



# 2023 Senior Living Industry Pulse

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# Senior living market trends to watch

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*For the senior care and living industry, 2023 is expected to be another year of overcoming pervasive challenges and making strategic decisions. Here are the trends we're discussing most with clients across the country.*

## What we're discussing with clients:

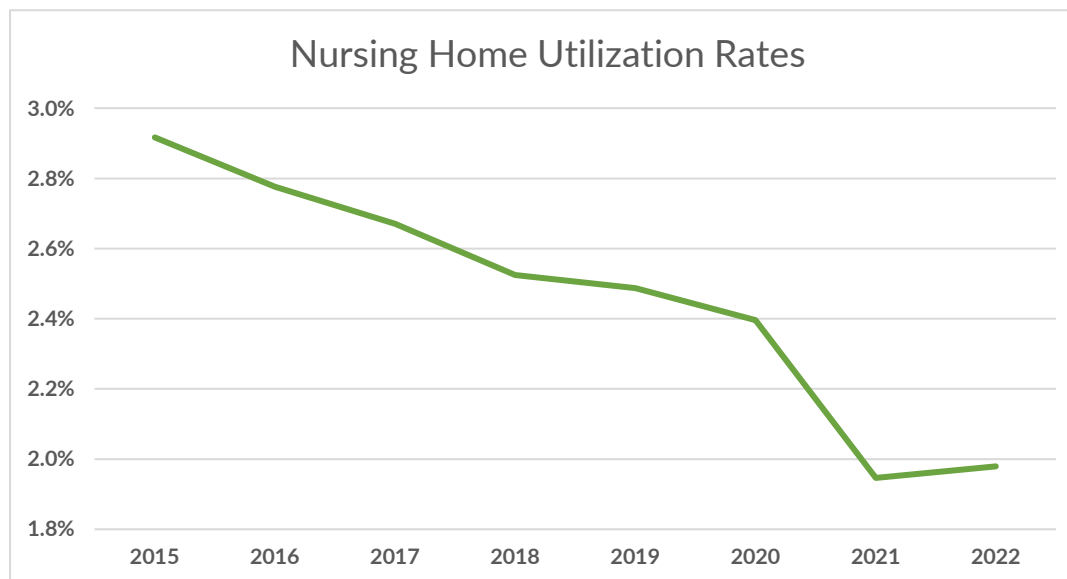


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# Nursing home rightsizing

*Utilization of nursing home beds in the United States has declined 32% from 2015 to 2022. The declining utilization was happening even before the pandemic. This decline is tied to a number of factors, including increased consumer preference for home- and community-based services, payor sources supporting initiatives to push care out of the nursing home setting, staffing shortages, decreasing hospitalization rates, and briefer lengths of stay in nursing homes. These trends have become the new normal for the industry. We do not expect utilization to recover to pre-pandemic levels.*



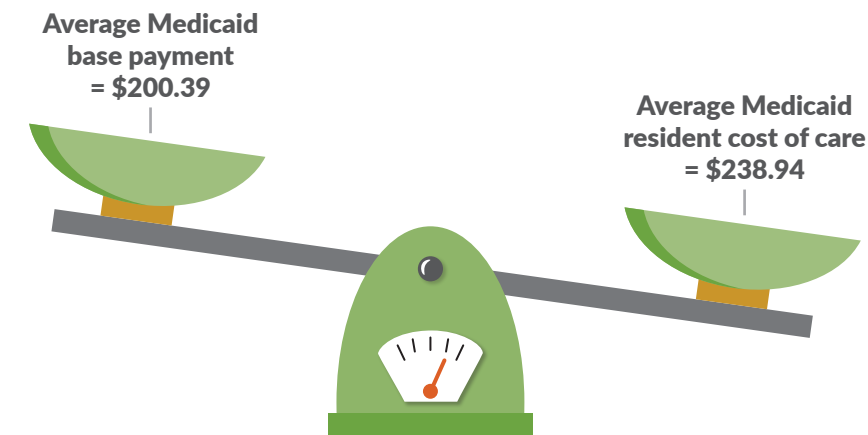
Nursing home utilization is calculated as the number of nursing home residents divided by population aged 65 and older.

Sources: KFF analysis of Nursing Home Compare and Claritas.





