China Senior Housing and Care

Newsletter August 2013 For internal review only

Editorial Notes

Dear readers,

Michael Qu

Chief Editor
Attorney at Law

T: +86 (21) 68866151*152
F: +86 (21) 58871151
quqin@lawviewer.com

Last month, Shanghai has just gone through terrible hot weather that broke the history record of high temperature 140 years ago. There were people dying from the heat, in particular the seniors—one report said that a senior, who didn't turn on the air-conditioning when staying at home, suffered a heatstroke and died soon after she was escorted to the hospital but turned out being too later. It raises ponder to me on two things: many elderly people are left alone at home during the daytime—they need care, physically and spiritually. The problem is how. And, elderly people are "penny-pincher" to themselves that they will usually save electricity fees by turning off air-conditioning. I say this without any dis-respect to those seniors, as I see and understand them who are near or older than my parents' age, and who have witnessed and gone through the rapid economic growth in recent decades but something embedded in their body is unchanged. But the question then comes to how to encourage seniors to spend more money. As the senior care industry getting exciting, it worth mentioning the importance of exploring the senior's behavior and what they are really thinking, as well as their real needs, which actually they might not be aware of.

I have the privilege being invited by organizers from IAHSA's 10th International Conference—in particular, I would like to take this opportunity to thank Mark Spitalnik and Tom Hill, who invited me to join the IAHSA-China advisory board, and who have contributed tremendously, with their colleagues, to bring about a unique event in this November. I was also told there will be many new appearance of speakers and attendees at this event, and most of the topics discussed in

(continued on page 2)

After the publication of the article "Where is China's CCRCs Industry" *http://www.lawviewer.com/upload/file/13698361242534.pdf, we've received quite a few letters from readers, below we share with you some of the feedback.*

Hello Michael,

I just read your CCRCs piece in the China Housing Care newsletter (I have stumbled across a couple other pieces of your work before as well). Very good piece. What I wonder though is whether the US is really the best country to be looking for in search of a direction for China's elder care industry. With the issues the Chinese industry is facing, (especially the cost of care versus elders ability to pay), should we not look to countries where government support has played a Larger role, such as certain European nations?

Ryan McKinney
CBN Care Group

Dear Ryan,

Thank you for your feedback. I agree with you that other countries will also be good choices when we study the senior care industry. The reason we choose the US's practice for this article is that CCRC in the US is unique in the world and many Chinese developers are following suits. Similarity is both CCRCs in the US and such type of communities in China are for the affluent population with self-finance solution. But many other issues need to be sorted out.

We've made some introduction on the Australia's practice in our previous newsletter. And we will have another chance to look into practice in other countries, for example, in-home care support in England or Germany (if I am right about the countries), or long-term care insurance from Japan. Variety of topics is really what we cherish.

Thank you again for your advice and any contribution you think appropriate is welcome to our newsletter.

Best Regards

Michael Qu

Michael and Joe,

Thanks for the attribution to my book in this article. I am under the impression that there is a great deal of interest among Chinese companies [and consumers?] in CCRCs and entrance fee, membership and ownership types of structures. It seems that many of the American companies seeking to do business there are focused on rentals. Do you agree?

PAUL A. GORDON
Hanson Bridgett LLP

(continued from page 1)

the Conference will be OPERATION—that's expecting. Event and association like that, and those of many others, can be driving forces for the evolution of the industry, aren't they? My friend and partner Joe Christian and I will present a workshop on doing business in China at the pre-conference session—hope to see you there. More information about this event, please refer to the website: http://www.iahsa.net/2013_Conference.aspx

Thank you and maybe see you soon.

Michael Qu

Dear Paul,

Nice to see your response and comments. I see the CCRC-type community of interests among Chinese companies in that it caters to the needs of seniors and the scale/complex function of many real estate projects in China, plus active parties in the market now are from the US (Joe and I have the opportunities to represent several)--they are more familiar with what they've done in the US. As I read from your book, there will be evolution to the industry as you witnessed in the US, what we probably can not foresee exactly is the future of the market preference, or even the regulatory trend. We see now in the market, there will be rental portion in a senior living community, but the percentage differs; and quite a huge amount of investors will still consider selling ownership—it's not a necessary structuring component, but it to some extent reflects the preference of the Chinese consumers.

