

Real Estate Practice

The opportunity to innovate in senior housing

The senior-housing industry has huge potential. Sam O’Gorman examines three approaches that could make senior housing more appealing, expand its reach, and enable better and more affordable care.



Senior housing is designed for people to live in as they age and may be located within communities that provide catering and social activities, as well as medical care. But even in the most developed markets, only 5 percent of seniors move in. How can the [senior-housing industry](#) help support aging societies while expanding successful businesses? McKinsey's [Sam O'Gorman](#) explains to McKinsey Global Publishing's Katy McLaughlin how operators can address fears that there's "no turning back," expand into the retrofit market, and innovate with cutting-edge technology. An edited version of their conversation follows.

Katy McLaughlin: What's the definition of "senior housing"?

Sam O'Gorman: It's a term that's often misunderstood. Senior housing refers to a specific type of residential property that's tailored toward older people. If you were to take a quick glance at a unit for senior housing, for all intents and purposes, it would look like any other apartment, flat, or house.

But looking carefully, you would see some unique design features, such as level access, lighting placed at a lower level, and wider doors. Homes might have kitchen cabinets that can lower at the press of a button. The bathrooms might be wider so that someone in a wheelchair could easily make a turn. Some of the materials for flooring or walls could have patterns that make it easier for people with poor eyesight to distinguish. These homes might have supports in the walls or the ceilings to make it easier to, at a later point, install grab rails or hoists.

But importantly, senior housing doesn't imply a care home or a nursing home.

Katy McLaughlin: Senior housing doesn't encompass any kind of medical care?

Sam O'Gorman: No, not from a definitional point of view. That is, in terms of the way the market and investors think of it, it's a discrete asset class.

However, in various parts of the world, you see senior housing combined with other services. Some facilities offer catering and communal elements that are intended to stimulate socializing. Some of the more expensive ones might have things like cinemas, hair salons, libraries, nail bars, and wine storage.

Particularly in North America, senior housing may be located in assisted-living communities that offer a spectrum of medical-support services, from having a nurses' station on-site to offering a memory care or nursing home and even hospice care.

Katy McLaughlin: [The article you published on senior housing](#) modeled the likely worldwide percentages of people who will be over age 65 by 2050. South Korea is headed toward a population consisting of about 40 percent seniors, followed by Japan at 37 percent. Over a third of Italians will likely be seniors at that time, along with over a fifth of people in the United States and the United Kingdom. It sounds like the market for senior housing could be huge.

Sam O’Gorman: Indeed, [aging demographics](#) are very prevalent in many economies. But even in the countries with the most developed senior-housing markets, including Australia, Canada, New Zealand, and the United States, only roughly 5 percent of seniors currently live in dedicated senior housing.

Katy McLaughlin: Is that because it’s too expensive?

Sam O’Gorman: Not according to McKinsey’s research. When older people are surveyed, in most countries, the majority say they can afford senior care and housing. And in many instances, people will be downsizing, which should actually free up some capital. But they also say, by a wide margin, that they want to stay in their own homes.

I think the default assumption for many people is, “I’ll stick it out in my own home for as long as possible. And then, when I really have to, I’ll move into a care home of some distinction.” But unfortunately, there are many instances of people living in properties that aren’t suited to them for maybe ten or 20 years longer than they should be. They end up living in a kind of hiatus where it’s suboptimal for an extended period of time.

Senior housing can fill that void and provide [medical, physical, and social support](#) that is really life enhancing.

Katy McLaughlin: So why don’t more older people take the leap?

Sam O’Gorman: One big barrier is likely the sense that there’s no turning back. In Australia, New Zealand, and the United Kingdom, over 90 percent of the senior-housing product is built to sell. In Canada and the United States, it’s mostly rental, but some places require a large deposit.

One answer to this barrier is to introduce a try-before-you-buy element, where people can start off by renting for a year or two and opt to buy later. A big UK senior-housing player has had success with introducing rentals within the past few years. Within the rental sector, offering a three-month lease instead of requiring a full year could allow people to dip their toes in the water. There’s also the idea of letting prospective tenants or buyers come and stay for a weekend. Developers can also offer to buy the senior’s current property in an exchange and help with the moving process. There’s an entire niche of downsizing consultants to help with this.

Another barrier is simply being in the dark about senior-housing options. Many people mistakenly conflate senior housing with care or nursing homes. The industry could both improve its communication and expand its marketing and outreach. Marketing to an older person’s support system—to their adult children, relevant areas of the medical profession, religious leaders, and wealth advisers—can help disseminate knowledge about offerings.

Katy McLaughlin: Even if senior housing is affordable and has great amenities and flexible options, there are still going to be people who won’t want to move into it, right?

Sam O’Gorman: Oh, definitely. Senior housing is never going to be for everyone; maybe it could reach a high point of 10 percent uptake in some markets. I think the question operators should ask themselves is, “How do we offer services and support to that pool of people who are unlikely to be customers?”

We think there’s scope for a professional service where senior-housing operators help people retrofit their homes for the next phase of their lives. This could be a consultancy, where senior-housing experts offer their technical and design know-how, but they could also execute the retrofits. Senior-housing experts would likely work through a network of local builders but provide all the design and technology specifications.

Imagine a provider that offers an A-to-Z service, with consultancy, installation, procurement, and obtaining warranties. Its prices would be competitive because it would be able to leverage its supply chains. It could bring in technology and solutions that local builders may not even know about.

Not only could this service help the homeowner enjoy a better aging-in-place experience, but it could create positive brand associations. There may be a case for client development there, and in five or ten years’ time, the homeowner may want to move into one of the branded properties.

Katy McLaughlin: What might these senior-housing retrofits cost?

Sam O’Gorman: It will obviously be quite variable, but in developed markets such as Australia, New Zealand, the United Kingdom, and the United States, it would typically be in the region of \$5,000 to \$20,000 to achieve home augmentations. It’s clearly a much smaller cost than buying a new house or apartment.

Katy McLaughlin: In your article, you discussed integrating cost-efficient technology to enable more oversight and care. Convince me that this can be warm and life enhancing for older people.

Sam O’Gorman: Imagine a scenario where an older person is living independently in a home outfitted with pressure pads and sensors. If that person falls, the pressure pad immediately sends out an alert, and the senior-living community’s staff knows they have to come help. Or let’s say the sensors—and maybe this is combined with some wearable technology—recognize when there’s atypical movement within the apartment. Maybe the older person’s family receives feedback that tells them, “Your grandmother didn’t get out of bed at her usual time this morning.” Maybe she has a cold, and now the family knows even before she tells them.

These are examples of how [technology solutions could improve quality of life](#) without incurring a lot of cost and without asking older people to relinquish their independence. Our article goes deeper into other solutions, including [AI tools that help operators work more efficiently](#) and accurately. The idea is to have technology help with oversight and routine tasks in order to free up staff to do more value-added work.

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