

In a fractured private credit market, senior housing stands apart

Recent issues involving semi-liquid direct-lending vehicles have brought negative attention to private credit. For institutional investors, the takeaway isn't to dismiss the asset class entirely, but rather to recognize that private credit encompasses a range of opportunities that differ in quality and characteristics and not all strategies are created equal.



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Private credit is no longer one trade

Recent weeks have brought an uncomfortable but useful reminder for private credit investors: the asset class is too broad to be analysed as a single trade. According to Bloomberg, more than \$4.6bn of requested capital was trapped behind redemption limits at a group of semi-liquid private credit funds in March. Reuters has also highlighted growing concern over software-heavy portfolios, rising default expectations in direct lending and the tension between illiquid assets and products prescribing to offer periodic liquidity. These issues merit careful examination. However, this should lead to more precise underwriting rather than a broad withdrawal.

That is because the segments of private credit currently under the greatest pressure are not necessarily the segments most relevant to asset-backed, sector-specific lending. The recent debate has centered largely on sponsor-backed corporate loans, often within software and business services, where enterprise value, earnings durability and exit liquidity matter more than hard collateral. Reuters reported in April that Barclays and Morgan Stanley had both pointed to software concentration as a fault line, with Morgan Stanley expecting annual private credit defaults to rise to 8% between the second half of 2026 and the first half of 2027. Fitch, also reported by Reuters, said defaults among US corporate private-credit borrowers reached a record 9.2% in 2025.

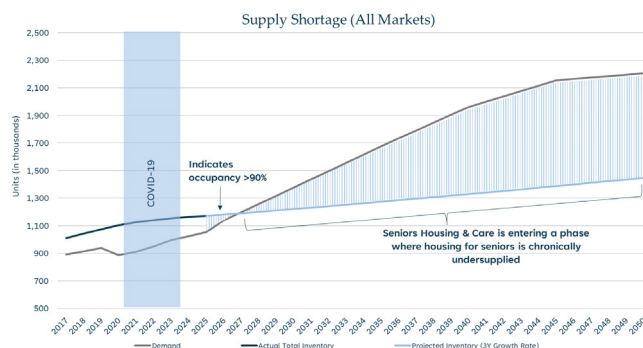
For institutional investors, that distinction is not semantic. It goes to the heart of how risk is underwritten, how recoveries are realised and where downside protection truly sits. A loan extended to an asset-light corporate borrower is essentially a cash flow-based facility, dependent on historical revenue streams and exit liquidity for repayment. In the event that these cash flows diminish, the lender faces no salvage value upon realization. A loan against a senior housing community is different. It is underwritten against a physical property with enduring value, a licensed operating platform, local market demand, replacement cost, occupancy trends and the quality of the operator running the building. The credit question is still demanding, but it is a different question.

Why senior housing is different

That difference matters more in 2026 because the case for senior housing is increasingly being driven by arithmetic rather than aspiration. According to the Administration for Community Living, someone turning 65 today has almost a 70% chance of needing some form of long-term care support over the remainder of their life. The demographic cohorts most relevant to senior housing are now moving into view. The US

Census Bureau projects the population aged 85 and over will nearly double by 2035, from 6.5 million to 11.8 million. JLL notes that the 80-plus population is expected to grow from 14 million to 19 million over the next decade, and NIC has pointed out that the oldest baby boomers turn 80 in 2026. For an investor, that is not a cyclical demand story. It is a long-duration demographic one.

Seniors Housing and Care is a sector characterized by a **chronic undersupply of housing...**



The nature of this demand is equally significant. Senior housing, particularly assisted living and memory care, is influenced primarily by necessity rather than discretionary consumer spending, and direct patient care is not susceptible to disruption from emerging technologies. Move-ins are usually triggered by a health event, a decline in functional ability, or caregiver exhaustion at home. The result is a demand profile that tends to be less tethered to ordinary economic swings than sectors dependent on office leasing, consumer confidence or corporate capital spending. These dynamics do not make cashflows immune to pressure, but they do make them behave differently from the earnings streams that support much of corporate direct lending.

Demand is rising faster than supply

Supply conditions reinforce the argument. NIC (the trade association for the U.S. seniors housing industry) reported that occupancy in the 31 primary markets it tracks reached 89.1% at the end of 2025, with independent living above 90% and annual inventory growth below 1% for the third consecutive quarter. Earlier NIC data showed only 0.7% inventory growth in the third quarter of 2025, the lowest rate since NIC MAP began tracking the market in 2006. JLL, meanwhile, said construction starts in primary markets are down 77% from recent peaks. NIC has estimated that the sector will need roughly 100,000 new units per year in the coming years to keep pace with demand. That gap between required supply and actual deliveries is becoming harder to ignore.

For credit investors, muted new supply is more than a macro talking point. It can translate into stronger occupancy, firmer pricing power and better debt-service capacity at the property level, particularly for well-located communities and capable operators. In a market where new competition is limited and replacement costs remain high, lenders can

often underwrite against an asset base whose strategic value is improving even before a full development cycle returns. That is one reason asset backed senior housing credit deserves to be assessed on its own merits rather than as an extension of general corporate direct lending.