Regards,

Michael Qu
Lawyer
Co-effort Law LLP

Hi Michael and Joe,

My background is healthcare investment and management. I have been to many senior living places (Yanda, Golden Hights, Hiking Group…) but still feel it's kind of risk to investment these mega projects. I have discussed with lots of so-called "China Expert" but they have different views on it. Anyway, we all agree the market is booming and moving now. CCRC is an American style product and it is also changed now (like NORC or Virtual CCRC…). I have participated in different senior living projects of different countries (Denmark/Japan/Singapore/France…) for the past few years and I do believe China will have their owned style of senior living soon.

Bruce LIU
CEO
55TONE INTERNATIONAL CORP.

Dear Bruce,

I agree with you that there is a great deal of risk in investing in mega-projects like Yanda and other large projects that are being developed in China. To my knowledge, with the possible exception of Cherish Yearn in Shanghai, none of these large, CCRC-type projects have been particularly successful. I think there are many reasons for this, but the developers' failure to accurately gauge the demand in the marketplace for what they built has to be among the top two or three. In their defense, it is very early in the evolution of the China senior housing industry, and what product types will be acceptable to the population is still mostly unknown. That is why you see operators aiming at the higher acuity, need-based facilities, rather than elective, lifestyle communities, and why have limited their investment by keeping their projects on a smaller scale and by leasing and repurposing buildings rather than acquiring land use rights and developing from the ground up. Some have limited their exposure by entering into consulting agreements, presumably as a way to test the market for future investment opportunities.

Michael is correct that, so far, developers and investors in China have preferred the US CCRC model, probably because the model is compatible with developers' penchant for large projects, and with the typical for-sale residential model, which satisfies both the developer's and the consumer's desires. As noted above, foreign operators have taken a different approach. As the market in China evolves, we will see how it takes shape. I expect that, as in the US, a variety of product types will emerge, at different times, in different places, borrowing from models in other countries as well as creating a unique Chinese model in each product type. The market in the US is dynamic and constantly changing with shifts in consumer demand, and there is no reason to think that the Chinese market will not do the same.

Joe Christian
Asia Fellow,
Harvard Kennedy School
Principal and Founder,
China Senior Housing Advisors, LLC

News Update in Figures

The Ministry of Civil Affairs

44,304 and RMB3.0 billion

On June 19, 2013, the Ministry of Civil Affairs published the social services development statistical gazette. According to the gazette, there are **44,304** senior care institutions of all types across the country, increasing by 3,436 year on year, the total number of the beds is 4.165 million, growing by 12.8% year on year (21.5 bed per one thousand elderly, increasing by 7.5%), the number of the elderly admitted at the end of the year is 2.936 million, growing by 12.7%, the number of the beds for community accommodation and daily care is 198,000.

From this year, the Ministry of Civil Affairs will work with the Ministry of Finance for allocating the fund of RMB1.0 billion a year and allocating the central special lottery fund of ***RMB3.0 billion*** in three years for supporting the construction of nationwide rural mutual assistance senior care facilities.

National

2.6% and 60.5%

Around 9.19 million people in China had dementia in 2010, compared with 3.68 million 20 years before, according to a study on 7 July from the Nature Journal that throws a spotlight on an emerging health crisis.

The study estimates that in 1990, the dementia proportion among seniors at the age of 65 to 69 is 1.8%, while such proportion is 42.1% among seniors at the age of 95 to 99. The two percentages have increased to respectively ***2.6%*** and ***60.5%*** by 2010.

National

RMB2,000-4,000

In this May, the investigation samples statistics of the Everbright Endowment Index showed that the living spending of the elderly each month stands between ***RMB2,000*** to ***RMB4,000***. Among the endowment spending, food and medical care are the biggest items, accounting for 10%~20% of the living spending, spending for the household services, rent, water and electricity fees. Traffic and communication accounts for 5%~10%, these are the biggest expenses of the elderly, the spending for other items accounts for 5%~15%.

Shanghai

67.3%

On May 27, 2013, the National Bureau of Statistics of the China Shanghai Investigation Team conducted an investigation into the elderly living intent of rural and urban residents. The investigation results showed that nearly 70% of the interviewees prefer aging-in-place, and nearly 70% of the interviewees support the "housing-for-pension". The number of effective samples in this investigation is 2,248, of which the interviewees aged 60-69 account for 58.7%, aged 70-79% account for 41.3%. The investigation result shows that ***67.3%*** of the interviewees prefer the "traditional family security", 21.2% of the interviewees prefer the "community-based senior living", 11.1% of them prefer the "institutional senior care". In selecting the senior care facility, 41.3% of the interviewees regard the "service quality" and 39.7% of the interviewees regard the "fee rate" as the most important indicators. The primary economic source of 36.2% of the rural interviewees comes from the subsidy provided by the children.

