SHAVA:
A BUSINESS PLAN FOR SUPPORTIVE HOUSING IN THE 21ST CENTURY

by

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Abstract

This document investigates the potential for SHAFA to enter the Canadian supportive housing industry, focusing on the lower mainland of British Columbia. It outlines the competitors in the marketplace, SHAFA’s core competencies, and provides an industry overview using Porter's Five Forces of Competition Framework. Demographics indicate that there are currently opportunities for new entrants in the market, primarily due to high demand from the aging baby boom generation, however differentiating SHAFA from the current competitors and choosing an appropriate entry structure and remain challenges. This analysis recommends that if SHAFA chooses to enter the supportive housing industry it should do so in a joint venture partnership with an established company as this would provide SHAFA access to industry experience as well as insulate SHAFA from financial and other risks to some degree. A preliminary financial estimate is included to illustrate SHAFA’s financial responsibilities should it choose to follow this entry method.

Keywords: supportive housing, independent living, market entry
Executive Summary

The goal of this document is to provide sufficient information on the supportive housing industry in Canada, with a particular focus on British Columbia, to enable SHAFA to make an informed decision about entering the market. Current demographic trends indicate that there are currently opportunities for new entrants in the market due to the retirement and senescence of the baby boom generation. A competitor analysis indicates that there is very little differentiation between the competitors currently in the marketplace, indicating that there is opportunity for SHAFA to gain a competitive advantage by intelligently marketing its key success factor of its expertise with and access to advanced biomedical engineering technology. An analysis of the entry modes available to SHAFA indicates that the optimal entry mode for SHAFA appears to be in a joint venture partnership with an established company, possibly in the construction industry. This would allow SHAFA to benefit from their expertise during the construction of the supportive housing facility as well as insulate SHAFA from some of the financial and other risks associated with being a new entrant into an industry. Finally, this paper provides preliminary financial estimates for SHAFA’s first few years of operation in order to provide SHAFA with an idea of the financial responsibilities it will be exposed to when operating within the supportive housing industry.
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1. Introduction

1.1. Objectives of the Business Plan

The objective of this project is to serve as a professional business plan for SHAFA, a start up company looking to enter the independent living segment of the supportive housing industry. This project will examine the main problems and issues in the supportive housing industry, such as an overall lack of supportive housing and a lack of technological innovation in existing units. A detailed analysis of the demographic forces affecting the supportive housing industry as well as an analysis of current competitors operating within the industry and their product offerings will support these conclusions. This analysis will provide SHAFA with an overview of the market forces currently influencing the supportive housing industry. The project then examines SHAFA’s solution to the problem, which is to provide housing equipped with technology allowing seniors to maintain their independence. An analysis of SHAFA’s key success factors and areas of differentiation between SHAFA and its competitors will support this. This analysis will provide SHAFA with viable product, marketing, and operating strategies, which will enable SHAFA to successfully enter and operate within the industry. Finally, this project provides an analysis of the projected financial outlays that SHAFA will assume in order to construct and operate an independent living facility in the supportive housing industry and strategies to mitigate and minimize the associated risks and costs.
1.2. SHAFA’s Business Opportunity

Currently, the major problem facing the supportive housing industry in Canada is a lack of supply driven by increasing demand from the aging population. “Baby boomers”, the colloquial term for individuals born during the two decades following the end of World War II, a period characterized by a dramatically increased birth rate termed the “baby boom”, are reaching their golden years and beginning to retire from the Canadian work force. Baby boomers constitute the largest proportion of the Canadian population. In 2011, Statistics Canada reported that approximately 9.6 million Canadians were baby boomers, representing nearly 30% of Canada’s total population (Statistics Canada, 2011). This rapid demographic shift from employees to retirees will have a number of deleterious effects on Canada’s economy and social welfare system. Chief among them is an increasing reliance on supportive care as the baby boomers face the deleterious effects of the aging process on their bodies and their minds. Additionally, as everyday tasks become more difficult for baby boomers due to age related health problems, even more individuals disappear from Canada’s workforce on either a part time or a full time basis to serve as caregivers for the elderly. Simultaneously, there is an observed lack of technological innovation by the current providers within the supportive housing industry. This has resulted in situations where individuals who might be able to maintain their independence if provided with access to the proper technology instead are being placed in increasing levels of supportive care where they are forced to rely on others to provide for their needs.
SHAFAs decision to enter the supportive housing market will help address the growing need for supportive housing facilities. SHAFAs universal home concept is an attempt to provide individuals in supportive housing with the technology they need in order to maintain their independence as long as possible. The belief underlying the universal home concept is simple: by designing a home with an individual’s specific needs in mind, it is possible for that individual to remain independent for a longer period. Reducing an individual’s reliance on caregivers, either formally through a provincial health care institution or informally through family members or friends, by providing a home constructed to allow that specific individual to maintain their levels of self-sufficiency will reduce that individual’s impact on the provincial health care system and ultimately benefit the Canadian taxpayer. Additionally, allowing individuals to maintain their independence makes the individual feel like less of a burden to their caregivers. This ultimately improves their outlook on life and provides value to the individual.

In summary, as Canadians age the demand for supportive housing services will rapidly increase. The universal home concept as envisioned by SHAFAs will allow individuals living in supportive housing to achieve increased independence, reduced reliance on publicly funded services, and an increased quality of life. By providing the technology and expertise necessary to deliver these benefits, SHAFAs hopes to become an integral provider of the products and services necessary to meet the additional demand for supportive housing services and a key player in this growing industry.
2. Supportive Housing in Canada

2.1. Market Segment Analysis

There are three market segments in the Canadian supportive housing industry, separated by the functional abilities of the residents: Independent Living, Assisted Living and Long Term Care (Baybridge Seniors Housing, 2012). The residents of each subsequent segment require an increasing level of care. The profile of the average resident is similar: around 80% female, approximately 85 years old, requires assistance with around two activities of daily living, has children in the local community, and has foregone owning real estate for assistance or care, usually due to a life event (Baybridge Seniors Housing, 2012). While the primary distinguishing factor between the three segments is the level of care provided, each segment possesses other unique characteristics.

2.1.1. Independent Living Residences

Catering to residents between 65 and 75, Independent Living residences consist of individual apartments with communal dining areas and other common areas, and offer assistance with activities of daily living such as meal plans, housekeeping, laundry services, social activities and transportation (Baybridge Seniors Housing, 2012). The average resident is in residence between two to four years, paying between $2000 and $3500 a month of which between 40% and 50% is net profit (Baybridge Seniors Housing, 2012).
2.1.2. Assisted Living Residences

Also consisting of individual apartments with communal dining and activity areas, Assisted Living residences cater to residents between 75 and 85 (Baybridge Seniors Housing, 2012). Assisted Living residences offer medication management and assistance with daily personal hygiene activities in addition to the activities of daily living offered in Independent Living residences (Baybridge Seniors Housing, 2012). The average resident pays between $2500 and $6000 a month, of which between 30% and 40% is net profit (Baybridge Seniors Housing, 2012). In general, the average resident’s stay in an Assisted Living facility is between 18 and 36 months before they either pass away or progress to the next level of care (Baybridge Seniors Housing, 2012).

2.1.3. Long Term Care Residences

Long Term Care residences offer the highest levels of personal care. They are the equivalent of private hospitals, with private rooms and nursing staff on duty around the clock (Baybridge Seniors Housing, 2012). The average resident is over 85 and pays between $3000 and $7000 a month for this extensive level of care, of which between 15% and 25% is net profit to the facility (Baybridge Seniors Housing, 2012). While many supportive housing residents never require the levels of personal care they provide, Long Term Care residences are the ultimate destination for residents that progress through the entire continuum of care. As a result, the average resident is in residence between 6 and 24 months before passing away (Baybridge Seniors Housing, 2012).
2.1.4. Other Distinguishing Factors

Predictably, as the level of care provided increases along the supportive housing continuum other factors also increase, including regulation, stability of returns, and barriers to entry (Baybridge Seniors Housing, 2012). This increase in regulation is because supportive housing residents are generally one of the most vulnerable segments of the population and therefore governments have a responsibility to ensure that residents are indeed receiving adequate levels of care. The increase in the stability of returns is due to similar reasons as there are often government subsidies for patients in Assisted Living and Long Term Care in most provinces (Baybridge Seniors Housing, 2012). The increase in barriers to entry is mostly because provincial governments often control the supply of licensed beds for Assisted Living and Long Term Care facilities (Baybridge Seniors Housing, 2012). The difficulty managing the increased levels of support services necessary to provide an increased level of care is another factor that can contribute to an increased barrier to entry. Conversely, the elasticity of demand decreases as level of care increases (Baybridge Seniors Housing, 2012). This is because the increasing severity of medical conditions of residents in Assisted Living and Long Term Care facilities often precludes their ability to switch to a competitor (Baybridge Seniors Housing, 2012). On the other hand, operators of Independent Living residences need to remain cognizant of their customer experience and value proposition as their residents exhibit an increase in price sensitivity (Baybridge Seniors Housing, 2012). In summary, a prospective supportive housing resident’s ideal residence is one that provides the level of care and amenities they desire for the lowest price.
2.2. Demographic Factors Affecting the Industry

2.2.1. Canada’s Aging Population

As the graph below clearly shows, Canada’s population is aging rapidly. Canadians over age 65 represent the fastest growing segment of Canada’s population, increasing by 14.1% since 2006 (Statistics Canada, 2012). This is more than double Canada’s total growth rate of 5.9% (Statistics Canada, 2012). This increase represents approximately 610,000 individuals, placing Canada’s total population of seniors at 4,945,000 in 2011 (Statistics Canada, 2012). Current demographic trends indicate that seniors could constitute up to 25% of the population by 2036 and up to 28% by 2061, giving Canada a total population of up to 15 million seniors by 2061 (Statistics Canada, 2010).

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**Figure 1:** Percentage of Canadians over age 65 (Statistics Canada, 2007, 2012).
Not only will the total number of seniors grow rapidly, but seniors will also grow much older. The population of seniors aged 80 and older is projected to reach nearly 40% of the total senior population by 2061, an increase of almost 50% from the 28% of the total they represented in 2009 (Statistics Canada, 2010). This rapid and unprecedented increase in the number and age of seniors in Canada represents a serious issue for provincial health care providers. Data from the OECD indicates that between 2010 and 2025, the amount of Canada’s GDP spent on aging related health and long-term care will increase by 1.9% (OECD, 2010). This small percentage represents a huge increase in the actual dollar amount spent annually on healthcare, approximately $30.9 billion in total (Statistics Canada, Table 380-0017) or $905 per Canadian (Statistics Canada, Table 051-0001).

With “an estimated 70 per cent of people over the age of 65 [needing] some form of long-term care in their lives,” (Canadian Broadcasting Corporation, 2012) the simultaneous increase in the number and the age of seniors in Canada will rapidly increase the demand for supportive housing in Canada in the relatively near future. With the aging related health and long-term care costs projected to increase by $905 annually per Canadian within the same period, accommodating this influx of seniors will stretch provincial health care budgets to their limit. One likely result of the combination of these two factors will be an increased demand for privately operated supportive housing residences, as seniors with sufficient financial means requiring residential care will avoid the increasingly underfunded publicly subsidized supportive housing residences.
2.2.2. Canadians with Age Related Impairment

A 2010 study by Canada’s Chief Public Health Officer, Dr. David Butler-Jones, reported that in 2005 most Canadian seniors considered themselves to be generally in good health based on their ability to perform normal daily activities (Public Health Agency of Canada, 2010). Indeed, 71% of seniors aged 65 to 74 years and 50% of seniors aged 75 years and older reported having perfect functional health (Public Health Agency of Canada, 2010). However, the study also reported that approximately 25% of seniors experience some difficulty with mobility or sensory awareness that impaired their ability to perform tasks that required hearing, seeing, communicating, walking, climbing stairs, bending over, learning or other related activities (Public Health Agency of Canada, 2010). Impairment in these key areas can seriously affect an individual’s ability at performing activities of daily living such as personal care, household chores and meal preparation (Public Health Agency of Canada, 2010).

As the age of the average senior gradually increases a larger proportion of seniors will develop conditions that impair their mobility or sensory awareness and consequently impair their ability to perform activities of daily life. Seniors who require assistance performing activities of daily life either rely on their families or friends to provide assistance or, in situations where families or friends are either unable or unwilling to provide assistance, enter a supportive housing residence. As a result of the combination of these two factors demand for supportive housing residences will rapidly increase in the near future as more seniors become unable to perform activities of daily life due to age related impairment.
2.2.3. Accidents due to Falls

Carrying out activities of daily life with compromised mobility or sensory awareness increases the possibility of sustaining an accident in the home, including the most common cause of injury among seniors in Canada: a fall. Falls are very dangerous for seniors and occur most frequently in the home (Public Health Agency of Canada, 2010). One third of all seniors are likely to experience a fall in a given year with seniors living alone or confined to their home at the greatest risk for experiencing a fall (Public Health Agency of Canada, 2010). It is believed that this increased risk is due to seniors without sufficient social support networks possibly being “more likely to undertake higher-risk activities that can increase their risk of falls” due to not wanting to bother or become a burden to their caregivers (Public Health Agency of Canada, 2010, p. 27). Women are more likely to injure themselves in a fall with 68% of all falls that caused injury in 2002 happening to women (Public Health Agency of Canada, 2010). Of the falls among seniors that resulted in hospitalization in 2008, 51% occurred at home and the average length of stay in the hospital was 15 days, “a period 70% longer than the length of stay for any other cause of hospitalization for seniors” (Public Health Agency of Canada, 2010, p. 27).

