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# Preparing for the next decade of senior housing investments



**Melissa Reagen**  
Managing Director, Real Estate Alternatives, Americas

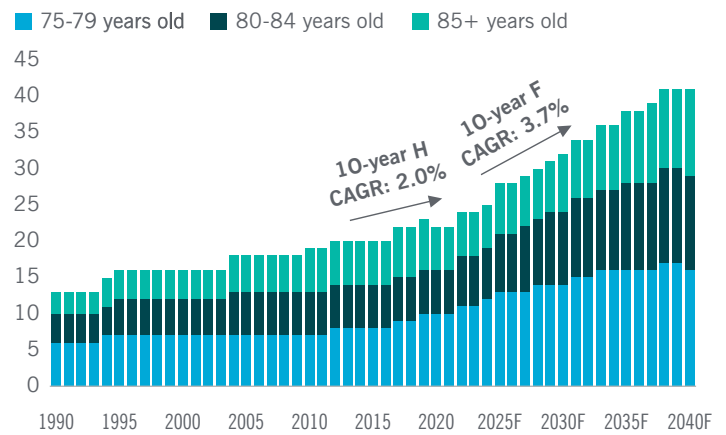


**Daniel Manware**  
Director of Research, Real Estate, Americas

## AN INTRODUCTION TO SENIOR HOUSING

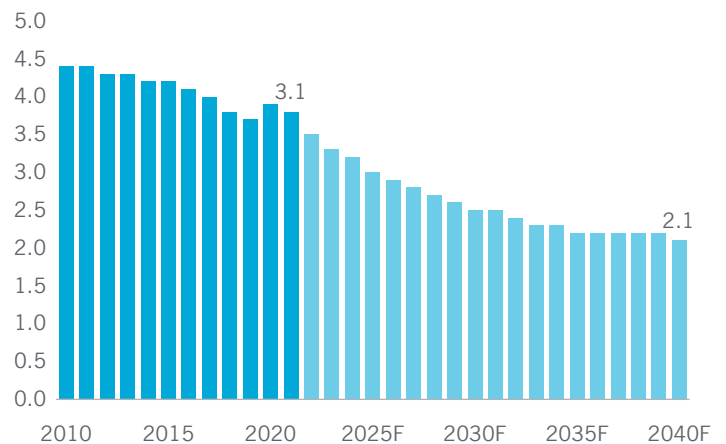
The number of people entering retirement propelled investor interest in the U.S. senior housing sector over the last cycle. However, many investors and developers beat the stronger demand wave that will materialize over the next 10 years. The population of 75+ year olds is expected to grow 3.7% p.a. over the next decade, compared to 2.0% p.a. growth experienced over the last 10 years (Figure 1). This demographic shift has profound implications for senior housing as this generation will eventually need to look beyond their traditional single-family homes and towards housing facilities with assisted services and healthcare support. However, the growing number of seniors will outpace the number of caregivers available for in-home care. The ratio of caregivers to seniors will drop from 3.5 in 2023 to 2.1 by 2040 (Figure 2). This trend is likely to drive more demand for

**Figure 1: Population of 75+ year olds**



Source: U.S. Census Bureau (BOC); Moody's Analytics Forecasted, August 2023

**Figure 2: Ratio of peak caregiver population (ages 45-64) to elderly population (ages 75+)**



Source: U.S. Census Bureau (BOC); Moody's Analytics Forecasted, August 2023

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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**Figure 3: Types of senior housing**

Building features	Independent Living (“IL”)	Assisted Living (“AL”)	Memory Care (“MC”)
Services offered	<ul style="list-style-type: none"> <li>• Meals</li> <li>• Transportation</li> <li>• Housekeeping</li> <li>• Entertainment</li> <li>• Concierge services</li> </ul>	IL services plus: <ul style="list-style-type: none"> <li>• Assistance with bathing, grooming, dressing, eating, medication management, and other activities of daily living (ADLs)</li> </ul>	IL & AL services plus: <ul style="list-style-type: none"> <li>• Dementia care</li> </ul>
Average resident age	83	85	85
Typical age range of residents	75-90	75-95	75-95
Average cost/month	\$3,800	\$6,000	~\$7,600
Primary payment type	Private pay	Private pay	Private pay