Shanghai

44 and 41

According to the plan, 44 new senior care facilities will be built in completed and ongoing large residential communities. These 44 senior care facilities occupy the area of 370,000 square meters in total and will provide about 9,000 beds for aged people. Besides, 41 temporary senior care institutions will be built in Shanghai with a total area of 115,000 square meters.

Beijing

300,000 square meters

On June 16, Taikang Home Yanyuan Senior Living Experience Pavilion was opened in Changping District, Beijing, the initial shape of the first senior living community invested and managed by the insurance enterprise, Taikang Home Yanyuan, came up to the surface. At the same time, Taikang, for the first time, disclosed the physical product model and foundation service standard of Taikang Home Yanyuan, which marks a substantive step to the mergence between the virtual insurance product and physical senior living community services. The leader of the Taikang Home says that all the room types and function spaces are consistent with the standards for future admission. The whole community occupies a land area of 170,000 square meters, of which the building area is ***300,000 square meters***; it is capable of admitting 3,000 residents. The first 600 households with 800 residents in total will be admitted into the community in 2015.

Shanghai

6.7%

According to the information provided by the personnel of the Shanghai Municipal Civil Affairs Bureau, elderly care is the biggest item among the public services purchased by the government, such as elderly care, poverty alleviation, child care, and disabled assistance, etc. accounting for 60%-70%.

The results of the relevant statistics of the year show that the rehabilitation and nursing services for anergy and dementia in the elderly are still in short supply. According to the statistics, anergy and dementia in the elderly account for ***6.7%*** of the registered population of Shanghai City; the demand for providing the rehabilitation and nursing services such elderly badly needs to be satisfied.

Shandong

5,625mu

From this year to 2015, Shandong Province will invest a special fund of not less than RMB one billion a year for supporting the construction of senior care service institutions. According to the preliminary estimate, this investment will drive the non-government investment of RMB10.0 billion. To this end, the government of Shandong Province allocated the land of ***5,625mu*** for the project (Qingdao is not included).

Guangzhou

242%

Recently, the Price Administration Bureau of Guangzhou City issued a notice for soliciting the general public’s opinions and suggestions on the fee rate for elderly care services. According to the existing policy, if one elderly person wants to be admitted into a nursing home, the “lump-sum living facilities fee” ranging from RMB several thousand yuan to more than ten thousand yuan will have to be paid first, regardless the time length of living at the nursing home. Now this fee is expected to be cancelled and will be amortized into the room fee, it will be charged on a monthly basis. Accordingly, the room fee and nursing fee will rise dramatically, of which the special care and nursing fee will rise from the present ￥1,171 per month to ￥4,000 per month, rising by ***242%***.

Jiangsu

RMB120.0 million

This year, the Ministry of Finance of Jiangsu Province will disburse the fund of ***RMB120.0 million*** by “substituting the subsidy with reward” for supporting the development of the senior care industry; this project will benefit 14.24 million elderly of the Province. The five key senior care services will be put on the top priority, they are: 2,000 community home care service centers; create 250 provincial demonstrative community home care service centers; build 25 “virtual nursing homes”; advance the construction of city small nursing home and rural care homes; increase 10,000 beds for meeting the elderly care demand for the rural and urban elderly, the elderly living alone, disabled and semi-disabled elderly.

Besides, Jiangsu Province plans to introduce commercial insurance into the senior care services for exploring the senior care insurance system, forming the risk sharing mechanism participated in by the individual, government, and insurance company to improve the risk-resistance capability. Before that, Jiangsu Province introduced accidental injury insurance to the elderly, this move made a good start for implementing senior care insurance and institutional accident insurance.

Wenzhou

5+1 policy

Recently, Wenzhou City published "Several Opinions of on Encouraging Social Strength to Hold Senior Care Facilities", i.e. the ***(1+5) policy.*** This document removes the investment and financing system barrier for private capital, and encourages the non-government forces to participate in the community home care services through various forms.

This year, Wenzhou City will build 201 community home care centers for achieving full coverage of community home care service centers in the city. By 2014, all the communities will have community home care service centers. The non-government forces will be guided to explore the diversified modes of operating the community home care services. The modes of "government funds, private run", "private funds, government supports", "government purchase service", and other community-based home care modes will be piloted so as build the nearby "nursing homes" for the community residents.

