DIVERSIFICATION WITHIN THE REAL ESTATE DEVELOPMENT INDUSTRY: AN ELDERLY HOUSING MODEL

by

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Master of Business Administration
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Submitted to the School of Architecture in partial fulfillment of the requirements for the Degree of
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ABSTRACT

How have real estate development (RED) firms entered the elderly housing market? This thesis examines three real estate development companies in the elderly housing industry using an analytical framework taken from contemporary diversification planning literature. What patterns exist among the firms' diversification strategies and implementation tactics? The firms defined and ranked skills they believe contribute to success in elderly housing, a market which combines residential, health care and hospitality functions.

The companies were at different stages of the process of implementing diversification. The firms shared related diversification decisions and a mixture of in-house and third party purchased functions. The firms were opportunistic in their new business entry approach rather than oriented toward future planning.

The thesis concluded that RED firms enter the elderly housing industry by transferring skills or sharing activities. They began projects with new partners in the new market, but it is unclear whether or not they really diversified. While some say that health care knowledge is most important for success in this market, others argue that knowing the hospitality or residential housing business is a more critical determinant of success. Which RED firms will be successful long term players in this market is unknown. Possessing all the necessary skills in-house, however, seems less critical to a firm's success than its ability to acquire and manage these skills, whatever their source.

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About The Author

Roberta Sydney graduated from Wellesley College with a B.A. in French in 1979, and from the Harvard Graduate School of Business with an M.B.A. in 1983. Her five years of work in the banking industry included serving as a Vice President of The Boston Company, (a subsidiary of Shearson Lehman, Hutton, Inc.). In that capacity, she initiated and directed the firm's entry into national direct marketing of its financial services.

ACKNOWLEDGEMENTS

Last summer before coming to MIT, I had the opportunity to visit The People's Republic of China and Japan. I felt that a long break would help to prepare me for the hard work ahead. Besides being a needed break, the trip also served to remind me of how lucky I am and continue to be. We often take for granted the freedom and opportunity afforded us to study subjects that interest us, to take jobs that fascinate us, to move to different places that intrigue us, and so on.

I feel fortunate to have been a part of the fourth class at the Center for Real Estate Development. This year has stretched me in new and different directions. Special thanks go to my advisor, Gloria Schuck. I have had the opportunity to work closely with her during the core curriculum's Management course as well as during this more independent research and writing period. Her encouragement and suggestions helped me to think more deeply about my topic.

I also want to publicly thank the many developers, government officials, industry experts, lawyers, bankers, and consultants who met and spoke with me concerning my research topic. Though each of them is not named individually, the knowledge that they shared with me helped me to synthesize and analyze the data.

I would also like to thank my friends and family for their support during this year when I have often been too busy with site plans and pro-formas. Thank you for forgiving my absence. To my parents, I can only say that I love you very much and thank you for always believing in me.

CONTENTS

INTRODUCTION

As real estate markets soften in the 1980's, many companies must diversify to find new profitable opportunities. Demographic trends, including an increasing and unprecedented number of United States residents over 65, have indicated a direction of diversification for many real estate developers. The focus of this thesis is diversification into elderly housing, and includes site research at several real estate development (RED) firms which have entered that market.

This thesis poses the following research questions:

1) Are RED firms diversifying in the manner presented in the academic literature on diversification, or are they using some other method(s)?
2) Have RED firms really entered a new market, or are they just dabbling with a new project?
3) Given the complexity of Continuing Care Retirement Communities, what skills are RED firms building or buying to compete in this product market?
4) Which skills or resources are considered most important to succeed in this market? How do firms' rankings compare with those of industry experts?

Chapter I begins with a demographic overview of the elderly in the United States, and a definition of the need for elderly housing. It also identifies the major players developing elderly housing today and delineates the current range of products. Chapter II outlines the current thinking on diversification in the academic literature. Chapter III presents three case studies describing developers and their new business entry strategies as well as site selection criteria and the field research methodology. Chapter IV analyzes the case studies in light of the diversification models presented in Chapter II. Finally, Chapter V draws conclusions from the research findings and ends with questions for practitioners and directions for future research.

CHAPTER I: ELDERLY HOUSING

Introduction

This chapter describes two broad constituencies in the elderly housing market, the residents and the developers. Section 1 summarizes the United States population statistics for persons over age 65, who comprise the potential elderly housing residents. Section 2 profiles the development community active in this market segment and the product types currently being built.

Section 1: DEMOGRAPHICS

Demographic trend analysis is often the most seductive component of market research for RED firms considering diversification into elderly housing. Statistics of the current and future elderly population in the United States certainly seem to underscore the need for housing built especially to their needs.

Between 1970 and 1985, an average of 1.6 million net new households were formed per year. For 1986 through 1995, the United States Census Bureau forecasts a substantial slowdown to 1.3 million new households a year. Therefore, the overall new housing market is shrinking. The number of nontraditional households, however, is growing and will generate demand for new housing products, especially retirement housing. (ULI

Development Trends, 1988)

Demographers predict that between 1980 and 2030, the U.S. population will grow by 40 percent. The number of people over 65 will show a much greater increase, nearly doubling from 26 million today to almost 50 million. The over-75 group is growing even faster. Today, 38 percent of the elderly are 74 or older. By 2030, they will constitute 45 percent. Those aged 85 and older now number 2 million. By 2030, this number will triple to 6 million.

Even now, retirement living is becoming more important to a growing number of Americans, as they live longer and as more workers retire earlier. For example, less than half as many men over age 65 now work as did in 1950. Stories in the popular press, such as "And Now for the Fun Years!" (TIME, Feb. 22, 1988) and "The World According to AARP" (FORTUNE, Feb. 29, 1988) highlight the fact that people are retiring earlier, in better health, and with a new sense of empowerment.

Presently, nearly 95 percent of people over 65 are eligible to receive monthly Social Security benefits indexed to the inflation rate. While many of the elderly will continue to be unable to afford a comfortable retirement, in general, the next generation of elderly will be wealthier than any previous one. For example, 75 percent of Americans age 55 or over own their homes, most free and clear of mortgages. According to the Census Department, in 1984, families headed by someone 65 or older owned houses with a total equity of $724 billion. Seniors now control 77 percent of the country's financial assets and 70 percent of its net worth. They also account for almost 50 percent of discretionary spending. (Leisure Technology Inc., 1987)

Not surprisingly, then, developers across the United States are bullish about retirement housing. Not only are demographic trends favorable, several metropolitan areas offer excellent potential for well-conceived congregate developments (Real Estate Research Corporation, 1988). A Wall Street Journal article estimated that nationwide, 150,000 families lived in 850 retirement housing developments in 1986. It forecasted the construction of an additional 4400 such projects by 1995, creating a $46 billion industry (WSJ Eastern Edition, 1986).

Section 2: THE ELDERLY HOUSING INDUSTRY

The firms

Non-profit corporations established by religious groups and health care organizations were among the first to develop elderly housing in the United States. Nursing home operators and hospitals are also active in this arena. More recently, proprietary real estate development firms have begun to develop elderly housing, both independently and in joint ventures.

