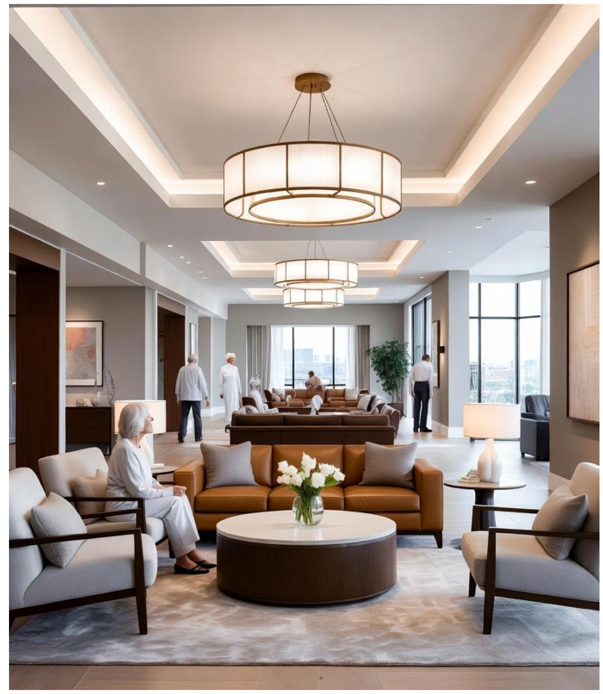
Demand Does Not Build. Margins Do.

A Margin-Based Framework for Senior Housing Development Feasibility

An Integra Realty Resources Research Publication

Bradley J. Schopp, MAI
National Practice Leader
Healthcare and Senior Housing
Integra Realty Resources

Executive Summary



Senior housing demand is stronger today than at any point in the past decade. National occupancies have climbed above 88%, independent living has surpassed 90%, and new supply growth has fallen below 1% annually, levels not seen since data tracking began. Demographics are finally delivering on long-promised growth as the 75+ population accelerates into the market.

Yet despite these favorable fundamentals, development activity remains uneven and, in many markets, stalled altogether.

Why? Because demand does not build buildings, MARGIN DOES.

This paper introduces **IRR's Revenue–Labor–Building Cost Margin (RLBCM) framework**, a margin-based model developed by the firm's Healthcare & Senior Housing practice group designed to help developers answer a critical question:

> **Where does today's revenue environment actually support new senior housing construction after accounting for labor and capital costs?**

The RLBCM framework examines effective gross income, labor costs, and construction-related capital burden over time, highlighting markets where development feasibility is improving, stagnating, or structurally deteriorating. The model draws on a custom dataset covering more than **100 U.S. metro markets** and allows comparison across Independent Living, Assisted Living, and Memory Care communities.

The goal is not to replace a project-level market study, but to provide a clear, comparable signal of where development risk is compressing or expanding across U.S. markets.