Falling can have serious consequences for seniors. In 2009, 52% of all accidental deaths in seniors were the result of a fall (Statistics Canada, Table 102-0540). Even sustaining an injury in a fall can often decrease an individual’s quality of life or life expectancy. Falls resulting in a hip fracture make up 38% of all falls requiring hospitalization for seniors, representing the major source of the injury with the most serious health outcomes for seniors (Public Health Agency of Canada, 2010, p. 27).
Canada, 2010). Approximately 95% of all hip fractures in seniors are a direct result of a fall with the sad result being that “among seniors who sustain a broken hip resulting from a fall, 20% die within a year of their fracture due to post-operative complications and/or pre-existing conditions such as cardiovascular or neurological diseases” (Public Health Agency of Canada, 2010, p. 27). Even if the senior recovers from the fall they can suffer from the psychological effects of post-fall syndrome, leaving them with an increased dependence on others for daily activities “as well as a loss of autonomy, confusion, immobilization, fear of falling and depression” (Public Health Agency of Canada, 2010, p. 27).

Experiencing a fall is possibly one of the worst accidents that can happen to a senior in terms of negative health outcomes. The fact that falling is the major source of accidental death in seniors is a frightening one, especially when combined with the statistic that one third of all seniors experience a fall in a given year. As seniors age, their chance of developing an age related impairment to their mobility or sensory awareness increases, putting them at an increased risk for a fall while performing activities of daily life. Even if a senior experiences a fall and survives, they often sustain injuries or psychological effects that leave them with an increased dependence on others for assistance performing activities of daily life. Seniors who depend on others for assistance performing activities of daily life are often unable to obtain sufficient assistance from their family or friends and must enter a supportive housing residence. Falls and other accidents that leave seniors dependant on others for assistance performing activities of daily life increase the demand for supportive housing in this manner.
3. Understanding the Supportive Housing Industry

In order to determine SHAFA’s optimal strategy for entry into the supportive housing industry an industry analysis from the perspective of a new entrant was required. It was decided to base this analysis on Porter’s Five Forces of Competition Framework as it allows analysis of the interplay of forces that “defines an industry’s structure and shapes the nature of competitive interaction within an industry” (Porter, 2008, p. 79).

![Figure 2: Summary of competitive forces in the supportive housing industry (Porter, 2008; adapted by author).]
3.1. Competitive Forces Influencing New Entrants

There are two major competitive forces influencing the threat of new entrants in an industry: “the height of entry barriers that are present and... the reaction entrants can expect from incumbents” (Porter, 2008, p. 81). This section examines the factors acting as barriers to entry in the supportive housing industry, the expected retaliation new entrants elicit from incumbents, and how these two forces interact to shape SHAFA’s strategy.

3.1.1. Sources of Barriers to Entry

Porter identifies seven major sources of entry barriers that can make an industry unattractive to new entrants: supply-side economies of scale, demand-side benefits of scale, customer switching costs, capital requirements, incumbency advantages independent of size, unequal access to distribution channels, and restrictive government policy (Porter, 2008). This section examines each potential barrier in turn in order to evaluate its potential effects on SHAFA’s entry into the supportive housing industry.

Supply-side economies of scale occur “when firms that produce at larger volumes enjoy lower costs per unit because they can spread fixed costs over more units, employ more efficient technology, or command better terms from suppliers” (Porter, 2008, p. 81). Supply-side economies of scale act as a barrier to entry by “forcing the aspiring entrant either to come into the industry on a large scale, which requires dislodging entrenched competitors, or to accept a cost disadvantage” (Porter, 2008, p. 81). With no individual competitor controlling more than 6% of the market (Chartwell Retirement Residences, 2013a) and the
top ten suppliers controlling only 25% of the market (Baybridge Seniors Housing, 2012), the fragmented nature of the supportive housing industry means that even the largest firms are unable to achieve a sufficient supply-side economy of scale to be insurmountable to a new entrant. As a result, the chance of supply-side economies of scale presenting a barrier to entry for SHAFA is also low.

The second factor acting as a barrier to entry, demand-side benefits of scale, occurs when “a buyer’s willingness to pay for a company’s product increases with the number of other buyers who also patronize the company” (Porter, 2008, p. 81). Demand-side benefits of scale act as a barrier to entry by “limiting the willingness of customers to buy from a newcomer and by reducing the price the newcomer can command until it builds up a large base of customers” (Porter, 2008, p. 81). Two factors conspire to mitigate the effects of demand-side benefits of scale as a barrier to entry in the supportive housing industry: a lack of brand recognition among the major suppliers and the fact that newer residences are more desirable to customers and can often obtain a price premium over residences already on the market. The lack of brand recognition among the major suppliers becomes apparent when considering the fact that of the 187 supportive housing residences operated by Chartwell Retirement Residences only 79 (approximately 42%) are operated under the Chartwell brand (Chartwell Retirement Residences, 2013b). This lack of brand recognition means that customers are often unaware of who the operator of a particular residence truly is, indicating that customers are practically unaffected by any network effects that contribute to the creation of demand-side benefits of scale. Customer
preference for newer residences also increases the willingness of customers to purchase from a new entrant and allows new entrants to charge a premium over the existing competition. Both of these factors mitigate the influence of demand-side benefits of scale, indicating that the chance of demand-side benefits of scale becoming a significant barrier to entry for SHAFA is also low.

The third factor acting as a barrier to entry is customer switching costs, or the “fixed costs that buyers face when they change suppliers” (Porter, 2008, p. 81). Customer switching costs act as a barrier to entry by preventing customers from adopting new entrants as suppliers by requiring customers to make some form of initial investment in order to be able to utilize the replacement product or service. In the supportive housing industry customer switching costs are extremely high, as there are emotional and physical factors beyond the usual economic factors a customer must consider when switching from one supportive housing provider to another. This emotional and physical component of the switching cost is because, in addition to the disruption of the moving process in a resident’s life, it may take time for a resident to acclimatize to a new setting and their physical constitution might prevent them from switching at all. In general, the switching costs in the supportive housing industry are so high that residents usually remain with the same provider throughout the entire duration they remain in supportive housing. As a result, supportive housing providers are almost entirely reliant on attracting new residents instead of trying to compete with existing providers for their customers. The high customer switching costs in the supportive housing industry have also forced customers to be extremely selective
in choosing supportive housing providers, with newer, more modern facilities being in higher demand. Consequently, while customer switching costs in the supportive housing industry are high they do not act as an effective barrier to entry as new entrants rely heavily on attracting new customers, who prefer new entrants due to their newer facilities. As a result, the chance of high customer switching costs acting as a barrier to entry for SHAFA is also low.

Capital requirements, or the necessity to “invest large financial resources in order to compete” (Porter, 2008, p. 81) are the fourth factor acting as a barrier to entry. Large capital requirements act as barriers to entry by preventing new entrants from obtaining the facilities, inventory, or credit they need to operate and by limiting the ability of new entrants to absorb any unexpected losses they may incur as a result of competition in the new market. Capital requirements in the supportive housing industry are often comparatively large as it is often necessary for new entrants to construct a new supportive housing facility and it may take some time for new entrants to achieve the occupancy levels required to become profitable. However, “It is important not to overstate the degree to which capital requirements alone deter entry. If industry returns are attractive and are expected to remain so, and if capital markets are efficient, investors will provide entrants with the funds they need” (Porter, 2008, p. 81). With supportive housing facilities able to operate at up to 50% net profit (Baybridge Seniors Housing, 2012) and borrowing rates near historical lows, supportive housing facilities can be attractive opportunities for investors, especially considering the growth in the senior population. Consequently, while the initial capital requirement to enter the
supportive housing industry may be high it is not insurmountable. As a result, there is a moderate chance of the capital requirements of building a supportive housing residence acting as a barrier to entry for SHAFA.

Incumbency advantages independent of size are the fifth factor acting as a barrier to entry, occurring when incumbents “have cost or quality advantages not available to potential rivals” (Porter, 2008, p. 81). Incumbency advantages independent of size act as a barrier to entry by allowing incumbents to monopolize a potential source of competitive advantage, thereby placing new entrants at a competitive disadvantage. Within the supportive housing industry the primary source of incumbency advantages independent of size is the experience incumbents have in operating supportive housing facilities efficiently, as other more effective sources of incumbency advantages independent of size such as proprietary access to a resource or technology are not applicable to the industry. As this experience can eventually be attained by any new entrant to the supportive housing industry the chance of incumbency advantages independent of size acting as an effective barrier to entry to SHAFA is considered low.

The sixth force acting as a barrier to entry is unequal access to distribution channels, as “the more limited the wholesale or retail channels are and the more that existing competitors have tied them up, the tougher entry into an industry will be. Sometimes access to distribution is so high a barrier that new entrants must bypass distribution channels altogether or create their own” (Porter, 2008, p. 82). This is certainly the case in the supportive housing industry, where each competitor acts as its own distribution channel, marketing and selling units in its
own residences. While this may be a high barrier to entry in other industries, it is simply standard operating procedure in the supportive housing industry. As such, the chance of unequal access to distribution channels acting as an effective barrier to entry to SHAFA is low.

The seventh and final factor that contributes to increasing the barrier to entry is restrictive government policy, which “can hinder or aid new entry directly, as well as amplify (or nullify) the other entry barriers” (Porter, 2008, p. 82). Restrictive government policy acts as a barrier to entry by enacting licensing requirements, restricting foreign investment, or by increasing “other entry barriers through such means as expansive patenting rules... or environmental or safety regulations that raise scale economies facing newcomers” (Porter, 2008, p. 82). As previously mentioned, the supportive housing industry is heavily regulated by government policy, as seniors and other individuals with disabilities represent one of the most vulnerable segments of the population. However, the level of government regulation affecting a segment of the supportive housing industry is determined by the level of care provided by that segment. As a result, Independent Living residences have minimal regulation and Long Term Care residences must comply with extensive regulation. As SHAFA aims to utilize modern technology to enable seniors to remain independent for as long as possible it would fall somewhere between Independent Living and Assisted Living and therefore would be subject to minimal to average levels of government regulation. As a result, the chance of restrictive government policy acting as an effective barrier to entry for SHAFA is also low to moderate.
3.1.2. The Threat of Retaliation

The expected retaliation from incumbents is the second competitive force businesses must consider when deciding to enter a new industry, as “how potential entrants believe incumbents may react will also influence their decision to enter or stay out of an industry. If reaction is vigorous and protracted enough, the profit potential of participating in the industry can fall below the cost of capital” (Porter, 2008, p. 82). Porter identifies four factors new entrants can use to determine the extent of expected retaliation form incumbents (Porter, 2008). If incumbents have previously responded vigorously to new entrants, possess substantial resources to retaliate, seem likely to cut prices to retain market share, or if industry growth is slow so newcomers can gain volume only by taking it from incumbents, then new entrants should be more likely to fear the expected retaliation from incumbents (Porter, 2008).

Within the supportive housing industry, the threat of expected retaliation is so low as to be almost nonexistent. Incumbents do not respond vigorously to new entrants as evidenced by the extremely fragmented nature of the industry. If incumbents did respond vigorously to new entrants, there would not be nearly as many competitors in the industry as there are currently. As such, there is a low chance of SHAFA experiencing retaliation from incumbents.

One reason for this lack of response is due to a lack of sufficient resources to retaliate. While some of the larger incumbents in the supportive housing industry may possess sufficient “excess cash and unused borrowing power” (Porter, 2008, p. 82) to retaliate, many of the smaller incumbents do not and retaliation would place them at a competitive disadvantage. Additionally, the
typical methods of utilizing available resources to retaliate such as excess “available productive capacity, or clout with distribution channels and customers” (Porter, 2008, p. 82), are not available to the supportive housing industry. Increasing productive capacity is constrained by the significant amount of capital and resources required to construct a new supportive housing residence, supportive housing companies usually act as their own distribution channels, and companies do not have significant influence with customers as shown by the low brand recognition across the industry.

Another reason for the lack of response is due to an unwillingness to cut prices by incumbents. The reasons for this unwillingness are twofold. Incumbents in the supportive housing industry are already at a price disadvantage compared to new entrants due to customer willingness to pay a premium for new facilities. Additionally, the high switching costs in the supportive housing industry, including the potential mental and physical components, make customers extremely unwilling to change providers. As a result, incumbents have no incentive to cut their prices as they are already at a price disadvantage compared to new entrants and are unlikely to lose customers to new entrants due to the high switching costs inherent in the supportive housing industry.

Perhaps the most important factor resulting in the incumbents’ unwillingness to retaliate is the growth rate of the industry. Currently the proportion of seniors in Canada’s population is growing so rapidly that vacancy rates across the supportive housing industry are hovering at around 10% despite significant increases in supply (Canada Mortgage and Housing Corporation,
As Canada’s senior population ages and they become more dependent due to age related infirmities the demand for supportive housing will only increase. Incumbents in the supportive housing industry recognize this impending demographic shift and recognize that there is little incentive for them to compete when demand for their services remains essentially unaffected by the presence of new entrants in the industry.

