

# Charter Insight

## Child Care

### East Coast Market Overview – Supply and Demand Dynamics

November 2020

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RESEARCH



**Drawing on its proprietary child care database, Charter monitors the balance of supply and demand for child care centres throughout the East Coast of Australia, to provide in-depth insight for customised geographies.**

The child care sector serves an important function within the broader economy, delivering a vital service for families, providing care and early years education and enabling working families to exercise their chosen employment preferences. The industry has grown and evolved significantly in recent years, and has benefited from a supportive bi-partisan Government policy environment.

As the COVID-19 pandemic caused significant disruption from March 2020 onwards, the importance of the child care sector as an 'essential service' became evident, with the Federal Government providing direct funding support and acknowledging the child care sector's crucial role in supporting working families.

Notwithstanding the significant impacts of COVID-19, this Insight provides a market update for key metropolitan markets throughout the east coast of Australia.

By monitoring the status of individual child care development projects throughout the construction cycle, and drawing on Charter's significant child care property experience, this Insight provides an overview of the child care industry throughout the East Coast of Australia.

Charter is active in the child care sector, providing valuations and research for child care clients throughout the East Coast of Australia, and generating unparalleled insights into operational centres.

Historically strong demand for child care (long day care) centres, driven by historically high levels of population growth and elevated female labour force participation rates, has led to a rapid rate of construction of new long day care centres in recent years.

This rapid pace of construction – especially in the major capital cities – attracted considerable media attention, with headlines raising concerns of 'over-supply' appearing frequently throughout 2018 and some of 2019 in major newspapers.

While the demand-supply balance is most certainly an important consideration both at the micro and macro level of analysis, Charter's detailed understanding of specific property characteristics and valuation considerations has revealed a number of nuanced factors which also influence the operational viability of long day care centres and which, in turn, impact the long term outlook for the sector.

#### SUPPLY

Significant increases in aggregate historic net additional long day care licensed places in the major metropolitan regions of Greater Sydney, Greater Melbourne and South East

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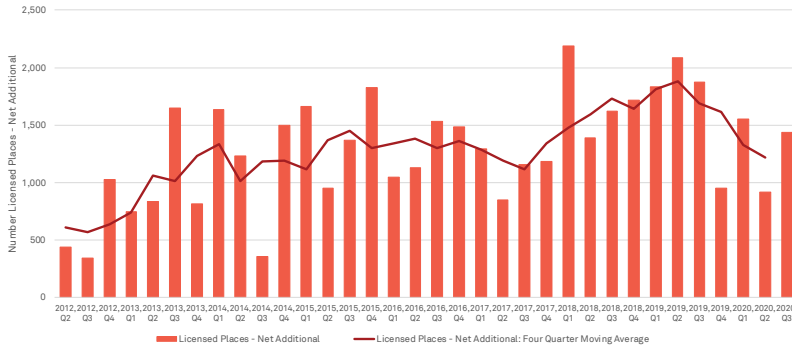
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Queensland have been observed in recent years, as developers and operators have sought to provide additional supply to cater to increasing demand.

The escalation rates of new supply to the Greater Sydney, Greater Melbourne and South East Queensland metro markets was especially strong throughout the 2017 – 2019 period and received media attention throughout this period, prompting some concern of ‘over-supply’ in some sub-regions within these metropolitan markets.

**Figure 1: Supply – Greater Sydney**

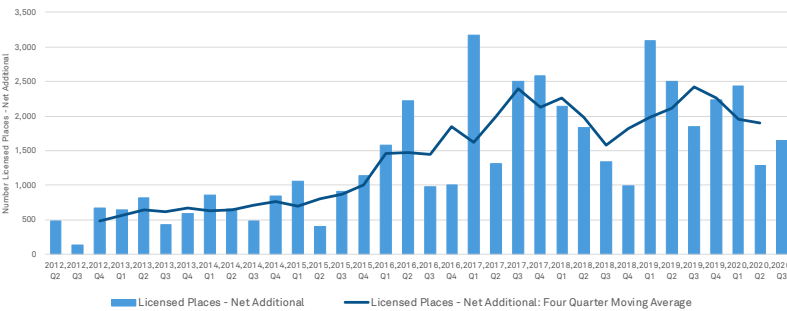


SOURCE: ACECQA; Charter Keck Cramer

The Greater Sydney metropolitan region demonstrated a reasonably stable supply during the 2013 – 2017 period, with net additions in the range of approximately 1,100 – 1,400 net additional licensed places per quarter during this period.

A distinct escalation is observable throughout the 2017-2019 period, with approximately 2,200 licensed places added in Q2, 2019. The moving average indicates a downward trend in recent months, likely easing previous ‘over-supply’ concerns.

**Figure 2: Supply – Greater Melbourne**

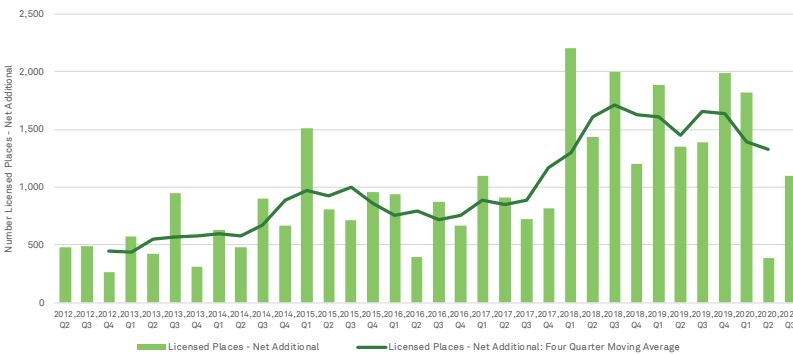


SOURCE: ACECQA; Charter Keck Cramer

Net additions to the Greater Melbourne metropolitan region remained reasonably stable during the 2012 – 2015 period, with net additions in the range of approximately 600 – 800 net additional licensed places per quarter during this time.

