AUSTRALIAN PROPERTY INSIGHTS

PROPERTY PLAYGROUND

An overview of the Australian childcare real estate investment market

2025

CUSHMAN & WAKEFIELD

KEY TAKEAWAYS

The childcare sector is currently in the growth phase, driven by increased Federal Government funding, strong demographic fundamentals, and rising participation rates. Future growth is expected to be supported by further funding increases, population growth, the rise in dual working parents, and increased female labour force participation.

High levels of Federal Government support

Strong Industry Revenue Growth

Strong population Growth In 0–5-year-old cohort

Increasing female labour force participation

Industry in growth phase of life cycle

Downturn resilient sector

Participation rate and attendance hours increasing

Year on year fee increases

CHILDCARE IN AUSTRALIA

The Australian Government approved childcare market is split into a number of different types of care, with the bulk of childcare provision for children below school age. However, there is also a provision of services for school aged children.

CENTRE BASED CARE

Provided in purpose-built facilities for children under school age, subject to State/Territory legislation and licensing requirements. Centre-based care accounts for 57% of children attending care and 79% of total hours attended, making it the most significant segment in the childcare market.

For the purpose of this report this type of centre will be the focus.

OUTSIDE SCHOOL HOURS CARE

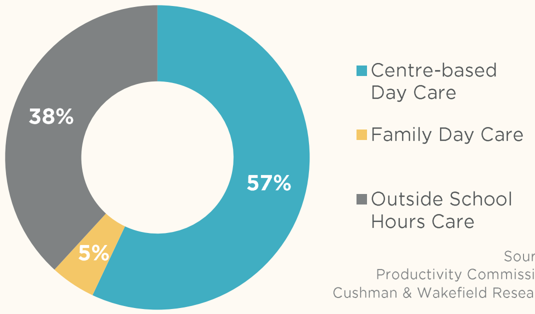
Is usually associated with schools and caters to primary school children (6- to 12-year-old). Most OSHC services are operated by community and private organisations and provide care outside of school hours, pupil-free days and during school holidays (vacation care).

FAMILY DAY CARE

Is care given in a home environment with the providers being part of a scheme that is supported and managed by a central non-profit coordinating unit. Family day care is mainly designed to cater for children under school age, moreover it does cater for school age children.

FIGURE 1

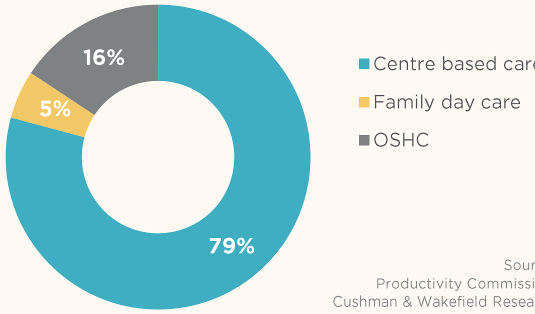
PROPORTION OF CHILDREN ATTENDING CHILDCARE BY CHILDCARE TYPE (0 – 12 YEARS OLD)



Source: Productivity Commission; Cushman & Wakefield Research

FIGURE 2

HOURS OF CARE ATTENDED BY CHILDCARE TYPE (0 – 12 YEARS OLD)



Source: Productivity Commission; Cushman & Wakefield Research

CHILDCARE DISTRIBUTION

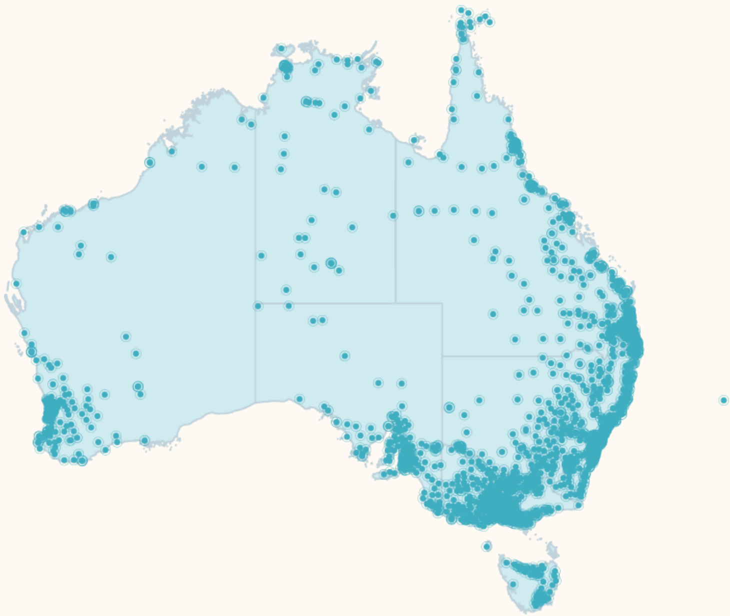
In general terms, the industry's geographic distribution reflects population density, economic activity, and infrastructure availability. It is also influenced by cost and supply of care, income, housing affordability and subsidy policies.