Some of the biggest players in the elderly housing market are:

Life Care Services (LCS)	Iowa
General Health Management (GHM)	Connecticut
Retirement Inns of America (Avon subsidiary)	California
The Forum Group	Indiana
Oxford Development	Maryland
Beverly Enterprises	California
Del E. Webb Communities	Arizona
Autumn Management Systems (Southmark subsidiary)	Utah
Brim of Massachusetts (National Medical Enterprises subsidiary)	Massachusetts
Marriott Corporation	Maryland
Hyatt Corporation	Illinois
Hotel Management Services (HMS)	Georgia

All of these firms operate on a regional or national basis. Some of the firms have core businesses in other fields. For example, GHM started out as a nursing home developer and operator, and LCS is a subsidiary of the

Weitz Corporation, a construction company.

Some firms are integrated health care service providers, like The Forum Group. The Forum Group is the parent of American Medical Centers, (acute-care general and psychiatric hospitals), Grant Centers, (child and adolescent psychiatric facilities), and Retirement Living, (retirement living facilities).

Several hotel chains are now active in elderly housing development. Marriott Corporation not only established its Marriott Lifecare Retirement Communities division, but also recently acquired Basic American Retirement Living of Tennessee. The Hyatt Corporation and Forest City Enterprises of Ohio joined forces for an elderly housing group called Classic Residence; HMS has also entered this market.

Since this thesis focuses on real estate development firms that have entered the elderly housing market, it will not examine the above-mentioned firms in depth as case studies in Chapter III.

Product Range

Elderly housing includes a wide range of products. The elderly are not a homogeneous group, and their housing needs and desires vary. Current products range from no-service adult condominiums or apartments to service-rich nursing homes.

The continuum of elderly housing products runs as follows:

Condominium/Apartment

Congregate Care

Personal Care

Continuing Care Retirement Community (CCRC)

Life Care

Nursing Home

As one moves down along this product continuum, the residences provide more living and health assistance, and residents tend to be more dependent. This evolving industry has not yet standardized definitions for these housing types. Therefore, the following definitions represent the author's attempt at standard terminology.

Condominium/Apartment Community:

Offers older, healthy, independent consumers the opportunity to buy or lease housing in a community designed especially for their needs. Residents maintain an independent lifestyle, and, in many cases, form committees and associations that create and maintain community standards and regulations. No congregate dining or housekeeping services are provided.

Congregate Care:

Independent living facility with central dining room and minimal or no health services except

24 hour emergency call service. Services provided include weekly housekeeping, transportation and social activities.

Personal Care/Assisted Living:

Facility licensed by a regulating agency of a state department of health. Supervised environment including assistance for residents in these five assisted daily living categories: bathing, dressing, walking, toileting, and eating. Staff may also supervise the resident's self-administration of medication; however, staff may not administer medications or provide nursing care.

Continuing Care Retirement Community (CCRC):

Campus consists at least of independent living units; it may also contain health care facilities such as personal care and intermediate or skilled nursing care. The contract lasts for more than one year; it guarantees shelter and various health care services. Fees for health care services are less than the full cost of such services and have been partly prepaid by the resident.

Life Care Retirement Community:

Guaranteed care for life. Upon receipt of a signed contract with a down payment and a monthly service charge, the community agrees to provide specified services for the term of the contract or the remainder of the resident's life. Services range from skilled nursing services to regular housekeeping services. Newer projects may also offer personal care. Often, the terms CCRC and life care retirement community are interchangeable.

Skilled Nursing Facility/Nursing Home:

Personal care and in-patient health-related services for ambulatory and non-ambulatory residents. Health care licensing required.

Gerontologists state that only one person in twenty over age 65 will enter a nursing home for an extended stay. Many elderly persons who reside in such facilities today do not really need such intensive and expensive health care and living assistance. Consequently, this thesis focuses on RED firms that are targeting the semi-independent pool of elderly persons, the 19 out of 20 who do not need nursing home care. The prime product serving this population is the CCRC, an arrangement prevalent in the Massachusetts market that is predicted to grow.

The author examines RED firm involvement with a new and complex product category. CCRC's differ from residential housing incorporating a healthcare component within a residential setting. The author chose to study firms entering this product category because of the complexity inherent in its development. In order to identify patterns, or factors which might contribute to success or failure, the author examines the reasons and motivations of these RED firms as well as the process by which they enter this new market.

Historical Perspective

The precursors of the CCRC were the medieval guilds, which established mutual aid societies to insure themselves through prior contributions against losses from death, injury and old age. As immigration to the U.S. increased during the 18th and 19th centuries, the English, Welsh, Irish, Scottish, Germans, French, Swiss, Jews, Belgians, Italians, Dutch and Scandinavians similarly organized mutual aid societies. Historically, religious and private organizations have usually sponsored elderly housing. A 1929 Bureau of Labor Statistics survey of homes for the aged found that religious or private organizations had built and operated 80 percent of the homes for which data was obtained. (Winklevoss and Powell, 1984)

The first life-care or CCRC facilities used total asset turnover payment plans. Residents gave their present and future assets to the facility in exchange for a "life-time shelter and health care guarantee." However, many of these early life-care facilities suffered financial difficulties since residents tended to live longer than expected and health care costs escalated more rapidly than traditional actuarial tables implied. As a result, most CCRC's now utilize a one-time entry fee combined with a monthly maintenance fee, a more marketable payment schedule more closely tied to actual costs.

The next chapter outlines the current thinking on diversification strategy in the academic literature. The framework for diversification suggested by the literature forms the backdrop for the analysis of case studies in Chapter III.

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CHAPTER II: DIVERSIFICATION STRATEGY

Introduction

Most of the business strategy and organizational development literature does not focus specifically on RED firms. Therefore, this chapter will cover generic models or frameworks for thinking about diversification strategy, organizational growth stages, and change processes. These models will provide the framework for the categories and analyses in Chapter III's case studies of RED firms.

Why do firms diversify?

> "We needed something to replace our office business cash flow." (Hassey, Spaulding & Slye, 1988)

Section 1: Diversification Literature

In Diversification Through Acquisition (1979), Salter and Weinhold present 10 reasons or pressures for diversification:

1. Mitigate sales slowdown accompanying maturation of business lifecycle.
2. Fruitful research and development effort.
3. Competitive pressures.
4. Desire to build on an existing franchise.
5. Smooth the earnings stream.
6. Avoid a takeover.
7. Use general management skills of top executives

more fully.

8. Attract/retain first rate managers.
9. Provide a range of new responsibilities and opportunities for self-development.
10. Pressures from antitrust law to enter unrelated fields.

Diversification motivation varies from one firm to the next and often involves both financial and/or personal motivations. In Chapter III's case studies, the author examines the reasons and motivations for three RED companies' moves into new business areas.

Related Diversification

> "We expect synergies between the business lines." (Smyth, Cabot Cabot & Forbes, 1988)

This thesis concentrates on "related" business entry moves. Related businesses 1) serve similar markets with similar distribution systems, 2) employ similar production technologies, or 3) exploit similar science-based research. The more similar the technology of two businesses or the more similar the market and the requisite marketing system required to reach that market, the more related the two businesses are. Relatedness pertains both to management skills and product market characteristics.

