VIRTUS REAL ESTATE CAPITAL

Real Estate Investing
For Every Environment

Healthcare Built Space Part II: Senior Living

July 22, 2026

Executive Summary

This paper is Part II of our series on healthcare built space, and it is a deeper dive into senior living. Part I [link] introduced the full landscape of the U.S. healthcare system and its physical infrastructure. Here we expand on one pillar: **the product, the business, the customer, and the market forces shaping senior living today.**

If the paper leaves one takeaway, it is this: **in senior living, demand is growing far faster than supply, and the gap widens from here.** While that's great, the fact of the matter is investing in the space is quite complex, as it is the crossroads of private equity, infrastructure, and real estate. Though senior living has always been resilient to macroeconomic and capital market forces, today the top-down fundamentals are arguably as good as they've ever been in decades. **Virtus has been investing in and studying the space for years, and we believe that understanding and mitigating each category of risk, combined with strong property-level execution, are the keys to consistent success.**

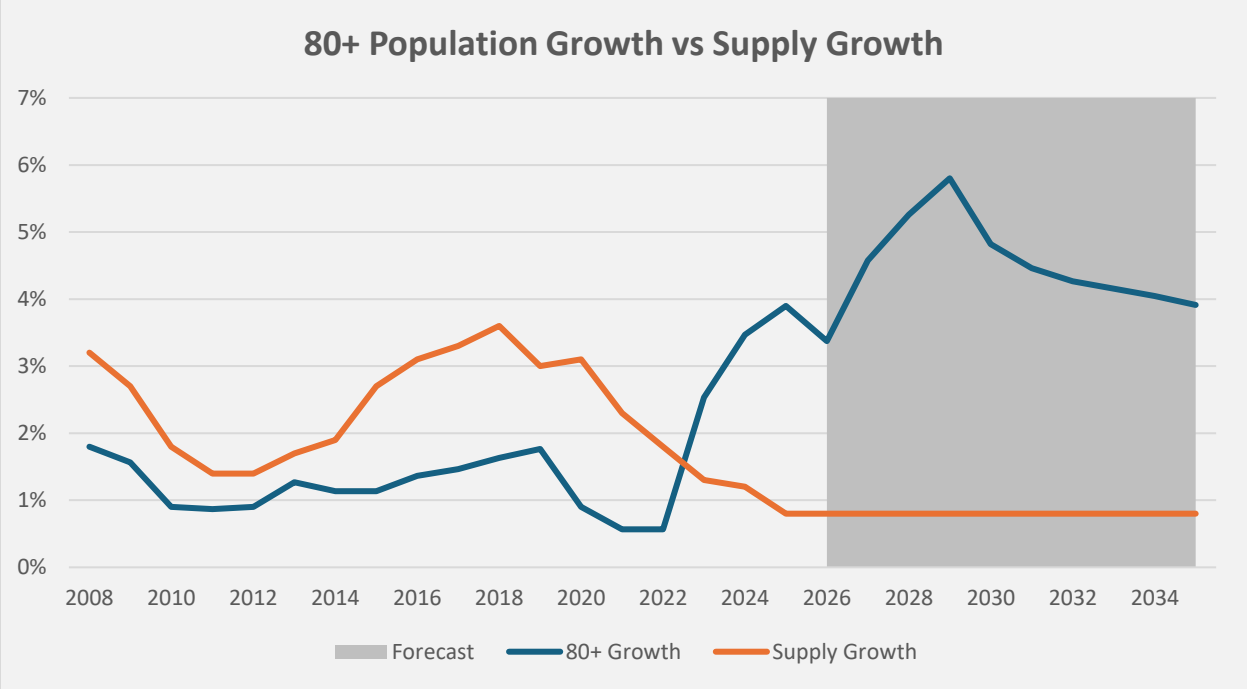


Figure 1: Source: 80+ population growth from the U.S. Census (three-period trailing average) and supply growth from Green Street. Supply growth flatlined at current levels to show acute unmet demand absent a future rise in new development.

The paper covers seven areas:

- **What senior living is**. Purpose-built rental housing that bundles shelter with daily services and care across independent living, assisted living, and memory care. The typical resident moves in at 83 to 85, stays 1.5 to 2.5 years, and pays privately: 97% of senior living revenue is out of pocket, insulating the sector from government reimbursement risk.

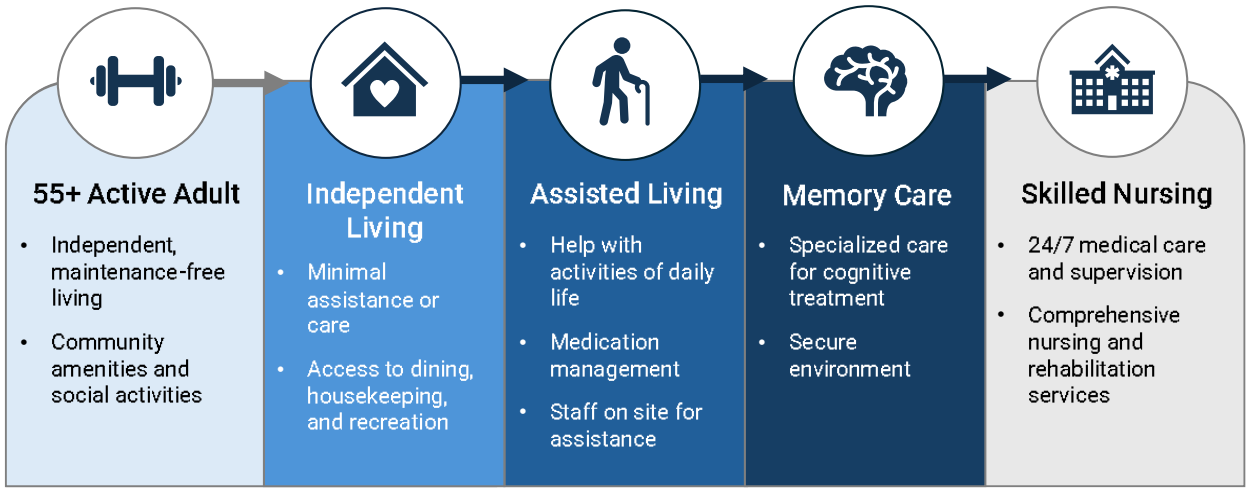
- **How the business works**. Senior living is an operating business with some real estate around it. Labor takes roughly half of every revenue dollar, and a largely fixed cost base means small revenue moves swing Net Operating Income (NOI) hard in both directions.
- **The demand wave**. The baby boomers are crossing into their eighties, taking the 80+ population from roughly 15 million toward 23 million by 2035, about 5% annual growth against 0.4% for the country. At the same time, the family care system is thinning: available caregivers per senior fall from roughly seven in 2010 to under three by 2050.
- **How residents pay for it**. Roughly 45% of senior households can cover the cost from recurring income alone, a share that rose through record rent growth, and the median 75+ household holds about $335,000 of net worth, roughly six years of rent against a two-year stay. Rising home prices and equity markets have extended the runway.
- **The supply collapse**. Units under construction sit at their lowest level since 2012, and supply growth has run below 1% per year since 2023. The market needs 500,000 additional units by 2029 and 600,000 by 2030, roughly three times the current delivery pace, a $275 billion to $300 billion shortfall. New construction rarely pencils while the average existing community trades around 40% below replacement cost, an unusual phenomenon historically.
- **The market is tightening in real time**. Occupancy reached 89.5% in early 2026, the 19th consecutive quarterly gain; rents are compounding ahead of inflation, and NOI is growing roughly 12% per year against a 3% commercial real estate (CRE) average.
- **Why the gap won't close**. The binding constraint is operational. The labor pool is contracting as immigration slows and retirements accelerate, regulation runs state by state and shifts faster than business plans, and the operator capability needed to capture the demand takes a decade or more to build.

Section 1: What Is Senior Living? The Product and the Resident

Senior living is purpose-built rental housing that bundles shelter with daily services and personal care for older adults. It is one of the few property types where the real estate and the service delivered inside it are inseparable. **A resident's monthly payment covers an apartment, but it also covers meals, housekeeping, transportation, social programming, and, at higher levels of care, hands-on assistance with the basic activities of daily life.**

The Acuity Continuum

The industry organizes itself along a continuum of acuity, meaning the intensity of care a resident requires. Five segments make up the continuum, and each attracts a different resident, a different payment model, and a different operating profile.



Source: Virtus

There are admittedly two other categories of senior living. Hospice care is for end of life, and typically with short-term stays, receiving residents typically from assisted living, memory care, or skilled nursing settings. Another category, continuing care retirement communities ("CCRCs"), is essentially a compilation of the above acuity levels, typically with an entrance fee model plus ongoing care or service fees. Both spaces are less utilized and less investable, so the focus will be on the main categories of senior living for this paper.

55+ Active Adult sits at the lowest end. These are age-restricted apartment communities offering independent, maintenance-free living with social amenities. There is no care component, so the segment operates much like conventional multifamily with an older tenant base. It is simply an apartment that is built (usually), managed, marketed, and operated toward an active and independent senior, with the average age of entrance being 72 in the U.S. Think of apartments with a more resilient rent roll due to low delinquency, low turnover, and nearly 3x average length of stay.

Independent Living ("IL") adds the first layer of services. Residents live independently but pay for a bundle that typically includes meals, housekeeping, activities, and often transportation. Because IL residents do not yet require assistance, demand carries more cyclical influence from the housing market and consumer preferences than the higher-acuity segments.

Assisted Living ("AL") provides everything IL does plus help with activities of daily living ("ADLs"): eating, bathing, dressing, and medication management. The move to AL is usually triggered by need, which makes demand far more stable through economic cycles.

Memory Care ("MC") layers dementia-specific care on top of the AL model: a secure environment, behavioral care, trained staff, and specialized programming. MC is the highest-acuity setting within private-pay senior living.

Skilled Nursing Facilities ("SNFs") sit beyond the private-pay line. They deliver 24/7 medical care and rehabilitation, and they are funded largely by Medicare and Medicaid.

The three core private-pay segments compare as follows:

	Independent Living	Assisted Living	Memory Care
Total units in the U.S.	~760,000	~745,000	~270,000
Average monthly cost (Top 50 markets)	~$3,800	~$6,100	~$7,900
Average resident age	83 years	85 years	85 years
Average length of stay	~2.5 years	~2 years	~1.5 years
NOI margin	~33%	~27%	~20%

Source: Green Street

Two things in this table are worth noting. First, **rent rises with acuity**: an MC unit commands roughly twice the monthly rate of an IL unit. Second, **margin falls with acuity**, because the labor required to deliver care grows faster than the rent that pays for it. Higher acuity means higher revenue per unit and a thinner Net Operating Income ("NOI") margin at the same time. Section 2 walks through the Profit & Loss (P&L) mechanics behind this trade.

What is the Resident Buying?

