Senior Housing Development in China

by

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Massachusetts Institute of Technology

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Thesis Supervisor

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Accepted by

Professor Albert Saiz
Chair, MSRED Committee, Interdepartmental Degree Program in Real Estate Development
ABSTRACT

The number of Chinese citizens aged 60 years and above is predicted to reach to 440 million by 2050, accounting for roughly 34 percent of the country's total population. The one-child policy has created a declining fertility rate. At the same time, the life expectancy of people keeps rising. The combination of low fertility and long life spans have moved China towards a rapidly aging society. To prepare for the aging society, the Chinese government has issued a series of policies to enhance the senior care industry. The government encourages private and foreign enterprises to invest and engage in senior care services in China. Chinese developers and operators are trying to import foreign practices into the Chinese context. Foreign experts are looking for business opportunities in this untapped market. Although China’s senior housing market is undoubtedly appealing, industry players must address several issues before stepping into this market because it is still in infancy period compared to other developed countries. The study examines the key factors that influence senior housing development in China, and those essential elements that foster the industry in U.S.
ACKNOWLEDGEMENTS

I would like to express my deepest gratitude to my thesis advisor Professor Albert Saiz for his guidance and comments. I also extend my sincerest gratitude to Steve Weikal, the head of industry relations of MIT Center for Real Estate, for his help connecting me with industry people.

Special thanks goes to Kevin Glover and Mark Erickson. Mr. Glover worked as the Senior Vice President Development Service for Erickson Living from 1984 to 2009, responsible for the program, design, and quality standards for Erickson Retirement Communities. Mr. Erickson was the Chief Operating Officer of Erickson Living from 2007 to 2010, responsible for overall operations and management of all Erickson Living’s retirement communities. He also worked as the Managing Director of Fortress Investment Group from 2011 to 2015, responsible for Continuing Care Retirement Community development in China. Mr. Glover and Mr. Erickson donated their time to give interviews and provided me with valuable opinions.
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Chapter I  Introduction

1.1 Research Motivation

Declining fertility rates and increased longevity have moved China’s demographic balance towards a rapidly aging population. To prepare for the aging society, the Chinese government has issued a series of policies to enhance the senior care industry. As an important segment of the senior care market, senior housing is very appealing to industry players. However, China’s senior housing market remains immature and largely unregulated. Many obstacles, such as cultural prejudices, land policies, regulations and the shortage of experienced staff limits senior housing development in China.

While the senior housing industry has matured for decades in U.S. Many Chinese developers and operators are trying to import the U.S. practices into China’s context. At the same time, U.S. senior housing professionals are looking for business opportunities in China. Will U.S style product be accepted in China market? There is no doubt that a successful project must meet the needs and desires of the local market. The best practice may be to learn China’s unique market dynamic, study the essential elements that foster U.S senior housing industry, and then adapt U.S. model to the China context with a degree of flexibility.

1.2 Research Methodology

Firstly, I conducted a literature review of books, thesis, industry reports, policies and regulations. This literature review helps us understand the history of senior housing development and its social background, and insures a knowledge of the broad context of senior housing.
Secondly, I conducted interviews with industry people, including investors, developers, operators and other players. These interviews have helped me collect the first-hand information, and provided an understanding of the difference between the U.S. and China’s senior care industry from a professional perspective.

Third, I did field trips to representative projects and do interviews to residents who live in senior communities. Personal field trips helped me verify the credibility of the information I obtained from industry players.

1.2 Research Objective
China’s senior housing market is an untapped market as well as an immature one. In this paper, I analyze the opportunities in the Chinese senior housing market, look at the strengths and weaknesses of the whole industry, and study the feasibility of the application of the U.S model to China’s market. The objective of my study is to help industry players learn about China’s senior housing market and find a practical way to develop it.
Chapter II  China Senior Housing Market - An Untapped Market

2.1. Demographic Background

As well as having the world's largest population with 1.3 billion, China also has one of the fastest ageing rates. Declining fertility rates and increased longevity have tilted China's demographic balance towards a rapidly aging population. By the end of 2014, the total number of Chinese population at the mainland reached 1,367.82 million. The number of people aged 60 and above reached 212.42 million, 15.5% of national population. The number of people aged 65 and above reached 137.55 million, 10.1% of national population.

Figure 2.1: Population and Its Composition by the end of 2014

<table>
<thead>
<tr>
<th>Item</th>
<th>Population (Year-end figure) (10,000 persons)</th>
<th>Proportion (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Total</td>
<td>136782</td>
<td>100.0</td>
</tr>
<tr>
<td>Of which: Urban</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>61866</td>
<td>45.23</td>
</tr>
<tr>
<td>Of which: Male</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>66703</td>
<td>48.8</td>
</tr>
<tr>
<td>Of which: Aged 0-15 (under the age of 16)</td>
<td>23957</td>
<td>17.5</td>
</tr>
<tr>
<td>Aged 16-59 (under the age of 60)</td>
<td>91583</td>
<td>67.0</td>
</tr>
<tr>
<td>Aged 60 and above</td>
<td>21242</td>
<td>15.5</td>
</tr>
<tr>
<td>Of which: Aged 65 and above</td>
<td>13755</td>
<td>10.1</td>
</tr>
</tbody>
</table>


The segment of people aged 60 years and above will grow very rapidly in China. The number of "silver" population is predicted to reach to 248 million by 2020, accounting for 17 percent of the country's total. And this number will peak to 440 million by 2050, accounting for roughly 34 percent of the country's total population.[1] The ratio of the population aged 65 years or over to the population aged 15-64 was 11.4 % in 2010. This ratio will achieve a level of 23.8% in 2030, 39% in 2050, and 49.8% in 2100.

[1] Data from China National Committee on Aging (CNCA)
Figure 2.2 China Population Dependency Ratio Prospects

<table>
<thead>
<tr>
<th>Median age (years)</th>
<th>2010</th>
<th>2015</th>
<th>2020</th>
<th>2030</th>
<th>2050</th>
<th>2075</th>
<th>2100</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>34.6</td>
<td>36.0</td>
<td>37.7</td>
<td>42.1</td>
<td>46.3</td>
<td>47.1</td>
<td>46.9</td>
</tr>
<tr>
<td>Total dependency ratio (a)</td>
<td>36.0</td>
<td>38.2</td>
<td>42.7</td>
<td>47.2</td>
<td>63.0</td>
<td>71.6</td>
<td>76.6</td>
</tr>
<tr>
<td>Child dependency ratio (b)</td>
<td>24.7</td>
<td>25.1</td>
<td>26.0</td>
<td>23.4</td>
<td>24.0</td>
<td>25.4</td>
<td>26.8</td>
</tr>
<tr>
<td>Old-age dependency ratio (c)</td>
<td>11.4</td>
<td>13.1</td>
<td>16.7</td>
<td>23.8</td>
<td>39.0</td>
<td>46.2</td>
<td>49.8</td>
</tr>
</tbody>
</table>

(a) The total dependency ratio is the ratio of the population aged 0-14 and that aged 65+ to the population aged 15-64. They are presented as number of dependants per 100 persons of working age (15-64).

(b) The child dependency ratio is the ratio of the population aged 0-14 to the population aged 15-64. They are presented as number of dependants per 100 persons of working age (15-64).

(c) The old-age dependency ratio is the ratio of the population aged 65 years or over to the population aged 15-64. They are presented as number of dependants per 100 persons of working age (15-64).

Figure 2.3: China Population by Age Groups and Sex

Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects: The 2012 Revision, Volume II: Demographic Profiles
2.2 Social Background

As a result of the one-child policy, Chinese fertility has kept falling since 1980s. Nowadays, China is among the countries with lowest fertilities in the world. On the other hand, life expectancy keeps rising as living conditions continue to improve. The combination of low fertility and longer life spans exerts great pressure to the quality of elderly care.

Figure 2.4: Reported and projected number of births, China 1980-2050

Sources: Fertility prospects in China, United Nations, Population Division Expert Paper No.2011/1

Figure 2.5: Life Expectancy at Birth by sex in China

Source: United Nations Department of Economic and Social Affairs, Population Division, World Population Prospects: The 2012 Revision, Volume II: Demographic Profiles
Influenced by One-Child population restrictive policy, Chinese families have been undergoing the most dramatic change in history. A new family structure known as 4-2-1 where a family consists of four older people (paternal and maternal grandparents), two parents, and a single child, currently dominates most of Chinese families. As a result, young Chinese couples have to shoulder the responsibility of supporting four seniors as well as raising one child.

