

# Research on the Development of Pension Real Estate in China

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## ABSTRACT

In recent years, due to the increasing number of elderly people in China and the declining fertility rate, the retirement of these elderly people has become a major social as well as medical problem. Accordingly, the pension real estate industry has been growing over the years. However, it is a fresh industry at an initial stage, and there are many unavoidable problems. In terms of policy, although there is a certain amount of policy support, these policies are not strong enough in terms of contention. Therefore, it is difficult to play a major role in the development of this industry. Also, there are a lot of problems in the investment and funding of this industry. To a large extent, due to the lack of government policy support, many investors are afraid of entering the industry, making the industry short of funds. Likewise, pensions for the elderly have changed significantly in terms of award and use. As for the business model, this industry is also facing a big challenge in China. Due to the unique spending habits of China's elderly population, few people use their pensions to enjoy life for themselves. Under such circumstances, many companies are facing serious losses. After analyzing the challenges faced in several areas, we also give certain recommendations for each of them, taking into account the actual situation in China.

**Keywords:** Pension real estate, Policy, Business model, Smart pension.

## 1. INTRODUCTION

Real estate and health-care have been promoting each other in recent years, causing real estate companies to cross the border to open up capital channels, realize asset-light operations, and help develop their core business. More and more real estate companies are transforming into health, retirement, health, culture, and tourism real estate as a result of the concept added to help real estate brand, service, sales, land acquisition, plot appreciation, and other features. The potential of the medical health and pension industry is enormous; the contradiction between the supply and demand for pensions, the development of the pension industry leaves unlimited space for real estate enterprises to explore and cultivate new business growth points; the profit margin is between 10% and 30%, which is relatively high. Furthermore, the pension real estate industry combines the benefits of fast turnover and high profits in the real estate industry with medical care and pensions as long-term investments, continuous operation,

and a long return cycle. At last, nowadays, instead of a one-size-fits-all approach, real estate companies offer four types of senior living: institutional, specialty theme, home, and community-based senior living.

China's rapidly aging population has led to increased care needs for the elderly, so, non-governmental senior homes have emerged in China. Based on Dai's study, there are four types of non-governmental elder homes which are high-end, low-end, village-based and service-oriented in Taizhou, a city in south China. As different as they are in institutional orientations, none of these senior homes are satisfied with the one-size-for-all and non-interventionist policy approach of the local government. The local government is viewing them as a homogeneous category, but they have different needs. For example, owners of high-end elder homes want more subsidies offered by the local government because they are seeing their institution as a profit-driven business. However, for the owners of service-oriented elder homes, they believe the local government should be responsible for the sustainability of the elder homes by offering financial assistance and policy support. Thus,

Dai points out that the local government in China need to recognize the varieties of these non-governmental service organizations and address their needs for their healthy development [1].

According to Giblers' Study, many older people in the United States were unfamiliar with senior housing options, and most of them had misconceptions, including the belief that senior home is nursing home and only for sick people. Therefore, it was hard for those people to make housing plan. Thus, with a variety of senior housing options, a better understanding of housing choices and people's needs is essential. Based on the survey from people age 55 and older which conducted by Gibler, female and better-educated respondent had a higher interest to move in retirement housing. Additionally, retirement community with medical services, transportation, and shopping are more attractive to consumers [2].

For the report of Deloitte, there are generally four kinds of investors. Firstly, real estate developers are the major force in the developments and constructions of the senior housing. The requirements of this kind of real estate are higher than the traditional buildings, expertise for health care, portable medical treatments and special entertainment. Next, elder care services institutions focus on facility operating. It is expected that the senior housing has the capacity to provide a higher quality of life for the residents so it would be desirable for the developers to operate and maintain the facility for elder education, cultures, sports as well as tourism, like Pinetree senior care provides professional home care to the seniors in Beijing who suffer from being bedridden, senile dementia, diabetes, and stroke. Thirdly, insurance institutions are the long-term capital providers, the vast requirement of elder insurance makes the institutions have the capacity to become the largest investors in senior housing. For instance, the investment inflows of life insurance companies are growing increasingly and now it is around 150 billion dollars per year in the US. Fourthly, other investors also play an important role in the supplements. Preliminary structures of the senior housing industry have been elaborated but not as a mutual scale.

