

Real Estate Practice

# How private investment can improve senior- housing options

The world needs better residential solutions for the aging. Three innovations may hold the key to truly golden years.

*This article is a collaborative effort by Gunjan Khanna, Charlie Pilkington, James Parkinson, Laila Benefellah, and Sam O’Gorman, representing views from McKinsey’s Real Estate Practice.*



**Senior housing**—the spectrum of residential solutions aimed at people over age 65—is a sector associated with many needs. By 2050, the world is expected to have 1.6 billion people in this age cohort, more than double the number in 2021.<sup>1</sup> Due to the rising prevalence of chronic illnesses among the elderly, it is likely that [less than half of them will perceive themselves as being in good physical, mental, and social health](#). Despite the growing needs that these statistics highlight, senior housing currently accommodates only roughly 5 percent of the senior populations of Australia, Canada, New Zealand, and the United States. In less-developed markets such as Europe, Japan, and the United Kingdom, the percentage of seniors living in senior-living developments is less than 1 percent.<sup>2</sup>

Delivering more housing solutions that seniors want, need, and can afford—in a way that is manageable for developers and motivating for investors—is no simple endeavor. But amid an array of challenges, we see three long-term opportunities for senior-living providers that involve embracing change and investing in innovative solutions. Each of these opportunities can expand seniors' access to solutions that support them as they age and improve their quality of life.

The first opportunity is for the senior-living industry to use its expertise to serve the roughly 95 percent of global seniors who currently age in place by enhancing the suitability of their homes. The second is to create alternative sales models that broaden access to and mitigate the hurdles of transitioning into senior housing. Making a wider audience aware of the benefits of senior housing is part of this undertaking. The third opportunity is to digitize the senior-housing sector in ways that can enrich residents' lives, engage family members, and lower operating costs while helping operators [build brands associated with a high level of service](#).

This article discusses some of the challenges facing the industry and then describes the three areas ripe for innovation and change. Finally, it provides the recent performance history of the senior-housing sector for context.

New possibilities for growth and success are exciting prospects for seniors and operators alike. By understanding the needs of the market and developing a unique value proposition, senior-living providers can position themselves as leaders in tackling the global challenges of an aging population.

## **Challenges include a high level of need, lack of knowledge about offerings, and elevated costs**

One of the great triumphs of the modern age is [the increase in human longevity](#). Between 1800 and 2017, average global life expectancy more than doubled, from 30 years to 73 years. However, according to the McKinsey Health Institute's research, on average, people spend about 50 percent of their lives in less-than-good health, including 12 percent in poor health.

Long life expectancy means that some countries now have enormous shares of population over the age of 65. The populations of Japan, Italy, and Germany, for example, include 30, 24, and 22 percent shares of seniors, respectively. In China, a comparatively modest 14 percent of the population is over the age of 65 but, because of China's large population, that means the country has roughly 198 million seniors (Exhibit 1).

