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Our feature article summarizes the discussion at our August 22, 2013, webcast of the same name. Panelists included Mary Jane Fitts, Vice President—Marketing Services at Greystone (moderator): Jim Moore, President of Moore Diversified Services, Inc.; Brad Perkins, Principal and Executive Director of Perkins Eastman; and Bill Pettit, COO of Merrill Gardens.

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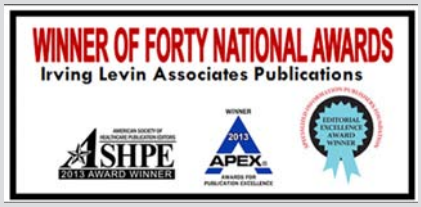

International Development: Senior Care Opportunities Overseas

By 2050, the worldwide population age 60+ will reach two billion, most of whom will reside in developing countries with little or no senior living structure. The United States has one of the most developed senior living industries in the world, and some U.S.-based operators have already expanded successfully into countries outside the borders of the United States—Mexico, China, India, Japan, and elsewhere. The question becomes, though, whether—or when—overseas involvement is a good idea for your company or organization. By tapping into the experience of U.S.-based organizations currently involved in international senior care development, management, or consulting, you can decide for yourself how far to explore overseas opportunities and what challenges you'll likely encounter in various locations.

Here in the United States, we deal with the decision influencer, noted Jim Moore, president of **Moore Diversified Services, Inc.** (MDS) in Fort Worth, Texas. Who is willing to pay for market-rate senior living and health care? And who will actually be the primary payers? There are known challenges here at home, but those are compounded overseas. Plus, senior living is a relatively new concept outside the United States. Its introduction must be approached with a high degree of caution, along with a foundational knowledge of the consumer.

The international environment

Cultural differences are a major issue when operating internationally—Moore calls them the missing link in strategic planning for U.S. developers and operators looking to expand into countries such as India and Japan but especially in China. "Filial piety"—the respect, obedience, and care that adult children have for their parents (and vice-versa)—is a custom that goes back many, many years in China but also in India and Japan. The issue, then, is how U.S. operators deal with that and whether the role of adult children in those countries will change. In China, the family structure has changed, beginning some 30 years ago when the government instituted the one-child policy to control population growth. The result all these years later is the so-called "4-2-1 dilemma," meaning a potential of four grandparents, two parents, and only one child caregiver.

A fundamental challenge for U.S. operators overseas is determining who has the ability and willingness to pay for market-rate senior living and health care—the seniors themselves, the adult children, or some combination? In fact, a law recently passed in some Chinese provinces reinforces the obligation of adult children to care for their parents—even requiring periodic visits to their elderly parents.

Most countries have very different health-care systems from those in the United States, and many have no

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support system for seniors. China has a huge population, for example, and cannot afford to have a broad-based entitlement system that serves everyone. Therefore, U.S. developers or operators must distinguish the quality private-pay market in the target country, understand the distinctions, and determine how to approach those people.

While some traditions are changing due to family unit size or geographic displacement because of employment opportunities, "we can't simply assume that what works well in the United States will automatically work in China," said Moore. "Whether the design, operations, or consumer response, some core elements may be similar; but the culture, the psychographics, and the financial feasibility are all different. We must do the consumer research, the market feasibility studies, and financial analyses, but the frame of reference of the seniors and their children and, of course, how the economics will play out, is just as concerning."

Designing for overseas markets

Perkins Eastman, an architectural consulting firm headquartered in New York City, has planned, designed, and built senior living facilities in several overseas markets—most notably in Japan, a fairly sophisticated and relatively mature market where the firm has been working for the last 15 years; in China, where a growing number of models are emerging but people are still trying to sort out the most appropriate ones for that country; and in India, which is just beginning to explore senior living options for its growing number of elderly citizens.

All three markets—Japan, China, and India—are difficult for outside investments in housing in general and in senior housing in particular, according to Brad Perkins, Principal and Executive Director. "Most of the people that we deal with, at the very least, have a major local partner," he said. "And the developer of most of the projects in which we've been involved is a national of that country. The huge gap overseas, particularly in China and India, is the total lack of operating experience; so that's where there should be an opportunity. But only a couple of international operators are entering those markets."

Japan: In Japan today, more than 30 million people—almost a quarter of the population—are over the age of 65. And if the current trend of declining population continues, that number could reach as much as 40% of the population in 50 years. Life expectancy is more than 81 years, and Japanese seniors are used to a high-quality, sophisticated lifestyle. They've shown a willingness to accept both rental and entry-fee options, but they're very quality-

conscious, according to Perkins. And while senior living is still a relatively new concept, there's growing market awareness—along with some very successful Japanese-based operators and a very limited government role in senior care.

