

# Investment Probabilities of Commercial Elderly Care Service Industry

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**Abstract:** As China has become an aging society since 2000, elderly care service has become the target of investment. With this right moment and strong interest, this report is written to discuss the existence of investment opportunities and the market features of elderly care service industry. Report first focus on analyzing the investment possibilities of commercial elderly care service through people's needs in three different levels: old people, the only child and social attitudes. These people's needs all point out the importance of elderly care service in the near future. Upon that, The profit model and operation model are being discussed as well to help analyze the market of elderly care service industry in China. Based on the analysis introduced in the report, as the number of old people continues to grow, the market for commercial elderly care service keeps expanding, which brings great opportunities for investors in the coming 40 years.

**Keywords:** Elderly care service; Investment opportunities

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## 1. Introduction

According to the standards set by the United Nations "The Aging of Population and Its Economic and Social Implications" in 1956 and the standards defined by on World Meeting in 1982 in Vienna, China has become an aging society in 2000. In the census during 2000, the population of people aged 60 in China reached 10.46% and people over 65 accounted for 6.96%. These two figures reached 13.26% and 8.87% in the census of 2010, 16.15% and 10.47% in 2015<sup>[1]</sup>. According to Zhai Zhenwu, the population of the old will reach 300 million in 2025 and 400 million in 2033, which creates a severe population problem<sup>[2]</sup>. It's clear that the as the number of old people continues to grow, the market for commercial elderly care service keeps expanding, which also creates a big market for investors at the same time.

## 2. Analysis

### 2.1 Chinese Needs Towards Elderly Care Service Industry

#### 2.1.1 Old People

In China, it's children's responsibility to take care of their parents when they grow up. This kind of culture is known as filial piety. Until now, whole family taking care of old people is still the basic way for most families, although the trend is weakening. At the same time, having old people send to commercial old people's home is being accepted for the following reasons. Firstly, old people moving to the old people's home can help ease the pressure on their children. It has always been a big burden to the whole family even if old people have a small illness. And sometimes people don't have all the time to look after the old which leads to severe accidents. This situation is different for the nursing home while there are special medical care services which can greatly reduce the chances of accidents happened. Secondly, people after retirement might feel being out-of-date to the society. When they are at home taking care of their grandchildren, which is known as the first "job" after retirement, their social networking is relatively limited. In the community of the old people's home, however, they can find people with same hobbies and they can organize activities together and develop their interests. Lastly, as the continuous improvement of the elderly care service industry, old people have more choices when choosing a better community to live in. They can now enjoy quality lives in old people's home.

#### 2.1.2 Only Child

From 1949 to 1976, Chinese government encouraged more births. One couple can have three to five children or even more. When those children grew up and began to marry and gave birth to their children, a population explosion happened. Due to the huge population pressure, government published family planning in 1982, which claims that a couple can only have one child. Obviously, those only child who doesn't have brothers or sisters are under huge pressure of taking care of families. They will find themselves under great pressure with four old people(their parents and their lover's parents) and their own children to look after. According to Gao, there are 150 million only child now<sup>[3]</sup>. As these children continue to reach their 40s, which begins around 2020, the needs for elderly care service will start to increase.

In 2016, Chinese government released another policy about birth control which is everyone can have their second child. With that being said, the next 30 years will be the explosion of the needs for elderly care. Investors can find infinity opportunities among those time.

Overall, it's clear that the elderly care service industry now is mostly introduced to the only child born under the one-child policy. These people make up the future market for the industry and creates large chances for investors.

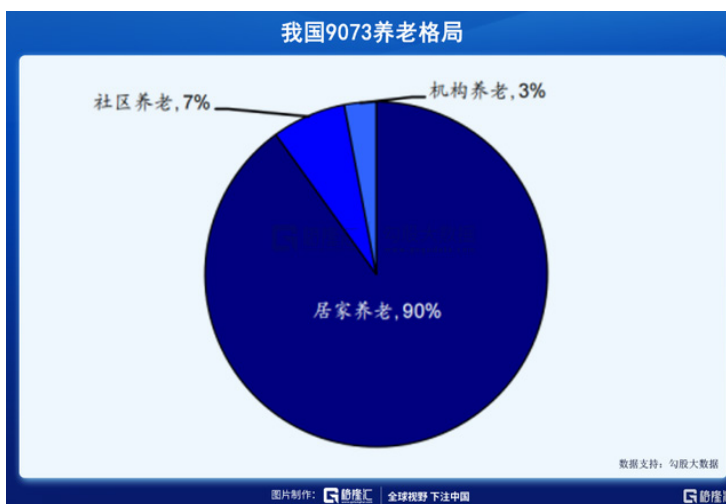
### 2.1.3 Social Attitudes Changes

Predictably, elderly care service industry will be seen as a kind of insurance where people can prepaid for the life after they get old<sup>[4]</sup>. The premium they paid might be part of the medical care they will enjoy in the old people's home or part of the room they will stay in the future. Taking care of the old in the future will not only be children's duty, everyone need to think for themselves and care for themselves in the future.

