Senior Citizen Homes: Search for a Viable Business Model

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Abstract
The case pertains to the decision regarding business model to be decided by the developer of a proposed senior citizen homes. Due to a number of reasons, enumerated in the study, the elderly people prefer to live in community living projects.

The protagonist Mr Pankaj Pawa, MD, Pawa Group, wants a scalable Old Age Home (OAH) concept, which can be replicated across India. Accordingly, he has identified upper-middle-class senior citizens as the potential segment. As per his surveys, this segment is neglected till date. The project will need to be planned as a community project, where the residents become part of the community by sharing common resources.

The developer’s main concern is selecting the best business model, which allows him to expand. Simultaneously, the project should not lead to his capital blockage as the real estate market has faced liquidity crisis. Furthermore, he needs to be convinced that the senior citizens are a financially viable customer segment, and an exclusive project for them will be self-sustaining in the long term.

Keywords
Senior citizen homes, business models, customer segmentation, financial viability

Introduction
Mr Pankaj Pawa, Managing Director (MD), Pawa Group, a conglomerate present in real estate, automobile and healthcare sectors, was looking to diversify his real estate vertical. The group was already renowned for its quality construction and timely delivery in residential, commercial and information technology (IT) parks. Besides real estate, Pawa Group had won numerous awards for their automobile division and were the sole supplier authorized to sell Tata passenger vehicles to the Ministry of Defence and armed forces. As part of their diversification plans, they had acquired and started constructing a hospital in the newly industrialized town of Neemrana in the state of Rajasthan, approximately 70 km from National Capital Territory (NCT) of Delhi.

In order to search for the new ventures within real estate division, Mr Pawa and his team attended numerous conferences and seminars from 2018 to 2020. After attending one such conference in mid-2019, he was convinced that the senior citizen homes were the next sunrise sub-sector within the real estate industry. His business development team based on their interactions with different speakers ranging from All India Senior Citizen Confederation (AISCON), to HelpAge India to individuals, at the seminars, had collated the following data:

1. The Maintenance and Welfare of Parents and Senior Citizens Act, 2007, defines senior citizens as the Indian citizens who have attained the age of 60 years or above.
2. Presently, there are an estimated 104 million older (60+ years of age) persons in India. Out of this 54 million were females, and 51 million were males.
3. Life expectancy has increased from 40 years in 1951 to 69 years in 2019.
4. The increase in lifespan has meant that growth rate of the elderly (3.09%) is higher than that of the general population (1.9%).

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5. In India, the number of senior citizens is growing at a fast pace. At present, approximately 8% of India’s population comes under the elderly category; this proportion is set to rise to 20%, that is, almost 325 million in absolute numbers by 2050.

6. The law also has provision for setting up of old-age homes (OAH) by the authorized authorities/bodies, both statutory and non-statutory.

Besides, the team received some valuable insights into the reasons for growth of the OAHs in addition to the numerical data.

**Children Working in Other Cities/Countries**

Due to globalization and interconnected world, generation X and Y children work and reside outside India or in another city, leaving the ageing parents all alone and dependent on strangers or household servants for care. A retirement home offers the opportunity to live as a community with similar aged people, thereby making it an extended family.

**Safety of the Senior Citizens**

Nowadays, crime against senior citizens has become a regular occurrence. Even though, in most instances, it is the strangers or the household servants who are the perpetrators, considering that the elderly are vulnerable, sometimes, the family members are also guilty of crimes. An OAH provides them protection and security. Since the staff is screened and verified and the visitors are allowed after thoroughly checking for safety aspects, the elderly are well taken care of.

**A Constant Companionship**

OAHs provide a positive environment of belongingness. Due to work pressure and commitments, children are often not able to spend time with their parents. This negligence may not be intentional, but it is a consequence of modern-day work culture, resulting in the neglect of senior citizens’ health. The seclusion from social activities may lead to reclusion, further leading to mental disorders. At OAH, the residents strive for companionship and care, thereby creating an atmosphere free of neglect and isolation.

**Hassle-free Living**

Household chores may not be mentally strenuous, but for the elderly, they are physically demanding. At OAH, the daily chores are taken care of by the professionals, thereby allowing the senior citizens a tension-free life. The chores may range from cleaning, housekeeping to cooking, planning outings, etc.

**Regular Medical Attention**

Due to advancing age, health-related issues and medical emergencies are a constant cause of concern among senior citizens. Since OAHs are exclusively for the elderly, trained professionals are always available. Further, there are tie-ups with the hospitals to handle emergencies.

**A Like-minded Community**

Humans are social animals. Friends and acquaintances are essential to meet our social needs. Retirement from their profession/occupation leads to a decrease in communication with like-minded people in the same age group. At OAH, with most of the residents belonging to the same age group, it is easy for any person to blend among them. This homogeneity encourages sense of belongingness and community feeling.

**Low Mobility**

The experts were in agreement that older people are reluctant to shift from their present location with its attached sentiments and comforts and relocate to unfamiliar surroundings unless there are some life-altering events. These events in most cases occurred in the form of transition from ‘full nest’ to ‘empty nest’ or ‘dissolution’. This mandated the older people to sacrifice their comforts and move to a new and unknown environment.

