EDITION #1

THE Child Care REPORT

AUSTRALIAN HEALTHCARE AND SOCIAL INFRASTRUCTURE | CBRE

Australia's Child Care Investment Market

Over the past five years, the Federal Government has increased assistance for parents who want to put their children into long day care as they return to the workforce. This government support has aided industry revenue and attracted further commercial investment into the sector than ever before. In addition, rising maternal workforce participation has supported demand for child care services over this period.

Over the next five years, industry revenue is expected to grow at an annualised 0.3% to $11.2 billion. Higher government spending on the child care sector, rising enrolment numbers and higher fees will continue to drive revenue.

Investors shifted focus from traditional sectors to essential service investments, none more prevalent in the media than child care.

The outbreak of COVID-19 provided temporary industry headwinds which saw revenue decline by circa 11.5% year on year (outperforming the vast majority of the nations economy). Under the Early Childhood Education and Care Relief Package announced in April 2020, child care operators were classified as essential service providers. This meant that they have been required to stay open and waive fees for parents, with the Federal Government implementing a temporary fee-free funding measure. This move peaked commercial investment interest as investors shifted focus from traditional sectors, to essential service investments, none more so prevalent in the media than child care.

Key External Drivers

In the last 10 years, the Government has increasingly supported the child care industry as a critical driver of workforce participation. In the last five years, there has been an average 2.2% growth of female participation in the workforce.

The return on capital for the Government has long been measured and acknowledged. An Australian family on the average wage typically spends close to A$6,000 out of pocket per year on child care. This is more than the average cost of sending a child to a private primary school.

Child care costs in Australia are among the highest in the Organisation for Economic Cooperation and Development (OECD), eating up around 27% of family income. Unfortunately, many families are being forced to choose affordability over quality. But research shows quality preschool can deliver a $2 return to the economy for every $1 invested. Children who receive quality early childhood education and care are also up to eight months ahead in learning, with the benefit still evident in adolescence.

In 2019/2020, approximately 1.3 million children were accessing some form of funded early learning education as part of the $12.9 billion industry. The industry comprises mainly long day care (LDC) providers, representing in excess of 55%. The cost of alternatives to LDC are prohibitive and with very little legislated funding, for most parents it is not a viable alternative.

There has been some consolidation of operators looking for economies of scale and this has led to increased services in the LDC space. This is clearly illustrated by the increase in preschool programs in LDC centres.

Of the 303,400 four and five-year old's in preschool, 55.4% attended an 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 five.

1.39million

Children accessed some form of funded early learning education in 2019/2020

$2 return to the economy for every $1 the **Australian Government invests into child care.**

Why invest in child care?

1,399,440 Children in Child Care

$8.5bn
in total child care subsidies

$2.183m
for last quarter 2020

$12.9bn
in revenue operation

13,113
services operated in Australia^

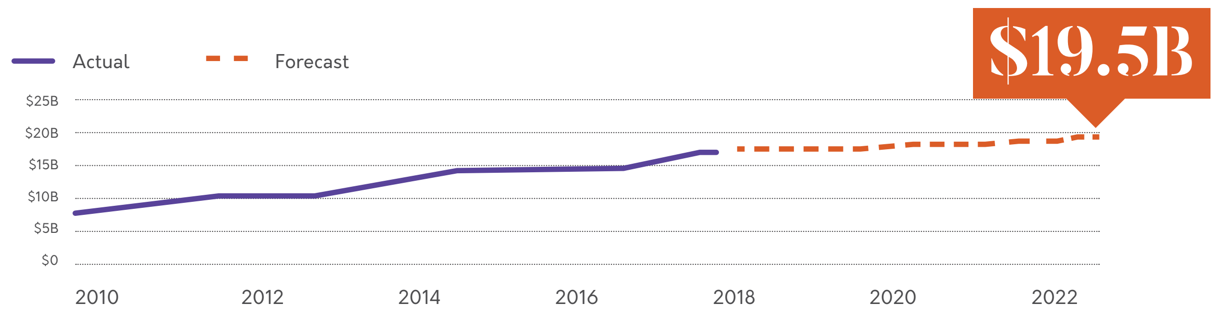
+$40bn
in forecast government child care subsidies in next 4 years