Salter and Weinhold (1979) divide related diversifiers into two basic types:

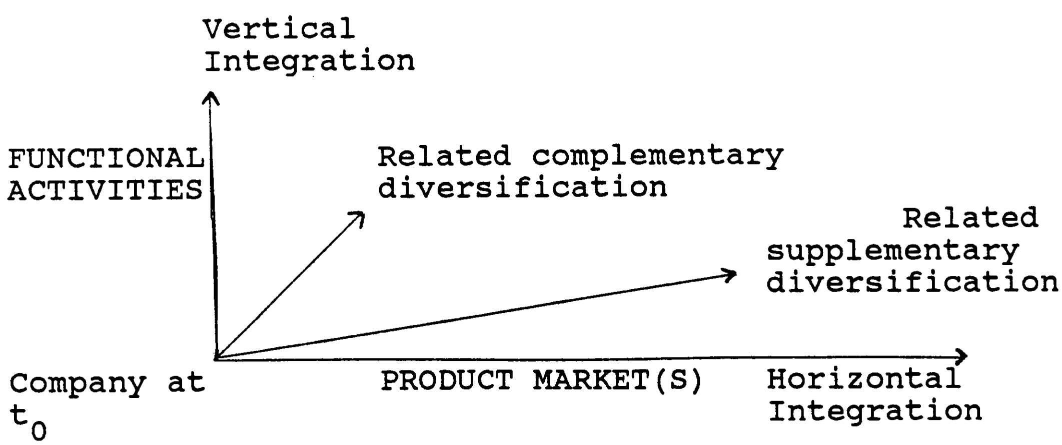
If a company expands its business by entering product markets requiring functional skills identical to those already possessed by the company, this strategy is called "related-supplementary diversification." Horizontal integration where the expansion involves minimal departure from key activities is one of the purest forms of this strategy.

If a company expands by adding key functional activities and skills (but not substantially changing its product market), then the strategy is called "related-complementary diversification." Vertical integration where the expansion involves adding key skills with minimal product market orientation change is one of the purest forms of this strategy.

The figure below displays how firms can follow different related diversification strategies. The horizontal axis measures product market change, while the vertical axis measures key functional activity change. Diversifying moves involve a change in one or both of these criteria (p.6-8).

FIGURE 1

RELATED DIVERSIFICATION GRAPH



How do/should companies enter new businesses?

Berry and Roberts (1983) recommend a familiarity model as a framework for selecting a business entry strategy. The underlying theory is that the level of familiarity with the market and/or product should determine how a firm diversifies and how successful its efforts will be. In more familiar product categories or markets, a firm has more options regarding internal development. Overall diversification options include internal expansion, acquisition, venture capital (VC), licensing and joint venturing (JV).

Figure 2 depicts a "Business Entry Style" matrix, with market factors along the vertical axis and technology or services embodied in the product along the horizontal axis. For example, if a firm is staying in its base business of residential housing, and using new but familiar product technology to enter the condominium market, the matrix suggests using either an internal expansion or acquisition entry approach. An RED firm familiar with single family detached residential development can transfer skills into the condominium market more easily than a shopping center developer unfamiliar with residential construction and sales. In unfamiliar territory, the model suggests acquisition or joint venture strategies in order to obtain the necessary skills or market knowledge faster than would be possible by merely expanding internally.

FIGURE 2

OPTIMAL ENTRY STRATEGIES

MARKET FACTORS

MARKET FACTORS	Base	New Familiar	New Unfamiliar
New Unfamiliar	JV	VC Educational Acquisition	VC Educational Acquisition
New Familiar	Internal Acquisition	Internal Acquisition License	VC Educational Acquisition
Base	Internal	Internal Acquisition	JV Acquisition License

TECHNOLOGY/SERVICES EMBODIED IN PRODUCT

(Berry and Roberts, 1983, p. 24)

Competitive versus Corporate Strategy for Business Entry

Porter (1987) identifies another way to think about how a company should enter new businesses. Diversified firms face two levels of strategy: business-unit (or competitive) strategy and corporate (or company-wide) strategy. Competitive strategy involves creating and maintaining competitive advantages for each of the firm's business lines. Corporate strategy addresses what business the firm is in and how the corporate office manages its portfolio of business units. Successful corporate strategy must grow out of and reinforce competitive strategy.

Porter suggests that diversifying companies can use three tests to evaluate strategies: 1) the attractiveness test: the industry must be potentially profitable (or structurally attractive) or capable of being made so; 2) the cost-of-entry test: the cost of entry must not capitalize all the new unit's future profits; and 3) the better-off test: the unit must gain competitive advantages from its link with the corporation or vice versa. These diversification tests set the standards for any successful corporate strategy. Meeting them is difficult, which may explain why so many diversification efforts fail. Biggadike (1976) estimates that firms require 8 years before new ventures achieve profitability. Porter (1987) studied 33 corporations which had diversified between 1950-1986 and determined that firms later divested half of their acquisitions in new industries.

Porter identifies and recommends four diversification methods: 1) portfolio management, 2) restructuring, 3) transferring skills, and 4) sharing activities. Each creates shareholder value and each requires the diversified company to manage and organize itself in a different way.

1) *Portfolio management*

This strategy is used primarily by firms which diversify through acquisition. The firm must find good but undervalued companies in order to create shareholder value and meet Porter's attractiveness and cost-of-entry tests. The corporation provides benefits yielding a significant competitive advantage to acquired units to meet the better-off test.

2) *Restructuring*

This strategy seeks out undeveloped or sick firms or industries on the brink of significant change. The cost-of-entry test is met by the kinds of firms acquired. The corporation provides management skills to the acquired firm, thus meeting the better-off test. The attractiveness test is met if the industry is structurally attractive or is about to become so through imminent changes.

3) *Transferring skills*

Knowledge in areas such as sales, accounting, human resource management, etc. can be transferred to an acquired business unit. However, that shared knowledge must involve competitive activities and must be similar enough to make shared expertise meaningful. If a firm can mobilize proprietary expertise across business units, then entry costs can be offset or entry barriers overcome, thereby meeting both the cost-of-entry test and the better-off test.

4) *Sharing activities*

An example of sharing activities includes using the same assembly line for production. Sharing often enhances a firm's competitive advantage by lowering cost either through scale economies, increased utilization, or rapid descent of the learning curve. Alternatively, sharing can enhance competitive advantage by raising a firm's differentiation.

The next chapter describes business entry moves taken by three RED firms at different stages in the diversification process. One firm has retrenched after disbanding its elderly housing partnership. Another has just begun construction of its first CCRC, while the third, having completed its business entry move, has an operating CCRC. Chapter IV analyzes the field research data against the backdrop of the diversification models presented here.

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CHAPTER III: CASE STUDIES OF RED FIRMS

Introduction

This chapter describes the diversification strategies and implementation tactics of three RED firms which entered the elderly housing business. The three case studies represent RED firms in increasingly advanced stages of the diversification cycle. The first case study describes a firm that diversified and then retrenched, disbanding its elderly housing development team without having completed a project. The second describes a firm beginning construction of its first CCRC. The third case study describes a firm that successfully entered the elderly housing market with a CCRC completed and operational since 1981.

All three firms were asked to define and rank the critical factors that they feel contribute to success in elderly housing. Financial information is not provided, however. First, the three firms are at different stages of diversification and could not provide comparable financial data for sell-out and operating expenses. Second, this information is proprietary.

