large part of the elderly population wanting to age in their community around their friends and family. He knew that in other cultures this was possible, through obtaining a high degree of income through the volume of clients that would respond to this prospect. He also was told that the caregivers could be trained inexpensively and would take relatively low salaries to enter the healthcare field and be able to live in an urban environment.

Mr. Lee has decided to finalize his investment position in one of these homecare agencies. He had a meeting with the founder of one of these companies five days ago, which convinced him that this would be a good investment for him with an entry into the new expanding long-term care industry. The largest problem they seem to be having at this point is trained staff to care for the numerous client referrals their marketing staff has been developing. A new strategy was to start their own school for nurses' aides that they would hire at the completion of the program to ensure a steady flow of workers. They targeted certain rural communities where they felt younger women needed opportunities and would be willing to enter such programs. Mr. Lee, who is in the real estate market, was able to provide inexpensive housing during this training. They developed a contract that in exchange for the training and housing the students would receive a small stipend and would have to make a commitment to work for the agency for three years.

Mr. Lee had been told that the average aide would be paid about \$250 a month, plus her room and board. The minimum expense to the client would be approximately \$450 a month. The agency would have an overhead expense of \$100 per month with and a profit of \$100 a month per client and they would share 25% of this profit with Mr. Lee, who knew that this live-in aid would be providing him with a small margin. However, he knew that this would be a rather safe entry into the marketplace. It would be possible that as the population grew in three years they could have 400 such clients, which would give him a steady return of \$1000 month. Also, as the services of the home care agency grew in other services, such as rehabilitation, hospice care and respite care, the margins would even be greater. Mr. Lee understood that this was going to be a risk for him and the returns might not be as great as other investments, but he knew that the elderly population was growing and the aging in place philosophy was getting stronger, so this would be a hedge against the real estate investment that was being made in freestanding nursing facilities.

Mr. Lee was being asked for an initial investment of \$30,000 to start up the school and provide the initial housing further and nurse's aides they were recruiting. The overhead will cover the growth of the company, along with his initial investment. He then would be able to invest in the other aspects of the company as it grew. He felt that he would get return on his investment that would recover his initial payment in less than three years and then it would be all profit ongoing. He was willing to take that risk and realized if

the numbers did materialize he could lose his investment. The private pay and government supported healthcare industry for the elderly is relatively new and he realized there was a risk.

Mr. Lee phoned the agency on that Monday morning and was told a young woman from a rural area 100 km north of the city had just called in response to the advertisement and was prepared to sign the contract and start the program next week. That young woman was Chin Loo who is finishing her tea to go talk to her mother and father and let them know that she was now purchasing a train ticket to the city to begin a new life. Another phone rang in the agency's office with Mrs. Wong's son on the line looking for a live-in trained nursing aide who would be able to spend the next two months with his mother so that she would have safe care while they were able to make the decision about what to do in the future.

It was explained to him that they were just starting a new training class and they would be able to provide someone in the next two week when the new aid could start. Mr. Wong agreed that he and his wife would be able to take some vacation time and support their mother until the new aide would be ready to begin. The excitement grew in Mr. Lee since he understood that he was immediately seeing the fruits of his investment taking shape.

This story is the reality of a growing homecare industry that is searching for trained staff to meet the demand of an elderly population and needs support at home and who are not ready for institutional care. This allows a family who is committed to their parent the time to plan and alleviate their fears that mom will not be able to live at home unless they have supportive care. The last piece of this puzzle is a young woman who is now starting a journey on a new career and a life that is being created to respond to Mrs. Wong's needs and Mr. Lee's investment. This reality can only take place in an environment that is allowing private investment in the homecare industry. It requires funds from investors and the ability of clients to pay for the services. It is also possible that these services can be supported by local authorities and government entities, but often the type of intervention and care that people desire can only be supported by private paying families.

The homecare industry in the United States began with non-profit visiting nursing associations that have rapidly grown into large for-profit branches of the healthcare industry. Hospital systems have had developed for-profit entities that often support homecare and hospice interventions. Hospice care is often provided in the homes by visiting nurses who ensure the pain-free and supportive environment necessary during the end-of-life process. The provision of short-term focused care is a goal that can be met when long-term live-in placements can also be provided. A continuum of home care is the goal, which then locks in a client base that supports a continuing revenue stream.

Mr. Lee also understands that there could be a larger government investment in the home care industry, if the government is willing to support the aging in place of the elderly in their homes. He realizes that his return on his investment might be smaller, since the government rates will be less than what the private companies get. However, the volume



of those clients would be much larger and produce more revenue. In his discussions with the owner he was told in moving forward the company is going to pursue that line of business. It is somewhat similar to the model in the United States, where only the high income middle-class and wealthy could afford the services at the rates the agency would need to charge to realize a substantial profit with a private pay client base. They are willing to take the risk to establish the processes needed to run such an agency hoping that the government would see this as an alternative to care for the elderly. Mr. Lee met a businessman from Israel who told him that their model is to provide one-to-one aides to their elderly population in their homes rather than build nursing homes. The aides come from their large African immigrant population that demand lower wages. Mr. Wong knew that there were possibilities to grow this business, but he would have to be patient.

The village metaphor focuses on providing people from different walks of lives and from a variety of places coming together at the same time to support its citizens. This story is an outgrowth of that metaphor. A young woman who needs a job, an elderly woman and her family who need support and the investor entrepreneur who is looking for new and creative sources for his money have come together. Understanding this story and knowing its parts allows us to develop a picture of how this new and growing part of the healthcare industry is developing.

No longer are we dependent on the child who doesn't work or the woman down the street who can come in and care for our mother. These resources are shrinking and are no longer available in many places, so the village grows and Mrs. Wong gets her care, her son has piece of mind as Mr. Wong's investment portfolio grows.

Two weeks later there is a knock at Mrs. Wong's door and her son answers. A representative of the home health company has arrived with Ms. Loo. While Ms. Loo talks quietly with Mrs. Wong, smiles grow on both faces as they start to know each other over two cups of tea. Mr. Wong is sitting at that the kitchen table with the representative, drinking tea and signing the contract for services that are finalized as he writes a check for the first month of care. Mr. Lee, over his mid-morning tea, steam rises, a message appears on his iPhone that the contract has been signed. He views this as the first of many contracts generated by his new investment. Three people at the same time are ending one journey to begin another. Smiles over tea! ■



Paul Goldenberg

MSW, MBA, LNHA

Paul has been involved in various aspects of human service management in for profit, government and non-profit agencies and organizations since 1974. He has graduate degrees from Philadelphia University and the University of Pennsylvania. His work in the long-term care industry began in 1989 when he joined Manor Care as a program director, which led to a promotion as an administrator. Subsequently he has opened new facilities, managed facilities as large as 300 beds, and pioneered the conversation and manage of post acute high acuity units. He also managed post-acute care and business development in a large metropolitan hospital environment. Paul currently consults for a long-term care management firm called Tobin Associates. In that role he has opened a post acute unit for a large non-profit organization and he currently manages nursing home that require a transitional processes into quality facilities. For the past eight years he has been an adjunct professor in the graduate program at Holy Family University in Philadelphia.

Contact the author: psgold@comcast.net