The capital dislocation opportunity

There is also a capital-markets angle. Strong sector fundamentals have drawn investors back to senior housing, but financing remains selective and many assets are still working through the after-effects of the interest rate shock, high inflation and the post-pandemic operating reset. That creates a gap between improving property-level performance and the willingness of conventional lenders to provide flexible capital. For specialist lenders, that is precisely where capital dislocation can become opportunity.

Senior housing fits this description particularly well. In our experience, borrowers still need refinancing, recapitalisation and transition capital, yet the opportunity set is often too operationally intensive or too granular for large generalist lenders. Transactions are frequently smaller, local underwriting matters, and credit outcomes depend heavily on operational know-how. In practice, this can support stronger loan structures, tighter covenants and more conservative leverage than investors may find in crowded upper-middle-market corporate lending.

The risks are real, and they are sector-specific

None of this means senior housing private credit is defensive in the simplistic sense. It carries real and very specific risks, and any institutional case for the sector has to acknowledge them plainly. First, this is an operational form of real estate credit. PGIM Real Estate wrote in PREA Quarterly this spring that senior housing has among the highest operating leverage in commercial real estate, second only to hotels. Shifts in occupancy, wages, or staffing costs can impact a property's earnings. The lender evaluates not just the building, but also how well it is managed day-to-day.

Second, labour remains a central risk. Care delivery is inherently people-intensive, and staff shortages, wage inflation and turnover can erode margins quickly. Regulation adds another layer of complexity, particularly in assisted living and memory care, where state-level staffing rules, licensure standards and reporting requirements can change the cost base or the compliance burden. PGIM noted that at least 15 states have tightened staffing requirements for assisted living since the pandemic. Technology may improve care delivery and operating efficiency over time, but it may also allow some residents to remain at home longer, delaying move-ins at the margin but not a level material enough to offset the demographic tailwinds. These are manageable risks for experienced operators and specialist lenders, but they are not incidental ones.

Third, the sector is not homogenous. Asset age, acuity mix, local affordability, market saturation, capital expenditure needs and operator reputation all matter. An older building in a weak submarket with deferred maintenance and thin staffing is a very different credit from a recently renovated community in a supply-constrained metro with a proven operator. The same demographic tailwind does not rescue every asset. Senior housing rewards selection, and it punishes lazy generalisation.

Where it fits in institutional portfolios

Those qualifications, however, strengthen rather than weaken the allocation case. These factors illustrate the challenges faced by generalist capital in underwriting the sector, and highlight how

specialist lenders are often positioned to obtain superior structures and pricing due to their ability to manage such complexities. For institutional portfolios, US senior housing private credit is best understood not as a substitute for all private credit, but as a differentiated sleeve within it: asset-backed, operationally intensive, demographically supported and potentially less exposed to the valuation and technology risks currently weighing on software-oriented lending.

For investors seeking income with stronger downside anchoring than unsecured or enterprise-value-based corporate risk, senior housing credit can sit naturally alongside other forms of real estate debt and specialty finance. Its attraction lies in the combination of hard collateral, needs-based demand and the possibility of covenant protection in a less intermediated market. The objective is not headline yield alone. It is yield tied to assets and cashflows that investors can inspect, stress-test and, if necessary, work through.

Conclusion

The recent strain in parts of the private credit market should therefore be read as a call for discernment, not withdrawal. Broader market sentiment has echoed this view, even senior executives at Ares and PIMCO said on 15 April that current stresses appear manageable rather than systemic, though that judgment will continue to be tested as the cycle develops. What already seems clear, however, is that private credit can no longer be treated as a single homogeneous allocation. In our opinion, not all strategies are created equal in today's environment. As dispersion widens across strategies, underwriting discipline, collateral quality and market structure will matter more than headline yield.

For institutions willing to underwrite the sector properly, US senior housing illustrates the point. Demand is strengthening, supply remains constrained and the underlying collateral is tangible, essential and durable. Just as importantly, we believe the sector has the potential to deliver a more attractive risk-adjusted return profile than many more crowded areas of private credit. Because the market is fragmented and operationally complex, in our experience, specialist lenders can often secure pricing, structure and covenant protections that are harder to achieve in larger corporate transactions. In our view, that creates the possibility of higher returns than in more commoditized private credit strategies, while hard assets, needs-based demand and improving property cash flows may provide stronger downside protection. The risks are real, but they are knowable and, in many cases, can be more directly underwritten. In a market increasingly defined by the difference between abstract credit and asset-based credit, that distinction may matter more than ever.

About Locust Point Capital

Eric Smith and Dan Contardi are co-founders of Locust Point Capital, an alternative asset manager focused exclusively on U.S. seniors housing private credit. The firm brings nearly three decades of specialized industry experience to the pursuit of consistent, risk-adjusted returns for its institutional investors.

The firm partners with experienced owner-operators of seniors housing communities, providing tailored capital solutions across the capital structure to support strategic acquisitions, refinancings, and new development. Every transaction is structured with the aim of ensuring strong alignment between borrower and investor interests.

Locust Point Capital provides institutional investors with direct exposure to a sector defined by powerful demographic tailwinds, defensive characteristics, and a structural foundation for sustained long-term growth.