A useful way to think about the product: the resident rents an apartment and subscribes to a service platform at the same time. The real estate component looks familiar to any residential investor. The services component is what transforms the revenue profile. A conventional Class-A apartment in a major metro might rent for $3 to $8 per sq. ft. per month. An AL unit generating ~$6,100 per month on a typical 400 to 600 sq. ft. footprint works out to roughly $10 to $15 per sq. ft. per month, several multiples of the conventional figure, because the payment covers three meals a day, 24-hour staffing, care hours, and programming alongside the four walls. **Revenue**

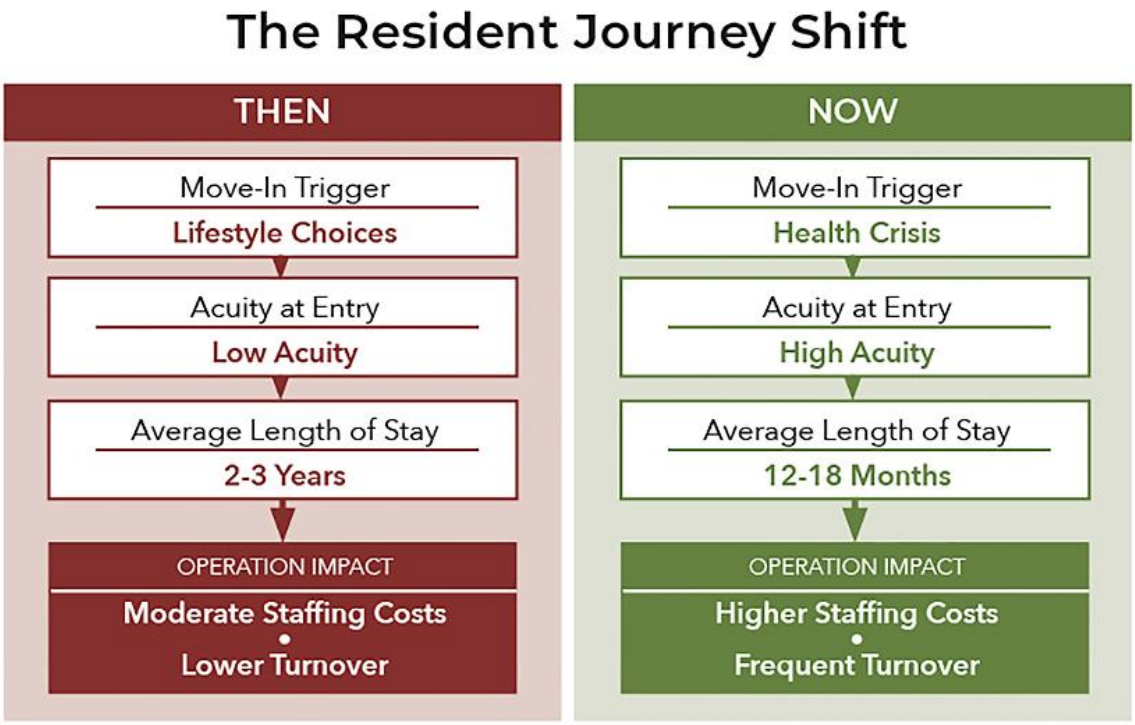
per sq. ft. is a multiple of conventional residential, and so is the operating cost required to earn it.

The Move-In Decision

Almost no one wakes up and decides to move into assisted living on a whim. The decision is triggered by need: a fall, a hospitalization, a dementia diagnosis progressing, a spouse passing away, or a family caregiver reaching exhaustion. This has two important implications for how the business works.

The first is who actually makes the decision. In most cases, the purchase is driven by an adult child, most often a daughter, managing a parent's transition during a stressful period. The industry's real customer is the family as much as the resident, and marketing, tours, and trust-building are built around that reality.

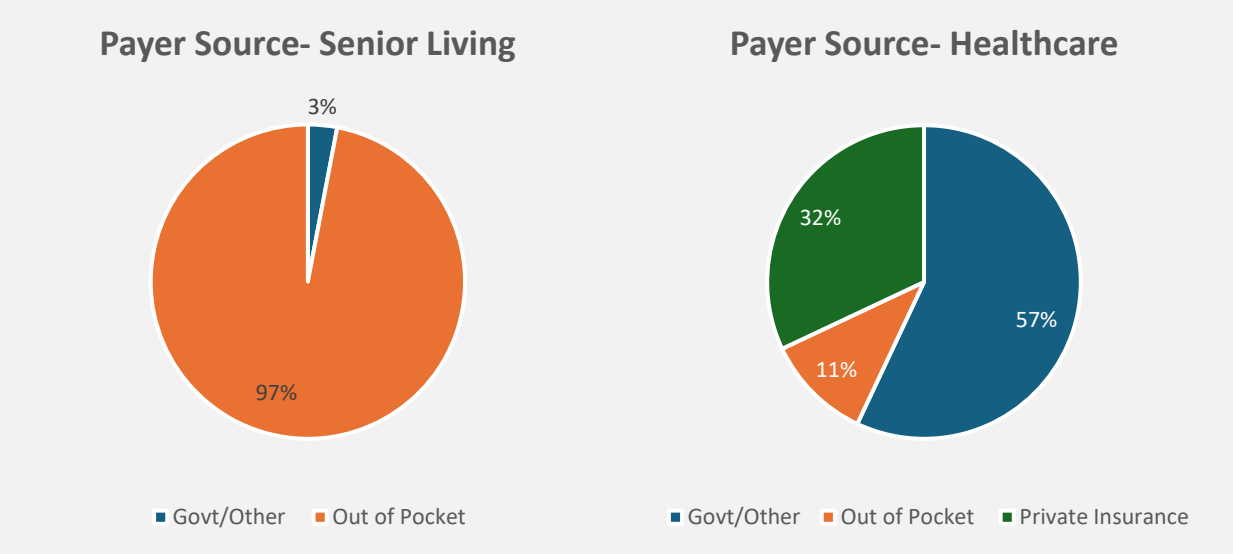
The second is a structural shift in when the move happens. Residents are moving in later and sicker than they did a decade ago. Increasingly, a resident enters a community for roughly the last 18 months of life instead of the last three years. Although revenue per resident is materially higher, the downstream effects compound: acuity at entry is higher, which raises care intensity from day one; lengths of stay are shorter, which increases turn frequency; and marketing cost per move-in rises because each unit must be re-leased more often.



Source: X-Caliber

Who Pays?

Senior living is financed almost entirely by the resident. **Roughly 97% of senior living revenue is paid out of pocket, from resident income, savings, home sale proceeds, family support, or long-term care insurance.** Compare that with the broader U.S. healthcare system, where roughly 57% of spending flows from government and other public sources and only about 11% comes out of pocket (Green Street).



Source: Green Street

This payor profile is one of the defining investment characteristics of the asset class. **Sectors funded by Medicare and Medicaid carry what the industry calls "stroke of the pen" risk: a single reimbursement rule change can reprice an entire property type overnight. Private-pay senior living is insulated from that risk because rates are set between operator and resident in an open market.** It is also the reason most institutional private-pay strategies stop at the skilled nursing line. SNFs are essentially reimbursement businesses wrapped in real estate, and their economics move with government policy in ways IL, AL, and MC do not share.

Section 2: How Does the Business Work?

Senior living is a different kind of real estate. Our Chief Investment Officer said it: **senior living is "an operating business with some real estate around it."** This section walks through what that operating business actually looks like, because understanding it matters for everything that follows, including why margins behave the way they do and why the supply gap persists.

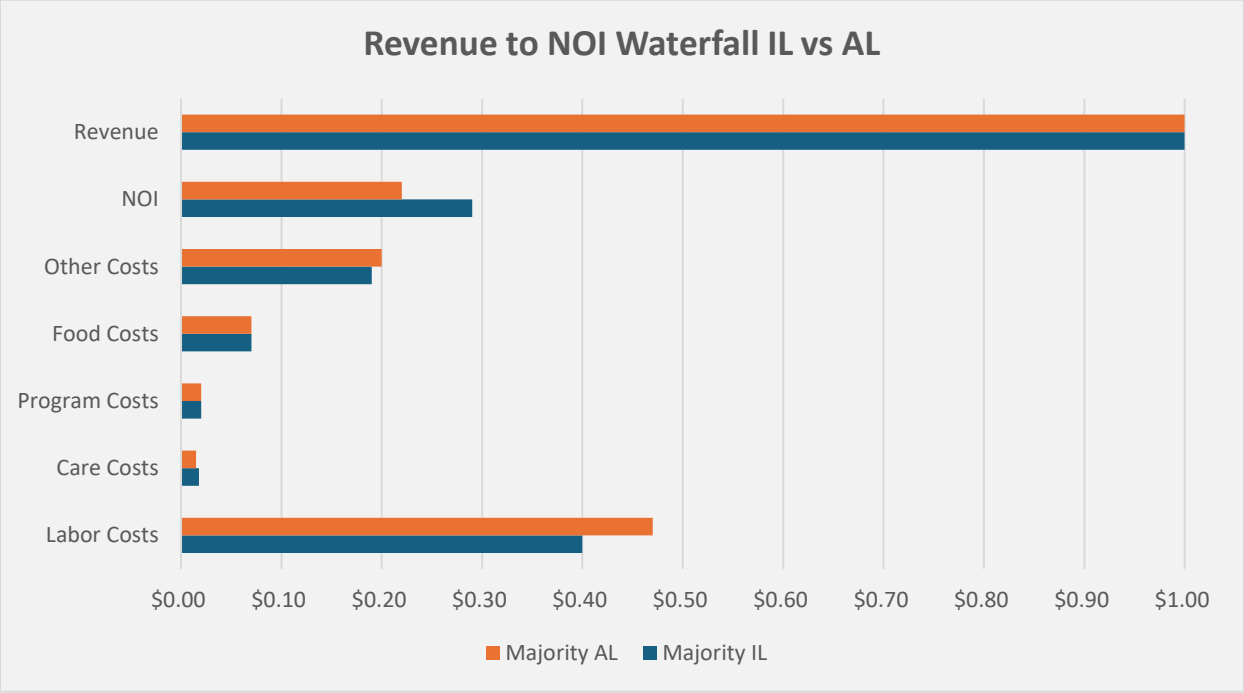
Two Businesses in One Building

Senior living is two operations at once. The first is a hospitality business: dining, housekeeping, programming, concierge, the daily experience a resident and their family are choosing among

competing communities. **The second is a care business**: staffing ratios, medication management, clinical risk, regulatory compliance, and outcomes. The two run simultaneously, share a labor pool, and answer to the same P&L, yet they demand different skills and fail in different ways. A community can serve excellent meals and still lose its license over a care lapse or deliver flawless care and still lose move-ins to the community down the road with better food and livelier programming. Operators who excel at both are scarce, and that scarcity shapes the industry's structure.

Anatomy of a Dollar of Revenue

It is important to see how $1 of revenue moves through the building, because it shows why operations dominate outcomes. **As an example, let's consider a majority-AL community: roughly $0.47 of every revenue dollar goes to labor before anything else is paid. Food service takes about $0.07, care supplies and programming a few cents more, and a final block of roughly $0.20 covers insurance, utilities, licensing, and other operating costs. What remains, about $0.22, is Net Operating Income.** A majority-IL community runs the same walk with a lighter labor load, around $0.40 of the dollar, and keeps roughly $0.29. Labor, at 55% to 60% of operating expenses, is the line that decides the year.