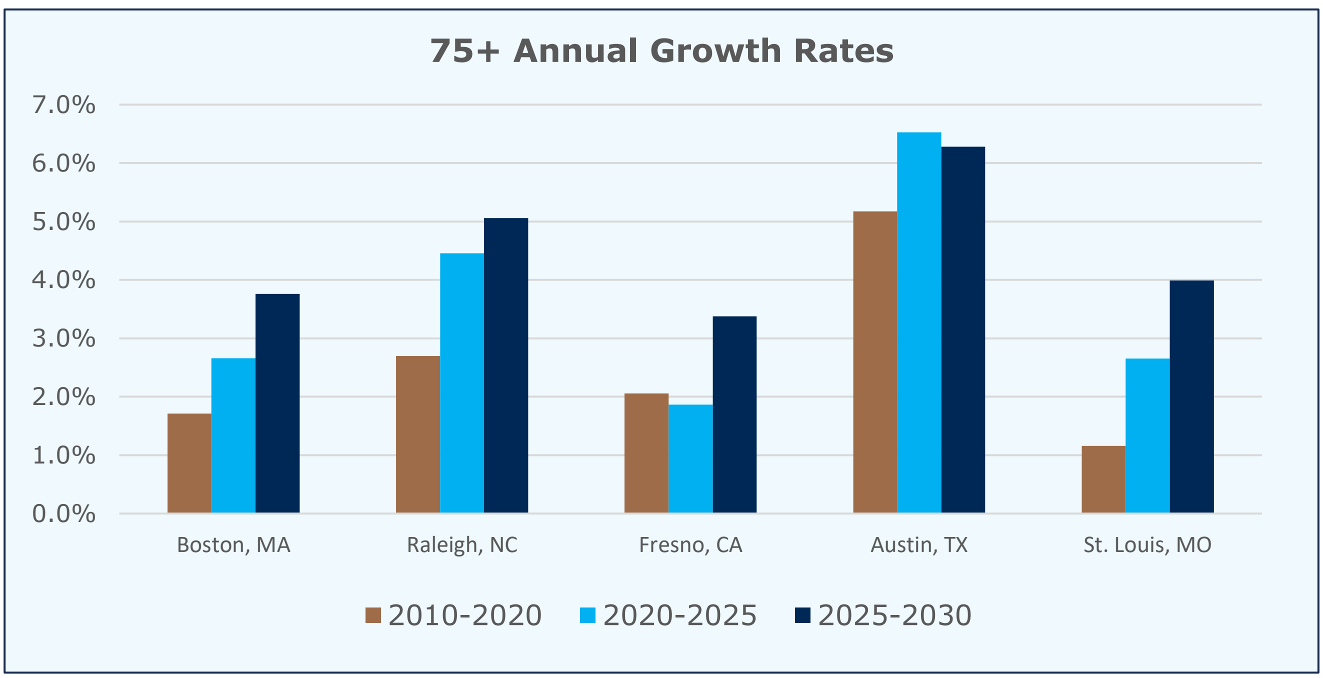
The National Backdrop: Strong Demand, Uneven Economics

Senior housing fundamentals have rarely looked stronger. Occupancies have risen for more than four consecutive years, while construction pipelines sit at historic lows. Meanwhile, the U.S. population aged 75 and older is projected to grow more than 40% between 2020 and 2030, driven by the front edge of the baby boomer cohort.

However, this demand growth is not evenly distributed.

Sun Belt and select Mid-Atlantic metros such as Raleigh, Austin, and Charleston are projected to see 75+ population growth exceeding 30% this decade. In contrast, many Northeast and Midwest markets will see growth closer to 20%. At the same time, labor costs, construction costs, and capital conditions by region vary dramatically.

Location selection has never been more important.

