THE SIMS PERSPECTIVE

Unlocking Growth Together: Increasing Collaboration Among For-Profit and Not-For-Profit Senior Living Providers

September 18, 2025

The senior living sector is experiencing a growing demand for innovative financing and operational models to address demographic trends, rising capital needs, and the importance of supporting sustainable development of these communities. A critical strategy emerging in this space is the collaboration between for-profit (FP) developers and operators and not-for-profit (NFP) organizations. These collaborations, often rental models financed with tax-exempt bond financing, present opportunities for both mission-driven outcomes and economic efficiencies. This white paper explores the framework, benefits, challenges, and future outlook for such joint efforts in the for-profit and not-for-profit senior living sector.

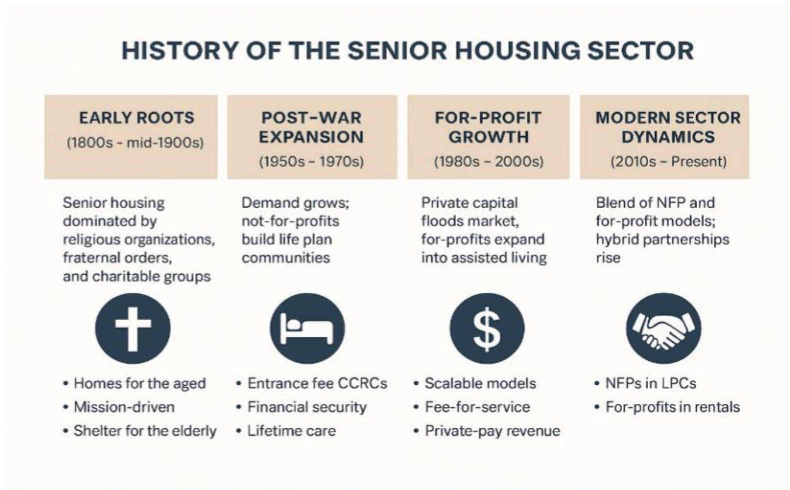
FROM SILOS TO SYNERGIES

The senior housing sector has evolved dramatically over the past century, shifting from mission-driven charitable models to a dynamic mix of NFP and FP approaches. Understanding this history is key to appreciating today's diverse operating structures and the rise of hybrid collaborations. The accompanying timeline highlights the major phases of development and the distinguishing features of each era.

The industry now features a blend of NFP and FP models, each serving different market niches:

- **Not-for-Profits:** Remain highly concentrated in entrance fee-based life plan communities but there is growing demand for rentals and some hybrids, as described below; mission-driven, with governance by volunteer boards; often enjoy property tax exemptions and access to tax-exempt bond financing.
- **For-Profits:** Predominantly operate rental-based independent living, assisted living, memory care, and skilled nursing facilities with a financial engine largely driven by shareholder or investor returns.

Increasingly, hybrid collaborations between FPs and NFPs are emerging in the rental model space, especially as current capital markets conditions and shifting consumer preferences have driven the need to explore innovative approaches to address the growing demand for senior housing.