Source: Nuveen Real Estate; National Investment Center for Seniors Housing & Care; ASHA; Green Street, August 2023

senior housing when seniors can no longer take care of themselves at home. According to the Centers for Disease Control and Prevention, nearly one-fifth of 75+ year olds need assistance with one or more essential activities of daily living, which is a key driver of senior housing demand.<sup>1</sup> With the outsized cost of home healthcare, the senior housing sector serves as a favorable housing option for seniors to age with support and care.

### SENIOR HOUSING IS NOT MONOLITHIC

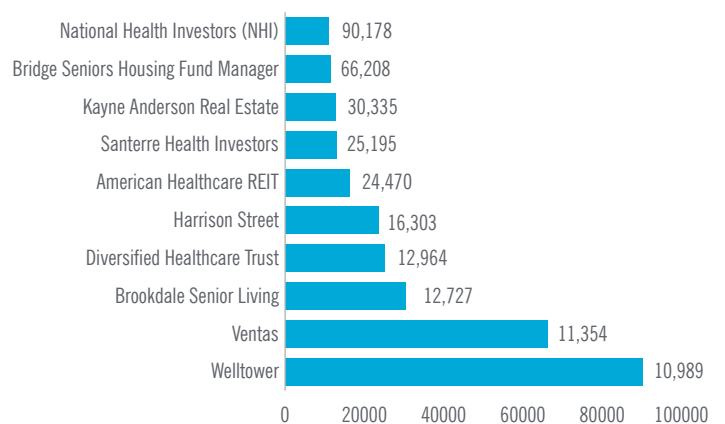
Senior housing is a near \$250 billion industry comprised of approximately 1.2 million units.<sup>2</sup> Senior housing presents a variety of offerings to senior citizens at every stage of life:

- **Independent living** units generally serve healthy residents over the age of 75 seeking socialization, concierge services, and maintenance-free living. These lower-acuity facilities provide hospitality services including meals, transportation, housekeeping, and entertainment. Given residents are on the healthiest end of the senior housing and care spectrum, they typically make the decision to move to these facilities themselves and can afford to do so by monetizing their home equity.<sup>3</sup>
- **Assisted living** units generally serve residents over the age of 85 that require assistance with daily living activities. These facilities provide hospitality and care services that include assistance with

bathing, grooming, dressing, eating, medication management, and other activities of daily living (ADLs). Residents typically make the joint-decision with their adult children to move into these facilities. The primary source of payment is typically the residents’ assets and wealth.<sup>4</sup>

- **Memory care** units provide residents hospitality and care services and dementia care. These units are primarily located within a floor or wing of an assisted living facility. According to the Alzheimer’s Association, 6.7 million people ages 85 and older are expected to have Alzheimer’s dementia by 2060, compared to 2.4 million people ages 85 and older today.<sup>5</sup>