Site selection criteria

For comparability and control, all three firms are for-profit RED companies. Each entered the elderly housing market as a subsequent business line, and with the same product, "CCRC's." All of the firms are headquartered in New England. Those chosen allowed the researcher access to elderly housing product managers as well as to senior ranking corporate decision makers. While the similarity of product, market segment, and location makes some conclusions possible, generalizations must be limited given the scope of research.

Field Research Methodology

Three face-to-face interviews and two telephone interviews with one or two of each firm's representatives, with each interview lasting an average of two hours. (Appendix A includes a list of interview questions used during these discussions.) The author describes personal motivations and corporate policies to the extent possible. Certain information, however, is not included due to its proprietary nature. Where possible, the researcher also toured the elderly housing projects of the firm.

Data gathering also included approximately 80-90 telephone conversations or meetings with city, state, and federal government officials, as well as with elderly housing consultants and other industry experts.

The research focuses on qualitative issues: 1) how and why the firm entered elderly housing, and 2) what specific skills, talents, or other resources the firm possessed or acquired to compete in this market. It also focuses on factors that firms and industry experts feel are critical determinants of success in elderly housing.

CASE I: SPAULDING & SLYE/LONGWOOD RETIREMENT ASSOCIATES

Background

Spaulding and Slye (S&S) was founded in the 1960's by Hank Spaulding, his brother Richard, and George Slye. Today, S&S is a privately held company with 350 employees in Massachusetts and Washington, D.C. The firm has four divisions: construction, property management, brokerage, and development. Historically, S&S has primarily developed commercial property, always for its own account.

Motivations

Approximately three years ago, Peter Small, President and Chief Executive Officer of S&S, was concerned about a weakening office market, the firm's core business. He asked several students at the Harvard Business School to perform a field study to identify new business opportunities. The study recommended elderly housing as an option.

Entry Strategy

In December 1986, S&S established a joint venture, Longwood Retirement Associates (LRA), with a new partner, a nursing home operator and personal friend of Small's. The joint venture was meant to marry S&S's development and construction expertise with the other partner's experience in health care operations. Development plans called for an ambitious target of 5-6 CCRC's per year.

LRA was a separate division at S&S because of the partner's wishes.

Skills and Functions

Prior to the partnership dissolution, LRA employed thirteen people, including the partner (President), Grape (VP Development), and Hassey (Project Manager). LRA preferred to hire generalists and train them in the intricacies of the elderly housing market. For example, both Grape and Hassey were Procter and Gamble product managers prior to joining S&S.

Many of the functions necessary for the entry (e.g., design and marketing services) were purchased from third party vendors as shown in the table below.

Figure 1: Skills

Internal	External
Market Research	Market Research
Site Selection	Sales
Financial	Property Management
Negotiation	Health Care
Political Savvy	Design
Construction	Legal
Marketing	

Plans called for buying health care services from a licensed third-party vendor. According to Grape, S&S prefers to buy many functions from outside sources in order to get the best local or specialized talent possible:

> We're good at knowing what questions to ask of our consultants, and at knowing how to use the data. We recognize that elderly housing is a new business for S&S and a different business.

Some functions are performed in-house, however. For example, S&S expects to be the general contractor on any elderly housing developments. Figure 1 depicts the mix of internal and external resources assembled by LRA to compete in elderly housing. Functions within the circle are internal, those outside the circle, external. Lines connecting functions represent a combination of internal and external resources.

Critical Factors

According to Hassey, the most critical factor to success or failure of a CCRC is the expertise for operating its hospitality, medical, and real estate components. Another critical factor is up-front capital. Hassey estimates that front-end costs during the political approval, rezoning and premarketing phases average $2 million of equity. S&S's size and access to capital give it an advantage over smaller developers.

S&S learned that elderly housing operations are tougher than they originally anticipated. They expected that their core commercial business skills would transfer easily to CCRC projects. Hassey comments,

> The development skills may be similar, but there are additional complexities in operating elderly housing that do not exist in commercial development projects.

Prior to the partnership dissolution, thirteen people worked for LRA until June, 1988 when the partnership was dissolved for internal reasons. Now, only Kevin Hassey and Tom Grape are active in re-orienting S&S's approach to the elderly housing market given this recent event.During this retrenchment period, S&S is reformulating its approach and assessing its skills with respect to the elderly housing market.

Because S&S is not new to joint venture partnerships, managing partnership relations constitutes a transferrable skill for staff members. The staff needs to learn a new vocabulary, however, to communicate with the kinds of partners typically involved in elderly housing development, namely religious and hospital organizations.

Grape mentions the philosophical strengths of the company as a critical factor in diversification. As owner-investor, he says, S&S is likely to build higher quality products. In addition, their long term involvement is likely to make a project more appealing to prospective residents.

Local presence was another critical factor mentioned by Grape. S&S feels that local knowledge and their ability to customize a CCRC gives them a competitive edge over focused elderly housing RED firms like GHM and LCS, which tend to standardize developments.

What is Success?

Success in elderly housing, according to Hassey, means a number of successful projects, full occupancy, and big deals that quickly bring in cash. Grape adds that S&S entered this business to make money. They plan to do so by capitalizing on the organizational, philosophical, and personnel strengths of the firm.

CASE II: CABOT CABOT & FORBES LIFE CARE

Background

Cabot, Cabot and Forbes (CC&F) is an 80-year-old privately held real estate company. A national company, CC&F has regional offices in 13 cities across the United States and a staff of more than 400. It has expertise in acquisition, financing, land valuation, zoning, land use, architectural design, engineering, construction, leasing, building operations and maintenance, property disposition, accounting and law. Its major businesses include high and low rise office building, research and development facilities, distribution buildings, and build to suit projects. Aberthaw Construction Company (ACC) is part of the CC&F group. ACC builds for CC&F and also operates independently on both a competitive bid and negotiated contract basis.

Motivations

Approximately three years ago, CC&F was contemplating several expansion moves in an attempt to strengthen its commercial development activities. It decided on entering the elderly housing market after The Massachusetts General Hospital (MGH) approached their board of directors which includes the chairman of CC&F, to discuss a joint venture in elderly housing with them and National Medical Enterprises. The firm also decided to establish a medical office development group on the West Coast and a residential development group (both since disbanded), as well as a real estate advisory group designed to assist pension funds in their asset management activities (Cabot, Cabot & Forbes Realty Advisors, Inc.).

Entry Strategy

Christopher Yule, an in-house staff member performing the tenant work on 260 Franklin Street in Boston, Massachusetts conducted the industry analysis and market research for CC&F. A self-described generalist with an engineering background, Yule recommended that CC&F expand into the elderly housing market, but advocated following a different model than that established by other elderly housing developers. For example, he recommended: 1) a co-operative ownership structure for the firm's project, a structure new to Massachusetts, 2) compartmentalized financial accounting for each function within the CCRC, and 3) a new building design including a Main Street concept.

Yule says that he "fell into the industry analysis of the elderly housing market since he finished the tenant work ahead of schedule and was therefore available." Others in the company say that Yule's prior experience in developing and operating health clubs as well as his penchant for complexity made him a natural to tackle a CCRC project, in which operations are a critical component.

