

# Senior housing

A can't miss investment opportunity (with plenty of ways to miss)



**Lee Menifee**  
PGIM



**Dana Wooderson**  
PGIM

Conditions are right for senior housing to fulfill its long-awaited promise. An aging demographic, limited supply, and lessons learned from the COVID-19 pandemic prime the sector for growth through the next decade. But tech advances and labor issues could hamper efforts of the operationally intensive sector that has among the highest operating leverage in commercial real estate.

► Demand for senior housing should be strong for the next decade





## What is senior housing?

As there is no standard definition of senior housing, this article will focus on private-pay, age-restricted communities where residents receive services beyond housing, including meals. Within this there are three categories of services provided and cost. In ascending order, they are:

- **Independent living** provides able-bodied seniors with housing along with meals and social activities.
- **Assisted living**, as the name suggests, adds ‘assistance with daily living’ that can include services such as medication management, and help getting dressed and showered.
- **Memory care** provides a secure environment for residents with dementia.

There are two additional formats that deserve mention:

- **Active adult communities**, which are age-restricted but do not provide meals or extensive services, fall outside of the traditional definition of senior housing. Rent and vacancy of active adult communities have historically tracked close to traditional apartments.
- At the other end of the spectrum, **skilled nursing** provides healthcare services in addition to meals. The nature of these facilities, notably including the significant reliance on government reimbursement through Medicare and Medicaid, require a specialized ownership and operating model that is poorly suited for most real estate investors.

KEY TAKEAWAYS

CERTAIN AND STRONG TAILWINDS

The growing number and lifespan of baby boomers and supply shortage indicate that demand for senior housing should be strong for the next decade.

LOW MARGIN FOR ERROR

As an industry based on operators and ownership expertise, senior housing has higher operating leverage than any other type of commercial real estate except for hotels. This magnifies both things that go right, and those that don't, as revealed by the COVID-19 pandemic.

SHAPING THE FUTURE

Tech advancements can allow for better care, but also reduce the need for senior housing. Regulations, especially pertaining to labor, have a huge impact. Skilled operators should manage changes at the state and local levels.

If demographics really are destiny, then right now there's no more compelling investment case than the US senior housing sector. We are at the beginning of a decade-plus surge in demand, and it's unlikely construction will be able to keep up.

And yet, those who have been in the industry for a long time can be forgiven for lamenting this is the same pitch that's been made since the late 2000s. For most of that time, it was more like *Waiting for Godot*, the Samuel Beckett play in which two characters spend two hours waiting for someone who never shows up.

However, unlike in the play, Godot has arrived.