**Figure 4: Top 10 senior housing owners**

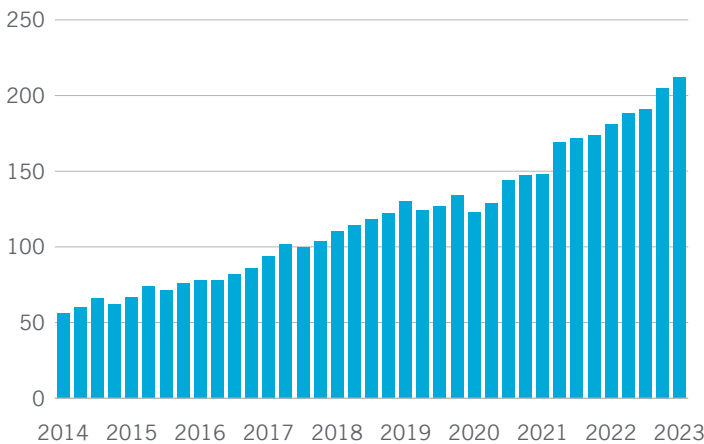


Source: American Senior Housing Association, 2022

## OWNERSHIP

The senior housing market is dominated by REITs and owner/operators such as Welltower, Ventas, and Brookdale Senior Living. The top 10 senior housing owners account for 57% of all total units held by the top 50 owners.<sup>6</sup> However, institutional owners have continuously increased their exposure to senior housing over the last decade. Our analysis of the NCREIF Property Index (‘NPI’) Plus database, a proxy for institutional ownership, indicates that the number of contributing senior housing properties increased from 54 properties in 2014 to 212 properties in 2023 (Figure 5). The total market value of senior housing properties within the NPI Plus database is \$11.4 billion, up from \$1.9 billion in 2014.<sup>7</sup>

**Figure 5: Institutionally-owned senior housing properties in NCREIF Property Index (‘NPI’) Plus**

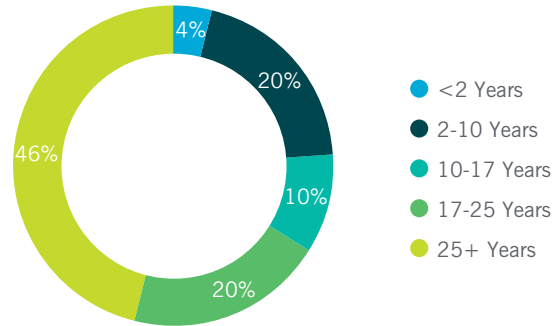


Source: NCREIF, Q2 2023

## SENIOR HOUSING SUPPLY IS PREDOMINANTLY OLDER AND OBSOLETE

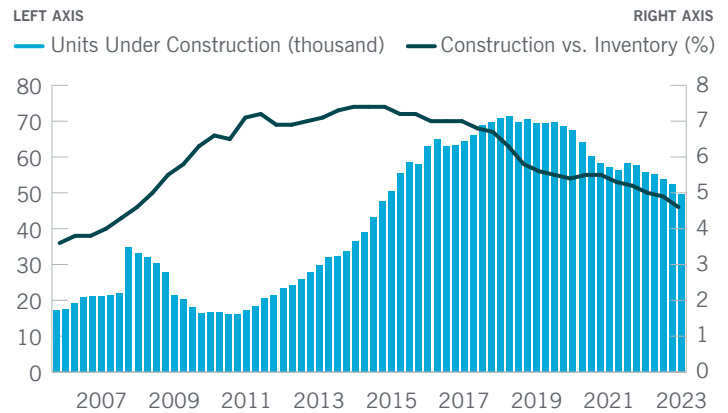
The senior housing supply wave of the last cycle led the demand wave that is occurring this decade. Nearly half of senior housing stock is more than 25 years old and at risk of becoming obsolete (Figure 6). Further, older supply will require cap-ex and new amenities to stay relevant with new supply. The current cap-ex spend on a unit over 20 years old is \$5,200 vs. \$2,800 for a unit