Shenzhen

70

The Planning and Land Resources Commission of Shenzhen City recently published "Special Plan for Senior Care Service Facilities (2011-2012),". According to the Plan, by 2020, there will be 3 senior care beds for per one hundred elderly in Shenzhen. If private capital invests in the senior care facility, the land for it can be provided by agreement without any land premium, but the property right of the facility belongs to the government. The Plan outlines ***70*** institutional senior care facilities with 23,400-24,000 senior care beds, in which, there will be 20 existing senior care facility being remodeled and expanded and 8,300-8,600 senior care beds will be provided; 27 places being provided through city renewal and landbanking that 8,100-8,400 senior care beds will be provided.

Hainan

2,600 mu

On 1 August 2013, China Jiuhao Health Industry Corporation Limited announced that Yan Feng People's Government and the Investment Invitation Center entered into the Framework Agreement in relation to their proposed cooperation on the development of the China Jiuhao (Haikou) Health Town on the Land located at Yan Feng Zhen, Meilan District, Haikou City, Hainan Province (海南省), the PRC with a total site area of approximately ***2,600 mu*** (equivalent to approximately 1,733,000 square meters).

Pursuant to the Framework Agreement, the Land shall be developed into the Haikou Health Town, which will encompass a health and regimen-themed community comprising the following:

- premier club and sports facilities rooted on the concept of Bayhood No. 9 Club operated by the Group;
- a health and regimen-themed boutique hotel and resort near mangroves to be equipped with various premium facilities including a health center, dining, hot springs and SPA with ecological farming and cultivation activities;
- a wet land park emphasizing environmental protection and conservation; and
- regimen and elderly-care villas and apartments with gross floor area of approximately 300,000 square meters.

Industrial Analysis

New Preferential Policies for Foreign Investment in Senior Care Facility

By Michael Qu

Recently, National Development and Reform Commission and Ministry of Commerce promulgated the Catalogue of Priority Industries for Foreign Investment in Central and Western China (revised in 2013) (《中西部地区外商投资中西部目录（2013年修订)》) (the "Middle and West China Catalogue"), whereby senior care service and medical institution industry are listed in parallel as preferential industries for foreign investment in middle and west China, and 22 provinces and regions as illustrated in the above picture may enjoy relevant preferential policies according to the catalogue thereto. The Middle and West China Catalogue has become effective on June 10, 2013.

What exactly is the Middle and West China Catalogue?

According to the provisions of the State Council, both the Middle and West China Catalogue and the Catalogue of Industries for Guiding Foreign Investment (《外商投资产业指导目录》)(the "Guidance Catalogue") are the basis for guiding the approval of foreign investment projects and application of relevant policies to the foreign-invested enterprises. Both catalogues cooperate with each other and are wind vane of the State for attracting foreign investment. However, there are also some differences. First, the application scopes are different. The Guidance

Catalogue are applicable to the projects of any Chinese foreign equity joint venture enterprises, Chinese foreign cooperative enterprises and other wholly foreign-owned enterprises established in the PRC, while the Middle and West China Catalogue is applicable only to the foreign investment projects established in middle and west China. Second, the formations are different. The Guidance Catalogue is divided into such items as encouragement, permission, restriction and prohibition (industries under permission item is not specified in detail), while the Middle and West China Catalogue is formed according to each province (city and district) in middle and west China. The items included in the Middle and West Catalogue may enjoy the preferential policies for foreign investment projects. It is reported that with respect to attracting foreign investment, middle and west China accounts for 17.2% of the total State volume, and this percentage is expected to increase continuously in the following years.

In the 2011 version of Guidance Catalogue, the senior care institutions are listed as encouraged industry, and medical institutions are listed as permitting industry (neither as encouragement nor as restriction). While in the previous version of Middle and West China Catalogue, medical industry has already been a key point of each region for attracting foreign investment, the new Catalogue puts the senior care service industry paralleled with medical industry as items that require urgent development in the said 22 provinces and regions in middle and west China.

What are the preferential policies?

According to the current policies of the PRC, the foreign investment projects that are included into the Middle and West China Catalogue generally may enjoy the following two tax preferential policies:

1. Equipment import duties and import related taxes are exempted, and value-added taxes are refunded with respect to purchasing domestic equipment etc. In addition, according to the provisions of Certain Opinions of the State Council on Further Facilitating the Utilization of Foreign Capital (Guo Fa [2010] No. 9) 《国务院关于进一步做好利用外资工作的若干意见》(国发〔2010〕9号), the preferential policies regarding enterprise income tax will continuously be applied to the qualified domestic or foreign enterprises in west China.

