

Colliers Insights

Valuation & Advisory Services | Asia
14 May 2018



SENIOR HOUSING OUTLOOK 2018



GREY SKIES AND SILVER LININGS

Devising Housing solutions for Asia's ageing population

Asia is facing an ageing crisis. Advancements in healthcare provisions coupled with rising wealth levels in the region, have increased life expectancy, just as birth rates, in some Asian countries have fallen to record lows. The result is that the region's senior (aged 65 and above) population will nearly triple by 2050 to 945 million. The number of people aged 75 and above (needing some sort of assistance in their daily lives) will jump from 137 million to 437 million over the same period.

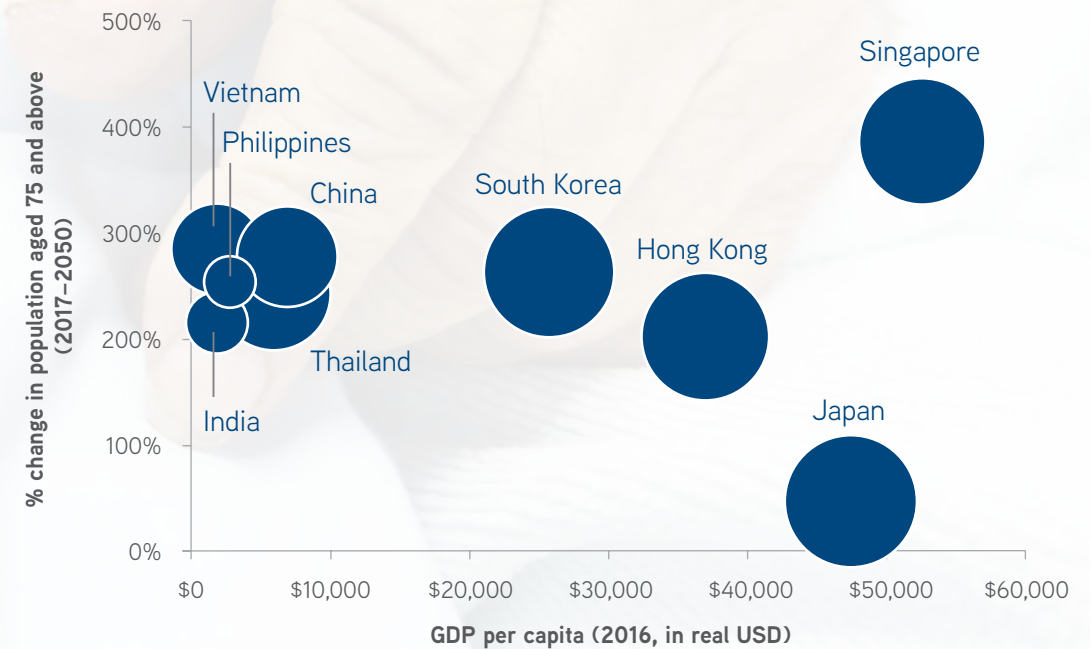
This massive demographic shift raises questions about how already strained health and pension systems can be reengineered to cope with the needs of rapidly ageing populations. Less discussed, but no less important, are the implications for housing. Traditionally, in many Asian societies, the elderly have resided with their children, but trends like smaller families and rising divorce rates have challenged this practice. More infrastructure will need to be created for the rising number of seniors who will be residing independently and to cater for those in need of different degrees of daily assistance and medical care.



CONFRONTING THE 'SILVER TSUNAMI'

While countries such as Japan have grappled with an ageing population for some time, others are just beginning to realise that they will need to act quickly in order to address ageing-related issues. Macau and Singapore, for example, will see their senior populations skyrocket by 301% and 195%, respectively, by 2050.