Source: Green Street

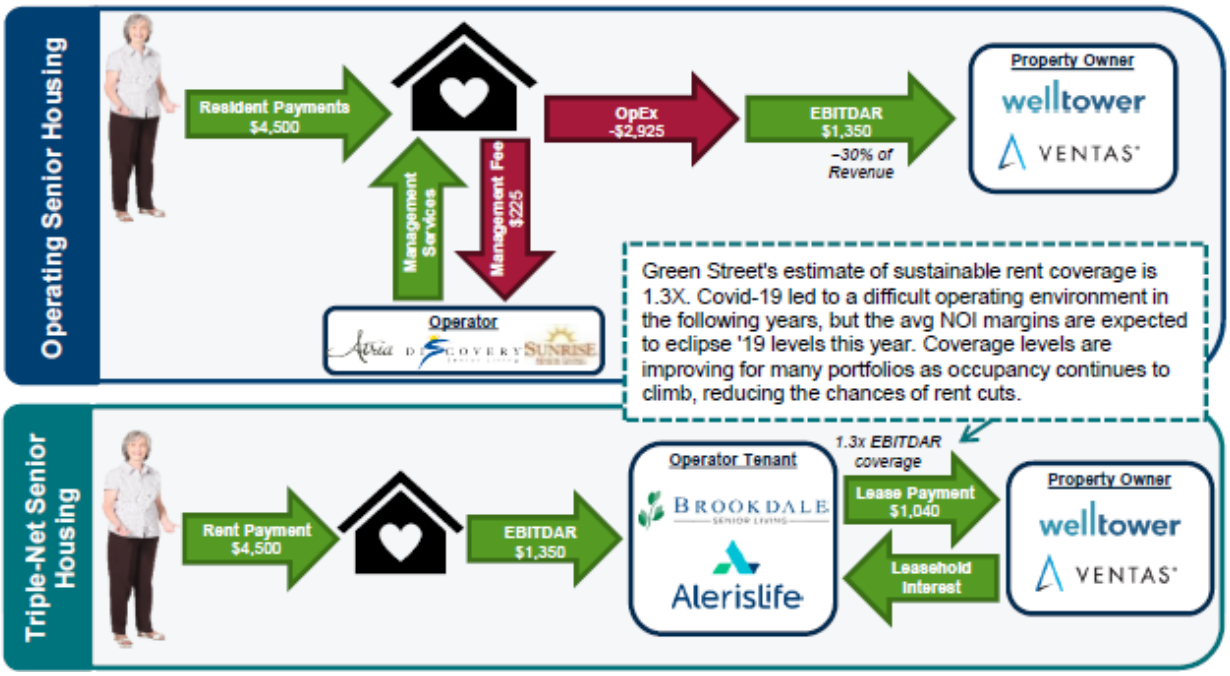
This is the mechanical explanation for the margin pattern in Section 1's table. NOI margins run about 33% in IL, 27% in AL, and 20% in MC: each step up the acuity ladder adds more care hours than it adds rent. It also explains the sector's operating leverage. With margins in the high-20s

and a heavily fixed cost base, small moves in revenue swing NOI hard in both directions. Admittedly, having multiple levels of care combined with appropriate scale can improve margins in the aggregate. **Green Street expects that leverage to convert mid-single-digit revenue growth into roughly 12% annual NOI growth through 2028, the strongest outlook among the roughly 20 property sectors it covers.**

Who Owns and Who Operates?

The operational intensity produced an unusual industry structure: in senior living, the owner of the building and the operator of the business are usually different parties. Two contractual models govern the split:

- Under a **triple-net lease ("NNN")** structure, an operator leases the building and runs the business for its own account, paying the owner contractual rent that escalates annually by a fixed or CPI-linked amount. The tenant carries taxes, insurance, maintenance, and capital expenditures. The owner's income is bond-like and insulated from operations, right up to the point where the operator's rent coverage erodes; Green Street pegs sustainable coverage at roughly 1.3x EBITDAR.
- Under the **senior housing operating ("SHOP")** model, the owner retains the economics of the business and engages a third-party operator under a management agreement for a fee, typically around 5% of revenue. The owner participates directly in NOI growth and, symmetrically, in NOI decline.



NNN vs SHOP. Source: Green Street

Lease structures were more common in the past for two reasons. First, there were structural reasons for the healthcare REITs to work under a lease structure in order to be RIDEA compliant and maintain their tax benefits. There was also the perception that a lease structure was meaningfully safer than a SHOP structure, because you theoretically have the backstop of the operator's credit should the property-level operations falter. The idea was the owner gave up upside potential in NOI growth for the downside protection of the operator's good credit. Unfortunately, most operators' credit was often not sufficient to backstop the lessor in cases of wider swings in operations or industry-level challenges, including the ultimate shock to the senior living system: the Global Pandemic. You don't have to look far to see the carnage of bankruptcies through the years of even large-scale name-brand operators, even well before the Global Pandemic. As such, there has been a meaningful move away from master lease structures to SHOP, whereby ownership participates in the upside and downside of the NOI.

Within the SHOP model, owners and operators can structure the management agreement in different ways. The simplest is a flat fee based on revenue, often around 5%. The problem is that this pays the operator to fill beds whether or not the community is profitable. So many owners add an incentive fee tied to NOI, and some go further and pay bonuses to the on-site staff who most affect performance. The goal in each case is the same: pay the operator for the profit the owner actually cares about, not just for occupancy.

The structural takeaway for the rest of this paper: senior living returns are produced by an operating business, accessed through real estate, and governed by contracts that determine who keeps the upside.

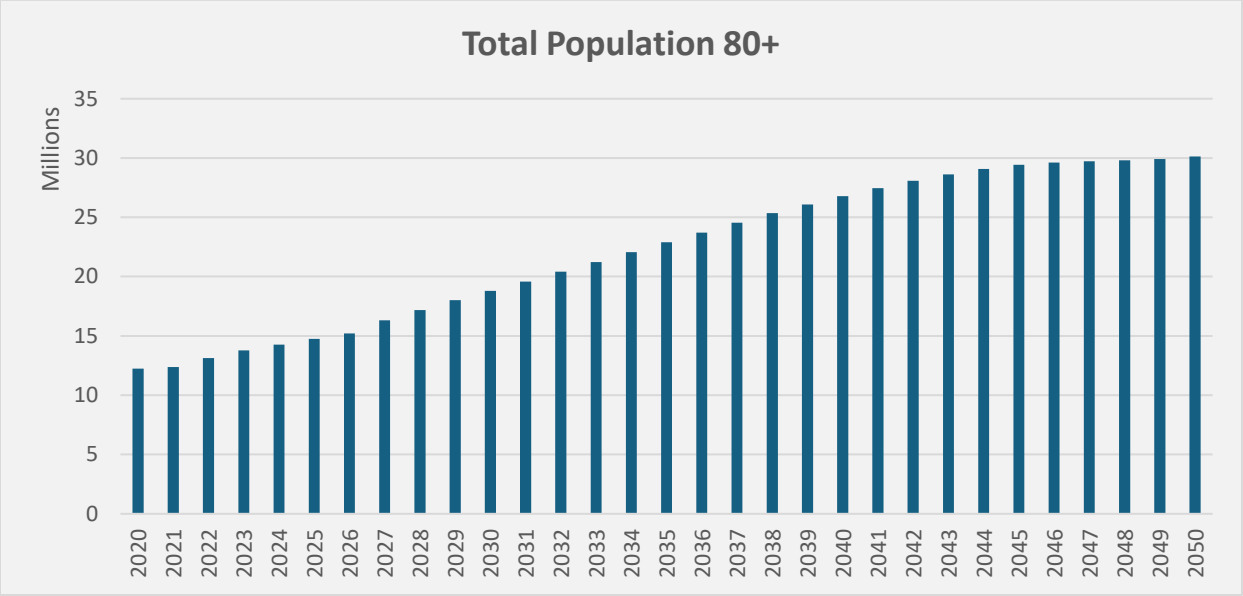
Section 3: The Demand Wave

The baby boomers, Americans born between 1946 and 1964, are now crossing into old age, and the leading edge of that cohort is arriving at the ages where senior living demand is generated. This is not a gradual demographic drift. It is the largest generation in American history, reaching its eighties more or less at once, and it is producing growth in the 80+ population unlike anything the sector has seen. Part I of our healthcare series set out the backdrop; this section goes deeper on the size of the wave and why the family care system that used to absorb this demand can no longer keep up.

The 80+ Population Is Growing Like Never Before

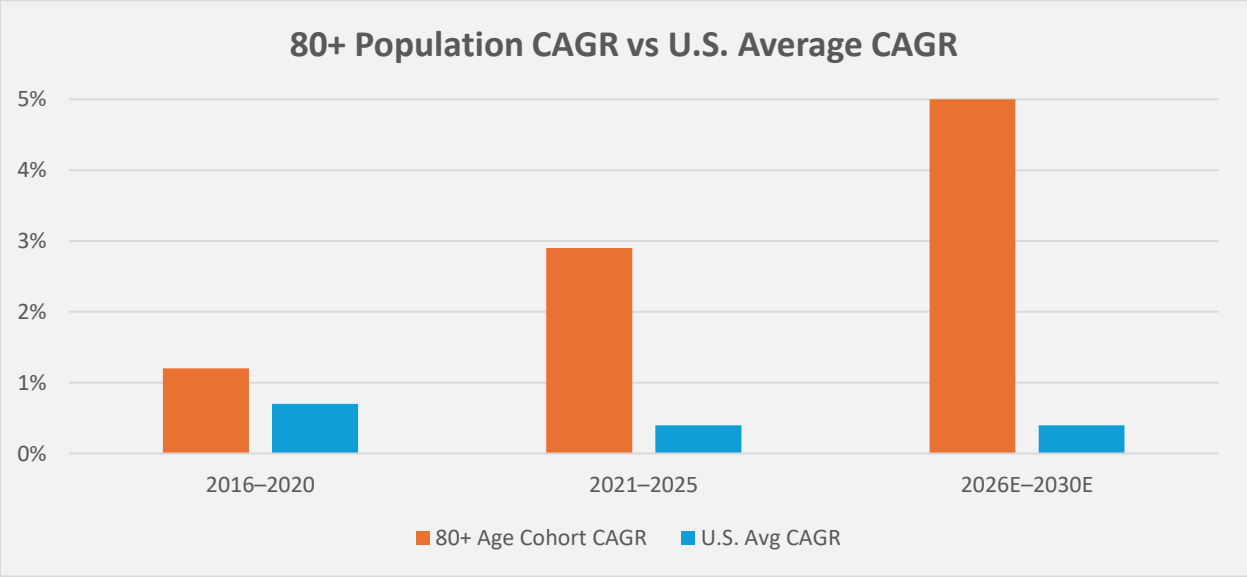
Senior living demand is concentrated remarkably late in life. Roughly 80% of demand comes from people over 75, and average move-in ages run about 83 in IL and 85 in AL and MC. Thus, the cohort that matters is the 80+ population specifically, and it is inflecting hard. **Growth in this group has accelerated from under 2% annually over the past decade to roughly 5% per year through 2030, against 0.4% for the country as a whole.** In absolute terms, the 80+ population

stands at roughly 15 million today and is on its way to approximately 23 million by 2035, a jump of more than 50%, and to 30 million by 2050 (U.S. Census).



