

Australia's Property People



Childcare Industry Insights

Released August 2020





At Burgess Rawson, we're 'people people.'

For more than 40 years, we've helped thousands of everyday Australians maximise their wealth through property, and though times have changed and our business has evolved, an overwhelming number of our clients continue to trust us with their commercial property investments.

If you've sat down with any of our agents across Australia, from our directors right down to our newest additions, you'll know what we're talking about. We tell it like it is, we're partial to a bit of banter, and at the end of the day we love what we do. We're 'real', and we want to make a difference in people's lives, through property.

All of our directors have a financial stake in the business, meaning that they are directly invested in every single decision or representation they make on behalf of our clients. It's this unmatched care and dedication, coupled with decades of industry experience, that makes Burgess Rawson the best in the commercial property business.

With offices in Brisbane, Canberra, Melbourne, Perth and Sydney, we are a true national network of dedicated property professionals, offering local expertise in all markets through our extensive regional alliance partnerships. Our reach also extends internationally, with offices and agents in Asia.

As Australia's largest privately owned commercial real estate company, we're also incredibly proud of our track record, and success in delivering results. With the strength and reach of a national group but the intimate market knowledge, client care and attention to detail of a local agency, it's no secret why we're the first choice for vendors and investors at all levels, from multinational corporations to first time 'mum and dad' entry level buyers.

The statistics speak for themselves: an industry-leading 86% client retention rate shows vendors and investors turn to us time and time again as their trusted agents and consultants

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Market Leaders for a Decade

As the market leader in the childcare/early education sector, having sold more childcare/early learning centres than any other agency, Burgess Rawson brings a unique perspective to market trends and activity.

This report provides an overview of the asset class' performance across 10 years, including a market analysis, an overview of Government funding and a summary of the market's outlook.

In June 2020, Burgess Rawson surpassed an incredible milestone - \$1 billion in childcare freehold investment sales nationally.

Burgess Rawson data shows that over the 10 years, yield compression was 46.8% across Australia. New South Wales had the highest yield compression with 87%. The average sale price of an early learning centre was \$2,077,000 in FY 2011/12, which has since grown to \$4,171,857 in FY 2019/20.

Despite the impact of COVID-19 during the last quarter, this sector has remained resilient, affirming that the long-term stability of the early learning sector is critical in these uncertain times. Bipartisan federal government support has always been a critical driver of this industry.

“The Australian Government sent a clear message to the business community at the beginning of the COVID-19 pandemic, stating that ‘big business’ would not receive a financial lifeline. Despite the early learning sector having several over \$50m operators, support was immediately provided with the Early Childhood Education and Care Relief Package which provided fee-free childcare for families. Around one million families received the assistance, totalling more than \$1.6 billion¹. In addition, the sector’s workforce of 200,000 received more than \$1 billion through the Government’s new JobKeeper payment¹. The size of this commitment demonstrates how essential the early learning sector is to our economy.”

Adam Thomas
Director, Melbourne

Burgess Rawson Childcare Sales since 2010



328

Total number of sales



\$1.02 billion

Total volume of sales

2019/2020 Metro Snapshot

Summary of Burgess Rawson metro sales throughout the financial year.



Average Metro yield

6.30%
FY 18/19



5.63%
FY 19/20



Average sale value (\$ millions)

\$3.7
FY 18/19



\$4.6
FY 19/20



Average rental per place (\$ thousands)