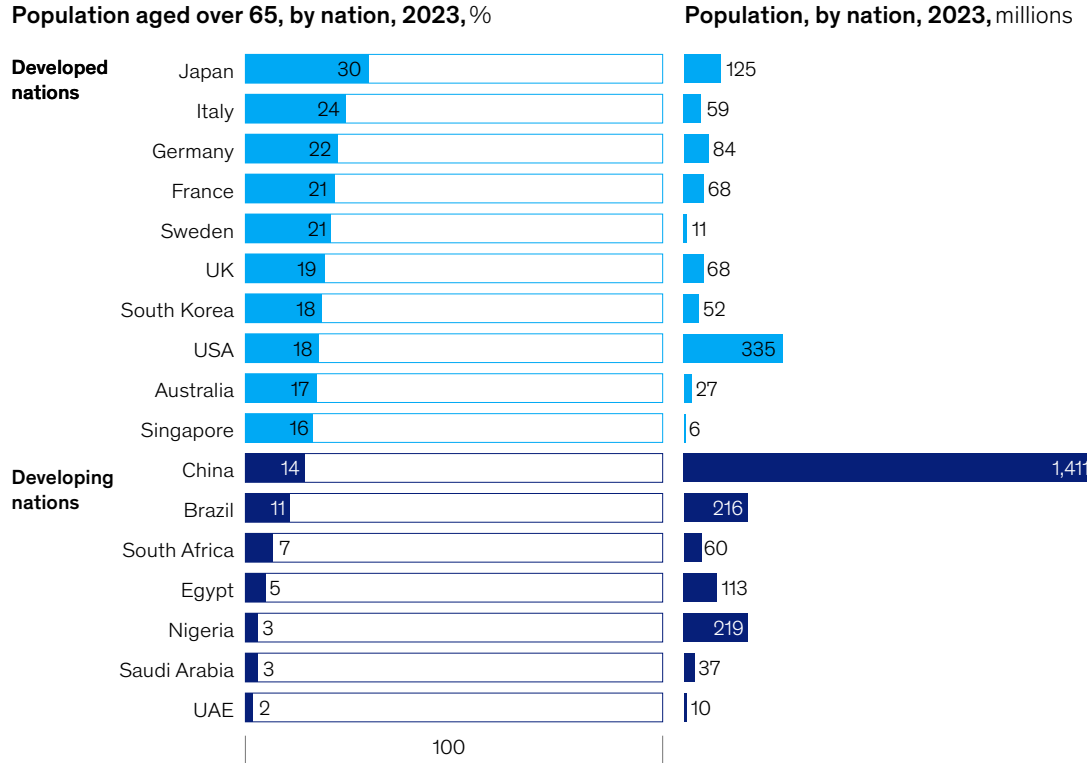
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<sup>1</sup> "World social report 2023: Leaving no one behind in an ageing world," Department of Economic and Social Affairs, United Nations, January 9, 2023.

<sup>2</sup> "The sales velocity: Which factors make scheme sales soar?," Carterwood, July 6, 2022.

Exhibit 1

**The share of seniors within a population varies greatly among countries, as does total population size.**



Source: World Bank

McKinsey & Company

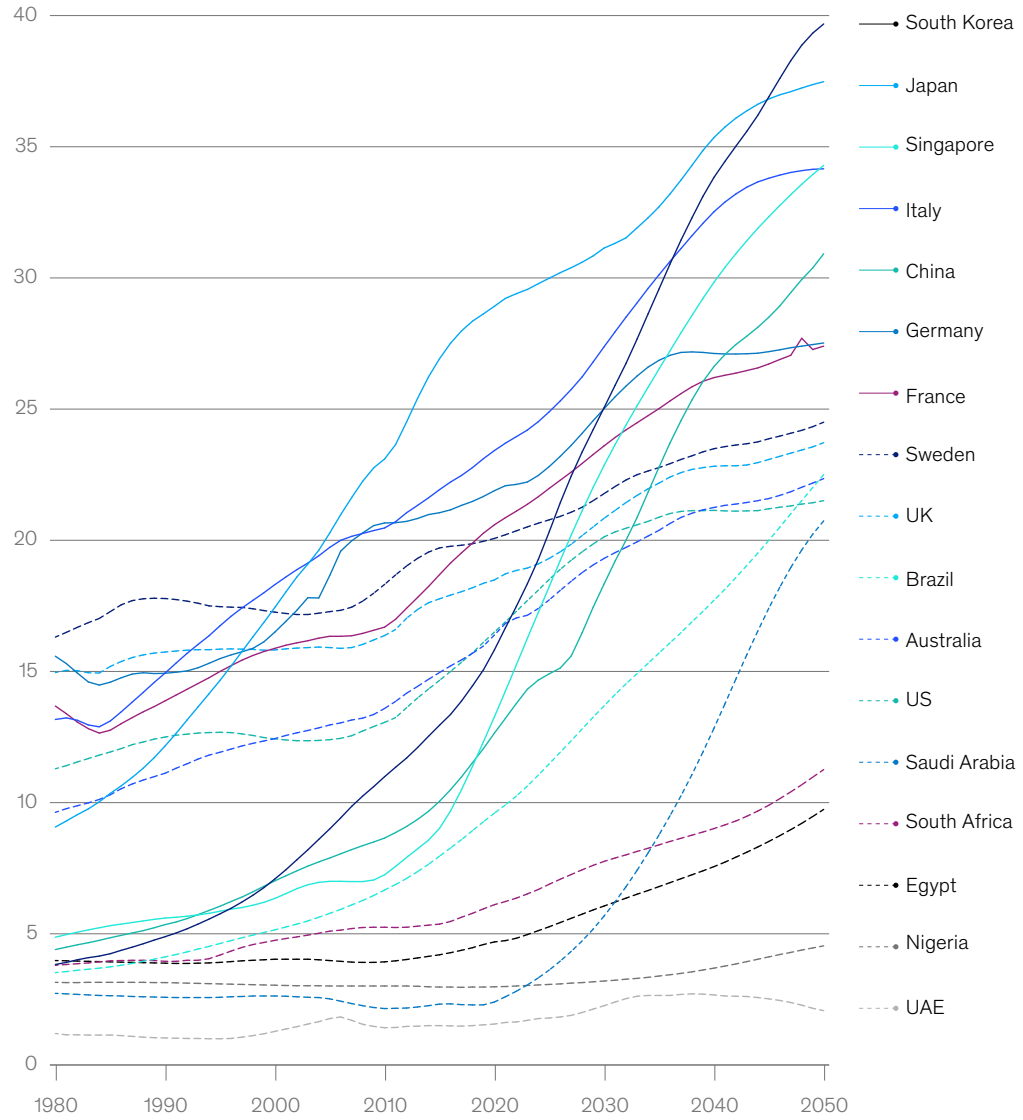
With a growing population of older people, many of whom require support for health conditions as they age, the world is in need of [more solutions for housing, caring for, and supporting the elderly](#) (Exhibit 2).