Source: U.S. Census

The internal composition of the wave reinforces the point. **The 80-to-84 cohort will grow about 30 basis points per year faster than the 85+ cohort over the next decade (Green Street), meaning the fastest growth is landing exactly at the sector's move-in ages.** And the wave has a long runway: Census projections have 80+ growth remaining well above its historical average through the 2030s and cresting only in the early 2040s. The demand tailwind described in this paper runs for the length of a fund's life and then keeps going.



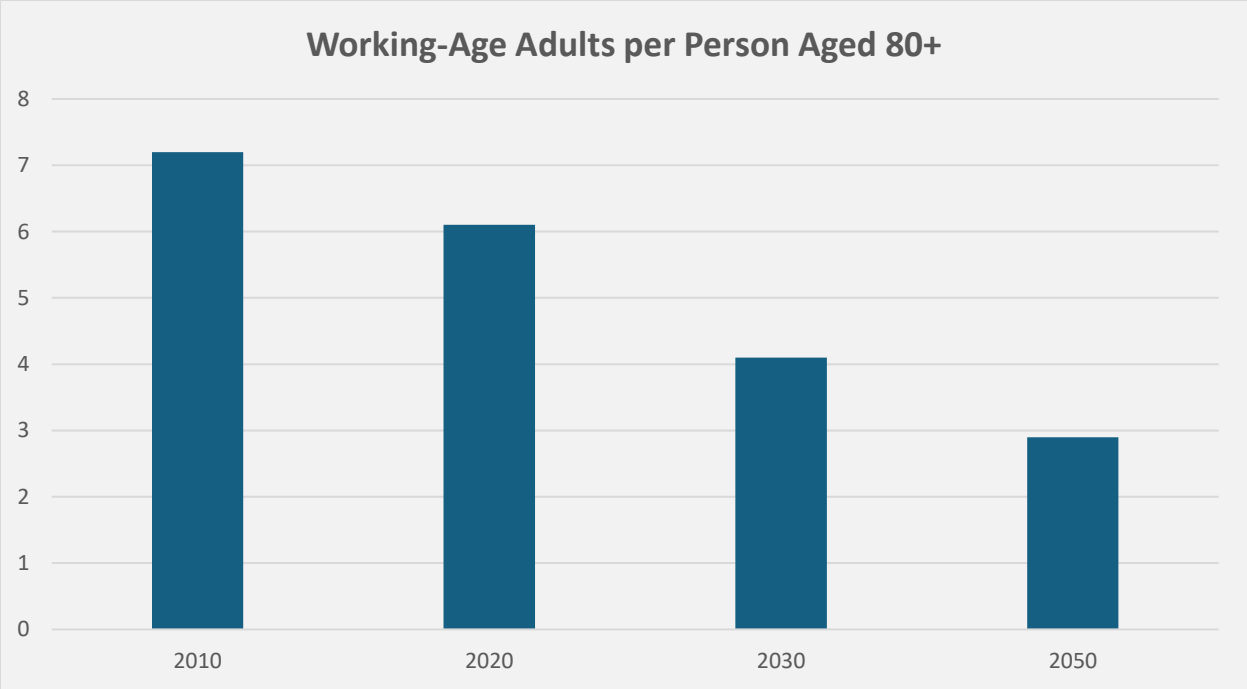
Source: Green Street

The Caregiver Collapse and the Solo Ager

The quiet assumption beneath senior living demand is that the alternative, unpaid family care, remains available. It is eroding on two fronts.

The first is arithmetic. **The caregiver support ratio is falling: roughly seven working-age adults per person aged 80+ in 2010, falling to about four by 2030 and under three by 2050** (AARP Public Policy Institute). Fewer available family caregivers per senior means more care needs converting from informal, unpaid arrangements into formal, paid settings. As National Investment Center for Seniors Housing and Care's (NIC) Robert Kramer puts it, the bedrock of the long-term care system is family care, and that bedrock is thinning (X-Caliber/NIC).

The second front is household structure. **A growing share of older adults are solo agers, people aging without a spouse or children available to provide care.** The projections are striking: researchers estimate solo agers could rise from roughly 4% to 30% of the older adult population (X-Caliber/NIC), and Harvard researchers estimate that by 2038, the majority of Americans aged 80 and over, roughly 10 million people, will be aging solo (American Association of Retired Persons AARP). A solo ager with care needs has no family buffer to exhaust first. Their demand arrives at the market as paid demand from day one, whether through home care or a community.

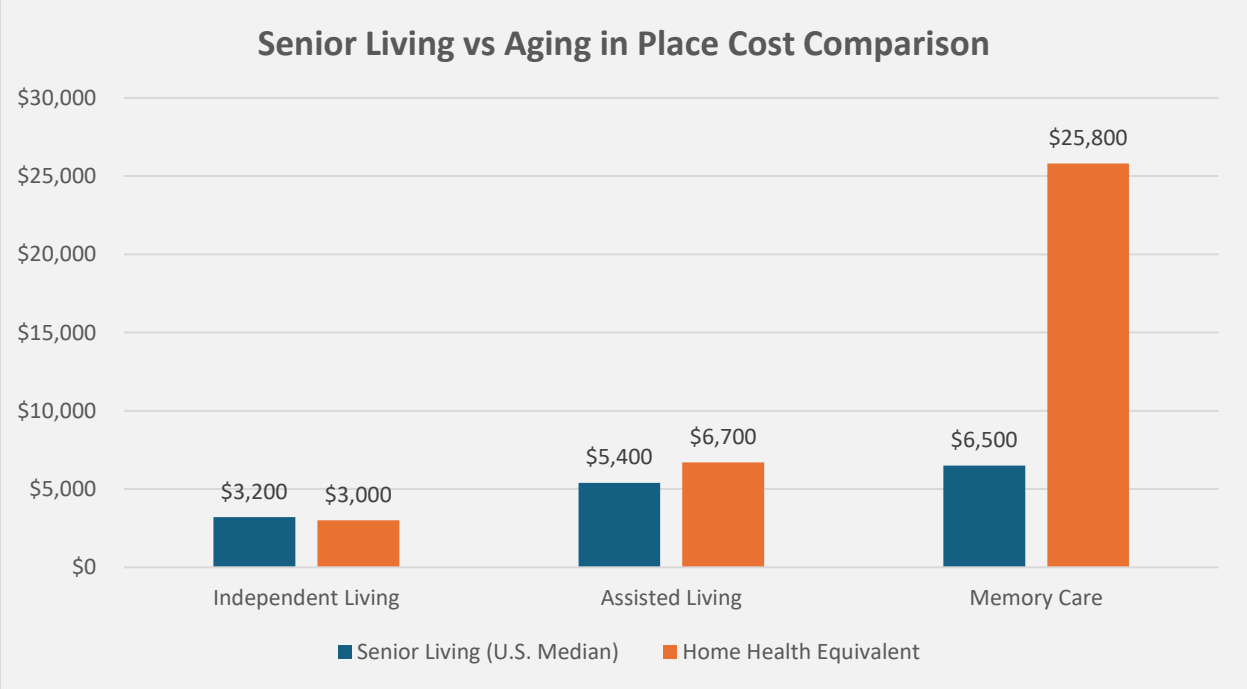


Source: AARP Public Policy Institute

The True Cost of Aging at Home

The standard objection is that seniors want to age at home. Mostly true, but the preference is weakening, and the economics undermine it at higher acuity. **The share of seniors preferring to age in place has fallen from roughly 85% in 2010 to about 75% today, and boomers show more openness to congregate settings than the generation before them (Green Street).**

The economics matter more. Aging in place looks cheap at low acuity and becomes ruinous at high acuity. **A home health aide at the U.S. median rate of about $35 per hour costs roughly $6,700 per month at AL-level hours of care, and about $25,800 per month for the 24/7 coverage that memory care conditions require (Green Street).** Those figures buy care hours only; the house, property taxes, utilities, food, and maintenance all still sit on top. A community at roughly $6,100 per month for AL or $7,900 for MC bundles the care, the housing, and the services into one payment. At IL-level needs, staying home genuinely competes. Once a resident needs what AL and MC provide, the community is usually the cheaper option, often dramatically so.



Home health equivalent costs assume 44 hours per week for AL-level care and 24/7 coverage for MC-level care at the median home health aide rate of ~$35 per hour. Source: Green Street

The demand wave, then, is a generation-sized cohort arriving at move-in age with a family care system that is shrinking in capacity to absorb it, and a cost structure that pushes higher-acuity needs toward communities. That raises the obvious question: can these seniors afford it, and can they keep affording it as rents and labor costs climb? Section 4 takes that on directly.

All this Spells Increased Utilization Rates

When one is looking at projections for senior living demand into the future, they typically assume the utilization rates of the past. **Even with those past utilization rates, we and plenty of others have already demonstrated demand will outstrip supply meaningfully.** What few people are talking about is the likelihood, or arguably the necessity, that utilization rates of senior living will increase. There are so many factors driving this "assumption":

1. Solo agers are increasing
2. Falling caregiver-to-senior ratios
3. More dual-income households means even where there are caregivers, their ability to care for an aging loved one is hampered
4. Economics of aging in place at higher acuity are untenable for the vast majority of Americans
5. Improved facilities and care have driven more people to senior living communities out of preference and quality of life
6. Greater cultural acceptance—it was far more taboo in the past to "put a loved one in a home," especially in certain cultures, but in modern society, there is greater acceptance of the reality and the recognition that professionals are likely better at delivering the necessary care in a safe environment than attempting to deliver it at home

What's fascinating is that any one of these factors could materially change the demand curves most of us are projecting, let alone what multiple factors could do for overall demand over the coming decades.

Section 4: How Are Residents Paying for It?