3.1.3. Analysis from an Entrant’s Perspective

Overall, the two major competitive forces threatening new entrants in an industry, “the height of entry barriers that are present and ... the reaction entrants can expect from incumbents” (Porter, 2008, p. 81), are low in the supportive housing industry. Of the seven factors contributing to barriers to entry, only two, capital requirements and restrictive government policy, are a credible threat to SHAFA. The inability of incumbents in the supportive housing industry to establish both supply-side economies of scale and demand-side benefits of scale is a particular advantage for new entrants in the supportive housing industry, as these are the primary methods incumbents can utilize to exclude new entrants in industries without incumbency advantages independent of size. The overall low barriers to entry combined with the relative lack of a threat of retaliation makes the supportive housing industry attractive to new entrants such as SHAFA. As a result, a thoroughly planned and sufficiently funded new entrant should have little difficulty entering the supportive housing industry. Provided SHAFA remains aware of its capital requirements and follows government policy it should have little difficulty entering the industry.
3.2. The Bargaining Power of Suppliers

The bargaining power of suppliers is another competitive force affecting profitability in an industry as “powerful suppliers capture more of the value for themselves by charging higher prices, limiting quality or services, or shifting costs to industry participants” (Porter, 2008, p. 82). Porter identifies six factors influencing the bargaining power of suppliers: the concentration of suppliers relative to the industry, the dependence of suppliers on the industry for revenue, high switching costs in changing suppliers, differentiation of supplier products, the existence of substitute suppliers, and the threat of suppliers integrating forward into the industry (Porter, 2008). Due to the significant capital investment required to construct a supportive housing residence, the primary supplier acting as a gatekeeper to the supportive housing industry is the construction industry. As the vast majority of SHAFA’s start up costs will go to the construction of a supportive housing residence the power of suppliers in the construction industry will be the primary focus of this section.

3.2.1. The Bargaining Power of the Construction Industry

The first factor influencing the bargaining power of suppliers is the concentration of suppliers relative to the industry (Porter, 2008). If a supplier has a near monopoly in supplying an industry whose customers can freely switch between providers it can increase its prices in order to “squeeze profitability out of an industry that is unable to pass on cost increases in its own prices” (Porter, 2008, p. 82). Luckily for SHAFA, this is not the case for construction suppliers to the supportive housing industry due to two reasons. The primary reason
The construction suppliers do not have this type of influence on the supportive housing industry because, despite the significant fragmentation within the supportive housing industry, there is also significant fragmentation in the construction industry and supportive housing providers often have a number of construction suppliers to choose from when building their residences. Additionally, the customers of the supportive housing industry often have extremely high switching costs and as a result, the supportive housing industry can often pass cost increases directly to its customers. The fragmentation of the construction industry and the ability of the supportive housing industry to pass its costs to its customers due to their high switching costs limit the ability of the construction industry to affect the profitability of the supportive housing industry.

The second factor influencing the bargaining power of suppliers is the dependence of suppliers on the industry for revenue (Porter, 2008). If a particular supplier is supplying a variety of industries, the supplier “will not hesitate to extract maximum profits from each one” (Porter, 2008, p. 82) as its success is not dependent solely on the success of any single customer. Unfortunately for SHAFA, this is the case for construction suppliers to the supportive housing industry, as companies in the construction industry supply many other industries besides the supportive housing industry. As a result, construction suppliers will charge SHAFA the highest amount they can that will not result in SHAFA choosing another supplier. This means that SHAFA must ensure that the construction supplier it chooses has a record of delivering the specified construction project on schedule and under budget.
The third competitive force influencing the bargaining power of suppliers is the switching costs of changing suppliers, as “when switching costs are high, industry participants find it hard to play suppliers off against one another” (Porter, 2008, p. 83). Fortunately for SHAFA the switching costs involved in changing construction suppliers, while not insignificant, are not sufficient to preclude the possibility of changing suppliers entirely as there is no specialized equipment or training necessary to use one supplier’s product instead of another’s. Additionally, while the construction of a new supportive housing residence is a significant investment from the supportive housing company it is a one-time investment and there is often no need to build an ongoing business relationship with the construction provider. These factors mitigate the bargaining power of construction suppliers to the supportive housing industry as if they set their prices too high SHAFA can simply choose a different supplier.

The fourth factor influencing the bargaining power of suppliers is the differentiation of supplier products, as suppliers offering differentiated products have more bargaining power over suppliers offering generic products (Porter, 2008). The construction suppliers to the supportive housing industry do not supply differentiated products as they produce buildings constructed according to the design specifications of the supportive housing company customer regardless of supplier. Therefore, the major factors that the supportive housing company must consider when choosing a supplier are the cost, quality, and duration of the construction project. The inability of construction suppliers to the supportive housing industry to differentiate their products other than by the three
The aforementioned factors further mitigates their bargaining power. This further reduces their ability to extract significant profits from supportive housing industry customers such as SHAFA.

The fifth factor influencing the bargaining power of suppliers is the existence of substitute suppliers, as the lack of a suitable alternative for the product or service that a supplier provides increases the supplier’s bargaining power (Porter, 2008). Hypothetically, if construction suppliers to the supportive housing industry set their prices sufficiently high their supportive housing industry customers could instead purchase a pre-existing building and renovate it to suit their needs. This remains an unattractive option as supportive housing companies would rather construct a new building due to the preference of their customers for newer facilities and will often pay a premium to do so. While renovating an existing building is not an ideal option for SHAFA it nevertheless sets an upper limit to the price it will be willing to pay a construction supplier, limiting the supplier’s bargaining power to some extent.

The final factor influencing the bargaining power of suppliers is the threat of suppliers integrating forward into the industry, as “if industry participants make too much money relative to suppliers, they will induce suppliers to enter the market” (Porter, 2008, p. 83). While it is potentially possible for construction suppliers to integrate forward into the supportive housing industry it remains unlikely that they will do so. The underlying reason behind the unwillingness to integrate is that providing structured care for the elderly and disabled requires significantly different competencies and skill sets from those useful in the
construction industry. As a result, while the supportive housing industry may operate at significantly higher profit margins than the construction industry, the significant lack of overlap between the skill sets required by each industry often precludes the potential for forward integration. The difficulty construction industry suppliers would experience if they pursue forward integration into the supportive housing industry further limits their bargaining power.

3.2.2. Analysis from an Entrant’s Perspective

As previously mentioned, since the vast majority of a supportive housing company’s start up costs will go to the construction of a supportive housing residence, the power of suppliers in the construction industry should be the primary concern of start-ups like SHAFA. Of the six factors affecting the bargaining power of suppliers, only one, the lack of dependence on the supportive housing industry for revenue, serves to increase the bargaining power of construction suppliers to the supportive housing industry, whereas the remaining five constrain their bargaining power in some way. As a result, businesses in the supportive housing industry can afford to be relatively price sensitive when it comes to selecting a construction supplier. The low bargaining power of construction suppliers is excellent from the perspective of a new entrant to the supportive housing industry such as SHAFA, as it allows the new entrant to deliver similar quality products and services as an incumbent while keeping costs minimal. It is for this reason that the bargaining power of construction suppliers to the supportive housing industry is unlikely to have a significant impact on SHAFA’s profitability.
3.3. The Bargaining Power of Buyers

There are two major forces influencing the bargaining power of buyers in an industry: their negotiating leverage relative to industry participants and their price sensitivity (Porter, 2008). This section examines how the interaction between the factors affecting the negotiating leverage of buyers from the supportive housing industry and the factors affecting their price sensitivity shapes SHAFA’s strategy.

3.3.1. Negotiating Leverage

Porter identifies four major sources of negotiating leverage for buyers: industry competition for buyers, a lack of differentiation with competitive products, a lack of buyer switching costs, and the threat of buyers integrating backward into the industry (Porter, 2008). This section examines each source of negotiating leverage in turn in order to determine the extent to which they affect the purchasing decisions of SHAFA’s potential customers.

The first source of negotiating leverage for buyers is due to industry competition for buyers (Porter, 2008). Industry competition for buyers can arise because of either a lack of buyers or a tendency by buyers to make large volume purchases (Porter, 2008). Both of these situations increase the competition for buyers between industry competitors and often lead to steep discounting (Porter, 2008). Fortunately for SHAFA, both of these situations are not prevalent among the buyers of supportive housing industry products due to two reasons. First, the buyers of supportive housing industry products are usually individuals buying units for their own use and as a result large volume purchases are exceedingly
rare. Second, due to the demographic factors discussed in section 2.2, there are an increasing number of buyers for the supportive housing industry’s products. Both of these factors contribute towards decreasing the negotiating leverage of buyers for the supportive housing industry’s products.

The second source of negotiating leverage for buyers is a lack of differentiation between competitor products, as “if buyers believe they can always find an equivalent product, they tend to play one vendor against another” (Porter, 2008, p. 83). Currently the lack of differentiation between products offered by competitors in the supportive housing industry is the major source of negotiating leverage for buyers of supportive housing industry products. While competitors within the supportive housing industry often attempt to differentiate themselves from their competitors through location or access to particular amenities, the underlying product or service remains relatively similar. This increases the negotiating leverage for buyers of supportive housing industry products, but also presents an opportunity for a business with a sufficiently differentiated product to attract willing buyers even if it charges a premium compared to its less differentiated competitors.

The third source of negotiating leverage for buyers is a lack of buyer switching costs, allowing buyers to change suppliers at will and increasing the willingness of suppliers to compete with each other in order to retain customers (Porter, 2008). As there is often a significant mental and physical component to the buyer switching costs in the supportive housing industry in addition to the usual financial considerations, the buyer switching costs in the supportive
The final source of negotiating leverage for buyers is the threat of buyers integrating backward into the industry (Porter, 2008). As the buyers of supportive housing industry products are primarily seniors interested in exchanging the responsibilities of owning real estate for assistance or care (Baybridge Seniors Housing, 2012), the threat of backwards integration into the industry is almost nonexistent as doing so would increase their responsibilities and stress during a time of their lives that they wish to be free of such concerns. The lack of a credible threat of buyers integrating backwards into the supportive housing industry significantly reduces their negotiating leverage.

### 3.3.2. Price Sensitivity

Porter also identifies four major factors affecting the price sensitivity of buyers (Porter, 2008). If the product represents a significant fraction of the buyer’s costs, the buyer is under pressure to reduce purchasing costs, the quality of the buyer’s products or services are unaffected by the purchased product, or the purchased product has little effect on the buyer’s other costs then the buyer
is likely to be more price sensitive (Porter, 2008). This section examines each factor affecting the price sensitivity of buyers in turn in order to determine the extent to which they affect the price sensitivity of SHAFA’s potential customers.

The first factor affecting the price sensitivity of buyers is whether the product represents a significant fraction of the buyer’s costs (Porter, 2008). If the product a buyer “purchases from the industry represents a significant fraction of its cost structure or procurement budget ... buyers are likely to shop around and bargain hard” (Porter, 2008, p. 84). As the buyers of supportive housing units are often retirees or other individuals on limited budgets, the purchase of a supportive housing unit likely represents a significant proportion of their budget and they are very price sensitive and therefore very likely to shop around and bargain hard. This factor will limit the amount SHAFA can charge for its units and therefore the extent to which SHAFA can profit off its customers.

The second factor affecting the price sensitivity of buyers is the amount of pressure the buyer is under to reduce purchasing costs, as buyers under pressure to reduce purchasing costs are more price sensitive (Porter, 2008). Again, as the buyers of supportive housing units are usually on limited budgets they are often under pressure to reduce their purchasing costs and likely to be very price sensitive. This also limits the amount SHAFA can charge for its units and therefore the extent to which SHAFA can profit off its customers. The combination of these two factors increasing price sensitivity is the main reason the capture rate for the industry hovers at around 10% of Canada’s senior population (Canada Mortgage and Housing Corporation, 2013b).
The third factor affecting the price sensitivity of buyers is whether the quality of the purchased product affects the quality of the buyer’s products or services (Porter, 2008). In situations where “quality is very much affected by the industry’s product, buyers are generally less price sensitive” (Porter, 2008, p. 84). As it is highly likely that the quality of the care received in the supportive housing unit determines the quality of the resident’s remaining lifespan, it is important for buyers to obtain the highest quality of care that they can afford. This desire to pay higher prices for an increased quality of care reduces the price sensitivity of buyers in the supportive housing industry. As a result, if SHAFA is able to find some method of differentiating itself from other competitors based on the quality of the care it provides, it is likely that SHAFA will be able to find willing buyers for its supportive housing units, even at increased prices relative to its competitors.