+6.2%
of 5 year revenue compounded annually

Snapshot of the sector*	2019	2020	% ⬆
INDUSTRY REVENUE	15,172.2	16,747.5	10.4%
NO. OF ESTABLISHMENTS	33,253	34,137	2.7%
NO. OF EMPLOYEES	187,688	192,662	2.7%

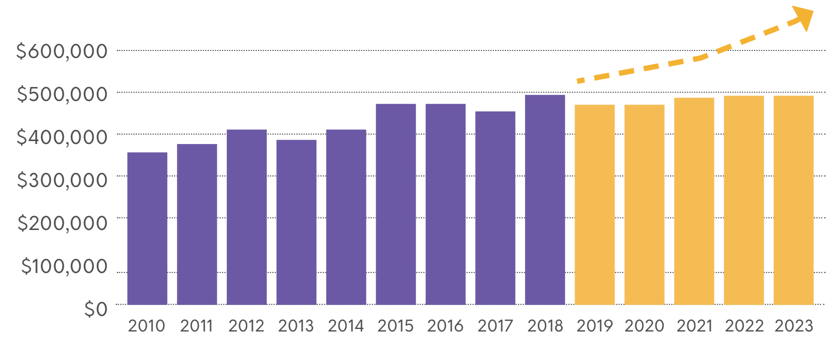
^Australian Government approved child care centre in September quarter 2019
*Source (portfolio Budget Statement 2017/18 (www.education.govcms.gov.au)