**Figure 6: Senior housing supply by age**



Source: NICMap, August 2023

**Figure 7: Senior housing supply growth**

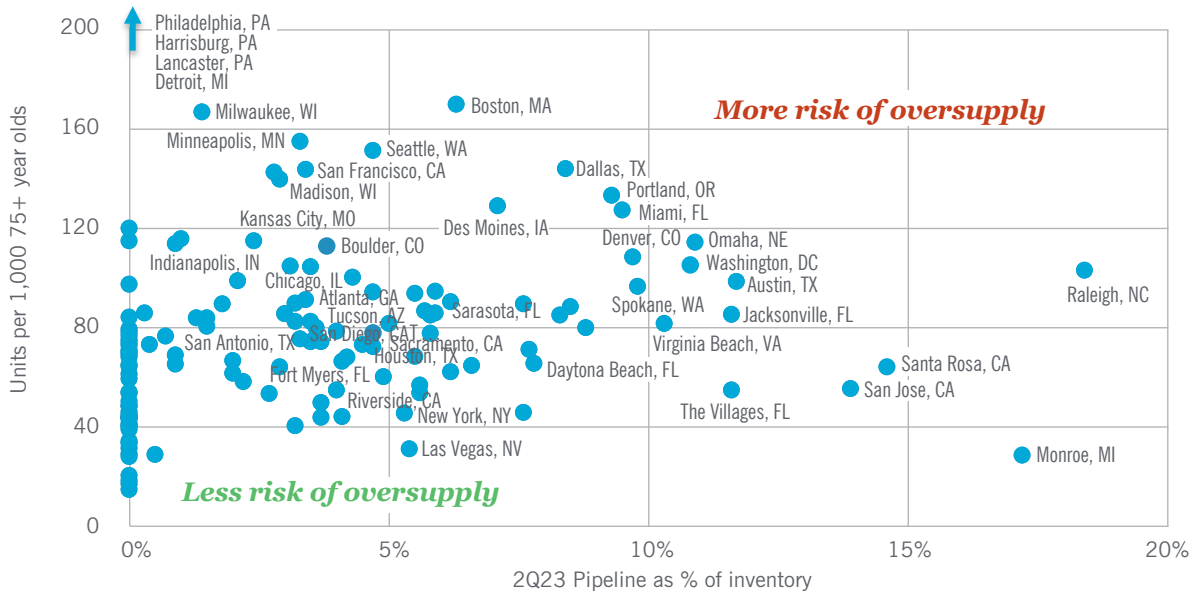


Source: NICMap, August 2023

Note: Primary markets 4Q2005 to 4Q2007; Primary & Secondary Markets starting 1Q2008

under 10 years old.<sup>8</sup> Older senior housing facilities tend to have a lower number of units than newer facilities. Newer facilities are typically configured as a continuum of care (mix of IL/AL/MC) in a single building, rather than standalone facilities for different levels of care. The continuum of care model is well positioned to capture more natural demand for units as people age and need higher levels of care. Further, we believe this model offers owners economies of scale and better margins.<sup>9</sup> Since 2020, the senior housing construction pipeline has continued a downward trajectory to a near decade low (Figure 7). However, markets with higher supply per capita and elevated supply pipelines as a percent of existing inventory are at the most risk of oversupply (Figure 8).

**Figure 8: Senior housing supply per capita vs. inventory growth**



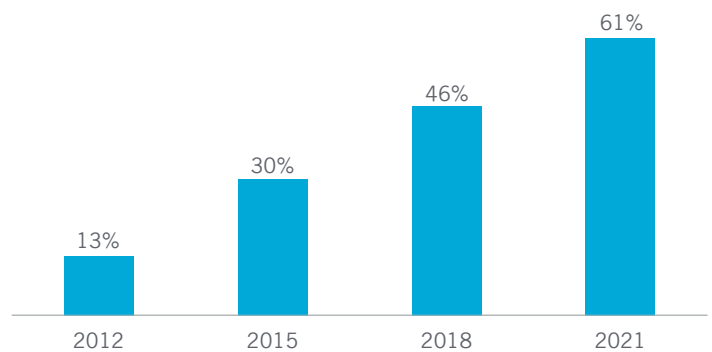
Source: NICMap; StratoDem Analytics, August 2023

