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# Runway to record demand

Strong demand coupled  
with limited new  
construction is fueling  
a bullish outlook  
for seniors housing

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# Runway to record demand

*Strong demand coupled with limited new construction is fueling a bullish outlook for seniors housing*

by Beth Mattson-Teig

Seniors housing has staged a dramatic comeback. Despite taking it on the chin during the COVID-19 pandemic, the sector is back on top with rising returns and a steady inflow of new capital.

The topic du jour is the current supply/demand picture. Seniors housing is outperforming other major property types due to a wave of aging baby boomers entering the market amid historically low inventory growth. According to NCREIF, seniors housing posted a 10.6 percent total return in 2025 — more than double the NCREIF Property Index (NPI) total return of 4.9 percent and well ahead of the second-highest return of 6.8 percent for retail properties.

That performance is capturing the attention of both debt and equity investors. “There has been an absolutely palpable, quantifiable increase in institutional investing in senior housing in the last couple of years, mainly driven by two forces,” says Kathryn Sweeney, co-founder and managing partner at Blue Moon Capital Partners.

One force is increased transparency in the sector, driven by data sources such as ASHA, NIC MAP and NCREIF. The other is that the underlying fundamentals are very compelling compared to other real estate property types that institutional investors are considering, notes Sweeney. Further adding to the appeal

is the growing sophistication of operators, resulting in greater operating efficiency and an enhanced experience for residents.

**Demand outpaces supply**

2026 marks a significant milestone. It’s the year that the leading edge of baby boomers (1946–1964) begins turning 80. Growing demand, coupled with limited construction, is already showing up in occupancy data as the sector continues to recover from COVID lows.

According to NIC MAP, seniors housing has posted 19 consecutive quarters of rising occupancy, climbing to 89.5 percent as of first quarter 2026. Independent living occupancy improved to 91.1 percent, while assisted living occupancy reached 87.9 percent. Active adult continues to

post strong occupancies at an average of 91.2 percent. However, it is also a relatively small and emerging subsector, with less than 1 percent penetration overall.

“The demographic tailwinds — and new supply that continues to be so low — are really bolstering occupancies,” says Lisa McCracken, head of research and analytics at the National Investment Center for Seniors Housing & Care (NIC). The high-water mark for occupancy since NIC MAP has been tracking the data is 91.3 percent, and McCracken expects to surpass that record high this year, given the current supply/demand trajectory.

Annual rent growth is averaging a solid 4.6 percent, with 4.3 percent in IL and 5.0 percent in AL. Despite strong fundamentals, many developers remain on the sidelines due to higher construction and financing costs. During first quarter, new units under construction fell to their lowest level since 2012, and year-over-year inventory growth hit a record low of 0.4 percent. “It’s safe to say that between now and 2030, we’re not going to see any meaningful inventory coming to the market,” says McCracken.

The added impact of older properties coming offline is resulting in negative inventory growth in some markets. During the past three years, 30

NIC MAP market fundamentals data		
	Seniors housing	
	Q4 2025	Q1 2026
Occupancy	89.1%	89.5%
Annual rent growth	4.4%	4.6%
Annual inventory growth	0.5%	0.4%
Construction vs. inventory	2.3%	2.3%

Source: NIC MAP

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percent of the primary markets NIC MAP tracks produced negative inventory growth. Those markets that achieved the highest occupancy levels in the first quarter were Boston (93.6 percent), Baltimore (91.8 percent) and San Francisco (91.6 percent). At the other end, the lowest occupancy rates were Atlanta (86.0 percent), Miami (86.2 percent) and San Jose (87.0 percent).

Skilled nursing, which struggled during and post-COVID, appears to have stabilized with

***Even with higher revenue per available room, developers would be making a risky bet that revenue is high enough and lease-up fast enough to offset historically high input costs.***

occupancies at 87.1 percent as of first quarter 2026, according to NIC MAP. “The storm has gone through the woods and knocked down some of the weaker limbs, and I think skilled nursing is on the other side of that storm now,” says McCracken. NIC MAP data show the skilled nursing sector is at or near the bottom

in inventory decline, and occupancy is back at pre-pandemic levels.

**High bar for new construction**

Although there are limited shovels in the ground, there is ongoing discussion and planning. “We’ve been speaking with several groups about timing,” says Richard Hutchinson, CEO at Discovery Senior Living. The company currently has a few joint venture projects in the pipeline. However, the general view is that now is not the right time to move forward.