Favorable dynamics

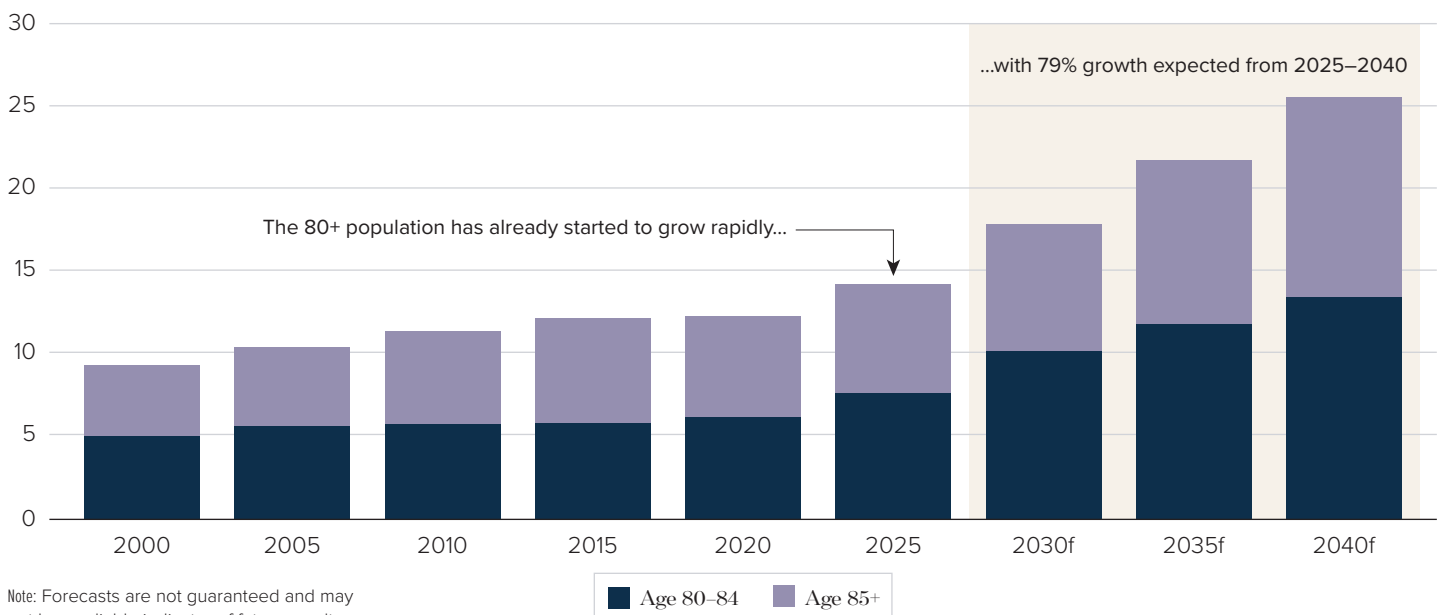
What took so long? Prior predictions about increasing senior housing demand ignored two realities. First, the '75 and older' rule of thumb. In reality, the average age of entry into senior housing is higher. The boomer generation (born in 1946–1964) had been, until now, too young to move into senior housing. The ubiquitous charts showing the surge in the age 65+ population starting in the late 2000s were at least a decade too early to predict rising senior housing demand. The demand boom starts now, as shown in [1](#).

1

A senior demographic surge is underway

The 80+ age population in the US has been steadily increasing from 9.3 million in 2000, and is expected to grow 79% from 2025 (14.2 million) to 2040 (25.4 million).

TOTAL AGE 80+ POPULATION (M)



Note: Forecasts are not guaranteed and may not be a reliable indicator of future results.

Sources: US Census Bureau, Moody's Analytics, PGIM. As of January 2026.



istock.com/Jose Carlos Cardeno

▲ Newer properties look more like upscale multifamily properties or hotels

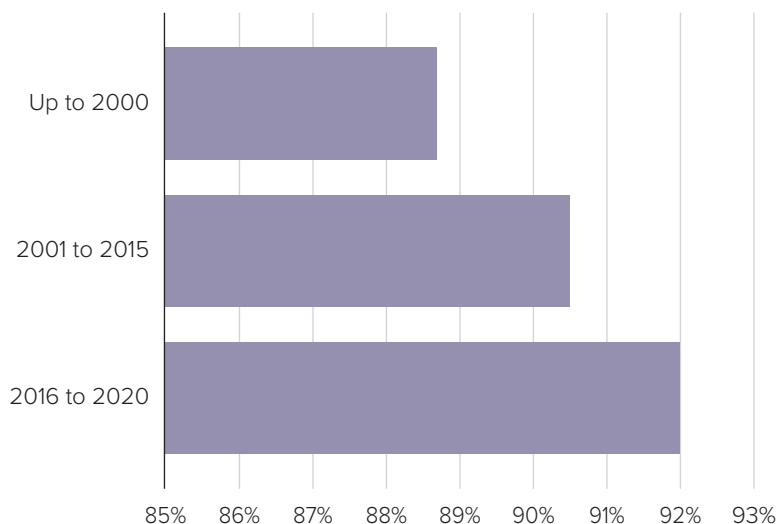
## Boomers are healthier than their parents were at their ages.

2

### Newer build properties boast higher occupancies

Senior housing communities built between 2016 and 2020, which became more like upscale multifamily properties or even hotels, have a 300 basis point higher occupancy rate than the utilitarian construction typical before 2000.

SENIOR HOUSING OCCUPANCY BY YEAR BUILT\*



\* Analysis based on senior housing properties in the NCREIF database. Sources: NCREIF, PGIM. As of January 2026.