PROJECTED CHANGE IN THE POPULATION AGED 75 YEARS AND ABOVE, RELATIVE TO PER CAPITA GDP



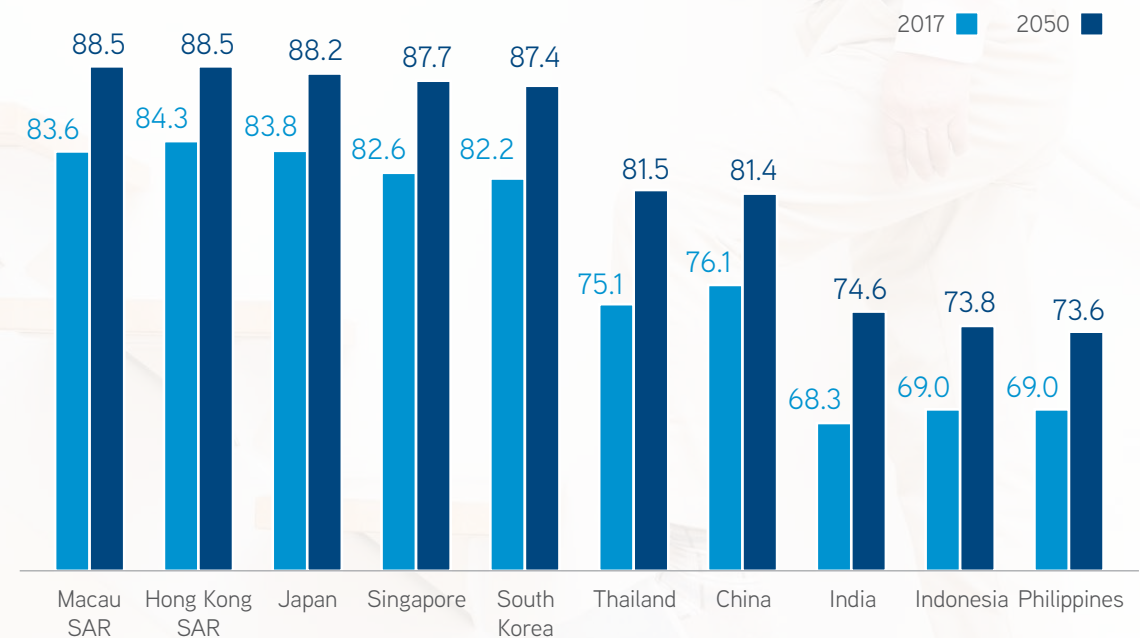
Source: World Bank staff estimates based on United Nations Population Division's World Population Prospects; Oxford Economics

Note: Marker size indicates the proportion of the population aged 75 and above versus the total population as of 2050. For comparison, Japan's population aged 75 and above is 23% of total, while India's senior population is 5%.

Apart from the increase in the sheer number of seniors, often referred to as the 'silver tsunami', arguably an even more worrisome trend is the rise in the percentage of seniors in total populations. Japan's seniors will comprise a staggering 36.4% of the population by 2050; South Korea (35.3%), Hong Kong (33.9%), Singapore (33.6%) and Thailand (29%) as the top five Asian economies with the highest percentages of seniors.

One serious implication of this trend will be the decline in the labour force as a proportion of the total population, which will inevitably weigh on productivity and economic growth. Even fast-developing countries where seniors are a smaller presence, such as India and the Philippines, will face difficulties if many of their young people continue to work overseas and are largely unable to attend to the immediate needs of elderly parents.

LIFE EXPECTANCIES FOR SELECTED ASIAN COUNTRIES, 2017 VS 2050



Source: World Bank staff estimates based on United Nations Population Division's World Population Prospects



COPING WITH CHANGING HOUSING NEEDS

As Asian countries address these new realities, it's important to recognise that as people age their housing needs tend to progress through stages that can at times overlap. Seniors often go from active retirees living independently, to requiring some form of assistance at home, to transferring to full-time aged care facilities in the final stages of their lives. The senior housing industry in many Western countries has been structured in a way that addresses the needs of the senior citizen at these various stages, but for the most part Asia has yet to identify or implement appropriate models of its own. The major senior housing categories that have emerged in Asia thus far can be summed up as follows:

Housing developments for active seniors

In-home care

Assisted living facilities

Skilled nursing care facilities

Housing developments for active seniors

This tends to be the most prevalent offering, since it requires no or minimal specialist care facilities and is therefore easiest for developers to build. Such developments are typically restricted to those 55 or over, and provide several single- or multi-family housing options for retirees. They tend to attract mobile, independent seniors with facilities such as clubhouses, golf courses and tennis courts, as well as social and recreational programs. Services such as housekeeping, transportation and maintenance may be included in the standard fees.