Some input costs have moderated, while others are still rising. Interest rates, which many had thought might move lower this year, now appear to be holding firm. “Until we see a little bit of clarity on the input costs stabilizing and the trajectory of the forward yield curve actually coming into clarity, we’re probably still on pause,” says Hutchinson.

Even with higher revenue per available room, developers would be making a risky bet that revenue is high enough and lease-up fast enough to offset historically high input costs. However, as those projects work through their natural course of permits and entitlement over the next couple of quarters, the expectation is that this will provide a better idea of when to pull the trigger, adds Hutchinson.

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The most recent new development project Discovery Senior Living completed was Discovery Village at Castle Hills in June 2025. Located in Lewisville, Texas, the assisted living and memory-care community features a 90-apartment campus comprising 72 assisted living and 18 memory-care residences.

Those projects under construction fall into two categories — either luxury projects that command higher rents or affordable projects that can leverage lower-cost capital, such as grants and Low-Income Housing Tax Credits (LIHTC). One additional challenge for new development is investors are still finding opportunities to buy existing stabilized assets at below-replacement-cost prices. However, in some markets, the price per unit is at or above replacement cost, which could help stimulate construction activity.

### Robust investment sales market

Seniors housing is experiencing a welcome surge in sales activity following a lull in deal-making. On a 12-month trailing basis, total transaction volume for the seniors housing and care sector jumped 83 percent year-over-year to \$31.4 billion, according to MSCI Real Assets. Volume was spurred by some sizable portfolio

deals, such as Sonida Senior Living's \$1.8 billion acquisition of CNL Healthcare Properties.

"There's a really insatiable amount of capital chasing product, which has created an extremely dynamic environment right now from an investment perspective," says Ryan Maconachy, vice chairman, co-head of healthcare and alternative

*There's a really insatiable amount of capital chasing product, which has created an extremely dynamic environment right now from an investment perspective.*

real estate assets at Newmark. Transaction volume is very strong on both a one-off asset basis and a portfolio basis, he adds.

REITs, in particular, are well capitalized and remain active buyers. For example, National Health Investors (NHI) announced in February that it was acquiring nine communities across Kentucky, South Carolina and Tennessee for \$105.5 million. The properties will be managed by Allegro Living Management, an affiliate of Spring Arbor, with which NHI has an existing relationship.

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Spring Arbor in Anderson, S.C. (Photo courtesy of National Health Investors)

A key focus for NHI has been expanding its Senior Housing Operating Portfolio (SHOP). The REIT is focused primarily on acquiring freestanding assisted living communities, often with memory-care components due to durable demand and greater resilience across economic cycles. “We also selectively evaluate independent living opportunities, but generally favor assisted living given its needs-based nature,” says Kevin Pascoe, CIO at NHI.

“The sector’s favorable supply/demand dynamics have attracted additional capital, leading to increased competition and some upward pressure on pricing,” says Pascoe. “Despite this, we believe our position as a publicly traded REIT — with improved access to capital and a lower cost of capital over the past 12 to 18 months — allows us to remain competitive and disciplined.” Within SHOP, the REIT is actively evaluating a broad pipeline of opportunities that includes approximately \$488 million in potential near-term investments.

The primary focus for many investors remains squarely on private-pay seniors housing. “We believe private-pay models offer more

predictable operating dynamics and are better aligned with our core competencies and our shareholders’ risk profile, especially when compared to government reimbursement models that can be subject to policy changes and ‘stroke of the pen’ risk,” says Pascoe.

#### **Downward pressure on cap rates**

Buyers are active across different geographies and different types of seniors housing. However, full-acuity projects comprising independent living, assisted living and memory-care components are attracting the broadest pool of buyers due to aging in place and the ability to deploy capital at scale. “There’s also a significant premium to access best-in-class operators and partners, which seems to be driving pricing as much as the physical real estate,” says Maconachy.

Even though REITs are very active, the pool of investors is widespread across public REITs and private equity groups. “We are receiving 10 and 15 bidders on most high-quality offerings, and while it may be competitive, in our view, it’s still a very fair and balanced market,” notes Maconachy.

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Old Dominion Clover Hill Maryville, Tenn. (Photo courtesy of National Health Investors)

Competition is putting downward pressure on cap rates. Investors are buying into the growth story of seniors housing and are willing to pay a premium, knowing that the NOI growth is there.