### DEVELOPING NEXT-GENERATION FACILITIES

In our view, senior housing developers who modernize layouts and adapt amenities for the evolving preferences and habits of next-generation seniors will capture the strongest demand going forward. In a post-COVID-19 environment, it is probable that senior housing tenants will desire to live in state-of-the-art facilities that have an enhanced focus on resident health, wellness, and safety. Recently constructed facilities typically have larger units than older facilities. Properties with higher square footage per unit are more desirable to potential residents, ultimately increasing occupancy. The baby boomer generation is the most technologically advanced cohort of seniors in history. According to a Pew Research Center study, the percentage of 65+ year olds who own a smartphone has increased from 13% in 2012 to 61% in 2021 (Figure 9).<sup>10</sup> As such, next generation senior housing residents will demand next-generation facilities that have integrated prop-tech capabilities. For example, facilities that have

designated smart phone apps that allow residents to seamlessly access concierge services and request on-demand assistance will be sought after. Given telehealth’s accelerated utilization across all age cohorts throughout the COVID-19 pandemic, senior housing facilities that have on-site video conferencing centers and staff to conduct virtual visits will be desirable going forward.

**Figure 9: Percent of 65+ year olds who own a smartphone**

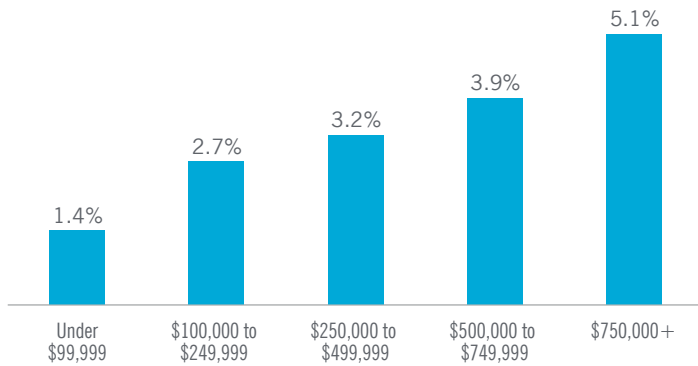


Source: Pew Research Center, January 2022

### WEALTH OF SENIORS WILL SUPPORT DEMAND

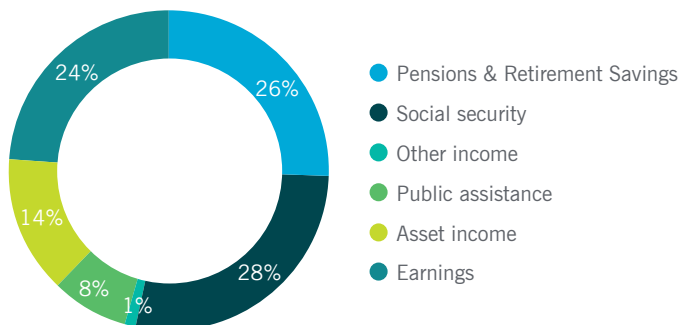
Senior housing is funded almost entirely with consumer “out-of-pocket” dollars, insulating it from “stroke of the pen” risk associated with government-funded payments. Given this, it is important to consider wealth and income dynamics of seniors when analyzing future senior housing demand, as residents will rely on savings in order to afford senior housing. Monetizing home equity is a primary source of paying for senior housing, and the cumulative home price appreciation since 2020 bodes well for seniors’ wealth. According to StratoDem Analytics, the median net worth of 75+ year olds is \$255,000.<sup>11</sup> This covers four full years of senior housing rent.<sup>12</sup> The wealthiest cohort of 75+ year old households is projected to experience the strongest growth, boding well for senior housing affordability (Figure 10). Aside from home equity, primary sources of income for seniors include social security and pensions & retirement savings (Figure 11).<sup>13</sup>

**Figure 10: Forecasted growth of 75+ households by net worth cohort ('23-'28, % pa.)**



Source: StratoDem Analytics, August 2023

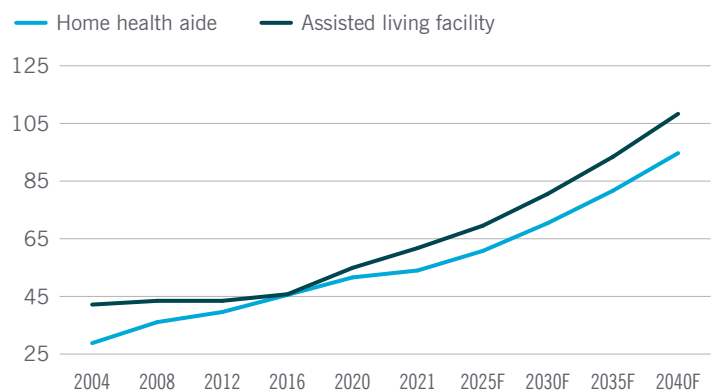
**Figure 11: 65+ year old income by source**