In-home care

Individuals who lack the desire or resources move to a designated facility may arrange to receive the short or long-term care they need in the comfort of their own homes. Care services can include anything from arranging entertainment to assistance with taking medication or hospice supervision. As services tend to be part-time this is generally the lowest-cost option, but must often be supplemented with family members or friends able to play the role of caregiver on a more sustained basis.

Assisted living facilities

Assisted living developments have trained and licensed staff to assist seniors who lack options for in-home care but have reached the stage where they may require help with everyday activities, such as cleaning, preparing meals or taking medications.

Skilled nursing care facilities

These developments offer round-the-clock care for individuals who suffer from chronic health conditions too complex to be treated at home or in assisted living developments, and have highly-trained staff and facilities spanning areas such as physical, occupational and respiratory therapy. Facilities may include a small number of assisted living and/or Alzheimer's/dementia units.

INTEGRATION AND INNOVATION

While traditionally senior housing options are stand-alone or segmented for each life-stage, requiring the senior to move from facility to facility as their age progresses, an interesting model has emerged in the West that may also be applicable in the Asian context – the continuing care retirement community (CCRC). CCRCs promise greater convenience for seniors as they provide the full continuum of care, from independent living to assisted living to skilled nursing, in a single community.

In the United States, CCRCs tend to be sprawling campuses offering recreational and social facilities, as well as the medical facilities and on-site staff to provide the services and care that seniors require. Housing options range from single family style homes to apartments on the independent living side, and private or semi-private studios and one-bedroom units in the higher assisted living and skilled nursing levels of care. Depending on their needs, seniors may need to move to different units within a community as they transition from independent living to subsequent stages of care.

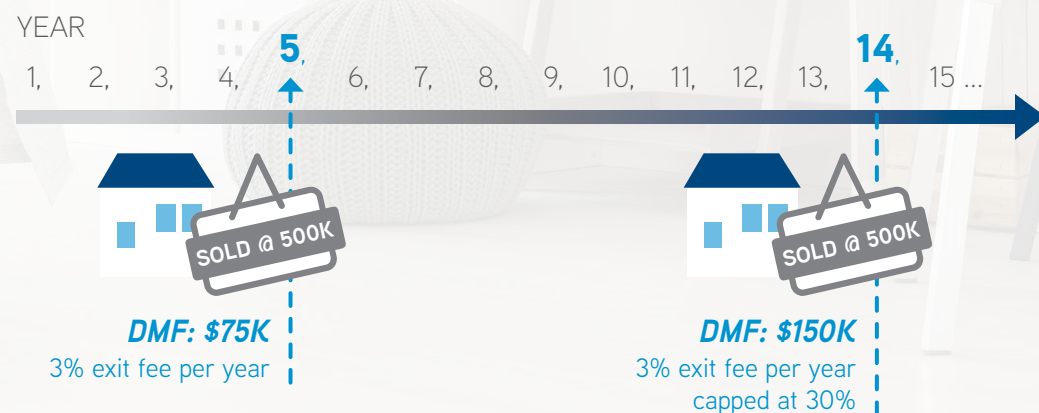
Revenue models have also evolved. Purchases of units in active senior developments tend to be straightforward, involving the familiar arrangement of investing in the home plus paying monthly fees for upkeep, but those for other senior housing types are steadily becoming more innovative.



The deferred management fee (DMF) retirement village model is common in the United Kingdom and most prevalent in Australia. Here, the senior purchases either a freehold or leasehold interest in a unit within a DMF community for significantly under market rates, and pays a relatively low monthly fee for the services provided. However, upon leaving the community and the sale of the interest in the unit, the senior (or his or her heirs) pay the developer of the village an exit fee based on a percentage of the sales price times the number of years that the senior has lived in the property, capped to a maximum percentage after a certain number of years.

As an example, the exit fee might be set at 3% for every year, with a cap of 30% after 10 years. If the property is sold at US\$500,000 after five years then the developer would be paid an exit fee of US\$75,000; if the property is sold for the same amount after 14 years, the exit fee would be capped at US\$150,000. In effect, in exchange for the lower initial investment compared to a similar property on the standard market, the senior (or his or her heirs) makes up the difference at a later date.

