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INDUSTRY INSIGHT

The senior living industry expects strong demand in 2025, fueled by aging baby boomers. Occupancy rates are projected to rise, potentially reaching 92% by 2026. However, the industry growth remains uncertain due to challenges like limited new developments, financing difficulties, and rising costs. Operators must innovate to meet middle-market needs and maintain high service standards. While optimistic about evolving offerings and demand alignment, industry leaders stress the need for investment in infrastructure, technology, and community culture to sustain future growth and overcome lingering uncertainties.

Senior Living Industry Set to 'Thrive in 2025,' But Growth Remains an Open Question

Whether "thrive in '25," "or "survive until '25," the senior living industry has had the coming year on its collective mind for a while now.

For many years, the incoming baby boomer generation has served as a seemingly perennial source of optimism for the senior living industry's future success. Now, that demand wave is about to crest: Next year, the oldest baby boomers will turn 79, which is just below the average age of senior living. And many more will continue aging into retirement communities through the next decade, making the prospect for demand much more favorable in the near future.

But while demand is favorable, the outlook in 2025 for new growth is still somewhat of an open question. Development challenges have made new projects harder to accomplish, and have increased the amount of time it takes to conceive, plan and open new communities. Difficulties getting money from lenders has also made new projects difficult to start.

As NIC MAP Vision has outlined before, difficulties starting new projects coupled with growing demand has led to a widening gap for senior living investments. On the one hand, these forces will no doubt drive up occupancy in 2025 and 2026. On the other hand, they are not enough to improve the industry's ideal business outcomes and grow its reach to a wider swath of older adults in the next few years.

The National Investment Center for Seniors Housing & Care (NIC) has forecast the senior living industry will hit an average occupancy rate of 92% by the end of 2026 if current trends hold. By that measure, the senior living industry is prepared to thrive in the coming year. But in the longer-term, senior living companies risk potentially underserving demand, making the upcoming year an increasingly crucial one for new growth.

Demand strong, but growth still tough

On the cusp of 2025, senior living operators are looking forward to continued strong demand. Growth is another story. Senior living companies are not necessarily pessimistic about their chances of expanding in the year ahead, but the way forward in that regard is still relatively hazy.

Among the senior living industry's strengths heading into 2025 is how senior living operators grappled with rising costs, staffing challenges and shifting demand during the last four years since the Covid-19 pandemic reared its head. The industry has shown "great resilience and adaptability" in that time according to Omar Zahraoui, senior principal at the National Investment Center for Seniors Housing and Care.

The anticipated absorption rate in 2025 is that for every 10 senior living units added, 23 will be absorbed and occupied, according to recent NIC data.

Today, average occupancy rates in NIC's primary markets are 86.5%, which is only 1.2% below the first quarter of 2020 according to quarterly reports from NIC.

A "natural alignment between demand and the industry's mission is paving the way for growth," said Zahraoui.

Demand is one domain where senior living operators are especially optimistic. NIC polled thousands of industry investors, owners, operators and strategic partners in October and respondents were positive on the year ahead, with an average rating of 4.14 out of five possible.

But the industry still faces other challenges, including building enough new communities for incoming residents and creating new models to meet middle-market demand. NIC's latest projections show the industry needs to build at least 600,000 new units by 2030 – a steep hill to climb for sure.

That said, there are still reasons to be optimistic the industry can bridge that gap. Investor demand "is quite strong right now," NIC Senior Principal Caroline Clapp said during a panel at the recent Senior Housing News reBUILD conference. "Development, I think just if we can get past some uncertainty in the market, it could help. The equity is there, but how do you get the lenders off the sideline?"

Indeed, one question to Charter Senior Living CEO Keven Bennema is whether "lenders will start feeling comfortable to really dig into really good projects." But he said he hopes 2025 is the year the "floodgates" open for new growth.

"There is going to be, I think, a tremendous amount of deals [and] development opportunities, probably more toward mid- to later-2025," he said during reBUILD.

Other operators are also optimistic about growing next year.

Onelife Senior Living CEO Dan Williams is optimistic about cap rates and community valuations stabilizing in 2025.

Onelife has grown through transactions including its merger with Ally Senior Living earlier this year. Looking ahead, Williams believes senior living operators also have the possibility to grow and expand by acquiring distressed properties. He is also optimistic about the fact that senior living offerings have continued to evolve and can resemble hotels, with "super nice" assisted living and memory care programs and amenities for incoming residents.

"I think what we'll get to is … more of an equilibrium between the supply and demand, which is kind of driving us back to pre-pandemic margins and census," Williams said.

Still, he added that he believes that equilibrium "is going to swing more toward more demand than supply" in the coming year.

Sonida Senior Living CEO Brandon Ribar said he thinks continued occupancy gains will benefit the industry's ability to serve its residents and grow in the year ahead.

"The reality of the industry is that the margin profile hasn't returned to where it can be. It hasn't reached its peak," Brandon Ribar, CEO of Sonida Senior Living (NYSE: SNDA), told Senior Housing News. "If there's heavy, heavy demand and the supply is not there, then by definition, it'll push up the overall cost [for residents]."

Gregg Colon, chief operating officer of Erickson Senior Living, said he is also optimistic about 2025 and expects a "big" decade for the industry ahead.

"Today's seniors have high expectations when it comes to service and hospitality, and meeting and exceeding—these standards will be key to the entire industry's success," Colon said.

Colon said the industry is going to have to continue to adapt if it plans to survive in the coming year as well, and the way Erickson plans on going about doing so is by investing in "creating a culture" within its communities that people want to live and work in. However, he noted that "what worked today or yesterday may not work tomorrow, and 2025 will undoubtedly be a year to embrace change."

Operators' ability to grow in the new year could hinge on how well they are able to step up and have some "skin in the game," according to Bryan Schachter, chief investment officer of Watermark Retirement Communities.

"Operators are being treated a bit as a commodity. At some point, the tide might shift on folks that are not investing alongside the other stakeholders on these projects," Scachter told SHN.

Some unknowns still remain

The senior living industry's demand momentum heading in 2025 is palpable, but there are still some lingering questions that could affect operators' growth plans and flexibility.

According to Williams, Onelife would have to pare down its plans to continue developing new communities if the cost of building materials rises too quickly.

Still, Zahroui sees the makings of a positive year ahead and more evolution beyond that.

"If you look at any industry, any economic downturn, the recovery takes more time than the downturn," he said. "I think we're on the right path, and we'll continue to see some positive momentum. I think we've weathered the most difficult period of time in our lifetime … All of the other things might challenge operators, and they will adapt."

An additional challenge for operators to overcome will be access to capital. Schachter believes those without will struggle to grow and thrive in the new year, particularly due to the added wants of investors.

Additionally, continued investments in technology and infrastructure will be paramount in the next year as well, according to Ribar.

"I think operators that may not have that flexibility will struggle if they're so focused on just every dollar that they have available to spend, that they're not investing for the future or investing in their infrastructure," he said. "I think it's going to put them at a disadvantage as the world continues to shift."

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