Japanese adult children are often not living with or near their parents; but unlike some of their Asian counterparts, many seniors have adequate income and/or savings to move into a high-end senior living community and, given the choice, often don't wish to live with their children.

Senior living communities in Japan are expensive, because land costs, labor costs, and construction costs are all high. Building codes are also relatively strict due to earthquake concerns, and residential units must all be south-facing. "Finding an available site to build a senior living community is sometimes the hardest part of the project," Perkins declared.

In Japan's high-end private-pay senior living communities, a large percentage of the available space is dedicated to public areas for dining, bathing, and other activities that are very much a part of Japanese life. The residential units are very compact. CCRCs have a high proportion of assisted living units and skilled nursing beds, and new facilities fill up relatively quickly.

"The gross potential for success [in China] is clearly evident, but we still have a lot to learn about strategic execution."

—Jim Moore

The marketing program in Japan is similar to that for a U.S. CCRC model, but very often the Japanese CCRC is the only one in the market. The first CCRC in Tokyo, a city with more than 20 million people, was a 400-unit community that filled up within a year—rather quickly by U.S. standards. "That also showed that 400-500 seniors is about as much as the high-end market can absorb at any one time," Perkins noted.

India. India is just beginning to address senior living. The 67 million people over the age of 65 are a relatively small percentage (5.6%) of the total population, but that percentage is expected to double by 2030. Life expectancy (67 years) is considerably less than in China or Japan, but it is also rising steadily. Market awareness is very limited but growing. A few communities already exist, but no clearly successful models have emerged. And there's no

meaningful government support for seniors.

The traditional family lifestyle is multigenerational—three or more generations may live together—but large numbers of middle-class Indians now reside overseas in the United States and elsewhere. Generally speaking, the Indian lifestyle tends to be fairly sedentary, with a high level of obesity and other illnesses related to that condition. Those at the upper end of the market usually have live-in servants, and cuisine differences are quite influential. *Vatsu*, an Indian practice similar to Chinese *feng shui*, can also be very deterministic. Income disparity in India is extreme, so only a limited segment of the population has the resources to even consider a senior living community.

Labor costs are low, but very high illiteracy and other issues limit the availability of quality labor. The barriers to entry for U.S. operators are also high due to very little supportive government regulation, high land costs, and a complete lack of local management and operating experience.

Perkins Eastman, working with an Indian company that builds residential communities, currently has two projects under construction in India. They're adding a building for ill elderly—essentially an assisted living facility—in a community just outside Mumbai, adapting some of the proven factors of assisted living in the United States to the Indian lifestyle and expectations. Then, in Dehradun, a traditional summer retreat area in the foothills of the Himalayas, they're building the first real CCRC to be developed in India: 215 independent living units and a health center with assisted living and skilled nursing. Both projects are targeted to the top of the market, with large units and amenity spaces that are comparable to a high-end CCRC in the United States.

China. China will soon have a half-billion elderly people and, due to the one-child policy and the migration of children away from their native villages, few adult children to care for parents and grandparents. Currently, 9% of the population (122 million) is over age 65, and that is projected to grow to more than 20% over age 65 (300 million) by 2030. In Beijing alone, the age 60+ population doubled to about 2.5 million over the past decade.

Life expectancy has increased rapidly to an average age of 74 years nationally; in the major eastern cities, it's comparable to U.S. levels. Market expectations, although rapidly changing, remain limited due to years of extreme hardship experienced by elderly Chinese people. Those in their 70s were born during the Japanese occupation

A Look At Mexico: Significant Upside Potential

Just across our southern border, the opportunities are fairly significant, according to Moore. Much of the initial retirement community development in Mexico has been done for expatriates—U. S. and Canadian citizens who initially visit the country as tourists, become repeat visitors on a fairly regular basis, stay in the country for a moderate length of time, and then return as permanent or semi-permanent residents. Some communities, however, are considering having both U.S. expatriates and Mexican nationals living in the same community. In either case, there are strategic issues that must be considered—one of which is Medicare benefits.

The fact that Medicare benefits do not extend to beneficiaries living beyond the borders of the United States is a key issue for retired Americans considering living outside the country. Several entities are working to try to change that; i.e., they feel that an eligible person should be allowed to access their health-care entitlement outside the United States, as long as the provider is accredited and the care meets quality standards. In fact, some health-care providers in Mexico are looking to team up with U.S. hospitals, hoping that the U.S. partner's accreditation and credibility will further the likelihood that Medicare will eventually provide coverage to beneficiaries residing in Mexico.

