

01:02 - 05:35

Lucas McCurdy

Bridge the gap in three, two. Kyle. You may not be able to answer this today, but do you have any in data talking about the value add market. So these you know, we're talking about these existing buildings. There has been an all time record on transactions, you know last year. And now this year seems to be outpacing that.

What I have been hearing when I go to NIC or if I'm with the, you know, the future leaders class, I'm hearing that the reeds are extremely active in this marketplace. And my I'm actually working with big rights as well as small family office investors, and they all seem to be very aggressive in doing this. Do you think that window to grab up these value-add deals is starting to close?

Kyle Gardner

Probably not. Not at scale. Now that would just be my opinion. I don't have like data in front of me that I would point back to, but the reasons I would answer, you know, the reasons I would say, you know, no, I don't think the windows closed is that they have the cost of capital advantage. And that only continues to be a durable strength for them.

As interest rates remain high, private equity holders, entrepreneurs, developers, even though the new development is slow compared to where it has been, or it needs to be, people are going to be looking for liquidity. Events and rights have a great cost of capital advantage, so they're going to be active as more institutional capital comes into the space. I think their advantage might only get better.

Candidly, if you're not going to, you know, invest directly, maybe you invest through a REIT or some kind of fund in that regard. And there's still so much supply out there. So no, I don't think the windows closed. You know, maybe the pace changes slightly, but let's unpack that in a future episode.

Lucas McCurdy

Well, you know, what I just realized is we have an operator on the show that's actively out there in the market trying to buy these deals. Maybe we should ask him. Josh, welcome to the show. Can you give some color? You're out there actually in the jungle of this.

Josh Crisp

Yeah. I'll add a little bit of color. What we're seeing is that we're primarily focused on secondary and tertiary markets. And thinking tertiary is not necessarily maybe out in the middle of nowhere.

But think about this as a very smaller market that's just outside of a major metro that maybe sprawl is impacting. I'll tell you to your earlier point, Lucas, now more than ever, when we're looking at an acquisition of what we might consider a value add, so many of these communities, even from the time we engage and start doing diligence, until the time we're looking at the forecasted closing every month that we're getting updated financials, they're occupancies ticking

up, and the financials continue to look better, which as a seller, you know that puts them in a great position.

I also think, you know, years ago when I would come across a property that had excess land, you know, it didn't really mean that much to us as far as evaluation and sizing that up. But now if you look at an existing community and they have a strong census already, the valuations are going up. But if they have some additional land, it's an extremely valuable piece of property.

And so most everything we're looking at, because of the growth of the market and the demographic, we're looking not only at opportunities to add value to an existing asset, but to your earlier point, how can we add additional units or additional continuum, because most of these markets secondary and then some of these outlier tertiaries around the major metros, they're growing, the populations are growing.

That demographic that we've talked about is growing. And so with it's a whole lot easier to scale an existing community than it is to go in from the ground up and think, oh my gosh, for my capital providers, they've got a 3 to 5 year window outlook before we can ever exit and recirculate that cash. But if you come into an existing operation, improve it somewhat, scale it some more.

05:35 -

Josh Crisp

With an existing asset, you know you've got a real winner. So I think from the seller side, those valuations continue to go up from an operator. We love those opportunities and we're seeing a lot of those.

Lucas McCurdy

That's great information. I'd love to hear you all talk about more on this capital. That's that's in the marketplace.

Josh Crisp

Yeah. Well, you know, Kyle, this is really a question for you. It seems like, as you know, I'm out talking to capital provider, existing capital providers, but also a lot of potential new providers are now taking note and actually noticing our industry, whereas before they were not you know, maybe they were just interested in the multifamily sector. So why is it, do you think now is the time, what is really peaking, the interest of capital right now?

Kyle Gardner

I mean, every capital allocator's job is to go and find return and, you know, evaluate the opportunity cost. Right. If I put my money into basket A and I forego basket B, you know, what is the relative yield? Things of that nature. And for a long time, the operational difficulties or the operational intensity of senior housing has scared off the occasional investor or the, you know, the passive investor.