There are mainly four challenges that senior housing is facing. First of all, it is the lack of purchasing willingness as the elder tend to be more willing to stay with family because of the traditional family culture. Next, the current medical service and facilities do not match the main customer's demand. The demand of elder care is higher in the city, however, due to the cost effectiveness, most of the senior housings is the rural areas. Therefore, regional imbalance occurs. The current care facility mainly focuses on the mid aged elders and because of the pricy expenses, the major high-end elders of the care house only own less than 50% occupancy.[3] Also, the lack of supporting policies

and subsidies is an obstacle for the development. Although there are some policies like 'plan on constructing an elder care service social system' and 'The Opinions of the State Council on Expediting the Development of Elder Care Service Industry' which has given a basic sound structure of all the elder care service system and try to balance the medical resources in rural and urban areas for the elder, taking measures on this would be complicated and hard as there are no preferential policies for taxes, insurances and land supply for non-profit and profitable real estate. Finally, because of the slow recovery from the investment and weak capital liquidity, only a few enterprises have implemented and that is not able to satisfy the huge and continuous capital requirements for the senior housing.

In the WHITE PAPER Addressing the Gap in Senior Housing Today, which states that members of the middle-income cohort now represent the largest proportion of older adults at a time when their housing options are limit. The writer states that Achieving success also requires a very sharp focus on the part of the management team. Operating margins for mid-market projects are very tight, allowing for a very small margin of error. It is critical that the management team focus on minimizing costs prior to opening, particularly for land, predevelopment, construction and financing. Otherwise, project "cost creep" will be borne by residents for generations to come through higher monthly service fees. This situation could affect the penetration rate for a particular project in a given primary market area.

Garton describes the overall situation from State Encouragement, Incentives and Structuring. In the end the author states that having long been dominated by publicly-run institutions yet significantly underfunded, the Chinese government's recent legislative moves present a big opportunity for private and foreign investors in the senior housing market in China. Although a wide range of supportive rules and regulations have been recently issued, foreign investors will need to navigate these new policy changes very carefully.

## **2. POLICY DEVELOPMENT**

In 1981, the United States launched the family Medicaid and community service plan, and in 1984, it put forward the concept of providing for the aged. Through constantly improving laws and regulations, planning and implementing the elderly health care plan, encouraging social forces to set up pension institutions and other measures, after 30 years of development, the whole social pension security system has been very perfect, and the pension service is very developed. The core of the housing policy for the elderly is the "affordable housing" subsidy policy of the Ministry of housing and urban development (HUD). 1)Project 202

(interest free loans for housing for the elderly): cheap housing provided by private and non-profit institutions to the low-income elderly can obtain interest free loans from HUD when they are building, repairing or purchasing. If the house is used for elderly services for 40 consecutive years, the loan provided by HUD will not be repaid. Except for profit-making institutions, other institutions can also apply for 202 loans. National projects can get up to \$25000, and other profit-making institutions can get up to \$10000. 2) Responsible unit: the United States Department of housing and urban development (HUD) is the federal government's affordable housing management department. The public housing administration (PHA) is set up by the state and local governments in the United States to take charge of the construction, management and subsidy of public housing. HUD also has a Federal Housing Administration (FHA), whose main function is to provide housing mortgage guarantee for low - and middle-income families. Since its inception in 1934, FHA has provided home loan insurance for 34 million private homes. Together with rental subsidies, it forms the core of HUD's "affordable housing" policy. According to the statistics of Japan's Ministry of economy and industry, Japan's health care industry accounts for more than 10% of Japan's national GDP. Supported by a comprehensive social security system, Japan has gradually established a health care policy system with inclusive, standardized, diversified and detailed responsibilities after nearly 60 years of development. With the support of a perfect health care policy, health care facilities have developed rapidly. The government led single development subject has changed to a diversified development subject. Under the promotion of market mechanism, health care industry has also developed in a diversified and systematic way [4].