In modern 4-2-1 family, grandparents often help to look after their grandchild. Both spouses in the young couple work to pay for the high living expense in cities. Even though grandparents are in good health now and can help with housekeeping, in the foreseeable future there will be need of more manpower to take care of them. It is impossible for a working couples to cater to four aging parents as well as taking care of their own child. Some 4-2-1 urban families hire maids to help care for elders, but most of those maids are unskilled women from the countryside. They never received professional training and are unable to care properly senior people with medical and mental care needs. The new family structure therefore poses a new challenge for the provision elderly care. The traditional elderly care system, which relied on family members, is facing immense pressure.

Another social change influencing elderly care is the increased urbanization of China. Urbanization has left more and more of the countryside’s elderly population alone to take care of themselves, as the younger generations leave their hometowns for education and employment. Since China conducted their Reform and Opening-up Policy in 1978, the urban population has increased from 170 million to 730 million by the end of 2010. The urbanization rate has increased from 17.9% to 53.7%, and this number keeps growing and will reach 60% by 2020. Millions of young people flow into cities and settle down far from their parents, resulting in an Empty Nest phenomenon in rural areas. Even when elders move to the cities with their children, they are not used to a metropolitan living style. Most of them are often left alone at home during
the day because their children are too busy to spend time with them. Nowadays, arguably, Chinese families have become grayer and more isolated. The population of elderly people aged 80 years and above will reach to 108 million by 2050. Half of this “Silver” segment population will live alone. [²]

Figure 2.6: Urbanization in China from 1978-2010

<table>
<thead>
<tr>
<th>National Total Cities Number</th>
<th>1978</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of which: Cities with more than 10 million population</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Of which: Cities with 5 -10 million population</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>Of which: Cities with 3 - 5 million population</td>
<td>2</td>
<td>21</td>
</tr>
<tr>
<td>Of which: Cities with 1 - 3 million population</td>
<td>25</td>
<td>103</td>
</tr>
<tr>
<td>Of which: Cities with 0.5 - 1 million population</td>
<td>35</td>
<td>138</td>
</tr>
<tr>
<td>Of which: Cities with less than 0.5 million population</td>
<td>129</td>
<td>380</td>
</tr>
<tr>
<td>National Total Towns Number</td>
<td>2173</td>
<td>19410</td>
</tr>
</tbody>
</table>

Source: China National New-type Urbanization Plan (2014-2020)

Figure 2.7: Proportions of urban and rural population 1950 to 2050


[²] Data from China National Committee on Aging (CNCA)
2.3 Economic Background

The world has witnessed the economic miracle in China since the Chinese government conducted their reform and opening policies in 1978. Nowadays, China is the world’s second-largest economy. In February 2015, the National Statistics Bureau of China released its National Economic and Social Development Report. According to this report, the gross domestic product (GDP) of 2014 reached 63,646.3 billion RMB. Compared to 365.02 billion RMB in 1978, China’s GDP has multiplied by 174 times in last 36 years.

With national GDP growing, the residents’ income continues to rise. In 2014, the national per capita disposable income was 20,167 RMB, an increase of 10.1 percent, or a real increase of 8.0 percent after deflating for price growth. Per-capita disposable income of urban households was 28,844 RMB, up by 9.0 percent, or a real growth of 6.8 percent. The median per capita disposable income of urban households was 26,635 RMB, up by 10.3 percent. The per-capita disposable income of rural residents was 10,489 RMB, up by 11.2 percent, or 9.2 percent in real terms. The median per-capita disposable income of rural residents was 9,497 RMB, up by 12.7 percent. The national per capita consumption expenditure was 14,491 RMB, up by 9.6 percent, or a real growth of 7.5 percent. The per-capita consumption expenditure of urban households was 19,968 RMB, up by 8.0 percent, or 5.8 percent in real terms. The per capita consumption expenditure of rural residents was 8,383 RMB, up by 12.0 percent, or a real growth of 10.

Social security has made great progress. By the end of 2014, a total of 341.15 million people participated in the urban basic pension program for staff and workers, a year-on-year increase of 18.97 million. A total of 501.07 million people participated in the basic pension insurance program for urban and rural residents, an increase of 3.57 million. A total of 597.74 million people participated in basic health insurance program, an increase of 27.02 million, of whom, 283.25 million people participated in basic health insurance program for staff and workers, a
year-on-year increase of 8.82 million, and 314.49 million people participated in programs for residents, an increase of 18.20 million.

The public health and social services continue to make progress. By the end of 2014, there were 982,443 medical and health institutions in China, including 25,865 hospitals, 36,899 township health centers, 34,264 community health service centers, 188,415 clinics, 646,044 village clinics, 3,491 epidemic disease prevention centers and 2,975 health institutions. There were 7.39 million health workers in China, including 2.82 million practicing doctors and assistant practicing doctors and 2.92 million registered nurses. The medical and health institutions in China possessed 6.52 million beds, of which, hospitals possessed 4.84 million and township health centers had 1.17 million.

By the end of 2014, there were altogether 38 thousand social welfare institutions of various types, of which 34 thousand were elder-caring organizations. The social welfare institutions provided 5.865 million beds, and 5.514 million of them were for senior caring. A total of 3.046 million inmates were accommodated, of which 2.887 million were for senior caring. There were 22 thousand community service centers and 114 thousand community service stations. Minimum living allowances were granted to 18.802 million urban residents and 52.090 million rural residents, and 5.295 million rural residents received five-guarantees supporting. Another 13.109 million needy people in urban areas were financed to participate in urban medical insurance system, and 41.189 million needy people in rural areas were financed to participate in new rural cooperative medical care system. [3]

Although the China economy has slowed down after 2010, its growth rate has kept above 7%. China’s Miracle Economy is transiting to a New Normal Economy. China’s government is trying to steer the economy from the high-speed path towards a more sustainable growth path. In the following years, the national economy will perform steadily under the new normal model with an enhanced economic quality and improved people’s livelihood. In the 18th CPC National Congress, Chinese policymakers set a new economic goal: the economy should maintain sustained and sound development. Major progress should be made in changing the growth model towards a more balanced and sustainable economy. On the basis of 2010 GDP, China will double its GDP and residents’ income by 2020.\(^4\) With such an optimistic economy forecast, Chinese residents’ income is expected to continue rising in the following years. As more households can afford senior care service, more people would like to live in senior care communities.

\[^4\] The 18th CPC National Congress Report
Chapter III  China Senior Housing Market – An Immature Market

Although the Chinese senior housing market is undoubtedly appealing, industry players must address several issues before step into this market because it is still in its infancy period compared to other developed countries. Current senior housing development and operation in China are largely unregulated. The market is untapped as well as an immature.

3.1 Social and Cultural Obstacles

Societal attitudes towards institutional senior care are not positive. For thousands of years, China’s families have relied on Confucian doctrine. Filial piety has a strong influence in Chinese culture, and the motto of "bringing up sons to support parents in their old age" has been popular for thousands of years. Chinese tradition advocates multi-generational households. Following traditional practice, elderly people are dependent on their descendants for care. Therefore senior care in China is family-based. It is considered utterly shameful for young generations not to take care of their aging parents in Chinese culture, and most elderly people think of senior care institution as their last option.

Another concern is the reputation of senior care institutions. Many elders and their children don’t trust senior care institutions. People often read negative news in the newspapers or in television informing that elder people are abused in such institutions. Senior housing is largely unregulated in current China. There are few administrative or professional agencies responsible for the oversight of senior care providers. Especially in rural areas, accidents within senior communities happen often. A fire broke out in a Senior Nursing Home in Lushan, Henan province on May 26, 2015 and thirty-eight elderly residents were killed. The fire was reportedly a result of an electrical circuit problem. This tragic accident alarmed the whole nation. Some people worry that
their parents will suffer in senior care institutions. So they would rather leave their parents at home than send them to professional care institutions.

