

---

## Who Will Fund the Next Cycle of Senior Housing Development?

### *A White Paper on Capital Formation, Industry Structure, and the Future of Senior Housing Development*

By **Justin LeBell**, LeBell Advisory

---

#### Executive Summary

Senior housing is entering the most consequential capital transition in its modern history. Traditional construction lenders—regional banks, community banks, and life companies—have sharply reduced exposure. In their place, private credit funds have surged forward, deploying billions in high-yield construction loans and reshaping the economics of what gets built, where it gets built, and who it ultimately serves.

This white paper argues that:

- **Capital—not demographics—is now the primary architect of the senior housing industry.**
- **Private credit will fund much of the next development cycle**, but its structures carry hidden operational and strategic risks.
- **The industry is facing a Missing Middle Capital Crisis**—a structural gap that threatens the viability of middle-market and rural senior housing.
- **The next cycle will be funded by a new ecosystem of capital**, including private credit, HFAs, HUD 232, family offices, and emerging institutional sources.
- **Operators, lenders, and policymakers must act now** to build a balanced capital stack that supports affordability, access, and long-term operational stability.

The capital choices made today will determine the senior housing landscape of 2030 and beyond.

---

## **Introduction: The New Reality of Senior Housing Capital**

If you've attempted to secure construction financing in the past 18–24 months, the experience has likely been jarring. Banks that financed your last project are now constrained by CRE concentration limits. Life companies have shifted toward industrial and data centers. Agency take-outs are less predictable.

But private credit funds are calling you back immediately.

They are offering construction loans at 12–15% interest with 60–65% loan-to-cost, plus 2–4 points in fees. The covenants are tighter. The reporting is heavier. The exit costs are steeper. But they are saying “yes” when nearly everyone else is saying “not right now.”

The question is no longer whether private credit will fund the next cycle—it already is. The real question is:

### **What kind of senior housing industry will this capital create?**

Capital shapes product type, pricing, affordability, care models, operational flexibility, and long-term ownership stability. In senior housing, capital is destiny.

---

## **The Capital Stack of 2025–2030: What's Changing and Why**

Senior housing is undergoing a capital realignment unlike anything seen in decades. The traditional capital stack has fractured, and a new ecosystem is emerging.

### **Regional and Community Banks Have Retreated**

Banks historically funded 60%+ of senior housing construction. Regulatory pressure, CRE exposure, and liquidity constraints have pushed them to the sidelines. Most will not return meaningfully until 2027–2029.

### **Life Companies Have Shifted Elsewhere**

Life companies prefer industrial, data centers, and core multifamily. Senior housing's operational complexity makes it less attractive.

### **Private Credit Has Become the Default Lender**

With more than \$400 billion in dry powder, private credit funds are aggressively deploying capital into senior housing. They will likely fund 50–70% of all construction between 2025 and 2028.

## **HUD 232 Will Become the Long-Term Anchor**

HUD 232 is slow and bureaucratic—but it offers unmatched long-term stability. Expect a surge in HUD refinances as operators seek to exit private credit.

## **HFAs Will Re-Emergence as Middle-Market Champions**

HFAs are uniquely positioned to support middle-market and rural senior housing through tax-exempt bonds and mission-aligned capital.

## **Credit Unions Will Fill the Small-to-Mid-Size Gap**

Credit unions are becoming important lenders for \$10–15M projects, especially in local markets.

## **Family Offices Are the New Middle-Market Equity**

Family offices value long-term ownership, mission alignment, and stable cash flow—making them ideal partners for middle-market development.

## **New Entrants Will Reshape the Landscape**

Healthcare systems, pension funds, infrastructure funds, and impact capital are beginning to view senior housing as essential community infrastructure.

---

## **Why Private Credit Loves Senior Housing**

Private credit's interest in senior housing is not opportunistic—it is strategic.

### **Demographic Certainty**

Demand is driven by aging, not economic cycles.

### **Yield Premium**

Senior housing offers higher yields than multifamily and less competition than industrial.

### **Bank Retrenchment**

Private credit filled the vacuum left by regional and community banks.

### **Fragmented Ownership**

Fragmentation creates pricing power and underwriting inefficiencies.