THE DEFERRED MANAGEMENT FEE (DMF) MODEL



CCRCs in the United States have long relied on an entrance fee plus a monthly service fee model. The CCRC contracts in the United States generally fall under one of three categories, a Type A, B or C.

Type A is a Lifecare community in which an entrance fee is paid and a monthly service fee is paid in addition. However, the monthly service fee generally doesn't change as the resident progresses through the levels of care. This model has been considered a form of insurance.

Type B is a modified Lifecare contract where the resident may receive a certain amount of days in the higher levels of care for free, or at a discount from the "street" rates.

Type C contract is considered a fee for service contract with the resident getting no discount in fees as they progress through the levels of care.

The entrance fees offered vary significantly depending on location and refund plan. Fees may range from as little as US\$25,000 to over US\$2,000,000 in the highest end communities. Refund models also vary and most communities offer different refund plans to accommodate incoming resident's needs and financial planning. There is the self-amortizing option, which generally amortizes over a 48-month period. Should the resident decide to leave the

community during this period, the amount will be pro-rated and the balance refunded. However, if the senior stays past the amortization period, they will not receive a refund at the end of their stay. There are also refund percentages that are a flat 50% to sometimes as high as 95%, with the resident not capturing any appreciation in the unit's value, just the refund percentage of their original "buy in." One important more recent contract inclusion, is that many CCRCs are requiring the sale of the unit to return the refund. This allows the operator to better manage their cash flows, rather than fronting large refunds before the units is turned over to a new resident.

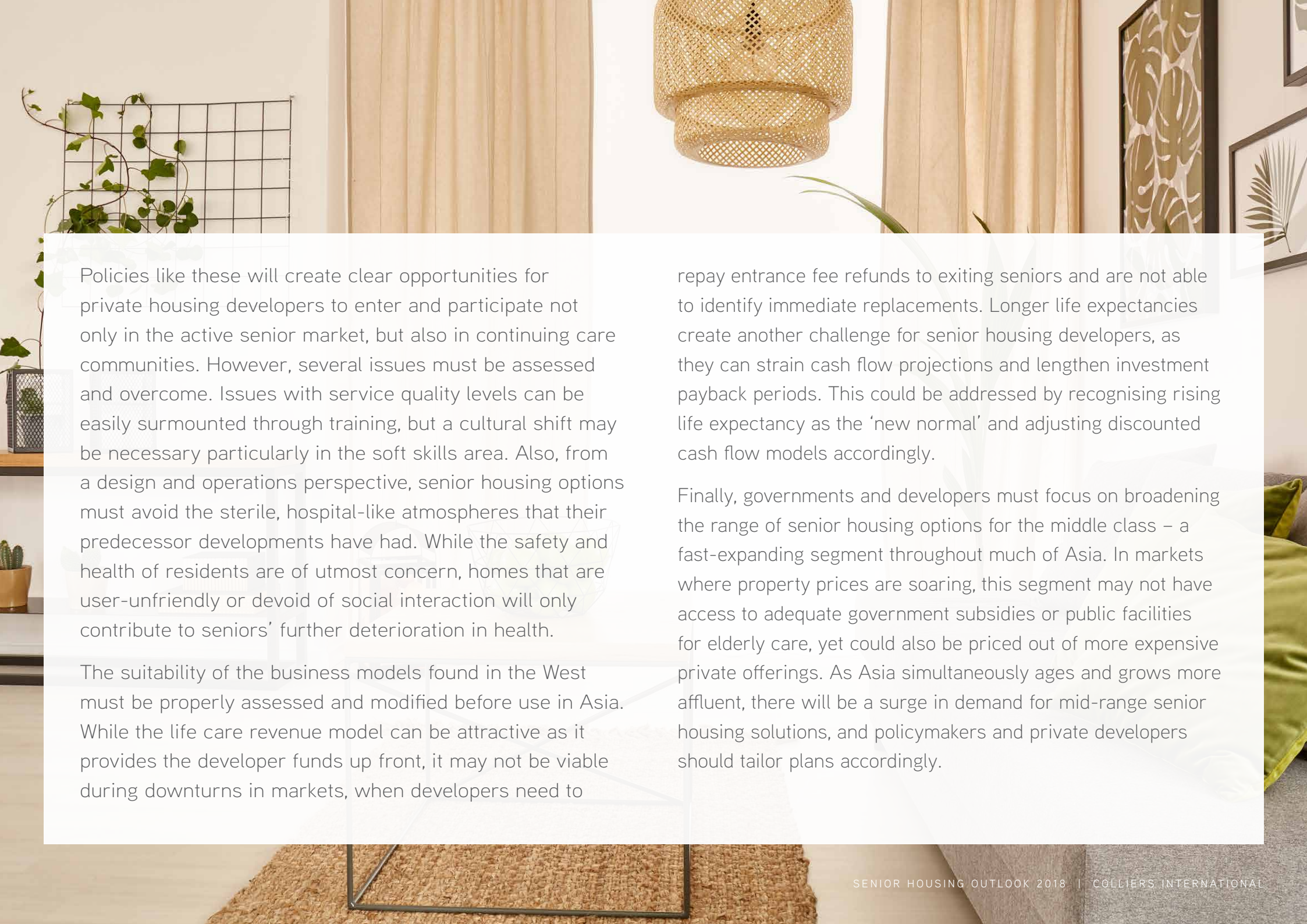
Perhaps the most innovative and attractive financing models for seniors, their families and developers are life care plans that require a higher entrance fee but guarantee a significant portion – up to 90% in some cases – will be refunded to the senior or their heirs. Similar to the typical life care plan, the value of the entrance fee declines to the pre-determined return value during a certain period, after which the value is maintained at this level. When the senior leaves the community or passes away, the remaining value is returned to the senior or heirs. This provides the senior the opportunity to leave an inheritance, while also providing the developers the means to finance their development. The developer is also able to capture any appreciation in the value of a place in the community, since entrance fees would presumably rise as time goes on.