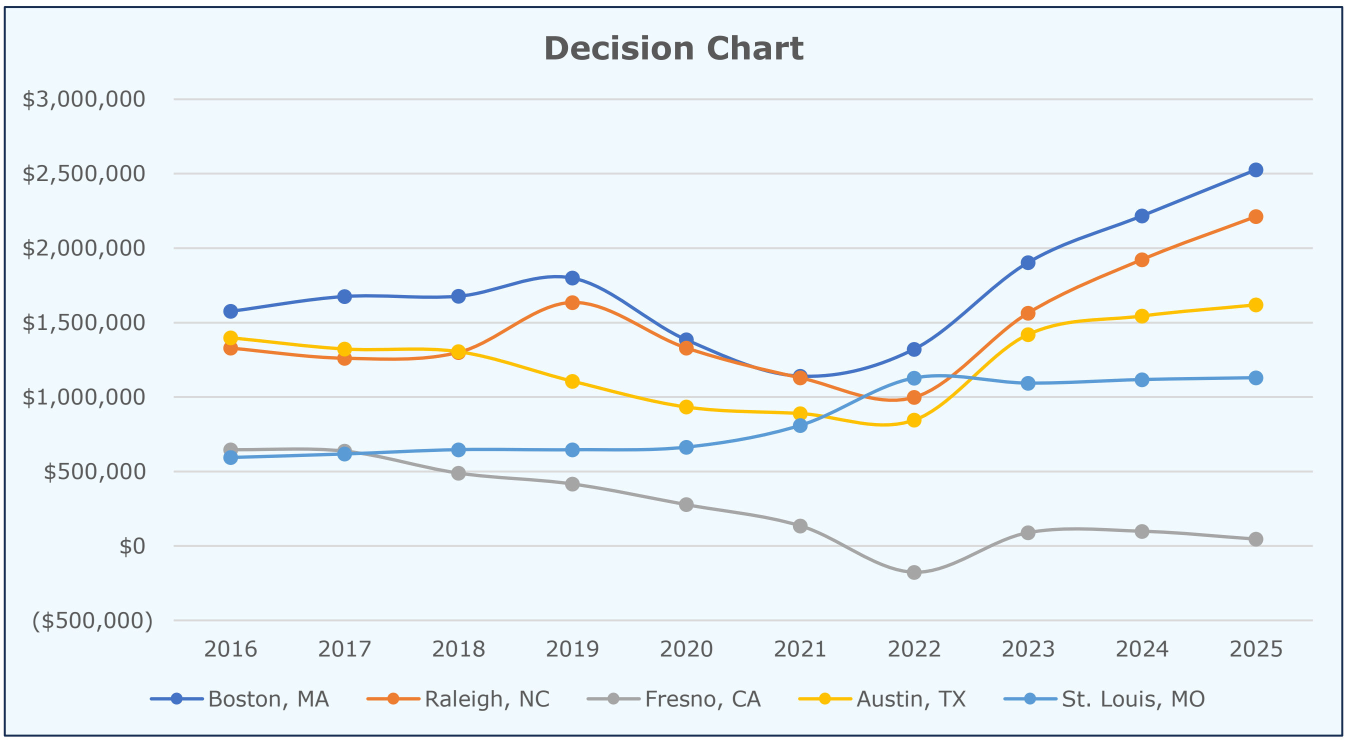


Demand growth alone does not determine whether new senior housing development occurs. The interaction between revenue potential, labor costs, and capital burden ultimately determines whether a market supports new construction.

Development Feasibility Diverges Across Markets

Despite strong demand fundamentals nationally, development feasibility is improving in some markets while remaining structurally constrained in others.

By combining revenue, labor, and capital burden into an index, the result reflects a yield on cost margin trend that mirrors real-world threshold behavior. Developers examining new markets can use the **RLBCM index** to compare development conditions across markets and evaluate where feasibility is strengthening or deteriorating.



In our sample analysis, several patterns emerge:

- Raleigh and Austin show margin recovery to levels approaching or exceeding prior development cycles.
- Boston remains viable but capital-intensive, requiring precision and pricing power.
- Fresno demonstrates structural margin compression, where revenue has not kept pace with rising costs, oftentimes a signal of oversupply, declining revenue fundamentals, or a mismatch in construction pricing relative to demand.

Our comparison of this index across 100 markets nationally demonstrates a divergence similar to this sample, which helps explain why development is returning in selective markets and not others.

From Demand to Feasibility: Introducing a Margin Proxy

To translate demand conditions into development feasibility, IRR developed **the RLBCM Framework**, a comparative model integrating revenue potential, labor costs, and construction capital burden to estimate the margin available to support new development.

At a high level, the framework evaluates:

- **Revenue (Effective Gross Income):**
  Based on NIC MAP® market-level occupancy and average rent data applied to standardized prototype communities (Independent Living, Assisted Living, and Memory Care).

- **Labor Costs:**
  Estimated using Bureau of Labor Statistics wage data applied to a consistent FTE staffing schedule by product type, isolating geographic wage pressure while holding operations constant.

- **Building Costs / Capital Burden:**
  Localized construction costs derived from Marshall & Swift indices and applied to a representative new-build prototype. An annual capital burden factor is applied to reflect the materially higher financing environment beginning in 2022.

The result is a Revenue minus Labor minus Capital Burden which produces a raw margin proxy that allows for comparison:

- across markets,
- across time, and
- relative to prior development cycles.