Child care industry revenue 2010-2023

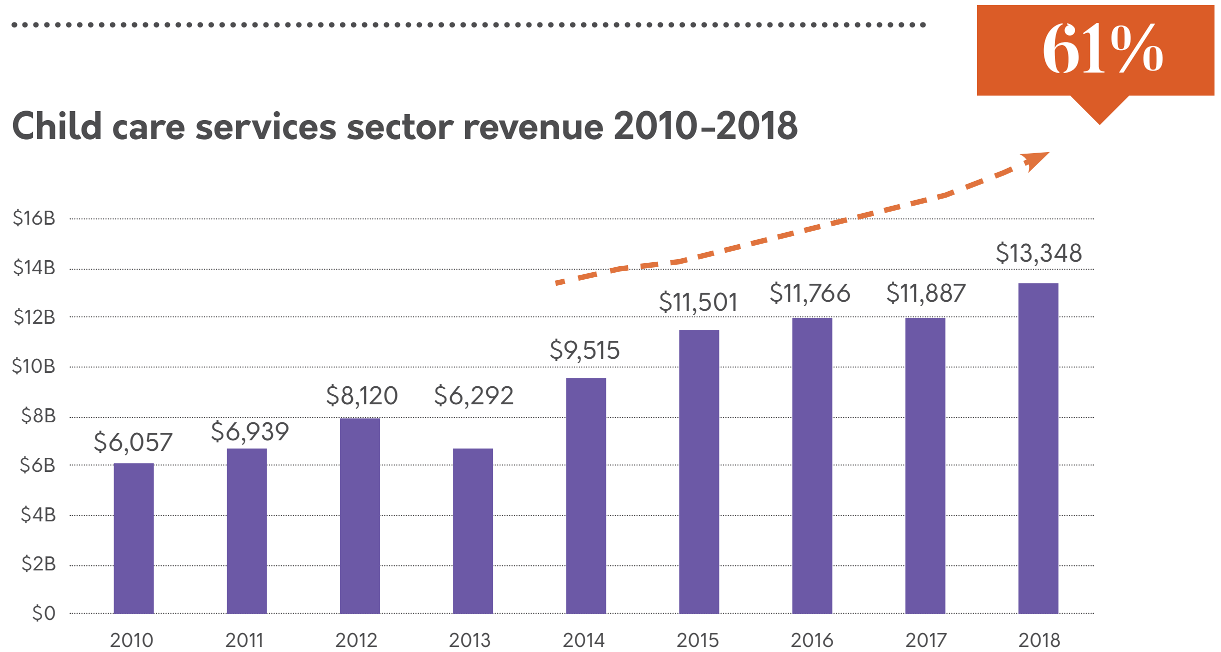


"Revenue is expected to reach $19.5 billion by 2023 with main drivers over next 5 years seeing more women in the workforce, higher number of children under the age of 12 and expected increase in Federal Government assistance with fees."

Revenue per establishment 2010-2023



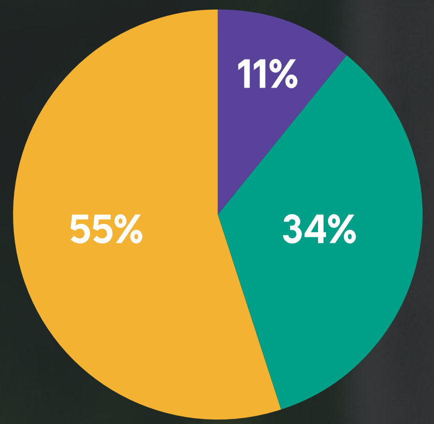
Child care services sector revenue 2010-2018



"Child care services performed particularly well with revenue growing by 61% over the five years to June 2018 to $13.3 billion."

Child care Supply & Demand

Child care services used



- Outside school hours care
- Family day care
- Long day care

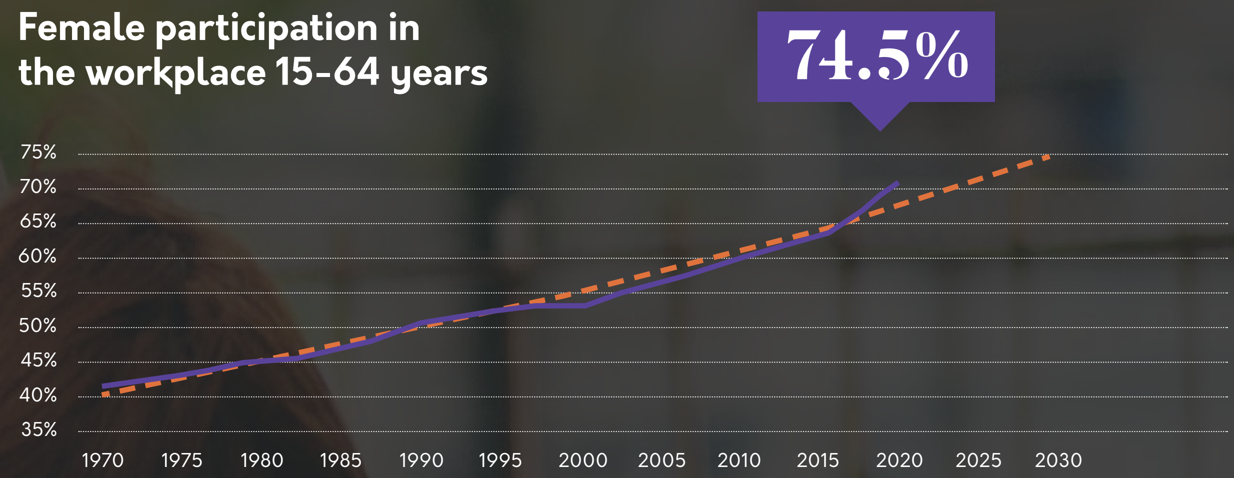
Long day care centres provide all day care or part time care for children, usually below school age.