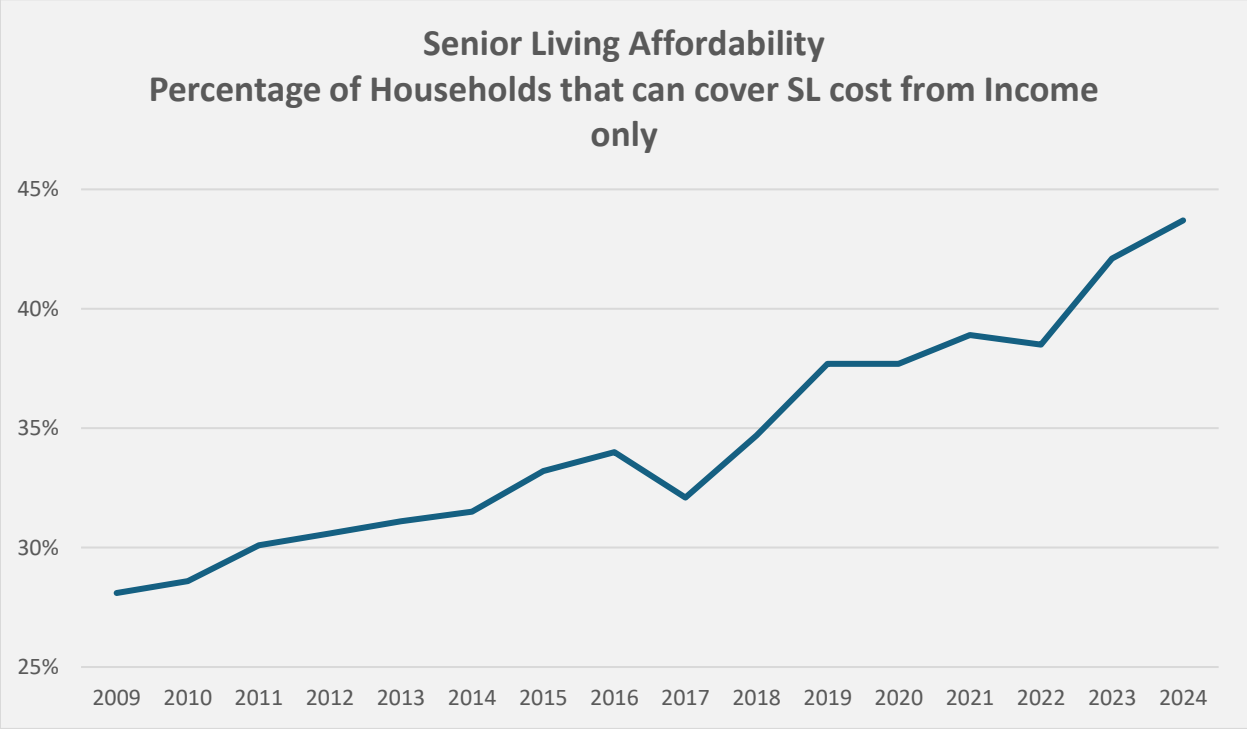
Rent growth of 5% to 8% invites an obvious question: how are residents actually paying for it, and can they keep it up? For the private-pay customer these communities serve, the answer is reassuring, and it has gotten stronger rather than weaker through the steepest rent growth in the sector's history. **Residents pay in two ways, from income and from wealth, and both have kept pace with rents, unlike what we've seen in other types of rental housing.**

Paying From Income

The industry's standard affordability test is strict: can a senior household cover senior living costs from recurring income alone, without touching savings or assets? Recurring income here means Social Security, pensions, annuities, and investment income.

On that strict test, affordability has been climbing, and climbing straight through the largest rent increases the sector has ever posted. **Roughly 45% of senior households can now cover senior housing costs from income alone, up about 10 percentage points since 2018 (Green Street).**

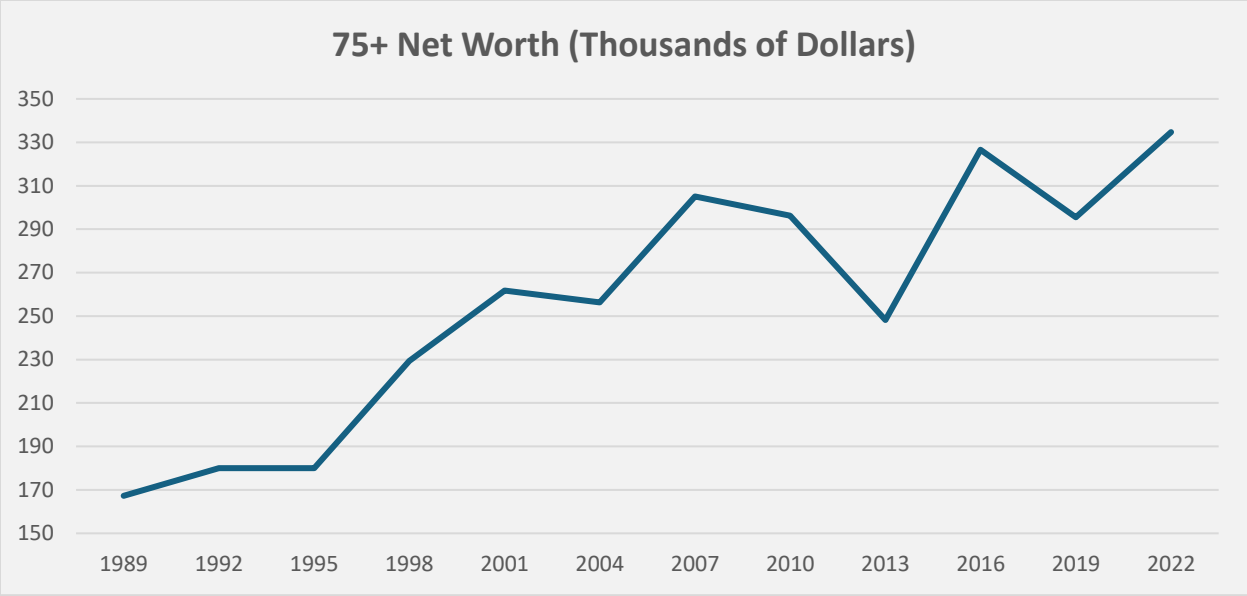
Nearly half the market, in other words, can pay the rent without drawing on savings at all. The reason is simple: senior incomes have outpaced senior living rent growth in three of the past four years (Green Street). Social Security adjusts annually for inflation, with cost-of-living increases of 8.7% in 2023 and 2.8% for 2026 (Social Security Administration), and investment income has been carried by strong markets, with the S&P 500 returning roughly 14% to 15% annually over the past five years. Rents compounding at 5% are far less daunting when the customer's income is compounding alongside them. We believe that there are no affordability concerns here in the near term.



Source: Green Street

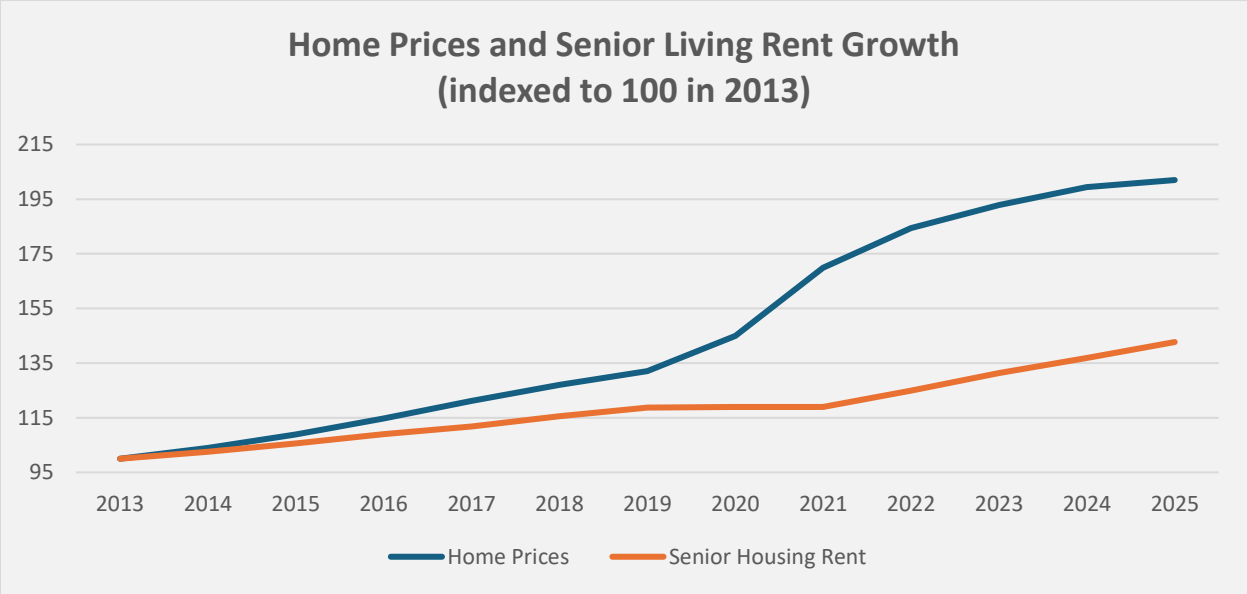
Paying From Wealth

Income actually understates the picture, because the other half of the market funds senior living the way they funded the rest of retirement: from the balance sheet. **As of the most recent available Federal Reserve Survey of Consumer Finances, the median net worth of a 75+ household was roughly $335,000, up from $295,000 in 2019** (Federal Reserve Survey of Consumer Finances 2022). At current rents, that median net worth covers about six years of senior living, against an average stay of about two. Three times the median coverage before counting a dollar of income is a wide margin.



Source: Federal Reserve Survey of Consumer Finances 2022

Two forces have kept that balance sheet strong. Home prices have appreciated dramatically over the past decade, and the home sale is the industry's classic funding event: the resident sells the house, and the proceeds fund the move. Equity markets have done the rest, lifting the investment savings that sit alongside the home. The baby boomers now hold more than half of all U.S. household net worth (Federal Reserve Board). So even the residents who cannot cover the full cost from income alone are, in most cases, sitting on substantial assets accumulated over a lifetime, and those assets are what pay for care. Rising home prices and rising markets have not just preserved affordability; they have extended the runway.



Source: Green Street

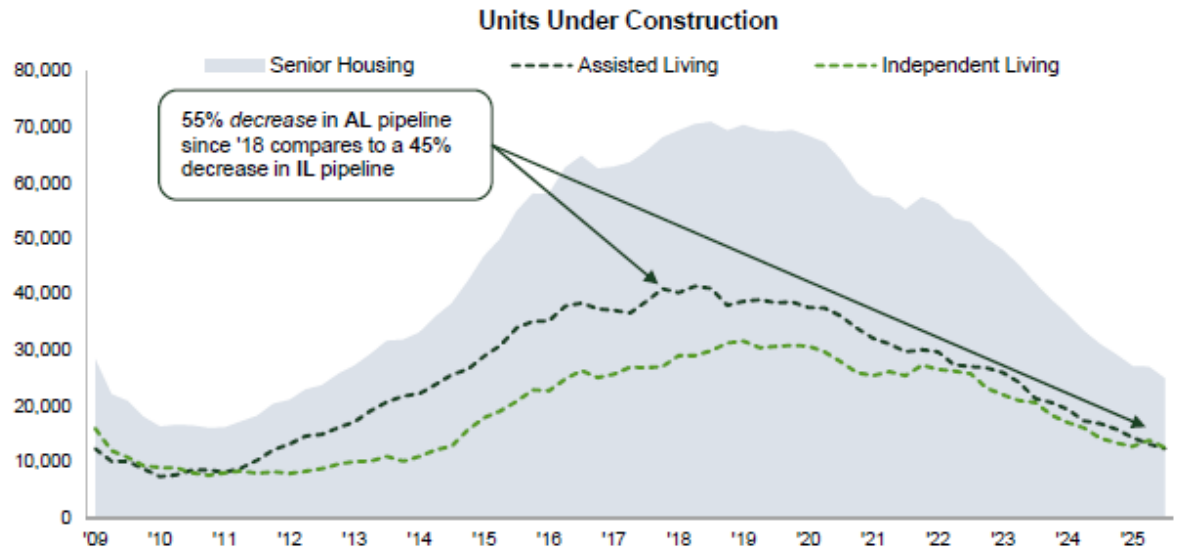
Affordability, then, is not the soft spot in the senior living story. Between income that has kept pace with rents and the wealthiest senior balance sheets on record, the paying customer can afford the product, and the data has strengthened through the very period rents rose fastest. The striking part is that this well-funded, growing demand is arriving at a market that has nearly stopped building.