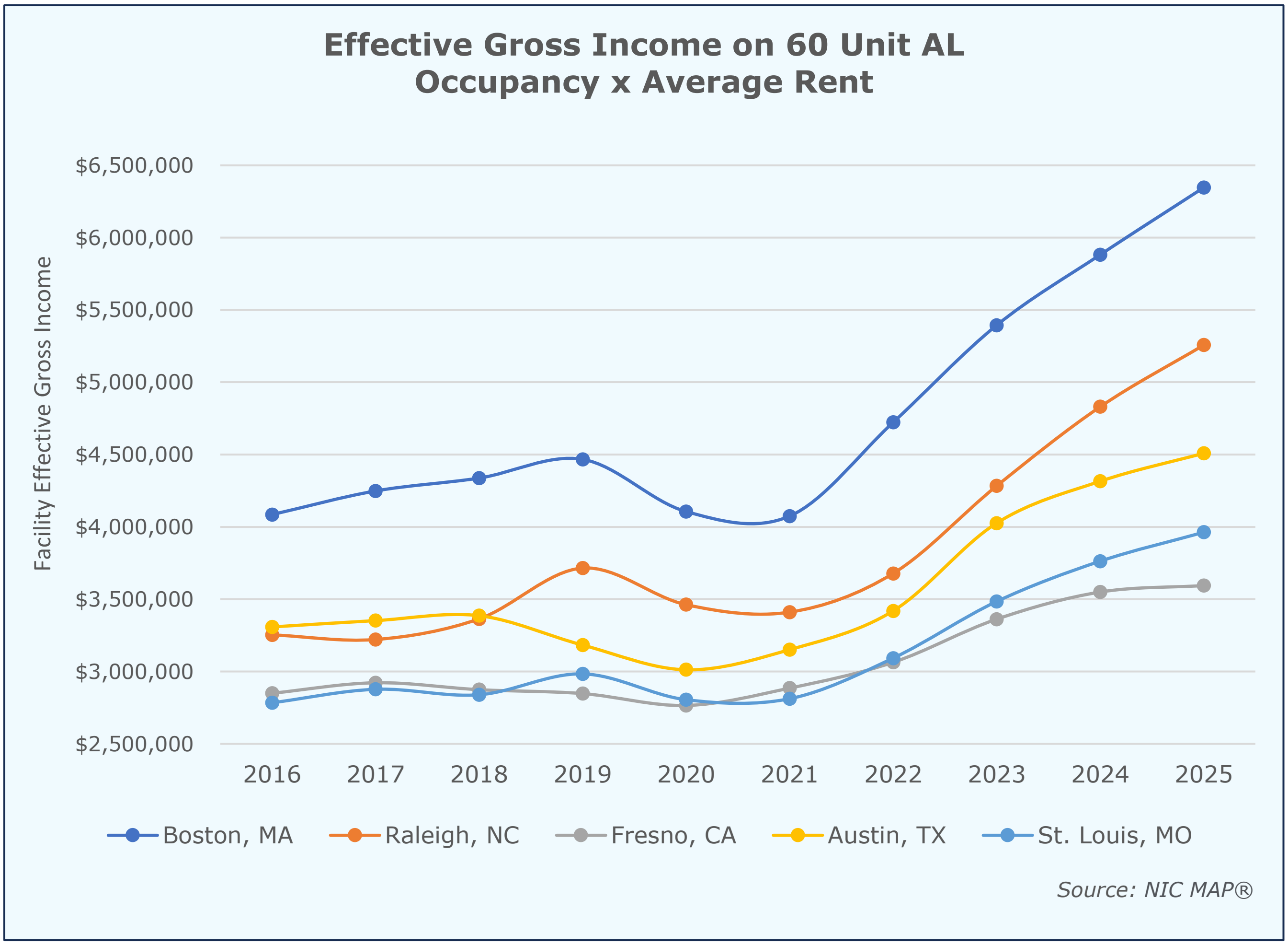
This model is intentionally directional, not deal-specific. The value of the RLBCM framework lies in identifying where development feasibility is structurally improving or deteriorating.

This analysis has been applied across more than 100 metropolitan markets nationwide, with each market evaluated separately for Independent Living, Assisted Living, and Memory Care. This allows the framework to capture not only geographic differences, but also how development feasibility varies by product type within the same market.

What the Data Demonstrates: Revenue Is Not the Problem Everywhere

To illustrate the framework, we have selected five (5) markets to compare against a sample facility size (60 units) for demonstration purposes.

Revenue growth has diverged sharply across markets.