While Mexico does offer "significant upside potential," according to Moore, his studies of large megaresorts on the Mexico mainland, as well as in Baja and along the Mayan Riviera (south of Cancún), indicate that aggressive marketing will be necessary to attract U.S. and Canadian seniors to the idea of becoming full-time residents of Mexico. "It's a popular destination, it has the right climate, U.S. citizens and Mexican nationals get along very well, and (with proper selection) the quality and affordability of health care is excellent," he said. "But we need to deliver the message more broadly to people who may have an interest in semi-permanent or permanent residence in Mexico. We have to go deeper into that market and sell the overall experience. I believe we'll see that happen."

or during World War II, went through the Communist takeover, massive starvation and other political problems, The Great Leap Forward, and the terrible decade of the Cultural Revolution that finally ended in 1975. Chinese seniors have lived a rather Spartan existence for most of their lives. Perhaps as a result, they have a high rate of savings and a preference for ownership.

Those most likely to have the resources to pay the cost of a senior living community include retired senior government officials, retired senior military, returning overseas Chinese, and the successful adult children of China's economic boom who pay for much of the cost of their parent's retirement. But there's a strong resistance to entry fees.

People are beginning to focus on senior care due to the sheer size of the Chinese market. A number of senior living models currently exist there, and many more are under development; but the barriers to entry remain high due to the lack of supportive government regulation and of management and operating experience. Labor costs are low, but attracting quality labor is difficult due to the field's relatively low prestige. And despite strong government encouragement, including making government-owned land available to private sector developers at favorable prices, few government resources are available to seniors.

"The biology of aging is the same whether you grew up in New York City or in the Liaoning province of China. If you're 70 years old and some of the wheels start to come off, particularly in a society that has knocked out the support structure of the children, you very much have a need-driven situation that is growing rapidly and requires some creative senior living options. The family structure just doesn't exist to do it anymore."

— Brad Perkins

A number of lifestyle preferences influence the planning and design of buildings; for example, feng shui can't be ignored, particularly in the south, and cuisine is the centerpiece of Chinese life. And like Japan, building codes mandate that every unit must face south. As they say in Shanghai, according to Perkins, "On the shortest day of the year, every living room and master bedroom must get an hour and a half of direct sunlight."

Huge developments are common in China. A multi-thousand-unit senior living community built on the north

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Some Models Work In China—Some Don't

- Projects built around a concentration of quality health care delivered on a predictable basis—whether assisted living, memory care, or skilled nursing—will be the earliest successes.
- Communities targeting people in urban areas whose needs are greater than their children can provide—but who still live relatively near their families and have the ability to pay—are experiencing success.
- CCRCs being built in urban areas by insurance companies, which have staying power and can tie in to an insurance product, have a good chance of success if they're not too big.
- Resort areas in China won't work as retirement destinations, because pensions and other entitlements aren't portable. Government regulations will have to change before that model can work.
- Communities with large volumes of independent units are often overbuilt, very difficult to fill, and present a real challenge until the value is more readily understood—perhaps in five to 10 years.

side of Beijing, for example, includes a CCRC and a geriatric hospital. But one of the biggest problems in China, according to Perkins, is that many of the initial senior living projects are overscaled for the market. "We've done master plans for entire new communities in suburban areas of Beijing, and most of those projects have not proceeded past the planning stage. The owners finally realized that the communities are just too big for the market."

One of the first engagements in China for Seattle-based **Merrill Gardens LLC**, which has operated in China for nearly three years, was with a local developer who wanted the U.S. company to manage a "2,500-unit CCRC"—a rather mindboggling proposition. The project actually comprised 1,700 units of intergenerational housing, each with a senior as part of the household, along with a traditional, U.S.-style CCRC—restricted to seniors only—to be built in two 400-unit phases. Quite a difference!

What does the Chinese consumer want?

Merrill Gardens and **Alaris Health** recently conducted a detailed consumer study in Shanghai and Beijing that targeted 60-70 year olds and their adult children, according to Bill Pettit, COO of Merrill Gardens. "We wanted to access the decision-makers of the family, because we wanted to understand how Chinese families would view what we have traditionally provided in the United States."

Interestingly, comments from the interviewees reflected concerns that were very similar to those of their U.S. counterparts: concerns about what will happen if their health starts decline, about being a burden to their children, and about wanting to maintain socialization, eat well, and enjoy access to activities, exercise, and classes. They ranked an on-site medical center as the top desired amenity, with an interest in having full medical care close behind, and questioned whether they would receive adequate care in a retirement community. And would they like the food? Would there be enough staff? They also didn't want to sell their current property. "Those comments suggest that senior needs and perceptions, while culturally answered in different ways, all have a common base," said Pettit.

Most importantly, care is clearly the driver in terms of the options that senior housing might present. So while the continuum of care found in U.S. CCRCs may be the most *probable* way to start, the focus must be on the care component as a major (and initial) portion of the service delivery. And perhaps not surprisingly, the largest segment of the elderly population in China is generally incapable of paying for a retirement community, yet that is also the segment with the greatest need.