\$2.6
FY 18/19



\$3.0
FY 19/20



Average number of childcare places per property

93.6
FY 18/19



86.5
FY 19/20

Key Trends

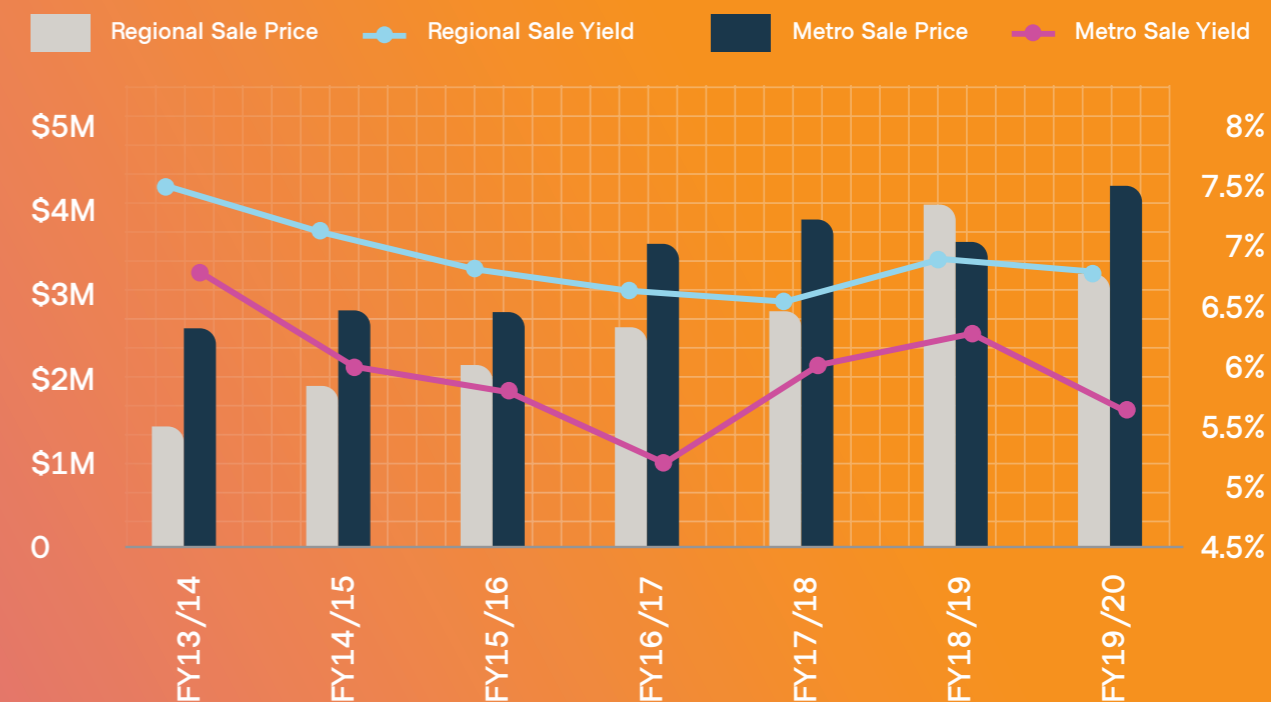
Reaching the milestone of \$1 billion over 328 centres across Australia places Burgess Rawson in a unique position to analyse investment trends.

Key trends over the 10 years include:

- + Average centre size has remained relatively stable, between 82 and 101 places.
- + There was a substantial increase in operators throughout 2014 leading to a diverse range of tenants. This consolidated in 2017 onwards, in part, as operators looked to economies of scale.
- + Yields have compressed across both regional and metro areas. Metro yields in key capital cities of Sydney and Melbourne have compressed by 53.4% to an average of 5.39%. Whilst regional yields in NSW and Victoria compressed 31% over the same period. The lower quantum of investment for a regional property has opened investment up to a large consumer base, whilst still benefiting from the increased daily fees and compressed yields.
- + Rents have increased across Australia, the average rent per place in 2015 was \$2,002 as compared to average rents of \$2,864 in 2019/20. This is a 30% increase in the last four years across Australia.
- + As appetite for investment increased, so did the locations in which we sold centres with the first centre in Western Australia selling in the 2014/15 financial year. Since the first sale, the average price per place has increased 54% to \$3,816.69.
- + Western Australia has seen exponential growth. Burgess Rawson has leased nine early learning centres, equating to 792 new places to meet growing demand.