3.2 Medical Insurance

Medical service are the prime factors that convince elderly people to enter an institution. But in China medical insurance only can be claimed locally or regionally. It means that people cannot get reimbursement if they receive medical treatment in other cities. Many cities in the north of China have suffered from serious air pollution for many years, driving people to move to southern cities. But it’s a big challenge for elderly people who plan to move to other cities because they will have to spend extra money on medical care. In 2014, the Ministry of Human Resource and Social Security, Ministry of Finance and National Health and Family Planning Commission jointly issued a document to promote the reform of basic medical security. According to this document, basic medical reimbursement will be claimed within the province area in 2015, and will be claimed at the national level in 2016. [5]

This is very positive news for the senior housing market. However, relevant detailed regulations are still in the making and some potential problems need to be resolved. The most striking problem is the difference of medical insurance level between provinces. The first-tier cities like Beijing and Shanghai are different with respect to other cities regarding to medical coverage. Residents in first-tier cities are covered with higher insurance standards, because the local economy is stronger than other cities. Some small cities like Kunshan in Jiangsu Province have better medical insurance plans than others because their economies are stronger. Different provinces have different policies on medical reimbursement percentages and medicine categories. Solve the differences in medical reimbursement between developed areas and undeveloped ones is the next challenge that the central government will need to address.

3.3 Land Policy

In China, the state owns all land. Corporates and individuals are only given the right to use the land for specific purposes for a set period of time. Land use right is classified in five categories. There are maximum tenure periods defined for granted land-use rights depending on how the land will be used. For residential estates, the maximum term is 70 years. For land in industrial, educational, scientific and technological, cultural, health, sports, comprehensive, or other uses, the maximum grant period should be no longer than 50 years. For land of commercial, tourist and recreational use, the maximum term is 40 years.

<table>
<thead>
<tr>
<th>Land Use Purpose</th>
<th>Maximum Tenure (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>70</td>
</tr>
<tr>
<td>Industrial</td>
<td>50</td>
</tr>
<tr>
<td>Educational, Scientific, Cultural, Public health and Sports</td>
<td>50</td>
</tr>
<tr>
<td>Commercial, Tourism or Entertainment</td>
<td>40</td>
</tr>
<tr>
<td>Other purposes</td>
<td>50</td>
</tr>
</tbody>
</table>

The nature and type of land use right are important because they determine development costs. For a profit-oriented business, the developer is only allowed to acquire land-use rights by purchase. On the contrary, a non-profit organization obtains allocated land from local governments for free.

<table>
<thead>
<tr>
<th>Land Acquisition Way</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration allocation</td>
<td>No cost</td>
</tr>
<tr>
<td>Land transfer</td>
<td>Agreement through consultations</td>
</tr>
<tr>
<td></td>
<td>Invitation to bid</td>
</tr>
<tr>
<td></td>
<td>Auction</td>
</tr>
</tbody>
</table>
The cost of land transfers is, of course, significantly higher than direct land allocation. In addition, the development cost of Senior Housing is much higher than typical residential housing, because senior care facilities’ operations require larger outlays. If profit-oriented business developers cannot decrease their land acquisition cost, they will not be willing to develop senior housing. For profit-oriented businesses, there are no laws and regulations to define a separate Senior Housing land category, and therefore no specific land supply devoted to the Senior Housing market. The acquisition cost of residential and commercial land is high, so developers have to turn around new properties as soon as possible in order to balance their capital structure. But the value of a senior housing project lies on service and its capital return period is much longer. Thus, developers are not willing to develop senior communities on residential and commercial land. The high cost of the land bids in the auctions keeps many developers away from senior housing.

In 2014, the Ministry of Land and Resources of China issued a new set of supportive land policies geared to promoting senior housing development. According to the new policies, non-profit senior institutions are entitled to separate administrative allocations and zero land cost. In the case of or-profit senior community developments, the government encourages developers to rent land or acquire land by negotiation agreements with local governments, rather
than competing with other uses in the auction process.\textsuperscript{[6]} The market results of this new policy have not become obvious till now. There is no doubt that, as the government regulation and enforcement on the new land-use policy becomes better defined, more and more developers will get in senior housing development.

\textbf{3.4 Financing Model}

Lack of financing limits the growth of senior care projects. The property development costs for senior housing are more similar to multifamily residential and 3-star hotels. The cost is higher than typical residential or more modest hotel properties because of the infrastructure required in a senior care facility cost and the daily operation expenses. From land acquisition to project completion, development usually takes at least two to three years in China, and cash flow only come from operation revenues ex post. Such a long payback period increases the investment risk.

In China, bank loans are the main capital source for real estate development. Banks often require land use rights as the collateral. Non-profit senior housing projects are entitled to administration land allocations and the land cost is zero. However, banks don’t accept such administration allocations of land use rights as collateral. Profit-oriented senior housing projects are not entitled to administrative land allocations, and the land for this kind of projects is usually residential and commercial. Banks do accept such land as collateral, but assess senior housing project at higher-risk levels since, their investment return periods are much longer than typical residential properties. High-risk means higher loan rates. Therefore it is difficult for developers to get secured lending at a good interest rate from a bank, exerting great pressure for senior housing development. Chinese developers are now looking for other financing channels alternative to bank loans.

\textsuperscript{[6]} The Guiding Opinion on Utilization of Land Use Right for Senior Care Facility, April 2014
Insurance capital has flown into the housing market in recent years. Tai Kang Insurance, one of the largest insurance companies in China, is the first insurance company to develop CCRC retirement communities in China. Ping An Insurance invests in senior housing development via its wholly owned subsidiary Ping An Real Estate Company. In late 2014, the Ministry of Commerce and the Ministry of Civil Affairs of China jointly issued the “Announcement on Encouraging Foreign Investors to Establish For-Profit Senior Care Institutions and Engage in Senior Care Services in China.” Through this Announcement, the Chinese government encouraged more foreign investors to set up for-profit senior care institutions in China. Foreign entities will be treated equally to domestic entities in terms of tax and fee preferential treatments. With the announcement, it is expected that foreign capital will flow into China’s senior housing market.

Although more capital sources add into senior housing market, the financing options are very limited in public markets. As there have been no REITs in mainland China, many Chinese developers are planning to use Crowdfunding to finance their projects. In June 12, 2015, China’s biggest commercial property developer Dalian Wanda Group launched the first commercial property crowdfunding project in China. Dalian Wanda Group obtained US$ 508 million by Crowdfunding to invest on its commercial project. Crowdfunding provides an alternative method for developers to obtain equity investment, and also provides individual investors with the opportunity for equity investment in commercial real estate. Crowdfunding is currently used in commercial and residential projects. It is perhaps the potential way for financing senior housing development in China.

3.5 Operation Model
Developers acquire profit from land premium, product sales, and service fees. In China, the choice of operation model depends on the land-use right. If the land has a residential or
In terms of other types of land use, such as industrial, with a use right with a 50 years’ term, the property on the land cannot be sold. Therefore, the land use right and its tenure decide the operation model. There are three main types of operating models in the Chinese senior-living property market.

• **Pure Leasing**

In this model, developers hold properties for the long-term. The profit comes from operational revenue. This model requires a strong capital commitment, powerful financial support, and a highly professional operation team. To decrease the capital pressure, operators often require potential residents to pay entry fees as deposits. In general, the fee structure consists of two parts: entry fee or membership fee, and a monthly service fee. Fees vary greatly depending upon the type of contract that residents choose. This model is mostly applied in high-end senior communities in China. The example is Star Castle Senior Living Community in Shanghai.

• **Build and Sell**

Build and sell is essentially the same as an ordinary residential development from an investor’s point of view since they usually do not manage the asset. This model has the shortest payback period. The properties are often build on residential or commercial land, and entitled to be sold to individual buyers. Compared to typical residential communities, senior communities are equipped with senior care facilities. This kind of property often locates on the outskirts of a city, and potential residents typically prefer it for its natural environment. The target customers are high-class elderly customers and some middle-age customers. The middle-age generation purchases senior apartments for their elderly parents, as well as vacation apartments for their own. The example is Wuzhen Graceland in Zhejiang Province, China.
• **Sell and Leasing**

This is an operating model that is a hybrid of build and sell and pure leasing. This model offers a quicker capital return period than pure leasing. This is a good business model for those developers who are in transition from ordinary residential development to senior housing development. Partial property sales relieve capital pressure and financial risk. Meanwhile, investors can enjoy long-term cash flow. In general, 30% of the property is leased and 70% is sold in such a project. An example of this structure is Sun City in Beijing.