Maybe they wanted to do something direct and realized, oh, it's more than I'm willing to kind of chew or they so they either leave the space or they opt to be kind of an LP and just put money to work, but not not have a, you know, a say in the game, if you will. I think what's changed recently is that the options relative to senior housing are not as strong as they were in the past.

You know, there's still specialty firms out there that do tech investing. There's multifamily only, there's industrial only. But if you're a big horizontal player, if you're a pension fund or a sovereign wealth fund where you put money to work across a broad basket, senior housing looks really attractive. Right now. We've got appreciation, asset appreciation, we've got cash flow.

So you can make money in two different ways. And some funds, depending on their mandate, have to pursue, you know, returns of a certain format or, you know, they need to hit a certain yield in order for them to kind of enter the enter the room. The other thing that's helping is the transactions market is really fluid right now and really active.

And so that's creating opportunity for people to enter the space versus 2020 and 21, when it was pretty suppressed. Even if you wanted to get into senior housing, there wasn't a lot of good stuff on the on the market. And now we're seeing turnover. You know, buildings turn over much more frequently. You know, just looking at my notes in 2025, over 1000 properties sold.

That's two years in a row of over a thousand properties sold in the markets that we track. And the price per unit is increasing pretty steadily, not quite yet. Back to Covid levels, but a pre-COVID levels, I should say, but very close. I think that's another reason development might start to break out a little bit, is if the price per unit on transactions goes above 2019 levels or goes above replacement cost, development starts to, on a relative basis look cheaper than acquisitions, and that might force some capital managers to take a look at it just based on their fund docs or things of that nature.

You've also got the introduction of active adult. You know, that's something we've talked about on this pod a couple of times over the years. It's still small compared to assisted living and skilled nursing, a little under a thousand properties nationwide, but it behaves a lot more like a multifamily building. So it's less intimidating for a new investor to come into the space.

Start with that, start to learn the customer, start to learn some operators, and then if they're brave, they enter assisted living where you know the return profiles a little bit different. Or if they're happy with the active adult world, they kind of build out a footprint there.

Josh Crisp

That makes a lot of sense. So you touched on this, but how significant are are the the cases for this complexity of our industry?

10:06 - 14:37

Josh Crisp

You know, it's so operationally complex. So many investors have traditionally steered straight away from that or sort of set it to the side that it's too complex to enter. Do you think you combine the performance in these trailing seven quarters of great data with the demand? Do you think that's a compelling enough case that it's going to bring the capital that we need to meet this huge challenge?

Kyle Gardner

I think it's very compelling. I'm optimistic that it will bring in enough capital to help support the growth that we need over the next, you know, 5 to 15 years. And the reason for that is, you know, investors try their best to operate as pure capitalists, and they will learn to do hard things if it helps them achieve their yield.

And right now, senior housing has some incredible return profiles, an incredible growth story that not many other industries can have. You know, I've heard the saying, hey, if you're if you can write a check for AI and data centers, you do that. And if you can't afford to be in that game, you know, senior housing is where you go and look.

And it's really hard if you're a real estate player to look around and, you know, honestly say that senior housing is not compelling, right? Make the case. If you were to make the bear case for senior housing, I think the arguments are pretty thin because that demographic support is so strong. You know, you look at regulatory potential, regulatory interference; you would look at the cost to develop.

But you can enter the space as an acquirer. You could enter the space as an operator and build up brands that way and not have to think about development just yet. So there's so many ways to kind of come into this sector and participate. And that's really what we need. Because as as more people enter the space, that should create network effects and invite more capital that should hopefully reduce friction in the transactions market or just the capital markets, generally speaking. And I've heard a couple of brokers on the show just talk about the number of bids going up on the secondary market and a lot more competition for assets. So all of that is good to me.

Josh Crisp

Lucas, you know, I think about it kind of like this. So many of these new capital providers that they've been in other real estate verticals that candidly, are very driven from the top down, meaning it's a main asset management office that makes a lot of the decisions because it's not a complex business.

It's really for capital providers. I think they have to sort of, if they're entering the space new, they have to come with a new strategy, right? And while we've got great data, we are complex and it almost requires a bottom up approach because you're taking insight into the partners that you trust, that are managing boots on the ground and making daily decisions.