The Chinese acute-care and ambulatory-care components of the overall health system in China are "in a state of flux," added Perkins, with a high concern—particularly in the upper middle-income category—about access to quality health care. "There are a lot of doctors and a lot of hospitals, but there are also a lot of people," he observed. China does have a body of nursing staff that is active in the hospital component of the health-care industry and, therefore, could be recruited into a CCRC environment.The more challenging element of staff recruitment involves non-skilled or lower-skilled levels of care, as well as activity and business-related staff.

"Executing an efficient staffing model is really the critical element of maintaining a sustainable services platform," Pettit explained. "As we look at our actual operations in China, the challenge in recruiting staff has been the lack of prestige in the service industry—particularly in the care and lifestyle services components." In many cases, Merrill Gardens has looked to the local

hospitality industry for those types of workers and trained them in components specific to senior housing. Still, motivating those people to work in the health-care industry remains a big problem.

Having done the consumer study, Merrill Gardens considered what it meant to be an operator coming into China. And while many opinions, wants, needs, concerns mirrored those of U.S. seniors, there were also some big differences—and it would be a big mistake for a U.S. operator to simply bring North American solutions to China and expect that model to be embraced. "The challenges of ownership really isolate the need to have a very efficient services platform within which to operate, because that becomes the sustainable element," Pettit emphasized. "Once the profits are made on the real estate side, the value proposition really comes back to the sustainability of the quality of the services. And that ties directly into what people are willing to pay for those services in the for-sale model."

It's not that seniors in China don't want all of the amenities; it's just that their willingness to place a value on services beyond food and care, plus the cost of staffing necessary to execute high-quality lifestyle programs, makes success difficult on the independent living side.

"In many respects, China today and probably for the next five or 10 years is a market that is analogous to the United States in the early 1990s, where we didn't have an established model. So international operators have plenty of challenges as they look to China. The size of the market and the emerging wealth of adult children, however, really afford a fascinating opportunity for years to come."

—Bill Pettit

Focus on the high-end market

All the international entities with whom Perkins Eastman deals, certainly in the Asian markets, focus on the high-end consumer—although high-end differs from one place to another. The typical high-rise apartment building built to relatively high standards in China's eastern urban cities, for example, resembles a comparable U.S. apartment building: elevators, generous-size apartments, decent kitchens, modern bathrooms. The cost of $40-$50 a square foot to build is significantly less than in the United States or other developed countries. But senior care communities require more infrastructure and amenity spaces that apartment buildings, which can double or triple the cost when geared

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to the high-end market. An assisted living facility with an acute-care component can reach $200 to $300 a square foot.

So the economics of developing a quality project with quality services are such that it's very hard, particularly for an international investor or operator, to focus on anything but the upper 5%-10% of the population, according to Perkins. "Frankly, I don't know any U.S. firms that are involved in affordable housing in any of those markets."

With the cost and the complexity of operating in China or in any of the Asian markets, Pettit said that it's just not appealing to Merrill Gardens or, he suspects, to any other international operator to deal with the large affordable component. There's just not enough profit in that market to make it worth the time and the energy of trying to deal with the complexities. Also, the government plays a very intrusive role—although quite different roles—in all three markets (Japan, India, and China). Yet, direct government involvement in making affordable senior living options available is almost nonexistent.

Plus, the entitlement system in China is "almost an open frontier," Pettit pointed out. "Those of us that are operating there are trying to work with the government to create a structure that can guide both quality and execution of the model, but it's challenging." For example, in the province of Hebei, which is within driving distance of Beijing, a very large senior community and hospital targeting the Beijing market was built just over the provincial border, because land and development costs dropped dramatically on the Hebei side. The developers didn't realize that health benefits, pensions, and other government programs are tied to the recipient's place of residence, so no one in the Beijing market could move to Hebei and access their benefits. To this day, the building sits there virtually empty.

Issues For U.S. Operators In China

1. Overbuilding. There's a lot of pressure from Chinese ownership and capital to build big and fast, but the adaptation to senior housing has not been fully established. It's easy to overbuild if you allow capital to drive the size.

2. Reversing the U.S. mentality. CCRC development in the United States often leads with independent living units, building out the subacute-care components as the population ages into the need. In China, it's just the reverse. You need to lead with the care component and add the independent living units as success is realized.

3. Focusing only on real estate. The government's offer of preferential pricing for land developed for senior living appeared to be a way to get into the booming real estate business, but people soon realized that senior care requires a viable operating company. Success for real estate ventures without a focus on operations is slowed down sharply.

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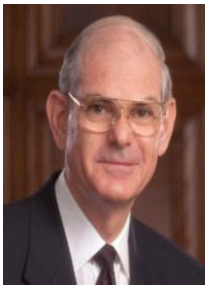

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