Figure 3.4: Comparison of Operation Models

<table>
<thead>
<tr>
<th>Operation Model</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pure Leasing</td>
<td>Long-term operation revenue, improve team’s operating ability. In general, the fee structures consist of entry fee or membership fee and monthly service fee.</td>
<td>Occupy high proportion of capital, long payback period, require powerful financing support and the professional operation team, high risk.</td>
</tr>
<tr>
<td>Sell and Leasing</td>
<td>Partial property sale relieves capital pressure, less risk, long-term cash flow.</td>
<td>Need to maintain a liquid reserve to cover both debt service and operating expenses, middle risk</td>
</tr>
<tr>
<td>Build and Sell</td>
<td>No operation risk, short payback period, least risk in three models</td>
<td>Cannot acquire long-term cash flow and project premium profit</td>
</tr>
</tbody>
</table>

Although Chinese private investors are interested in senior care housing projects, they focus on property premium rather than treating this as a service-oriented business. Many Chinese companies that are interested in developing senior housing projects are real estate developers. They are doing a good job in attracting clients to their facilities based on their physical appeal, but are less based on service. They build and sell to make a quick financial return.
3.6 Regulations and Laws

Before 2000, the senior care industry drew less public attention in China. From land acquisition to operation, there was not a definite set of regulations to follow. In the 2000s, China’s rapidly-aging population has driven Chinese policy makers to pay more attention to the elderly care sector. The government promulgated a series of regulations to promote elderly care. There were several milestones in the elderly-care regulatory framework at the national level.

Opinion for Accelerating the Development of Senior Care Industry

In 2006, the central government released the “Opinion for Accelerating the Development of Senior Care Industry”. In this document, the central government indicated the importance of the senior care industry and proposed six goals.

- To strengthen the social welfare and develop comprehensive medical insurance
- To encourage private capital investment into senior care institutions
- To develop home and community-based services for elderly
- To develop hospice care
- To promote senior-care facility development
- To strengthen the provision of training and education for professional staff

12th Five-Year Plan on the Development of Chinese Senior Care

In 2011, the State Council promulgated the “12th Five-Year Plan on the Development of Chinese Senior Care”. This is a national guideline and development strategy for elderly care. In this plan, elderly mental care was added to governmental policy.

- It relaxes norms for land usage and resources for elderly care, lowering barriers to entry
- It provides government subsidies and allowances
Implementation of “Opinions on Encouraging and Guiding Private Capital to Invest in Elderly Service Industry.”

In 2011, the Ministry of Civil Affairs released the “Implementation Opinions on Encouraging and Guiding Private Capital to Invest in Elderly Service Industry”. The objectives of this document were defined thus:

- To encourage private investors to run elderly care facilities, including senior apartments, nursing homes and recreation centers
- To provide government subsidies and tax preferential treatment
- To expand the funding channels and develop innovative financial products
- To encourage private investors to lease up currently public institutions, and reallocate and optimize resources overall

Opinions on Accelerating the Development of the Elderly Care Industry

In 2013, the State Council promulgated the “Opinions on Accelerating the Development of the Elderly Care Industry”, and pointed out six goals.

- To add consideration to public healthcare infrastructures in the process of city planning
- To establish a service network for senior home care
- To encourage private-sector players to participate in the management and operations of elderly care institutions
- To promote the elderly care industry in rural areas
- To cultivate the elderly-person consumer market
- To promote the collaboration of public hospitals and elderly care institutions, and to develop a comprehensive medical insurance system

To achieve the above goals, the state council issued some supportive policies, including:
• Expansion of the funding channel for elderly care and encouragement of new financial products/services
• Land supply support
• Tax exemptions
• Government subsidies
• To strengthen the training and education for professional staff
• To encourage charities to participate in the elderly-care industry

Announcement on Encouraging Foreign Investors to Establish For-Profit Senior Care Institutions and Engage in Senior Care Services in China

In 2014, the Ministry of Commerce and the Ministry of Civil Affairs of China jointly issued the “Announcement on Encouraging Foreign Investors to Establish For-Profit Senior Care Institutions and Engage in Senior Care Services in China.” The announcement is intended to:

• Treat foreign-invested company equally as domestic entities in terms of tax and fee preferential treatments
• Simplify the procedures to establish foreign-invested senior care institutions, clarify the approval and registry measures
• Approve foreign-invested senior care institutions to provide medical services
• Encourage foreign investors to participate in the reform of state-run senior care institutions

All these national regulations are general guidelines, without detailed provisions and standards. In China, laws and regulations are promulgated from the central government. Local governments are responsible for adhering to national policies. This structure provides local authorities much room to implement policies in a flexible way that best fits local interests.
The most evident conflict in the current regulatory structure is on land profit. The central government takes economic growth as the top priority, imposing great pressure on local governments. However, the Chinese economy has been dependent on real estate investment for decades. Local governments regard real estate as one of the most important economic engines. Land is the base of real estate development.

In developed areas like Beijing, Shanghai and Guangzhou, local governments are reluctant to supply land to elderly care institutions. Most elderly care institutions in China are registered as non-profit entities in order to be exempt of business tax. Given the land scarcity in first-tier cities and the high tax revenues coming from real estate, local governments have little incentive to parcel land to nonprofit entities, which do not generate tax revenue and contribute little to local GDP. Therefore, local governments are inclined to profit-oriented businesses when approving land deals.

In less developed areas, local regulatory enforcement and supervision is weak. Developers find it much easier to obtain land cheaply for senior care institutions. If they are entitled to administrative allocations, some developers acquire land at almost zero cost. Actually they sometimes end up doing residential or commercial development, not elderly-care institution development. In order to avoid punishment, some developers add elderly facilities in residential communities, but never provide elderly care service. A lot of “fake” elderly communities were built in some provinces. In these areas, senior housing development becomes a gimmick to secure cheap land.

In China, many regulations for the senior-care industry are only under discussion or being drafted, and most of the current regulations are very broad and general, resulting in different practices and interpretations from local authorities. Throughout the development process, from
land acquisition to asset management, developers and operators still have to rely heavily on negotiations with the local governments, in order to clearly define the realm within which their businesses will operate, as well as the potential preferential treatment to be offered.

The regulations are not transparent and enforceable. In terms of operating regulations, the Ministry of Civil Affairs promulgated the “Standards of Social Welfare Institution for The Elderly” in 2001, which is the only nationwide protocol available. However, this document offers only general regulatory guidelines and the specific requirements are vague. When it comes to enforcement, important decisions still depend on the local government’s supervision.

3.7 Professional Workforce

In 2015 the Chinese elderly care market value will achieve 450 billion RMB, and the demand for elderly care workforce will exceed 5 million. [7] Compared to the rapidly aging population, elderly care labor’s shortage is worsening. Most frontline elderly-care workers are poorly educated. Their knowledge and skills are not at professional standards and they are unqualified. In the coming five to ten years, elderly service will face great pressure. The education, training, evaluation and incentive policies for elderly-care staff will directly influence the elderly-care industry in China. [8] There is a huge gap between the market demand for elderly-care professionals and supply. China needs a huge development in the sizes of the populations of frontline elderly care workers, and middle management of elderly-care programs and facilities. Senior care workers work long hours and use a lot of energy every day. Unfortunately, senior care workers’ social status is still poor in China. Therefore, younger generations with more opportunities are not willing to choose senior care as a career.

In senior care work, training is required, from basic assistance and nursing to necessary medical support. And care providers have to learn the knowledge and skills to look after elderly’s mental health. But there is no pipeline of trained nurses, physical and rehabilitation specialists, and doctors for senior care. The Chinese government advocates training programs in the elderly care sector, and plans to solve workforce shortages by the means of more college education and industry training. In 2014, the Ministry of Education and other nine departments released the “Opinions on Accelerating the Elderly Care Education and Training”. In 2015, the Ministry of Education began to promote elderly-care education in professional colleges. These policies will definitely increment the senior care labor pool. But the elderly care education and training is at very early stage in China, and is weak compared to the U.S.