## 2.2 Elderly Care Service Market Analysis

### 2.2.1 Overall Market Analysis

Note: This figure is a pie chart of market share of Chinese elderly care service industry. Home based elderly care service accounts for 90%, community elderly care service accounts for 7% while commercial elderly care service accounts for the rest.



According to the graph, 90% of the old are enjoying home-based care services, which old people are taken care of by their children in their own houses. About 7% of the old rely on voluntary community support while only 3% of old people are living in commercial institutions for care services. However, due to the overall situation of getting old before getting rich, the complex social culture and shrinking family size, the spiritual needs and medical monitoring needs are difficult to be

guaranteed for the old when it's home based and community elderly care service. Thus, the traditional family elderly care model is not suitable anymore. For the moment, the proportion of commercial elderly care service in the whole market is still very low, which is far from meeting people's needs. As China moves to a more serious aging society, compared to the 7%-15% of commercial elderly care service in foreign countries, this field of the industry has a large market to expand. The market analysis will be focusing on the commercial elderly care service companies.

### 2.2.2 Commercial Elderly Care Service Companies Operation Models

The operation model of elderly care service industry mainly refers to selling products, overall management, daily operation and asset management after the construction of elderly care service buildings. Usually, those operation missions are assigned separately to three different participants: developers, investors and operators. In this model, developers gain profits and pay back investors and operators from selling houses, they are also responsible for the construction of houses. Investors obtain long term returns through asset trading while taking financial risks. Operators expand their business and obtain high cash return through leveraging a small amount of money while operating the whole model and taking operation risks.

### 2.2.3 Commercial elderly care service companies Profit model

Having known the operation models, it's time to look at the profit model of elderly care service industry.

#### 2.2.3.1 Sell Property Rights

Developers gain profits through selling buildings directly, which is similar to tradition way of selling houses but focus more on

matching the old. After selling the houses, they won't be focusing on the future operation.

Advantages: This model gains return soon, has low cost and low risk. Thus it's good for investors who have large cash flow and expect short term return.

Disadvantages: Developers and investors using this model has given up the profit gained during the elderly care service industry chain except for the construction part.

#### **2.2.3.2 Hold And Lease**

Developers hold and lease houses for most of the time. Part of the money they lease will be given to operator who operates and gain service fees as their main revenue.

Advantages: This model is conducive to sustainable income.

Disadvantages: Developers need large amount of money for early construction while they can't get pay back directly. Operation are required while the returns for operators are also long term. Thus investors who are expecting short term return are not suitable for this model.

#### **2.2.3.3 Rent Plus Sale**

Developers using this model first sell houses to customers, who are buying for future use or investment, to get cash flow back quickly and lower their capital cost and pressure. Then they rent houses from those customers and operate and rent those houses to the old who need at the time. The money gained from selling can be used for operational properties and supporting facilities, which enhance the market value and create a perfect money cycle.

Advantages: This model can alleviate the financial pressure of developers while avoiding operation problems happened in later stage. Investors can get compensate in short term while expecting long term return under this model.

Disadvantages: This model requires talents with high management skills.

These are the three models popular in the market now. It's high priority for investors to identify the most suitable one.

### **2.3 Factors affecting elderly care service industry**

#### **2.3.1 Shortage of professionals**

There is an obvious shortage of nurses and elderly care service industry managers. Besides, some of them right now are facing the problems of insufficient professionalism. Lots of cases where families quarrel with managers from old people's home are caused by their unprofessional.

#### **2.3.2 Incomplete industrial chain**

On the whole, the middle and last stage of elderly care service industrial chain are not yet completed, especially for the new elderly care service models. Main reason is because this is a new industry, only time can tell whether one is successful.

#### **2.3.3 Policies and regulations lag**

The announcement of new policies and regulations are often delayed. This leads to poor efficiency of government which in some level block the development of elderly care service industry.

#### **2.3.4 Limited Customers**

The commercial elderly care service now is only suitable for exclusive clients. People who can't accept the concept of insurance or afford the high prepaid expense are not able to join in the market.

### **3. Conclusions**

According to the existing market structure and human's needs, commercial elderly care service companies are worth investing in the coming 40 years. The needs for elderly care service is likely to explode and investors should seize the opportunities. Although investors are required to find appropriate projects with suitable profit model.

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