The zero- to five-year-old population is a key determinant of demand for centre-based care. The Eastern Seaboard dominates with higher childcare centre concentrations, accounting for around 80% of government-approved centre-based care services.

FIGURE 3

2024 CENTRE BASED CARE GEOGRAPHIC DISTRIBUTION

State	Number of Centres	Proportion of Centres
New South Wales	3,572	39%
Victoria	2,012	22%
Queensland	1,883	20%
Western Australia	849	9%
South Australia	508	5%
Tasmania	140	2%
Australian Capital Territory	193	2%
Northern Territory	116	1%



Source. : ACECQA, Cushman & Wakefield Research

This distribution highlights the strong urban concentration of childcare services in Australia, reflecting population density, economic activity, and infrastructure availability. The overwhelming majority (77%) of centre-based care enrolments are in major cities, aligning the higher demand with larger working populations.

Australian childcare centres are typically compact catchments in metro areas:

- **A catchment area of up to 5 kilometres and centres are often located near work hubs, schools, and other key trip generator locations.**
- **Recent trends show childcare centres are increasingly located in 'white-collar' areas such as CBDs and fringe office locations, offering greater convenience for busy parents with extended hours of up to 12 hours. Leading centres enhance their services by offering amenities like coffee at pick-up and takeaway dinner options.**

Looking ahead, it is expected that more childcare centres will be integrated into less traditional locations. If integration into development applications happens it will streamline the approval process, eliminating the lengthy and costly procedures associated with retrofitting existing buildings.

In addition to the changing locational landscape of some centres we are seeing market consolidation, as the attraction of the industry as an alternate asset class grows, and new funds to market look to establish market presence with the purchase of multiple centres/portfolios.

Historically, lease terms ranged from 5 to 7 years, moving to 10 to 15 years with options extending to 30 years (2 x 15 years options). More frequently, initial lease terms are now up to 20 years, with triple net leases becoming standard, offering greater security to both landlords and tenants.

The changes in lease structures, which now offer greater security to both landlords and tenants, is another reason new players have been attracted to the sector.

MARKET DRIVERS - A STORY OF GROWTH

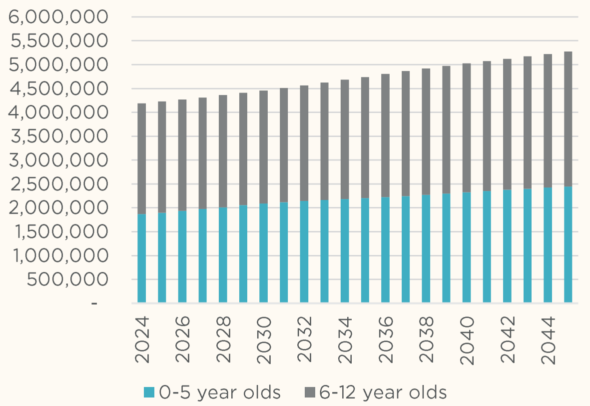
Growth in Australia's 0–12-year-old population will continue to amplify demand in the childcare industry over the next 20 years:

- **Over the period from June 2024 to June 2044, 0–12-year-old population is forecast to increase by 25% (4,187,726 → 5,224,416). (Figure 4).**
- **Over the same period, the 0–5-year-old population is forecasted to increase by 30% (1,868,952 → 2,423,735).**

The projected growth in Australia's young population is a crucial driver in the childcare market and creates opportunities across the national market through increasing demand for services and continued year on year growth.

