

## **„MODERN CLINIC” – Interview in July 2010**

**“The size of the private sector needs to double if not triple” says Nisan Gertz, Director of Investment Development at Red Med. He believes that the market in Poland needs to rebalance and the number of private institutions need to be similar to the number of the public health institutions. “I believe that the development of medicine will serve both private and public parties in the system” he says.**

**What is your impression and how do you perceive Polish healthcare market in terms of new investments that have been carried out? Are there many of them? What is the potential of Polish healthcare market?**

The Polish healthcare market is both growing and maturing. It is growing in sheer numbers of facilities and providers because it is undersized as a healthcare system in comparison to its population.

At the same time, the existing system is maturing and developing into a more Westernized system. Poland is a few decades behind its neighbors to the west in terms of its healthcare system. Since the early 1990's, this system has been shifting from completely public to a mix of public and private. In the last 2 years, the number of non-public healthcare centres has increased by nearly 1,000 and between 2000-2009 over 400 public facilities were converted to private entities reflecting over 16% of the public system.

This movement in the marketplace coupled with the need for new facilities means that there is great investment potential in the Polish marketplace. Barring any major economic failures, this marketplace will provide excellent opportunities for investment for the next 8-10 years, if not longer.

**What are the main investment barriers?**

The most obvious barrier is the instability of the global economy and more specifically of the EU. This means that investors are more risk averse and it takes longer to secure project financing. Lending institutions are looking for strong projects and that is where we provide the most value. RedMed projects are always taken seriously by the investors.

Additional barriers are that NFZ contracts are short-term (1-2 year commitments) and that private clinics are new and have minimal financial history. Both of these factors make it difficult to show strong business plans.

Lastly, public facilities which are turning private are challenged by the lack of assets needed to secure financing and investment. Typical privatizations are not always structured to account for the need for facility related financing. When we are involved in the early development of these agreements, we are able to direct the negotiations so that they are

sensitive to future real estate needs. This is an area most often overlooked by operators negotiating with government entities.

### **What are the ways to raise the finances for medical investments?**

There is a great deal of interest from international investors for investment in Polish healthcare projects. However, investors all need to see local commitment through government funding, grants and guarantees and through providers and practitioners putting their equity into the project.

While there is over 400 million Euro in EU funding dedicated to the Polish healthcare marketplace between 2007–2013, recipients of these grants must pay the first 15% of any project through personal investments. Any investment source requires seed equity by others.

### **In your opinion is the Polish healthcare market going to develop in terms of new investments / medical facilities ?**

YES! There is much room for growth and improvement as I previously mentioned. These areas are due to new population growth, unlike most of the world, residential sales are still strong in Poland and new neighborhoods are being built. These areas require new healthcare facilities.

Most of the existing hospital facilities are communist era buildings and require either replacement or major improvements. They must be brought up to standards being set by other Western EU nations. This will stop the current outmigration of medical care that we are seeing in Poland.

There is a growth in specializations in the clinics. This growth is being seen within the hospitals, but most of these clinical directors want more autonomy and freedom from the hospitals and opportunities to grow their business and increase their profits. These clinics require facilities which reflect their high level of expertise and can start to attract patients from all around Poland and even neighboring countries. These clinic groups are my favorite investments because I can help them grow their business and improve their operations within a new facility. I spend about half my time focused on these operators and their dreams.

### **Do you think that the private/non-public sector is going to develop rapidly in Poland ?**

The private/non-public sector has been and continues to grow at a very rapid pace. From my perspective, the current government wants to see more privatized healthcare. They are pushing this on the local level through the aggressive privatization of public facilities and on the national level through reductions in NFZ reimbursement contracts. I believe that increased private medicine will improve both sides of the system. The competition will force enhanced care in the public sector as well as the private because generally accepted standards will be higher for all institutions.