## **Operational Complexity**

Complexity allows private credit to price risk aggressively.

Private credit is not a temporary player. It is now a structural part of the capital stack.

---

## **The Hidden Costs of Private Credit (What Operators Don't Realize Until Year 2)**

Private credit is rational capital—but its structures can create operational and strategic challenges.

### **Cash Sweeps and DSCR Traps**

Miss a DSCR covenant and cash is swept away from operations, slowing stabilization and creating a vicious cycle.

### **Exit Fees and Forced Refinances**

Short maturities and exit fees can trap operators or force premature sales.

### **Reporting Burden**

Monthly reporting, audits, and monitoring strain operators without institutional back-office infrastructure.

### **Mission vs. IRR Misalignment**

Private credit optimizes for short-term returns; operators optimize for long-term community stability.

### **The Operational Spiral**

Financial pressure becomes operational pressure, which becomes care pressure.

Private credit is a powerful tool—but a tool with sharp edges.

---

## **When Private Credit Actually Makes Sense**

Private credit is not inherently good or bad. It is appropriate when:

- You are building to sell
- You have institutional-grade financial infrastructure
- You have strong co-developer equity

- You need speed more than cost efficiency
- You are planning a HUD 232 take-out
- You have a high-performing operating partner

Used strategically, private credit can be an effective bridge.

---

## **The Alternatives: Harder, Slower, Better**

### **HUD 232**

The best long-term financing in the industry—87% LTC, 35–40 year amortization, fixed rates.

### **HFAs**

Mission-aligned capital for middle-market and rural communities.

### **Credit Unions**

Flexible, relationship-driven lenders for smaller projects.

### **Family Offices**

Patient equity with long-term alignment.

### **Emerging Capital Sources**

Healthcare systems, pension funds, infrastructure funds, and impact capital.

These alternatives are slower and more bureaucratic—but better aligned with long-term ownership.

---

## **The Missing Middle Capital Crisis**

Middle-market senior housing serves the largest segment of aging Americans—but it is the least financeable.

Middle-market projects cannot support:

- private credit interest rates
- high equity requirements
- Davis-Bacon wages

- institutional return targets

This is a structural capital failure—not a market cycle.

### **The Senior Housing Capital Gap Index (SHCGI)**

A framework evaluating:

- cost of capital
- equity feasibility
- stabilization timeline
- market depth
- affordability

SHCGI reveals that middle-market senior housing is the least financeable segment under current conditions.

---

### **What Operators Should Do Now**

Operators must:

- build 10-year capital strategies
- model refinance risk explicitly
- negotiate covenants upfront
- invest in financial infrastructure
- diversify lender relationships
- cultivate patient equity
- strengthen operating performance
- engage HFAs early
- invest in scenario planning
- build capital markets advisory relationships

Capital strategy is now a core competency.

---

## What Policymakers Must Understand

Senior housing is essential infrastructure. Policymakers must:

- modernize HUD 232
- expand HFA programs
- create middle-market incentives
- support rural development
- align workforce and capital policy
- recognize the societal cost of inaction

Without policy innovation, the Missing Middle Capital Crisis will deepen.

---

## A Message to Private Credit Funds

Private credit stepped in when the industry needed it most. But the structures used today have real operational consequences.

Funds that:

- align covenants with operational realities
- support operators during lease-up
- structure reinvestment-friendly terms
- build long-term relationships

...will become the preferred lenders in the sector.

The operators who survive this cycle will remember who stood with them.

---

## Conclusion: The Capital We Choose Will Shape the Industry We Become

Senior housing stands at a crossroads. One path leads to luxury communities, geographic inequity, and operational instability. The other leads to middle-market access, rural inclusion, and long-term sustainability.

The difference between these futures is not demographics or operations.

It is **capital**.

The next cycle of senior housing development will be funded by a new ecosystem—if the industry builds it intentionally.

The capital we choose today will shape the industry we become.

---

### **About the Author**

**Justin LeBell** is a senior housing finance strategist and founder of **LeBell Advisory**, specializing in capital markets advisory, underwriting, HUD 232 feasibility, and long-term capital strategy for senior housing and care operators nationwide. He is an emerging voice on the future of senior housing capital formation and the Missing Middle Capital Crisis.

---