The final factor affecting the price sensitivity of buyers is the effect that the purchased product has on the buyer’s other costs (Porter, 2008). In situations “where an industry’s product or service can pay for itself many times over by improving performance or reducing labour, material, or other costs, buyers are usually more interested in quality than in price” (Porter, 2008, p. 84). As buyers of supportive housing units are specifically interested in reducing the labour and maintenance responsibilities inherent in property ownership, it is again important for them to obtain the highest quality of care they can afford. Again, if SHAFA is able to find some method of differentiating itself from other competitors based on quality it is likely that it will be able to find willing buyers even at increased prices relative to its competitors.
3.3.3. Analysis from an Entrant’s Perspective

Perhaps more than any other of Porter’s Five Forces of Competition it is the bargaining power of buyers that has the greatest effect on the profitability and sustainability of competitors in the supportive housing industry. Of the four factors affecting each of the two major forces influencing the bargaining power of buyers in an industry, i.e. their negotiating leverage relative to industry participants and their price sensitivity (Porter, 2008), two serve to increase buyer bargaining power and two serve to moderate it. In order for an entrant to maximize its profitability in the supportive housing industry, it is essential that it take advantage of the characteristics that moderate the bargaining power of buyers while simultaneously minimizing the characteristics that increase buyer bargaining power.

One method by which a new entrant, such as SHAFA, can accomplish this is through providing a differentiated product. Providing a differentiated product to the supportive housing industry would allow a new entrant to reduce buyer negotiating leverage by enticing new buyers away from less differentiated competitors. At the same time, providing a quality differentiated product lowers buyer price sensitivity by increasing the quality of the buyer’s services and reducing the buyer’s other costs. As the buyers of supportive housing industry products are already extremely price sensitive due to their lack of income and limited budgets, it is extremely important to provide an enhanced value proposition to attract new buyers. After the initial purchasing decision, however, the high switching costs often lock the buyer into staying with their original supplier, making the initial decision to choose SHAFA a critical one.
3.4.   The Threat of Substitute Products or Services

According to Porter, “a substitute performs the same or a similar function as an industry’s product by a different means” (Porter, 2008, p. 84). In situations where “the threat of substitutes is high, industry profitability suffers. Substitute products or services limit an industry’s profit potential by placing a ceiling on prices. If an industry does not distance itself from substitutes through product performance, marketing, or other means, it will suffer in terms of profitability—and often growth potential” (Porter, 2008, p. 84). There are two substitutes for the supportive housing industry’s products: either renovating an existing house to meet the senior’s needs or for the senior to manage without any special assistance. The second option is the most popular, as the capture rate for the supportive housing industry hovers at around 10% of the total senior population across Canada (Canada Mortgage and Housing Corporation, 2013b). The low capture rate is because there are many seniors who never require the services that the supportive housing industry offers, and others who can get by with cheaply renovating their home to include one or two assistive devices and relying on assistance from friends or relatives. For some however, simply no available substitute provides the support and assistance they require except for the supportive housing industry.

3.4.1. Factors Affecting the Threat of Substitution

The reality that some seniors will never require supportive housing, while for others supportive housing is a necessity is a result of the “price-performance trade-off” (Porter, 2008, p. 84). Porter explains, “The threat of a substitute is high
if it offers an attractive price-performance trade-off to the industry’s product” (Porter, 2008, p. 84). Since, in essence, the cost of the substitute for the supportive housing industry’s product is more intangible than tangible, e.g. the responsibilities and physical demands of home ownership and maintenance, many seniors simply do not need the level of care provided by the supportive housing industry for any price. At the same time however, for those who are either unable or unwilling to pay the intangible price of home ownership the services of the supportive housing industry are available for a fee. As a result, for some the fees charged by the supportive housing industry are unquestionably too high, but for others there is simply no alternative. It is for this reason that the threat of substitution due to the price-performance trade-off is low.

The second factor contributing to the threat of substitution is the cost of switching to the substitute (Porter, 2008). According to Porter, “the threat of a substitute is high if ... the buyer’s cost of switching to the substitute is low” (Porter, 2008, p. 84-85). In the supportive housing industry’s case, the switching cost is essentially zero as there is no additional cost to a potential customer if the customer instead chooses to stay in his or her own home. In fact, there is often a switching cost associated with purchasing a supportive housing unit due to the expenses associated with moving and the sale of the original residence. Despite this, due to health and other issues there is often no other option for the individual except to move into a supportive housing residence. As a result, this lack of switching cost increases the threat of substitution, but is insufficient to prevent the purchase of supportive housing units altogether.
3.4.2. Analysis from an Entrant’s Perspective

The supportive housing industry is interesting in that the substitutes for its products and services are so effective that they preclude the purchase of supportive housing industry products almost entirely until a certain price-performance threshold is reached, above which it becomes extremely difficult, if not impossible, to continue utilizing the substitutes. The result of the extreme effectiveness of substitutes for the supportive housing industry’s products is the low capture rate of the supportive housing industry, which hovers at around 10% of the total senior population across Canada (Canada Mortgage and Housing Corporation, 2013b). The low capture rate combined with the high switching costs after the initial purchase explain why it is so important for new entrants in the supportive housing industry to attract new customers, as they are competing with existing competitors for an extremely small subsection of the population and it is extremely difficult to attract customers away from existing competitors.

While the existing competitors in the supportive housing industry only need to worry about attracting enough new customers to replace any vacancies they have in their residences, new entrants need to attract as many new customers as possible in order to fill their residences to the point where they become profitable as quickly as possible. Despite the fact that new customers for supportive housing will soon be appearing at an unprecedented rate due to the senescence of the baby boomers, new entrants must still find ways to entice new customers away from choosing established competitors. Again, if SHAFA is able to find some method of differentiating its products it is likely that it will be able to find willing buyers even at increased prices relative to its competitors.
3.5. Rivalry among Existing Competitors

Rivalry among existing competitors is the final force affecting profitability in an industry, and can take “many familiar forms, including price discounting, new product introductions, advertising campaigns, and service improvements” (Porter, 2008, p. 85). According to Porter, “The degree to which rivalry drives down an industry’s profit potential depends, first, on the intensity with which companies compete and, second, on the basis on which they compete” (Porter, 2008, p. 85). This section examines the factors affecting the intensity of the rivalry as well as the basis of competition within the supportive housing industry. Understanding these factors and their effects on competition in the supportive housing industry will be a key factor in determining SHAFA’s strategy.

3.5.1. Competitive Landscape and Competitors

In order to understand the nature of competition within the supportive housing industry, we must first understand the competitive landscape and competitors. Currently, the supportive housing market in Canada is highly fragmented with no single entity controlling more than 6.0% of the market (Chartwell Retirement Residences, 2013a). Despite some recent consolidation (Marketwire, 2012), the top ten suppliers only control just over 25% of the market (Baybridge Seniors Housing, 2012). In recent years, there has been a significant decrease in the construction of supportive housing residences from the maximum of 65,879 new units in 1999 to a minimum of 4,838 in 2009 although numbers have started to rebound slightly (Baybridge Seniors Housing, 2012). This trend has resulted in a significant barrier to entry so that successfully capitalized and
developed projects will have a significant advantage over the competition already in place (Baybridge Seniors Housing, 2012). The fragmented nature of the market combined with strong demand across the industry and high profit margins indicates that there are opportunities for start ups like SHAFA to succeed in the supportive housing industry.

As of December 31, 2012, the three largest providers of supportive housing in Canada are Chartwell, Revera, and Extendicare (Chartwell Retirement Residences, 2013a). Together these three companies control approximately 13.5% of the roughly 422,000 supportive housing suites in Canada (Chartwell Retirement Residences, 2013a). An analysis of these three companies will provide SHAFA with a rough overview of the competitive landscape within the highly fragmented Canadian supportive housing market.

3.5.2. Chartwell

Formed in 2003 following the merger of Chartwell Care Corporation, Alert Care Corporation, JBG Management Inc. and CEBY Management Limited, Chartwell is a Canadian real estate investment trust that owns and manages a number of supportive housing residences across North America (Chartwell Retirement Residences, 2003). In the 10 years since raising $210 million from their IPO in 2003, Chartwell has grown into the largest provider of supportive housing in Canada (Chartwell Retirement Residences, 2013a).

Chartwell is an open-ended real estate investment trust (REIT) established under the laws of the Province of Ontario. The REIT indirectly holds a portfolio of supportive housing facilities across the complete spectrum of care
from independent living facilities, through assisted living facilities to long-term care facilities. As of December 31, 2012 Chartwell’s portfolio of owned and/or managed supportive housing facilities consists of interests in 32,460 suites in 236 facilities operating in the Provinces of Ontario, Alberta, British Columbia and Quebec (Chartwell Retirement Residences, 2013a). Chartwell primarily operates independent living suites, which represent 61% of Chartwell’s total suites (Chartwell Retirement Residences, 2013a). With 74% of its suites located in Canada, Chartwell operates primarily in Canada although it is concentrated in Ontario and Quebec with 65% of its suites located in those two provinces (Chartwell Retirement Residences, 2013a). In addition to managing its own properties, Chartwell provides management and advisory services to third party owners of supportive housing facilities.

3.5.3. Revera

Formed from Retirement Residences REIT after its purchase for approximately $780 million by the Public Sector Pension Investment Board in February, 2007 (Retirement Residences Real Estate Investment Trust, 2007), Revera can trace its roots back to its original inception as the Central Park Lodge in Winnipeg Manitoba in 1961 (Revera, 2012). It expanded across Canada under the Central Park Lodges brand, eventually expanding into the United States in 1988 (Revera, 2012). Eventually, after Retirement Residences REIT’s $200 million IPO in 2001, Retirement Residences REIT bought Central Park Lodges (Retirement Residences Real Estate Investment Trust, 2001).
Currently, Revera is a private company, wholly owned by the Public Sector Pension Investment Board (Retirement Residences Real Estate Investment Trust, 2007). Due to a combination of the Public Sector Pension Investment Board’s status as a private company and the diversified real estate investment portfolio it controls, Revera’s financials are difficult to distinguish from other holdings. As a result, concrete financial and operational information about Revera is hard to come by. However, at the end of 2012 Revera operated 173 supportive housing and long-term care homes, which Chartwell estimates contain approximately 19,900 suites, giving them control of approximately 4.7% of the Canadian market (Chartwell Retirement Residences, 2013a). With nearly 5% of the Canadian supportive housing market under its control, Revera is nearly twice the size of the next largest competitor and firmly ensconced as the second largest company in the industry.

3.5.4. Extendicare

Extendicare’s history is a convoluted one. Founded as Pendexcare Ltd. in 1968 before changing its name to Extendicare (Canada) Ltd. later in the year, Extendicare originally operated a number of long term care residences in Ontario (Extendicare Inc., 2013b). Between 1974 and 1976 Extendicare (Canada) Ltd. dropped the (Canada) from its name and expanded into the United States by acquiring “Medco Centers, Inc., a nursing home operator with 25 locations in Indiana and Kentucky” (Extendicare Inc., 2013b). In 1980, Extendicare acquired interest in Crown Life Insurance Company and changed its name to Crownx Inc. in 1983 (Extendicare Inc., 2013b). Crownx Inc. changed its name back to
Extendicare Inc. in 1994 and expanded into the assisted living market in the United States (Extendicare Inc., 2013b). In 1998, Extendicare sold its interest in Crown Life Insurance Company in order to focus on expanding its long-term care business (Extendicare Inc., 2013b). In 2006 Extendicare converted to Extendicare Real Estate Investments Trust, a Canadian real estate investment trust, before converting back to a corporation in 2012 (Extendicare Inc., 2013b).

As of the end of 2012, Extendicare owns and operates 87 supportive housing and long-term care facilities in Alberta, Saskatchewan, Manitoba and Ontario (Extendicare Inc., 2013a). Together these facilities provide 11,347 suites giving Extendicare control of approximately 2.7% of the Canadian supportive housing market (Chartwell Retirement Residences, 2013a). In Canada, Extendicare primarily focuses on the long-term care market, with assisted and independent living suites representing less than 5% of Extendicare’s Canadian operations (Extendicare Inc., 2013a). Due to Extendicare’s focus on the long-term care market and SHAFA’s focus on operating primarily within the Independent to Assisted Living market, competition from Extendicare is unlikely.

**3.5.5. The Intensity of Competition**

There are five major factors that can increase the intensity of rivalry within an industry: numerous similar competitors, slow industry growth, high exit barriers, committed and ambitious rivals, and a lack of effective signalling between rivals (Porter, 2008). This section examines each factor in turn in order to determine the extent to which it increases the rivalry within the supportive housing industry.
The first factor increasing the intensity of rivalry within an industry is if, “competitors are numerous or are roughly equal in size and power” as “in such situations, rivals find it hard to avoid poaching business” and that “without an industry leader, practices desirable for the industry as a whole go unenforced” (Porter, 2008, p. 85). Given the fragmented nature of the supportive housing industry, where the majority of competitors only operate a single supportive housing residence, one would expect rivalry to be especially intense. This is not exactly the observed outcome, as the high switching costs allow competitors to maintain their market share while the unprecedented increase in the senior population due to the senescence of the baby boomers ensures that there will be no shortage of demand for supportive housing industry products and services in the near future. As a result, the existence of numerous similar competitors contributes at most a moderate increase to the intensity of rivalry in the industry.