Section 5: The Supply Collapse

This section shows that the senior living supply has completely stopped responding to the demand. Demand stories are common in real estate; however, a demand story arriving at a market that has nearly stopped building is not. This is what makes the supply-side setup unusual.

The Headline Numbers

Units under construction have fallen to their lowest level since 2012, and annual inventory growth has been averaging less than 1% since 2023 (Green Street). New starts have collapsed to a fraction of the prior cycle's pace: the assisted living pipeline is down about 55% from its 2018 peak, with independent living down about 45%. Roughly 60% of the metro markets NIC MAP tracks have essentially zero units under active development (NIC MAP). With the current setup, even an eventual recovery leaves per-capita deliveries subdued against the surging 80+ population.

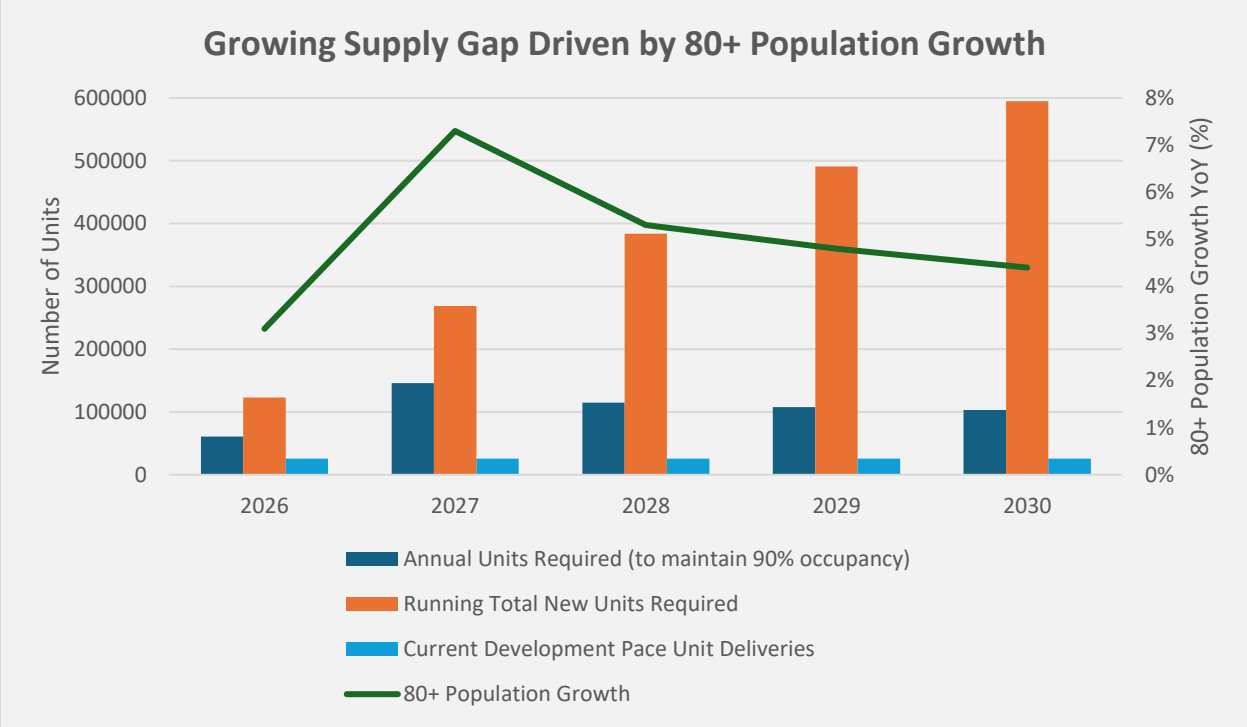


Source: Green Street

The Requirement Math

Set that pipeline against what the demographics require, again not assuming increased utilization rates. **NIC MAP estimates the U.S. needs roughly 500,000 additional senior living units by 2029 and 600,000 by 2030 just to maintain current penetration rates for the growing 80+ population.**

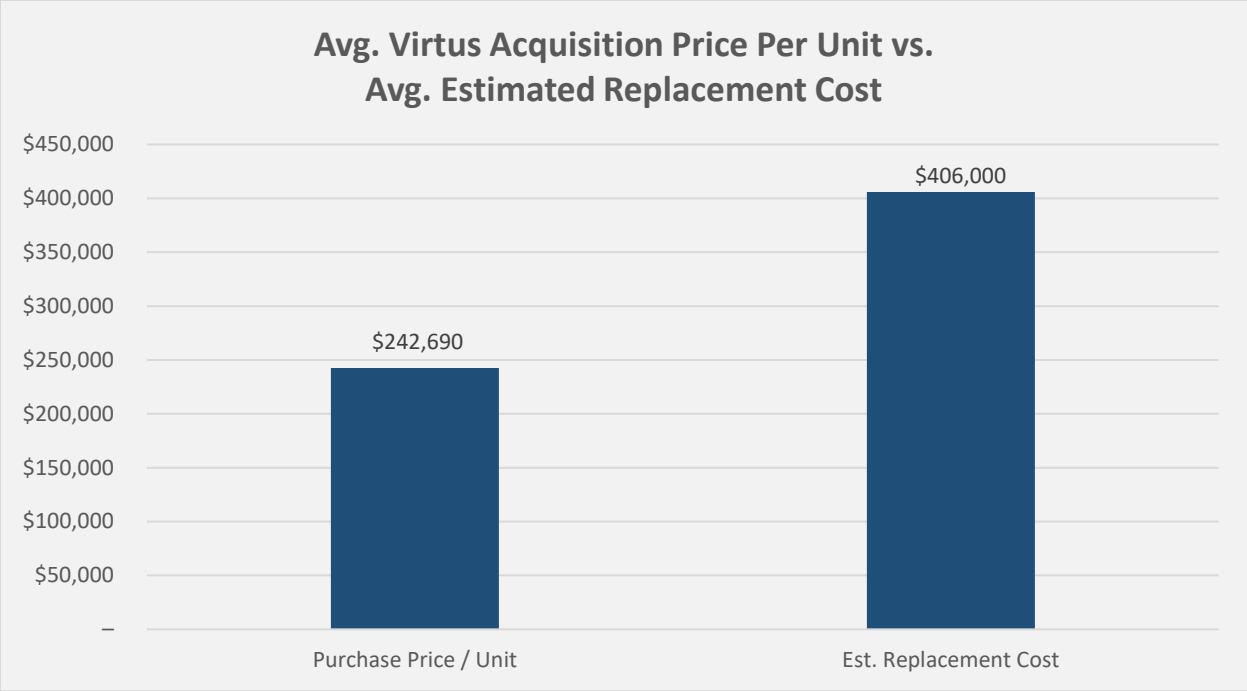
The current pace of development is on track to deliver roughly a third of that, leaving an **investment shortfall of approximately $275 billion to $300 billion by 2030.** In NIC MAP's words, the industry would need to more than triple its current development pace to close the gap.



NIC MAP estimates that meeting demand through 2041 would require more than $1 trillion of cumulative investment, and that at the current development pace, the sector faces roughly an $800 billion supply gap over that period. Numbers that large invite skepticism, so it is worth saying what they do and do not claim. They do not predict that a trillion dollars will be spent. They measure the size of the hole between the units the aging population will demand and the units the current pace will deliver. The hole can close from either side: a construction boom, or occupancies and rents rising until the market clears the shortage through price.

Why Nothing Pencils?

The reason supply is not responding is arithmetic, and it starts with replacement cost. **Building a new senior living community today costs roughly $406,000 per unit. Meanwhile, the average existing stabilized community has been trading hands at ~$240,000 per unit, which is a discount of roughly 40% to estimated replacement cost.** No rational developer builds a new community at $406,000 a unit while comparable existing buildings sell for 40% less. The buy-versus-build decision answers itself, and capital has answered it: acquisition volumes are recovering while starts sit at generational lows. The average facility being traded is far older and inferior to newly delivered product, which would obviously fetch a higher rent, necessitating a higher income or wealthier senior. But that's a different calculus that must be undertaken on a case-by-case basis.



Source: Virtus

The rest of the development stack compounds the problem. Construction costs rose sharply through the inflation of 2021 to 2023 and have not retraced. Development yields, the return a project earns on its total cost, have compressed toward stabilized cap rates, leaving developers little spread to compensate for lease-up risk and multi-year exposure. And construction lending for the asset class remains tight, with banks still working through pandemic-era senior living loans. For development to restart at scale, rents must rise far enough above today's levels to rebuild the spread between yield-on-cost and stabilized cap rates.

There's another factor here: **development spreads to stabilized cap rates in senior living must be significantly higher than in other residential categories to justify development risk for three interrelated reasons.** First, the lease-up can often take longer, and over a lease-up, you have to simultaneously deal with much of the rent roll rolling over. That is to say, the back door is open to existing residents while inviting new residents in the front door. Second, breakeven occupancy is significantly higher in senior living than in other residential categories, think 72%-78% in senior versus 50s and 60s in student housing and multifamily. So that means your carrying costs are higher for longer. Third, the carrying costs are far higher in senior living than any other category due to the enormous fixed costs at a senior living community plus the related labor component. Although labor can flex with occupancy to a degree, certain positions must be in place at all times, including all four key leadership positions (executive director, director of marketing, chief wellness/medical officer, and head of culinary services), the most expensive roles, as well as maintaining certain staff-to-resident ratios throughout.

When you put all of these interrelated factors together, not to mention the general operational risk, it's prudent to have between 300 and 500 bps of development spread to stabilized cap rates. Contrast that with multifamily deals that typically get built with maybe only 150 bps of spread. To be specific, Virtus broke ground on several senior living communities between 2013 and 2017, primarily in Gateway metros, with trended yields on cost of approximately 9.8%-12%. At the time, stabilized cap rates for newly delivered and stabilized product was approximately 5.75%-6.25%. So that meant we were building to (trended) spreads of ~400 – 600 bps. Although we pulled back from investing new capital in senior living at the beginning of 2018 due to quickly escalating operational expenses and eroding operating margins, many of those new developments delivered at exactly the wrong time, right before the Global Pandemic or even right in the middle of it. As discussed ad nauseam in past pieces, senior living was hit quicker and harder (at least in the short-term) than any other asset class during COVID. Revenue dropped like a lead balloon when we couldn't lease new units, operating expenses skyrocketed, and cap rates along with it. And that was even before the Great Tightening took hold in 2022 with increasing interest rates and cap rates. Had we not been building to such significant spreads on stabilized caps at the initial underwriting, the outcomes would have been disastrous. While the outcomes weren't all unicorns and rainbows, and hold periods became elongated, only one of our developments had less than a 1.0x ROC through that entire period.

Lead Times Are the Deterrent

Even if capital stampeded into development tomorrow, the calendar would blunt it. **A senior living project now takes roughly 30 months from start to delivery. Add site selection, entitlement, and financing in front of construction, and a decision made today delivers a community around 2029, precisely when 80+ population growth is escalating.** The supply response is structurally late. The gap widens before it can narrow, and the widest years of the imbalance are already locked in by decisions developers did not make in 2023, 2024, and 2025.