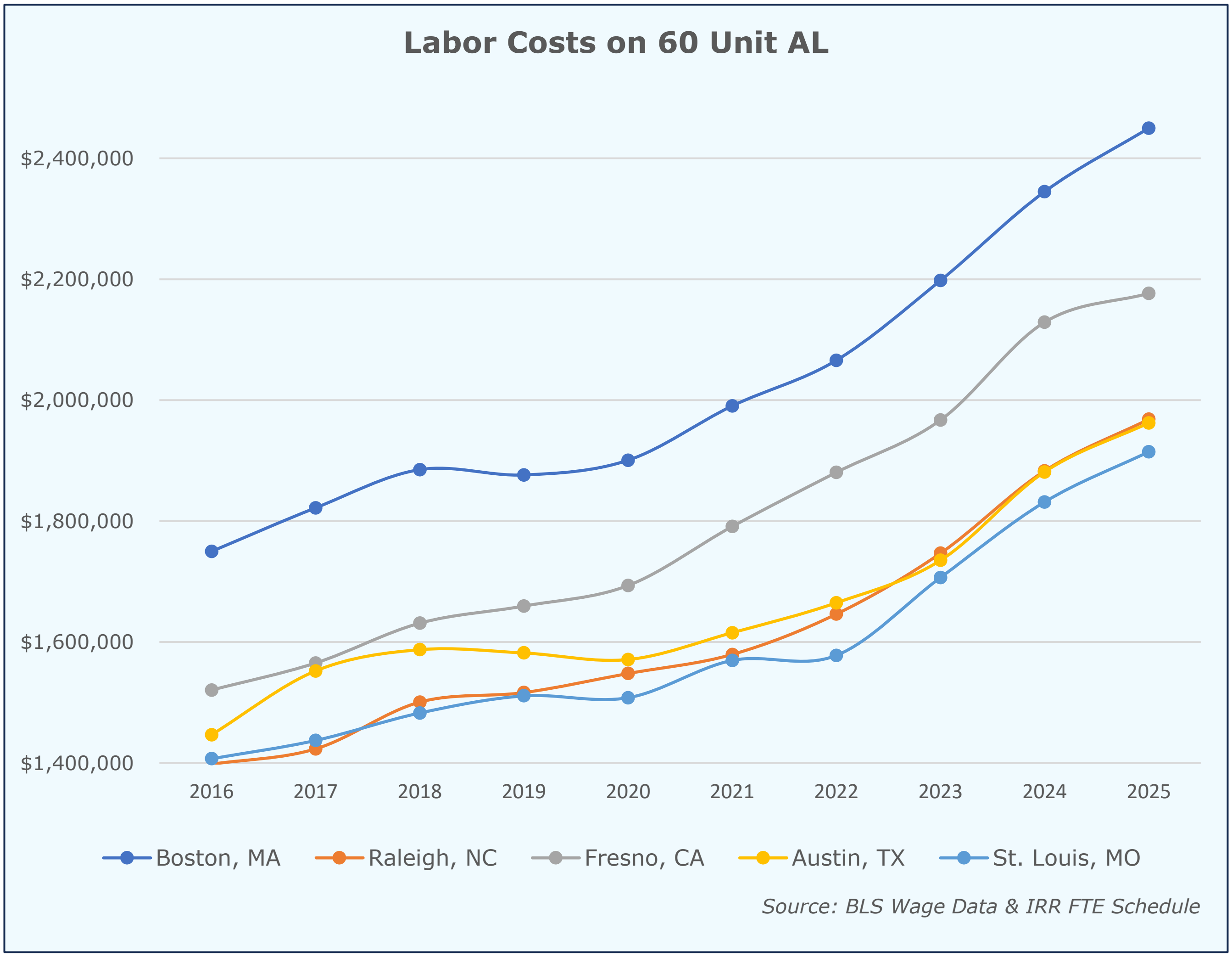


Markets such as Raleigh and Boston are benefiting from a powerful combination of population growth, rising household income, and sustained occupancy gains. Effective gross income in these markets has grown meaningfully over the past decade.

By contrast, markets like Fresno or St. Louis show far more muted revenue growth, limiting their ability to absorb rising operating costs, even with healthy occupancy.

Labor: The Largest and Fastest-Moving Constraint

Labor is the single largest operating expense in senior housing, and it is also the most geographically sensitive.