Australian Population Change Estimates 2018

Change	Total	<12	<6	<2
5 yrs	8.5%	6.8%	7.2%	9.9%
10 yrs	16.6%	13.8%	15.6%	16.8%
20 yrs	31.5%	25.5%	25%	25.5%

"Growth in the Australian population aged 12 and under will fuel growth in the child care services industry – over the next 20 years the population aged 12 and under is expected to increase by 25.5%."

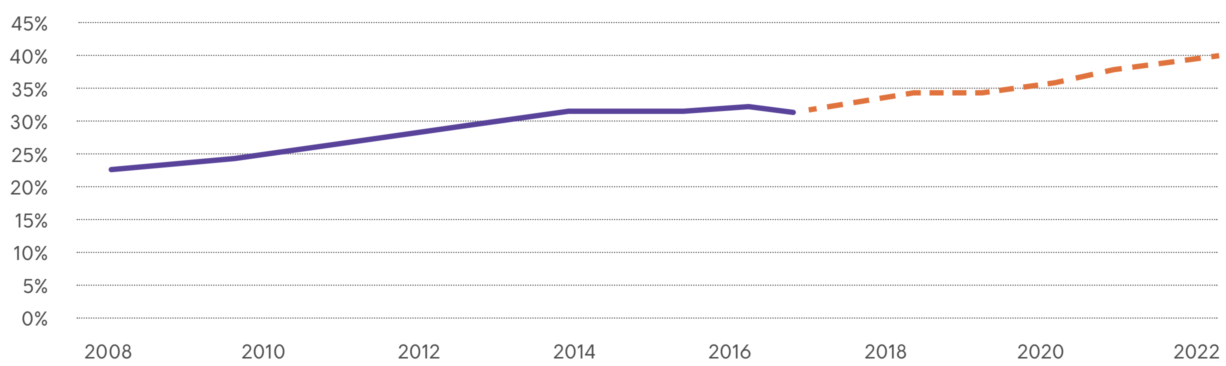
Female participation in the workplace 15-64 years



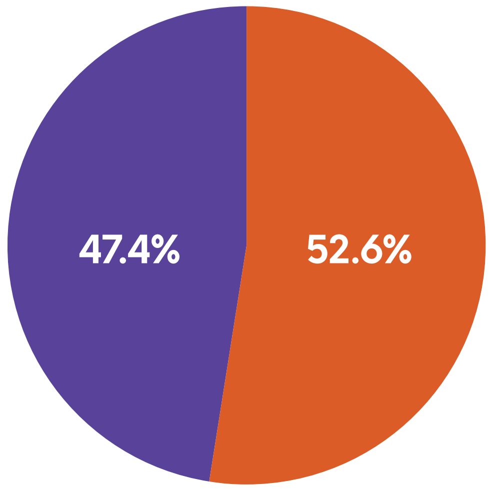
Actual Forecast

"The workforce participation rate among those aged 15-64 years is 74.5% for women as at February 2020."

Proportion of children attending child care centres 2008-2022



Actual Forecast



Men
Women

Male vs female in the workforce as at February 2020

Couple families with children younger than five and with mothers who worked full-time increased to 24 per cent in 2019, up from 17 per cent in 2009.

Major Players in Child Care and Competitive Landscape

The Child Care Services industry is divided and comprises of numerous small-scale operators. The industry's biggest four players are anticipated to account for less than 20% of income in 2019-20. According to ACECQA (Australian Children's Education and Care Quality Authority) data, as at 31 March 2020, small approved providers (managing one service) provide 37% of approved child care services, while large approved providers (managing 25 or more services) provide 33% of approved services.

Not-for-profit organisations run about half of all approved industry services, amplifying the industry's fragmented nature. However, for-profit service providers are increasingly dominating the long day care service sector, with corporate players G8 Education and Affinity Education acquiring smaller players to increase their market share and economies of scale.

