



## TWIN CITIES SENIOR HOUSING MARKET SNAPSHOT

FALL 2023

### SENIOR HOUSING RECOVERY NEARS PRE-PANDEMIC

Twin Cities senior housing industry continues to recover lost occupancies from the pandemic's disruption in 2020. Occupancies plunged nearly 10% in 2020, however the senior housing market continues to show optimism from quarter-to-quarter as occupancies (as of Fall 2023) are only 2% to 3% lower than pre-pandemic levels. Based on the current trajectory and projected demand, Maxfield Research estimates occupancies will fully recover by the third- to fourth quarters of 2024.

Occupancy improvements have been strongest for assisted living and memory care housing; driven by the high-needs demand for services-based housing and a cooling housing market that may delay active seniors from moving. Inflation, wages, and labor shortages continue to weigh on operators, however rent growth has been in the 8% to 10% over the past year as operators combat escalating operational costs and COVID-related expenses. However, rent growth of this magnitude is not sustainable long-term and should settle in the 4% to 5% range in 2024.

### ACTIVE ADULT DRIVES NEW CONSTRUCTION

Despite occupancies still below pre-pandemic normalcy, new construction is expected to reach a new peak this year with over 4,000 units expected to deliver. To date, 2,600 units have opened and another 1,450 units are under construction and expected to be occupied by year's end. Historically, the Twin Cities averaged about 1,800 new units annually between 2011 and 2020, this year's projected completions are over double the past decades average.

Over 80% of this year's deliveries are either active adult or independent living, led by affordable senior housing that represents 40% of the new supply. The shift to active adult living over the past few years is driven by the younger baby boomers (ages 59 to 77) and staffing shortages that has resulted in a pivot away from service-based housing to active living and independent living. Active adult market rate rentals and for-sale options make-up around 27% of new product this year, while assisted living and memory care make up only 15% market share, the lowest level on record.

Looking ahead, new construction starts are plummeting as high interest rates, cost of capital, tighter underwriting, construction costs, and staffing challenges are impacting new construction starts. Only 1,330 units are under construction and are expected to deliver next year, while 2025 is even quieter. The dip in the pipeline is welcome news for some operators as properties continue to rebound from the pandemic impacts and the lower supply will return the market to balanced market fundamentals.

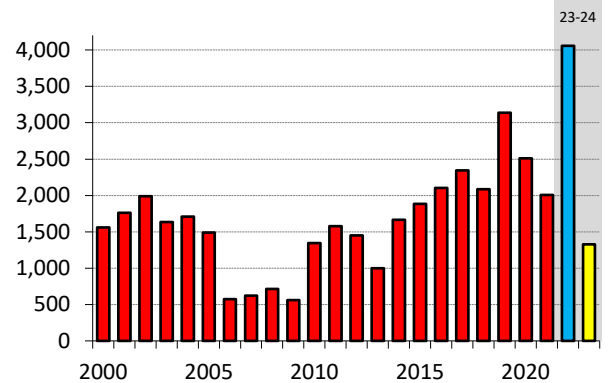
### OUTLOOK

The senior housing market continues to rebound and market fundamentals should reach pre-pandemic stabilization by the end of 2024. Exceptional strong demographic growth in the senior population will continue to drive senior housing demand in the coming years as baby boomers begin to age into senior housing. Rebounding occupancies, stronger rent growth, declining inflation, and wage stabilization will generate healthier balance sheets in the coming year.

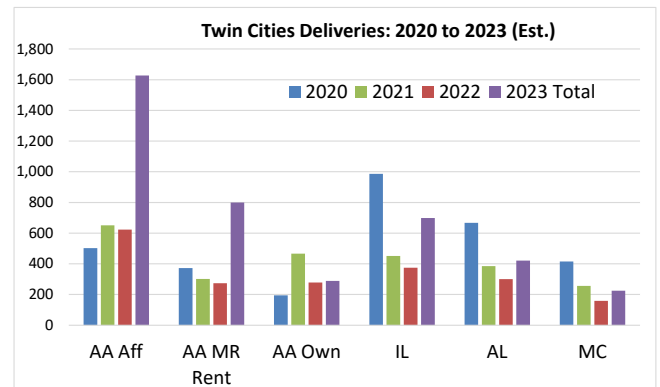
High construction costs, financing costs, and labor keep a lid on new construction in the near-term, while excess capital is on the sidelines waiting to be deployed. Operators/developers with liquidity will seek out well priced assets.