So I do think for capital providers, while the opportunity is amazing and it's going to be great for quite a while, the data tells us you have to approach it with a different mindset and you think, wow, this is not going to be a top down. We're going to be in a lot of problems. But I think one of the beautiful things that NIC exposes and NIC MAP data exposes of our, our industry is that there are amazing partners. And as long as you hook yourself to the right wagon, when you come into the industry and really take that insight with that capital strategy, it can be a beautiful place to enter, right?

Lucas McCurdy

Absolutely, absolutely. And really what you know what we're talking about here, really, it revolves around the supply and demand. It's the demographics and it's how many, you know, units are available.

And we're talking about this build out. And you know, the the NIC MAP data even looks way out into the future. Yes, out even to 2050, which it's hard to think about that. But you know, we'll blink and that will actually be here and it'll be realized. But I'm seeing this number here. One of the biggest numbers in the report that we've been mentioning is the projection that more than \$1 trillion of investment capital could ultimately be required by 2050.

14:37 - 19:52

Lucas McCurdy

I'd love to know how you arrive at a number like that. How does that even come into computation? And then what does that even represent?

Kyle Gardner

Yeah, it's a big number for sure. And we try to approach it as simple and from a first-principles standpoint as possible. And we said, hey, if we just keep the current penetration rate of our customer base constant for the next 25 years or so, and we look at the growth of demographics, how many units are we going to need to build to serve tomorrow's residents?

So it's all demographic-based. We're not assuming any increase in adoption. We're just looking at we have more people we need to care for. And we came up with, you know, we need to build over 575,000 units by 2030, more than a million units by 2035. And the number just keeps growing candidly. And we if we assume about \$500,000 of cost per door, you know, the cumulative investment we need to make by 2050 is more than \$1 trillion.

Is it is that going to be precise? You know, maybe maybe not. I think the important takeaway for listeners here is I think it's directionally true and it's direct. It's directionally honest. Right. The the amount of demand entering our industry tomorrow and the next day and for the next 25 years is something we've never experienced as an industry before.

And the amount of investment we're going to need to meet those new customers is going to require much more investment than we've ever put into the space. So unprecedented need meets unprecedented response. Again, it just opportunity.

Lucas McCurdy

And you know, you and Arick at NIC MAP have been talking about this for over a year, trying to address this gap. You have been presenting this data to the marketplace.

And I will say kind of maybe going off script a little bit here. Just anecdotally, I've been pricing out these ground up expansions, ground general ground up for 4 to 5 years, and none of them have moved forward, and the price has just gone up and up and up. And if they would have taken the price that was presented two, three years ago, that product would have already been built, realized and probably full at a price point that is not seen today.

And I'm just wondering when the needle is going to shift, you know, I mean, the the cost per square foot for ground up is staggering. But I'm just wondering, you know, five years from now, ten years from now, they're going to look back and wish they had that that price. So you've been talking about addressing this gap. You know there's a magnitude here and you know of this opportunity.

You know how to how is this going to be solved? Is it is it primarily ground up development? Is expansion reposition, adaptive reuse? I mean, just all of these strategies part of the solution? I'd love to get your thoughts.

Kyle Gardner

Yeah. Unfortunately, my answer is a bit of a cop out because if I knew the future, I'd be running a hedge fund. But I think it's a, you know, it's going to just come down to the basics. There will be some amount of everything you just listed. It'll be new development, it'll be expansion, new new product lines, new service lines. There will be a larger cohort of at least on an absolute basis, a larger number of seniors who get care at home and choose not to move into a community on an absolute basis.

There will be more people living in communities tomorrow than today, but what's that exact mix going to look like? I don't have the magic ball, unfortunately. I think the conference coming up in Chicago in a couple of weeks will be a great spot to entertain that question and see what people are doing on the field. You know, a lot of a lot of the data that NIC MAP reports on, as you guys know, is kind of backwards looking.

