

## Newsletter

Berlin, 24.02.2025

**Dear Readers,**

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Welcome to another issue of our TSC Real Estate Newsletter providing our view on developments in the **senior living & care, healthcare and healthcare infrastructure real estate** sectors.

**In this particular issue, we take a look at the German healthcare market, in particular how effectively and efficiently healthcare spending is being used in Germany.**

The German healthcare market is undergoing a period of change. With the so-called hospital reform, the last coalition government pushed through an important project in principle. However, the form and consistency of its implementation seems to be questionable. In our view, however, reforms are urgently needed in view of the challenges posed by demographic change, the rising demand for healthcare and, not least, the shortage of skilled workers in the nursing and healthcare sector. Not only does digitalisation offer great opportunities that need to be better exploited and utilized, but the future federal government is also called upon to work with the federal states to push ahead with further reforms quickly and consistently.

We have summarised below which aspects of transformation and reform we believe should be prioritised by the new German government. Based on these considerations, we have derived eight key actions that we believe can help reduce costs and increase efficiency while improving the quality of care.

We hope that you will be able to take away valuable and actionable ideas from this issue.

**Yours, Berthold Becker**

**Managing Director TSC Real Estate Germany GmbH**

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## **Transforming the healthcare system must be a priority for the incoming German federal government.**

Healthcare is a huge market with great social relevance. **Healthcare spending in Germany** currently amounts to €498 billion per year, equivalent to €5,939 per capita and 12.8% of GDP (as of April 2024, period 2022). This makes Germany in that respect the leading country in Europe.

Over the same period, expenditure by the statutory health insurance system totalled EUR 306.4 billion, representing a share of almost 62%. About one third of **the expenditure was spent on the inpatient hospital sector**. At €94.0 billion, this sector accounted for the largest single share of expenditure on services, or 32.6 per cent of total expenditure on services. This is not surprising given that Germany, for example, leads Europe with **7.7 hospital beds per 1 000 inhabitants**, 60 % more than the EU average. France (5.5), Switzerland (4.4) and Denmark (2.5) organise the inpatient care of their populations with considerably fewer beds.

**Expenditure on outpatient medical care**, on the other hand, is only the third largest item of expenditure after expenditure on pharmaceuticals, and amounted to about 47.1 billion euro in the same period, which, at 16.3 per cent, is about half the amount spent on inpatient care. Expenditure on social long-term care insurance in the same period amounted to 11.58%, or around €57.66 billion.

If we compare **Germany's health expenditure with that of other European countries**, no country in Europe spends more on health than Germany. The average health expenditure of the EU member states in the same period was 10.4% of GDP. If we look at **per capita health expenditure** in Germany, the difference is even more drastic: at €5,300, Germany spends around 50 per cent more per capita than the EU average. **Does this mean that the quality of healthcare in Germany is also the best in Europe? Not at all.**

According to the latest OECD analysis of the Health Systems Performance Assessment Framework, which measures the **performance of health systems**, the quality of care and the health outcomes of the population in Germany are only in the middle of the pack internationally.

### **How effectively does Germany use its health spending?**

One positive aspect is that the extensive use of funds in Germany at least ensures a high availability of health personnel and infrastructure and thus very good access to health care. This is also confirmed by routine surveys across Europe. There is little evidence of 'unmet treatment needs' in Germany, for example due to long waiting times or long distances to treatment. In 2022, privately paid out-of-pocket costs accounted for around 11% of total health expenditure in Germany. This is much lower than in most other EU countries. The package of services provided by the statutory health insurance appears to be more comprehensive than in other countries.

In addition, there are **4.5 doctors and 12 nurses per 1,000 people** in Germany. This means that Germany has 10% more doctors and 40% more nurses than the EU average. Only a few European countries have better staffing levels.

### **Is this comparatively high general availability of personnel in the healthcare sector in Germany being used effectively?**

**The ratio of nursing staff to inpatient hospital beds** in Germany is one of the lowest in Europe. This suggests the opposite, namely a high workload due to a high volume of inpatient treatment. The high availability of health care also leads to extensive use of health services. On average, Germans visit a doctor almost ten times a year, more than most of their European neighbours. In France, for example,

people go to the doctor only 5.6 times a year. Inpatient care in Germany is particularly high, with 213 hospital admissions per 1,000 inhabitants. This is almost 40% higher than the EU average.

**In particular, are (expensive) hospital stays always necessary? Apparently not.**

No other country in the EU, for example, performs more elective knee or hip replacements as inpatient procedures. Germany also has comparatively high numbers of hospital admissions for diabetes, heart failure and COPD/asthma. These conditions can in principle be treated on an outpatient basis. A high number of inpatient stays for these diagnoses indicates gaps in primary care. In countries such as Austria, Italy, Switzerland or the Netherlands, hospital stays for these conditions are in some cases significantly lower.