The demand for qualified and experienced staff will continue to outpace supply dramatically in the next decade. The lack of professionals is a serious concern. Currently, in China, the pay for senior care workers is very low, so there is little incentive for workers to improve their skills or acquire knowledge. This situation needs to change. Current education and training programs are not enough. Chinese policymakers should make the senior-care jobs competitively attractive compared to other occupations in terms of salary. A big workforce demand and a limited supply will otherwise limit the senior housing industry in China. Senior housing investors and operators should pay attention to this issue when stepping into the Chinese senior housing market.
Chapter IV Implications of U.S. Senior Care Industry to China

4.1 Health Care REITs

Health care REITs play an essential role in the U.S. real estate capital market. The REIT investment vehicle was created by United States Congress in 1960 through legislation called the Real Estate Investment Trust Act, which authorized a real estate ownership structure with tax treatment similar to that of mutual funds; a pass-through entity that distributes most of its earnings and capital gains.

REITs offer all investors, not just the big players, a liquid way to invest in a diversified portfolio of commercial property. They provide a means for many investors to achieve the benefits associated with real estate investment, for whom direct equity investment is beyond their means or infeasible. Shares of public REITs trade on organized exchanges. Perhaps the most notable feature of REITs as compared to most other types of stocks is that REITs are exempt from corporate income tax. The rationale for this exemption is that REITs are viewed as investment vehicles, similar to mutual funds. Exemption from corporate-level taxation enables REIT shareholders to avoid the double taxation of corporate income that characterizes most stocks. [9]

In the U.S., senior housing development conforms an ecosystem involving developers, operators, REITs, and private equity. REITs play an essential role in this ecosystem. There are fifteen Health Care REITs in U.S. public market as of May 2015. Like all REITs, these firms are not subject to federal income tax so that they can distribute 90% of their taxable income to shareholders. Therefore, these stocks offer dividend yields above the market average level.

Figure 4.1: U.S. Health Care REITs Return Rate

<table>
<thead>
<tr>
<th>Sector</th>
<th>Constituents</th>
<th>1 Year Return</th>
<th>3 Year Return</th>
<th>5 Year Return</th>
<th>Dividend Yield</th>
<th>Market Cap (SM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care</td>
<td>15</td>
<td>9.6%</td>
<td>10.7%</td>
<td>12.7%</td>
<td>4.87</td>
<td>94,072.9</td>
</tr>
</tbody>
</table>

Source: FTSE NAREIT Equity Health Care (Data as of May 2, 2015)

Figure 4.2: REITs in Health Care Sector

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker</th>
<th>Divide Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Care Trust REIT</td>
<td>CTRE</td>
<td>2.1</td>
</tr>
<tr>
<td>HCP</td>
<td>HCP</td>
<td>5.23</td>
</tr>
<tr>
<td>Healthcare REIT</td>
<td>HCN</td>
<td>4.27</td>
</tr>
<tr>
<td>Healthcare Realty Trust</td>
<td>HR</td>
<td>4.32</td>
</tr>
<tr>
<td>Healthcare Trust Of America Inc</td>
<td>HTA</td>
<td>4.16</td>
</tr>
<tr>
<td>LTC Properties</td>
<td>LTC</td>
<td>4.43</td>
</tr>
<tr>
<td>Medical Properties Trust</td>
<td>MPW</td>
<td>5.97</td>
</tr>
<tr>
<td>National Health Investors</td>
<td>NHI</td>
<td>4.79</td>
</tr>
<tr>
<td>New Senior Investment Group</td>
<td>SNR</td>
<td>1.38</td>
</tr>
<tr>
<td>Omega Healthcare Investors</td>
<td>OHI</td>
<td>5.32</td>
</tr>
<tr>
<td>Physicians Realty Trust</td>
<td>DOC</td>
<td>5.11</td>
</tr>
<tr>
<td>Sabra Health Care REIT</td>
<td>SBRA</td>
<td>4.71</td>
</tr>
<tr>
<td>Senior Housing Properties Trust</td>
<td>SNH</td>
<td>7.03</td>
</tr>
<tr>
<td>Universal Health Rlty Income</td>
<td>UHT</td>
<td>4.52</td>
</tr>
<tr>
<td>Ventas Inc</td>
<td>VTR</td>
<td>3.17</td>
</tr>
</tbody>
</table>

Figure 4.3: 50 Largest U.S. Seniors Housing Owners as of June 1, 2014

<table>
<thead>
<tr>
<th>2014 Rank</th>
<th>Company</th>
<th>2014 Properties</th>
<th>2014 Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ventas Inc.</td>
<td>695</td>
<td>61,938</td>
</tr>
<tr>
<td>2</td>
<td>Health Care REIT Inc.</td>
<td>572</td>
<td>56,479</td>
</tr>
<tr>
<td>3</td>
<td>Brookdale Senior Living</td>
<td>555</td>
<td>49,342</td>
</tr>
<tr>
<td>4</td>
<td>HCP Inc.</td>
<td>444</td>
<td>45,580</td>
</tr>
<tr>
<td>5</td>
<td>Boston Capital</td>
<td>512</td>
<td>30,794</td>
</tr>
<tr>
<td>6</td>
<td>Senior Housing Properties Trust</td>
<td>217</td>
<td>26,671</td>
</tr>
<tr>
<td>7</td>
<td>Holiday Retirement</td>
<td>167</td>
<td>20,601</td>
</tr>
<tr>
<td>8</td>
<td>Emeritus Senior Living</td>
<td>211</td>
<td>18,207</td>
</tr>
<tr>
<td>9</td>
<td>Evangelical Lutheran Good Samaritan Society</td>
<td>124</td>
<td>15,650</td>
</tr>
<tr>
<td>10</td>
<td>Senior Lifestyle Corporation</td>
<td>138</td>
<td>14,448</td>
</tr>
</tbody>
</table>

Figure 4.4: 50 Largest U.S. Seniors Housing Operators as of June 1, 2014

<table>
<thead>
<tr>
<th>2014 Rank</th>
<th>Company</th>
<th>2014 Properties</th>
<th>2014 Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Brookdale Senior Living</td>
<td>647</td>
<td>66,333</td>
</tr>
<tr>
<td>2</td>
<td>Emeritus Senior Living</td>
<td>499</td>
<td>45,296</td>
</tr>
<tr>
<td>3</td>
<td>Holiday Retirement</td>
<td>307</td>
<td>37,488</td>
</tr>
<tr>
<td>4</td>
<td>LCS</td>
<td>119</td>
<td>31,792</td>
</tr>
<tr>
<td>5</td>
<td>Five Star Senior Living</td>
<td>226</td>
<td>27,348</td>
</tr>
<tr>
<td>6</td>
<td>Sunrise Senior Living LLC</td>
<td>246</td>
<td>22,700</td>
</tr>
<tr>
<td>7</td>
<td>Erickson Living</td>
<td>17</td>
<td>20,118</td>
</tr>
<tr>
<td>8</td>
<td>Atria Senior Living Inc.</td>
<td>150</td>
<td>17,469</td>
</tr>
<tr>
<td>9</td>
<td>Senior Lifestyle Corporation</td>
<td>163</td>
<td>16,811</td>
</tr>
<tr>
<td>10</td>
<td>Evangelical Lutheran Good Samaritan Society</td>
<td>132</td>
<td>16,336</td>
</tr>
</tbody>
</table>

Source: American Senior Housing Association, The 2014 ASHA 50
Health Care REITs own and operate properties including hospitals, senior housing facilities, skilled nursing facilities, and other medical office buildings. Some of Health Care REITs rank in top U.S. Seniors Housing Owners and Operators. Senior housing currently accounts for about half of the net operating income (NOI) of the three largest health care REITs, Ventas, Health Care REIT and HCP.

- **Ventas**

- **Health Care REIT**
  
  (Data as of 3/31/2015)

- **HCP**
  
  (Based on Investment Portfolio as of 3/31/15 and annualized 1Q 2015 Portfolio Income)
4.2 Tailored Market

In U.S. senior care market, real estate products are well defined and properly designed to meet the tailored demand. Many options are available to meet the needs of target customers.

- Independent senior living communities

Independent senior living communities cater to seniors who are self-sufficient and who do not need hands-on care. Residents live in fully equipped private apartments. These communities usually offer a broad range of intellectual, physical and social activities. These communities offer a carefree lifestyle, free of many potentially difficult or burdensome responsibilities, such as meal preparation, housekeeping and laundry and house maintenance.