Second, the age of entry is rising. Healthcare has not just improved age expectancy, but also seniors' health at every age. It may be an exaggeration to say '80 is the new 70', but as a group the boomers are healthier than their parents were at their ages. According to the National Investment Center for Seniors Housing and Care (NIC), the average age of entry into independent and assisted living now is 83 and 84, respectively.<sup>1</sup>

This makes senior housing demand a safe bet not just through this decade, but through the 2030s as well. No other sector has demand tailwinds this certain and strong.

Of course, supply matters just as much as demand for senior housing owners and operators. As recently as 2015–2018, supply did run slightly ahead of demand, pressuring market vacancies slightly higher, and particularly stressing older communities and ones with less capable management teams.

But for now, and for the foreseeable future, oversupply is not a concern. We estimate that if the penetration rate — the percentage of people 80 and older who live in senior housing — stays the same as it is today, there will be demand for an average of about 60,000 additional senior housing units *each year for at least the next decade*. How many units were built in 2018, the previous peak construction year? Less than 35,000.

Plus, there are reasons the penetration rate may increase over time. Perceptions of senior housing are more likely to be based on the experience of walking into newer properties, which look more like upscale multifamily properties (or even hotels) than the utilitarian construction typical in the 1980s and 1990s. As shown in [2](#), people prefer newer properties. As more communities are built, perceptions of senior living could further improve.

The challenge thus won't be matching supply with demand, but building and staffing enough communities to not fall too far behind demand.

### The can't miss investment?

Does this make senior housing the can't miss investment of the decade? Yes, if you get it right. That requires a combination of a good location, good

building design, and, most importantly, a capable operator. As shown in [3], while average occupancy has now fully recovered from the early 2020s shock, there are still many communities struggling to stay full.

With the coming more favorable supply and demand dynamics, it's likely that 'good enough' locations and buildings will perform well. That rising tide should lift many boats.

### Operating leverage and other possible headwinds

As senior housing has higher operating leverage than any other type of commercial real estate except for hotels, the margin for error on operators is a lot narrower. That operating leverage magnifies things that go right; for instance, improvements in occupancy above a certain threshold generate significantly more

revenue than apartments. But operating leverage also magnifies things that go wrong. And we've learned over the past decade that there are at least four of them:

### 1 There can be a global pandemic for the first time in about a century

Senior housing was more abruptly and severely affected by the regulated and self-imposed restrictions in response to the COVID-19 pandemic beginning in March 2020. As shown in [4], net absorption of senior housing units immediately plunged, kicking off a year of unprecedented occupancy declines.

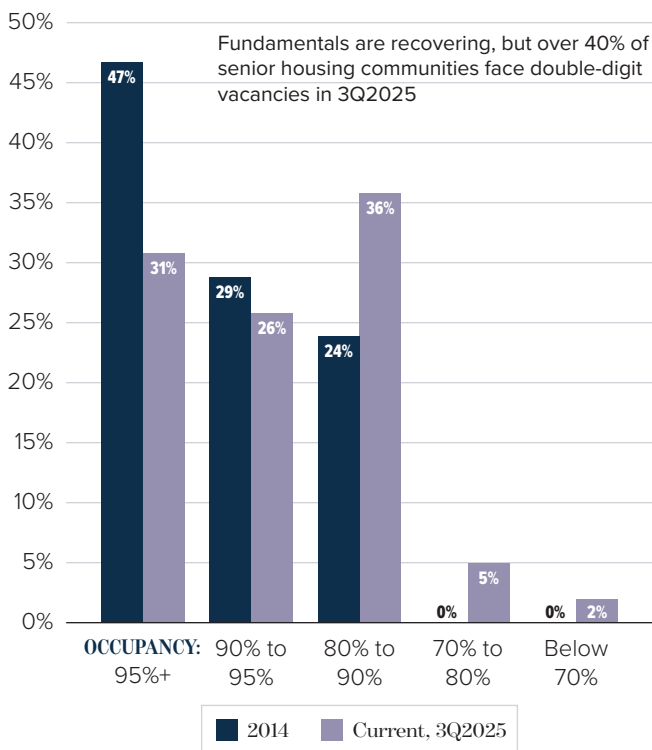
Most communities lacked pre-established protocols to follow during a public health emergency. Pandemic responses fell across a wide spectrum, ranging from damned-if-you-don't (communities that did not act quickly and effectively to minimize the spread of