The Stock Is Aging Too

The unit count overstates the competition in one more way: the existing stock is old. Roughly half of the nation's senior housing inventory is now more than 25 years old (NIC MAP). Communities built in the 1990s compete poorly for a customer touring against a product built in the 2010s, in unit sizes, common areas, technology, and care programming. Effective competitive supply, the stock of well-located, well-run communities, is thinner than the raw numbers suggest. It also means the industry's near-term supply response will come largely through repositioning and renovation of existing buildings, which upgrades quality but adds no net units to a market that is short of them.

In conclusion, the supply side is struggling: a pipeline at decade lows, a requirement running three times the delivery pace, development economics that will not support new construction for years,

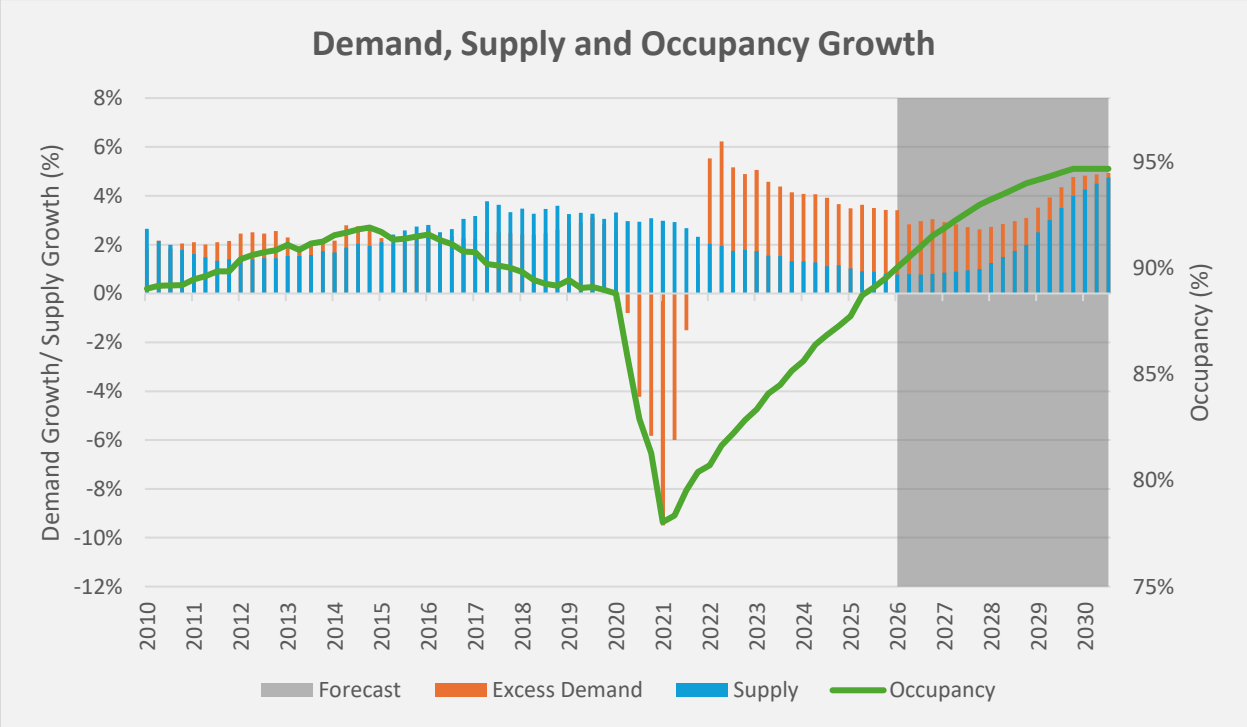
a 30-month lag on any response, and an existing stock aging out of competitiveness. This dynamic means only one thing, and Section 6 shows what it is already doing to occupancy, rents, and NOI.

Section 6: The Market Is Tightening in Real Time

The previous two sections described a collision in the making: well-funded demand growing at 5% a year, supply growing at less than 1%. This section shows the collision in the operating numbers because it is no longer a forecast. It is visible in every quarterly data release, and it has been for some time now.

Occupancy: A Record Run

Senior living occupancy in NIC MAP's Primary Markets reached 89.5% in the first quarter of 2026, the 19th consecutive quarter of occupancy gains (NIC MAP). Independent living crossed 90% for the first time since 2019 and stands at roughly 91%. Occupancy now sits more than 200 basis points above pre-COVID levels (Green Street).



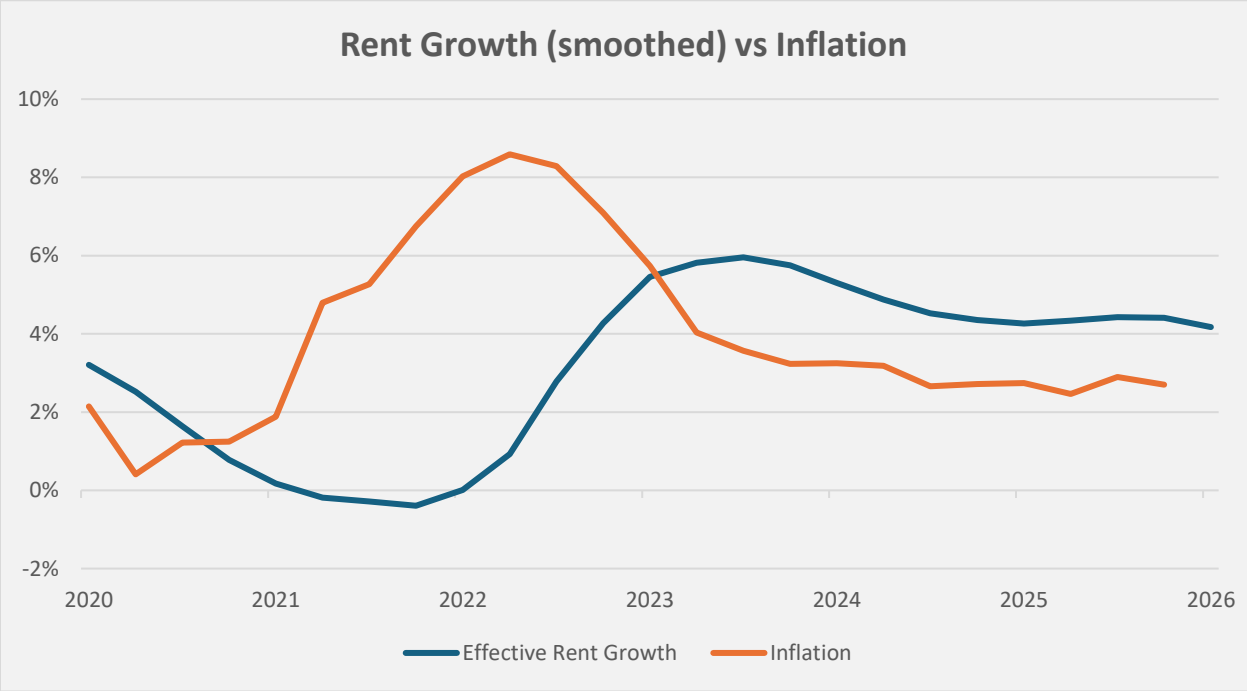
Source: Green Street and Virtus Projections

The composition of the gains tells the supply story in miniature: occupied units keep climbing while fewer than 1,900 new units opened in the fourth quarter of 2025, so absorption is running far ahead of openings and has for 19 straight quarters (NIC MAP). Seven of the 31 Primary Markets now run above 90% occupancy, led by Boston at 93.1%. Green Street expects the climb to continue, with occupancy stabilizing at record levels in the mid-90% range by 2030. There is one practical consequence: residents in tight markets may soon struggle to find a unit of their choice.

Pricing Power

Rents have followed the tightening. **Rent growth ran roughly 5% to 8% annually from 2022 through 2024 before moderating to the mid-4% range in 2025, still more than 200 basis points above the sector's 2009 to 2019 average.** Green Street's forward view combines steady rate growth with continued occupancy gains into Market-RevPAF growth of roughly 6% per year through 2028, more than double the traditional-sector average.

Just as important as the level is the spread over inflation. Senior living rent growth has outpaced CPI inflation since 2022, and the gap has widened as inflation normalized: rent growth held in the mid-4% range in 2025 while inflation eased toward roughly 2.5% to 3%, so operators are now pushing real rate increases of over 100 basis points a year.

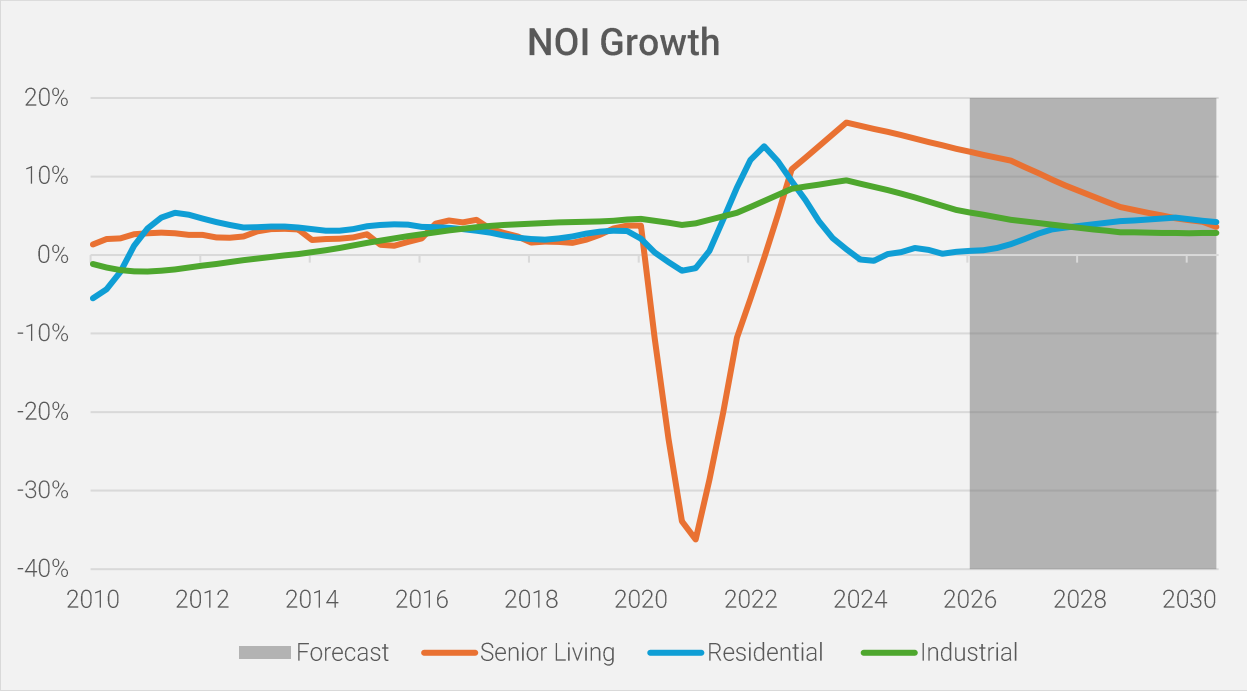


Source: Effective Rent Growth from Green Street and Inflation from U.S. Bureau of Labor Statistics. Effective Rent Growth is shown using a three-period trailing average to smooth short-term volatility.