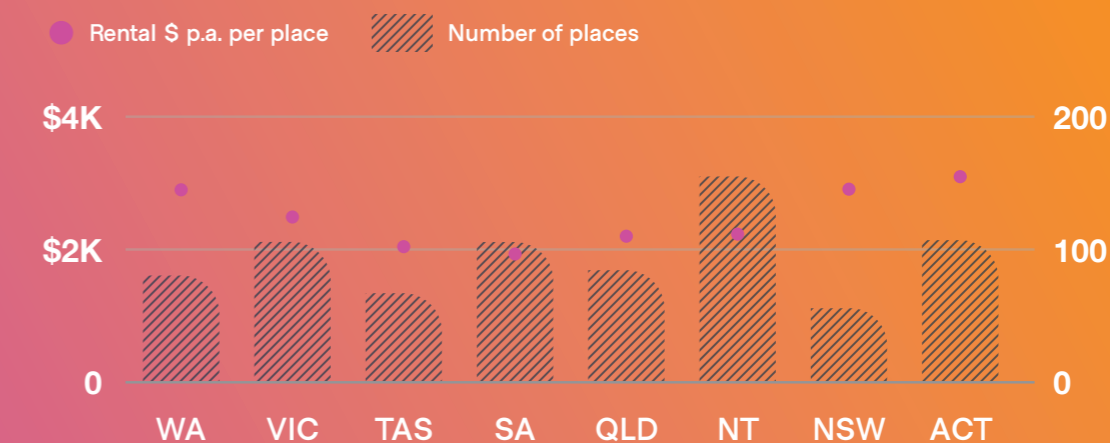
Yield compression Australia Wide, Metro and Regional

The chart below of Burgess Rawson's average sale price and average yield in each financial year, divided into regional and metropolitan locations.



Average rental and places

Average number of places and average rental, Australia-wide over the last 7 years.



“ G8 as a tenant has been a favourite of the industry, in the last four years an average of 25% of the centres sold were tenanted by G8.

Regional areas have been popular for investors at lower price points.

These areas have performed impressively where in 2010 the average sale price was \$2M this has increased to \$3.24 in 2019/2020.

Childcare freeholds remained accessible to a range of investors due to long leases, strong returns and a wide range of entry points.

In addition, long leases have been a favourite for investment funds looking for set and forget investments. ”