The second factor increasing the intensity of rivalry within an industry is slow industry growth, as “slow growth precipitates fights for market share” (Porter, 2008, p. 85). This is definitely not the case in the supportive housing industry. The main customers of the supportive housing industry are seniors, which, thanks to the massive demographic shift brought about by baby boomers reaching retirement age, are experiencing an unprecedented increase in number. This unprecedented increase in the senior population has the effect of creating unprecedented demand for supportive housing industry products and services. As a result, the growth rate of the supportive housing industry drastically reduces industry rivalry.
The third factor increasing the intensity of rivalry within an industry is high exit barriers, which “arise because of such things as highly specialized assets or management’s devotion to a particular business” and “keep companies in the market even though they may be earning low or negative returns” (Porter, 2008, p. 85). In some respects, the exit barriers in the supportive housing industry are low as it is relatively easy to convert a supportive housing residence into simply a housing residence. However, supportive housing units are often able to command premium rental rates compared to ordinary residential housing units. If a developer has budgeted based on being able to obtain the premium rental rates for supportive housing units any inability to achieve that rate could prove detrimental to their bottom line. As a result, exit barriers only contribute a low to moderate increase to the intensity of rivalry in the supportive housing industry.

The fourth factor increasing the intensity of rivalry within an industry is if “rivals are highly committed to the business and have aspirations for leadership, especially if they have goals that go beyond economic performance in the particular industry” (Porter, 2008, p. 85). Again, given the fragmented nature of the supportive housing industry where the majority of competitors only operate a single supportive housing residence, it is unlikely that any of these smaller competitors have much aspiration for leadership and remain committed to the industry simply due to the premium rental rates they can obtain compared to providing residential housing units. The relative lack of commitment and ambition in the majority of competitors in the supportive housing industry has a corresponding lack of effect on increasing the intensity of the rivalry within the
industry. A committed, ambitious, entrant could potentially make significant headway in the industry by outcompeting its less ambitious rivals.

The final factor increasing the intensity of rivalry within an industry is if, “firms cannot read each other’s signals well because of lack of familiarity with one another, diverse approaches to competing, or differing goals” (Porter, 2008, p. 85). In the supportive housing industry, companies are generally familiar with their competitors within a local geographic area and usually have similar approaches to competition. Where companies can differ is in their goals. It is often difficult for a company to discern the goals of another company without developing a close business relationship. As most companies in the supportive housing industry do not work closely with their competitors, it is likely that a lack of communication about each company’s goals can potentially increase the intensity of the rivalry within the industry. Currently however, the high demand for the supportive housing industry’s products and services overwhelms any increase in intensity of rivalry within the industry brought on by a lack of signalling. As a result, a lack of effective signalling can only contribute a low to moderate increase to the intensity of rivalry in the supportive housing industry.

3.5.6. The Basis of Competition

There are two types of competition that can affect the intensity of rivalry within an industry: price competition and nonprice competition (Porter, 2008). According to Porter, “Rivalry is especially destructive to profitability if it gravitates solely to price because price competition transfers profits directly from an industry to its customers. Price cuts are usually easy for competitors to see and
match, making successive rounds of retaliation likely” (Porter, 2008, p. 85). Porter identifies four industry characteristics that contribute to the intensity of price competition (Porter, 2008). If an industry possesses high fixed costs, low marginal costs, and the necessity to expand capacity in large volumes to be efficient, while offering perishable products or similar products with low switching costs, it is highly likely to experience price competition (Porter, 2008).

An industry with high fixed costs and low marginal costs is likely to experience price competition because this cost structure “creates intense pressure for competitors to cut prices below their average costs, even close to their marginal costs, to steal incremental customers while still making some contribution to fixed costs” (Porter, 2008, p. 85). While it is true that the supportive housing industry possesses high fixed costs and low marginal costs, it is only true up to the point where the supportive housing residence reaches capacity, as above this point the marginal cost of building an additional residence becomes prohibitive. As a result, the majority of supportive housing companies are only concerned with reaching their maximum occupancy as quickly as possible and then maintaining it. It is therefore in their best interests to avoid price competition as doing so would severely limit their profitability at their maximum capacity.

An industry with the necessity to expand capacity in large volumes to be efficient will likely experience price competition, as this requirement “disrupts the industry’s supply-demand balance and often leads to long and recurring periods of overcapacity and price cutting” (Porter, 2008, p. 85). It is debatable whether
the supportive housing industry exhibits this characteristic. While expanding capacity by building another supportive housing residence would approximately double the capacity of the majority of supportive housing companies, it would have a negligible effect on the industry as a whole. Additionally, the upcoming demographic shift brought about by the senescence of the baby boomers, has already shifted the supportive housing industry’s supply-demand balance heavily towards the demand side. This lack of capacity and strong demand indicates that the industry is unlikely to experience price competition due to this characteristic.

The third characteristic contributing to the intensity of price competition is rivals offering similar products with low switching costs, as this combination of characteristics “encourages competitors to cut prices to win new customers” (Porter, 2008, p. 85). While supportive housing residences are in general relatively similar, they are somewhat successful at differentiating themselves based on cosmetic or service features. This limited differentiation combined with the aforementioned high switching costs after the initial purchase limit the intensity of price competition in the supportive housing industry. As a result, the chance of SHAFA experiencing price competition due to this characteristic is low.

The final characteristic as contributing to the intensity of price competition is manufacturing or supplying a perishable product, as “perishability creates a strong temptation to cut prices and sell a product while it still has value” (Porter, 2008, p. 85). Unlike their customers, supportive housing industry products are not particularly perishable. Although supportive housing residences do decline in value over time, with proper construction and maintenance the decline is
relatively gradual, and some residences have remained in continuous operation for more than a century (Criscione, 2013). As a result, there is not a great deal of incentive for supportive housing suppliers to cut prices. It is for this reason that the chance of SHAFA experiencing price competition due to this industry characteristic is low.

In addition to price competition, nonprice competition can also affect rivalry within an industry, although “competition on dimensions other than price ... is less likely to erode profitability because it improves customer value and can support higher prices” (Porter, 2008, p. 86). Nonprice competition can “actually increase the average profitability of an industry, when each competitor aims to serve the needs of different customer segments, with different mixes of price, products, services, features, or brand identities” (Porter, 2008, p. 86).

Competition in the supportive housing industry is mainly nonprice based. While there is a wide range of price points for individual supportive housing units, usually the ones at the lower end of the spectrum are either publicly subsidized or not-for-profit while the price of higher end units are based on the additional features and services being offered. While higher end units are able to command a considerable premium due to the additional amenities they offer there is not one single differentiating factor identifiable as the source of this price premium; rather it arises as a result of the combination of factors offered in a particular unit. Consequently, there exists an opportunity for a competitor with a significantly differentiated and desirable product to achieve a price premium even at the high end of the spectrum.
3.5.7. Analysis from an Entrant’s Perspective

Demographics are the dominant factor affecting rivalry among existing competitors in the supportive housing industry. As the baby boomers age and retire demand for supportive housing industry products and services will increase to unprecedented levels. As a result, the influence of industry growth rate will rapidly come to dwarf the combined influences of the remaining four factors described by Porter as affecting the intensity of rivalry among existing competitors, drastically reducing the rivalry within the industry. The relative lack of intense rivalry among existing competitors in the supportive housing industry due to this unprecedented industry growth rate indicates that now would be an ideal opportunity for a new entrant to enter the industry.

Another characteristic that would make the supportive housing industry attractive to a new entrant is the low incidence of price-based competition, which is “especially destructive to profitability” (Porter, 2008, p. 85). Due to the current characteristics of the supportive housing industry, the four main factors contributing to the incidence of price-based competition have minimal effect. As a result, the majority of the competition in the supportive housing industry is nonprice competition. The prevalence of nonprice competition in the supportive housing industry makes the industry especially attractive to new entrants, as nonprice competition is less likely to decrease profitability within an industry, leaving opportunities for new entrants with differentiated products to enter into the industry. Provided SHAFA can offer a sufficiently differentiated product, it should find plenty of opportunities in the supportive housing industry.
3.6. Summary

While all of the previously mentioned factors and forces have some effect on the competitors within the supportive housing industry, from the perspective of a new entrant the price sensitivity of buyers plays the greatest role in determining success or failure. Seniors, the main buyers of the supportive housing industry, often have limited income and are under pressure to reduce their purchasing costs. This, combined with the purchase of a supportive housing residence representing a significant proportion of that income, makes them very price sensitive. Considering that the alternatives to purchasing a supportive housing residence, maintaining homeownership or renovation, involve a comparatively minor expense on the senior’s part, it is no surprise that the capture rate of the supportive housing industry is only around 10% of the total senior population across Canada (Canada Mortgage and Housing Corporation, 2013b).

Despite current demographic trends expected to increase the demand for supportive housing industry products significantly, the low capture rate combined with the high switching costs after the initial purchase explain why new entrants in the supportive housing industry must attract new customers in order to succeed. In order to attract new customers from an extremely price sensitive population, new entrants in the supportive housing industry have to deliver an enticing value proposition. Considering the relative similarity of the supportive housing options currently available, the ideal method for a new entrant to achieve an enticing value proposition is through product differentiation. This is what SHAFA hopes to achieve with its universal home concept.
4. SHAFA and the Universal Home Concept

SHAFA believes that its innovative business model utilizing the universal home concept makes it an ideal candidate to address the challenges involved in entering and operating within the supportive housing industry. This chapter explains SHAFA’s universal home concept and the key success factors that will enable SHAFA to enter and compete within the supportive housing industry.

Figure 3: A bathroom in a universal home (SHAFA, 2012; personal communication).
4.1. The Universal Home Concept

The universal home concept developed by SHAFA is an innovative business model that alleviates the necessity for in home care for seniors and other individuals with mobility or sensory impairment. The belief underlying the universal home concept is simple: by designing a home with an individual’s specific needs in mind, it is possible for that individual to remain independent for a longer period. Reducing an individual’s reliance on caregivers, either formally through a provincial health care institution or informally through family members or friends, by providing a home constructed to allow that specific individual to maintain their levels of self-sufficiency will reduce that individual’s impact on the provincial health care system and ultimately benefit the Canadian taxpayer. Additionally, allowing individuals to maintain their independence for as long as possible makes the individual feel like less of a burden to their family or caregivers, ultimately improving the individual’s outlook on life.

In summary, the universal home concept as envisioned by SHAFA will confer the following benefits to individuals living with mobility or sensory impairment: increased independence, reduced reliance on publicly funded services, and an increased quality of life. Providing individuals with mobility or sensory impairment the environment and tools necessary to enable them to maintain their self-reliance and self-sufficiency is the driving vision of the SHAFA team and the ultimate goal of the universal home concept. SHAFA believes that the universal home concept will provide sufficient product differentiation to give SHAFA a competitive advantage in the supportive housing industry.
What exactly is a universal home? Simply put, a universal home is a home purposefully built in order to be as accommodating as possible to individuals of any age or ability initially, with the added ability to facilitate further customization as easily as possible depending on any additional needs the individual may develop over time. Based on an open concept floor plan created by an architect with experience designing condominiums for individuals with disabilities, SHAFA designed the universal home to be as appealing to individuals without mobility or sensory impairment as it is to individuals who live with these conditions. From this basic floor plan, SHAFA incorporated assistive devices and appliances from a number of off-the-shelf products designed to be as accommodating as possible to people with different disabilities. Finally, SHAFA installed a system of sensors and monitoring devices to identify problems and take intelligent actions in order to prevent them from escalating into emergencies.

The sensors and monitoring devices are a key component of a universal home, allowing it to be a truly “smart” home, enabling individuals living with disabilities to achieve a greater measure of independence and allowing their caregivers greater peace of mind in the knowledge that their loved one is safe. For example, if appliances such as the stove and refrigerator remain unused, the system understands that the individual might not have eaten during that period. Alternatively, if the individual enters a room and there is no further movement, the system understands that the individual may be in some sort of difficulty. In each case, the system would be intelligent enough to alert the appropriate responder, whether that is a family member, doctor, or emergency worker.
Will all of these additional features cause a universal home to be more expensive? The short answer is no. Through a thorough analysis, it becomes evident that the cost of building a universal home is approximately equal to or in some cases less than a regular home. This is largely due to two reasons:

1. The labour cost is almost identical, as the amount of work a contractor has to complete is similar for both homes.

2. Eliminating the costs of other materials that are not necessary for the universal home offsets the additional costs of the specialized appliances.

For example, SHAFA found a major difference in the price of the construction of the bathroom. Currently, bathroom tubs and showers that possess even a slight ledge can cause accessibility problems for individuals with impaired mobility. Consequently, the universal home incorporates open and waterproofed bathrooms, as shown in Figure 3, which are very accessible to people with mobility problems. As seen in Figure 3, there is no cabinetry used in the construction of the bathroom, decreasing the construction cost due to the reduction in the materials used. The savings resulting from the reduction of materials used in the construction of the bathroom can then offset any increased costs arising from providing additional amenities in other rooms.

It is for these reasons that SHAFA believes that it can provide new universal homes to supportive housing industry customers at prices competitive with the prices currently charged by the incumbents. SHAFA also believes that the additional features and amenities included in its universal homes will provide sufficient differentiation to give SHAFA a competitive advantage in the industry.
While the construction of a new supportive housing residence can incorporate the design features and amenities required in the universal home concept at competitive prices, renovation of an existing residence to incorporate the same universal home features and amenities can cost twice as much. The main reason for the higher cost is due the doubled labour effort resulting from the necessity of removing the original fixtures before the installation of the new amenities can proceed. Recycling and disposal of the old material is another factor that can contribute to the increased cost. Furthermore, the cost of renovation can vary greatly. For instance, if renovation requires the removal of a wall that houses plumbing and electrical work, then those professionals need to come on the site to re-route their systems. This can substantially complicate the construction process and significantly add to the cost.