The practical experience of developed countries shows that the old-age real estate can be a very effective mode of the social old-age service. However, in China, to what extent the old-age care real estate can bear the functions of old-age care services is still a big unknown, and there are few successful practice cases in the market. Due to the label of "real estate", the public and even the government can hardly get rid of the traditional cognition of old-age care real estate, which leads to great uncertainty in the public opinion environment and policy environment of old-age care real estate. Another concept that often appears at the same time with endowment real estate is the endowment community. When discussing old-age care real estate and old-age care facilities, researchers often refer to concepts such as old-age care community, old-age living and living area, retirement community, continuous care retirement community, etc., and sometimes senior village and retirement village are also used. No matter it is called pension community, elderly community, retirement

community, retirement village, etc., they are the specific forms and modes of pension land property, and they are also the segmentation fields of the pension real estate market. Elderly service facilities are also concepts clearly adopted and used in China's official discourse system, which can be reflected in a series of policies concerning the elderly released by the authorities. However, although it has been widely adopted in the official discourse system, the relevant government departments or authorities do not provide a unified definition of nursing facilities, which may lead to different understandings of nursing facilities. Moreover, the State Council issued the "opinions on promoting the development of pension services" in 2019, which requires deepening the reform of decentralization, management and service, expanding investment and financing channels of pension services, expanding employment and Entrepreneurship of pension services, expanding consumption of pension services, promoting high-quality development of pension services, and promoting infrastructure construction of pension services. The degree of population aging continues to deepen. In the future, China's aging population will further increase, and the demand for pension will increase greatly. From 2013 to 2019, the state and local governments have frequently issued a series of policies to actively support the development of the cause of aging and the construction of the pension system. In addition, the development of health care service industry and the health care industry must be guaranteed by perfect laws and regulations. The success of Japanese health care service industry and the health care industry depends on the legislation first, the implementation of reform under the protection of legislation, and the constant revision and improvement of existing laws and regulations in practice. At present, China's law on the protection of the elderly is still relatively single, which needs to be further strengthened systematically.

### **3. FINANCIAL SITUATION**

With the support of policies, in recent years, various kinds of capital have been aiming at the huge blue ocean in the field of pension, and have used their own advantages to accelerate the pace of investment in the pension industry. However, the access cost of the pension industry is quite high, the investment return cycle is long, and there is a short-term liquidity risk. At the same time, the pension service market technology is uneven, lack of standardized norms, these factors restrict the development of the industry. General pension of our country commercial bank financial business department affiliated in custody business, company business or the retail sector. There is no independent business sector, the resource integration, product development, personnel, line management, lack of independence of financial rights, causing pension financial business trivializes situated, fragmentation of

product. The original organizational structure has been unable to adapt to the rapid development of the old-age finance, and it is difficult to provide targeted old-age finance services. Therefore, the firm could explore the establishment of the old-age finance divisional system, integrate the financial business related to supporting the old-age service industry and developing personal the old-age care, and combine it with the strategic transformation of banks themselves to explore and develop a new business model of the old-age finance.

The pension finance business departments of commercial banks in China are generally attached to custody business, corporate business or retail business, without establishing independent business sectors, and lack independence in resource integration, product research and development, personnel and financial rights, and line management, resulting in the fragmentation of pension finance business and product fragmentation. The original organizational structure has been unable to adapt to the rapid development of the old-age finance, and it is difficult to provide targeted old-age finance services. Therefore, it is suggested that pension real estate companies should explore the establishment of the pension finance divisional system, integrate the financial business related to supporting the pension service industry and developing personal pension, and combine it with the self-supporting strategic transformation of banks to explore and develop a new business model of pension finance. Commercial banks can set up professional pension finance teams and branches in areas where the pension service industry is relatively developed and the elderly population is concentrated, optimize and integrate internal resources, and improve the financial service level in the pension field. The accelerated aging of the population, the deepening reform of the old-age security system, the continuous advancement of the marginalization of old-age pension, the rapid development of the old-age service industry, and the increasingly multi-element demand for old-age financial services from customers have provided important opportunities for commercial banks to develop the old-age finance. Suggest endowment real estate company to financial supply side structural reforms, intensify to the attention of the pension financial, advance endowment area business development plan and market distribution, positive innovation pension financial organization form, innovation products suited to the characteristics of the pension services, financial tools, innovation in the field of residents endowment service ability and level. It can effectively meet the rapidly growing pension industry development and residents' pension needs, and accelerate its own strategic transformation.[5]