There are currently approximately 350 private and 700 public hospitals in Poland and the public hospitals are much larger in size than the private ones. I believe the market will level

out when these numbers are much closer. That means that the private sector is set to double it's size, if not triple.

### **What are the barriers in the development of this (private) sector?**

The larger private health systems are currently dominating the market and have been aggressively increasing their catchment areas through new construction. They are spending millions of zloty in a race for more space and more locations.

This has left the smaller specialty clinics at a disadvantage. Unless the clinical specialists begin their growth, they will be outpriced by the public sector or subsumed by the larger private systems. They will lose any chance for autonomy. Many of the clinical leaders want to build newer more competitive facilities but lack the expertise to carry out these high risk projects. This is where our experience is of value to the clinics. We act on their behalf as their outsourced real estate expert.

### **In your opinion does the bigger part of healthcare investments in Poland belong to public or private sector?**

I believe the largest investment sector is the private/non-public sector. It is in both the expansion of existing private companies and in the privatization of public hospitals. These are very different investment opportunities and each have their own challenges and guidelines.

The public sector is trying to find alternative means of funding for their much needed improvements. They desperately need upgrading of their facilities, but lack the government funding and revenue. While PPP (private public partnerships) is a common mechanism used throughout the world, it is just starting to be used in Poland. Because it is new, it is still a high risk / low return investment and is not yet a viable solution. It will take many years for the PPP solution to be a mainstream option for public projects.

### **What does Red Med Development offer and is there a lot of interest in your ideas?**

RedMed is a real estate development firm specializing in the healthcare industry. Our expertise ranges from doctor's offices to hospitals, senior housing to rehabilitation and includes any facility that serves the healthcare industry. We provide all of the services needed to find, renovate or construct a facility. We manage the land acquisition, financing, design, tender, construction and occupancy.

Most healthcare businesses do not have the experience, time or expertise necessary to successfully manage the complex world of real estate. They are stuck in their current situation, want to grow and change, but do not know how. We bring that know-how and provide that expertise to our clients.

Because we bring both global and local experience, we are finding a great amount of interest in our firm and in our services. However, we are always looking to do more. We are far from capacity.

## **When should a client call RED MED ?**

We can help our clients the most if they call us at the first moment that they dream of growing. The earlier the better, because we can then help them with long-term planning. We have had clinical directors call and say „I want to grow my clinical practice, I need more or better space. What do I do next?“

Some clients have approached us with plans for a project and asked us to help with the financing and permits. We can lead a project from any point and always bring value and savings.

## **What types of clients contact you ?**

We have been in contact with doctors and small practices, clinical directors and professors and large hospital and rehabilitation companies. Most of our clients are private, but we have also been approached to consult for public institutions. If it has anything to do with healthcare, we are the company to call. The most it costs is a phone call.

## **Does a client need to plan a big project to contact you? What size of projects do you do?**

We have the capability to group smaller space requirements (80 square meters) together to create shared buildings and facilities. This attracts patients to medical centers of excellence and reduces overhead costs for individual practices. This is on the smaller end of our portfolio. For single user facilities such as clinics, we range from 1000 to 6000 square feet. Our largest projects are 10000 to 15000 square meter hospitals.

The size of the project does not matter.

## **What offerings do you currently have and what kind of projects have you done so far?**

We have been working mostly with clinics or specialty doctors, helping them achieve autonomy in the marketplace. Our objectives are that through RedMed a facility will improve their bottom line and make a more profitable business. Occupancy is the second highest cost factor (second to staff) therefore higher efficiency in the facility and lower overhead costs will effect profitability more easily than staff adjustments. We understand the business of healthcare, that is why we can help our clients improve their business in addition through their facility.

We also offer consultancy to help get a project off the ground, but mostly we take full responsibility from start to finish including land search and acquisition, financing, design and construction and even equipment purchasing. Our completed projects include clinics and laboratories. Currently we are working on specialty practice clinics, medical office buildings, ambulatory surgery clinics and senior/rehabilitation housing.