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INDUSTRY INSIGHT

Senior living companies face a potential crisis if new development does not keep up with rising demand. Industry leaders call for creative approaches to secure financing and begin projects, despite improving occupancy and income fundamentals. Some firms, like Charter Senior Living, are targeting secondary and tertiary markets with innovative community designs. However, high construction costs, lengthy timelines, and tough equity conditions slow progress. Experts warn that without timely development, the industry's future growth may be jeopardized in the coming years.

Debt, Equity, Development: Senior Living Companies Prepare to Meet Growth 'Inflection Point'

The road to future senior living development is paved with uncertainty, but the industry could be nearing a "crisis point" in the coming years if operators and capital partners aren't able to pencil out new projects as demand remains strong over the next two years.

That's according to Confluent Senior Living Managing Director Matt Derrick, who shared a call to action for senior living operators and capital providers to find ways to get shovels in the ground.

"There's going to be an inflection point and I think development is going to have to be part of the solution," Derrick said during a Spring 2025 NIC panel hosted by Senior Housing News Senior Editor Tim Regan. "If we do not meet the demand, our industry is going to suffer."

Even amid improving fundamentals on occupancy and net operating income, new development remains tough to do. As a result, some capital partners have sought value-add and core-plus acquisition opportunities.

For example, JLL Capital Markets Senior Managing Director Aaron Rosenzweig said the financial services firm handed a large swath of stabilized, Class A asset transactions in 2024—and conditions for more core plus acquisitions could persist into 2025, he added. According to JLL data, the company completed $2.5 billion in sales and another $2 billion in debt and equity arrangements.

This comes as the senior living industry is facing an investment gap shortage of $275 billion by 2030 which is coupled with $1 trillion of additional inventory needed to maintain current penetration rates, according to data published by the National Investment Center for Seniors Housing and Care's NIC MAP team.

Charter Senior Living is among the small group of senior living operators still pushing ahead with development aspirations. The company announced multiple projects in 2024 and continued to grow in non-traditional markets outside of primary metropolitan areas.

That's by design, according to CEO Keven Bennema, thanks in-part to the strong relationship the Naperville, Illinois-based senior living provider has with its development partners including DMK Development Group.

From creative solutions in tertiary and secondary markets to potential opportunities for development through prefabricated construction, senior living companies seeking new development growth must get creative if they want to meet the future demand at the industry's doorstep.

Building in markets people 'can't even find on the map'

Charter has found a niche developing in secondary and tertiary markets – places that "sometimes people can't even find on the map," Bennema said.

That has led to Charter committing to four-to six new development projects, Bennema said, as the debt markets are "getting more favorable," he added during the panel.

Charter has since 2017 undertaken 15 development projects. Four were announced last year and one will come later this year. Designing a community that's accessible for all within rural and tertiary markets takes getting resident input through town halls and employee feedback, Bennema noted.

Other aspects include “interactive cafes” to bring in the public to Charter communities to generate word-of-mouth buzz among potential prospects and families. Charter has also recently started its own pharmacy to build ancillary revenue streams while also more accurately billing for care, Bennema said.

“We design multiple communities to have destinations on each floor,” Bennema said. “It’s really being as creative as you can to make senior living an experience—we want to redefine that so folks feel that they’re purposeful and can be independent.”

That is especially relevant to senior living development, as NOI – or the lack thereof – can complicate new project pro formas.

“Operators will only put together a pro forma that makes realistic sense,” Bennema said. “The days of 40% and 50% NOI margins—unless you’re in the perfect market—are very difficult to achieve.”

“Nothing is trading past today’s replacement costs in apartments and as senior housing, we all are sort of in multi family shadow, and we’re always catching up to them from the capital markets perspective, so I don’t see that dynamic changing anytime soon.”

In response to a question about projects trading below replacement costs, Rosenzweig added, “A lot of the equity will continue to approach below replacement cost opportunities rather than deploy developed capital.”

‘More interest in development’ for 2025

Ongoing development comes as construction timelines persist for over two years from term sheet to move in, while construction costs remain higher than in the past. This has led to Confluent considering new timelines in which it moves residents into buildings.

The company recently opened a 162-unit independent living, assisted living and memory care community near Las Vegas. The community’s independent living wings opened first, meaning other kinds of residents could tour a community . This led to 70% occupancy since August 2024, Derrick said.

"That's one strategy you can potentially phase your project slightly differently to get residents in to give a heartbeat to a community," Derrick said.

Confluent Development has a $400 million development pipeline, with most of the deals being two years old. That's a product of capital "just not ready" to enter the space. But in 2025, that could be changing, Derrick said, noting that conditions are starting to thaw as capital partners re-enter the space.

"We're seeing more interest in development in the last six months than we have over the last two years," Derrick added. "We are now full steam ahead on design and pre-development really gearing our portfolio for ground breaking later in 2025 and into 2026."

Equity 'extremely difficult,'construction financing is 'out there for the taking'

While banks remain more selective in their dance card partners, that thawing might take longer to take effect than people might like.

"We've been asked when things are going to loosen up and it doesn't seem like it's going to happen this year," Rosenzweig said. "It might be a year, two or three years before things loosen up."

While securing equity remains "extremely difficult," there's an opportunity to secure construction financing that's "out there for the taking," Rosenzweig added.

Until NOI fundamentals improve across the industry as a whole, development is "going to stay slow," Rosenzweig stressed, even as the industry is on the cusp of its best-ever years for occupancy and margin.

"It looks good for the foreseeable future, but until we get to the point where NOI can make these deals, pencil is going to stay slow," Rosenzweig said.

Some operators have also taken the nonprofit route to secure financing, and that could be an opportunity for providers going forward, Derrick said.

"It's definitely on the table, and I think it has prompted many people to start rethinking how they will finance these deals," Derrick added.

This comes as cap rates show signs of compressing, Rosenzweig noted, as new investment enters the senior living market.

"It's obviously not the 10-year [U.S. Treasury Yield]—that's not helping us at all. Instead, it's the equity flows applying favorable pressure. The really good assets we're watching are trading," Rosenzweig said.

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