**Between 1800 and 2017, average global life expectancy more than doubled, from 30 years to 73 years.**

Exhibit 2

**Enormous growth in older population shares indicates strong future demand for senior-living solutions.**

Population aged 65 or older, by nation, %



Source: Oxford Economics

McKinsey & Company

### Senior-living options are not widely understood

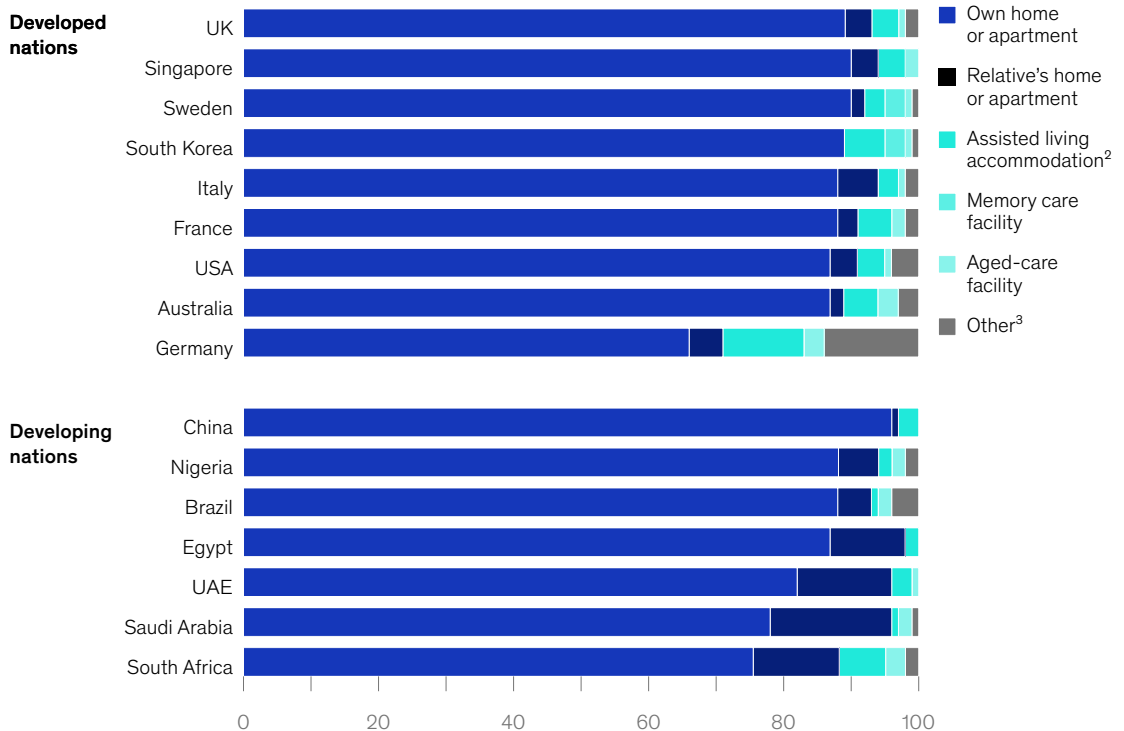
Globally, 80 percent of older adults want to live in their own homes, with many seniors only moving to senior-housing solutions at a point of absolute need. These preferences are even more pronounced in countries including Nigeria and China, where 90 and 96 percent of people aged 65 and older, respectively, say they wish to age in place<sup>3</sup> (Exhibit 3).