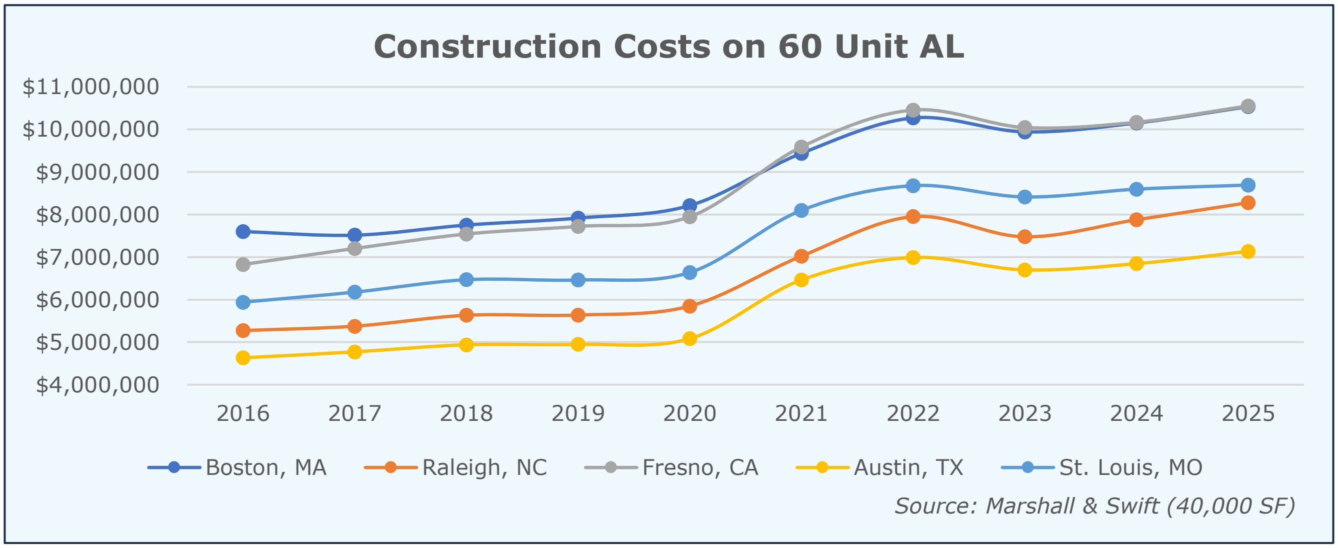


Markets in the Southeast and parts of Texas benefit from larger labor pools and lower wage floors. In contrast, Northeast and West Coast markets face sustained wage pressure driven by higher costs of living, minimum wage policies, and staffing competition.

Even when revenue grows, labor can consume an increasing share of a facility's revenue, compressing margins and increasing underwriting risk.

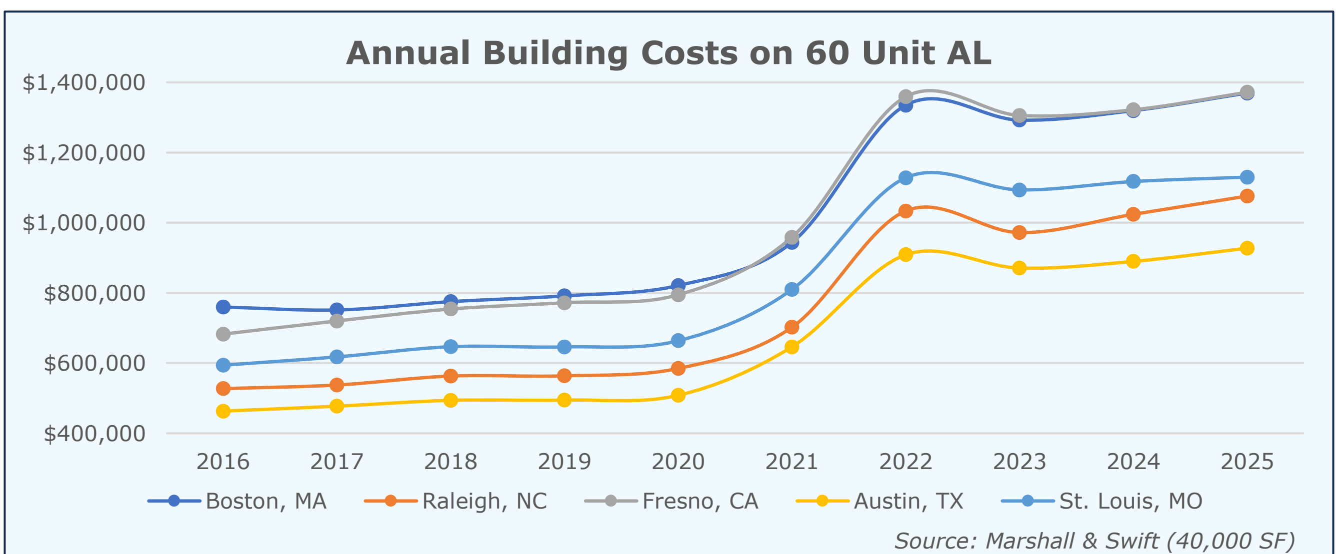
Construction Costs and Capital Burden: The Post-2022 Shift