Mr Pawa was convinced that the senior citizen homes were the need of the hour. There was a yawning demand and supply gap. This gap was widest for the upper-middle-class segment of the population. While at the lower levels of population, there were government-run OAHs in every city, at the other extreme, at the highest echelons of the society, the senior citizens could buy their way to happiness, well-being and safety. This market is being well served by reputed OAH developers and operators like Antara Senior Living (a Division of Max Group), Golden Estate besides others.

It was the middle- and upper-middle section that was underserved by OAHs. Therefore, this was the segment he decided to focus upon. In order to get a clearer picture and ensure he did not make the mistakes made by other developers and operators of OAH, he mandated a management consultancy firm to suggest the viable business model in the category. There were twin objectives that he mandated to the management consultancy firm:

1. It should be a financially viable and self-sustaining project. He was clear that he wanted a ‘for-profits’ business model and not a charity institution.
2. The business model should be replicable pan India so that they could scale up the business across states.

The consultancy firm, after thorough primary and secondary research, brought forward the following data for Mr Pawa’s consideration:
1. At the age of 60 years, average remaining length of life was found to be about 18 years (16.9 years for males and 19.0 years for females), and that at age 70 years was less than 12 years (10.9 years for males and 12.3 years for females). Thus, the OAHs could be planned for long-duration stays.

2. In the said age group, 76% were married, while 22% were widowed. The remaining 2% were either never married or divorced. Meaning that the rooms were needed to be prepared for couples, while almost 20% of the rooms had be planned for single occupancy.

3. The main source of income was remittance from foreign-based children for 55% of the elderly, while 35% of the elderly depended on their pensions. This statistic was useful for deciding the financial status of the business model.

4. More than two-thirds (69%) of the elderly were living in their own house, while 30% lived in a rented place, thereby denoting that the latter will be more amenable to relocate to new surroundings.

5. Approximately 31% of the senior citizens required constant assistance from others for their daily routine works. This meant that the proposed OAH would have to plan for skilled caregivers in good numbers.

6. In 2015, more than 20,000 cases were filed by, or on behalf of the, senior citizens under The Maintenance and Welfare of Parents and Senior Citizens Act, 2007, against their children for their failure to provide the elderly with adequate protection and safety.

7. In the survey conducted by the consultancy firm among the various operational OAHs in India, it emerged that there were number of OAHs, which catered to the needs of senior citizens based on their/their children’s paying capacity.

Thereafter, the management consultants presented the three business models to Mr Pankaj Pawa for his consideration:

1. freehold sale model;
2. pure rental model; and
3. leasehold model.

A business model is the articulation or design of the value recognition, its creation and delivery to the satisfaction of the intended recipients. The core of any model is that it identifies the customers, their needs, their willingness and ability to pay for products or services that satisfy their needs. A business model should define the manner in which the business recognizes the customers’ needs, the product/services that ought to satisfy them and delivers value to customers. The customers pay for the value; those payments convert into profit through the architecture and operation of the value chain.

Mr Ankit Behl, Director (Marketing), explained to his managing director (MD) that value is what the customer is concerned about; thus, motivation for them should not be to maximize their profits, but they should seek to maximize value in their potential customer’s perception. Therefore, they should select the business model accordingly. Accordingly, a preliminary assessment of the project costing was carried out by the in-house team of Pawa Group. The findings were as under:

1. The project had to have 100 rooms with 70 planned for couples and 30 for single elderly people.

2. In order to make it a viable option, amenities such as on-call doctors, the help desks, qualified caregivers, concierge services, dietician-curated meals, courteous housekeeping staff, manicured lawns, freedom from household chores like laundry, yoga and meditation classes, dedicated security personnel, library/reading room, common kitchen and spacious dining rooms were essential irrespective of the business model. These amenities would have to be on use and pay model.

3. The whole project including rooms and common areas such as lobbies, courtyard and ramps would need to be designed by specialists in geriatrics.

4. The fixed cost of construction was estimated at approximately ₹400 million, including land cost.

5. The occupancy levels needed to be around 60%–70% at least to achieve operational break-even.

Based on their findings, the team discussed the merits and demerits of each business model proposed by the consultants:

**Freehold Sale Model**

Herein, the developer will sell the under-construction or constructed residential units to the elderly people. Since it will be a freehold property, the buyer will have clear title of the property. This will enable him to raise requisite loan for buying the property. Further, the buyer could will the same to his inheritors after his death.

The maintenance of the project and the amenities will remain with the developer and/or its authorized agencies. The buyer will have to pay a fixed cost on a regular basis to enjoy those services.

**Merits**

1. The developer will be able to recover his fixed costs much earlier along with the profits envisaged.

2. The developer can follow asset light model as once the unit is sold, they could take it off their books.

3. The buyer gets full ownership, free of lien or any charge.
The developer can also focus on other projects after delivering the residential units.