*To add insult to injury, Medicaid is further crippling the financial viability of skilled nursing. Medicaid is the primary payor source to nursing homes in the United States. According to data from MACPAC, on average, Medicaid payments do not cover the cost of resident care. That shortfall will need to be addressed to ensure long-term sustainability.*



Source: MACPAC, January 2023. Data is based on 2019 costs and payments.



Take a hard look at how many skilled nursing beds are really needed moving into 2023 and beyond, from both a consumer standpoint and a financial one.



# Staffing challenges

*It's no secret that staffing has been a challenge, hindering both existing operations and growth potential for many organizations. Unfortunately, our market research indicates this problem will not only remain, but also get worse.*

*As an integral part of any planning process, market studies look at the ratio of the workforce population (the number of people ages 20 to 64) to the population of seniors (number of people ages 80 and older) to understand the balance of caregivers to care-seekers in any given market. Nationally, the workforce population ratio is expected to decrease 58%, from a balanced 17.4 in 2010 to a startling low 7.4 in 2040.*

U.S. Workforce Population					
	2010	2020	2030	2040	Growth from 2010-2040
Total Population	304,280	332,639	355,101	373,528	23%
Workforce (20-64 Population)					
Population Age 20-64	182,468	194,140	197,846	206,713	13%
Age 20-64 Pop. as % of Total Pop.	60%	58%	56%	55%	
80+ Population					
Population 80+	10,476	13,209	19,683	28,119	168%
Age 80+ Pop. as % of Total Pop.	3%	4%	6%	8%	
Ratio of Workforce to Population 80+	17.4	14.7	10.1	7.4	-58%

*Data represents thousands. Source: United States Census Bureau.*





*Staffing shortages and demand for higher wages have caused a strategic shift in the unit mix on a campus, with a downsizing or closure of skilled nursing beds becoming more common.*

*It's no surprise this trend is hitting skilled nursing harder than other types of products due to the increased need for on-staff caregivers. The national average hourly rate for CNAs and RNs increased by over 10% from 2021 to 2022.*



The decline in caregivers is making it ever more important to create a workplace experience that will attract and retain workers. If this is not a priority in your strategic plan, it should be.

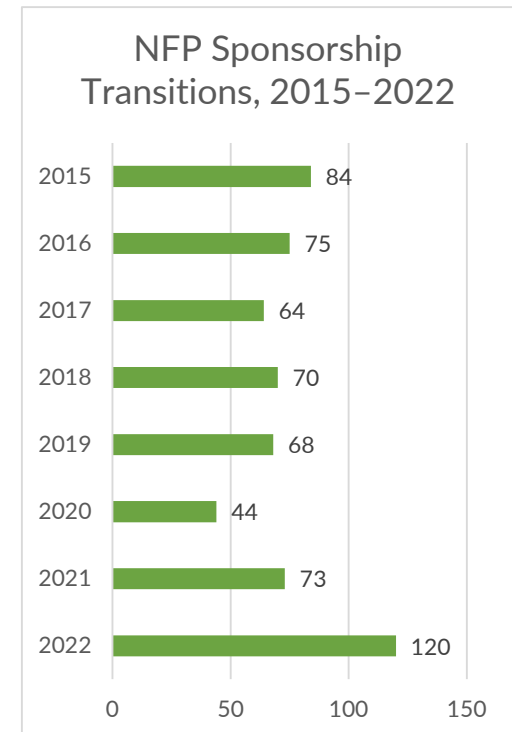


## Transition activity

*The United States set a record in 2022 for the highest number of senior care and living transactions in a single year, according to data from LevinPro LTC. There were a total of 527 transactions in 2022, an increase of 17% compared over 2021. Skilled nursing deals overall represented just 41% of the year's transactions. Senior living segments of active adult, independent living, assisted living, memory care, continuing care retirement communities, and affordable senior housing made up the other 59%.*

*Ziegler Investment Banking tracks transition activity among not-for-profit senior living organizations, reporting a record 120 transitions in 2022. Two notable trends:*

- **For-Profit Acquirers:** Since 2015, about 46% of the not-for-profit senior living organizations that have changed hands have been acquired by for-profit owners and operators.
- **Nursing Home Closures:** Since 2010, about 70% of all not-for-profit closures have been nursing homes.