A spectrum of senior-housing types cater to an array of needs and desires (see sidebar “A glossary of senior-living terms”). Many senior-living developments offer purpose-built residences designed for older adults that can be easily modified as they age and their care needs increase. Nonetheless, people may not fully understand the differences between senior-living developments—where most owners live independently—and nursing/care homes, which are designed to treat complex medical needs. The enduring stigma attached to aging can also make people reluctant to explore the range of options, even when they could afford to live in a senior-housing facility or receive services.

Exhibit 3

### By a wide margin, seniors prefer to remain in their own homes as they age.

Seniors preferred living situation, by nation, 2023,<sup>1</sup>% of respondents



<sup>1</sup>Question: What is your most preferred living situation as you age? Data not available for Japan.

<sup>2</sup>Unit or room with a minimum amount of support.

<sup>3</sup>All other living situations not enumerated.

Source: McKinsey Health Institute

McKinsey & Company

<sup>3</sup> McKinsey Global Healthy Aging Survey, 2023.

## A glossary of senior-living terms

- *Independent living/sheltered housing/retirement housing:* Residents are healthy and mobile enough to require limited additional support. They value modern, low-maintenance accommodations, community benefits, and light-touch emergency coverage. Typical facilities can include communal lounges, laundry facilities, gardens, guest rooms, gyms, and swimming pools.
- *Assisted living/housing with care:* Residents typically move in with no or very limited health needs but value the ability to bolt on scalable services as required. Typically, there is 24-hour on-site staff, optional care or domiciliary services, social-event programming, and communal restaurants available.
- *Full-spectrum developments/integrated retirement communities:* This involves a combination of independent-living and assisted-living properties, helping seniors opt for further care or transition within the same community as their needs change.
- *Nursing homes/care homes (also called skilled nursing and memory care):* Residents typically have substantial health needs and the priority is the provision of 24-hour care.

### Construction and operating costs are higher than ever

In parts of the world, construction costs have risen faster than headline inflation. Growing healthcare and labor expenses serve as formidable challenges to profitability. In the United Kingdom, general construction costs have surged by 29 percent since 2019; combined with higher development financing costs, among other factors, this has reduced overall residential commencements by 24 percent.<sup>4</sup> In the United States, labor costs, which account for roughly 60 percent of senior-living operating expenses and about 45 percent of revenues, have risen by about a fifth above prepandemic levels per occupied bed.<sup>5</sup> For services that require a high intensity of care (such as memory care), cost pressures are even more pronounced.

### Opportunity 1: Support seniors who want to age in place

Older people may feel they need more help as they age, but they may be either unaware of what senior-housing developments offer and how they differ from nursing or care homes, or simply uninterested.<sup>6</sup> The senior-housing industry has long viewed this reluctance as an obstacle to overcome. But what if, instead, the industry viewed supporting seniors in their own homes as the gateway to a potentially huge new business?

Retrofitting existing homes, and enhancing their safety and functionality, represents a strategic opportunity for the senior-housing industry to better serve this customer base. The average age of those making a move into a senior-living location in the United Kingdom is 77, according to the UK-based real estate agency Knight Frank.<sup>7</sup> The retrofit business represents an opportunity to serve a vast population of older adults for years before they are ready to move, as well as those who will never move. It is also an opportunity to build relationships within the target demographic, potentially creating a pipeline for their main business.