CC&F established a separate life care division instead of incorporating it within the firm's other development activities. One reason for this separation was that Christopher Clancy, Senior Vice President of Eastern Development, did not want to manage the life care activity himself, since it would require him to operate differently. Clancy's philosophy is to hire brokers and then train them in development. He relies more on external consultants, a philosophy which did not fit the way CC&F wanted to approach elderly housing.

In the past, CC&F had not done well with joint ventures, since they generally prefer to be in control. The most difficult task according to CC&F is managing the partnership relations. The easiest is building the facility. Nevertheless, CC&F believes that "developer-health provider" joint ventures have the best future in the CCRC marketplace. Therefore, they are accomodating their business style to fit.

"CC&F approaches life care with a hard-headed business attitude", says Geoffrey Smyth, Division Manager. MGH had surplus land assets, but no development expertise or capital. Therefore, a natural synergy formed between the two organizations, bringing MGH's land into productive economic use and expanding the fee income base by adding additional health services for their elderly constituency. On the other hand, CC&F believes the MGH name helps its marketing and sales effort. Smyth says,

> CC&F can be dominant players in this marketplace, because we are large, credible and know the development process... we plan to do other CCRC's in the area.

CC&F broke ground in June, 1988 on its first CCRC project.

CC&F Fox Hill Village Investment Company, an affiliate of CC&F, owns one-third of Fox Hill Village, a development on 83 acres in Westwood, Massachusetts. Fox Hill Village comprises 356 residential units and 70 nursing home beds. CC&F's partners in Fox Hill Village are MGH Health Services Corporation, an affiliate of MGH, and Brim of Massachusetts, Inc., an affiliate of National Medical Enterprises.

Skills and Functions

Today, CC&F Life Care has six full-time employees, including Smyth, Division Manager, and Yule, Development Director. Greg Walsh is project manager for Fox Hill Village and Sterling Hale is responsible for locating new sites. The division also employs two construction supervisors.

The following table depicts CC&F's breakdown of skills and whether they are bought or internal.

Figure 2: Skills

Internal	External
Market Research	Market Research
Site Selection	Marketing
Financial	Sales
Negotiation	Health Care
Political Savvy	Design
Legal	Construction
	Legal
	Property Management

While CC&F uses outside market research consultants, it performs much of the analysis of research results in-house. Today, CC&F uses the Todd group from Florida as their marketing and sales arm. However, Yule anticipates that the Todd group will recruit and train salespeople for the pre-marketing phase as well as the move-in phase. The health care management component of the facility is contracted to a third party vendor. An outside general contractor is building Fox Hill Village rather than Aberthaw Construction Company, since Aberthaw lacks experience in major residential work.

CC&F's own staff performs the financial activities. Facility management is under contract to Brim and Associates of Oregon for five-years, after which the co-operative residents can either renew the contract or switch management firms. Hillhaven has the nursing home management contract. Much of the legal work for the firm is performed outside, though in-house attorneys handle some tasks.

CC&F prefers generalists to specialists on the development management side. Staff members' backgrounds reflect this orientation.

Critical Factors

Smyth ranks site selection as the most critical factor for success, followed by site control and project marketing. Yule ranks facility management first, followed by design and then food service. Both agree that one of CC&F's advantages is a strong local presence. Knowing the marketplace and the major players makes it easier for CC&F to do business in New England. Smyth cites the unanimous vote of approval for Fox Hill Village at the town meeting despite the initial resistance of abutters, as proof that CC&F works well with local constituencies. Smyth says,

> Developers coming in from other parts of the country do not understand the variety of entry barriers present in New England.

What is Success?

Yule describes three phases of success, all in financial terms. He explains that these financial yardsticks measure whether CC&F is actually providing the lifestyle and security each facility promotes. Phase I is permitting and selling the residential units. Phase II is achieving stabilized occupancy. Phase III is having the project continue to evolve and better the initial financial projections. Failure means that the units do not sell at all.

<u>CASE III: THE SPAULDING COMPANY</u>

Background

Richard Spaulding left Spaulding & Slye (S&S) in 1975 to establish his own firm, Spaulding & Company, Inc., (S&C). Located in Newton Lower Falls, Massachusetts, S&C now employs 14 people who work on 12-15 projects; 3 or 4 projects are in the construction phase at any one time. Most of S&C's clients are corporations and institutions. Spaulding is entrepreneurial and opportunistic. His business philosophy includes seeking ownership of developments only when he is developing for the firm's own account. Otherwise, he charges a fee for service.

> We don't work on spec. We work on an hourly basis for those who hire us (R. Spaulding, June, 1988).

Motivations

In 1980, the trustees of the Elizabeth Carleton Trust and Francis E. Willard Homes organizations contacted Spaulding. They were looking for a developer to manage the development of a joint CCRC project for a fee. At the time, Spaulding had seven professionals on staff. While his prior experience with S&S included commercial, retail and multi-family residential property development, neither Spaulding nor any of his staff had ever worked on a CCRC. Spaulding remembers that he even asked, "What's a CCRC?" The trustees liked the extent of Spaulding's residential experience. Furthermore, they found no developers in the area with CCRC experience. The trustees preferred not to work with nursing home developers, who tended to view the independent living units as an adjunct, rather than an integral part of the project.

Spaulding saw the project as challenging and relatively low risk. S&C's reputation would be at stake, but not its capital. Spaulding was convinced of the personal commitment of the two non-profit Boards and agreed to work with them.

Entry Strategy

Carleton-Willard Village in Bedford, Massachusetts grew out of these preliminary discussions. Spaulding and the trustees identified and began work on four tasks. First, they negotiated a merger between the two non-profit organizations, forming a joint building committee with three trustees from each organization. Second, they arranged the rezoning of the site for CCRC use. Third, they filed a DON (Determination of Need) which required not only the prior rezoning but also state approval of the nursing home beds in the proposed facility. Fourth, they drew up a budget for the front end work.

Skills and Functions

Spaulding likes a small organization. He left S&S when he felt that "he was running a personnel function, rather than being involved in the development process." Spaulding's prefers to run a small entrepreneurial organization so that he can remain involved in the firm's project activities.

Running a small organization required S&C to hire outside consultants for many functions. The following table depicts how S&C handled the make/buy decisions.

Figure 3: Skills

Internal	External
Market Research	Market Research
Site Selection	Property Management
Marketing	Health Care
Sales	Design
Financial	Legal
Negotiation	Construction
Political Savvy	

S&C used in-house people to manage the project and the political process. Spaulding was the mediator between the two non-profit charitable organizations. Frank Smith, one of S&C's project managers, worked on Carleton-Willard Village. Vitols Associates, an architectural firm with significant experience with all types of residential housing, but none in nursing homes or hospitals, did the design work. Spaulding and the trustees selected them to ensure a residential feeling for the community.

One of the risk-mitigating factors in this deal was that the residents of the Carleton House and Willard Home would be candidates for the soon-to-be developed Carleton-Willard Village. S&C used its staff to supplement the market research performed by Robert Chellis, an employee of the Carleton Trust. Furthermore, S&C hired an outside research agency to conduct focus group tests with potential residents.