The pace of development increased significantly throughout the 2016 – 2017 period, as development activity ‘caught up’ to Melbourne’s historically strong population growth. Net additional supply of licensed places has remained in the range of approximately 1,500 – 2,500 net additional licensed places per quarter during the 2018-2019 period.

**Figure 3: Supply – South East Queensland**



SOURCE: ACECQA; Charter Keck Cramer

Development activity in the South East Queensland region remained reasonably stable throughout the 2014 – 2017 period at approximately 700 – 1,000 net additional licensed places per quarter.

A distinctly higher rate of net additional supply is observable during the 2018 – 2019 period with approximately 1,200 – 1,700 net additional licensed places being added each quarter.

A clear decrease to approximately 400 net additional licensed places was observed in Q2, 2020, while Q3, 2020 recorded approximately 1,100 net additional licensed places.

With previously elevated levels of child care development showing signs of moderating across these key metropolitan markets, concerns of potential ‘over-supply’ may ease to some extent. As may be expected, the onset of significant restrictions associated with COVID-19 is evident, with a significant reduction in net additional supply during the April – June 2020 period for these key metropolitan markets. Notwithstanding these significant impacts, Federal Government policy has remained supportive for the sector throughout this time, and new approval activity has shown initial signs of improvement during the July – September 2020 period, albeit at a lower rate than historical levels.

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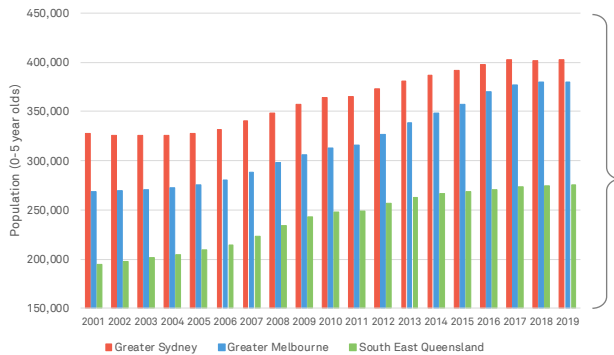
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## DEMAND

Underlying drivers of demand for long day care have demonstrated strong fundamentals for the sector in recent years, with strong population growth, combined with escalating female labour force participation rates contributing to demand for long day care services.

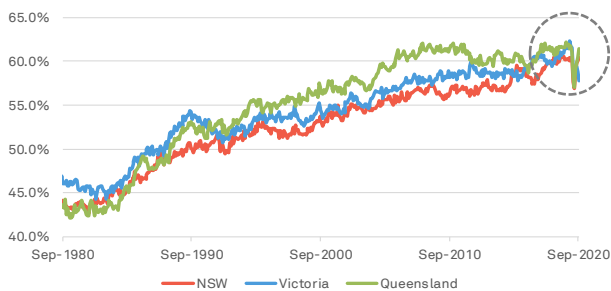
**Figure 4: Population (0-5 yrs) – Greater Sydney, South East Queensland and Greater Melbourne**



SOURCE: ABS; Charter Keck Cramer

The female labour force participation rate has increased significantly in Victoria, New South Wales and Queensland from September 1980 to September 2020. These steadily increasing female labour force participation rates have contributed significantly to the strong demand for long day care services over recent decades, as families seek to balance their work and family commitments. A significant decline is evident during March – May 2020, as COVID-19 restrictions impacted employment. In recent months from May 2020 to September 2020, female labour force participation rates have shown signs of recovery as some of the restrictions have eased in NSW and Queensland.

**Figure 5a: Female Labour Force Participation Rates – NSW, Victoria and Queensland**

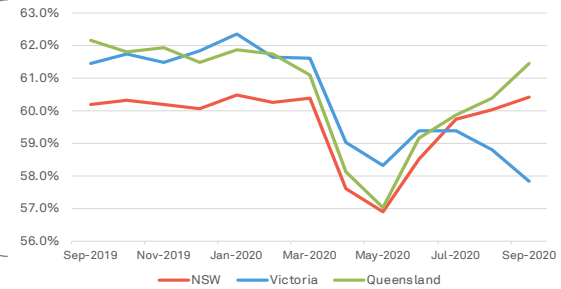


SOURCE: ABS; Charter Keck Cramer

Population growth of persons aged 0 – 5 years old is a key driver of demand for long day care services, with the major metropolitan regions experiencing significant increases in this age cohort in recent years. Key net additional population (0-5 years old) metrics during the 2009 – 2019 period are as follows:

	Average annual net addition (approx.)	Average annual growth rate
Greater Sydney	4,500 p.a.	1.2% p.a.
Greater Melbourne	7,300 p.a.	2.2% p.a.
SEQ	3,200 p.a.	1.3% p.a.

**Figure 5b: Female Labour Force Participation Rates – NSW, Victoria and Queensland**



**Given the multi-faceted nature of the long day care market, and the nuances associated with supply and demand, 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,
- Tenancy Procurement and Advisory.

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



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