3

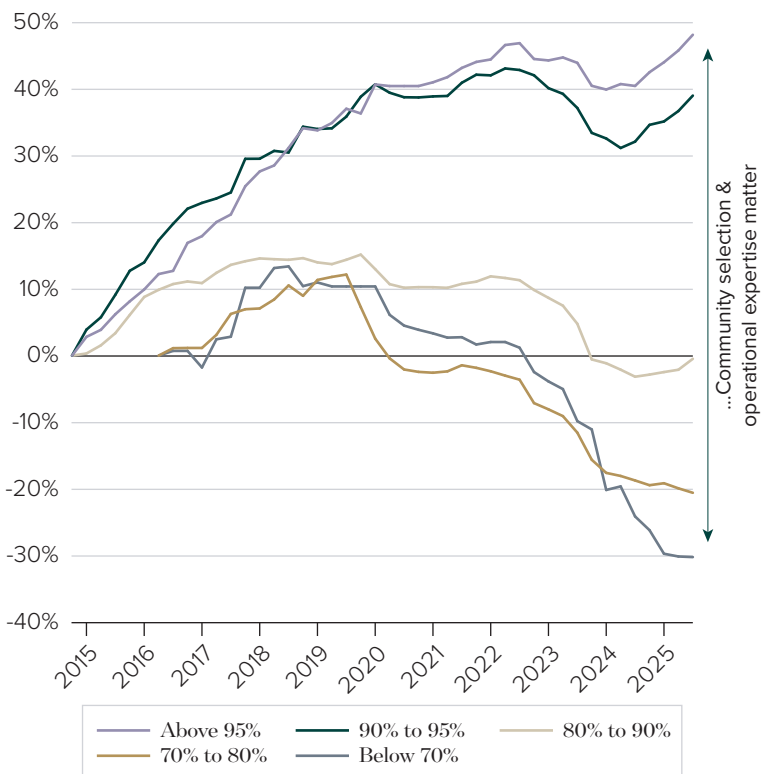
### Operational expertise is a critical differentiator in property performance

Despite a recovery in fundamentals, more senior housing properties in 2025 reported double-digit vacancies compared with 2014. Community selection and operational expertise are key differentiators.

SENIOR HOUSING PROPERTIES BY OCCUPANCY BAND



CUMULATIVE APPRECIATION



Sources: NCREIF, PGIM. As of January 2026.

infections among residents and staff had significantly higher mortality rates) to damned-if-you-do (residents' mental health deteriorated quickly in communities that aggressively isolated residents from one another and prohibited visits from family members for months).

Even with the benefit of hindsight, it is not clear what the optimal level of restrictions should have been during the pre-vaccine months of the pandemic. However, it is clear from data and follow-up studies<sup>2</sup> that the extremes of nearly business as usual and months of isolation were worse than the protocols that fell between them.

Changes in the regulatory environment as a separate category of things that can go right or wrong will be addressed in point #4 below. For now, suffice to say that the regulatory response to senior living varied enormously across the country. In jurisdictions that gave

public health agencies broad authority to impose stay-at-home and other restrictions, senior housing operators were *required* to keep residents isolated from one another and their families for months. More commonly, senior housing operators were not allowed to accept new residents, regardless of whether conditions at home were safe for daily living. Move-in restrictions, in addition to families' preference to wait longer to move their parents and grandparents during the early pandemic period, worsened the occupancy plunge.