Source: Ziegler Investment Banking, January 2023.





*Looking ahead to 2023, almost 40% of skilled nursing facility owners, top executives, and other administrators responding to a recent McKnight's Long-Term Care News survey said they expect their organizations will sell some or all of their nursing home holdings this year. Almost 34% of the respondents also expect to acquire some facilities this year.*

**Transition activity can be:**

- |                    |                 |
|--------------------|-----------------|
| ✓ Affiliation      | ✓ Acquisition   |
| ✓ Merger           | ✓ Joint Venture |
| ✓ Sale/Divestiture | ✓ Closure       |

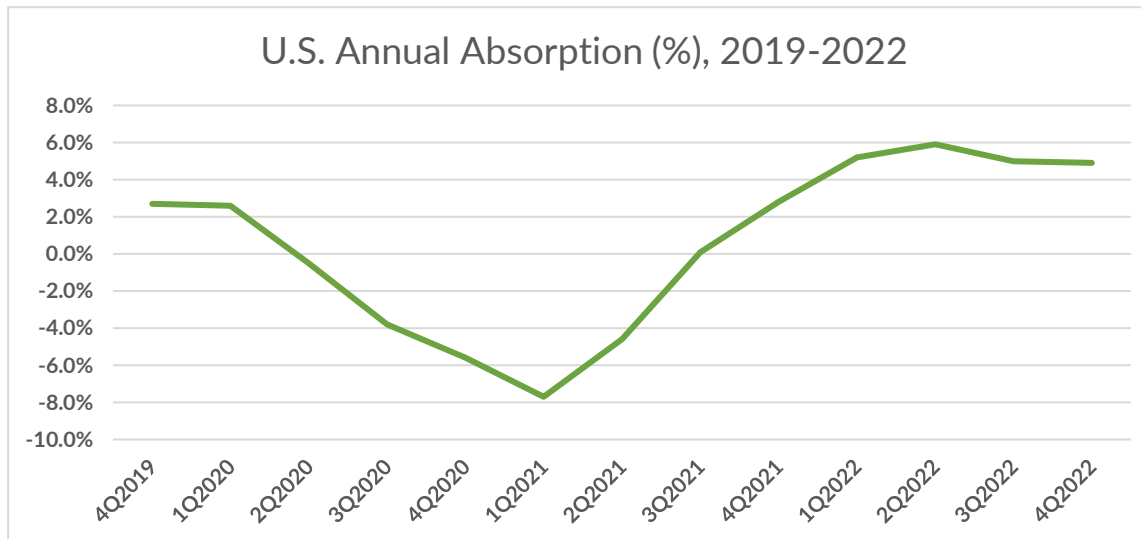


To get ready for a transition, leaders should be prepared. Evaluate your resources — financial, plant, personnel, and systems — and set up systems to evaluate opportunities.



# Senior living market data

According to national data recently compiled by NIC, seniors housing (which encompasses independent living, assisted living, and memory care) occupancy for the top 140 U.S. markets is up 5.5 percentage points as of Q4 2022 from a pandemic low of 78.3% in Q1 2021. The seniors housing occupancy rate increase – the seventh consecutive quarter of increase – is due to a surge in demand strongly outpacing growth in inventory. The total number of occupied seniors housing units within the top 140 U.S. markets, 951,553, has surpassed its pre-pandemic all-time high of 937,772, which peaked in the first quarter of 2020.



Absorption is the change in occupied units from one quarter to the next. Since the onset of the pandemic, absorption has experienced a “V curve”: occupied units declined through Q1 2021 and have increased since.

Source: NIC MAP® Data, powered by NIC MAP Vision. Visit [nicmapvision.com](https://nicmapvision.com) to learn more.





*We expect continued growth in the number of seniors housing units to meet the future demand as well as continued improvement in occupancy.*

	# of Senior Housing Units	# of Senior Housing Occupied Units	Occupancy %
Q1 2020	1,075,813	937,772	87.2%
Q1 2021	1,105,086	865,437	78.3%
Q4 2022	1,135,564	951,553	83.8%

Source: NIC MAP® Data, powered by NIC MAP Vision.



Because every market is unique, it is important to understand the underlying supply and demand metrics in your market. Now is the time to get an updated market study if you do not have one.