2. With respect to land use, it may also refer to the above Circular No. 9 from the State Council. The foreign investment projects that use land in an optimal way (simply put, that is effectively and reasonably use of land) and are encouraged by the State will be provided with land in the first place, and may enjoy the preferential treatment of no less than 70% of the National Minimum Price Standards for Granting Industrial Land (《全国工业用地出让最低价标准》) for corresponding class of land when deciding the minimum grant price of land. While the foreign-invested medical and senior care facilities projects are not industrial projects, the above provision may not be applicable. However, we noticed that the above provisions were promulgated in 2010 when it was at the preliminary stage of the policy adjustment to national industries and structure, and introduction of the supportive policy to service industry. As the modern service industry rises in middle and west China gradually, the future foreign investors may also obtain land at prices less than the standard prices according to similar policies, or enjoy rewards or subsidies from local government after land acquisition.

A few more thoughts on land use policy of senior care projects

The land use policy of senior care industry is always a central point of the whole industry, which involves the profitability of investors, and is also closely related to local government's land finance.

Recently, the officials of Ministry of Civil Affairs repeated on several important occasions that we need to carefully differentiate senior housing and senior care facility, so as to not only protect the positivity of real estate industry to participate in the private-run senior care service industry, but to avoid simply taking senior housing as senior care facility. However, commercial real estate development or other operations in disguised form of senior care facility occur frequently everywhere. According to the current legislation, it is impossible for the Ministry of Civil Affairs to discern such phenomena. Therefore, the task is left for each local government.

At present time, it is popular policies in each region that the non-profitable private senior care facility may obtain land through allocation, that is, they are not required to pay any land grant premium or land use fee. When the senior care facilities are closed, the government will reclaim the land without any compensation. Such policies will continue to be effective, and we have read similar expressions in the documents promulgated recently, such as Management Opinions of Luoyang on Land and Property of Senior Care Service Facilities (《洛阳市社会养老服务机构土地及产权管理意见》) and Several Opinions of Wenzhou on Encouraging Social Strength to Hold Senior Care Facilities (《温州市关于鼓励社会力量兴办养老机构的若干意见》).

However, whether for-profit senior care facility can enjoy the land use preferential policies? And what about the preferential extent? In addition to the land use preferential policies projects in the Middle and West China Catalogue may enjoy, each region promulgates encouragement policies one after another. For example, Chengdu City promulgated at the end of 2011 the Opinions of Chengdu People's Government on Promotion of Social Senior Care Facility (《成都市人民政府关于加快社会养老机构发展的意见》), which provides for that with respect to the construction project land of any significant private-run senior care facility newly held through attracting foreign investment, the government may research and resolve by means of "one matter, one resolution"; the enterprises, social organizations, individuals and other private strengths are encouraged to use their own lands and real estates compliant with city planning to establish senior care facilities. Where the city planning changes the land use conditions (including increase of plot ratio) and causes such land used for senior care facility, the land grant premium will be charged at 60% of the difference between the appraised prices before and after the change of land use conditions. In another city of Shenzhen, the Municipal Planning and Land Committee issued the Special Plan for Senior Care Service Facilities in Shenzhen (2011-2012) (《深圳市养老设施专项规划（2011- 2020)》), which provides for that with respect to the land use of for-profit senior care facilities held by private capital, the Planning and Land Committee will give priority to include such projects into the annual implementation plan of recently construction and land use planning, and the land use price will be calculated at 30% of the benchmark price of office land.

In practice, when a developer or insurance company purchases land for senior care projects, it is common to obtain land use right at prices less than the market price. The specific operation is relatively flexible out of the local interest of "land finance". However, we are concerned that it is impossible to differentiate between the senior care projects and commercial real estate projects, which will eventually result in the over development of real estate projects, but the supply of real senior care facilities is behind the demand. ■

A snapshot of the legal updates in Shanghai

By Michael Qu

As of the release of the Law on Protection of Senior Citizens' Rights and Interests (the "Elderly Law"), we put more focus on the legal updates from the central and local aspect. As we understand, these new regulations will generally clarify the government's role and responsibility in the administration and supervision of senior care institutions, how incentive policies will be implemented to attract private investors, and industrial standards on construction, competence/care need appraisal and senior care service, etc.

One thing to conclude a bit is, placed itself in the highest hierarchy of legislation in the senior care industry, essentially the Elderly Law sets the tone on how elderly care business is positioned as one of the national strategies, which is briefly in six angles:

- To tackle the challenge of providing affordable social insurance for seniors, in which the government has a big role to play and tends to phase out a series of measures;
- To tackle the risk of sickness and disability of the seniors, the government will gradually establish long-term care mechanism;
- To develop elder-friendly environment for seniors. The target is to improve the living standard for seniors. Constructing more senior houses, developers will get benefits in the course of the new round of urbanization construction, which is happening now in every cities of China;
- To protect the seniors' rights;
- To care for the mental wellness of seniors;

- To tackle the service needs from seniors by developing professional service, including skilled nursing care in facilities, in-home care, among others.

