



The strategic advantages of investing in the seniors housing industry

Author:



Eric Smith
CEO and Co-Founder
Locust Point Capital

The U.S. Seniors Housing sector is at the forefront of an unprecedented growth trajectory, driven by powerful demographic trends, evolving healthcare needs, and a shifting economic landscape. As the U.S. population ages, the demand for quality senior care will grow exponentially, creating a resilient, needs-based asset class that offers compelling opportunities for institutional investors. Unlike traditional real estate sectors that are often cyclical in nature, we believe that Seniors Housing demonstrates secular trends and stability due to its essential nature and the non-discretionary demand for its services.

Investing in the U.S. Seniors Housing is not merely about capitalizing on demographic shifts; it is about aligning with a sector that is integral to the nation’s healthcare infrastructure and social fabric. The industry’s ability to generate consistent, risk-adjusted returns—even in the face of economic downturns—makes it an attractive proposition for investors seeking long-term value and portfolio diversification. Moreover, with significant supply-demand imbalances, opportunities for consolidation, and the potential for strategic redevelopment, the sector presents a dynamic landscape ripe for growth and innovation.

Locust Point Capital, with its deep expertise and proven track record in this space, exemplifies how disciplined investment strategies can unlock value and deliver consistent returns while addressing the critical needs of an aging population. We explore the strategic advantages of investing in the U.S. Seniors Housing, delving into key macroeconomic factors, demographic drivers, and policy considerations

that may shape the industry’s future. Through this lens, we aim to provide institutional investors with a comprehensive understanding of why Seniors Housing is not just a sound investment—but a transformative one.

Consistent returns and resilience in economic downturns

One of the defining characteristics of the U.S. Seniors Housing sector is its consistent return profile. Unlike traditional commercial real estate segments such as office or multifamily properties, Seniors Housing exhibits remarkable stability. This resilience stems from the needs-based nature of the services provided—decisions to move individuals into long-term care facilities are often necessity-driven, occurring after all other options have been exhausted. This leads to prolonged stays and reliable cash flow, which are less susceptible to economic fluctuations.

Moreover, the sector’s critical role within the broader U.S. healthcare infrastructure adds another layer of stability. Designated by former President Barack Obama as part of the nation’s 16 critical infrastructure sectors, Seniors Housing received significant financial support during the COVID-19 pandemic through initiatives like the CARES Act. This government backing underscores the sector’s importance and its ability to withstand major disruptions, including ‘black swan’ events like COVID-19.

Demographic tailwinds driving sustained demand

The U.S. is experiencing a profound demographic shift that positions the Seniors Housing for sustained growth. The population aged 85 and older is projected to more than double from 6.5 million in 2020 to approximately 13.7 million by 2040. This demographic reality translates into an inevitable increase in demand for long-term care services, with

around 70% of individuals turning 65 expected to require some form of long-term care during their lifetime.

Despite the Seniors Housing sector’s clear growth trajectory, the industry is facing an acute supply-demand imbalance that we believe is widening the opportunity set for investment. By 2030, it is projected that approximately 755,000 additional units will be required to accommodate the rapidly aging population. However, current construction activity is failing to keep pace with this escalating demand. In 2022, only 22,795 new units were delivered, followed by a decline to 14,363 units in 2023, and an even lower 10,500 units in 2024. Over the past five years, the industry has only added 106,000 new units—a figure that falls significantly short of what is needed to meet future demand.