# Market commentary

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*Despite many challenges felt industry-wide, the firm's industry leaders speak to lessons learned and anticipate a positive outcome for organizations willing to embrace strategic change.*



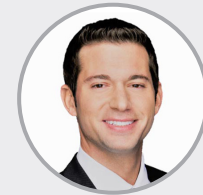
Sally Heffernan, CPA, CMA,  
Plante Moran Living Forward

*"I am very optimistic about the future demand for senior living, especially for properties that have invested in themselves. The short-term climate will continue to be challenging, with high cost of debt and inflation. Our industry must continue to be innovative and seek creative solutions to meeting future demand."*



Dana Wollschlager, AHM, CRM, COM,  
Plante Moran Living Forward

*"The product and service offerings consumers embraced in the past are likely not what the consumers will want tomorrow. Given current market trends, it is critically important that organizations routinely evaluate their position in the marketplace, assess their operations and financial strength, and consider growth opportunities and repositioning options. These steps are the only way to maintain relevancy and long-term organizational sustainability."*



Gordon Wolfe,  
Plante Moran REIA

*"On the heels of the big waves of the pandemic, substantial wage increases, staffing shortages, and the cost of debt nearly doubling in the past six months, investors continue to have low visibility into the future, which makes underwriting very challenging and often fosters a more conservative approach. When the market is in transition, it can be difficult to be anything but pessimistic about the current state and the future. Buyers generally pay for the opportunity to create value, but that premium dissipates in a pessimistic climate. If we're at the crest of the wave, the light at the end of tunnel will soon appear."*





Pat McCormick, CPA,  
Plante Moran

*"The recovery from the pandemic downturn is having a long-lasting impact on the industry. Consumers appear to maintain some level of skepticism on all types of congregate settings, resulting in delayed entrance into the level of care needed and higher acuity upon admission. Despite the years of discussion about the demographic boom, the perfect storm of the pandemic, inflation, and workforce challenges makes this time of waiting a real challenge to the strategic plan."*



Steve Przybilla, HSE,  
Plante Moran Living Forward

*"The industry continues to transition, and market pressures are forcing providers to adapt at a pace never seen before. Many organizations will have a significant need to reset their business life cycle through a combination of developing new services and repositioning their current assets. It has become increasingly important to understand the complete life cycle health of your services, predict future market changes, correct limits in your physical plant compared to competitors, and identify and implement operational efficiencies if you want to stay competitive."*



Jim Stradiot, CPA,  
Plante Moran

*"There continues to be a growing emphasis on value-based care within senior living, which places a greater focus on outcomes and quality of care rather than the volume of services provided. Institutional Special Needs Plans, or iSNPs, are a meaningful mechanism that allows senior living providers to move up the managed care value chain. With greater incentives and clinical capabilities provided through iSNPs, skilled nursing facilities and assisted living providers have an opportunity to control costs, improve quality, and successfully treat residents in place."*



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# Key focus points for CEOs: Get your financial house in order

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*Bank of America Global Research reported that nearly half of all 2022's \$1.3 billion defaults in the \$4 trillion municipal bond industry were in the nursing home/senior living sector; defaults are estimated to increase to \$1.7 billion to \$2.1 billion in 2023. The rating agency Fitch Ratings assigned the senior living sector a "deteriorating outlook" for next year. While demographic trends will continue to support healthy demand, the sector faces significant headwinds from inflation, labor pressures, and other factors that could stall its continued recovery from the pandemic.*

To stay solvent and profitable through 2023 and beyond, senior living providers should be focusing on three goals:

- 1 Maintain financially sustainable existing operations
- 2 Reposition or sell underperforming assets
- 3 Invest in accretive growth projects





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# How Plante Moran Living Forward can help

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*This kind of change needed to make our communities and industry stronger will not happen overnight. The process to be bold, thoughtful, and strategic is one started with optimism and continued with intentionality. The bottom line: The industry is facing complex issues, but the outlook is bright. Make plans now so you can be at the table to meet future demand.*

## **We're here to help — contact our team today.**

*Plante Moran Living forward is working with clients across the country to reimagine what senior living options will resonate with the consumer of the future. Contact us to guide you through the process.*



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