Thus, the conclusion was that it is much more cost effective to consider building a universal home that is accessible for people with disabilities at the original point of construction rather than renovating it later. This will also give designers and users much more freedom and flexibility to attain their requirements in the housing unit. In addition to the cost considerations making the construction of a new supportive housing residence more attractive than renovation of an existing residence, supportive housing unit purchasers are also more willing to buy a new unit than a renovated one, to the point where they will pay a price premium for a new unit. SHAFA believes that the additional features and amenities included in its universal homes will provide sufficient differentiation to allow SHAFA to charge premium prices for its residences at no increased cost.
4.2. **SHAFA’s Key Success Factors**

Currently in the Canadian supportive housing market, there is not much to differentiate between the products offered by the major providers, with only minor differences, such as the presence or absence of a particular amenity such as a spa or movie theatre or the ability to own pets, separating residences. Consequently, the driving factors for potential residents choosing between residences is based more on price and location than any sort of brand loyalty, with customers choosing residences with the best value proposition located within close proximity to their relatives in the community. An additional consequence of this is that the key success factor for the major providers of independent and assisted living supportive housing units in Canada, Chartwell and Revera, is mostly due to their large size and leading market positions. Chartwell and Revera have been able to leverage their leading market positions to obtain increased access to capital and top quality leadership and management with years of experience in the supportive housing industry.

As a start-up looking to enter the supportive housing industry, it will be very difficult for SHAFA to compete with established companies such as Chartwell and Revera on either of these factors, requiring SHAFA to determine other key areas to develop its core competencies. Therefore, in order to differentiate itself from the current market providers, SHAFA has focused on developing product-related and operational success factors either neglected or overlooked by the current providers in the industry.
The foremost of SHAFA’s key success factors is the technological innovation it brings to the supportive housing industry. The modular, upgradable design features incorporated into SHAFA’s universal homes, including monitoring features that allow residents an unprecedented level of safety and grant their relatives supreme peace of mind, offer residents the maximum opportunity to age in place while bringing the supportive housing industry into the 21st century. SHAFA believes that the supportive housing industry has remained largely ignorant of and unexposed to the recent proliferation of biomedical engineering technologies and that providing these technologies will enable SHAFA to develop and maintain a distinct competitive advantage in the industry.

Another of SHAFA’s key success factors is its connection to the Biomedical Engineering and Gerontology Departments at Simon Fraser University, specifically its collaboration with Dr. Andrew Rawicz, the founder and former chair of the Simon Fraser University’s Biomedical Engineering Department. Through collaboration with Dr. Rawicz and others at Simon Fraser University, SHAFA as the knowledge and expertise to both rapidly determine the technology and equipment necessary to incorporate into a personalized universal home design based on an individual’s disability and modify or replace that technology as necessary in order to accommodate changes or progression in the individual’s disability. This technological expertise will grant a resident an unprecedented ability to age in place, severely reducing, if not removing altogether, the chance of having to change accommodations because of increased disability, which is often a traumatic event.
A final key success factor that also derives from SHAFA’s close relationship with the Biomedical Engineering Department at Simon Fraser University is SHAFA’s unprecedented access to new devices and research developed within the Biomedical Engineering Department. This connection will not only allow SHAFA to remain at the forefront of innovation in the supportive housing industry, but also grant the ability to rapidly design and prototype new devices for any individuals whose particular needs cannot be met by devices currently on the market. SHAFA’s access to new devices and research as well as to some of the best and brightest young talent will be instrumental to SHAFA’s continuing success in the future.

![Key Success Factors](image)

**Figure 4:** SHAFA’s key success factors (Author, 2014).
To summarize, SHAFA’s most important critical success factor is the vision of bringing the supportive housing industry into the 21st century through the intelligent and customized incorporation of biomedical engineering advancements into the home utilizing the universal home concept. SHAFA also aims to take advantage of the wealth of knowledge and expertise and the access to innovative biomedical engineering research and developments through collaboration with the Biomedical Engineering and Gerontology Departments at Simon Fraser University. SHAFA believes that technological innovation has stagnated within the Canadian supportive housing industry and companies able to deliver innovation to the industry will be at a significant advantage to the entrenched competition. The cultivation and maintenance of these factors will be critical to any success that SHAFA may achieve in developing and maintaining a competitive advantage in the Canadian supportive housing industry.

4.3. Conclusion

After thorough analysis utilizing Porter's Five Forces of Competition Framework (Porter, 2008), the natural conclusion is that now is an exciting time to be in the supportive housing industry in Canada. Yet, in order to succeed in the industry, major problems remain, notably the barrier to entry in the form of a comparatively large capital requirement and the lack of differentiation between competitors in the marketplace. SHAFA believes that its product is sufficiently different from those offered by current competitors as to represent a significant draw for consumers. The lack of technological innovation in the Canadian supportive housing industry has created the perfect opportunity for a competitor
such as SHAFA to enter the market offering a technologically superior product and create a potential sea change in the way the industry does business.

If SHAFA can achieve a successful market entry, it believes that it can maintain the technological advantage that differentiates it from its competitors through its close relationship with the excellent gerontology and biomedical engineering research community at Simon Fraser University. SHAFA believes that the wealth of knowledge and expertise it has access to through Simon Fraser University will enable it to rapidly design and prototype new devices for any individuals with conditions not addressed by devices currently on the market. SHAFA believes that this proactive product development will enable it to deliver continuous innovation to the supportive housing industry.

SHAFA is offering customized and upgradable homes incorporating the latest technological advancements in biomedical engineering, built to maximize accessibility for customers with some degree of mobility, sensory, or age related impairment. SHAFA’s products will offer customers the unique ability to maintain the maximum amount of independence for as long as possible while giving their relatives freedom from worrying about their safety. SHAFA believes it can attain competitive pricing with respect to competitors’ products, although differentiation from competitors’ products indicates the potential for a price premium. SHAFA’s product must possess these attributes in addition to the attributes viewed as “standard” in the supportive housing industry in order to attain any sort of advantage over its competitors.
5. SHAFA’s Market Entry Mode

As SHAFA is a new entrant into the supportive housing industry, the most important task it has is to decide on the market entry mode it will adopt in order to address the market. The central conflict that SHAFA must resolve in order to choose an appropriate entry mode is one of risk versus control, as entry modes that allow increasing amounts of control also expose SHAFA to increasing levels of risk. In order to make the correct decision about which entry mode to adopt, SHAFA must understand the risks and benefits associated with each.

5.1. Possible Market Entry Alternatives

As construction market entry shares many similar characteristics with real estate development market entry, Chen and Messner’s (2009) taxonomy of ten entry mode strategies for international construction markets may be adapted and applied to entry into the domestic real estate development market. Of the ten entry mode strategies identified by Chen and Messner (2009), representative office, local agent, and branch office/company are solely suitable for existing companies looking to enter international markets. We may also combine joint venture project and sole venture project respectively with joint venture company and sole venture company, as the only difference between projects and companies is the duration of the association. Table 1 illustrates the results of the proposed modifications of Chen and Messner’s (2009) taxonomy.
5.1.1. Strategic Alliance

A strategic alliance can be defined as “a long-term inter-corporate association without an affiliated organization based on trust and a mutual respect for each participant’s business needs, used to further the common interests of the members” (Chen and Messner, 2009, p. 5). As strategic alliances are long-term business relationships, there is always another entry mode, usually a joint venture project or company, used by the partners in the strategic alliance to achieve market entry (Chen and Messner, 2009). Partners in a strategic alliance share strategies, technology, resources, and profits in order to address their collective needs over numerous transactions or projects without the legal entanglement involved in the creation of an incorporated subsidiary or formal partnership. The shared access to resources allows strategic alliances to reduce their members’ exposure to risk while maintaining a rapid response to market changes. However, the lack of a formal structure requires a lengthy prior working relationship between the alliance partners in order to establish the trust and mutual respect necessary to operate within this entry mode.

Table 1: Initial market entry modes for domestic real estate development (Chen and Messner, 2009; adapted by author).

<table>
<thead>
<tr>
<th>Number</th>
<th>Entry Mode</th>
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<tbody>
<tr>
<td>1</td>
<td>Strategic alliance</td>
</tr>
<tr>
<td>2</td>
<td>Build-Operate-Transfer</td>
</tr>
<tr>
<td>3</td>
<td>Licensing</td>
</tr>
<tr>
<td>4</td>
<td>Joint venture company</td>
</tr>
<tr>
<td>5</td>
<td>Sole venture company</td>
</tr>
</tbody>
</table>

Table 1: Initial market entry modes for domestic real estate development (Chen and Messner, 2009; adapted by author).
While SHAFA would benefit from the shared resources and experience of a strategic alliance, its position as a new entrant in the supportive housing market means that it lacks an established business relationship with any potential strategic alliance partners. The increased difficulty of finding potential partners for a strategic alliance that arises from SHAFA’s lack of an established business relationship, combined with the lack of any formal binding legal agreement covering the responsibilities of each partner in the strategic alliance, makes a strategic alliance a poor choice of entry mode for SHAFA.

5.1.2. Build-Operate-Transfer

Build-operate-transfer, also known as a public private partnership, occurs when “the government grants a concession to a private sector entity, a bidding consortium or project company, and in turn, the concessionaire puts up the necessary capital, designs and constructs the infrastructure, and operates it for a certain period of time ... in order to pay off the debt and earn a reasonable rate of return from the operational revenue. The concessionaire then transfers ownership of the infrastructure to the government free of charge or at an agreed price” (Chen and Messner, 2009, p. 7).

While access to complementary governmental skills and resources and publicity from working with governmental agencies to achieve a win/win result would be beneficial to SHAFA, build-operate-transfer does not help SHAFA overcome the financial entry barrier initially preventing it from entering the supportive housing market. It is for this reason that build-operate-transfer is not the recommended entry mode for SHAFA.
5.1.3. Licensing

Licensing is an entry mode that “involves a contract between parties ... on a licensee’s use of limited rights or resources, e.g., patents, trademarks, trade names, technology, managerial skills, etc. from a licensor” (Chen and Messner, 2009, p. 7). In SHAFA’s case, licensing would probably involve providing SHAFA’s expertise with modern technology to an existing supportive housing provider. While licensing would enable SHAFA to enter the supportive housing market without committing the funding required to construct a supportive housing residence and to avoid exposure the corresponding construction risks, it is not without drawbacks. For instance, “income from licensing can be lower than from other modes of direct ... market presence, and ... a ... licensee can also become a competitor of the licensor” (Chen and Messner, 2009, p. 7-8).

While licensing would be a relatively low-cost and low-risk, method for SHAFA to enter the supportive housing market, it is not a particularly attractive entry method for SHAFA. The primary reason why licensing is not an attractive market entry method for SHAFA is because many of the technologies and design options SHAFA utilizes in the universal home concept are not proprietary. Effectively, SHAFA would be providing expertise in gerontology and biomedical engineering that to the licensee, and as a result, there is little preventing the licensee from adopting SHAFA’s best practices once the terms of the licensing agreement are over. It is for this reason that licensing is not a particularly attractive market entry strategy for SHAFA, despite its relatively low-cost and low-risk nature.
5.1.4. Sole Venture

Sole ventures are the entry mode of choice for organizations that wish to retain the most control over their entry and operation in a new market. Companies using sole ventures to enter a new market set up their own organization without any material assistance or strategic support from any organizations currently operating in the market.

A sole venture would be the most expeditious entry mode for SHAFA to enter into a new market, as it does not encumber SHAFA with the possibly lengthy negotiation necessary to secure and maintain the support of other organizations. Additionally, operating as a sole venture would allow SHAFA to maintain control of its own assets, giving SHAFA the flexibility to address organizational issues in whichever method it deems most appropriate. However, because of SHAFA’s inexperience and lack of expertise in operating a business in the supportive housing industry, operating as a sole venture would expose SHAFA to potentially unacceptable levels of risk, up to and including the loss of SHAFA’s entire investment.

5.1.5. Joint Venture

A joint venture partnership occurs when two organizations collaborate to enter a new market by entering a legally binding joint venture contract or agreement to create a third organization that they can use to leverage their combined resources and experience to address the new market. Each organization in a joint venture also contributes equity to the joint venture and ideally brings resources and experience that compliments the resources and
experience of their partner in the venture. There are two types of joint venture partnerships: integrated and non-integrated (Chen and Messner, 2009). An integrated joint venture incorporates staff from both parent organizations and profits are shared based on the equity contribution of each parent, whereas in a non-integrated joint venture “partners are responsible for planning and executing their own portion of work as well as the profit and loss made from their portion of the work” (Chen and Messner, 2009, p. 7). Due to the negotiation inherent in the creation of a joint venture contract or agreement, joint ventures can be very flexible in terms of scope, allowing equity, profits, responsibilities and expectations to be clearly assigned to either partner during negotiation, enabling each partner to know exactly what to expect from the other during the joint venture. Similar to strategic alliances, the shared access to resources and experience in a joint venture allow for the flexibility necessary for a rapid response to market changes while minimizing risk exposure. One potential difficulty is that there is often difficulty finding a compatible Joint Venture partner with similar goals and complementary abilities.