Most of the newer class A trophy assets Newmark is selling are trading at cap rates in the 5 percent to 6 percent range, based on trailing three-month in-place income, with a low- to mid-6 percent cap rate on year-one income. Older 15- to 20-year-old assets might be selling at cap rates of 6.5 percent to 7 percent, whereas 30-year-old assets might be at 7 percent to 7.5 percent on in-place year-one cap rates. However, cap rates are also influenced by how much rental rate increase a property is likely to achieve throughout the remainder of 2026 and beyond, adds Maconachy.

#### **Availability of capital**

Lenders also have a good appetite for seniors housing, and there is plenty of liquidity available for debt financing. “We’re seeing small regional banks play a role all the way up to the big institutional players,” says Morgan Morris, senior vice president at KeyBank Real Estate Capital. “From conversations that we’re having with our clients, equity is the tougher challenge.”

Fannie Mae and Freddie Mac continue to be active lenders in the seniors housing space. In 2025, Freddie closed around \$3 billion in loans for seniors housing, and this year the target is \$4 billion. In addition, seniors housing has seen some new life insurance company entrants enter the space and compete for loans with the agencies.

Lender competition for balance sheet loans is driving down pricing, with some loans during first quarter that were pricing at around 200 basis

points over SOFR, according to Morris. Competition is also resulting in more borrower-friendly loan structures, such as longer periods of interest-only and more flexibility on loan covenants.

“Seeing the pricing come in is great for this industry. We want to see the spread delta between multifamily and seniors [housing] come in as much as possible,” adds Morris. “That’s a good sign showing that this asset class is one to invest in, and one to loan on.”

#### **Operating opportunities and challenges**

Gains in occupancies and rents, along with improved operating efficiency, are driving strong revenue growth for operators. For example, NHI reported same-store NOI growth of 7.6 percent in 2025. “We believe the more meaningful indicator of future growth lies in the embedded upside within our recently acquired communities,” says Pascoe. Across those recently acquired assets, NHI is targeting high single-digit to low double-digit NOI growth over the next several years, which it believes can translate into low- to mid-teens internal rates of return.

The path to achieving that growth varies by asset. In higher-occupancy communities, the focus is on driving rate through pricing optimization, while in lower-occupancy assets, the priority is occupancy recovery through targeted sales and marketing initiatives. “More broadly, our approach is centered on enhancing the resident experience and supporting our operating partners and on-site teams,” says Pascoe. “We believe strong outcomes for residents and employees ultimately translate into sustained operating performance and NOI growth.”

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Discovery Village Castle Hills in Texas (Photo courtesy of Discovery Senior Living)

Yet the industry continues to face operating challenges, with two of the biggest being staffing and managing resident length of stay. According to Pascoe, the average resident length of stay has declined meaningfully since the pandemic — by roughly 12 months compared to historical norms of 24 to 36 months — due to residents moving in at higher acuity levels and later stages of need. Although that reinforces the needs-based nature of seniors housing, it also can create more operational intensity, he adds.

The availability and cost of labor are persistent problems for operators and potential risks for investors. “There’s a lot of discussion about how much new supply we need, but we also need people to work in those buildings,” says Sweeney.

During COVID-19, operators were battling extreme labor shortages, often relying on costly staffing services to fill open positions. Many operators did a good job of examining weaknesses and pain points and making needed changes, such as increased wages, career development and better onboarding practices. However, industry participants agree more work is needed to expand the labor pool and develop talent.

“Everybody anchors to labor being a problem post-COVID, but it’s been a problem for a

long time,” says Hutchinson. One of the biggest issues for the industry broadly is its inability to create a true career pathway, developing team members and providing opportunities for growth. “As we get more sophisticated and more mature in this industry, those operators and ownership groups who really focus on career development are going to win long-term,” he adds.

### **Evolving for the future**

As the industry continues to evolve to meet the needs of residents and their families, technology is poised to have a bigger impact on all aspects of the seniors housing sector. Properties need to be tech-forward, with the high-speed connectivity that both residents and operations demand today for everything from entertainment and streaming services to automated building systems, security and life-safety devices. “I think you’re going to find everything is smart and everything’s connected to create a smart community,” says Hutchinson.

Tools such as next-generation nurse call systems, AI-enabled sales and marketing platforms, and improved connectivity for residents and families are helping operators streamline care delivery, drive occupancy and differentiate their communities.