It's what's happened and trying to articulate the why. This is one of the few reports where we look to the future and try and guess and estimate what could happen. But I'm not I'm not an operator or an investor in the space, not directly. So I'm rooting for anyone who has ideas and would love to work with them on kind of sizing the demand, on analyzing supply in the market, and putting together a strategy for serving residents of one market or another.

You know, the the short, the short takeaway is we just need more participants to be in the industry if we're going to meet the need for tomorrow's resident, you know, the current participants, the operators, the rights, the private equity funds, they should be able to grow as

much as they're willing and financially capable of absorbing. But we need more participants in the space.

19:52 - 25:18

Kyle Gardner

It's kind of a boring answer, but I think that's the truth.

Josh Crisp

Well, and that's sort of the segue to some maybe just as we start to wrap up the the conversation here, Kyle, you know, your time is super valuable and you've spent an extra amount with us today. But, you know, if I'm an operator, which I am, but kind of speaking to operators out there, I just I just think it's got you got to be smiling a little bit because no matter whether it's a capital provider, a developer at the core of our industry is our operators.

And they're needed as a partner to any group that's entering senior housing. So your quick take away to or take away's to some of our different groups out there. That operator that's listening that developer, that capital provider that has been in other verticals that's sort of on the fence, you know, am I entering this and going all in to tap into this demographic and these valuations that are growing? What are your just 2 or 3 minute summaries to each one of those groups as we wrap out the show?

Kyle Gardner

Let me start with the operator, because they are so central to, you know, the ecosystem of this industry. And I would say you guys, you, the operator, are the hot thing right now. You have an opportunity to pick partners.

You have an opportunity to form new relationships. And I would encourage you to figure out what makes your team, your brand, your style of care, unique and different and be really intentional on defining that. Because while while operators are at these key key partners, I think too often capital looks at them as commodities that they can switch out and, you know, the billing will just get magically better.

And so if you've if you've got a track record, whether it's at one building or 100 buildings, find your story or get good at articulating your why, because more capital is going to come into this space here very soon and they should be knocking on your door. If not, you should be knocking on theirs to kind of form those relationships.

So I, I wholeheartedly agree it's a great time to be an operator where, you know, that group is finally making money after years of doing the hard work, the blood, sweat and tears of serving the residents and just makes me excited to talk to my customers and see them back in the growth seat. I would say, take this data or, you know, other data, like it and take it to the boardroom, ask the questions, how are we going to set ourselves up for growth?

I mean, I see headline after headline of operators stating publicly they want A5X their portfolio in the next five years of the next ten years. And I love that energy. I love that drive. We're certainly at a moment in the industry where that is attainable. You know, you've got to execute against it and you've got to kind of prove day in and day out to the partners you're working with that you can take on more, because the challenges of a three building operator are not the challenges of a 30 building operator.

And, you know, when you get to someone like Discovery or Brookdale Size, there's even more difficulties that come into play. So I think overall, it's a great time to be an operator and kind of wish everyone luck in that growth journey for investors and developers. You know, I would say, you know, follow the data. Yes, it's an incredible macro story, but is every street corner in America going to support 150 or 250 units?

Probably not. So, you know, follow the macro picture, but do your diligence on the ground. Get get data and information to support you know, your your investment thesis because when you you have the hardest job of putting money to work. And once that money is out the door, you know, you're you can't guarantee that it's going to come back.

So we don't want to have kind of an overbuilt story that we saw in Atlanta or North Dallas kind of in 2017, 2018. We we want to see development and investment go to markets that need it. And that might be the tertiary markets that you're in. Josh. That might be the skyline of New York City or San Francisco. There's need across the board. So just encourage you, you know, use data to drive your decision and kind of be open to creative solutions.

Josh Crisp

Good stuff Kyle. Man, we always appreciate you. We appreciate the partnership with NIC MAP, such a valuable resource and team for our industry. Can't wait to see you again just in a few short weeks. We always love spending time with you, not only virtually, but in person. Lucas, we're we're pretty lucky that we got some time with Kyle today.

Lucas McCurdy

Yes, absolutely. Kyle, thank you so much. We really appreciate it.

Kyle Gardner

Absolutely, guys. Much love. See you out there.

Lucas McCurdy

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