Having analyzed the two Measures promulgated by the Ministry of Civil Affairs in respect to the licensing and administration of senior care facility in our previous article (http://www.lawviewer.com/upload/file/13735030049369.pdf), we believe that to understand the national law will help us to better understand what local legislations can be expected, and more important, to what direction they might affect the senior care business. Among all the cities that surge a wave of new legislation, Shanghai and Beijing is undoubtedly the hottest destinations for investors, not necessarily to emphasis more on the demographic or economic reason again here. So we start right from what happens in Shanghai in this article.

The home care territory

This February, Shanghai promulgated the Assessment Standards of Level of Care for the Seniors (《老年照护等级评估要求》)（DB31/T684-2013）, which will be implemented as of this May 1st. This Assessment Standard is the first of its kind in China. It uses the international appraisal tool of Activities of Daily Living (ADL) and appraisal table for cognition to set up main factors that may affect seniors' daily living competence in the parameters of independence, cognition, emotional behavior and vision. It will also set up background parameters of living environment. All these parameters will contribute to a preliminary conclusion of a senior's daily living competence, which leads to four types of appraisal results and three levels of care needs. The main purpose of the appraisal mechanism is to technically identify whether the need of care really exits, and then to associate it corresponding service (either community-based home care or institutional senior care). Another purpose is to provide technical basis for reasonably allocating the senior care resources, for example, indigent and disabled seniors can be accordingly assessed of their level of care in need, so that related subsidy will be determined and differentiated by the assessment result.

On the other hand, Shanghai is exploring a pilot scheme of senior care social security in order to solve the payment source of in-home care service. According to the scheme, urban seniors above certain age, who either stay at home or reside in senior care facility, will be assessed of their level of care in need. Those who turn out to reach the need level of mild, moderate or severe, and those left-alone seniors who have chronic disease will be provided with special subsidies. As of the first quarter of this year, the scheme has been implemented in six sub-districts. Qualified high-age seniors will be provided with professional home care service, cost of which will be borne by the government or reimbursed mostly from medical insurance.

Obviously, shortcoming of such pilot scheme is that it only provides single fund-raising way, narrow coverage and insufficient subsidy. So introduction of Long-term care insurance ("LTCI") is usually a solution to tackle these problems—Elderly Law has stated the necessity of exploring the LTCI. However, under the current situation that labor costs for enterprises have increased dramatically, it might not be an optimal solution to implement compulsory LTCI contribution mechanism. On the other hand, it is also unforeseeable whether the market can accept the concept of commercial LTCI product provided by insurance company. Therefore, a more viable way to introduce LTCI might be a combination of government support and commercial insurance product.

Of Course, in the home care territory, day-care centers and temporary senior care institutions are also encouraged to be built and operated by private investors by means of self-built and operation, selling service to the government or acquiring entrustment from government.

Need-based facilities—more clarification for medical institutions

In a recent Implementation Opinions on Promoting the Development of Private-invested Medical Institutions (《关于进一步促进本市社会医疗机构发展的实施意见》) ("Implementation Opinion") that issued by the Shanghai Municipal government, more emphasis is put on the encouragement for private capital to invest in specialty medical institutions that are in scarcity, such as senior medical skilled-nursing or rehabilitation hospital. Notwithstanding a new addition of 14 private-run senior nursing hospitals recently, it is still hard to meet massive and increasing medical and rehabilitation needs from the seniors. Therefore, from the Implementation Opinion, we see the government is trying to attract more private capital into the senior care medical institutions.

The Implementation Opinion states that:

- private capitals are treated in priority given it fulfills setting up requirement, entrance standard and bed control of medical institutions;
- encourage private capital to invest in high-ending medical institutions;
- encourage foreign capital to invest in medical institutions. Equity restriction of foreign investment will be gradually relaxed and approval procedure for private-invested medical institution will be optimized.

Support private capital to participate the reform of public medical institution, or to manage public medical institution by means of hospital management arrangement.