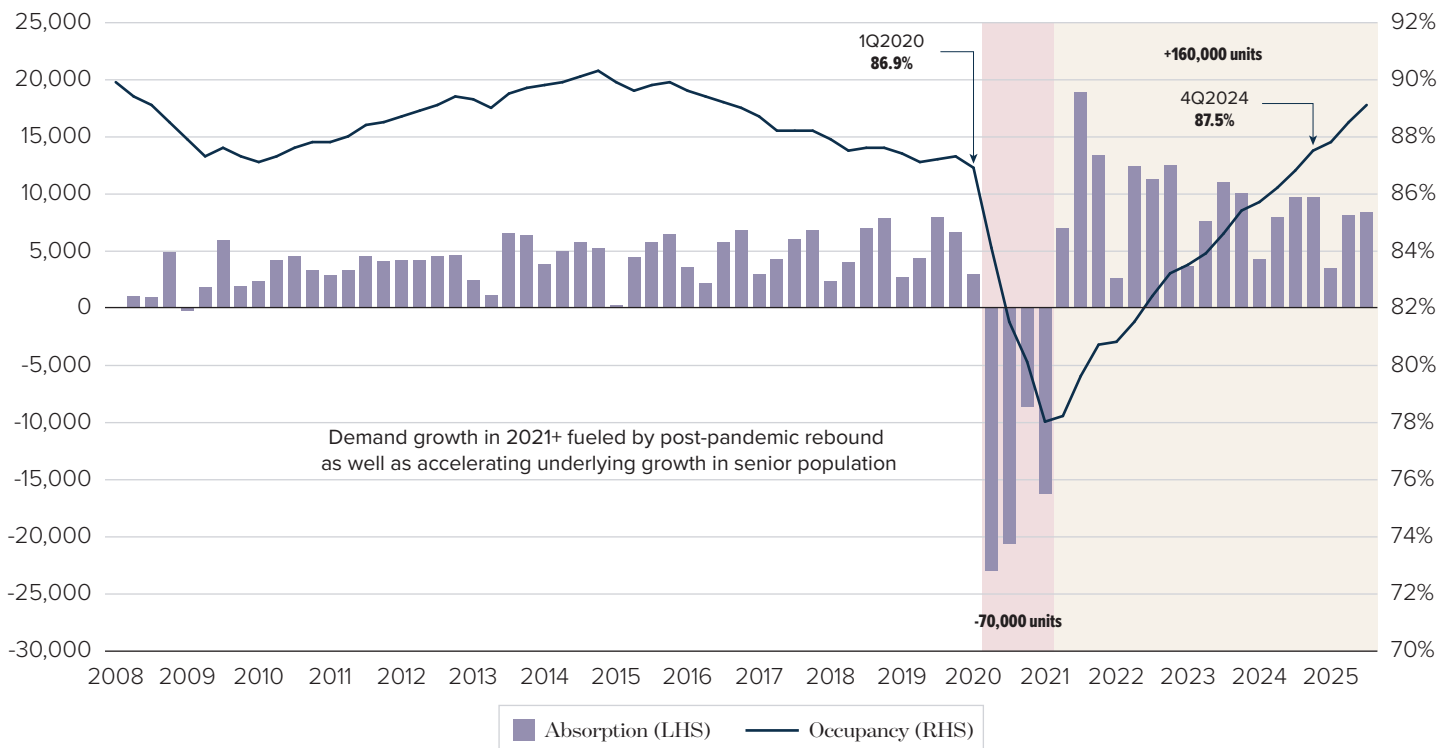
There is some good news. The lessons learned during this period will benefit residents in and owners of senior housing in the future, under less stressful conditions than a global pandemic. Communities now often have established protocols in place for more routine events such as influenza outbreaks. Those codes should strike a better balance between pre-pandemic norms that allowed influenza and other respiratory diseases to

4

### Large swings in demand during and after the pandemic

Net absorption and occupancy of senior housing units plunged during the COVID-19 pandemic in March 2020 and only started to improve a year later.

SENIOR HOUSING QUARTERLY ABSORPTION AND OCCUPANCY



Sources: National Investment Center for Seniors Housing & Care, PGIM. As of January 2026.

spread quickly, and the extreme measures during the pandemic that isolated residents for psychologically challenging periods.

## 2 Operating expenses can spike for reasons outside of owners' control

Effective expense management distinguishes capable senior housing operators from their competitors. The three most important line items<sup>3</sup> are labor, food, and disposable materials such as personal protective equipment (PPE). In most economic environments these costs are highly predictable, and effective operators can pass along increases to residents.

