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INDUSTRY INSIGHT

The senior living industry expects strong occupancy growth in 2025 despite challenges in new construction and lending. Limited supply of new communities supports rising occupancy, yet high construction costs and slow lending may hinder growth. Operators are upgrading services and adopting new technology, including AI, to manage costs and improve care. Experts warn that markets with tight supply risk a "perfect storm," but further optimism remains as occupancy rates near record levels and quality operators adapt to evolving conditions successfully.

'Thrive in '25' or 'Perfect Storm'? Senior Living Industry Prepares for Big Year Ahead

The senior living industry is ready to "thrive in '25" with regard to occupancy gains. But headwinds in lending are making growth tough during a time when it needs to grow.

On the one hand, the lack of newly built senior living communities is supporting occupancy growth momentum among multiple senior living operators. In fact, NIC MAP data projects the senior living industry will hit 90% by the end of 2026.

On the other hand, challenges in development have sent new construction starts plummeting to annual lows not seen since the Great Recession.

Still, there is much to be optimistic about in the year ahead, according to Caroline Clapp, senior principal of analytics and research for the National Investment Center for Seniors Housing and Care (NIC). The senior living industry hit a new record high for occupied units in the fourth quarter of 2024, and occupancy is continuing to climb.

"Even though we're still a few percentage points away from the all-time highs we've ever seen of 90% to 91%, this is still really positive," Clapp said during a recent Senior Housing News webinar. "The 99 largest markets tracked by NIC MAP have now surpassed their first quarter 2020 occupancy rate."

Additionally, the industry is in the middle of technological adaptation with the rising prevalence of AI, which Heritage Communities CEO Farhan Khan sees as a big priority for the senior living operator and wider industry ahead.

"The challenge for us this year is, what processes, what technology … can we [use] to take things off the plate of our frontline staff so that they can be more forward-facing to our residents?" he said during the webinar.

He added that a big priority in the year ahead will be focusing on the "blocking and tackling" of senior living operations.

"If you have a system down for these things, you will thrive," Khan said.

Development challenges linger into 2025

One of the big stories of 2024 was the slow rate of senior living development due to construction costs and lending challenges. That is continuing into 2025 as forces like lending stymie new development and growth.

Operators, which must grow to meet demand in the years ahead, have tweaked their strategies as a result. Heritage Communities adjusted its growth strategies through taking on third party management contracts, for example.

According to Khan, construction prices have increased by as much as 35% over the past four or five years. That has made it hard to make new construction projects pencil out.

"In today's environment, you've really got to have your numbers honed in," Khan said.

Heritage Communities has taken the time in the current slow period to upgrade its communities, particularly by adding life enrichment and dining, in order to meet the needs of the baby boomers entering the market. If an operator is not already making those upgrades now, they're already lagging, Khan said.

"We'd better be shifting. We'd better be moving. And we'd better be investing in those things," he said. "Otherwise we're going to fall behind. We're not going to meet the needs of our customers."

Clapp said she and NIC have fielded recent questions about whether the crosscurrents of low construction and high demand amount to a "perfect storm" for the industry, given it needs to grow now for the years ahead. She said that she believes some companies could run into problems in markets where demand is surging but construction is not.

"The markets that have the highest barriers to entry for new supply probably have the most to lose," she said. "The highest concern would be for serving seniors who really need senior housing and we don't have enough of it."

She added: "We think that more developers might begin to explore projects in 2025, but I'm not sure that you'll see a big pickup yet in construction lending this year."

But there is a silver lining to that slowdown. Clapp added that occupancy is expected to break the 90% mark by 2026, and the rate of inflation could slow to allow for future development.

And despite the challenges presented by current development costs, Khan added he is confident that quality operators will be able to steward better margins and keep up with the increased cost of services through rate increases. NIC MAP data showed senior living asking rates increasing by 4% in the fourth quarter of 2024 compared to the same quarter in 2023, according to Clapp.

And there are still forces buoying residents' ability to pay higher rates annually, including resilient real estate prices and social security benefits. "I think residents have been able to at least understand where these where the rate increases are coming from," Clapp said. "And I think operators need to continue to make that sort of value proposition for senior housing when talking about rates and what you're getting for them by moving out of your current home."

At the end of the day, Clapp said that operating fundamentals are "really good right now" for the next few years given the demand upside ahead. And Khan said he believes the industry is ready to thrive as a result – and should seek to do so no matter what wider industry conditions are.

"We should thrive every year," he added.

Thriving with technology

According to Khan, if there is a 2% uptick of people that move into Heritage Communities, the company would be “fully inundated,” and with current demand trends, the industry will have to develop new communities at a much faster rate in order to keep up. In the meantime, operators are going to need to find ways to provide, and he believes technology may be the answer.

George Netscher, CEO of SafelyYou, said there is an opportunity for senior living communities to become hubs for the greater community they are in, which could be supported through new technology. “You’re supporting people,” Netscher said. “Maybe they’re living in their own home and you’re providing services to them. You have the right monitoring in place to provide affordability while also having a pipeline that then feeds residents into your building.”

Khan said the priority technology upgrades for Heritage Communities is focused on bringing older communities up to speed with reliable WiFi capabilities, which he cited as being the backbone of a community’s technology needs. A vital step, he added, is having an “owner” of technology within the leadership team to find the pain points and low hanging fruit for technology, particularly AI, in order to roll it out to the rest of the employees within the company. “Knowing what the technology is one thing, but actually using it becomes the stickier piece,” Khan said.

According to Netscher, AI can be used in its current form to help aid in corporate workflows, such as creating first drafts of job descriptions that can then be edited to fit the company’s needs, adding SafelyYou does something similar to write product descriptions for its offerings.

Additionally, Netscher added he believes automating processes such as time studies would help lower labor costs by reducing the number of staff looking over residents while being able to increase their pay and allowing them to spend more time with their residents.

“That is what we will just keep chipping away at and enabling. We can really elevate caregiving [and] let them really focus on just spending time with residents,” he said.

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https://seniorhousingnews.com/2025/01/29/thrive-in-25-or-perfect-storm-senior-living-industry-prepares-for-big-year-ahead/

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