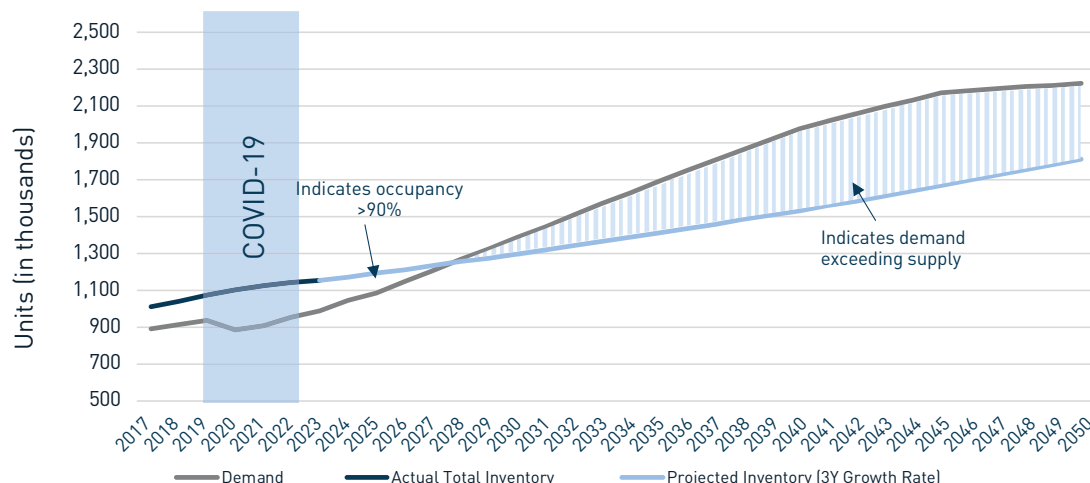
Furthermore, the probability of reaching the target of 755,000 new units by 2030 is diminishing due to the current interest rate environment in the U.S. and broader economic challenges. The constrained capital markets have restricted access to financing for new development projects, thereby slowing construction growth. Additionally, increasing construction costs, ongoing labor shortages, and regulatory obstacles continue to impede the introduction of new supply into the market.

While we initially anticipated that demand would surpass supply towards the end of this decade, recent developments have accelerated this timeline. The industry has already reached a critical inflection point, characterized by steadily increasing occupancy rates quarter after quarter, with nearly all markets returning to pre-COVID occupancy levels. Although a development surge is essential to address this growing gap, it is in our opinion unlikely to materialize in any meaningful capacity until 2027 or 2028 at which point, given construction timelines, it will be too late to catch up with demand.

The current supply-demand dynamics within the seniors housing sector present both challenges and opportunities. The combination of limited new development in recent years and a rapidly aging population is expected to drive occupancy levels higher across the U.S. This growing demand will likely result in extensive waiting lists and give existing communities greater pricing power, allowing them to raise rates beyond expected inflation levels. In this environment, operators will have greater flexibility to continue to implement rental rate increases, effectively passing higher costs on to consumers, thereby improving operating margins. These conditions highlight the urgent need for strategic investment and development initiatives to address the growing imbalance and ensure the industry can meet the evolving needs of the aging population.

While expanding seniors housing supply is critical,

Supply shortage (All markets)



alternative solutions will also play a role in bridging this gap. Home health services and technological advancements designed to help seniors age in place will provide valuable support. However, these alternatives, while beneficial, cannot fully replace the essential need for dedicated seniors housing, which offers specialized care and community-based living environments that home-based solutions cannot replicate in a cost efficient manner.

For institutional investors, this persistent supply-demand imbalance represents a compelling opportunity. The combination of limited new inventory, strong demand influenced by demographic trends, and consistently high occupancy rates, creates conditions that are favorable for both existing assets and new developments situated in supply-constrained markets. Investors stand to benefit from robust rental growth, stable cash flows, and enhanced asset appreciation. This environment highlights the strategic importance of targeted investments in seniors housing, which we believe presents opportunities for attractive risk-adjusted returns in a sector positioned for sustained long-term growth.

Fragmentation and opportunities for consolidation and redevelopment

The U.S. Seniors Housing sector is highly fragmented, with 72% of facilities being operated by entities that manage fewer than 25 properties. Many of these facilities were constructed before 2010, with some dating back to the 1990s. This fragmentation, combined with an aging inventory, creates significant opportunities for consolidation and redevelopment.

Institutional investors can leverage these dynamics by identifying underperforming assets ripe for repositioning or to support operators with growth-oriented strategies. The need for modern, well-equipped facilities is increasing, offering attractive prospects for both value-add investments and new developments tailored to the evolving preferences of today's senior population.