Several providers have listed on the ASX over the past five years, including Think Childcare and Education in October 2014 and Mayfield Childcare Ltd in November 2016. This activity is set to increase over the next five years as the child care sector increasingly attracts private equity, merger and acquisition activity.

Market Share
8.8%

GOOD START EARLY LEARNING LTD

Established in 2009, Goodstart Early Learning Ltd runs child care centres in all Australian states and territories. Goodstart is a consortium of four not-for-profit organisations: Mission Australia, Social Ventures Australia, Benevolent Society and Brotherhood of St Laurence.

In 2010, Goodstart purchased 678 former ABC Learning Centres, which have since been rebranded as Goodstart Early Learning centres.

Market Share
7.1%

G8 EDUCATION LIMITED

G8 Education Limited was founded in 2006 and listed on the ASX in December 2007 under the name Early Learning Services Limited. G8 Education is one of Australia's largest providers of quality early childhood education and care with more than 470 early learning centres across 21 early learning brands.

GUARDIAN CHILD CARE PTY LTD

Guardian Child Care Pty Ltd, operating as Guardian Childcare & Education, was established in 2004. The company has since grown significantly through acquisitions and now owns, operates or manages 124 child care centres, day care centres, kindergartens and preschools in Victoria, New South Wales, Queensland, South Australia, Western Australia and the Australian Capital Territory. In early 2013, the company changed its name from Guardian Childcare Alliance to Guardian Early Learning Group, before changing its name again in 2019 to Guardian Childcare & Education. Malaysia based private equity firm Navis Capital became a major shareholder in Guardian in September 2013, acquiring it from Wolseley Private Equity in a deal worth approximately $120 million. Navis Capital has since sold its stake to Switzerland based Partners Group, with the global private market investment manager valuing Guardian at $440 million as at February 2016.

THINK CHILDCARE LIMITED

Think Childcare Limited, an Australia-based company, was the third industry player to list on the ASX. The company had an initial portfolio of 30 owned centres, comprising 15 LEA Centres (acquired from Learning and Education Australia Pty Ltd) and 15 Baker Street Centres. It also had 17 managed services owned by third parties. Between Think Childcare's listing in October 2014 and December 2018, the number of centres it owned increased by 83.0%, following a series of acquisitions through a third-party incubator partner strategy.

As at March 2020, Think Childcare owned 72 long day child care facilities for children between six weeks and six years of age. The company also manages a further 14 child care services with a combined daily licensed capacity of just over 7,400 places.

The 7 reasons why investors invest

1. **QUALITY OPERATORS**

   with long and robust landlord-friendly lease terms, including blanket recovery of landlord expenses.

2. **FEDERAL GOVERNMENT SUPPORT**

   The Federal Government provides social assistance payments to help families with the cost of raising children. The new Child Care Subsidy (CCS) came into effect on 2 July 2018, replacing the former Child Care Benefit and the Child Care Rebate. The CCS helps cover the cost of child care, boosting demand for industry services. As part of the Early Childhood Education and Care Relief Package announced in April 2020, weekly payments are to be made directly to child care operators in lieu of the CCS. This is part of the increase in social assistance expected in 2019-20 in response to the COVID-19 pandemic.

3. **STRONG UNDERLYING BUSINESSES**

   Child care centres boast strong underlying businesses with regular increases in daily fees over the last 10 years.

4. **COMPARATIVELY LARGE SITES WITH HIGH UNDERLYING RESIDENTIAL LAND VALUES**

   Child care centres often occupy large sites within residential areas. Zoning of these properties often permits (without consent) the conversion to residential uses.

5. **ATTRACTIVE RETURNS COMPARED TO OTHER INVESTMENT CLASSES**

   Child care assets offer attractive returns over the medium to long-term compared to other investments such as residential property.

6. **INCREASED DEMAND**

   Approximately 1.3 million children aged 12 and under are expected to attend some form of government-approved or government funded child care service in 2019-20.

