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KEYNOTE INTERVIEW

Senior housing offers investment opportunities



*Clarion Partners' **Julie Robinson** and **Indraneel Karlekar** see openings in a sector where growing demographics outpace supply by a wide margin*

Given the huge disparity between supply and demand in the senior housing sector, occupancy is expected to stay strong for the foreseeable future, explain Julie Robinson, head of healthcare at Clarion Partners, and Indraneel Karlekar, global head of research for the New York-based real estate investment firm. Robinson and Karlekar emphasize that the sector's robust demographic-driven demand, paired with a persistent supply shortage, positions senior housing as a compelling long-term investment opportunity with strong growth potential.

Q What is driving investor conviction in the senior housing sector?

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Indraneel Karlekar: Demographics. Over the next decade, we expect the 80-plus population in the US to increase at an unprecedented rate. The annual rate is expected to be about 4.5 percent until 2030, and then it continues to grow at about a 3.8 percent rate over the 10-year period ending in 2040. As a result, the senior population is expected to double by 2040 to almost 25 million people.

That is double the current number, and would represent about 7 percent of the total US population in 2040. You really are looking at some scale that

is going to be very, very significant.

In terms of senior housing demand, we think there is going to be over 1.25 million units that require delivery. That gap is going to keep growing because the structural shortage is not going to ease over the next 10 years. And in housing, the normal population is not even growing at the same rate of the senior population, creating a delta between what is required and what is currently available or will be available.

Julie Robinson: To put a finer point on that, the growth rate in the next 10 years is two-and-a-half times the growth rate of the past 10 years. That sort of demand in the industry is really going to pick up in a dramatic fashion.

What you see in all real estate sectors, including senior housing, is a depression in new construction because of rising construction prices.

Because you have a mismatch in terms of supply and demand for senior housing going forward, there is almost no catch-up that can occur. In some markets, you are already seeing this significant supply-demand imbalance creating a shortage in housing. In most markets you will see that going forward because you are not going to be able to catch up to the demand that is out there. That is why, at Clarion, we expect to spend up to \$1 billion annually to gain solid ground in the sector.

Q Do you see any potential pitfalls around affordability when looking at the high end of the senior housing market?

JR: There is some sensationalism that baby-boomers are not going to be able to afford to move into a senior housing community. What does not get talked about is the more prevalent situation tied to the growth in affluence for both the baby-boomers and the Gen Xers – senior housing residents and their adult children, who are the No 1 and No 2 wealthiest population cohorts in the US.

That growth in affluence is driven by the growth in home values, in their pensions, in the macroeconomic environment and the stock market. There is significant home equity that the baby-boomers in particular have and can use to spend on moving into a community, and the adult children have significant wealth creation as well.

IK: According to the US Fed, the median net worth for the 75-plus cohort is about \$340,000, which is about two times what it was in 1989 when adjusted for inflation. The median net worth for the 65-74-year-olds is about \$410,000, which is the highest among all age cohorts that we have data for. It is capital that is necessary to support

people as they transition toward some form of senior living.

A lot of people have financial insecurity and concerns about affordability for themselves and their family. But this is a significant amount of money that is available for people to draw down as they enter some of these facilities.

JR: To Indy's point, the median net worth can cover a six-year stay in a typical senior housing community. Typical length of stay is usually two or three years because the entry point is typically older for baby-boomers, who are 83 or 84 years old when they move in.

Q Artificial intelligence is on the mind of nearly every commercial real estate investor and manager. Where does AI play in the senior housing space?

IK: Everybody thinks about the enormous productivity enhancements that AI and data will do for us in our daily lives, which is all true. But it is also going to be extremely impactful when it comes to the care end of society, specifically, when you think about senior housing, either assisted living or independent living.

The amount of technology that is and will be deployed going forward for preventative purposes, for palliative care, for automating tasks or making them more efficient, will be disinflationary. An operator will not need 10 nurses on site, but an AI assistant that is going to help plan for everyday management tasks. There is an element of productivity and technology enhancement that is going to be massive over the next 10 years. That is going to be quite powerful and is becoming more evident every year.

JR: We are seeing that already in terms of the staffing of frontline caregivers, and also conversations with the families about the care assistance needed.

For example, you thought Mom

“Senior housing is a demand inelastic product because of the need for care and limited available options”

JULIE ROBINSON

“Over the next decade, we expect the 80-plus population in the US to increase at an unprecedented rate”

INDRANEEL KARLEKAR

Q What is the current outlook on the future of the senior housing investment market in the United States?

IK: US senior housing is probably the top sector investors are extremely interested in because of its compelling attributes that are driven by the sheer demographics. They are both so powerful that investors see it almost like an infrastructure play – a structural opportunity to invest in a demographic-driven story in the US. It is front and center of almost every investor that is trying to get into the space or wants an allocation to senior housing or the demographic group and strategies.

Covid-19 was quite challenging for senior housing, for obvious reasons. But if you look at the long-term history of senior housing and its risk-adjusted performance, it has actually been one of the best-performing sectors across property investment and for investors that had the capital to deploy.

And, I will just say from a relative value perspective, you look at senior housing and you compare it to, say, traditional housing, you will find residential and multifamily are pricing at far tighter cap rates than senior housing is.



only needed assistance with medication; she was fine walking by herself or bathing by herself. But through remote monitoring you can see that her gait is changing. She is a fall risk because she is leaning more on her left side and maybe there is some weakness in terms of her right hip. You can do a few things with that: you can detect a fall risk, you can implement more therapy,

you can have a conversation with the family to say your mom needs more assistance than we thought.

So, it is not just medication management. AI and evolving technology provide operators with a lot more insight and information from both a health perspective and a staffing efficiency perspective. We are going to see that improve for sure.

Q What impact will interest rates and inflation risks have on senior housing, from a capital availability, financing and development perspective?

IK: Higher-for-longer interest rates do not seem to have dampened investor appetite, according to my conversations with investors globally, that is for sure.

But operators and owners have felt the impact of dislocation that eats into the capital structure. Their need to re-capitalize and bring assets to market is creating this opportunity. There is not enough capital to meet the needs of the market.

That is why we think there is an opportunity here for us tactically to fill that void and take advantage of some interesting pricing from a relative value perspective.

JR: We talk a lot about the supply-demand imbalance. Senior housing is a demand inelastic product because of the need for care and limited available options. Relying on family to assist with care or home healthcare are two options that are quickly diminishing, mostly driven by rising labor costs, which is increasing demand for purpose-built senior communities.

With this really well-priced and inelastic product, we are able to consistently increase rental rates above inflation and, importantly, above expense growth. From an investor perspective, the higher operating leverage, generally speaking, leads to outsized NOI growth, more than you could expect in other sectors.

IK: To put some numbers around that, over a 20-year period, senior housing has delivered almost a 9.75 percent return versus if you just look at the NCREIF Property Index, which has done about 6 percent. That is almost a 300-basis point outperformance over a 20-year history just for senior housing. ■