

VILLAGES FOR PENSIONERS

The residence format "55+", long customary for European countries with their high living standards in retirement, are for now a rarity in Moscow. In answer to the "whys" the developers cite these numbers. In Russia the retirement age for women is 55, for men – 60. For comparison, in Germany men and women retire at 67; in Japan – 70. The number of pensioners in European countries totals approximately 20–25% of the total population and grows at the rate of 2% a year. In Russia there are approximately 40m pensioners (25%), their average lifespan is 16 years: 13 years for men and 23 years for women. In Russia the government puts 8.6% of GDP towards pensioners' needs, versus, for example, 20% in Australia, 22% in Japan and 28% in Austria. In Russia pensioners mainly have to rely on themselves and relatives; thus space for commercial projects opens. According to Nikolay Vecher, director of GVA Sawyer's St. Petersburg branch office, partner, the potential number of residents in villages for retired folks in Russia totals about 1.8m people. The architecture of such projects can be quite various. Elderly people's quality of life is ensured by a certain set of public facilities: clinics, hospitals, clubs, hotels, athletic facilities and the professional work of management companies, which ensure 24-hour medical service, organizing cultural events, etc. Each village has a cultural center whose task is to organize residents' leisure. Experience shows that in the U.S., for example, the profitability of this form of business reaches 20%. Developers are geared towards the real budgets of residents; a luxurious atmosphere is impossible here. For a comfortable life, a resident needs little. Most residential buildings in "55+" villages appear modest, even ascetic. The cost of the average household in such a village in the state of Florida doesn't exceed \$50,000 (1.5m rubles), which is quite modest for the U.S. In Russia the existing experience and calculations show that zero profits correspond to a payment level of approximately 700 rubles a day, or 21,000 rubles a month. Provided monthly payments of 45,000 rubles profitability totals 23%. Curiously, in state-owned old-age homes, the level of spending on resident maintenance is equivalent, which provides the opportunity for "over 55" commercial properties to take on the accommodation of such pensioners along with necessary financing. The source of such payments may be the personal earnings of the actual pensioner, or funds generated from management of this pensioner's other real estate, for example their apartment. As a rule, the management company also takes on management of

the apartment, either renting it or selling it by agreement with the owner, and providing monthly payments from these proceeds. In Russia there are also examples of such villages, albeit few, which are implemented, as a rule, through budgetary funds. For example, the village created in 2004 with 38 two-family homes in the village of Ozinka in Saratov region, where the homes cost \$53,000. In Chernomorskaya village, Krasnodar region, a budget cottage village for 70 people was built, while a special neighborhood appeared on the outskirts of Aginsky village, Krasnodar region: two-person homes

for 120 veterans. In societal terms this is one of the most attractive and sensible projects of this format in Russia. There are also attempts to create private villages for pensioners. In 2007 a Gazprom project was developed in Khrustal village, Kaluga region, but it remained only on paper. A project of St. Petersburg-based SIB is being implemented in Pavlovsk, a suburban community, together with the clinic chain Skandinavia. Pensioner villages cannot pay high rental rates, so they have to independently build their properties. c | R | e

Oleg Fedorov,
General Director of the
management company
"Blagopoluchiye".

– It's difficult to develop projects for senior folks in Russia. Historically, the nursing or old age home bears a negative connotation in Russia, being generally associated with a horrible, abandoned and unsafe "hole" where younger folks bring their elderly parents that they might not stand in their way. So if you just build a private establishment nobody will want to come and live there, for proper marketing is needed. It should not be forgotten that there is no Russian business practice in this area and this means banks will hardly provide a loan for such a project. You'll not be able to prove there is any demand for such services as there's no history of sales and no practical experience of competitors. The public-private partnership mechanism does not work either. The main reason is that the government cannot guarantee the purchase of your services for many years ahead. Social insurance is underdeveloped in Russia. In Europe you choose a retirement home and the government sends the funds there. We have nothing of the kind here; what's more, the entry barriers to this segment for new players are rather high. The operational activity of any old age home is regulated by six government oversight agencies – from Rospotrebnadzor and Ministry of Health to the Center of Hygiene and Gosstroy nadzor at the stage of design and construction, the medical license being the compulsory condition. Our cooperation with Denmark, German (in partnership with BPS International) and USA was a great blessing for our project, since the given business is highly developed there. For instance, we borrowed their valuable experience in caring for people suffering from mental debility (the syndrome whereby the degradation of memory, thinking and behavior takes place): here technologies call for a special structural design. A separate kitchen and cafeteria is needed per each dozen of patients – simply because grannies should continue to do their

cooking, cleaning, knitting and engage in other habitual occupations and they need respective premises to pursue these social undertakings. This year we are going to launch our own medical-social practices under a proprietary brand.

As for the budget, in Moscow and its nearest suburbs, the cost of a turnkey project like ours ranges from 0.6 to 1.2bn rubles, with the yield varying between 10% and 12%. In other words, the project is capital-intensive and in need of "long" money. Now there are three main structural formats in this industry: independent residence with minimum care; assistant residence with regular minimum and average levels of care; nursing care is needed for those elderly folks who are unable to take care of themselves. As regards a cluster of buildings, in case of Monino we carried out a complete renovation of the complex, but this was forced necessity. When I entered that project, the property had already been purchased. I believe it is necessary to design and build new "greenfield" projects; financially, these are comparable figures.

As regards retirement communities or villages, I believe we are not yet prepared for this format in Russia. I've seen a lot of them, especially in the US. In Russia assisted and nursing care will remain the main formats for the time being. The absolute majority of more than 30 private pension houses located in the Moscow region represent rented cottages. But just go and see how they run business from legislative perspectives: where and how they prepare meals, where they have fire escape and evacuation exits and fire-fighting systems, how they provide medical services, having no licenses at all. They just took private houses and began doing their business there; but in this case such buildings changed their functional use, having turned from a private home into a public establishment and this is a big difference. Such buildings must comply with various SNiP standards, pass the expert evaluation and get an operational permit to be used specifically for rendering services to senior folks. In this country providing stationary medical, social or nursing services is regulated by a special GOST. Therefore rent can be seriously discussed only when it is lawful; but I personally do not know such examples. c | R | e