

Europe - Real Estate/Property

Healthcare operators expert call: what did we learn?

Industry Overview

Occupancy rate has room to grow, at least in France

We invited expert Mr. Loic Battesti, former EVP of operational efficiency at Orpea to discuss about healthcare operator market. The expert is optimistic on healthcare operator performance in the long run, citing that the percentage of senior population (in potential need of healthcare facilities) will grow from 20% of total population nowadays to 30% in the next 30 years. Structural demand is still there. In France, the occupancy rate in healthcare operators dropped to low 80% (80-82%) vs 98% before Covid (given Oprea crisis), therefore still room to go up (occupancy rate in other European countries such as Germany, Italy, Austria and Spain are largely similar to pre-Covid level). The expert commented that for break-even point, occupancy more needs to be at 90%.

EBITDAR margin still at risk in the near term?

The problems these operators now facing are 1/ increased requirement of skilled employer ratio per resident vs difficulty to hire skilled nurses (note that staff cost can go as high as 60%-70% of revenue), and 2/ increase in other operating expenses such as energy and food. In Germany, there is an even stricter law requiring 50% skilled nurses ratio. With the requirement of skilled staff together with inflation, energy cost, etc. it is likely that EBITDAR (earnings before interest, tax, depreciation, amortisation and rent) margin will slide further in the near term. 25% margin is no longer the sustainable level (in France), in expert's view, it should more be at 17%-20%.

Accommodation price is key to operators' profitability

Typically there are two types of expenses occurred: 1/ accommodation price (similar to hotel mode) which is paid by family of the residents, and 2/ healthcare price (subsidised by the government). Operators should invest more in accommodation and charge a higher price to improve profitability (that's why operators like to choose a good place such as downtown area and some Swiss operators can charge €200-250 per day). But the problem attached is the high rent in those places, and in reality the accommodation price operators can charge is often not high enough to cover rent and other expenses.

How difficult it is to dispose assets?

Nowadays asset to be disposed need to come up with the right rent expenses. And buyers should be more realistic about the return rate: Orpea used to guarantee 6-7% rate of return on assets to be disposed, according to the expert. Expert also commented that capex will not substantially affect operators' profitability since 'they have been retrofitting their space every two years routinely in the past'. Landlords so far have not felt the pressure of shouldering more capex burden from operators. In France, smaller operators are facing the similar problems with larger ones in terms of refinancing/debt maturity.

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