Meanwhile, specialty medical institutions established by private capital that provide basic medical service such as senior medical care or rehabilitation have the priority to be included into the designated medical insurance hospitals. In examining such qualification of designated hospital, the government will treat equally among different investment bodies or profitable nature of medical institutions. As long as private invested medical institutions can comply with relevant zoning as required by Health Bureau, and execute government-regulated pricing policy of service and medicine, they are all deemed as meeting the requirements of designated hospitals, so can enjoy the same medical insurance reimbursement policy as public medical institutions.

Detailed measures for senior care facility

In the senior care facility operation and management area, Shanghai has promulgated as of the end of last year Several Opinions on Promoting the Construction of Senior Care Facility in the 12th Five-Year Period (《关于推进本市“十二五”期间养老机构建设的若干意见》), which has been implemented in districts all over the city. In the Opinions, Although the voice is clear to encourage private capital to invest in senior care facility construction, preferential policies are still limited only to non-profitable facilities that meet the requirements of (a) self-owned land use right and property by the private investor, (b) not-for-profit nature is not allowed to change, and (c) such facilities is qualified to be included in the basic social welfare system and execute governmental guidance of pricing policy. Facilities meet these requirements can enjoy a maximum subsidy of RMB 80,000 per newly constructed bed in the pilot period of time. Other private-run facilities with not-for-profit nature can enjoy subsidy around RMB 20,000, which differs in every district. As for the facility with for-profit nature, the Opinions only note that the government “will provide on an overall consideration in policy making”, but no concrete detail is provided. Therefore, we now only find preferential policies for non-profitable facilities in Shanghai.

Another local standard executed as of 1st June is Facility and Service Requirement for Senior Care Institution (《养老机构设施与服务要求》DB31/T685-2013), which stipulates detailed facility standards, service and management requirements in senior care facility. It particularly establishes basic hardware equipment requirement such as entrance and exit, step ramp, handrail at corridor, stair railing, and specified data for the construction of bedroom, bathroom and dinning room. Apart from the above local standard, further local legislation is also under active planning by the regulators. We notice that Shanghai Municipal government has initial a legislation research on the revision of Shanghai Provisional Measures for Senior Care Institution (《上海市养老机构管理办法》); and Regulation on the Service and Management in Senior Care Facility (《养老机构服务与管理条例》) has duly gone through the suggestion, drafting and discussion procedure and is expected to be promulgated within this year.

Opportunities

Then, what is the goal of Shanghai municipal government? It is reported during the 12th five-year period, there will be incremental 30,000 senior care beds in place, in which 20,000 will be constructed by government and the other 10,000 be held by private capital. Generally, senior care beds in central downtown shall cover 2.5% of seniors and the figure is 3.5% in suburban areas.

Shanghai will try to integrate senior service resources such as family sickness bed, in-home care service and senior care facility by 2015. The government aims to preliminarily establish a senior care social security system that rooted from basic medical insurance, supported by scientific assessment and assisted with service management. What have you found from all these signs? ■

Guest Column

Demand is rigid, but market not necessarily accessible for you

Senior care facility marketing, what is the right thing to do?

Part I

By Jamie Cao

Jamie@stormouth.com

Founder and GM, STORMOUTH Digital Marketing Company, Shanghai, China

STORMOUTH has focused on online digital marketing for 5 years and provides various online services in social media for its clients including China Mobile, TMALL, LVMH, HTC, Bayer and famous advertising agency like JWT, Mindshare. STORMOUTH can offer a comprehensive online service from strategy, creative, interaction, IWOM, ePromotion, to crisis PR. From 2013, STORMOUTH began to sever for senior care clients and has been the digital marketing partner to IAHSA in China.

"Aged-care" industry, a sunrise industry serving for the sunset of life， now presents a very promising future in China. There are many driving forces for such prospect, such as demographic changing, governmental policy, huge amount of investments, concept of "filial piety" and traditional way of keeping good health, which have generated and cultivated this industry from different aspects. Seemingly, all the industry reports and statistical analysis have informed us of an absolute reality that there is nothing but the "Aged-care" industry worth investment. However, in my opinion, the essence here is not about how to invest, but how to operate. Essentially, "Aged-care" is a service business where basic demand of medical treatment and accommodations is easy to meet, but advanced demand of a happy retirement life can be hard. In another word, to build hospitals and houses is a relatively easy job, while to satisfy and comfort the elderly is a tough one. Therefore, although the very rosy future is probably near the corner, what you have invested will not necessarily benefit from such great anticipation, because sooner or later you will realize that it is the way you operate and market product will determine success or failure, not the way you invest.

Upon a very preliminary reflection, you'll find there are some obvious disadvantages for marketing of senior care facility at present.