Hill Holliday, an outside public relations firm prepared the brochure and marketing materials. Sherburn Powers and Needham, and Johnson & Hayes, both outside counsel, performed the legal work. Sales were handled internally by hiring George Place, a former employee from S&S. Spaulding hired Place to recruit, train and manage the sales force for Carleton Willard Village.

Critical Factors

Spaulding cites his desire to provide a development service for fee as a critical factor in the deal. A growing trend in the CCRC field seems to be for health care sponsors to develop CCRC's by sharing very little equity with their development partners. Spaulding says,

> Not many developers are willing to provide service for a fee, since they usually want equity in the deal.

Another critical factor was his "ignorance" at the time. His lack of experience with CCRC's was helpful, Spaulding says, because he had no established biases. A low overhead organization also contributed to S&C's ability to compete. Spaulding says,

> A large company like John Hancock may just throw money at an idea, but what's important in elderly housing is tailoring product to the market and knowing how to rear-load costs as

> much as possible. Residential skills are better than commercial skills, because in this business, every dime counts.

He feels that residential developers who have done large scale projects have the most transferable skills to the CCRC marketplace. Other critical factors, according to Spaulding are negotiation and political savvy. We are

> willing to deal with regulation, both on the long term care side as well as with the zoning boards of cities and towns. Our advantage is our discipline, and that we have managed large projects.

What is Success?

Success for his firm means "surviving the learning curve, keeping people close to the firing line, and controlling the growth of the company," says Spaulding. When they completed Carleton Willard Village, S&C had more experience with CCRC's than anyone in the area. In retrospect, Spaulding says that he should have capitalized on that. Though he has looked at 80-100 deals over the last seven years, only one other site, in Swansea, Massachusetts seemed promising enough for him to take action. (The Swansea, Ma. project is now experiencing difficulties following town approval because of neighbors complaints about on-site waste treatment facilities.)

CHAPTER IV: ANALYSIS

Introduction

This chapter examines the case studies in the previous chapter in light of the diversification models presented in Chapter II. To further understand trends within elderly housing, this chapter also categorizes the skills considered by the firms and by industry experts to be most critical to success in this market. The importance of diversification planning and skill acquisition are also discussed.

Section 1: Summary of the Results

Table 1 displays the stated reasons of each firm for its decision to diversify.

Table 1: Reasons/Pressures

		S&S	CC&F	S&C
1	Mitigate Sales Slowdown.	x	x	
2	Fruitful R & D.			
3	Competitive Pressures.			
4	Build on Existing Franchise.			
5	Smooth Earnings.	x	x	
6	Avoid Takeover.			
7	Use skills more fully.			x
8	Attract/retain managers.			
9	Provide new opportunities.			x
10	Antitrust pressures.			

(Salter & Weinhold, 1979)

When categorizing diversification motivation, it is important to look at owner(s) preferences, the external environment, and the company's internal skills and resources. Some RED firms diversify for financial reasons, others for personal reasons. Of the three cases described in detail, the smallest firm (S&C) chose to diversify for personal reasons (e.g., to use skills more fully and provide new opportunities), the larger firms, for financial reasons (e.g., to smooth earnings). In all these firms, however, the owner/principal was involved in the diversification decision.

Table two displays that firm size influenced not only diversification motivation, but also organizational structure. The small firm chose to incorporate the new activity within the existing organization, while the large ones formed a separate group. All firms chose structures based upon internal factors, rather than external ones. However, the smaller firm, S&C, chose not to establish a separate group, but rather a separate project within the overall development activities of the firm based on the owner's preferences. Because of a different ownership structure, S&S divisionalized, while CC&F also divisionalized but in order to suit managers' preferences. The organizational decision at S&S was one which suited managers' personalities and reflected the firm's ad hoc management style.

Table 2: Organization Structure

	S&S	CC&F	S&C
Separate Group	x	x	
Separate Project			x

All of the RED firms interviewed fit into the category of related diversification. The firms added new functions or skills to compete in the new market. Some firms added more functions than others. Hence, each firm also fits into the category of related complementary diversification (Salter & Weinhold, 1979), making comparisons and generalizations across firms more meaningful.

As the following table shows, RED firms satisfy one or more of Porter's (1987) tests to identify new industries as diversification targets.

Table 3: Industry Selection Criteria

	S&S	CC&F	S&C
Attractiveness	?	?	?
Cost of Entry	?	?	x
Better Off	x	x	x

(Porter, 1987)

More financial research would be necessary to determine whether or not the elderly housing market meets Porter's attractiveness test for these firms. S&C meets the cost of entry test since they risked none of their own capital to enter the new business. Therefore, S&C's cost of entry into the new market did not capitalize all the new business' future profits. On the other hand, CC&F and S&S spent millions of the firms' money to enter the elderly housing market. Further research during the later stages of the diversification process would help determine whether or not these two firms meet the cost of entry test. But all firms do meet Porter's better off test. The new business gained competitive advantages from the link to the firms' base of business (and shared skills of the firm).

RED firms diversify by either transferring skills, sharing resources, or a combination of the two. None of the RED firms used the portfolio management or restructuring techniques espoused by Porter (1987).

S&C used both options. (See Table 4.) For example, S&C shared financial skills and resources and also transferred project management skills from the core business to the CCRC activity. CC&F only shared resources, namely legal and financial resources. While S&S has learned that transferring skills and sharing resources are not easy tasks, they admit to their necessity for successful diversification.

Table 4: Successful Diversification Approaches

	S&S	CC&F	S&C
Portfolio Management			
Restructuring Industry			
Transferring Skills	x		x
Sharing Activities	x	x	x

(Porter, 1987)

Table 5 illustrates similarities or differences in resource acquisition and overhead build up. By identifying the skills and resources necessary to compete, a firm can determine which capabilities it already possesses and which it needs to acquire. Both the skills within the organization and the owner's preferences, however, factor into the strategy for new business entry. Just because a firm possesses a skill, it need not choose to use that internal resource in the new market. For example, both S&S and CC&F possessed an internal construction capability. Whereas S&S chose to use it in their diversification; CC&F chose to use an outside construction company to build the CCRC.

Since CCRC's require residential, hospitality and health care skills, one sees more joint ventures and more use of outside consultants than in the firms' core business of residential or commercial development. Patterns in the way firms chose to identify and procure the necessary functions or skills emerge from Table 5.

Table 5: Skills Needed to Compete in Elderly Housing

	S&S	CC&F	S&C
Market Research	C	C	C
Site Selection	I	I	I
Marketing	I	E	I
Sales	E	E	I
Financial	I	I	I
Property Management	E	E	E
Health Care	E	E	E
Design	E	E	E
Negotiation	I	I	I
Political Savvy	I	I	I
Legal	E	C	E
Construction	I	E	E

E- External

I- Internal

C- Combination

All firms used a combination of internal and external resources for market research. It appears that

RED firms themselves perform those skills or functions which are most familiar to them regardless of the market. Given the unfamiliarity of elderly housing, each firm chose to supplement their own market research with the advice of outside consultants.

All firms used internal resources for site selection, financial, negotiation, and political work. CC&F commented that their local counsel also provides them with the inside political "scoop". One industry expert suggests that firms rely too much on their own skills in site selection, negotiation and political savvy. Since these functions are among the most critical determinants of success according to industry experts, perhaps firms should look at a combined make/buy for these resources to ensure success during the regulatory approval and permitting stages of development.