In addition to the above-mentioned need for improvement in primary care in Germany, the strict division between the outpatient and inpatient sectors also contributes to the high number of hospital cases. Poorly developed sectoral and structural networking and integration of services clearly leads to high numbers of hospital cases and thus to unnecessarily high costs or, conversely, to increased quality potential at the same cost.

**Do the high costs of health care, not least for hospital stays, also lead to the desired high quality? Apparently not.**

The 30-day mortality indicator reflects at best an average quality of care. For example, the 30-day mortality rate after a heart attack in Germany is higher than in most EU countries. This is because many small hospitals in Germany provide complex services without sufficient staff or appropriate technical equipment. In this respect, inpatient overcapacity also leads to unnecessary costs and underutilisation of available resources. Specialisation can lead to greater efficiency and improved quality. In this context, the provision of services on the basis of so-called service groups, i.e. specialisation and increased efficiency in inpatient treatment, which is envisaged as part of the hospital reform, seems to be the right approach.

**Does high spending lead to higher life expectancy? Apparently not.**

The high resource expenditure in Germany is clearly not reflected in higher life expectancy or better health outcomes. For example, life expectancy at birth in 2023 is estimated to be 81.2 years, just below the EU average. In fact, Germany now ranks last among the EU-15 countries. In Luxembourg, Italy, Spain, Sweden and Switzerland, people live on average more than two years longer. The increase in life expectancy between 2000 and 2023 was also less pronounced in Germany than in most other EU countries.

**What conclusions can we draw from this?**

The OECD has come to a fairly unequivocal conclusion: the German healthcare system does not provide enough 'value for money'. Although the German system produces a high volume of services, the very high level of funding should and must be used to achieve better outcomes. Other countries achieve better health outcomes with fewer resources.

Germany faces enormous challenges in this context: demographic change, a clearly predicted increase in demand for health care and thus an expected increase in costs, and, last but not least, a clearly emerging shortage of care outside urban centres, to name just a few.

In addition, there is the question of how to finance the upcoming costs in the health sector, in addition to restructuring the state and reducing bureaucracy, as well as urgently needed investments in general

infrastructure, including energy infrastructure and climate protection, education, digitalisation, defence, transport, etc..

In this context, the question of how money is spent in the German healthcare system and whether it is spent effectively seems all the more important and urgent. The new German government must therefore thoroughly and consistently scrutinise **the established and entrenched structures of the German healthcare system and prioritise and consistently drive forward the transformation process** of the healthcare system. If only 5% of total expenditures could be saved whilst increasing quality this would lead to approx.. €25 billion savings.

The so-called hospital reform in the form of the Hospital Care Improvement Act (KHVVG) contains some good ideas, but is in danger of being stifled and bogged down in its crusted, over-complicated and bureaucratised structures and lack of feasibility. This is not only suspected from the design of the so-called grouper system introduced to determine the service groups relevant for treatment and remuneration in the inpatient area in the future. At over 12,000 indicators, the new manual documents the assignment of inpatient cases to 65 service groups. We view this development with great concern with regard to achieving the necessary goals.

We believe that a catalogue of the **following eight key measures** can lead to **cost reductions and more effective use of resources**, while improving the quality of healthcare:

1. **Reduction of inpatient (over)capacity and specialisation** in the inpatient sector
2. **Reducing sectoral silos and improving cross-sectoral integration** of services on different levels
3. **Strengthening primary care and prioritising prevention** over treatment
4. **Increasing the availability of medical and nursing staff**, e.g. by integrating foreign workers faster and less bureaucratically, investing in training, improving working conditions and increasing the opportunities for work-sharing models and such.
5. **Making greater use of and building on the potential of digitalisation** to increase the efficiency of treatment and improve care.
6. Shifting the provision of services to the outpatient sector by **promoting outpatient and day-care interventions as opposed to inpatient stays**, thereby reducing the number of hospital cases.
7. **Increasing financial support for the transformation of the health care system** and, in particular, for the development of the ambulatory care infrastructure.
8. **Reducing bureaucratic and regulatory burdens**, thereby increasing effectiveness and efficiency

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In the next issue, we will analyse current developments in nursing care.

In 2024, there were no more nursing care operator insolvencies in Germany that would have had a negative impact on the market. The sector has adjusted costs to inflation and increased staffing levels. However, this does not necessarily mean that nursing care is solidly positioned for the future and, above all, financed for future demographic developments. The challenges in the healthcare market are structural and will also be one main topic for the new government.

For investors willing to actively support change, the asset class offers very attractive, stable and sustainable returns that are largely decoupled from economic cycles and geopolitical upheaval.

With our extensive experience and network, we can help you take advantage of the best opportunities.  
Please do not hesitate to contact us - we look forward to hearing from you!

**Yours, Berthold Becker**

**Managing Director TSC Real Estate Germany**