Impact of the Trump administration on the U.S. Seniors Housing Industry

President Donald Trump's election has led to policy shifts that may affect the U.S. Seniors Housing industry. These include trade policies, immigration reforms, and possible government entitlement cuts, impacting senior living providers and investors.

Recent economic developments, including shifts in the U.S. trade policies and the implementation of tariffs, have the potential to create ripple effects across various sectors, with industry leaders predicting inflationary pressures across key markets. Tariffs on imported goods from countries such as Canada, Mexico, and China are likely to influence construction costs, disrupt supply chain dynamics, and increase operational expenses for senior living providers. For example, rising costs for building materials could lead to higher development expenses, potentially affecting both the affordability and potentially further slowing future senior housing developments. These inflationary effects might



Boone Ridge
Salem, Oregon

further limit new construction in the industry, potentially leading to a positive impact on market occupancy and pricing elasticity.

The administration's stringent immigration policies, including mass deportations, are not expected to have a direct impact on the healthcare sector, as this industry does not rely on undocumented workers. Additionally, a potential reduction in H-1B visas is not anticipated to affect healthcare staffing within the seniors housing sector. This is due to the relatively low number of Registered Nurses employed in seniors housing facilities compared to hospitals.

However, healthcare lobbyists in Washington are actively engaging with key congressional staff to oppose any restrictions on foreign healthcare workers. This issue has garnered broad bipartisan support, reflecting the critical need to maintain a stable healthcare workforce.

During Robert F. Kennedy Jr.'s confirmation hearings for Secretary of the Department of Health and Human Services, significant attention was given to the potential for cuts to Medicare and Medicaid. It is crucial to understand the implications of such discussions for the seniors housing sector.

Seniors housing in the United States, which includes Active Senior Adult, Independent Living, Assisted Living, and Memory Care communities, operates predominantly on a private-pay basis. This differs from Skilled Nursing Facilities, which depend significantly on Medicare and Medicaid reimbursements. Consequently, potential reductions in these federal programs would likely have minimal direct effect on the largest segments of the seniors housing industry.

Moreover, even within the Skilled Nursing sector, reductions in Medicaid funding do not directly equate to decreases in Skilled Nursing reimbursement rates. Funding adjustments often affect programs differently, and not all cuts are uniformly applied. In the U.S. healthcare system, hospitals generally receive funding priority, which indirectly offers a degree of protection to Skilled Nursing providers due to the interconnected nature of healthcare services.

Additionally, Medicare and Medicaid payments to

Skilled Nursing Facilities represent a fraction of the overall expenditures of these programs. This limited share further mitigates the potential adverse effects of funding cuts on the Skilled Nursing sector.

The evolving policy landscape under the renewed Trump administration presents both challenges and opportunities for the Seniors Housing industry. Stakeholders must remain vigilant, adapting to regulatory changes while advocating for policies that support the development and accessibility of seniors housing. Proactive engagement and strategic planning will be essential to navigate this complex environment and to ensure the continued provision of quality care for the nation's aging population.

A resilient asset class with long-term growth potential

We believe that the Seniors Housing sector offers a robust foundation for long-term investment. It combines the stability of a needs-based service with growth, driven by demographics and market inefficiencies. Investors can benefit from consistent returns, low volatility, and significant opportunities for value creation through development, redevelopment, and strategic consolidation.

Locust Point Capital's deep expertise in this sector underscores the importance of a disciplined, informed investment approach. As the demand for quality Seniors Housing continues to outpace supply, institutional investors are well-positioned to achieve strong risk-adjusted returns while contributing to an essential component of the nation's healthcare infrastructure.

Eric Smith serves as the Chief Executive Officer and co-founder of Locust Point Capital, a credit-focused alternative asset manager established in 2016, exclusively specializing in the U.S. Seniors Housing sector. In his role, Mr. Smith is responsible for shaping the firm's core investment philosophy. Over nearly three decades, Mr. Smith has actively participated in more than 500 transactions, representing a combined transaction value of approximately \$7 billion in senior debt, mezzanine, and equity investments.