All firms used external resources for property management, health care and design. Perhaps, this reflects RED firms' mentality as non-operating companies. They are usually not structured to operate property over the long term. Although RED firms typically use outside design services, the newness and complexity of CCRCs probably also encourages firms to use outside designers for this product.

A combination of make/buy for a given function can serve as a check and balance between the internal and external staffs. It may also be a way for firms to assimilate new skills. Firms need to learn from their external consultants, who can be teachers, not just answer-givers. This involves asking the question "how did you come to your conclusions?" rather than "what did you discover?" (S&S plans to do that later in its implementation of diversification.)

Both the presence of a capability and its quality are important. For example, S&S learned that though it possessed certain functions internally (e.g., market research, property management, and construction), it was not easy to transfer those functions to the newly entered market. One recommendation for RED firms is to plan for a learning curve even when applying existing skills to a new business.

Firms' answers varied when asked to name and rank critical success factors. Table 6 ranks from high to low (1 being the highest value) the viewpoints of each interviewee within the RED firms. The table also displays the key determinants of success in elderly housing most often named by industry experts.

Critical Factors to Success

Table 6: Success Factors

	S&S	CC&F	S&C	Industry
Operational Expertise	1(H)	1(Y)		
Up Front Capital	2(H)			
Long Term Ownership	1(G)			
Local Presence	2(G)	3(S)		
Customization	3(G)			
Site Selection		1(S)		2
Marketing		2(S)		
Design		2(Y)		
Food Service		3(Y)		
Negotiation			1(R)	
Political Savvy			2(R)	3
Market Research				1

Answers are recorded from each interviewee. The initials beside to the rankings represent the interviewee as follows:

H=Hassey, G=Grape, Y=Yule, S=Smyth, and R=Spaulding.

Why do the firms name different critical factors for success? Perhaps, viewpoints reflect the firm's current stage in the business entry process. For example, interviewees at S&S and CC&F named operational expertise and local presence among their top three critical factors. These two firms may agree because they were at an earlier stage in the business entry process. S&C, further along in the process, named different critical factors, like negotiation and political savvy.

Or, perhaps, each viewpoint reflects the interviewee's perspective and role within the firm. For example, within S&S and CC&F, interviewees differed with respect to the most critical factors. Perhaps Hassey valued operational expertise and up front capital because of his position as Project Manager. In contrast, Grape (VP Development) valued long term ownership, local presence and product customization. Grape's responses could reflect a corporate viewpoint, due to his more senior position in the firm.

The same disparity exists at CC&F. Yule (Director of Development) ranks operational expertise, design and food service most highly. Smyth (Division Manager) ranks site selection, marketing, and local presence as one, two and three. Perhaps here too, organizational role and hierarchy explains the disparity in their answers. It might be important, however, for them to understand one another's perspectives.

It might also be that individuals' answers reflect the activities foremost on their agendas at the time of the interviews regardless of hierarchical or role differences between respondents. Yule may value operational expertise and design more highly because CC&F had just begun construction, and had most recently been working on the project's operational and design details. Perhaps other individuals within each RED firm would offer still different perspectives if there were more time for research.

Table 6 shows that respondents rankings differ from the industry experts who rank market research, site selection, and political savvy as the most critical factors for success in elderly housing. Perhaps these differences reflect the subjectivity of each firm at its particular stage in the implementation process. Industry experts may be more objective than RED firms immersed in the development process.

On the other hand, the disparity between RED firms and industry experts might reflect RED firms' entrepreneurial roots. Naturally these firms value their own skills and abilities most highly. It would be surprising for entrepreneurs to name a success factor that they do not possess, since that would be admitting "they do not have what it takes."

All firms agreed that financial parameters are key to success. Many defined success unidimensionally, using only financial measures. Only one firm, S&C, defined success in terms other than financial. See Table 7 below for each firm's definitions.

Table 7: Definition of Success

SUCCESS IS:

S&S

Making money.
A number of successful projects.
Full occupancy.
Big deals with quick cash.

CC&F

Permitting and sell out.
Stabilized occupancy.
Project evolution... bettering the original financial projections.

S&C

Sales.
Surviving the learning curve.
Keeping people close to the firing line.
Controlling the growth of the company.

Perhaps, the definitions of success reflect firm size, owner philosophy or some other variable. S&C might have a different measure of success based on its smaller size. Or, perhaps, only when none of the firm's cash is on the table, (S&C), can a firm afford non-financial measures of success. David Kolb (1973) states that "learning should be an explicit objective, pursued as consciously, and deliberately as profit or productivity". If the new business is complicated and requires a long term investment as elderly housing does, perhaps more firms need to think about learning, and research and development as desired outcomes in and of themselves.

Conclusions

1) These three RED firms are opportunistic, reactive, and entrepreneurial (or incrementalistic) in their approach to strategic planning and diversification. Two of the three RED firms entered the elderly housing industry after prompting by external forces. Perhaps, the RED firms have not really diversified. Instead they have only picked a partner (e.g., MGH for CC&F, and two nursing homes for TSC) and worked together on a project.

One can say that a firm has really diversified if it has a) been in the new business for a number of years, b) completed more than one project in the new business line, c) sustained an investment in the new business, and d) established an identity and reputation in the new business. The firm should perceive itself and others should perceive it as an established entity in the new business. The data suggests that these three firms have not yet demonstrated diversification into this industry by completing more than one CCRC. Perhaps more time needs to pass to draw conclusions.

2) Some similarities exist among RED firms in

make/buy decisions for skills needed in the elderly housing market. Market research is always a combined make and buy decision, for example. Larger firms with more internal resources tend to have more opportunity to perform functions internally, even though they choose to buy more outside services from companies specializing in elderly housing. The smaller firm develops more skills internally, which seems counterintuitive given smaller firms' stated preference to remain small.

Why do these disparities exist? Perhaps larger firms have more capital and can better afford to buy the external expertise. Maybe smaller firm can control costs better by internal growth measures. Or, the smaller firm might feel that it will not get serviced properly by external consultants because their project represents a smallish fee.

3) Often the make/buy decision is treated as two mutually exclusive options. Except for market research, rarely do RED firms think about a make/buy combination. The industry needs to rethink its use of outside consultants and make an explicit attempt to appropriate the skills of the consultant. The consultant can teach, not just supply answers. The short term thinking which is prevalent in the real estate industry runs counter to the long planning horizon and duration of RED projects,

particularly CCRCs.

Market research and analysis for a CCRC never ends. Marketing must continue throughout the life of a facility. During the facility's operating phase, market research serves to identify potential purchasers of resale units. A combination make/buy or a small internal group could more appropriately perform this function on a continued but reduced basis.

4) RED firms feel that local presence and customization is more important than product standardization. They believe that a high quality firm can transfer quality to its new business. The way they plan to compete is by using their local knowledge and tailoring each development to the locale.

5) By and large, RED firms measure success in financial terms. Firms need to have other measures of success which include learning, experimentation, and research and development.

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CHAPTER V: FUTURE TRENDS AND QUESTIONS FOR FURTHER RESEARCH

Future Trends

Developers who establish joint ventures with hospitals can create a winning team in elderly housing. Market research validates and helps to quantify the need for elderly housing. After market research results are positive, the two critical factors become land control and regulatory approval. Developers who have been successful in elderly housing have site control in good locations and the ability to get approvals, usually by linking up with a reputable hospital or nursing home.