A Joint Venture is another reasonable entry mode option for SHAFA to consider, especially if SHAFA is able to find a partner with construction industry experience. In exchange for SHAFA providing access to the lucrative supportive housing market, such a partner would give SHAFA the necessary expertise in building construction and maintenance and help SHAFA gain access to the capital necessary to complete the project.
5.2. Evaluating the Market Entry Alternatives

Table 2 illustrates the key attributes provided by each of the five possible market entry alternatives available to SHAFA. The key attributes provided by SHAFA are knowledge of the supportive housing industry as well as knowledge of its markets and customers. What SHAFA is looking for in a potential partner is a credible partner in the construction industry with the ability to help SHAFA obtain access to capital while retaining some leadership control. Table 2 clearly shows that three of the five possible market entry alternatives available to SHAFA do not provide all of these key attributes SHAFA is looking for, while only two, strategic alliances and joint ventures, can provide SHAFA with all of the key attributes it is looking for in a partner.

<table>
<thead>
<tr>
<th>Key Attributes</th>
<th>Strategic Alliance</th>
<th>Build-Operate-Transfer</th>
<th>Licensing</th>
<th>Joint Venture</th>
<th>Sole Venture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Knowledge*</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Market Knowledge*</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Industry Knowledge: Supportive Housing*</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
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<tr>
<td>Industry Knowledge: Construction</td>
<td></td>
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<td>Leadership Control</td>
<td>X</td>
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<tr>
<td>Access to Capital</td>
<td>X</td>
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<td>X</td>
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<tr>
<td>Credible Partner</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

Table 2: Key attributes possessed by market entry alternatives. A * denotes key attributes provided by SHAFA (Author, 2014).
Working together with the government in a build-operate-transfer arrangement to address the potential supportive housing crisis caused by the aging population would provide SHAFA with a credible partner while still allowing SHAFA to maintain leadership control. However, a build-operate-transfer arrangement does not provide SHAFA with access to either the construction expertise or the capital necessary to construct a supportive housing facility.

Alternatively, licensing SHAFA’s technology and expertise to currently operating supportive housing companies does not require SHAFA to invest in the construction of a supportive housing residence, making licensing a low-cost and low-risk option for SHAFA. However, licensing is not particularly attractive as SHAFA has little control over the companies using the technology, and there is nothing forcing the companies licensing the technology from SHAFA to continue once the initial licensing period is over. Licensing SHAFA’s technology and expertise brings very little long-term benefit to SHAFA in a best-case scenario and only creates potential competitors in a worst-case scenario.

Even though it presents a high level of risk, the Sole Venture Option is a reasonable entry mode because it provides SHAFA with the greatest amount of control over its development intentions. SHAFA would be able to control its management and project processes. However, this entry mode poses some hardship to SHAFA at the outset of market entry and general project initiation. The absence of construction experience, a solid reputation, and limited, if any, lender or industry relationships will likely slow development activities and add costs for the first couple of projects.
The two remaining market entry options that offer SHAFA access to its desired key attributes in a market entry partner are strategic alliances and joint ventures. While a strategic alliance with an appropriate market entry partner would allow SHAFA to access the construction industry knowledge, credibility, and capital necessary to finance and construct a supportive housing residence, a strategic alliance is not necessarily the ideal choice for SHAFA. The primary reason why a strategic alliance is not the ideal market entry choice for SHAFA is due to the lengthy working relationship between two strategic alliance partners that is required in order to achieve a successful strategic alliance where each partner has intimate knowledge of and implicitly trusts the other. As SHAFA is a new company, by definition it lacks the lengthy working relationship required to initiate a strategic alliance with any company, let alone a potential partner.

The sole remaining market entry option that offers SHAFA access to its desired key attributes in a market entry partner is a joint venture. If SHAFA is able to find an ideal joint venture partner for its market entry, one which will enable SHAFA to access the construction industry knowledge, credibility, and capital necessary to finance and construct a supportive housing residence, then entering the supportive housing market would be made much simpler than if SHAFA were to attempt a sole venture market entry. A joint venture market entry with an appropriate partner significantly expands SHAFA’s capabilities and reduces the SHAFA’s risk exposure when compared to a sole venture market entry. Additionally, a successful joint venture often provides the strong business relationship foundation for a potential future strategic alliance.
5.3. SHAFA’s Entry Mode Recommendations

The most appealing entry mode at this stage of evaluation is a joint venture partnership. This option provides SHAFA with the complete set of success criteria for a strong market start assuming the partners will have organizational compatibility. The creation of a joint venture partnership for individual projects is an attractive entry strategy for SHAFA. The partner best suited would be one with construction experience and existing professional, labour, material and lender relationships or alliances enabling it to carry out development projects within established periods and at affordable prices. This option provides SHAFA with balanced risk and control in as much as its investment is equal to that of its partner. The partner in this case can also provide the internal success factors SHAFA is lacking, allowing SHAFA to benefit and learn from the partner in terms of developing credibility, establishing industry relationships and undertaking construction activity.

Strategic alliances, build-operate-transfer, and licensing are not ideal alternatives for SHAFA’s market entry. They are either unattainable due to SHAFA’s lack of reputation; don’t provide the required access to capital; or offer too much to potential competitors for not enough benefit in return. Although potentially providing a number of success factors which SHAFA on its own does not have, these options are not recommended for SHAFA’s market entry. Despite lacking some of the key attributes entering the market as a sole venture remains a risky but achievable prospect, provided that SHAFA is able to obtain access to sufficient capital to contract a firm to construct a supportive housing residence.
Once SHAFA has made a decision as to which type of company structure it will utilize in order to enter the market it must then decide which supportive housing market segment it will enter. As this paper has already elucidated the differences between the three supportive housing market segments in chapter 2, this chapter will deal solely with the recommended supportive housing market segment for SHAFA to target: the independent living market.

The independent living segment of the supportive housing market is the ideal segment for SHAFA to target. Supportive housing residences within the independent living segment have to the lowest investment costs for seniors, at rates comparable to owning an apartment, and offer the highest profit margins for the property manager. These attributes can allow SHAFA to offer value to seniors while still generating revenue, allowing it to reach maximum occupancy and profitability quickly, both of which are important considerations for a new entrant into the market. Additionally, the minimal health requirements of the seniors within the independent living segment provide two benefits to SHAFA:

1. Governmental regulations regarding the operation of independent living residences are minimal compared to the other segments, as seniors living in independent living residences are generally healthier and require minimal in-home medical care.

2. The minimal in-home medical care required by the seniors in independent living residences requires a minimal investment by SHAFA in support services such as nursing and clinical staff.
The minimal government regulation and minimal investment in support services also make the independent living segment the most attractive market segment for SHAFA as both of these factors significantly reduce the barriers to entry for residences targeting the independent living segment compared to the other segments of the supportive housing market. The comparatively low barrier to entry combined with the comparatively high profitability make the independent living segment the most attractive segment for new entrants into the supportive housing market such as SHAFA.

It may be wise, however, for SHAFA to invest in developing capabilities to serve the assisted living segment as, given enough time, many seniors will progress from independent living to requiring assisted living accommodations of some sort. By investing in developing capabilities to serve the assisted living segment, such as access to in-home nursing and support services and staff as well as an on-site clinic, SHAFA could provide even greater ability for seniors to age in place, removing the necessity of a potentially traumatic move to a different residence for seniors whose health worsens while in residence.

By providing independent living residences equipped with the latest technologies and expertly designed to offer the maximum opportunity for residents to age in place SHAFA could easily distinguish itself from the supportive housing providers currently operating. If SHAFA delivers on its operational metrics of quality service, excellent value, and maximum opportunity to age in place, this potential for brand recognition could easily allow it to become the supportive housing provider of choice in the Canadian market.
5.4. Exit Strategy Options for a Joint Venture

As with any other venture, SHAFA must ensure that it has an appropriate exit strategy. Exiting from a joint venture can be an especially complicated and difficult process as there are often disagreements about the value of the equity contributed to the joint venture by each party as well as disagreements over the present value of the venture itself. Due to these difficulties, it is often necessary to incorporate methods for dissolving the joint venture into the joint venture agreement in order to provide a mutually acceptable outcome should the relationship between the joint venture partners begin to sour.

One available option is to have a neutral third party appraiser estimate the fair market value of the business first. Then have the partner who wishes to leave the partnership decide whether they want to buy the other partner’s share at an agreed upon premium or sell their share to the other partner at an equivalent discount (Lee, 2010). This method of dissolving the joint venture partnership ensures that the fair market value of the business is determined and provides an incentive for each partner to remain in the partnership.

An additional exit option is to allow either partner to leave the venture without penalty after an agreed upon period of time, provided that they are able to find another party willing to purchase their equity in the joint venture partnership and is also an acceptable alternative partner for the partner remaining in the joint venture partnership (Lee, 2010). This option allows either party the possibility of cashing in their investment in the partnership without angering the other partner.
6. Marketing to Seniors

Despite all of the advantages of SHAFA’s universal home concept, a marketing plan is still required in order to inform users of these benefits. Although supportive housing is not exclusively for seniors, seniors nevertheless make up the majority of supportive housing users and are therefore the key demographic to target when designing SHAFA’s marketing materials. However, it can be difficult to market to seniors effectively. This section examines exactly why marketing to seniors is difficult and what can be done to market effectively to seniors. It also provides recommendations for a marketing strategy for SHAFA.

6.1. The Difficulty with Marketing to Seniors

Marketing to seniors can be difficult. Anyone who watched television in 1989 probably remembers the phrase “I’ve fallen and I can’t get up!” from Lifecall’s advertisements for their emergency medical response service (hauntedgeorge, 2007). Despite having a commercial identified by USA Today in 2007 as the most memorable commercial from the past 25 years (USA Today, 2007) (incorrectly identified as Life Alert in the article due to Life Alert trademarking a similar phrase “Help, I’ve fallen and I can’t get up!” in 2002 (United States Patent and Trademark Office, 2013) after Lifecall’s original trademark on “I’ve fallen and I can’t get up!” expired in 1999 (United States Patent and Trademark Office, 1999)), Lifecall was ultimately a failure, going out
of business in 1993 (Fashingbauer Cooper and Bellmont, 2013). Lifecall’s failure was largely due to their commercial and product highlighting seniors’ incapability; perhaps the most important subject to avoid when marketing to seniors.

A similar lesson was learned by Heinz following their release of “senior food” in 1955 after discovering that substantial quantities of Gerber baby food was purchased by seniors with difficulty chewing (Bradley and Longino, 2001). “Senior food” was a failure for Heinz as they failed to realize that “older people were comfortable buying baby food because anyone observing their purchase in the store could conclude the food was intended for a grandchild. However, the senior foods held less fascination for mature consumers because these products symbolized frailty and helplessness” (Bradley and Longino, 2001, p. 19).

6.2. How to Market Effectively to Seniors

As with all marketing campaigns, there are three important variables to consider: the target, the message, and the method. This section examines each of these three variables to determine an effective marketing strategy for SHAFA.

6.2.1. Determining the Target Market

The idea that groups, or decision making units, rather than individuals are responsible for making buying decisions (Farris, Robinson, and Wind, 1967) is valuable for determining the target of a marketing campaign. According to the decision making unit theory of buying decisions, the decision making unit is divided into five roles: initiator, influencer, decider, buyer, and user (Farris et al., 1967). The initiator is the term for the individual or group who identifies the
problem that needs to be overcome (Farris et al., 1967). In this case, the initiator is most likely a senior noticing that they are having difficulty caring for themselves and need assistance with one or more activities of daily life, but the initiator may also be a friend or relative of a senior such as the adult child of a senior. The influencer is the individual or group that does not make the final decision, but has considerable influence over the outcome (Farris et al., 1967). In this case, the influencer is often a friend or relative of a senior, perhaps the initiator, who is able to convince the senior that they may require some assistance. The decider is the individual or group that makes the final purchasing decision (Farris et al., 1967). In this case, the decider is also the buyer, the individual or group that carries out the negotiation and buying process, usually either the senior or an adult child of the senior. Finally, the user is the individual or group using the product or service (Farris et al., 1967), which in this case is the senior requiring assistance with activities of daily living. Based on these answers, SHAFA’s marketing strategy should target seniors and their adult children.

6.2.2. Determining the Marketing Message

David B. Wolfe claims that older consumers possess a subjective mindset that is predicated by “internal behavior cues”, especially when compared to the objective mindset predicated by “external behavior cues” such as “peer group values and social expectations” exhibited by younger consumers (Wolfe, 1992, p. 15). Wolfe explains that a root cause of the problems faced by marketing managers today of “declining brand loyalty and decreased effectiveness of advertising” is a direct result of the demographic shift towards an older society
and the corresponding shift to a subjective mindset (Wolfe, 1992, p. 15). Wolfe contends that in order to effectively market to older consumers the message must address five key values: autonomy, social connectedness, altruism, personal growth, and revitalization, using “ambiguous symbols” that are “suggestive rather than absolute in meaning” that “allow a broad range of interpretations” (Wolfe, 1992, p. 17-18). With this in mind, SHAFA's marketing message should focus on how its product facilitates autonomy, allowing for a greater social connection with both family and the community while offering opportunities for revitalization and personal growth.