In the near-term, demand is strongest for active adult and independent products as assisted living continues to rebound and face labor shortages. Concessions have been burning off, but still exist on some new construction affordable units. As more people return to work in the office, care givers will be less inclined to provide home health care and seek out senior living options again. The senior industry is poised for brighter days ahead and sentiment will increase as 2024 progresses.

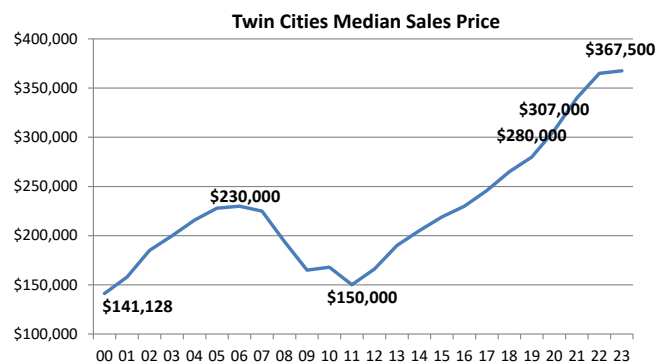
### HISTORIC SENIOR HOUSING CONSTRUCTION



### SENIOR HOUSING DEVELOPMENT



### PEAK HOUSING VALUES, LEVELING OFF...



### 2024 MARKET FORECAST

**DEMAND** for senior housing will escalate later this decade for service-based housing; but in the short-term demand is strongest for active adult & independent products



**DEVELOPMENT** peaked in 2023 and is expected to slow significantly in 2024 & 2025 (cost of capital, interest rates, construction costs, labor concerns, etc.)



**VACANCY** rates are anticipated to decline as the new supply declines and as occupancies creep back to pre-pandemic numbers in 2024





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Maxfield Research is a full-service research firm providing timely and comprehensive real estate market information and analysis that is critical to the success of our clients. With 30+ years of experience in real estate market feasibility and consulting, our expertise enables us to offer solutions to the difficult challenges that developers and municipalities face. We work closely with each client to assure our research data and analysis provide exactly the information needed in planning and developing new projects. Our proprietary databases add additional depth and breadth to our reports.

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Maxfield Research Inc. provides comprehensive real estate market information locally, regionally, and nationally. Over the past three years, we have completed projects in over 40 states.



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## STATEMENT OF QUALIFICATIONS

**Our comprehensive studies detail the economic, demographic, and competitive factors that can make or break your development project.**

- **Market Feasibility Analysis** for all types of developments, with expertise in multifamily rentals, for-sale, multifamily, and senior housing. Market feasibility studies provide our clients with the information they need to determine the likelihood of successful implementation of the project they are evaluating.
- **Market Assessments** provide clients with relevant information to make site selection decisions, gain additional knowledge about current and evolving markets, or reposition existing properties to take advantage of changing markets or competitive conditions.
- **Comprehensive Housing Analysis** help cities and/or counties anticipate housing needs, direct housing policies, and understand key issues/conditions in the housing market.
- **Senior Housing Analysis** provides developers with an analysis of the factors involved in senior housing feasibility. We maintain a proprietary database tracking all of the determinants of senior housing's success.
- **Affordable Housing Analysis** determines need that cities and counties can evaluate to determine development issues and allocation of funds.
- **Commercial Analysis** determine the market potential for the development of office and retail space, banks, recreational facilities, hospitality projects, and industrial space.
- **Land Use Planning** enables clients to redefine and reposition downtown areas, redevelop older neighborhoods, explore the highest and best uses of land and evaluate the capabilities of diverse land uses.
- **Consulting Services** are customized to meet individual client needs, and may include a variety of services tailored to the individual project
- **Financial Analysis** determines need for additional financial institutions in a market area by evaluating current financial/deposit data of a given market.
- **Student Housing Analysis** identifies current market conditions for student rental housing and determines the market for reallocating on-campus student housing.
- **Rental Housing Analysis** determines the need for general occupancy in a multi-family housing concept.
- **Condominium Analysis** provides developers with an analysis of potential feasibility and marketability of condominium projects in an area.
- **Economic Impact Analysis** provides developers with an analysis of the local economy and the impact that local businesses have on the community.
- **Retail Analysis** identifies the competitive retail environment and estimates the demand potential for new retail space in the trade area
- **Hospitality Analysis** analyze demographic and market data assessing market conditions that impact the feasibility of developing a limited-service or full-service hotel.