Source: Congressional Research Service's analysis of data from the 2018 Health and Retirement Study (HRS)

While seniors may explore in-home health care, the cost of live-in care is more expensive than senior housing facilities. Genworth Cost of Care Survey data indicates the annual premium for in-home care vs. assisted living facilities is currently \$8,000 and projected to increase over the next decade (Figure 12). While in-home health offers companionship and assistance with daily activities, senior housing provides the same services plus activities for socialization, at a discounted cost.

**Figure 12: Cost of in-home care vs. assisted living**



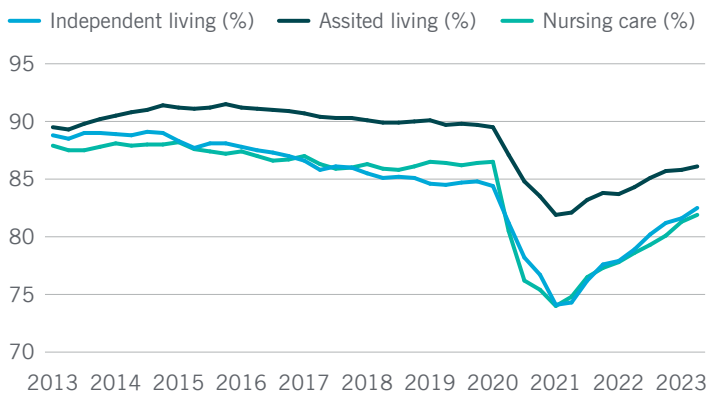
Source: Genworth, 2023

### COVID-19 HIT SENIOR LIVING BUT A RECOVERY IS IN FULL SWING

The COVID-19 pandemic devastated many senior housing communities, reducing occupancy and rental growth. Given the different levels of service offered across the senior housing spectrum, COVID-19 impacted segments differently. According to a study conducted by NORC at the University of Chicago, COVID-19 mortality rates across seniors housing increased as the health and caregiving complexity of residents increased, with the highest percentages occurring in memory care settings and skilled nursing properties. Consequently, occupancies fell the most in higher acuity facilities. Occupancy data from NICMap indicates from Q4 2019 to Q1 2021, occupancies fell 780 bps for independent living, 1,070 bps

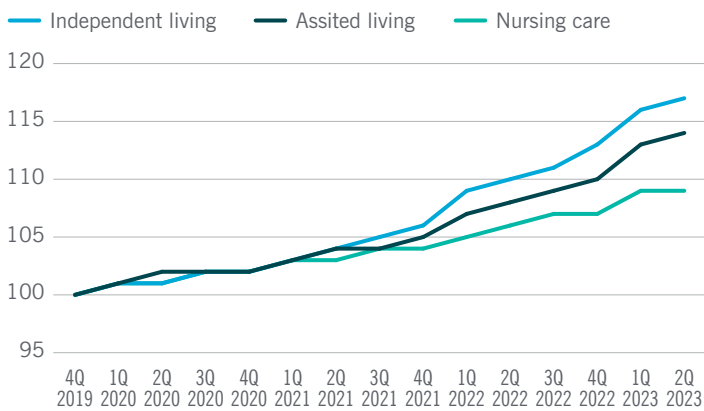
for assisted living, and 1,240 bps for nursing care (Figure 13). Despite occupancy challenges, senior housing rent growth did not turn negative throughout COVID-19. Rent growth has accelerated since mid-2021, particularly among assisted living facilities (Figure 14). However, this corresponds with the fact that newly-developed orchards only start producing income after five years, by which point almond prices are likely to be increasing.