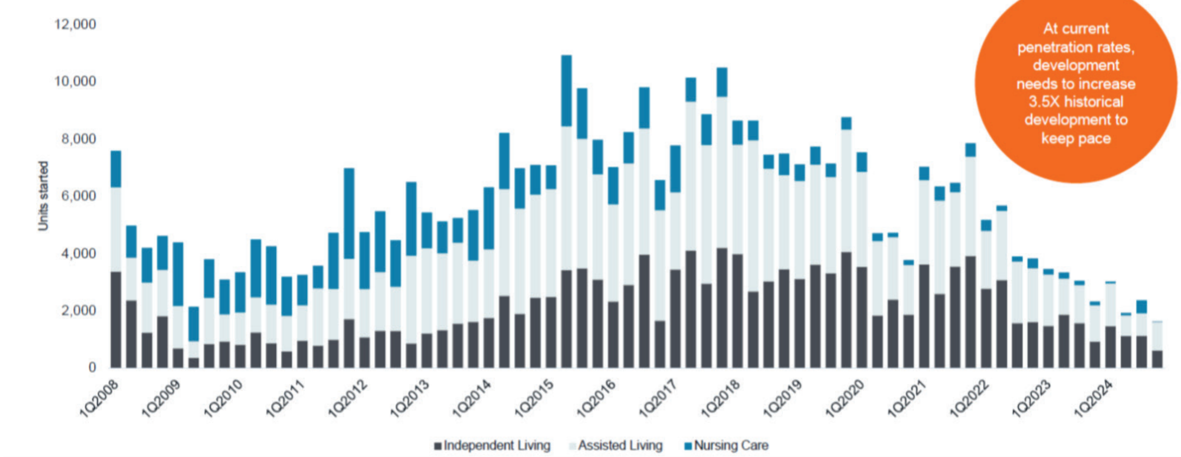
RECENT CATALYSTS FOR INNOVATION AND PARTNERSHIP

Over the past five years, senior housing operators have faced significant challenges accessing the capital markets due to a convergence of financial, operational, and demographic pressures. While occupancy rates have largely recovered following the sharp decline during the COVID-19 pandemic, margin compression driven by rising labor costs, staffing shortages, and inflationary pressures weakened cash flows and debt coverage metrics on which lenders and investors rely. In the current market, these pressures led to a premium on stability, with excellent sales prices for highly occupied, strongly cash-flowing assets.

Unlocking Growth Together: Increasing Collaboration Among For-Profit and Not-For-Profit Senior Living Providers

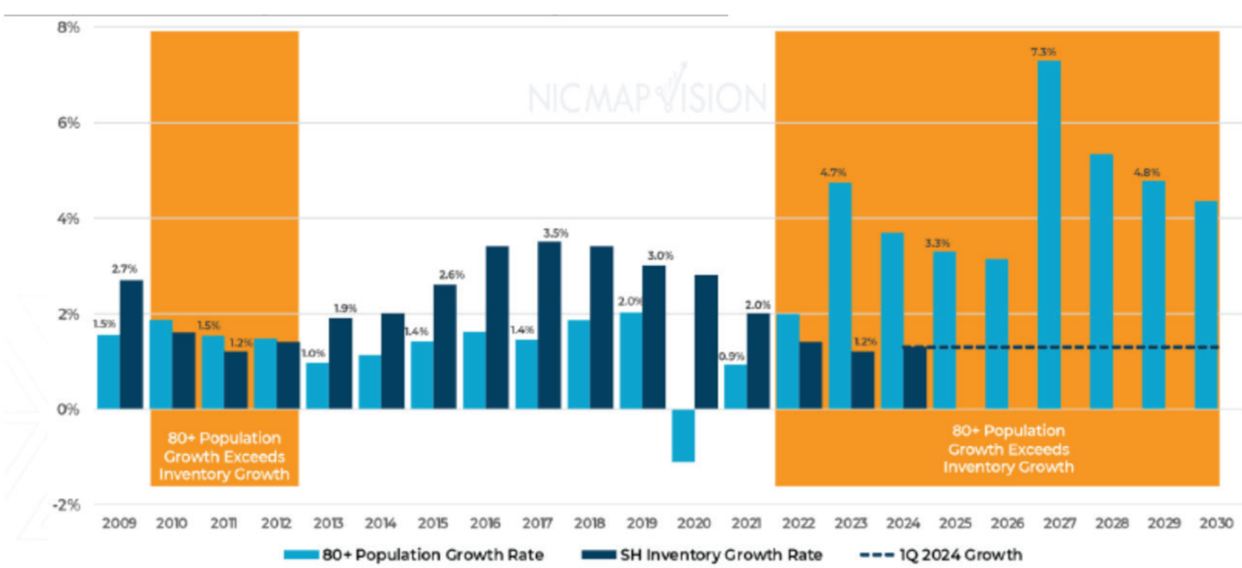
However, 2024 experienced the fewest number of construction starts recorded in the past 20 years, as limited capital available in a FP ownership structure continued to constrain new development.

8,800 units started in 2024. The market needs to deliver 1.14M units by 2035, by 2030 the supply needed is 525K.



Sources: Source: JLL research, NIC map data services: primary and secondary markers

And yet, Baby Boomers keep aging. As highlighted in the chart below, these compounding factors have resulted in an imbalance of supply and demand not seen since the aftermath of the Great Recession. Unlike the last period of imbalance, however, the growth rate of the 80+ cohort far exceeds historic levels, exacerbating the undersupply and the impetus to identify creative financing solutions to address the surplus of demand.



Senior Housing Inventory Growth vs. 80+ Population Growth

Sources: NIC MAP Data, powered by NIC MAP Vision

THE SIMS PERSPECTIVE

HJ SIMS
FINANCED RIGHT℠

Unlocking Growth Together: Increasing Collaboration Among For-Profit and Not-For-Profit Senior Living Providers

As FP developers and operators grapple with how to finance their pipeline of construction projects, NFP organizations are faced with how to expand their missions to capture additional segments of the market. Historically concentrated on entrance-fee life plan communities, not-for-profit organizations are increasingly looking to broaden their product choices to address the trends and expectations outlined below:

SOURCES: SOURCE: VARSITYBRANDING.COM, JLL RESEARCH, NIC MAP DATA SERVICES.