Firstly, senior care facilities are irremovable, so elderly people will prefer to choose the one closer to their home over a farther one. As we know, the farther the distance between two locations (from a facility to a home), the more commute costs and time consumers will spend but the lower performance-price ratio they will acquire. Therefore, senior care facilities have to persuade and attract consumers who are far from their location to come. Certainly, it is a tough task.

Secondly, medical treatment is the main demand of aged-care. In order to alleviate the non-balance between supply and demand of medical service, government is investing more and trying to provide a better public security in medical segment. Actually, there are many viable ways to provide specialized and advanced medical service. Take Shanghai's practice as an example, as we know, the well-equipped public hospitals are mostly located in downtown city and surrounded by many old apartments. Suppose that some companies renting these old apartments and make refurbishment tailored for the seniors, and also provide specialized care service, it will be a specialized "nursing apartment". In that case, senior care facility seems less attractive to those specialized nursing apartment having medical service within accessible range.

Thirdly, in the traditional concept, nursing homes are designed for the seniors who are left alone or are unable to be taken care of by themselves. Living with the younger generation is naturally a right thing for a still healthy and independent senior. If the elder people need medical treatment, they should go to a hospital. If not, go home and be a good helper for their children. The biggest challenge we are facing is how to change this traditional "aged-care" view.

Fourthly, prices in senior care facilities are really expensive for the ordinary people.

Taking a further look at these problems, we find that it is extremely hard to have break through in the aspects as we mentioned above. To turn around, we put aside these problems for a while and look into the possibility to rebuild a brand new public recognition of senior care facility, which is to embed a concept of "drop-dead gorgeous" behavior of moving into senior care facilities. Based on that, many marketing approaches and convenient facilitation to residents can be followed, such as shuttle bus picking up, famous doctors' visiting, price promotion, etc. The main purpose here is to make consumer believe that senior care facility is a good place to go. The problem they think should be when, how and how long they are going to go to senior care facilities, not whether they should go.

'Drop-dead gorgeous' is a deep impression to influence consumers. There are two types of consumers for this business—one is the aged people and the other is their child. Generally, son and daughter pay for the aged-care service, so we have to attract the payer as well as the resident. However, the dilemma for us is, on one side, we have to agree that 'happy' sunset life means staying close with son and daughter; while on the other side, we should persuade them to come to senior care facility. Furthermore, it is extremely hard to persuade people to accept such an idea that living in senior care facility can be "happier" than staying with son and daughter. So, I think a reasonable and acceptable way is to instill such idea in their mind: sparing some time to enjoy life in senior care facility will help you make a better and happier time when staying with family. The communication points could be like this: seniors will be more healthy in senior care facility which provides a good accommodations and service in a good environment with fresh air, so they can be a healthy and better helper for their children when they come back. Then, we can plan some special service like 30 days trip of keeping good health, the aged honeymoon trip to attract consumers who need romance. The special service consists of short-term move-in in senior care facilities with some special themes. When such impression created and accepted by the general public, senior care facility is clearly distinguished from traditional nursing home. It is a healthy, warming, comfortable place for the aged people.

Additionally, another upside of these methods is that we can redefine senior care facility where every elder people can live, whatever independent or not. More than living, aged people can take this as a relaxing trip, recuperating for a few weeks and even making friends. It can provide unexpected benefit that son and daughter are hard to provide. Facilities should be located near scenery destination with well equipped with both hardware and service. Certainly, it usually charges much for better experience.

Finally, this cognition does no harm to long-term care service. On the contrary, it will foster much more potential consumers in that the seniors will definitely need professional care in the future and at that time the good impression and experience will help them to make a decision in choosing care solution. ■

(To be continued...)

If you want to know more about our newsletter, please contact:

Michael Qu Qin

Lawyer, Co-effort Law Office

Chief Editor of China Senior Housing and Care

Tel: 86-021-68866151*152、 86-13817878607

E-mail： **quqin@co-effort.com** **or** **quqin@lawviewer.com**

Having represented international companies in their investment in the Chinese market, our clients can benefit from our deep industry knowledge and experience, and from our creative, solution-oriented and responsive approach. Especially we can assist senior care investors and developers with the following issues:

- Advice on structuring business models
- Conduct legal due diligence on project acquisition
- Business incorporation and licensing and negotiate with joint venture partner
- Draft and standardize documents on (i) construction, operation and business transaction; (ii) third-party agreements and vendor’s contracts; (iii) policies and procedure for residency
- Advice on finance, tax and government relation
- Deal with issues on intellectual property, licensing, general liabilities and employment.