However, the past five years have been anything but normal:

- During the pandemic in 2020, the cost and need for PPE spiked. Not only were items like masks and gloves more expensive, but staff members needed to spend additional time procuring them. By the end of 2020, these materials were plentiful. Unfortunately...
- labor shortages became common across many industries, particularly those that pay lower wages. Suddenly, many senior housing workers who had endured tough working conditions during the pandemic had less stressful employment opportunities elsewhere at similar or higher wages. In response, senior housing aggressively increased wages (as shown for assisted living communities in [5](#)) to retain workers. They also resorted to hiring contract employees from agencies, at double or triple the hourly cost of the workers they lost. Eventually, wage costs became more predictable. However...
- in 2022, for the first time since the 1980s, inflation abruptly spiked, including for food. Serving three meals a day to every resident accounted for approximately 5% of operating costs on average; at the same time, occupancies had not recovered enough to fully pass along these costs.

Now supply chains are functioning again, food prices are no longer rising, and senior housing wages are high enough to maintain steady staffing. Cost control, for the time being, is again about establishing and sticking to budgets, at which experienced and capable operators are good. Capable operators also will be proactive in implementing AI and other technology, to

improve residents' experiences and (eventually, maybe) lower costs.

Yet operating costs are not the only worry:

## 3 Rapid interest rate increases can make loans more expensive and risky

Most commercial real estate, including senior housing, is financed. Loan terms are similar to traditional multifamily properties, including loan-to-value and debt service coverage ratio requirements. Although it is tempting to assume senior housing owners have been through the same turmoil as everyone else, there is one difference.

Senior housing's high operating leverage makes cash flows more volatile than other property types: for worse, when occupancy drops below a threshold; and for better, when incremental occupancy gains above that threshold generate rapid net operating income gains.

Unfortunately for senior housing owners, when interest rates started rising in 2022, many communities' occupancies were at the worse end of that spectrum. Rising costs compounded budget challenges. Moreover, debt costs immediately rose for those with floating-rate loans, and refinancing challenges loomed. The result was, as shown in [6](#), that the percentage of troubled senior housing loans vs. all commercial mortgages increased and remains elevated.

The lessons about the unpredictability of interest rates and flexibility about borrowing and lending decisions to allow debt to be made serviceable under a wider range of scenarios holds for senior housing even more than most other types of commercial real estate.

## 4 Regulations can change

In addition to the previously discussed measures enacted in response to the COVID-19 pandemic, there are many state- and local-level regulations that must be followed by senior housing owners, particularly for licensed assisted living and memory care units. A few examples of these requirements include:

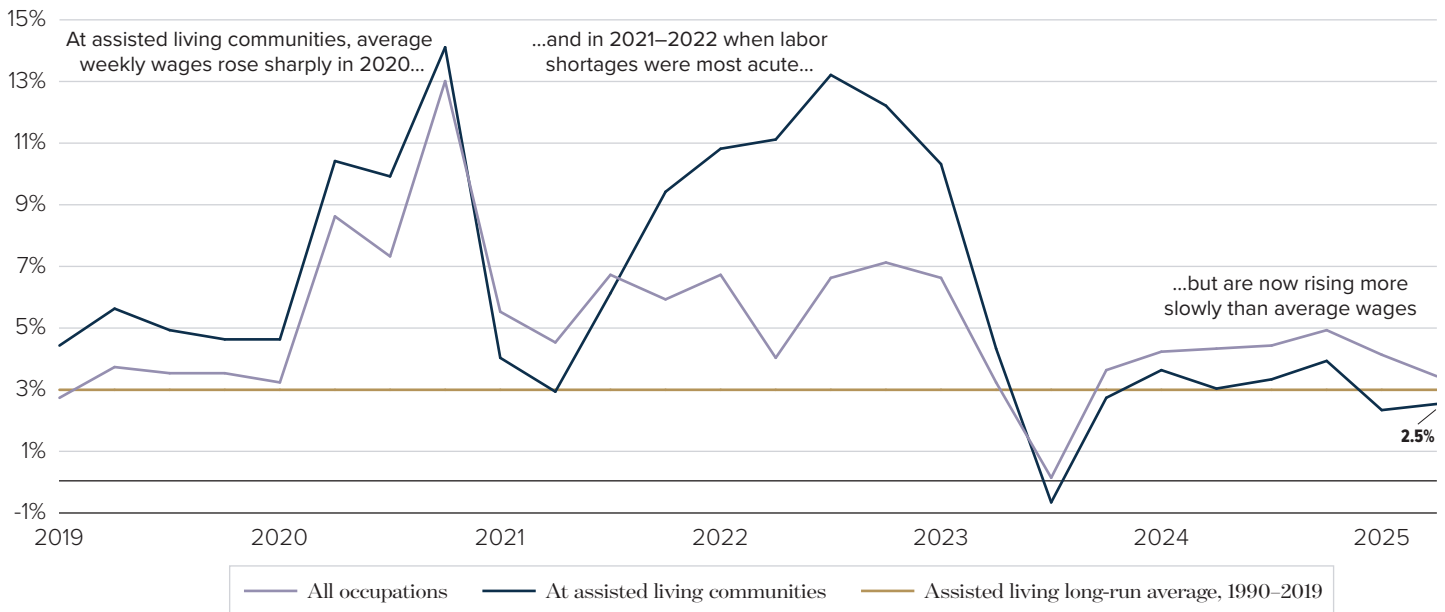
- Minimum staffing levels per resident
- Requirements for a licensed nurse to be on staff
- Ongoing training for staff members
- Secure oversight and administration of medications