Senior-living developers and operators can offer a home-augmentation design and installation service, using their expertise and brand positioning to offer a differentiated product to the market. Traditionally, local building and contracting companies have filled this gap. But senior-

<sup>4</sup> Construction output price indices, UK Office for National Statistics, May 2024.

<sup>5</sup> *U.S. senior housing outlook 2024*, Green Street.

<sup>6</sup> Sally Abrahms, "Homeowners get ready to 'age in place,'" *Wall Street Journal*, May 31, 2015.

<sup>7</sup> *Seniors housing annual review 2023/24*, Knight Frank, November 13, 2023.

living companies have the in-house design expertise, supply chains, and brands to be able to offer more compelling solutions.

Senior-living companies' specialized knowledge can help transform homes for another life stage. They can mitigate the risk of typical age-related injuries and make daily activities easier by leveling access, widening doorways to accommodate wheelchairs, and installing stair lifts. Other customizations include bespoke doorknobs and switches, kitchen cabinets that can be lowered with the touch of a button, slip-resistant flooring, handrails, and smart-home technology. Such improvements can enhance seniors' comfort and safety while helping them retain their independence and peace of mind.

For service providers, there are numerous benefits to entering the retrofit market. First, the market is large: As stated, roughly 95 percent of the world's seniors age in their own homes, and many experience health and mobility challenges. Seniors' share of the population varies widely among countries, but in several developed economies, it is between roughly one-fifth to nearly one-third of the total population.

In the United Kingdom, an estimated 45 percent of homeowners aged 65 and older require at least one accessibility feature.<sup>8</sup> Also, customers may view retrofitting as a way to save money: In the United Kingdom, the average retrofitting cost is about £7,000 and in the United States, about \$15,000, McKinsey research has found. These are amounts that, while significant, compare favorably with the cost of purchasing a new home in a senior-living development. Second, retrofitting can establish a relationship with a senior that could evolve as that person ages and needs more services in the future.

However, while retrofitting can enhance seniors' comfort and safety and lead to a meaningful new segment for senior-housing companies, it may fall short in addressing seniors' socialization needs. Participation in social and community activities—such as volunteering, continuing education, and community programs—is strongly associated with better self-reported health, highlighting the critical role of socialization to promote seniors' well-being and quality of life.<sup>9</sup>

A future horizon of business innovation could help address the need for socialization: Where there is a nearby senior-living development, retrofit customers could be invited to join that community, benefiting from access to their amenities and social events. In some instances, it may also be possible for the operator to expand its services outside the development and offer domiciliary care and light-touch medical care in retrofit customers' homes.

Viability—of both the retrofitting market and the integration of off-premises customers with residential facilities—will, of course, depend on multiple geographic and operational factors. Challenges may include regulatory and compliance hurdles and cost and staffing variability, among other factors.

## **Opportunity 2: Expand sales models and target marketing to potential customers' social networks**

For some seniors, the impediment to receiving care and support is not affordability, but rather the uncertainty that comes with making a major life transition (Exhibit 4). Several innovations in the way senior housing is contracted and marketed could provide more options and help seniors,