- Assisted living communities

Assisted living communities provide housing and care to seniors who may need some assistance with daily tasks, but who do not require the skilled care provided at a nursing home. Assistance with medications, activities of daily living, meals and housekeeping are routinely provided. Three meals per day are also served in a central dining room. Staff is available 24 hours per day for additional safety. Social activities and scheduled transportation are also available in most communities.

- Residential care homes

Residential care homes are houses in neighborhoods that have been adapted to take care of a limited number of residents. They offer personalized service to a small group of adults. They are private homes that serve residents who live together and receive care from live-in caretakers. These homes offer assisted care services for seniors who want a more intimate, home-like community. Assistance with activities of daily living such as bathing and dressing are typically provided. Amenities and nursing services vary greatly between homes.
• Nursing homes
Nursing homes are for seniors who require 24-hour monitoring and medical assistance. Nursing home patients typically suffer from severe or debilitating physical or mental illnesses, so they are unable to care for themselves. Nursing homes offer engaging resident activities, skilled medical attention—such as physical therapists and licensed physicians, as well as gourmet dining services.

• Respite Care
Respite care typically refers to a short-term stay at a senior community, such as an assisted living or memory care community. This type of care can also sometimes refer to in-home caregiving services used for only a short period.

• Memory Care
Memory care, is often provided in a secure area of an assisted living community or nursing home usually in a separate floor or wing. The secure aspect of memory care communities is intended to prevent residents from wandering off and becoming lost, which is a common and dangerous symptom of Alzheimer’s disease and dementia. The security usually takes the form of alarmed exit doors rather than locked exit doors. Residents usually live in semi-private apartments or private rooms and have structured activities conducted by staff members trained specifically trained to care for those with Alzheimer’s or other kinds of dementia.

In this highly tailored market, consulting services are also highly developed. Specialists are available to provide expertise to help elders finding the right products to match their needs. Senior Housing Consultants help guide builders, investors and developers through the complex process of developing senior housing. There is a consultation process built from the ground up to support each phase, from Market Assessment through Financial Feasibility and Business Development to the on-going management of daily operations. Senior Care Advisors help people
find the senior living community that best meets their needs. Senior Financial Advisors help people determine the monthly budget that is available for care, and decide how to pay for care that won’t be covered by medical insurance.

Figure 4.5: The Characteristics of Senior Housing Types and Care Types

Source: A Place for Mom
4.3 Laws & Regulations

In U.S. senior housing industry is largely regulated at the state level. The regulatory framework of the states contains common elements, but some states regulate industry more stringently. Taking Florida and New York as examples, two states’ laws have detailed requirements on continuing care.

2013 Florida Statutes

Chapter 651 - CONTINUING CARE CONTRACTS

651.011 - Definitions.
651.012 - Exempted facility; written disclosure of exemption.
651.013 - Chapter exclusive; applicability of other laws.
651.014 - Insurance business not authorized.
651.015 - Administration; forms; fees; rules; fines.
651.018 - Administrative supervision.
651.019 - New financing, additional financing, or refinancing.
651.021 - Certificate of authority required.
651.022 - Provisional certificate of authority; application.
651.023 - Certificate of authority; application.
651.0235 - Validity of provisional certificates of authority and certificates of authority.
651.024 - Acquisition.
651.026 - Annual reports.
651.0261 - Quarterly statements.
651.028 - Accredited facilities.
651.033 - Escrow accounts.
651.035 - Minimum liquid reserve requirements.
651.051 - Maintenance of assets and records in state.
651.055 - Continuing care contracts; right to rescind.

651.057 - Continuing care at-home contracts.

651.061 - Dismissal or discharge of resident; refund.

651.065 - Waiver of statutory protection.

651.071 - Contracts as preferred claims on liquidation or receivership.

651.081 - Residents’ council.

651.083 - Residents’ rights.

651.085 - Quarterly meetings between residents and the governing body of the provider; resident representation before the governing body of the provider.

651.091 - Availability, distribution, and posting of reports and records; requirement of full disclosure.

651.095 - Advertisements; requirements; penalties.

651.105 - Examination and inspections.

651.106 - Grounds for discretionary refusal, suspension, or revocation of certificate of authority.

651.107 - Duration of suspension; obligations during suspension period; reinstatement.

651.108 - Administrative fines.

651.1081 - Remedies available in cases of unlawful sale.

651.111 - Requests for inspections.

651.114 - Delinquency proceedings; remedial rights.

651.1151 - Administrative, vendor, and management contracts.

651.116 - Delinquency proceedings; additional provisions.

651.117 - Order of liquidation; duties of the Department of Children and Family Services and the Agency for Health Care Administration.

651.118 - Agency for Health Care Administration; certificates of need; sheltered beds; community beds.

651.119 - Assistance to persons affected by closure due to liquidation or pending liquidation.
651.121 - Continuing Care Advisory Council.
651.123 - Alternative dispute resolution.
651.125 - Criminal penalties; injunction relief.
651.13 - Civil action.
651.131 - Actions under prior law.
651.132 - Amendment or renewal of existing contracts.
651.134 - Investigatory records.

**NY Code**

**Article 46: CONTINUING CARE RETIREMENT COMMUNITIES**

Section 4600 Legislative findings and purpose.
Section 4601 Definitions.
Section 4602 Continuing care retirement community council; powers and duties.
Section 4603 Commissioner; powers and duties.
Section 4603 A Residential health care demonstration facilities.
Section 4604 Certificate of authority required; application and approval.
Section 4604 A Council approval required for industrial development agency financing in connection with continuing care retirement communities.
Section 4605 Certificate of authority; authority of operator.
Section 4606 Initial disclosure statement.
Section 4607 Annual statement.
Section 4608 Continuing care retirement contract.
Section 4609 Withdrawal, death or dismissal of person; refund.
Section 4610 Entrance fee escrow account.
Section 4611 Reserves and supporting assets.
Section 4612 Residents' organizations.
By comparing continuing care regulatory requirements in Florida and New York, we can summary the common elements of U.S continuing care regulatory framework.

- Authority To Operate

Each state requires continuing care providers to have operating certificates. The state agencies are responsible for issuing certificates of authority. Each state requires at least one state agency to oversee continuing care communities.

- Financial Disclosure Requirements

States require continuing care providers to provide detailed financial statements to the pertinent regulatory agency before they begin to operate. The statements must include any financial risks a
potential resident could face. The copies of these statements are also required to provide to prospective residents.

• Ongoing Annual Report
States require continuing care providers to submit annual financial statements after opening. The reports show the community's operating condition. The financial disclosure statements include annual revenue and expense summaries.

• Minimum Liquid Reserves
States require continuing care providers to maintain in escrow a minimum liquid reserve to cover both debt service and operating expenses.

• Examinations and Inspections
State administrative agencies conduct routine examinations periodically. The results of examinations and inspections shall be open to public.

• Ability To Cancel Contract
States allow prospective residents to cancel their contracts within a certain amount of time and receive all or most of their money back.

• Violation
States establish penalties for violations, including both civil and criminal remedies.

• Residents Rights
Some states establish bills of rights for senior residents. No resident of any facility shall be deprived of any civil or legal rights, benefits, or privileges guaranteed by law, by the State.
Constitution, or by the United States Constitution solely by reason of status as a resident of a facility.

4.4 Professional Workforce Supply

U.S. also faces a shortage in its senior care workforce. Facing such care worker shortage, U.S. policymakers and employers are working together to make the care occupations competitively attractive compared to other occupations. In 2013 the U.S. Department of Labor announced a final rule extending the Fair Labor Standards Act's minimum wage and overtime protections to workers who provide home care assistance to elderly people and people with illnesses, injuries or disabilities. The rule has been effective since Jan. 1, 2015. Nearly two million home health and personal care workers benefit from this policy. This change will result in direct care workers receiving the same basic protections already provided to most U.S. workers. It will also help guarantee that those who rely on the assistance of direct care workers have access to consistent and high-quality care from a stable and increasingly professional workforce.
Chapter V Senior Housing Cases Study

5.1 Brooksby Village

Address: 100 Brooksby Village Drive, Peabody, Massachusetts, USA 01960

- General Information

Brooksby Village is a full-service retirement community managed by Erickson Living. It was opened in June 2000, located on Boston’s North Shore, near to North Shore Mall, Brooksby Farm and golf courses. Brooksby Village consists of a mix of independent living units ranging from studios to large two bedrooms. It also offers a range of assisted living units and skilled nursing units that target specific needs.