WHERE ASIA GOES FROM HERE

In evaluating global models for use in retiree markets in Asia, local social and cultural norms should be considered carefully. The tradition of mature children being obligated to take care of their parents in their later years must be recognised. Furthermore, hiring household help is still quite affordable in many Asian markets, making it assisted living facilities less necessary. These practices may be changing due to migration trends where children are moving elsewhere and leaving their parents behind in the home country. Improving economic conditions are also likely to make domestic helpers costlier to hire. Should these scenarios continue to play out, demand for continuing care senior housing is likely to grow. If, however in-house caregiving costs remain affordable, developments that build in the flexibility to support ageing in place will be more popular.

Many Asian governments are already putting plans in place to house their expanding senior populations. China, where a quarter of the population will be elderly by 2050, has enacted policies facilitating foreign investment in senior housing projects, and in its 13th Five-Year Plan (2016–2020) redefined targets for senior care as providing daytime care covering all urban communities and 50% of rural communities – the equivalent of 8 million beds by 2020.



Policies like these will create clear opportunities for private housing developers to enter and participate not only in the active senior market, but also in continuing care communities. However, several issues must be assessed and overcome. Issues with service quality levels can be easily surmounted through training, but a cultural shift may be necessary particularly in the soft skills area. Also, from a design and operations perspective, senior housing options must avoid the sterile, hospital-like atmospheres that their predecessor developments have had. While the safety and health of residents are of utmost concern, homes that are user-unfriendly or devoid of social interaction will only contribute to seniors' further deterioration in health.

The suitability of the business models found in the West must be properly assessed and modified before use in Asia. While the life care revenue model can be attractive as it provides the developer funds up front, it may not be viable during downturns in markets, when developers need to

repay entrance fee refunds to exiting seniors and are not able to identify immediate replacements. Longer life expectancies create another challenge for senior housing developers, as they can strain cash flow projections and lengthen investment payback periods. This could be addressed by recognising rising life expectancy as the 'new normal' and adjusting discounted cash flow models accordingly.

Finally, governments and developers must focus on broadening the range of senior housing options for the middle class – a fast-expanding segment throughout much of Asia. In markets where property prices are soaring, this segment may not have access to adequate government subsidies or public facilities for elderly care, yet could also be priced out of more expensive private offerings. As Asia simultaneously ages and grows more affluent, there will be a surge in demand for mid-range senior housing solutions, and policymakers and private developers should tailor plans accordingly.

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