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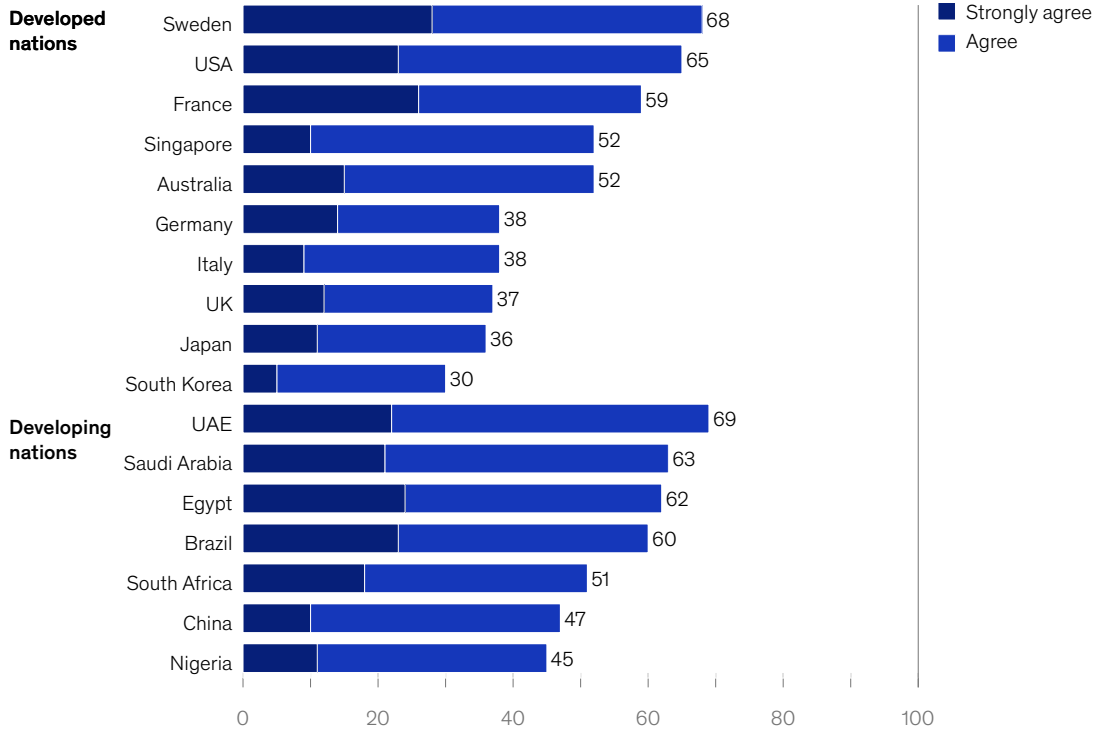
<sup>8</sup> The state of ageing 2022, Centre for Ageing Better.

<sup>9</sup> "Aging with purpose: Why meaningful engagement with society matters," McKinsey Health Institute, October 23, 2023.

Exhibit 4

## In most countries, seniors agree they have access to affordable senior-housing facilities, care, and support services.

Access to affordable senior housing/care, % of respondents agreeing or strongly agreeing they have access



Source: McKinsey Health Institute

McKinsey & Company

their families, and their support systems feel more comfortable with the transition (whether to a new residence or to a retrofitted home).

### More choices make it easier to consider senior living

The biggest competitor for a senior-housing development is not another development but rather the comfort and security of the senior's current home. Our work with developers and operators in the sector suggests that offering potential residents more choices can make them feel more comfortable and secure with the transition.

In today's market, two commercial models dominate the senior-development landscape: rentals and for-sale arrangements. The latter often comes with a deferred-management fee, in which the owner agrees to return an agreed-upon percentage of the future sale value of the unit to the operator (who retains the liability for property maintenance). In return, the owner benefits from subsidized living and healthcare costs. Some markets have recently seen a rise in hybrid for-sale models, taking various forms. In Australia, the "land-lease" model has gained traction, where seniors own the homes they live in but lease the land beneath them. This model offers

the advantage of lowering up-front purchase costs and provides a way to share maintenance expenses through the form of a service charge, easing the financial burdens on residents. For-sale models are more popular in Australia, New Zealand, and the United Kingdom, while rentals are more prevalent in North America.

Offering more options at one location may help broaden appeal. One large UK operator, McCarthy Stone, used to offer only for-sale properties but switched in 2019 to offering both rental and for-sale units at the same location.<sup>10</sup> By 2021, rental properties represented roughly 30 percent of their transactions, reflecting the appeal of flexible-ownership options. Of course, operators need to consider how to blend communities of owners and renters, among other complexities.

Many operators are also starting to offer “try before you buy” promotions, in which potential residents can rent for several months before committing to a purchase—significantly derisking the proposition in the eyes of the resident. Some developments have guest apartments where seniors and members of their family can stay for a weekend to experience the development.

Developers could also explore part-exchange or guaranteed-purchase schemes of the senior's current home, as well as joint ventures with life or health insurance companies. In the United Kingdom, ARCO (a senior-housing trade group) has been promoting the idea of shared-ownership facilities, while Taikang Insurance Group in China has been successful in combining insurance products with premium senior-care communities.