   Over the past five years, the Federal Government has increased assistance for parents who want to put their children in formal care as they return to the workforce, which has aided industry revenue. Rising maternal workforce participation has supported demand for child care services over the period.

   Furthermore, the Federal Government has relaxed regulations to allow child care centres to register as kindergartens. This regulatory change has allowed long day care centres to compete directly with the Preschool Education industry. This change has also led industry operators to focus on providing educational services in addition to child care services.

7. **UNAFFECTED BY OFFSHORE ECONOMIC FACTORS AND THE ONLINE SPACE**

   The demand for child care in Australia will remain strong, providing local investors the opportunity to diversify into an asset sector unaffected by offshore economic factors. Additionally, this sector is wholly reliant on personal hands-on services and not susceptible to online factors; child care centres will not be made redundant as they will remain an essential service, unlike many other industries.

Industry Forecast

After a year that has tested many landlords and investors alike, the child care space has continue to surprise many. The strength of this asset class has not wavered and in fact, it has gained momentum. This is evidenced by the amount of new investment dollars flowing from ASX and private investors, plus steady occupancy rates. Analysis of occupancy rates between March and October 2020, pre- and during COVID-19, reveal that there was very little tenant movement, and in some cases, an increase in occupancy for some centres.

Even in the grip of a pandemic, child care centres have proven themselves to be highly resistant to economic downturn and other outside factors. The importance and necessity of child care to working families is reflective of the fact that this sector is essential to growing the productivity of our country.

The 2020-21 Australian Federal Budget allocated funding for the child care system of $10.3 billion. It also builds upon the $2.6 billion COVID-19 Response Package that kept early education and child care services around the country open, viable and supporting the needs of families.

CBRE's Australian Healthcare and Social Infrastructure team are leaders in education and child care commercial property. Sandro Peluso, Josh Twelftree, Jimmy Tat and Josh Twelftree have transacted and negotiated on the sale and lease of many high profile early learning centre in Australia. Marcello Caspani-Muto notes that, "the priority government funding for child care during the pandemic underscored the importance of the asset class and the domino effect their access has on the economy."

Sandro Peluso adds, "Pre-COVID-19 there was a perception by some in the market that there was an oversupply of child care centres, yet demand continues to rise. A high profile centre that evidences the heavy investment by operators is Little Lane Early Learning Centre in South Melbourne, where a prime site was purchased for $61.8M in 2019 with construction now underway for a futuristic $100M centre."

Interest from new and existing ASX investors and privates alike also indicate that child care is a highly favourable asset class moving into the future. Josh Twelftree said, "We recently acted in the sale of a Victorian child care centre in Tarneit and also one located in Robina Queensland. It is interesting to note that both sales were purchased by new property funds with significant capital. This highlights the emergence of the property funds and syndicates as aggressive buyers in this space."

From an operators perspective, child care centre tenants tend to invest heavily in their fit outs, leading to fewer relocations, longer term leases, and higher levels of income stability.

"Child care is an essential service and funded on that basis by Government" says Adrian Fonseca, Managing Director and Founder of Oxanda Education, a national operator of child care centres. Fonseca adds "Notwithstanding COVID challenges, occupancy for Oxanda remained strong throughout 2020 and particularly in dual income high demand areas in metro cities. We found that whether parents were working from home, or had physical roles that required their own personal attendance, parents treated child care as essential for them and essential for their children. Oxanda opened Bluebird Spring Farm in Sydney's South West at the on-set of COVID and it finished 2020 with 100% occupancy. Importantly for operators, families and the industry, bi partisan support exists regarding child care's essentiality and its role in the community, particularly with respect to the participation rate. This has child care well positioned on a go forward basis."

Investment in essential services is increasingly an attractive option for institutional investors and is becoming a tending investment strategy. Child care centres sit neatly within this broad asset class and if you haven't been looking, now might just be the time.