Margins and NOI

The expense side has normalized from its worst. Same-store operating expense growth peaked around 8.5% in 2022 and has eased back toward the sector's long-term average of about 4%, with wage growth returning to the 3% to 4% band for the first time since early 2021 (Green Street). Revenue compounding at roughly 6% against expenses growing near 4% widens margins each year, and because senior living runs on a largely fixed cost base, that gap drops to NOI at a magnified rate. The result is the arithmetic this paper has been building toward: Green Street forecasts roughly 12% annual NOI growth through 2028, against approximately 3% for the

commercial real estate average, the strongest outlook among the roughly 20 property sectors it covers.



Source: NCREIF

Capital Is Noticing

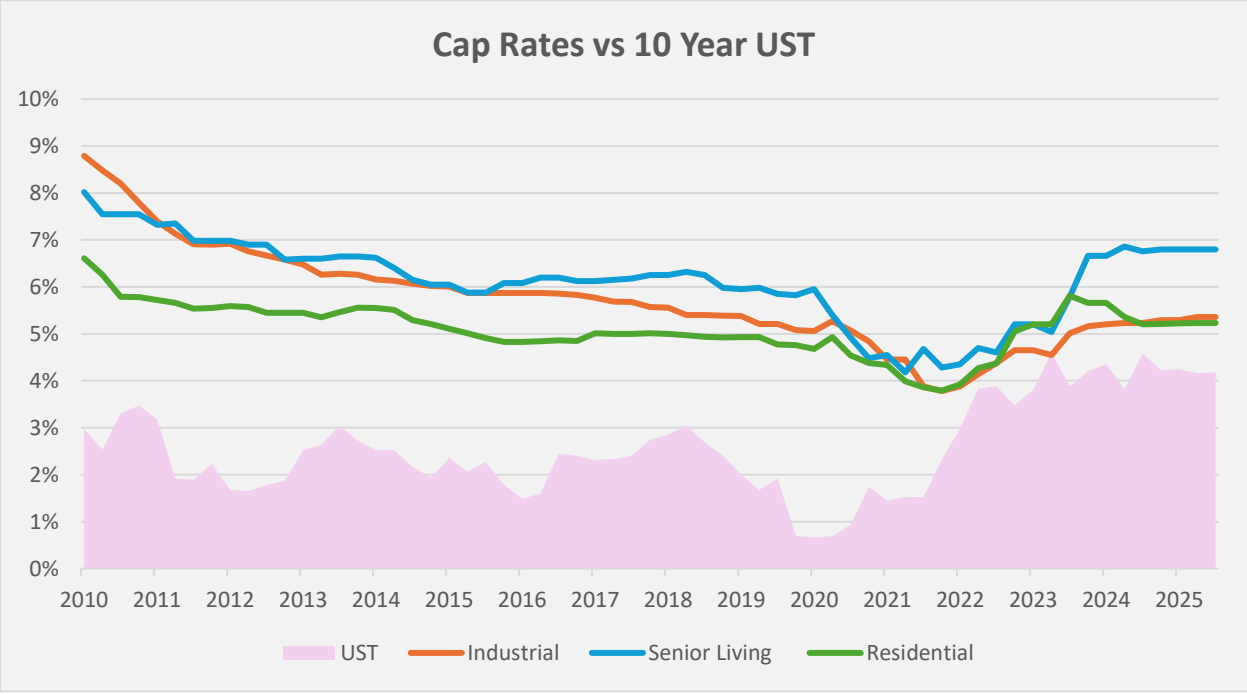
The capital markets have started to reprice the sector accordingly. **Transaction activity ran hot through 2025, with Green Street describing sentiment and investor interest at historic levels.** The senior living REITs were the most aggressive buyers. Their shares traded at roughly a 65% premium to the value of the real estate they owned during 2025, which made raising equity a cheap way to fund purchases: they could issue stock at a high price, buy buildings at private-market prices, and come out ahead. Private equity re-entered in size as debt availability and pricing improved through the back half of the year. Senior living nominal cap rates sit in the mid-6% range, and Green Street expects further compression relative to other sectors. Asset values appreciated more than 10% over the past year, leading all areas of CRE, driven by the combination of outsized cash flow growth and modest cap rate compression.

The reality is the buyer's market is still quite bifurcated. There are certain buy boxes, newer stabilized properties in major metros that check all the boxes, are very competitive to say the least. The REITs, large PE buyers, including plenty of newer senior living "tourists" and core buyers, show up for those assets, and pricing will typically trade inside a 6%-cap. However, if you uncheck one of those boxes, say buying a 20-year-old asset that is an institutional asset and has been upgraded but isn't brand new, the buyer pool drops off dramatically. We've closed recent

transactions like that, purchasing well into the 7-cap range in-place for stabilized assets at rent levels that appeal to a broader pool of qualified seniors.

While senior living is arguably the most talked-about property or infra sector behind data centers, and plenty want to get into the space, the weight of capital is still relatively muted compared to pre-COVID. What most people don't realize is how destructive COVID was on the industry; it drove many players, operators, developers, and investors out of the industry, including bankrupting many of them. Some have returned, but many have not. This has been another barrier to capital entering the space.

To be clear, although capital has returned for certain acquisitions, almost none of it has translated into construction. Buying existing buildings transfers ownership; it adds no units. The capital flows described here are bidding up a fixed stock of assets while the development pipeline sits at 2012 levels, which is precisely the dynamic that extends the runway on the fundamentals above.



Source: Green Street and FRED

Section 7: Why the Gap Won't Close

The natural question after Section 6 is why the returns on display have not already summoned a wall of new supply. Part of the answer is the development math and lead times covered in Section 5. **The deeper answer is that the binding constraint in senior living is operational, and operating capability cannot be raised the way capital can.** Occupancy strength does not guarantee NOI strength: a new community takes 24 to 30 months to lease up, and the dispersion between well-

run and poorly run communities is wide enough to erase the demographic tailwind on any specific asset. Generalist capital has tried repeatedly to hire its way into the sector and has repeatedly discovered that the scarce input is a proven operator, evaluated over years, in the right region, at the right scale. They often try to bring the same playbook to senior living that they've brought to other property types, partner with one of the largest national operators, write a big check recapping a portfolio and add-on to it with new acquisitions or development. What most don't realize is there has never been a national senior living operator that has operated with excellence across cycles and markets. As mentioned prior, it is very much at least a regional business if not a local business. National operators' capabilities can range widely across markets, let alone acuity levels. That's why we believe "super-regional" operators still with economies of scale advantages, in-place labor pool and more local expertise tend to be more consistently successful. Our own network of operator relationships took nearly two decades to build, and it remains the hardest part of the platform to replicate. Two structural forces keep this operating barrier in place: labor and regulation.

Labor

Senior living is a labor business, and the labor market is tightening structurally even as it eases cyclically. The cyclical part is genuine relief: wage growth has returned to the 3% to 4% band for the first time since early 2021, and we expect further moderation in 2026 on softness in the broader labor market.

The structural part points the other way. **Demand for care workers rises mechanically with the 80+ population, at the same time as outsized retirements shrink the existing workforce.** The deeper problem is the supply of labor itself. Immigration has been the swing factor in U.S. workforce growth for over a decade: the Federal Reserve Bank of San Francisco estimates that without immigration, the country's working-age population would have begun shrinking as early as 2012, as births slowed and the baby boomers aged out. Foreign-born workers are a critical source of staffing for the healthcare support and food service roles senior living runs on, and their share of the U.S. labor force has climbed from about 17% in 2019 to 19.2% in 2024 (BLS). That pipeline is now narrowing sharply. The San Francisco Fed estimates net international migration fell to roughly 500,000 in 2025, less than a quarter of its 2024 level, not enough to offset a native-born working-age population that is itself declining. On current trends, the Fed projects that prime-age labor force growth turns negative in the early 2040s, and sooner under more aggressive deportation scenarios. The strain is already visible in the sector's ratios: senior living employment per 80+ capita has fallen more than 10% since 2019, meaning staffing has not kept up with the population it serves even at today's occupancy. We expect wage growth to stay in the 3%-4% range, which, for owners, is a permanent tax on margins that only scale, operator quality, and retention can manage. For would-be developers, it deepens the barrier: every new community must be staffed out of the same (currently) shrinking pool. Admittedly, policy changes

could improve things, and it's not a far leap to think many jobs that might be displaced by AI and automation over the coming years might be absorbed by the senior living industry, which is fairly immune to AI disruption.

Regulation

Senior living is regulated state by state. Licensing regimes, staffing ratios, training requirements, and care rules differ across all 50 states, and in some states, certificate-of-need requirements add a further layer of development friction. For operators, this is a persistent operating tax that rewards regional depth: an operator licensed and experienced in a state has a durable advantage over one entering cold. For investors, it is another reason why capability concentrates among specialists.

The rules also move faster than business plans. The clearest recent example comes from the adjacent skilled nursing setting. A federal rule setting minimum nurse staffing levels for nursing homes was finalized in 2024, then unwound over the following 18 months through the courts, Congress, and finally CMS, which repealed it in December 2025 (American Hospital Association). A rule that would have reshaped staffing economics across an entire care setting appeared and disappeared within two years. Private-pay senior living sat outside that mandate, which is itself part of the sector's appeal, but the episode illustrates the general condition: staffing regulation is volatile in both directions, and operators must be built to absorb it. That capacity to absorb regulatory swings, like the labor challenge, is one more thing that cannot be bought quickly, and one more reason the supply gap closes slowly no matter how much capital arrives.

Conclusion

This paper sets out to explain a market, and the explanation resolves into one picture. On one side, the largest cohort of care-needing Americans in history is arriving at move-in age, carrying the strongest senior balance sheets on record and losing the family care system that once absorbed its needs. On the other side, the industry that houses and cares for them has nearly stopped building: a pipeline at 2012 lows, development economics that typically fail against a 40% discount to replacement cost, and a build cycle that pushes any response to 2029 or later. Between the two sits an operating business that is genuinely hard to run, staffed from a labor pool that is contracting just as demand accelerates, and regulated state by state in rules that can move faster than business plans.

Each piece reinforces the others. The demand is locked in by demographics already born and aging on schedule. The supply cannot respond quickly, because the barrier is time and operating capability as much as capital. The customer's affordability runway is measured in years of coverage, supported by income that has kept pace with rents and wealth built over a lifetime. And the difficulty of operations, the thing that makes the sector demanding, is the same thing

that concentrates its rewards among the specialists who have built the operator relationships, the regional depth, and the operating discipline to capture demand that arrives regardless. Occupancy at record levels, rents compounding ahead of inflation, and NOI growing at four times the pace of commercial real estate broadly are what that collision looks like in the data. The quarters ahead will be written by the same forces.

Part III will turn to one of the other pillars of healthcare built space: medical outpatient buildings. The demographic engine is the same aging population, and the supply discipline rhymes, but the business could hardly be more different. Where senior living compounds value through daily operations, MOBs deliver it through long leases, tenant credit, and rollover economics, a landlord's business serving the delivery of care itself. Understanding both and how they complement each other completes the picture of healthcare real estate, as this series began with Part I.

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