HEALTHCARE & SENIOR HOUSING REPORT

Demand Is High, but So Are Costs

By: Vic Cremeens, MAI, Managing Director,
IRR's Healthcare & Senior Housing Practice Group

Shifts in demographics, evolving healthcare delivery models, and ongoing economic pressures continue to shape the healthcare and senior housing sectors. Demand for medical office space remains strong, driven by the expansion of outpatient care, while senior housing faces a balancing act between rising costs, occupancy recovery, and evolving resident preferences. The market is stabilizing, but operators and investors must adapt to shifting reimbursement structures, labor challenges, and the long-term implications of an aging population.

In this year's National Healthcare & Senior Housing Report, we explore the trends defining these critical sectors, from investment opportunities to operational strategies. Read on for data-driven insights into the future of healthcare real estate and senior living.

The demographic trends for the elderly population indicate demand for senior housing and nursing home facilities will continue to grow. While other factors, such as home health care and paid family caregiving, will have an impact on the need for congregate settings, the elderly population will continue to increase and will require additional supply. NIC MAP reports that beginning in 2022, growth of the 80+ population has exceeded inventory growth in senior housing. At the same time, absorption of senior housing has been increasing.

Unfortunately, high construction costs and higher interest rates reduce the financial feasibility of new development. Under these conditions, strong operating performance is required to justify new development. While developers have reportedly expressed interest in new construction, lenders have exercised caution and limited new construction activity. Some underperforming properties have also transitioned to behavioral health use, reducing supply.

Good news and challenges for operations.

Occupancy levels have improved markedly since the pandemic era. Properties still struggling with occupancy may not be generally competitive, or they may serve market areas where demographic variables are less favorable. Occupancy among REIT-owned properties has improved more than industry averages.

The pandemic created a difficult labor market that has taken time to normalize. Conditions have improved markedly but remain tight. This paradigm is likely to persist, continuing to pressure expense growth. Other operating costs remain high compared to pre-pandemic levels.

Seniors have benefited from strong housing gains and social security adjustments. These trends have permitted facilities to make rent increases and occupancy gains.

Senior housing and healthcare REIT acquisitions and revenues have been strong in 2024 and are expected to continue to be in 2025.

Record-setting sales volume, smaller transactions.

The SeniorCare Investor reports 2022 had a record 559 transactions, but that was surpassed in 2024, which had recorded nearly 600 deals as of the end of October. The transactions this year have been smaller and more distressed than in previous years; many portfolios have been broken into smaller deals because of the lack of available financing.

Senior housing and healthcare REIT acquisitions and revenues have been strong in 2024 and are expected to continue to be in 2025. REITs own these assets through one of two structures: traditional (leased to tenants) and RIDEA (participation in the operations of the business). The RIDEA ownership model is gaining share among assets owned.

Bright lending picture with an eye on lower rates.

With low interest rates, HUD financing was strong following the pandemic, particularly for nursing homes. HUD loan commitments in 2024 exceed those of 2023. HUD's permanent debt funding option for healthcare properties, along with its consistent underwriting standards, make it an attractive source of capital for qualified deals. With the potential for lower interest rates and more properties regaining stabilized operations post-pandemic, HUD financing is likely to pick up in 2025. Fannie Mae and Freddie Mac were not aggressive throughout much of 2024, but that posture may change in 2025 in order for them to be competitive. Banks have not been particularly active either in the last couple of years.

Higher interest rates contributed to lower unit prices in 2024. Even so, the prices of nursing facilities have benefited from states leveraging federal matching monies to enhance Medicaid rates.

However, there is talk of banks becoming more active again.

With the Fed lowering interest rates in the fall of the year and the possibility of there being more reductions in 2025, industry participants are optimistic about an increase in sales activity in 2025. Lower borrowing costs, better operating performance, and limited new development likely bode well for 2025 transaction volume. Brokers reportedly believe there is greater likelihood of portfolio deals and sales of performing properties.

A range of factors impacting prices.

Sustained higher interest rates have contributed to lower unit prices in 2024. Even so, the prices of nursing facilities have benefited from states leveraging federal matching monies to enhance Medicaid rates. The supply of nursing facility beds is also more regulated in states with certificate of need laws. The switch to PDPM in FFY 2020 also financially benefited the nursing industry.

A new staffing rule from the Centers for Medicare and Medicaid Services, issued in 2024, seeks to phase in national minimum staffing requirements for nursing homes. The Trump administration is widely expected to eliminate the new mandates early next year as part of a broader regulatory rollback. The Biden administration's FFY 2024 and FFY 2025 payment rates to Medicare Advantage (MA) are at reduced amounts. There is some expectation that MA plans might lower their payments to nursing homes in 2025 to absorb those rate cuts.

Prices for senior housing facilities have been influenced by more cautious capital markets and higher interest rates. As interest rates have declined, there is a consensus view that overall capitalization rates have also compressed – likely in the range of 50 to 75 basis points. Higher prices may encourage more sellers to offer properties for sale.

Sales of senior housing properties in 2024 were disproportionately comprised of underperforming assets. Proportionately fewer Class A properties were sold. Underperforming assets with loans maturing in 2025 will weigh on average unit prices. On the upside, there are likely to be additional loan originations as they get picked up by opportunistic buyers.

Here, challenges meet great opportunities.

Senior housing is in a rare situation where ramping demand is butting up against minimal new supply. NIC MAP indicates that the industry could return to stabilized occupancy (90%+) by 2026 – at 84.4% in 3rd quarter 2024. Operators have experienced higher operating costs but have benefited from better government reimbursement and an ability to pass on those higher costs to private payers. The interest rate and lending environment is likely to be favorable to sales activity in 2025. Meanwhile, constraints on new supply are likely to result in better operating margins. While there are always uncertainties in forecasting, the near-term trend for senior housing and nursing facilities is likely to be favorable to market participants.

Sales of senior housing properties in 2024 were disproportionately comprised of underperforming assets. Proportionately fewer Class A properties were sold.

ABOUT VIEWPOINT

Integra Realty Resources (IRR) is one of the largest independent commercial real estate valuation and consulting firms in North America, With over 148 MAI-designated members of the Appraisal Institute among nearly 600 professionals based in our more than 50 offices throughout the United States and the Caribbean. Founded in 1999, the firm specializes in real estate appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. Our valuation and counseling services span all commercial property types and locations, from individual properties to large portfolio assignments. For more information, visit www.irr.com.

ABOUT IRR

For over 25 years, Integra Realty Resources, Inc. (IRR) has grown to become one of North America's largest independent CRE market research, valuation, and counseling firms. Our clients tell us that our nearly 600 professionals in 50+ offices deliver extraordinary insight, unbiased advice, and excellent service. In 2024, IRR valued more than $156 billion in real estate assets across more than 60 metro markets comprising more than 33,000 assignments.

Every IRR office is supervised by one of our nearly 150 MAI-designated professionals, industry leaders who have over 25 years, on average, of experience in their local markets. Having more MAI-designated experts than any other firm is just one testament to the high levels of training and experience which we put at our clients' disposal: as of January 2025, IRR's senior management team also includes: 9 FRICS, 5 MRICS, 13 CREs, 21 SRAs, 11 CCIMs, 5 ASAs.

These designations from the most prestigious real estate organizations in the world mean that from a culture of quality and ongoing professional development, we can offer unparalleled expertise in appraisals, feasibility and market studies, expert testimony, and related property consulting services across all local and national markets. IRR stands ready to serve you with unmatched Local Expertise...Nationally.