The CBRE Brand

A brand synonymous with success, CBRE is the world's largest commercial real estate services and investment firm. Employing in excess of 75,000 professionals, CBRE operates across 60+ countries allowing unprecedented connection to global investors.

With the broadest and deepest capabilities of any real estate investment services organisation, CBRE achieved $14.2 billion worth of revenue in 2017 and is currently ranked #207 on the worlds' Fortune 500 list. CBRE offers a full range of services inclusive of, Property Sales, Transaction and Project Management, Investment Management, Appraisal, Valuation, Development and Facilities services.

CBRE functions under four staple values namely, Respect, Integrity, Service and Excellence. Clients benefit from teams operating within a narrow scope, creating market specialisation and allowing for optimal market penetration and investor confidence.

With over 62 years' experience CBRE are the world's most proven and trusted real estate investment firm.

About the authors - Meet the team

Sandro Peluso

DIRECTOR

With close to 20 years' experience in the real estate industry, Sandro has unrivalled specialist expertise in all aspects of healthcare and social infrastructure assets. A national agent with deep industry connections, Sandro has a solid standing as a well-known and highly respected industry leader. With a professional reputation that is only surpassed by his charismatic personality and drive for success, he is an Award winning agent who is regularly sought out as an advisor in the specialist health and infrastructure sectors. He works with a wide range of clients including private local and international investors, developers, high net worth families, government bodies and major funds, delivering premium outcomes for his clients.

Josh Twelftree

ASSOCIATE DIRECTOR

Focusing on Healthcare and Social Infrastructure properties, Josh has produced exceptional outcomes for his clients on a number of significant properties. Having grown this niche business from its inception Josh has established a wealth of experience in the sector. In 2018 Josh transacted in excess of $160,000,000 for the CBRE Healthcare and Social Infrastructure Team. Josh's accounting and property background coupled with the emphasis he places on building strong relationships allows him to give tailored advice in respect to value analysis, sales and marketing methodology and active buyer mandates.

Jimmy Tat 毕家辉

SENIOR MANAGER
ASIAN SERVICES DESK

Focusing on Asian Capital, Jimmy's role within the team is to connect offshore capital to Australian assets, with Healthcare and Social Infrastructure properties as the main focus. Since inception in 2014, the Asian Capital Team & Healthcare and Social Infrastructure Team has been very successful in delivering for both local and international clients and being recognised as the National Healthcare and Social Infrastructure Team dealing with assets over $10,000,000 nationally. In 2018 - 2019, Jimmy and the Asian Capital Team has transacted over $240,000,000 worth of assets and delivered expectational outcomes for both his local and international clients.

Marcello Caspani-Muto

NEGOTIATOR

Marcello joined CBRE in the final quarter of 2017 as an Analyst whilst undertaking his final year studying an undergraduate double degree in Property and Real Estate/Commerce at Deakin University. Marcello features a background as a professional photographer, successfully owning and operating his own businesses. Coupled with a Diploma in Communication Skills. Marcello has an expansive skill set allowing him to establish strong client relationships and contribute a fresh perspective to the CBRE Healthcare and Social Infrastructure.

Tiffany Gyft

SENIOR OPERATIONS
& MARKETING COORDINATOR

Tiffany has over 10 years' experience in both the sales and marketing industry. Starting with CBRE in 2015 Tiffany has been dedicated to building and maintaining quality business relationships while increasing and securing customer satisfaction across the business. Tiffany has a strong knowledge regarding everything property related and now manages all finance, administration and marketing aspects for the Healthcare & Social Infrastructure team. In her time at CBRE Tiffany has been responsible for the campaign and strategic marketing specialising in health & child care, receiving a number of awards for her work including, REIV's Gold Marketing Award for best Marketing campaign in 2019 and 2020, and Australian Real Estate Award for Commercial Campaign of the year in 2018 & 2019.

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