Michael Vanstone
Associate Director, NSW



Fundamentals of Childcare Investment

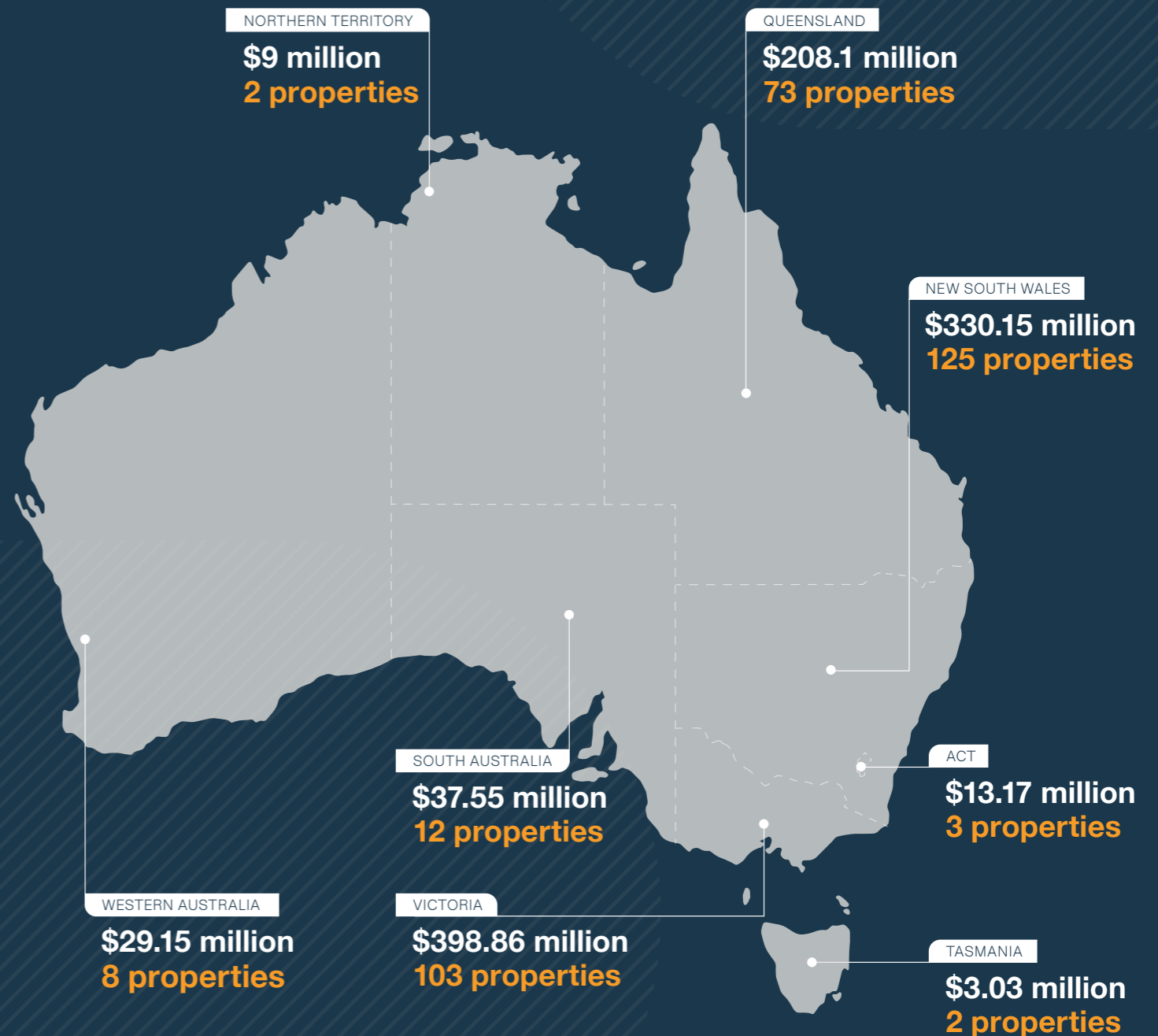
Five key factors have contributed to the remarkable growth of this investment sector:

- 1 The childcare industry has enjoyed bipartisan support for many years. The economic return of workforce participation far outweighs the cost to assist in childcare funding. COVID-19 has reiterated the importance Government places on this sector with some of the earliest specialist assistance packages directed to the industry. From 2 April 2020, the Federal Government announced the Early Childhood Education and Care Relief Package which provided fee-free childcare for families. The Child Care Subsidy (CCS) and Additional Child Care Subsidy (ACCS) recommenced from 13 July, along with a range of new measures to support the sector and its families through the transition, including a relaxed activity test for families and a new Transition Payment for providers.³
- 2 The continued low cost of money in what is a relatively stable economic and political environment has led to unprecedented yield compression for quality assets.
- 3 Childcare property investment is realistically attainable across a greater cross-section of the commercial investor community than any other market sector.
- 4 Robust landlord-friendly lease terms, including blanket recovery of landlord expenses.
- 5 Long leases with annual fixed growth.



Childcare Freehold Sales

National childcare/early learning sales by Burgess Rawson, totaling over \$1 billion, during the past 10 years.





“...history tells us that there is great willingness by both sides of Government to protect and ensure childcare/early learning services.”

Guy Randell
Managing Director, Canberra

Industry Drivers

In the last 10 years, the Government has increasingly supported the childcare industry as a critical driver of workforce participation. The return on investment for the Government has long been measured and acknowledged. In the last five years, there has been an average 2.2% growth of female participation in the workforce.

In 2019/2020, approximately 1.3 million children were accessing some form of funded early learning education as part of the \$11.2 billion industry. The industry comprises mainly of LDC providers, representing 61.5%.

The cost of alternatives to LDC are prohibitive. With very little and legislated funding, for most parents it is not a viable alternative.

COVID has changed the landscape and projected higher unemployment may affect childcare, however, history tells us that there is great willingness by both sides of Government to protect and ensure childcare/early learning services. The industry-specific 3-step framework delivered in May 2020 to support childcare illustrates this commitment.