**Demerits**

1. The trust factor among the developer and the prospective buyer is the lowest in sale model since the developer has minimum financial stake in the project after selling the units.
2. The elderly may have to withdraw their life savings in order to purchase the unit, which makes the option unfavourable among the elderly.
3. Since it will be a freehold property, the owner will have the full rights to resell the unit to any person of his choice; this may negatively affect the character and composition of the project.
4. The affluent senior citizens may purchase the unit(s) for speculation purpose without residing there. This will negatively affect the occupancy levels of the project.
5. In sale model, the marketing costs increase by 12%–15% on account of higher advertising, brokerage, commission fee, more site visits, etc.

**Pure Rental Model**

Herein, the developer charges a fixed monthly rental from the residents. The rental is subject to escalation after the specified period of time. The agreement is usually for 11 months to save the cost of stamp duty. The residents have the possession but the ownership title vests with the developer.

Besides rent, a refundable security deposit equivalent to 2–3 months of rentals is taken in advance to cover for non-payment of rent at a later date. The costs of amenities and maintenance are charged separately, in addition to the rentals, in a different account.

**Merits**

1. The developer enjoys a predictable fixed income for the foreseeable future, based on which he can plan his earnings and expenditure.
2. The elderly residents are free to move out after 11 months or in between too after giving the notice as specified in the contract.
3. The children of the senior citizens can make the rental payments without concern for their savings.
4. The developer will always maintain the financial interest in the project; therefore, the project will have better upkeep and maintenance.
5. The developer will retain the right to sell the project to a third party (REIT—Real Estate Investment Trust, VC Funds, International Sovereign Funds looking for steady income) on either piecemeal basis or in a single transaction.

**Leasehold Model**

Herein, the developer leases the units to the elderly people for a minimum duration of 3 years. The resident can leave the project either after the completion of the stipulated time or by paying for the balance remaining period. In the event of death of the occupant, this requirement is waived off and the possession of the property is taken by the developer to re-lease to other people.

Here, the developer initially charges an amount usually equivalent to 60% of the sale price and a fixed monthly rental. The rental is approximately 50% of the pure rental model-based rent. The possession of the unit passes to the resident, while the developer has the ownership right. But unlike in pure rental model, in the event of the developer planning to transfer the ownership to a third party or create any lien, charge or third-party interest, he will have to first take the consent of the resident.

The initial amount is refunded to the lessee or his inheritor after the vacation of the unit.

**Merits**

1. The developer recovers his fixed costs much earlier.
2. The elderly are also comfortable in the knowledge that they have a stable permanent location.
3. The rental defaults are minimum since the discounted rent does not create pressure on elderly’s savings.
4. The developer retains the ownership of the project; therefore, there will be better maintenance and upkeep of amenities.
5. The longer stable duration stay of most of the residents leads to a creation of vibrant community of like-minded individuals.
6. The developer can still sell the project to any third party after taking the resident’s consent and/or by refunding their initial deposit.

7. The lessee can transfer the lease for the remaining duration to a third party subject to approval from the lessor (developer).

8. The model is easily replicable across geographies since the developer’s fixed costs are recovered at fast pace and the senior citizens also do not have to pay a high purchase price.

Demerits

1. There is potential for conflict of interest between the residents and the developer if the lessees (residents) create their own association.

2. The lessees lose on the interest on the initial deposit. The longer they stay, the higher is the loss of interest on their deposit.

3. For the developer, periodical escalation of rent is not possible since the lessees have made a high initial deposit.

4. The deposits may not be sufficient for covering the capital costs incurred in major repairs required in any project after a certain period of time.

Mr Pankaj Pawa envisaged the OAH project as a shared economy commercial project, wherein the resources—human and material, spaces and assets—were to be shared among the residents on a payable basis. He realized that there is a growing acceptance of the phenomena of collaborative consumption and shared economy. The elderly are already receptive to the concept of community collaboration to ensure collaborative and collusive environment. There is gradual acceptance among the sections of society for shared services that encourage a certain lifestyle.

The reasons for shifting to a shared community living can be divided into broad categories:

Rational Benefits

- Financial—the need to save money.
- Lifestyle—it provides higher flexibility.
- Lifestyle—it provides higher practicality.
- Trial—provides access to goods/services on a temporary basis for experimental purposes.

- Lifestyle—the need of enjoying independence from family responsibilities.
- Lifestyle—the need to live as per their own choices.

There are certain factors which Mr Pawa had to take into consideration before finalizing the OAH project. These factors related to (a) real estate (land) cost in different parts of the country, (b) his financial capability, (c) demographics of different regions and (d) general economic environment and policies. Finally, Mr Pankaj Pawa decided to construct specialized homes for senior citizens and market them on ‘enjoy elevated quality of life’ platform. But the questions he still faced were:

Q1. Identifying the unique needs of the senior citizen segment?
Q2. Will the senior citizen segment prove to be a financially viable segment for OAH Developers?
Q3. Identifying the factors which will motivate the senior citizens to shift to exclusive homes?
Q4. Identifying the factors which might act as barriers for the senior citizens to shift to the senior citizen homes?
Q5. What are the benefits and disadvantages of various business models for the project? Which are the other factors which need to be taken into consideration by him and his team for selecting the business model?

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