5

### Labor costs spiked during the pandemic

As demonstrated by data for assisted living properties, labor costs jumped during the pandemic as workers, already short in supply, left for less stressful and higher paid occupations elsewhere. In response, senior housing aggressively increased wages and resorted to hiring contract workers from agencies.

AVERAGE WEEKLY WAGE, YEAR-OVER-YEAR INCREASE



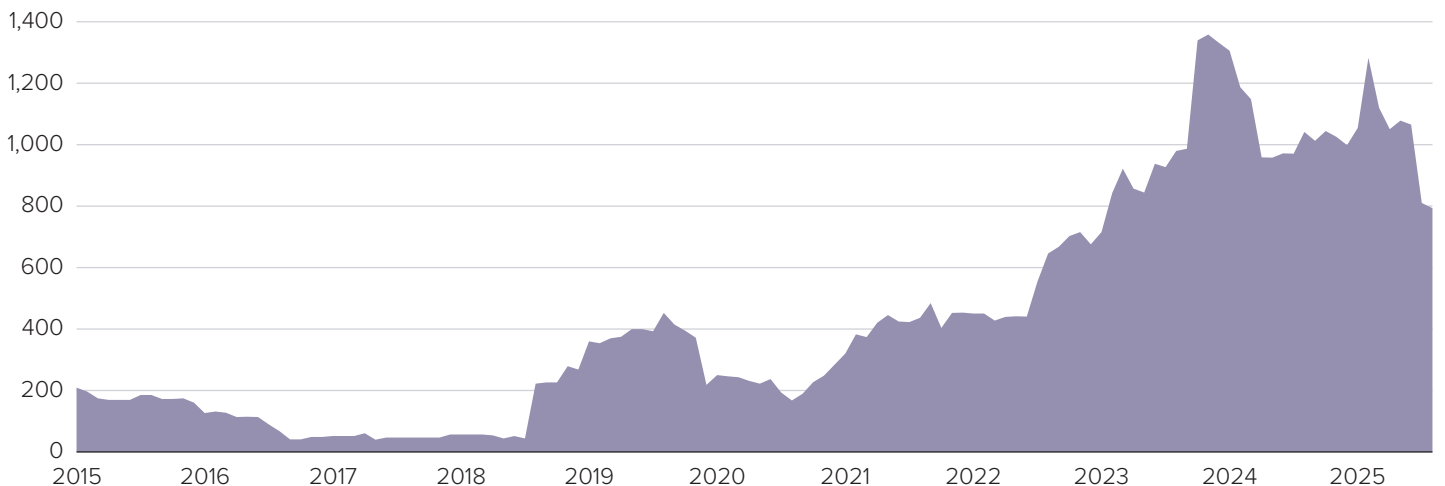
Sources: BLS, PGIM. As of January 2026.

6

### Troubled loan volumes remain high

Due to senior housing’s high operating leverage, the increase in interest rates beginning in 2022 caused debt costs to spike for senior housing communities with floating-rate loans. They remain high.