6.2.3. Determining the Marketing Method

Choosing a method to reach seniors can also be a significant obstacle. Barbara Risto, Publisher at Senior Living Magazine, claims that research indicates that a combination of print and online information provides more return on investment than focusing on one or the other. This is because despite seniors being the fastest growing demographic of internet users they still represent a small percentage of the total, so “magazines will still remain their first choice for casual, enjoyable reading” (Risto, 2012). Risto recommends emphasizing service and trust and offering value through deals or complementary services when communicating with seniors and reminds that word of mouth can be a powerful tool in convincing seniors to choose your product or service (Risto, 2012). Based on this information, SHAFA should focus on a print and internet marketing campaign, while offering value through complementary services.
6.3. Recommendations for SHAFA’s Marketing Strategy

Considering Risto’s recommendations about the method of communication and the target decision making unit, SHAFA’s marketing media should consist of a print advertising campaign targeting local newspapers and magazines with high readership by seniors and their adult children alongside a complementary website. Considering Wolfe’s advice about the message, both should focus on how universal homes facilitate autonomy, allowing for a greater social connection with both family and the community while offering opportunities for revitalization and personal growth. SHAFA must then establish and maintain a reputation for quality and customer service in order to obtain good word of mouth advertising, which is often the key to penetrating the senior market. In terms of deals and complementary services to enhance the value of SHAFA’s product, one potential strategy would be to offer free trial accommodations with complementary moving assistance, similar to that offered by Concert’s Tapestry Senior’s Living Communities (Concert, 2014). Providing these services would allow SHAFA to demonstrate the quality of life benefits of living in a universal home while simultaneously increasing customer willingness to move by reducing or eliminating the stress and hassle that moving represents. Additionally, providing customer testimonial in both print and online advertising would be helpful in convincing seniors they are making a good decision in choosing to live in a universal home. By focusing on respectful advertising, excellent customer service, and a quality value proposition, SHAFA should have no difficulty attracting residents to their universal homes.
7. Financial Projections

According to Canada Mortgage and Housing Corporation estimates for British Columbia’s Lower Mainland, a region comprised of the Vancouver and Abbotsford-Mission Census Metropolitan Areas and the Chilliwack and Squamish Census Agglomerations, vacancy rates for independent living supportive housing facilities have decreased from 13.7% in 2012 to 12.1% in 2013 (Canada Mortgage and Housing Corporation, 2013a). This decrease is surprising, considering that there was a 3% increase in the number of independent living supportive housing spaces (Canada Mortgage and Housing Corporation, 2012, 2013a). This indicates that the increased demand for supportive housing due to the increase in the senior population is already beginning to appear. Additionally, the average monthly rent for an independent living suite in the Lower Mainland increased by almost 4% to $2,998 in 2013 from $2,888 in 2012 (Canada Mortgage and Housing Corporation, 2012, 2013a). The fact that rents rose despite the additional supply is another indicator of the strong demand for supportive housing in the Lower Mainland.

Additionally, 68.5% of the independent living suites available in the Lower Mainland command an average monthly rent in excess of $2,400, with 45% having an average monthly rent in excess of $2,900 (Canada Mortgage and Housing Corporation, 2013a). Intriguingly, the vacancy rate decreases as rent increases, with independent living suites in the Lower Mainland with an average
monthly rent in excess of $2,900 having a vacancy rate of only 10.7% (Canada Mortgage and Housing Corporation, 2013a). Based on this fact, and the fact that the rent for a recently built high-end one bedroom independent living suite is $4,900 per month (Comfort Life, 2013) SHAFA should set their rental rates at around $5,000 per month.

<table>
<thead>
<tr>
<th>Development Cost</th>
<th>Estimate</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land Costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Acquisition</td>
<td>$1,295,000</td>
<td>(Remax, 2014)</td>
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<tr>
<td>Property Transfer Tax</td>
<td>$23,900</td>
<td>(Province of British Columbia, 2014b)</td>
</tr>
<tr>
<td>Building Permit Fees</td>
<td>$56,580</td>
<td>(City of Vancouver, 2014a)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$1,375,480</td>
<td></td>
</tr>
<tr>
<td><strong>Professional Fees</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planning/Architecture</td>
<td>$640,000</td>
<td>(Reed Construction Data, 2013)</td>
</tr>
<tr>
<td>Environmental Assessment</td>
<td>$75,000</td>
<td>(Port Metro Vancouver, 2011)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$715,000</td>
<td></td>
</tr>
<tr>
<td><strong>Construction Costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Facility Design and Construction</td>
<td>$6,400,000</td>
<td>(Reed Construction Data, 2013)</td>
</tr>
<tr>
<td>Contractor Fees</td>
<td>$1,600,000</td>
<td>(Reed Construction Data, 2013)</td>
</tr>
<tr>
<td>Construction Contingency</td>
<td>$800,000</td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$8,800,000</td>
<td></td>
</tr>
<tr>
<td><strong>Taxes</strong></td>
<td>$1,141,800</td>
<td>(Worrall, 2013)</td>
</tr>
<tr>
<td><strong>Total Development Costs</strong></td>
<td>$12,032,280</td>
<td></td>
</tr>
</tbody>
</table>

Table 3: Development cost estimate for the SHAFA project (Author, 2014).

In order to give SHAFA a rough idea of the cost commitment it must assume if it wishes to undertake building an independent living supportive housing facility the above developmental cost estimate was prepared. The assumptions used to create the developmental cost estimate included that the
building would be a two-storey apartment complex containing 100 suites, each approximately 750 square feet in size for a total footprint of approximately 40,000 square feet. The land costs were determined based on the price of an approximately 18.4 acre lot in Langley (Remax, 2014), a city located in the Vancouver Census Metropolitan Area (Statistics Canada, 2011), although land prices are highly variable across the region. The building permit fees were determined based on the rates for Vancouver (City of Vancouver, 2014a) and the estimate for the environmental assessment fees came from approximate rates from the Vancouver Fraser Port Authority (Port Metro Vancouver, 2011). The estimates for the cost per square foot of construction and planning, architecture, and contracting fees come from estimates from Reed Construction Data (Reed Construction Data, 2013). A construction contingency of 10% of estimated construction costs was added to compensate for potential cost overruns and the taxes were assumed to be 5% Goods and Services Tax and 7% Provincial Sales Tax applied to professional fees and construction costs (Worrall, 2013).

If SHAFA is able to find an acceptable joint venture partner, it can begin to consider the options available for financing the project. Assuming a 50-50 joint venture SHAFA will have to provide nearly $6,000,000 for the construction of the project. As SHAFA is a start-up company, it will have to obtain a considerable amount of debt financing in order to provide this. Assuming SHAFA obtains a $6 million mortgage at a 4% interest rate (Royal Bank of Canada, 2014) over a 25-year amortization period its monthly mortgage payments would be $31,670. Table 4 indicates the net income for the venture, assuming that rental rates are
at $5,000 per unit, the facility reaches 90% capacity in year 2, operating costs are 45% of revenue (Baybridge Seniors Housing, 2012), the buildings depreciate at 4% per year (Canada Revenue Agency, 2014b) and rents increase by approximately 4% per year (Province of British Columbia, 2014a). Tax rates were determined based on rates posted by the Canada Revenue Agency (Canada Revenue Agency, 2014a, 2014c) and the City of Vancouver (City of Vancouver, 2014b). The estimate assumed a 2% rate of inflation (Bank of Canada, 2012).

Assuming that SHAFA is able to find a 50-50 joint venture partner and therefore is entitled to 50% of the profit, the venture will start to become profitable for SHAFA in year 1. Table 4 illustrates a simplified financial review for SHAFA for each of the first 5 years of its operation.

<table>
<thead>
<tr>
<th>Financial Information</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth Rate</td>
<td>2%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Gross Rental Revenue</td>
<td>$6,000,000</td>
<td>$6,240,000</td>
<td>$6,489,600</td>
<td>$6,749,184</td>
<td>$7,019,151</td>
</tr>
<tr>
<td>Vacancy Rate</td>
<td>50%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
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<tr>
<td>Gross Effective Income</td>
<td>$3,000,000</td>
<td>$5,616,000</td>
<td>$5,840,640</td>
<td>$6,074,266</td>
<td>$6,317,236</td>
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<tr>
<td>Operating Expenses</td>
<td>-$1,650,000</td>
<td>-$3,369,600</td>
<td>-$3,504,384</td>
<td>-$3,644,559</td>
<td>-$3,790,342</td>
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<tr>
<td>EBITDA</td>
<td>$1,350,000</td>
<td>$2,246,400</td>
<td>$2,336,256</td>
<td>$2,429,706</td>
<td>$2,526,894</td>
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<tr>
<td>Depreciation</td>
<td>-$320,000</td>
<td>-$320,000</td>
<td>-$320,000</td>
<td>-$320,000</td>
<td>-$320,000</td>
</tr>
<tr>
<td>Net Operating Income</td>
<td>$1,030,000</td>
<td>$1,926,400</td>
<td>$2,016,256</td>
<td>$2,109,706</td>
<td>$2,206,894</td>
</tr>
<tr>
<td>Mortgage Payments</td>
<td>-$760,085</td>
<td>-$760,085</td>
<td>-$760,085</td>
<td>-$760,085</td>
<td>-$760,085</td>
</tr>
<tr>
<td>Provincial Income Tax</td>
<td>-$6,748</td>
<td>-$85,795</td>
<td>-$95,679</td>
<td>-$105,958</td>
<td>-$116,649</td>
</tr>
<tr>
<td>Property Tax</td>
<td>-$14,272</td>
<td>-$14,272</td>
<td>-$14,272</td>
<td>-$14,272</td>
<td>-$14,272</td>
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<tr>
<td>Net Income</td>
<td>$208,408</td>
<td>$891,301</td>
<td>$957,795</td>
<td>$1,026,948</td>
<td>$1,098,867</td>
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<tr>
<td>SHAFA Net Income</td>
<td>$104,204</td>
<td>$445,651</td>
<td>$478,897</td>
<td>$513,474</td>
<td>$549,434</td>
</tr>
</tbody>
</table>

Table 4:  Selected financial information for SHAFA’s first 5 years of operation (Author, 2014).
While the financial estimates provided in this section are as accurate as can be provided given the preliminary stage of this proposal, it is unfortunately subject to additional risk due to the preliminary nature of the information utilized for its construction. The key factors affecting the outcome of the estimates are the development cost, operating expenses, growth rate as these estimates will vary depending on a number of influencing factors and can affect multiple values used in the estimates. Table 5 provides a sensitivity analysis showing possible variations within these key factors.

<table>
<thead>
<tr>
<th>Influencing Factor</th>
<th>Sensitivity</th>
<th>Optimistic</th>
<th>Base</th>
<th>Pessimistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Cost</td>
<td>+/- 25%</td>
<td>$9,024,210</td>
<td>$12,032,280</td>
<td>$15,040,350</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>+/- 5%</td>
<td>50%</td>
<td>55%</td>
<td>60%</td>
</tr>
<tr>
<td>Growth Rate</td>
<td>+/- 2%</td>
<td>6%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>SHAFA Net Income Year 1</td>
<td>Year 1</td>
<td>$244,463</td>
<td>$104,204</td>
<td>-$36,055</td>
</tr>
</tbody>
</table>

Table 5: Sensitivity analysis for key factors affecting financial estimates (Author, 2014).

Table 5 shows that in a pessimistic scenario SHAFA will not be profitable in its first year of operation. As a result, SHAFA must remain vigilant to ensure that it controls the development costs for its construction project as well as its operating expenses. SHAFA should also ensure that it has a large enough contingency fund to compensate for any shortfalls it might experience during its first year of operations. If SHAFA can control its costs and survive its first year of operation, the effects of the growth rate of the senior population on increasing the demand for supportive housing indicates that it should have little difficulty reaching profitability.
8. Conclusion

The purpose of this project was to explore market conditions in the supportive housing market in Canada, with a specific focus in British Columbia, in order to develop an effective entry strategy for SHAFA. An analysis of the demographic factors affecting demand within the senior housing industry was completed, along with a competitor analysis and an industry analysis utilizing Porter’s Five Forces of Competition Framework. Additionally, SHAFA’s key success factors were determined and possible entry modes and marketing strategies were outlined. Finally, a preliminary financial estimate was created.

The combined results of these analyses indicate that now is an opportune time for SHAFA to enter into the supportive housing market. The retirement and senescence of the baby boomer generation have created a demand for supportive housing that will only increase in the coming years. With an intelligent marketing strategy that emphasizes their key success factors of access to and expertise with advanced biomedical engineering technology SHAFA can potentially differentiate itself from its competitors enough to provide it with a significant competitive advantage. Choosing an appropriate joint venture partner will assist SHAFA in managing the risks and financial difficulty that forming any new company entails and their expertise will be essential to SHAFA’s success in entering the supportive housing industry.
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Statistics Canada. No date. *Table 380-0017 - Gross domestic product (GDP), expenditure-based, annual (dollars unless otherwise noted).* CANSIM. Retrieved from: http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=3800017&paSer=&pattern=&stByVal=1&p1=1&p2=--1&tabMode=dataTable&csid=