During COVID, occupancy rates have fallen, with the industry challenges concerning revenue decline widely publicised. However, it is important to note that during the pandemic childcare received 50% of fees based on a February reference period, plus JobKeeper. For many providers, this resulted in a net profit increase, regardless of the income decline. Post COVID forecasting continues to predict an overall industry growth over the next five years of 2.2% to \$12.4bn.

Consolidation of operators looking for economies of scale have increased services in the Long Day care space. This is clearly illustrated by the increase in preschool programs in LDC centres. Of the 303,400 four and five year olds in preschool, 55.4% attended a LDC centre rather than a preschool program. This has lengthened the average attendance period by children in LDC centres with 9.3% of attendees aged 5.

Developments

As early learning centre sales have continued to evolve over the past decade, so too has childcare development and leasing.

Key drivers of this success is the ongoing demand for premium childcare services in both metropolitan and regional areas.

Western Australia and Canberra have seen exponential growth in a show of industry confidence. Burgess Rawson has leased over 3,492 places in the last year to new early learning centres, with over 72% of those in Western Australia and Canberra.

With more stringent regulations for entry to market, the quality of new centres and the extra services provided, are attracting solid occupancy rates. In turn, the centres are attracting long term leases, offering ongoing stability.

Showing similar resilience to sales results, the leasing market has continued to perform despite the impact of COVID-19. In fact, Burgess Rawson data demonstrates a strong pipeline of development and leasing opportunities across Australia.



WONDERSCHOOL
Throsby ACT

Rent \$440,000pa
Places 110 places

Lease term

🕒 20 years (initial)
40 years (total)



SAINT NICKS CATHOLIC CHURCH
Aranda ACT

Rent \$508,000pa
Places 127 places

Lease term

🕒 20 years (initial)
40 years (total)



WONDERSCHOOL
Red Hill ACT

Rent \$516,000pa
Places 120 places

Lease term

🕒 20 years (initial)
40 years (total)

Recent Childcare leasing achievements



OXANDA
Berwick VIC

Rent \$320,000pa
Places 108 places

Lease term

🕒 15 years (initial)
35 years (total)



CHILDS PLAY
Tarneit VIC

Rent \$396,800pa
Places 128 places

Lease term

🕒 15 years (initial)
35 years (total)



GUMBOOTS
Sunbury VIC

Rent \$290,000pa
Places 102 places

Lease term

🕒 15 years (initial)
35 years (total)



OUR PLACE
Googong NSW

Rent \$360,000pa
Places 90 places

Lease term

🕒 15 years (initial)
35 years (total)



Other Burgess Rawson Childcare leasing results

Demand outstripping supply.

Hammond Park WA

81 places

Stirling WA

85 places

Leederville WA

92 places

North Perth WA

90 places

Bayswater WA

86 places

Government Funding

July 2019 – January 2020

For the first half of the 2019/20 year, the Australian Government continued the means-tested Child Care Subsidy (CCS) which was introduced in July 2018. The introduction of the CCS was the most significant change to the early childhood and care system in 40 years¹ and aimed to:

- + Simplify the way that families were given assistance in paying for childcare; and
- + Signal the ongoing commitment of Government to accessible and affordable early education, particularly for lower income working families.

The subsidy is the main way that Government assists families with their childcare fees, which is paid directly to the childcare provider and passed on to families.

In the December 2019 quarter, the total number of children attending Long Day Care (LDC) services reached a new record according to Government reports². Enrolments reached 797,760, up 3.6% on the same period last year, and 2.1% higher than the previous record attendance recorded in the second quarter of 2019, with the average weekly hours spent in care at 29.8, up 1% from the previous year.

The number of families using care also saw another large jump, continuing a trend that has been in place since the introduction of the CCS.

As well as the continued growth in LDC demand, other highlights included:

- + Entitlement spending in excess of \$2bn for the second consecutive quarter;
- + Fee increases at the higher end of the last three-year range; and
- + An increase in the number of children accessing additional child care subsidy (ACCS) for the fifth consecutive quarter, to levels last seen prior to the CCS being introduced.