Hospitals will continue to play an active role in elderly housing development. It is cost effective to provide the elderly with services in a lower cost facility. For example, a hospital-owned nursing home can provide care to an elderly person for $75 a day, versus hospital costs of $300 to $400 a day. In the future, hospitals might commonly establish "satellite communities" of CCRC's for the elderly.

Unlike condominium conversion or commercial development, the elderly housing business is not a short term business in which developers can quickly build, sell and get out. A developer-owner of elderly housing must look at a longer term horizon. Another difference for RED firms is that in CCRCs, operations is more critical. During the operating phase, developers should look at operations and property management fees during the operating phase as sources of cash and profit rather than to net sales proceeds.

The United States somehow needs to slow the growth of medical and living costs for the elderly. Developers looking at the public policy issues of elderly housing may be better positioned for success than those ignoring the potential role of the Federal Government in this market. The private sector is better suited to deliver these services than the public sector, because it can probably deliver those services more cheaply. Private developers will face competition from the public sector in the future, however, if elderly housing prices rise too high. If proprietary developers continue to sell a two-bedroom unit in a CCRC for $225,000, with an additional $1,000 monthly maintenance fee, this will entice the public sector into this market. Developers therefore need to be creative about building and maintaining "affordable" housing for the elderly.

Like many products, retirement housing requires significant investment of time and money during the zoning, approval, and marketing processes. Developers with staying power who plan appropriately will have the best chances for success.

One of the RED firms (S&C), offered insight into a new definition of success that is not strictly financial. If the new business is complicated and takes a long term commitment, as CCRCs do, then perhaps more RED firms need to think about learning for the sake of learning. As Westney (1988) says, "the Japanese learn to enhance their capacity to learn." This reflects a fundamental difference in the way that Japanese and U.S. companies approach learning and new businesses. Perhaps, RED firms will similarly come to value deals for the sake of learning, or feel successful if they "survive the learning curve" (Spaulding, 1988).

Although these three RED firms agreed that financial parameters are key determinants of success, perhaps firms should have other goals too if they are diversifying into a new industry and not just dabbling with a new project. Kolb (1973) states, "An organization that is learning and managing for change is more likely to be creative, innovative and more competitive." Given the complexity of CCRCs and today's business environment, the quick and dirty deals are few and far between. It becomes more important, therefore, to master the learning to be better prepared for tomorrow and thus more competitive. Perhaps

RED firms should not think only in terms of strikes and home runs each time they begin a new deal. Firms might do better to think about each time at bat as practice for the home runs, not as a separate experience each time.

Questions for Further Research

All firms terminate outside consultants at some point. For example, outside market research ends when the project obtains financing approval. Yet perhaps market research should continue at some reduced level throughout the CCRC's life. The current residents can not always be the future residents too. As such, continued market research might be important for keeping tabs on the marketplace over time. One important question for research is, then, when should the outside consulting relationship for any function end?

While predicted elderly population growth rates are seductive to RED firms, they may be incomplete indicators of future demand for elderly housing. For example, other factors, like the growth of the at-home services industry may affect demand. If more elderly can find and afford at-home services, they may choose that option rather than the elderly housing development. Therefore, how can future demand for elderly housing be best estimated?

Today some elderly persons can afford at-home services. However, a new financial product called a RAM (reverse annuity mortgage) may increase the number of elderly persons capable of paying for at-home services. A RAM allows elderly persons to tap the equity built up in their homes. Traditionally, banks with their aggressive home equity lending programs have not lent to older persons due to strict earned income criteria to ensure payback. However, the RAM makes possible a mortgage on an existing home so that an elderly person can use the proceeds, portions of which are paid out annually, for living expenses.

Yet what if the elderly person outlives or "outspends" the RAM on his or her house? In that case, the bank owns the paper on the house and the elderly person is destitute, but living there. Since the RAM's are new, this problem has not yet arisen. There are ethical and moral questions about what course to follow. The home may have appreciated during the payout period, so that the bank can rewrite the note for a larger amount, making additional funds available to the elderly person. The other option is to use a portion of the proceeds to pay for long term care insurance so that the elderly person can be assured of another source of funds for needed services. No insurance company is yet offering such a product. Researchers need to investigate these issues further. How can RAM's and other financial or insurance products be positioned to enhance the affordability of elderly housing?

Offsetting the "stay at home" trend is the decision of some elderly persons to be in a more active, and less isolated environment, like a CCRC. Currently, only 3% of the country's elderly live in retirement housing. Penetration rates greater than 3% will require a shift of consumer preferences. What can developers do to enhance consumer acceptance of CCRC's and increase the pool of residents who might enter these developments?

With the advent of long term care insurance, developers can buy insurance for a CCRC to cover the actuarial risk associated with resident mortality and long term health care costs. Insurance companies are also "natural" elderly housing investors, since they have significant sums of money and need sound investment vehicles. Also, for market research and product development purposes it seems logical for the insurance industry to get closer to the market that they are insuring. What will be the role of the insurance industry vis-a-vis elderly housing in the future?

Conclusion

While future trends are hard to predict, one can safely assume that there will be an increasing number of elderly people in the United States with ever increasing sophistication in home buying or renting. Another fairly certain trend is the continued "globalization" of the world's markets. Developers in the United States would do well to examine the models developed by other countries, notably Switzerland, The Netherlands, and Scandinavia. In those countries, life care for the elderly is guaranteed. Also, in those countries a strong collaborative effort exists between industry groups, association, government, and elderly user groups.

Furthermore, architectural, mechanical and electrical aids for living are readily available in those countries. These products can be incorporated into homes or adapted for home installation to 1) provide more independence and pride in being self-reliant, 2) defer or eliminate nursing home placement, and 3) facilitate the work of care-givers. These products are covered by health programs, or, in some cases, their cost is reimbursable under insurance plans.

As Eleanor Westney stated in her address to the semi-annual MIT Center for Real Estate Development (CRED) members meeting in June 1988, the U.S. needs to "learn from the world's best example." By evaluating which features and concepts of elderly housing abroad are transferrable to our society and by using sound practices of diversification, we can help our older adults, and eventually ourselves, to live fuller lives.

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APPENDIX A: *Interview Protocol*

How did the firm identify the industry for entry?

Did the firm have special advantages?

Could the firm overcome structural entry barriers more cheaply than other entrants?

What investments did the firm need to make in the new business?

Did the entry have the expected positive effects on the firm's other businesses?

How do the costs of entry balance against the expected cash flows?

What was the firm's generic concept for entry (i.e. reduced costs, buy in with low price, forego returns in the short run to force competitors to yield share, offer a superior product, discover a new niche, or introduce a market innovation)?

Was the entry successful?

What was most difficult to do?

What was easiest to do?

What skills are needed to compete in the elderly housing market?

How would you rank the skills you named from most to least essential to success?

Who are your competitors and how are you organized similarly or differently?

Do you have different skills/advantages from your competition? What's your competitive edge?

Did/do you plan to use outside consultants? For which services? Why?

Did you functionally separate the activities for the new market? Why or why not?

What is success?