<table>
<thead>
<tr>
<th>Community Type</th>
<th>Units</th>
<th>Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Community</td>
<td>1350</td>
<td>98%</td>
</tr>
<tr>
<td>Assisted Community</td>
<td>96</td>
<td>100%</td>
</tr>
<tr>
<td>Skilled Nursing Community</td>
<td>104</td>
<td>99%</td>
</tr>
</tbody>
</table>

[10] Erickson Living is a nation-leading developer and manager of continuing care retirement communities, ranking No. 7 in the largest U.S. Seniors Housing Operators in 2014. Erickson Living operates 19 communities in 10 states. 11 Continuing Care facilities managed by Erickson Living have received the highest overall rating of five stars in U.S. News & World Report’s seventh annual Best Nursing Homes. Brooksby Village is one of these five stars rated communities.
• Master Plan

Brooksby Village includes three residential neighborhoods, three clubhouses and Continuing Care neighborhood.
• Floor Plan

Source: Brooksby Village

The Brighton (One bedroom, one bath)
The Georgetown (One bedroom, one bath with den)
The Gilbert (Extra large one bedroom, one bath with den)

- Bedroom: 11'10" x 14'5"
- Living Area: 12'0" x 25'10"
- Den: 8'6" x 11'5"
- Bath: 8'6" x 11'9"
- Walk-In Closet
- Kitchen: 8'6" x 11'9"
- Linen
- W/D

Images of the interior of the Gilbert apartment are also shown.
The Fairmont (Large two bedroom, one bath)
The Jackson (Corner two bedroom, two bath)
The Kingston (Large two bedroom, two bath with recessed balcony)
The Lancaster (Corner two bedroom, two bath with sunroom and bay window)
Source: Brooksby Village Brochure
**Pricing**

<table>
<thead>
<tr>
<th>90% Refundable Entrance Deposit</th>
<th>Monthly Service Package</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) If residents decide to leave the community, 90% of deposit will be returned to residents.</td>
<td></td>
</tr>
<tr>
<td>(2) If residents decide to spend the rest of their life here, 90% of entrance deposit will be returned to their heirs</td>
<td></td>
</tr>
<tr>
<td>A Monthly Service Package covers all regular bill, including:</td>
<td></td>
</tr>
<tr>
<td>- Utilities (except telephone)</td>
<td></td>
</tr>
<tr>
<td>- Flexible dining plans</td>
<td></td>
</tr>
<tr>
<td>- Heating and air-conditioning costs</td>
<td></td>
</tr>
<tr>
<td>- Property taxes</td>
<td></td>
</tr>
<tr>
<td>- Scheduled shuttle service to area shopping and attractions</td>
<td></td>
</tr>
<tr>
<td>- 24-hour security and emergency first response</td>
<td></td>
</tr>
<tr>
<td>- Professional lawn care and grounds upkeep</td>
<td></td>
</tr>
</tbody>
</table>

---

**Figure 5.1: Brooksby Village 2015 Pricing Guideline 1**

<table>
<thead>
<tr>
<th>Assisted Care</th>
<th>Monthly packages range from $4,500 to $8,700</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Entrance Deposit ranges from $119,000 to $250,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Short-Term Rehabilitation</th>
<th>Medicare typically pays for short-term rehabilitation costs</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Long-Term Care</th>
<th>$441 a day. Entrance Deposit $119,000</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Respite Care</th>
<th>Cost depends on the services and the length of the stay</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Memory Care</th>
<th>Monthly packages range from $7,120 to $7,470</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Entrance Deposit ranges from $119,000 to $250,000</td>
</tr>
</tbody>
</table>
Figure 5.2: Brooksby Village 2015 Pricing Guideline 2

<table>
<thead>
<tr>
<th>Description</th>
<th>90% Refundable Entrance Deposit</th>
<th>Monthly Service Package**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>Starting at $114,000</td>
<td>$1,648</td>
</tr>
<tr>
<td>One bedroom, one bath</td>
<td>Starting at $170,000</td>
<td>$1,950</td>
</tr>
<tr>
<td>Extra large one bedroom, one bath</td>
<td>Starting at $210,000</td>
<td>$2,084</td>
</tr>
<tr>
<td>One bedroom, one bath with den</td>
<td>Starting at $263,000</td>
<td>$2,267</td>
</tr>
<tr>
<td>Two bedroom, one bath</td>
<td>Starting at $244,000</td>
<td>$2,380</td>
</tr>
<tr>
<td>Two bedroom, one and a half bath</td>
<td>Starting at $316,000</td>
<td>$2,534</td>
</tr>
<tr>
<td>Two bedroom, two bath</td>
<td>Starting at $336,000</td>
<td>$2,742</td>
</tr>
<tr>
<td>Extra large two bedroom, two bath</td>
<td>Starting at $455,000</td>
<td>$2,992</td>
</tr>
</tbody>
</table>

Second Person Monthly Service Package—$858. **No** second person entrance deposit.

- **Level of Care**

Brooksby Village is a full-service retirement community, providing a full of care on campus.

Figure 5.3: Brooksby Village Service

<table>
<thead>
<tr>
<th>Rehab in Neighborhood</th>
<th>Offers inpatient and outpatient rehabilitation in campus Continuing Care neighborhood. Therapists create the customized plan to help residents achieve optimal results and maintain the highest level of independence.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assisted Care</td>
<td>Offers extra assistance with daily tasks like bathing, meal planning and medication management.</td>
</tr>
<tr>
<td>Customized Care</td>
<td>Offers home care, respite care, long term nursing care and memory care in Continuing Care neighborhood. Individuals in these settings are supported by professional staff members.</td>
</tr>
</tbody>
</table>
Medical Care

Brooksby Village provides medical care on campus. A full-time medical team services its residents.

Figure 5.4: Brooksby Village Medical Service

<table>
<thead>
<tr>
<th>On-Site Medical Center</th>
<th>The full-time medical staff at Brooksby Village includes board certified doctors and nurse practitioners. All are specially trained to identify and treat the health needs of older adults. Medicare and most other insurance plans are accepted at the medical center</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visiting Specialists</td>
<td>Some of the area’s most respected cardiologists, urologists, dermatologists, orthopedists and chiropractors have regular hours at Brooksby Village.</td>
</tr>
<tr>
<td>Emergency Medical</td>
<td>Full-time security staff is cross-trained in emergency medical response. If residents need assistance, these professionals can reach.</td>
</tr>
<tr>
<td>Response Team</td>
<td></td>
</tr>
</tbody>
</table>

55
5.2 Starcastle

Address: 858 Huanzhen Road South, Baoshan District Shanghai, China 200436

- **Brand History**

Starcastle is a new brand that was co-founded by U.S. and Chinese investors. Starcastle Senior Living Services Ltd is a joint venture company between Fortress Investment Group and Fosun Group, 50% share hold respectively.

Fortress Investment Group LLC (NYSE: FIG) is a global investment firm with approximately $69.9 billion of assets under management as of March 31, 2015. Fortress runs senior living facilities in the U.S. and Canada, and its private equity fund portfolio investments include Brookdale Living\[11\] and Holiday Retirement\[12\] - two of the largest senior-housing operators in the US.

Fosun Group is a Chinese private-owned investment group based in Shanghai. Its business includes four segments: insurance, industrial operations, investments and assets management. Fosun intends to integrate its insurance and medical businesses into to senior care industry.

\[11\] Brookdale Living rank No.1 in “Largest U.S. Seniors Housing Operators as of June 2014” in American Senior Housing Association annual report.

\[12\] Holiday Retirement rank No.3 in “Largest U.S. Seniors Housing Operators as of June 2014” in American Senior Housing Association annual report.
Recently, Chinese developers have cooperated with U.S. operators to import the U.S Continuing Care Retirement Community model into China’s market. Some high-end senior communities such as Starcastle have copied the U.S. operating model.

Fosun Group partners with Fortress Investment to promote senior living community in major cities of China. Starcastle Shanghai is their first project. This joint venture company is trying to establish Starcastle chain business and build the best senior care brand in China. Starcastle integrates two companies’ expertise. Fortress brings senior living investment and operating expertise from its portfolio companies Brookdale Living and Holiday Retirement. Fosun provides a deep understanding about China market as well as experience in real estate, pharmaceuticals and healthcare.