**Figure 13: Senior housing occupancy by type**



Source: NICMap, August 2023

**Figure 14: Senior housing indexed rent growth (100=Q4 2019)**

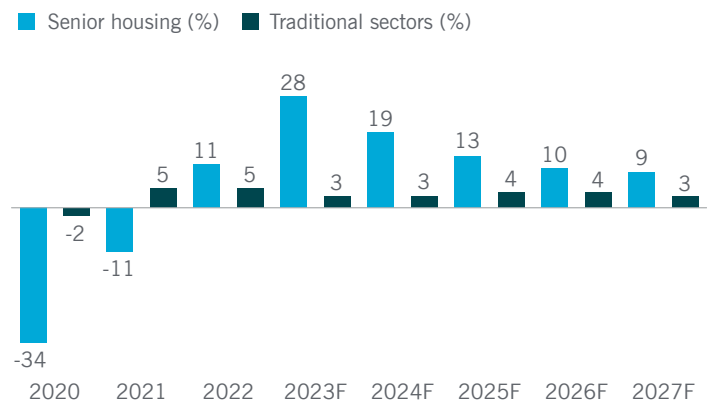


Source: NICMap, August 2023

**PERFORMANCE OUTLOOK**

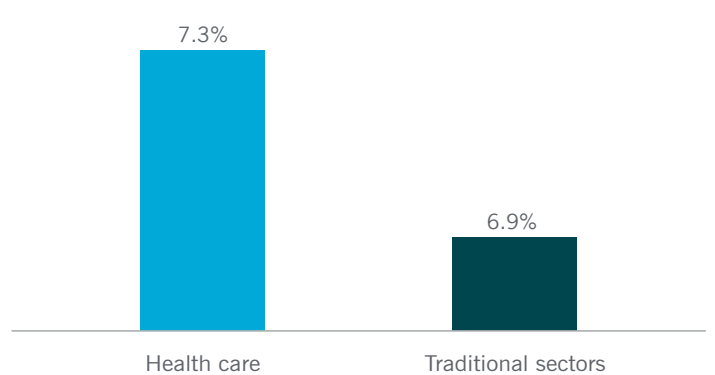
Senior housing market fundamentals are improving. While senior housing occupancy remains below pre-COVID levels across all care segments, decelerating supply growth coupled with strong demand has presented improving fundamentals. The senior housing sector is projected to achieve stronger NOI growth than traditional sectors over the medium term (Figure 15). In our view, the high concentration of obsolete stock creates opportunity to develop the next generation of senior living facilities focused on technology, safety, wellness.

**Figure 15: Senior housing NOI growth forecast**



Source: Green Street, August 2023

**Figure 16: Expected health care sector risk-adjusted returns**



Source: Green Street, August 2023

**For more information, please visit our website, [nuveen.com](https://nuveen.com)**

#### **Endnotes**

1 Centers for Disease Control and Prevention, 2016

2 Nuveen Real Estate; NICMap; MSCI Real Capital Analytics, August 2023

3 National Investment Center for Seniors Housing & Care, 2020 Investment Guide

4 National Investment Center for Seniors Housing & Care, 2020 Investment Guide

5 Alzheimer's Association. 2023 Alzheimer's Disease Facts and Figures Report

6 American Senior Housing Association Report, 2023

7 NCREIF, Q2 2023

8 Green Street, 2023

9 Nuveen Real Estate Healthcare Investment Team, August 2023

10 Pew Research Center, January 2022

11 StratoDem Analytics, 2023

12 NICMap; StratoDem Analytics, August 2023; Note: Overall senior housing rent for all markets.

13 Congressional Research Service's analysis of data from the 2018 Health and Retirement Study (HRS)

14 Genworth Cost of Care Survey, 2023

15 NORC at the University of Chicago: Better Together? The Effect of Senior Housing Status on Excess Mortality During COVID-19, 2021

16 NICMap, August 2023

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