Overall, the Australian Government was expected to provide \$8.3 billion in 2019-20 and \$8.6 billion in childcare fee assistance in 2020-21 through the CCS, although these figures may differ following the outbreak of COVID-19³.

In the 2019/20 Federal Budget, the Australian Government committed \$450 million to extend the National Partnership on Universal Access to Early Childhood Education to the end of 2020, ensuring as many children as possible can participate in 600 hours of quality preschool (or kindergarten) in the year before school⁴.



Government response to COVID-19

In response to the COVID-19 pandemic, and its impact on childcare enrollments and attendance, the Australian Government introduced the Early Childhood Education and Care Relief Package (ECEC). In a first for the industry, the package included fee-free childcare for families. The changes took effect on 6 April 2020 and was extended until 12 July to continue to keep services viable and to provide care for families of essential workers and vulnerable children⁴. The ECEC was an additional \$1.6 billion of funding to the sector and one of the earliest industry specific packages.

From 13 July 2020, CCS and ACCS arrangements will return with an additional Transition Payment, instead of the JobKeeper payment. The Transition Payment is 25% of fee revenue or the existing hourly rate cap, whichever is lower, in the relevant reference period that has been used during the Relief Package.

In addition, the activity test requirements will be eased from 13 July 2020 for 12 weeks, for families impacted by COVID-19, and who can no longer access the same number of hours as before.

¹ Education Department
² The Sector
³ IBISWorld
⁴ Parliament of Australia

Sales Highlights



STORY HOUSE EARLY LEARNING
Black Rock VIC

Sale Price **\$5,055,000** Yield **5.05%**



GREEN LEAVES
Ashgrove QLD

Sale Price **\$4,500,000** Yield **5.09%**



NIDO EARLY LEARNING
Padbury WA

Sale Price **\$4,605,000** Yield **6.48%**



HONEY BEARS EARLY LEARNING
Sylvania NSW

Sale Price **\$3,200,000** Yield **5.25%**



FOUNDATION EARLY LEARNING
Casey ACT

Sale Price **\$6,450,000** Yield **5.40%**



PAISLEY PARK EARLY LEARNING
Mt Barker SA

Sale Price **\$6,700,000** Yield **6.34%**



IMAGINE CHILDCARE & KINDERGARTEN
Werribee VIC

Sale Price **\$5,702,000** Yield **5.86%**



G8 EDUCATION
Middleton Grange NSW

Sale Price **\$3,025,000** Yield **3.85%**



The Outlook

What does the future hold?

There is no doubt that higher unemployment, and underemployment in a post COVID economy will have far-reaching effects which has not yet been fully realised. The Government needs to rebuild the economy and move us out of recession, and childcare equals workforce participation.

We predict the Government will further improve the current Child Care Subsidy (CCS) – which is currently means and work tested – to better reflect the population and shifts in demand. What is clear is that government investment is likely to be substantially increased as we rebuild the economy, and this will further underpin the sector for investment.

Centre occupancy rates may contract, driving innovation by operators. We predict a greater level of investment by operators in existing centres to better compete.

This will also lead to a stabilising of rent per place which historically has increased exponentially.

The National Framework has increased barriers to entry and this in turn will mute some oversupply concerns and increase the quality of the operator.

The low cost of money and volatility in alternative investment classes will continue to drive commercial property investment and underpin yields. However, it is expected that yields will stabilise with the rents which will bring certainty to the market for investors.

Investors will look to de-risk and seek clean, passive investments. Childcare as an asset class continues to offer attributes that investors are favouring such as long net leases, quality tenants underpinned by land value and intrinsic business value. As a result we predict childcare being a favourite for the post COVID investors' world.



“ Childcare as an asset class continues to offer attributes that investors are favouring such as long net leases, quality tenants underpinned by land value and intrinsic business value. ”

Rob Selid
Director, Perth



With offices across Australia,
Burgess Rawson has a truly
national understanding and
unparalleled collective expertise.

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