#### **4. SMART PENSION**

"Smart pension" is still in its initial stage, and resources need to be integrated. At present, the main pension mode in China is the home care, the institutional care and the community care. In China, the proportion of home care is 96% left and right, institutional care accounts for about 3%, and community care is only 1%. Home care refers to the social services that take the family as the core, the community as the support, and the professional services as the support. The main form is that the service personnel with professional training provide door-to-door care services for the elderly. However, China's community home care is currently facing the problem of low level of specialization and short of professionals. Community home-based care services need a professional workforce to meet the diverse needs of the elderly. [6]

However, China's current community home care service staff includes two parts of personnel: one is the management personnel; Second, the service personnel. However, because China's community home care has just started, and because of the lack of relevant theory and practical experience, the staff of the real training is very few, most of them have not received professional training, and the characteristics of professionalism is not ensured. Whether it is to provide services or service concept is difficult to achieve specialization.

In the future, elderly care real estate company should make great efforts in establishing health care mechanism, strengthening overall planning, setting up access threshold, speeding up the construction of the platform, integrating and improving service resources, etc.

#### **5. BUSINESS MODEL**

There are three main business models in China's senior care service industry, senior care community, one is the senior apartment, and another is senior post. And all three of these major business models have their own problems.[7]

First of all, for the senior care community, the problem is that there are fewer policies related to land construction support and financial cost support for senior communities, which has created certain restrictions on the development of senior communities. More specifically, humanizing senior communities, such as building wider corridors and providing more comprehensive services, means higher construction costs and additional labor and operating costs. But seniors' income is limited and they tend to be conservative in their spending. Therefore, how to get a good location and the right land resources at the right price is the key to the profitability of the whole project. Secondly, for the business model of senior living, its main problem is the imbalance of supply and demand

structure. Senior apartments are partly built according to high-end or special needs. These apartments have good living conditions, rich spiritual and cultural activities, and perfect medical care services, which are attractive to the elderly who can pay. Likewise, a large part of senior apartments are public guaranteed nursing homes, which are characterized by simple conditions and low fees, and are mainly designed to protect the lives of the elderly at the bottom. However, the greatest demand for senior housing is for mid-range projects for the general elderly, which is exactly what is scarce in senior housing projects today. For the average senior, high-end senior housing is too expensive and secure senior housing is too poor. Such a mismatch between supply and demand is the biggest problem of this business model. [8] Finally, there is the question about the retirement post. Since China has not yet established a comprehensive payment system for senior citizens, senior citizen stations mainly rely on government subsidies to maintain their operations, which makes it difficult to achieve real profitability at the commercial level and attract large amounts of capital to enter. Secondly, since elderly people are very price sensitive, it is difficult to get long-term cash inflow for many soft projects, so it is also difficult for senior care stations to achieve large-scale profitability.

In this case, there are some suggestions that can be taken for the senior care business model. One of them is to introduce foreign investment and build a world-type chain senior community, from which we can learn advanced foreign care and management knowledge, which can also drive employment and consumption to a certain extent. Second, the use of their own unique resources to transform the development of elderly real estate, such as talking about the original old hotel transformation into the elderly real estate or the revitalization of the old state-owned assets, transformed into elderly facilities. These two methods can effectively reduce the running cost of senior citizen real estate.[9][10]

## 6. CONCLUSION

This article addresses the development of senior housing in China, and gives recommendations from the corresponding aspects through policy, finance, technology, and business models. First of all, in terms of policy, after comparing the history and overview of the U.S. pension policy, we found that the Chinese government's pension policy is still a little bit single and needs to be improved in many aspects. Secondly, in terms of the funding of senior housing, due to the rapid development of the senior housing industry, the original policy of providing pensions mainly by the state no longer seems so practical today. As a result, in recent years, more and more commercial banks have begun to develop commercial pension policies that are more

suitable for seniors. With the development of society, the smart pension becomes the main pension policy now. Finally, there is our research and proposed recommendations regarding business models in the senior housing industry. Due to the consumption habits of contemporary elderly people favoring frugality and the high costs that the senior housing industry now must bear, there is now an unequal demand for the supply of senior care services. In the face of this situation, each company should maximize its own resources to save costs and maximize profits.

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