From a real estate perspective, the post-COVID environment has prompted a reevaluation of both amenity spaces and unit design. Residents want more space and larger units. In existing assets, where unit sizes are largely fixed, the focus has shifted toward optimizing common areas and investing capital to ensure communities offer the types of spaces and services today’s seniors — and their families — expect, notes Pascoe.

“For new development, while still relatively limited, there is a greater emphasis on getting both unit sizes and amenity programming right from the outset,” adds Pascoe. “The goal is to deliver a product that is not only competitive today but also adaptable to evolving resident preferences over time.” ❖

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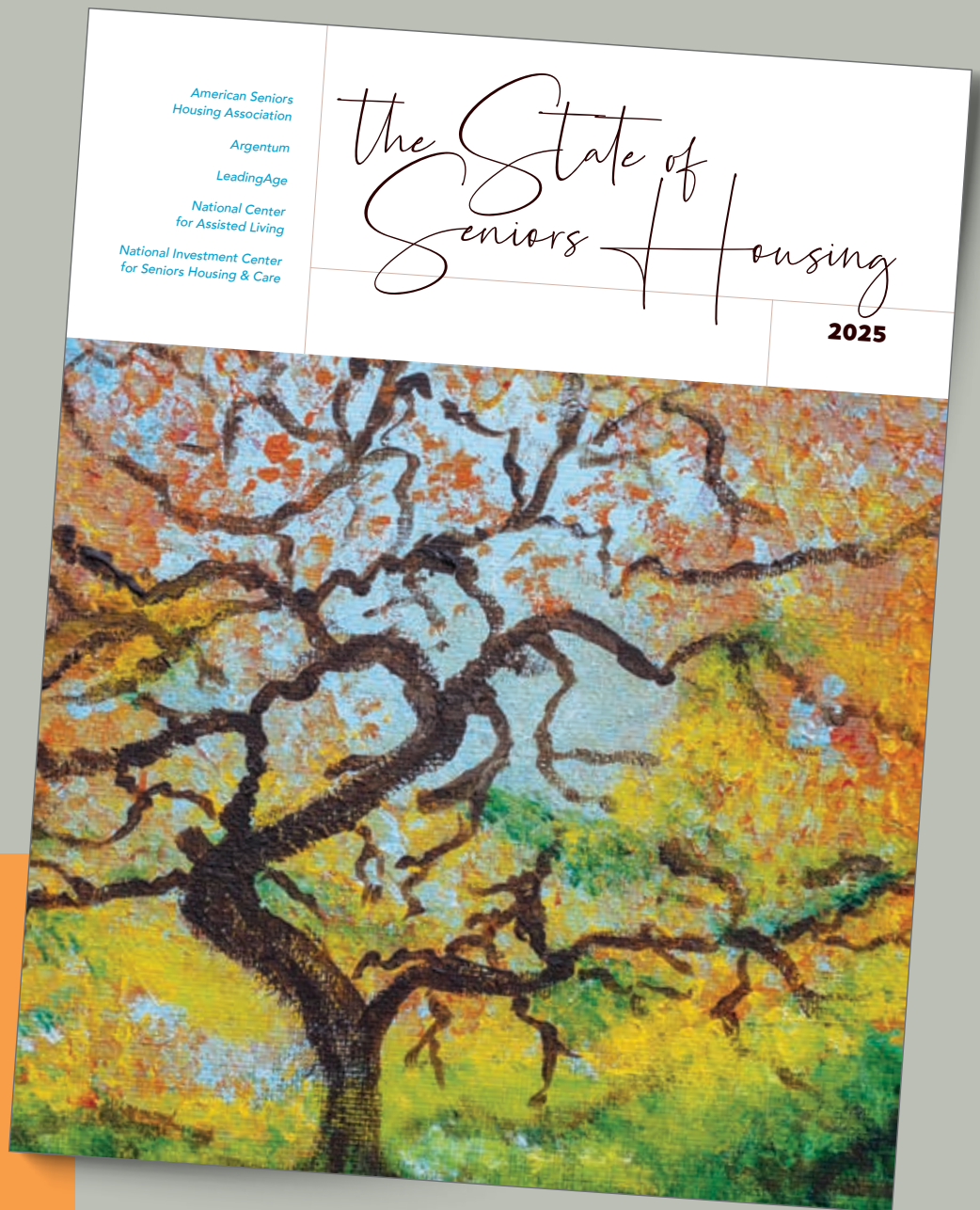


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