### **Reaching a senior's community can be the most effective marketing**

Operators can also think more holistically about how to expand their marketing to raise awareness of the benefits of senior-living residences and solutions. There are often multiple decision-makers and advisers involved in a move to senior living, including adult children, medical professionals, religious leaders, and [wealth advisers](#). Operators could better educate these groups so that when they have conversations about retirement needs, the options presented are not just “stay in your home as long as you can” or “it's time to move into a full-time care home.” This education process could be realized by sponsoring or speaking at relevant wealth adviser and medical conferences, and through targeted advertising campaigns.

A potential resident's adult children may be more reachable via social and digital media than their parents are. Some of them may be contributing to or entirely covering the cost of their parents' purchase or rental, and so may be motivated to learn about the cost, quality, and care offered by senior-housing providers.

Alta Senior Living, a US provider of senior-care services including assisted living, memory care, and independent living, increased social media engagement by 25 percent. A primary social media manager (or team) maintains oversight for brand consistency, but social media managers at each community also contribute to social feeds. Posts specify what goes on in the different communities, highlighting individual residents, showing activities, and giving audiences a look at facilities. Since adopting automation tools, the company has saved five hours per week on social media management without sacrificing the number of posts or the quality of content.

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<sup>10</sup> “McCarthy Stone's UK retirement living rental portfolio secures finance from John Laing and Macquarie Capital,” Macquarie press release, April 8, 2021.

### Opportunity 3: Improve quality of life by integrating digital solutions

Technology solutions aimed at those over 65 are booming: McKinsey estimates that global funding partnerships with so-called AgeTech start-ups have surpassed €1.3 billion. Senior-housing companies can use innovations in medical care, monitoring services, and connectivity solutions to improve the lives of their residents while also reducing operational costs.

#### Enhancing frontline care

Advances in the capabilities of sensors and wearable devices mean that older adults can get on with their lives without constantly having to see medical practitioners. These tools can remotely monitor health metrics, movement patterns, and daily activities for at-risk seniors who live independently. Caregivers and family members can access vital health data through remote-monitoring systems that provide reassurance and facilitate early intervention should health issues arise. This approach makes the wraparound support less visible to the resident. Telemedicine can make it easier for seniors to speak to nurses, doctors, therapists, and specialists without having to worry about transportation.

As a result, operators can be both more efficient and strategic in how they deploy on-site medical staff. These innovations cannot replace the human touch, but they can be effective tools that allow staff members to focus their efforts where they are most needed.

#### Improving home functionality and enjoyment

Companies large and small have introduced a plethora of products that can be thoughtfully deployed to make seniors' lives more comfortable (see sidebar "Products on the market that can improve senior living"). Voice- and device-controlled home automation can make it easy for seniors to do things including opening and closing curtains and adjusting cooling, heating, lighting, and music.<sup>11</sup> Digital controls can also augment more analog design features such as adjustable beds and recliners or in-residence elevators.

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<sup>11</sup> Rachel Cericola, "The best smart-home devices for aging in place comfortably," *New York Times*, April 21, 2022.

### Products on the market that can improve senior living

- Amazon Echo and Google Home devices allow seniors to control various aspects of their home environment using simple voice commands.
- callGenie uses a TV screen for video calls, making it easier for seniors to see and hear their family members. It automatically answers and ends calls, which is particularly helpful for those with dementia or impaired capacity.
- JubileeTV transforms any TV with an HDMI port into a communication hub, allowing seniors to make video calls directly from their TV. It features a built-in wide-view camera and uses the TV's large display and enhanced sound quality.
- Amazon Echo Show and Google Nest Hub can be used for video calls.
- Atomi Smart products can be integrated into living spaces, offering features such as voice control, scheduling capabilities, and centralized control through a single app.
- ECOVACS DEEBOT is one of several robotic vacuum cleaners that can be programmed to clean automatically and can be controlled remotely via smartphone.
- To help residents stay connected to their families and friends, large TV screens and hearing aids can be deployed to create user-friendly videoconferencing interfaces. Alternatively, video connectivity options more frequently seen in offices (such as portals) could be used, creating, for example, an entire video wall so that residents and their families can feel like they are inhabiting the same room.

