Charter Insight

Child Care

East Coast Market Overview – Property Dynamics

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RESEARCH

Drawing on it's proprietary child care database, Charter monitors and curates key property metrics for child care centres throughout the East Coast of Australia, to provide in-depth insight for customised geographies.

The child care sector has grown significantly in recent years, driven by strong demographic fundamentals, rising female labour force participation rates and has historically received bi-partisan Government support.

With the onset of the COVID-19 pandemic in March 2020, the Federal Government prioritised assistance for the child care sector and provided strong funding support, acknowledging the sector's role as an essential service for working families. The majority of long day care centres have continued to operate throughout these challenging times, albeit abiding by the restrictions and operating guidelines throughout the economy.

Amidst the economic volatility associated with COVID-19, commercial property markets have experienced significant challenges. In this context, child care properties have continued to transact, with results demonstrating the resilience of child care property as an asset class.

Charter provides valuations and research for it's clients throughout the East Coast of Australia, generating unparalleled insights into operational centres.

By monitoring the status of individual child care development projects, and drawing on Charter's significant child care property experience, this Insight provides a market update for key metropolitan markets throughout the east coast of Australia.

Child care property transactions during the COVID-19 period of April to September 2020 have demonstrated sale prices and yields broadly holding firm in the context of historical trend series.

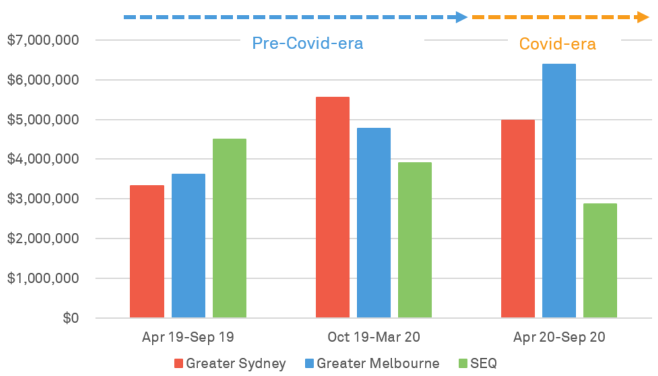
Investor confidence in the child care property asset class is due to child care increasingly being viewed as an essential service, in addition to investment fundamentals such as long term leases and quality operators.

PROPERTY TRANSACTIONS AND YIELDS

With the onset of COVID-19, significant trading and operational restrictions have been imposed for large sectors of the economy (for example in retail, hospitality and tourism) with some flow-through impacts in these associated commercial property markets.

In this context, as child care's role as an essential service has become clear, the 'defensive' nature of child care properties has become evident, with sale prices throughout key metropolitan markets demonstrating resilience.

Figure 2: Child Care Property Sales; Median Sale Price



SOURCE: Charter Keck Cramer

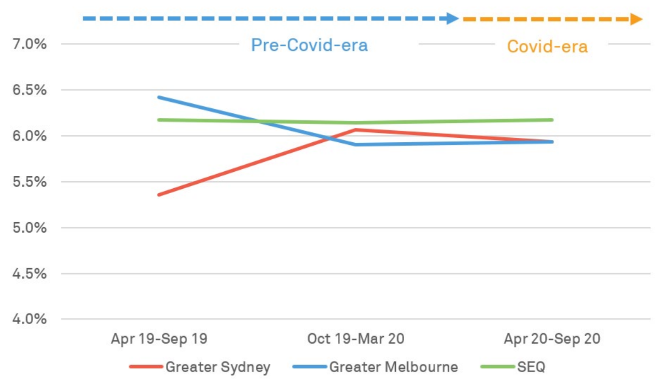
During the pre-COVID-19 period (October 2019 – March 2020), the child care property market showed some positive signs, with major providers reporting improved overall occupancy and previous market concerns during 2017-2018 of 'over-supply' in some areas receding in light of recalibrating supply and demand dynamics throughout the industry.

As the economy moved into the COVID-19 period (April – September 2020), median sale prices have shown resilience across major metropolitan markets. While modest median sale price declines are evident in Metropolitan Sydney and South East Queensland, the median sale price in Metropolitan Melbourne has increased.

Child care properties have historically provided strong investment fundamentals, as well-located properties with strong lease covenants and quality tenants have become increasingly sought after by investors. These investment factors have acquired a renewed importance during the COVID-19 period, which has resulted in unprecedented disruption to many industries and driven greater investor focus on certainty of rental revenues.

Within the child care property sector, there has been a long term trend of yield compression in the key metropolitan markets of Greater Sydney, South East Queensland and Greater Melbourne, as passing yields have broadly reduced from a range of approximately 6.5% - 7.2% in 2014 to approximately 6.0% in 2020, indicative of increasing investor confidence and a sign that child care property has continued to mature as an asset class over the long term.

Figure 3: Child Care Property Sales; Passing Yield



SOURCE: Charter Keck Cramer

During the pre-COVID-19 period (October 2019 – March 2020), median passing yields for child care properties in Greater Sydney (6.1%), Greater Melbourne (5.9%) and South East Queensland (6.1%) were observed within a reasonably tight range.

As the economy moved into the COVID-19 period (April – September 2020), median passing yields for child care properties have held steady, with Greater Sydney displaying some yield compression (to 5.9%), Greater Melbourne holding steady (at 5.9%) and South East Queensland softening slightly (to 6.2%).

This indicates child care properties provide additional attractiveness for property investors as a 'defensive' asset during the turbulent economic conditions presented by COVID-19.

RECENT TRANSACTIONS

A selection of indicative transactions throughout key metropolitan markets of Greater Melbourne, Greater Sydney and South East Queensland (shown below) demonstrate the appeal of well-located freehold child care properties.

South East Queensland

Address: 615-617 Greenwattle Street, Glenvale
Tenant: G8 Education Ltd (t/a Glenvale World of Learning)
Sale Price: $2,000,000
Yield: 6.17%
Date: July 2020

Sydney

Address: 35-37 Fairwater Drive, Harrington Park
Tenant: G8 Education Ltd
Sale Price: $7,400,000
Yield: 6.11%
Date: February 2020

Melbourne

Address: 2 Shimmer Street, Epping
Tenant: Wallaby Childcare
Sale Price: $6,970,000
Yield: 5.99%
Date: June 2020

Given the multi-faceted nature of the long day care market, and the nuances associated with child care properties, we highly recommend thorough due diligence be undertaken prior to entering into your next child care development.

Comprising in excess of 4,500 existing and future proposed long day care centres, Charter's proprietary Child Care Database generates comprehensive and unique insights into the market appetite for long day care services within customised geographical catchments, and provides our Clients with simple and clear outputs.

Charter provides a full range of integrated child care services:

- Local market research,
- Pre-purchase advice and Valuation
- Quantity Surveying and Project Management

For further information regarding how Charter can assist you and your child care project needs, please contact:

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