THE EMERGENCE OF A NEW ALTERNATIVE

As the respective challenges faced by FP and NFP senior living providers have persisted and stunted growth opportunities, a handful of organizations have come together to pioneer a new alternative for financing and development. HJ Sims, one of the nation's top senior living investment banks, and JLL, a globally recognized real estate services firm, have partnered together to arrange, underwrite, and close more than $900 million in financings for some of these organizations in just the last 12 months. Beyond those successfully closed, billions in development remains in the pipeline.

Structuring and financing collaborations between for-profit and not-for-profit organizations in senior living requires careful navigation of regulatory, financial, and governance considerations. While these collaborations offer unique opportunities—combining the operational expertise and capital efficiency of for-profit operators with the mission alignment and financing advantages of not-for-profits—the technical underpinnings are complex. From forming a compliant 501(c)(3) entity and establishing appropriate governance frameworks to leveraging tax-exempt bond financing and designing fair market value service agreements, every element must be thoughtfully constructed to satisfy both IRS requirements and investor expectations.

The following section explores these technical components in detail, outlining the pathways that allow such collaborations to achieve both financial sustainability and mission-driven impact.

A STRUCTURE OF COMPLEMENTARY STRENGTHS

Collaborations between not-for-profit and for-profit organizations in senior living are increasingly common as both sectors seek to leverage their respective strengths.

Not-for-profits contribute mission alignment, tax-exempt financing opportunities, and community credibility, while for-profits bring development expertise, operational efficiency, and access to private capital. When structured effectively, these collaborations balance social impact with financial performance, creating sustainable rental models that benefit residents, investors, and communities alike. The table below highlights the typical roles each party assumes in such collaborations where the NFP is a non-operating one, but FP developers can also collaborate with NFP owner-operators that would be responsible for day-to-day management.

Not-for-Profit (NFP) Roles & Responsibilities

- **Ownership & Sponsorship:** Serves as the legal owner of the community and, in many cases in the borrower of tax-exempt financing.
- **Mission Alignment:** Ensures operations remain consistent with a charitable purpose (e.g., serving senior, community benefit, affordability commitments).
- **Governance:** Maintains a volunteer board of directors that provides oversight, independence, and accountability.
- **Financing Advantage:** Accesses tax-exempt bond markets, grants, and charitable contributions unavailable to for-profits.
- **Community Credibility:** Enhances public trust and often qualifies for property and sales tax exemptions, improving project economics.
- **Regulatory Compliance:** Oversees adherence to IRS rules (e.g., fair market value compensation, limits on private business use).

For-Profit (FP) Roles & Responsibilities

- **Development:** Identifies sites, oversees construction, and manages pre-opening processes such as marketing and presales.
- **Operations & Management**: Provides day-to-day property management, staffing, and service delivery.
- **Specialized Services:** Supplies expertize in areas such as asset management, food service, marketing, and back-office support.
- **Capital Contribution:** May provide subordinate debt or other capital support, aligning financial interest with project success.
- **Efficiency & Innovation:** Introduces operational best practices, technology, and scale economies that enhance performance.
- **Fee-Based Revenue:** Earns compensation for services provided under long-term agreements structured at fair market value.

Unlocking Growth Together: Increasing Collaboration Among For-Profit and Not-For-Profit Senior Living Providers

TAX-EXEMPT BONDS: THE BELLE OF THE CAPITAL STACK

One of the most compelling reasons for these collaborations is the access to **tax-exempt bond financing**. Limited to municipal entities and qualified not-for-profit organizations, tax-exempt bonds can be used for eligible projects, including building, acquiring, equipping, or expanding rental senior living communities. Because bond investors do not pay federal taxes (or even state and local taxes in some instances) on the interest they earn, they are willing to accept lower interest rates, which reduces the borrowing cost for the project. These debt instruments offer additional advantages such as:

- **Fixed Rate, Long-Term Debt:** Bonds often provide 30–40 years of financing with predictable costs. The long-term, fully amortizing nature of the fixed rate bonds ensures that for-profits need not recycle capital every 5 – 7 years.
- **Non-Recourse Nature:** Bonds are typically non-recourse, eliminating personal guarantees and limiting sponsor liability to a predetermined amount of liquidity support. In lieu of equity, developers may purchase marketable subordinate debt.
- **Access to Larger Capital Pools:** The $4.1 trillion public municipal bond market often allows greater leverage and larger borrowings than traditional bank loans.
- **Operational and Tax Savings:** Potential exemptions from property and sales taxes can improve project cash flow and stability.
- **Continuity of Services:** Operators can maintain their management infrastructure and vendor relationships, ensuring consistency for residents.