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### **Increasing accuracy and efficiency**

Digitalization in healthcare has the potential to enhance productivity by more than 15 percent, ultimately leading to significant cost reductions, according to our analysis. Senior-living operators have been slower than the wider healthcare industry to embrace digital transformation. However, digitalization can automate process and paperwork, increase frontline staff productivity (such as by nursing assistants using a tablet to check off tasks), or optimize workforce management (such as by reducing agency and overtime costs through the integration of online schedules).

Through AI, operators can predict potential health risks and complications, enabling proactive care and addressing emergency situations before they arise. Generative AI capabilities are introducing virtual companions for seniors.<sup>12</sup> These companions can engage in conversations, play games, and provide reminders for medication or appointments. Some can even monitor seniors' well-being through voice- or facial-recognition technology.

Electronic health record (EHR) systems represent another advance in digitalization. EHRs digitize paper-based records, providing staff with easy access to relevant patient information, test results, and medical history. This can reduce duplicative testing, increase clinical and administrative visibility, and streamline information exchange.

According to our analysis, EHR adoption boosts healthcare-provider productivity by more than 10 percent. EHR adoption in senior-living communities is growing rapidly; one recent report found that 80 percent of large senior-living communities used EHRs in 2022.<sup>13</sup> A variety of software products, including Eldermark's NEXT and Yardi EHR, offer slightly different features. Overall, these systems are designed to provide real-time updates of medical information. By improving efficiency and reducing errors, EHRs can lead to better care and enable providers to focus more on caregiving and patients' individual needs (although more interoperability is needed between systems).

While technology offers numerous benefits, it cannot replace person-to-person interaction. Senior-living developments can use technology to handle tasks that free up staff to focus on interacting with residents, fostering a holistic and personalized experience for them.

## **Senior housing's past performance has been strong**

Over the past few years, alternative real estate asset classes, including senior living, student housing, and medical offices, have seen significant growth compared with mainstream asset classes. In the United States, the portion of total investment volume allocated to these alternatives has increased from 8.4 to 13.1 percent over the past decade.<sup>14</sup> This trend reflects

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<sup>12</sup> Erin Nolan, "For older people who are lonely, is the solution a robot friend?," *New York Times*, July 6, 2024.

<sup>13</sup> Kimberly Bonvissuto, "Benefits of EHRs go unrecognized as assisted living trails other providers in adoption," McKnight's Senior Living, June 12, 2024.

<sup>14</sup> *Seniors housing and care: Investor survey and trends outlook*, Jones Lang LaSalle, spring 2024.

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a surge in capital directed toward smaller sectors that enjoy stronger demand and growth prospects than traditional markets.

The senior-living market has demonstrated consistently superior performance relative to the overall rental market. In the United Kingdom, independent retirement community units have outpaced traditional rental housing units in price performance by roughly 45 index points since 2005.<sup>15</sup> A major real estate analyst forecasts that this trend will be mirrored in the United States over the next five years.<sup>16</sup> Notably, the spread between ten-year US Treasury bonds and senior-housing capitalization rates has averaged 462 basis points since 2008, compared with 282 basis points for multifamily investments over the same period.<sup>17</sup>

Senior-living developments present a tangible opportunity to generate both high returns and demonstrate a commitment to strategic goals, such as environmental, social, and governance principles. Senior housing can create a healthy, supportive environment for older adults, unburden them from maintaining homes (which can be occupied by families in need of housing), and, in some cases, manage seniors' healthcare in a more efficient way.

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Creating an age-in-place senior-living alternative, offering more flexible sales models, marketing more effectively, and digitizing the experience can give the world's seniors more and better options. The global population of adults aged 65 and older is growing at an unprecedented rate. For the senior-living industry, these demographics represent a golden opportunity to do more, do better, and do it all in innovative ways.

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<sup>15</sup> Oliver Knight, "Seniors housing trading performance review – 2023/24," Knight Frank, accessed January 2025.

<sup>16</sup> "Green Street releases 2024 U.S. sector outlooks with expanded historical market-level data," Green Street press release, February 1, 2024.

<sup>17</sup> *Seniors housing and care: Investor survey and trends outlook*, Jones Lang LaSalle, spring 2024.

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