Construction costs have risen steadily for years, but the sharp rise in interest rates beginning in 2022 materially changed the development equation.



High-cost markets face a double hit: higher build costs and higher financing friction.

To capture this shift, an annual capital burden factor is applied and is lower in the pre-2022 low-rate environment and higher thereafter. This is not intended to reflect any one investor's cost of capital, but rather the relative increase in capital drag facing new development.



Construction Costs and Capital Burden: The Post-2022 Shift (Continued)

What makes this moment different is timing. For the first time since the pre-pandemic cycle, revenue growth and occupancy recovery are beginning to intersect with stabilizing construction costs in select markets. This is not a universal reopening of development feasibility, but it is a signal that the window is reopening asymmetrically, and only in markets where margin can absorb risk.

Conclusion:
Build Where Margin Supports Mission

The next wave of senior housing development will not be defined by national averages. It will be defined by markets where revenue growth can realistically absorb labor and capital costs.

Integra's margin-based framework provides a disciplined way to identify those markets.

Call to Action

This framework has been tested across more than 100 U.S. markets and segmented by Independent Living, Assisted Living, and Memory Care, and our professionals can quickly assess how a given market compares before undertaking a full market study.

For clients underwriting a site, negotiating land, reevaluating a shelved project, or preparing materials for lenders or equity partners, Integra's RLBCM Index can be applied at both the market and submarket level to help inform development and investment decisions.

Integra's National Senior Housing Group regularly prepares customized market feasibility studies using this approach. These analyses combine on-the-ground market research with proprietary and third-party data sources to evaluate impacts on value and project feasibility, assess current market conditions, and identify senior housing developments in the pipeline that may influence future supply. This data-driven perspective helps clients better understand local dynamics and supports more informed development and financing decisions in this growing sector.

As development conditions continue to evolve, identifying markets where margin can realistically absorb labor and capital costs will become increasingly important. The RLBCM framework provides a structured way to evaluate those conditions and identify where development feasibility may be returning.

IRR's Healthcare and Senior Housing practice group applies this framework in market feasibility studies across the United States, helping clients evaluate development risk, understand competitive supply dynamics, and assess how changing market conditions may influence future investment decisions.

About the Author

Bradley J. Schopp, MAI
National Practice Leader
Healthcare and Senior Housing
Integra Realty Resources

Phone: (636) 821-5310
Email: bschopp@irr.com
www.irr.com/hcsh

Bradley J. Schopp, MAI, is one of the National Practice Leaders of Integra Realty Resources' Healthcare & Senior Housing Specialty Practice Group and based in IRR's St. Louis office. He has over 20 years of experience valuing and consulting on senior housing, skilled nursing, hospital, and healthcare real estate across more than 35 states, representing nearly $100 billion in aggregate property value.

Mr. Schopp is a co-author of *The Appraisal of Senior Housing, Nursing Home, and Hospital Properties*, published by the Appraisal Institute, and is a recipient of the George L. Schmutz Award for outstanding technical contribution to real estate valuation. He has been quoted in industry publications including *Senior Housing News, McKnight's Senior Living*, and *The Wall Street Journal*.

His work includes market feasibility, valuation, and strategic advisory services for REITs, developers, lenders, investors, and healthcare operators nationwide.

irr.com

Visit us online to learn more and access our extensive research library.

INTEGRA REALTY RESOURCES
Local Expertise. Nationally.