That said, when for-profit senior living developers collaborate with not-for-profit owners, they give up certain upside potential. Because not-for-profits must retain ownership of tax-exempt financed projects, developers forgo equity stakes and the long-term asset appreciation or recapitalization gains they might achieve on their own. IRS rules also limit compensation to fair market value fees rather than profit-sharing, capping returns at predictable but non-scalable levels. This arrangement ensures a long-term alignment of risk and often keeps developers in the deal well beyond stabilization.

Underwriting and Compliance Considerations

While attractive, collaborations that utilize tax-exempt bonds must navigate complex compliance and financial hurdles:

- **IRS Regulations:** Compensation and contractual arrangements must comply with IRS Revenue Procedure 2016-44.
- **Debt Coverage & Liquidity:** Transactions typically require minimum debt service coverage ratios (1.30x-1.35x senior debt; 1.20x subordinate debt) and sufficient days cash on hand (75-100+days cash on hand (75-100+days at stabilization).
- **Audits and Oversight:** Post-financing, organizations must avoid risks tied to private business use, arbitrage rules and improper cost allocations.
- **Reporting:** An independent construction monitor is typically required with monthly progress reports. Bondholders require fairly frequent disclosure reporting, often more often than quarterly SEC filings that include calls or webinars with standard metrics such as DSC and DCOH.
- **Governance Risks:** Balancing control between mission-driven operator requires strong governance framework.

Unlocking Growth Together: Increasing Collaboration Among For-Profit and Not-For-Profit Senior Living Providers

HJ SIMS

FINANCED RIGHT℠

Recent financings demonstrate the diversity of applications, from portfolio acquisitions of assisted living and memory care facilities to large-scale developments of rental communities with multiple levels of care. For the capital markets professionals accustomed to the underwriting approaches of commercial lenders and REITs, the process of issuing tax-exempt bonds can feel complex and intimidating. HJ Sims and JLL have an assembled team of experienced legal and financial professionals, respected by major institutional buyers, who have worked alongside each other many times over, to guide senior living organizations through this process.

OUTLOOK: A GROWING MODEL FOR SENIOR LIVING

For-profit and not-for-profit collaborations represent an innovative and increasingly essential model in the senior living sector.

As demand for senior housing grows, the ability to combine the capital resources and operational expertise of for-profits with the mission alignment and financing advantages of not-for-profits will remain a compelling strategy. By aligning mission-driven objectives with financial and operational expertise, these collaborations can expand access, enhance quality, and ensure long-term sustainability.

Future success will depend on:

- Establishing credible not-for-profit structures with independent boards
- Building strong track records of financial performance and operational excellence
- Ensuring alignment between mission and margin
- Building a growing investor base to ensure liquidity and future access to the tax-exempt markets

Tax-exempt bond financing stands at the center of this opportunity, offering the capital flexibility required to meet the needs of an aging population. With careful structuring, compliance, and governance, this new financing blueprint can shape the future of senior living.

THE SIMS PERSPECTIVE

Unlocking Growth Together: Increasing Collaboration Among For-Profit and Not-For-Profit Senior Living Providers

HJ SIMS
FINANCED RIGHT℠

Nearly $1 Billion in Rental Senior Living Tax-Exempt Financings in Just the Last 12 months

The James
P3 Foundation
Start-Up Rental
Irvine, CA
Tax-exempt Senior and Subordinate Fixed Rate Bonds
Taxable Senior Fixed Rate Bonds
$473,030,000
November 2024

Integrated Senior Foundation Ativo Portfolio
Start-Up Rental & Acquisition
Multiple Locations - CA and AZ
Tax-exempt Senior and Subordinate Fixed Rate Bonds
Taxable Senior Fixed Rate Bonds
$239,680,000
March 2025

Millenia Moments
Start-Up Rental
Orlando, FL
Tax-Exempt Fixed-Rate Bonds
$134,255,000
May 2025

Quality Senior Housing Foundation
Sunrise of Long Beach
Start-Up Rental
Long Beach, CA
Tax-exempt fixed-rate senior bonds; taxable subordinate bonds
$86,570,000
August 2025

Contact Us For More Information

Aaron Rulnick
Managing Principal
arulnick@hjsims.com

Curtis King
Executive Vice President
cking@hjsims.com

Brady Johnson
Senior Vice President
bjohnson@hjsims.com

hjsims.com