

## INTERVIEW: Frank Löwentraut, Avivre Consult

[Previous](#) | [Next](#)  
&nbsp;

Want to know how private healthcare really works in Germany? Then you need to talk to Frank Löwentraut, head of Avivre Consult, who helps German and foreign institutions invest, chiefly in healthcare property.

Löwentraut founded leading care home chain Casa Reha, and has been working as a consultant for the last decade. He also lectures on healthcare property at the European Business School (EBS) International University, Schloß Reichartshausen.

Here is his take on the three main segments - hospitals, rehabilitation and care homes.

**Hospitals:** "Here, there isn't much room for classic institutional investors, as the market is dominated by big hospital groups, mainly with access to stockmarket money." He says the main leaders are Rhoen Klinikum and Helios, both quoted. Other big players are Sana, owned by a consortium of private insurers, and Asklepios, still privately owned. Smaller groups include Schoen Kliniken of Munich.

He says privatisation follows a standard format: "You take over three hospitals owned by a municipality - two small ones of, say, 100 beds each and a big one with 300 beds. You close the two small ones and sell them off and you build an extra 100 beds into the big hospital." He expects hospital beds to fall from 500,000 beds to 400,000 in the next 15 years.

After rationalisation, the operator will continue to work mainly within the state system and attempt to supplement this by growing a practice catering to private health insurers and wealthy pay-as-you-go patients from abroad.

**Rehab clinics:** Germany currently has 1,100 rehab centres, or 'Rehas'. As well as being a place for recuperation after an illness, Rehas are also a uniquely German institution.

Says Löwentraut: "Until the 1997 reforms, everyone was entitled to a 6 week stay every five years, to help them work until they were 65."

This has now gone, and he expects 400 of the 1,100 left to close, with a loss of roughly 80,000 beds.

By 2009, every Reha will have to have a certificate of need from the government. Also, as has already happened with hospitals, DRGs will become mandatory. Says Löwentraut: "The ones to close will be those who don't know their costs, and so can't do DRG, those in remote areas like the Black Forest, or some wood on the Czech border."

Rehas in spa towns are also under threat: "Any Reha in a town beginning with 'Bad', faces problems, as they are probably competing with 7-8 others!"

"Patients now have freedom of choice, and so now it is they, and not their insurers, who decide where they will go. Patients look for four things: good facilities, good food, entertainment and nice accommodation. They go for the flat screen TVs. So Rehas can't get by any more by just selling to the insurance companies."

Löwentraut sees ambulatory day clinics as the saviour for Reha: "Savvy operators are adding day clinics where the operation can take place, and then getting the patients downstream. The local doctors pay 1.2 euros a minute for use of the facility to conduct the operation, and the patient then recuperates on site."

Take a knee replacement, which costs around €10,000 through the public insurance. Says Löwentraut: "Previously the hospital took 60% plus and the Reha only got 30%. Now the doctor who does the operation in the Reha clinic takes 30% and the Reha takes 70%." Löwentraut reckons there is plenty of room for "courageous institutions" who are prepared to invest in winning Rehas, and that these companies should do really well in 2009.

**Care homes:** This is the traditional playground for institutional money looking for a safe haven in healthcare. Löwentraut reckons that the last two years has seen some €1.7bn to €1.85bn invested here in property sale and leaseback deals, and says that: "Today, there is about €1.5bn to €1.8bn from German funds, and a further €1bn from foreign investors looking to buy."

Prices have dropped a little, and now offer a rental yield of 7.4pc to 7.8pc, with rent multiples of 13.3 to 14. "Last autumn all the highly geared operators with 20% equity quit, and multiples are down from over 14."

Here again, he sees the private operators driving out the not-for profit sector, which still has 56% of the market: "Not-for-profit organisations find it hard to borrow from banks, and so they can't invest. The new reforms also mean that the Laender no longer have to pay for repairs and renovation. So a private operator comes into an area, builds a new facility, and then scoops up all the new business."

He adds: "Several large not-for-profit outfits are in trouble, and are putting pressure on the politicians." He thinks that a political reaction is unlikely: "The reforms have delivered good quality at a low cost."

Demand will, of course, soar. Currently, there are 740,000 beds, with 90% occupancy. But the number of over 80s will rise by 187% by 2030, and he expects that to cost €100bn per annum by 2040. He regards this figure as conservative, as others forecast €150bn to €200bn. "They call me 'the investors' ghost'," he says, with pride, "but I know I am right, as I have done all the tedious work with a calculator."

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&nbsp; [Previous](#) | [Next](#)

&nbsp;[Back to top](#)