SENIOR HOUSING TROUBLED LOANS (ROLLING 12-MONTH VOLUME, \$M)



Sources: Real Capital Analytics, PGIM Real Estate. As of January 2026.

Most of the time, regulations are simply a predictable cost of doing business. Many of these regulations, such as ongoing training and oversight of medications, are industry best practices that operators follow even in jurisdictions that don't have explicit requirements. Sometimes they are even created in conjunction with senior housing industry organizations such as NIC.

However, *changing* regulations are an important risk for owners. Partly as a reaction to high mortality rates from COVID-19, at least 15 states have strengthened staffing requirements for assisted living.<sup>4</sup> Nearly half of states now require collection and reporting of infections data, and 88% require infection control policies.

While few individual new regulations are budget busters, the cumulative impact of new ones can be meaningful. To manage this risk, skilled operators and owners proactively anticipate, and to the extent possible shape, new regulations.

## What comes next?

Over the coming decade and beyond, the demand drivers for senior housing should continue to improve. Based on historical norms, construction levels are unlikely to keep up with that demand. Operators and owners have learned valuable lessons from the first five years of this decade, making them better prepared to navigate challenges such as respiratory diseases, cost pressures, rising interest rates, and changing regulatory regimes. The investment case for senior housing remains strong.

And yet, in ten years another article like this one will be written, describing how the industry has navigated new challenges during a period of unprecedented demand growth. What will those be? We certainly don't know, but some good candidates are:

- **Technological advancements** that allow operators to provide better care, and potentially to provide that care with fewer human caregivers. AI-trained fall detection wearables are already in use in some communities, providing residents with immediate assistance rather than waiting for caregivers to do their nightly rounds.

Other potential technologies available today but not widely used include robotics to deliver (but not administer) medication to residents' rooms, and AI robot conversation companions for residents with dementia. Advances in robotics may make

caregivers' jobs less physically demanding, which would broaden the pool of qualified workers.

However, one note for the senior housing optimists: these same technologies may make it safer and less expensive for many seniors to remain living at home, thus delaying, and perhaps shortening stays in senior housing.

- **Labor shortages** due to immigration restrictions. Immigrants comprise nearly 25% of workers in residential care settings<sup>5</sup> and often form a larger share of the less-skilled workforce. Absent substantial technological advances, and more importantly changes in regulations to allow for fewer caregivers per resident, senior housing operators will have difficulty filling roles over the next decade unless changes are made to current immigration policies.
- **New models provide middle-market communities** that meet seniors' needs. As of today, the senior housing models that work best are upscale, amenity-rich communities that cater to residents who can afford it. This universe of properties is akin to Class A apartments, with no successful non-subsidized equivalent of Class B and C apartments. Many have tried, mostly unsuccessfully, to provide an acceptable level of services at lower price points. Will there be a successful new model introduced this decade? With a combination of technology, regulatory changes, and new financing models, maybe!

Although the oncoming challenges and opportunities will probably be different over the next decade, the most important determinant of investment returns is unlikely to change. While the physical real estate and location matter, neither matters as much as operational expertise. If demographics are destiny, then senior housing is the high conviction property type for this decade. The real scarcity is the operators and the ownership expertise needed to identify them, who know how to navigate the ever-changing and challenging environment. [📌](#)

<sup>1</sup> NIC MAP. "Why 85+ is the New 75+ for Senior Housing Demographic Analysis."

<sup>2</sup> See, for instance, "Technical Report: The Impact of COVID-19 on Seniors Housing," NORC at the University of Chicago, June 3, 2021.

<sup>3</sup> Capital expenses, such as roof repairs and common area refurbishments, are ignored here because they are similar to other types of real estate such as multifamily.

<sup>4</sup> American Health Care Center National Center for Assisted Living. 2025. "States Continue Adapting Assisted Living Regulations." January 15.

<sup>5</sup> Chidambaram, P. and D. Pillai. 2025. "What Role do Immigrants Play in The Direct Long-Term Care Workforce?" KFF. April 2.

Lee Menfee is Head of Americas Investment Research and Dana Wooderson is Portfolio Manager, Senior Housing, both at PGIM.