- **General Information**

Starcastle was opened in Shanghai in May of 2013, with 18000 square meters building area. It consists of 189 independent living units and 30 assisted living units, from studios to large two-bedrooms. It’s a Continuing Care Retirement Community, offering a range of housing and care service options. This project is positioned as high-end independent community with assisted services. Thus, it appeals to elder people with a higher level of self-care ability. It has a 24 hours full-time team to provide assistance with daily activities such as bathing, dressing or eating. Currently the average occupancy rate of Starcastle is above 80%.

<table>
<thead>
<tr>
<th>Community Type</th>
<th>Units</th>
<th>Occupancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent Community</td>
<td>190</td>
<td>80%</td>
</tr>
<tr>
<td>Assisted Community</td>
<td>30</td>
<td>85%</td>
</tr>
</tbody>
</table>
• Floor Plan

Studio

One bedroom

Two bedroom
• **Pricing**

Living cost involves two segments: Entrance Fee and Monthly Fee. Monthly fee covers basic services and meals. Residents can purchase additional services such as private transportation, enhanced housekeeping, and additional in-home personal care services as desired.

Starcastle charges an entrance fee of 50,000 RMB and a monthly fee from 8,000 to 28,800 RMB. The monthly rent for independent studio is from 8,000 to 10,000 RMB per month. The average monthly rent for independent living unit is from 11000 to 15000 RMB per month, with rental for the largest two-bed unit being 28800 RMB per month.

<table>
<thead>
<tr>
<th>Entrance Fee</th>
<th>Monthly Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>RMB 50,000.00</td>
<td>A Monthly Service Package covers basic services, including:</td>
</tr>
<tr>
<td></td>
<td>• restaurant style dining (three meals every day)</td>
</tr>
<tr>
<td></td>
<td>• in-unit housekeeping</td>
</tr>
<tr>
<td></td>
<td>• regularly scheduled shuttles</td>
</tr>
<tr>
<td></td>
<td>• a wide range of activities</td>
</tr>
<tr>
<td></td>
<td>• 24-hour security and emergency first response</td>
</tr>
</tbody>
</table>

• **Medical Care**

There are no full-time medical providers in Starcastle. But it has established relationships with public hospitals in Shanghai to provide support to residents. Visiting doctors from public hospitals are invited to Starcastle regularly. Starcastle helps its residents to make appointments with physicians. Although there are no professional full-time physicians in Starcastle, nurses in Starcastle maintain a health file for each resident and accompany elderly people in patient visits.
Level of Care

Figure 5.5: Starcastle Senior Care Service

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full Service Retirement Living</strong></td>
<td>- Maximize the independence of seniors through education and support</td>
</tr>
<tr>
<td></td>
<td>- Offer meal packages</td>
</tr>
<tr>
<td></td>
<td>- Offer social interaction</td>
</tr>
<tr>
<td></td>
<td>- Provide some supervision from the staff</td>
</tr>
<tr>
<td></td>
<td>- Provide round-the-clock health care service</td>
</tr>
<tr>
<td><strong>Personalized Assisted Living</strong></td>
<td>- Provide direct assistance with everyday tasks, like bathing, dressing and meals</td>
</tr>
<tr>
<td></td>
<td>- All meals provided</td>
</tr>
<tr>
<td></td>
<td>- Trained staff available and monitoring 24 hours a day</td>
</tr>
<tr>
<td></td>
<td>- Help residents maintain their dignity while aging</td>
</tr>
<tr>
<td></td>
<td>- Specialized units for residents with Alzheimer’s or dementia</td>
</tr>
<tr>
<td><strong>Home Care</strong></td>
<td>- Provide direct assistance with everyday tasks, like bathing, dressing and meals</td>
</tr>
<tr>
<td></td>
<td>- Provide trained staff to help with medical concerns</td>
</tr>
<tr>
<td></td>
<td>- Allow a person to maintain independence and stay in their own home longer</td>
</tr>
</tbody>
</table>
5.3 Case Comparison

Starcastle is a good example of what the U.S. Continuing Care Retirement Community model implies to the Chinese market. Starcastle is similar to Brooksby Village in program, unit design, quality standards, service types, and pricing structure. The most significant difference between two projects is the level of medical services. However, in my view, the most important factor and the key to success for senior communities is medical care.

In China a total of 597.74 million people participated in basic health insurance program by the end of 2014, of whom 283.25 million people participated in basic health insurance program for workers, and 314.49 million people participated in insurance programs for residents. \(^{[13]}\) There were 13,343 public hospitals and 12,166 private hospitals in China by November of 2014. From January to November of 2014, the number of patient visits to public hospitals was 2,350 million, the number of patient visits to private hospitals was 280 million. \(^{[14]}\) Public hospitals and clinics provide 90 percent of the country’s medical services. Private health care in China is not as popular as in U.S. since China is still in the early stages of its economic and social development. Chinese people still prefer to wait for hours in public hospitals to spend five minutes with a physician rather than pay money to use a private medical service. This happens because the cost of private health care is not covered by the national basic health insurance.

In contrast, in U.S., private medical treatment is widely accepted. Family physicians are devoted to help people stay healthy, with an individualized plan of care. They are familiar with individual’s health history and lifestyle. They diagnose illnesses, provide routine health screenings, and refer patients to specialists.

\(^{[13]}\) Data from National Bureau of Statistics of China, Statistical Communiqué of the People's Republic of China on the 2014 National Economic and Social Development

\(^{[14]}\) Data from National Health and Family Planning Commission of People's Republic of China
The cost of private medical and health care are covered by health insurance. In U.S., the percentage of people with health insurance of 2013 was 86.6%. For people aged 65 years and older, 98.4% had health insurance coverage. 64.2% of population was covered by private health insurance. And the largest single type of health insurance in 2013 was employment-based health insurance, which covered 53.9 percent of the population.\[15\]

![Figure 5.6: Number and Percentage of People by Health Insurance Status 2013](image)

Source: Health Insurance Coverage in the United States: 2013, Jessica Smith and Carla Medalia, U.S. Census Bureau

![Figure 5.7: China and USA Health Expenditure Ratios in 2012](image)

<table>
<thead>
<tr>
<th>Category</th>
<th>China</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total expenditure on health as % of GDP</td>
<td>5.4</td>
<td>17</td>
</tr>
<tr>
<td>Government expenditure as % of total expenditure</td>
<td>12.5</td>
<td>20</td>
</tr>
<tr>
<td>Social security expenditure as % of government expenditure</td>
<td>67.9</td>
<td>87.3</td>
</tr>
<tr>
<td>Out-of-pocket expenditure as % of private expenditure</td>
<td>78</td>
<td>22.4</td>
</tr>
<tr>
<td>Private prepaid plans as % of private expenditure</td>
<td>7</td>
<td>63.7</td>
</tr>
</tbody>
</table>

Source: Chapter 7, World Health Statistics 2015, World Health Organization

\[15\] Health Insurance Coverage in the United States: 2013, Jessica Smith and Carla Medalia, U.S. Census Bureau
Conclusion

China senior care market is still at its infant stage and a proven development strategy has not emerged yet. Expertise from mature markets like the U.S. is a definite competitive advantage. But the implication of U.S. model to China must adapt to China’s unique market dynamic. It’s no doubt that China senior housing market has its own characteristics. Senior housing development should adapt to the China social background and meet the needs and desires of local market.

Starcastle is a good example of what the U.S. Continuing Care Retirement Community model implies for the Chinese market. Many high-end senior communities in China copy the U.S. model from master plan, project program, unit design, quality standards, service types to pricing structure. But the medical care service is the weakness of these projects. In current China, only a few wealthy people can afford private medical care, since it is not covered by their medical insurance.

In June 2015, China’s State Council issued a new policy to encourage the development of private medical institutions. This big move by the State Council implies allowing privately owned hospitals in the medical insurance system. With private medical care joining the national medical insurance system, senior housing development will move to a new stage. Investors can integrate private hospitals development with senior housing development.

Chinese investors should understand that senior housing is not a typical real estate business, but a service-oriented business. For foreign investors, a good understanding of the local market as well as a suitable local partner will increase their chances of success.
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