FIGURE 4

NATIONAL 0- TO 12-YEAR-OLD POPULATION



Source: Productivity Commission; Cushman & Wakefield Research

CENTRE BASED CARE ATTENDANCE

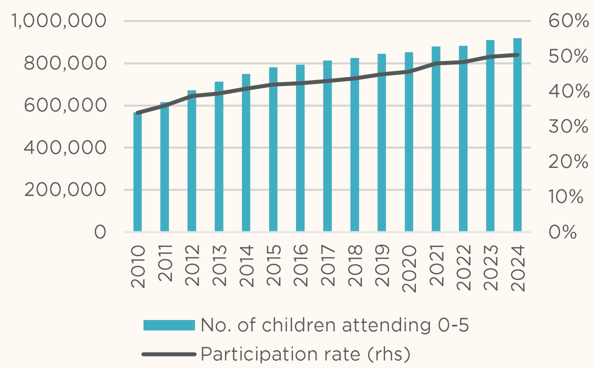
There has been a significant shift in the participation rate of 0-5-year-old children attending formal centre-based care (figure 5).

- **From 2010 to 2024, the 0–5-year-old cohort has seen a 60% increase in children attending centre-based care, now at 910,208 as of 2024.**
- **The Childcare participation rate saw a similar trend, increasing from 34% in 2010 to 50% in 2024.**

An increasing participation rate coupled with population growth further strengthens demand for Australian Government approved childcare services.

FIGURE 5

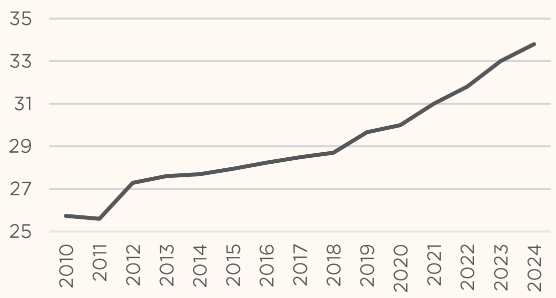
0- TO 5-YEAR-OLD CENTRE BASED CARE ATTENDANCE



Source: Productivity Commission; Cushman & Wakefield Research

FIGURE 6

AVERAGE HOURS OF ATTENDANCE PER WEEK OF CHILDREN AT AUSTRALIAN GOVERNMENT APPROVED CENTRE BASED CARE.



Source: Productivity Commission; Cushman & Wakefield Research

As identified in the Productivity Commission in their annual Report on Government Services 2024:

- **Average hours of attendance for children aged 0-12 years at Australian Government approved centre-based care services has risen from 25.6 hours per week in 2011 → 34.1 hours per week in 2024 (figure 6).**
- **This coupled with a growing population and an increased participation in childcare has helped drive industry revenue, establishment of new centres and overall demand for childcare services.**
- **When looking at the increases in participation, number of children and the hours attended this has led to a 112% increase in the number of hours attended each year.**

LABOUR FORCE

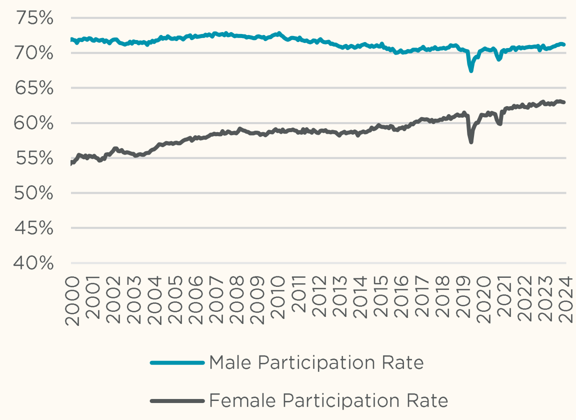
Female participation rates are at record high levels following the recovery from COVID-19 induced decrease:

- **The female labour force participation rate is at 63% as of late 2024.**
- **Male participation rates have been declining over the past 40 years, at -0.3% per annum, compared to females' growth of 0.9% per annum.**
- **The gap between male and female labour participation continues to narrow significantly, currently at 8.2%, down from the 16% gap in 2004.**

The federal government has made its intentions clear by supporting more females returning to the workforce. At a macro level this will further support ongoing demand, whilst creating additional demand for formal childcare.

FIGURE 7

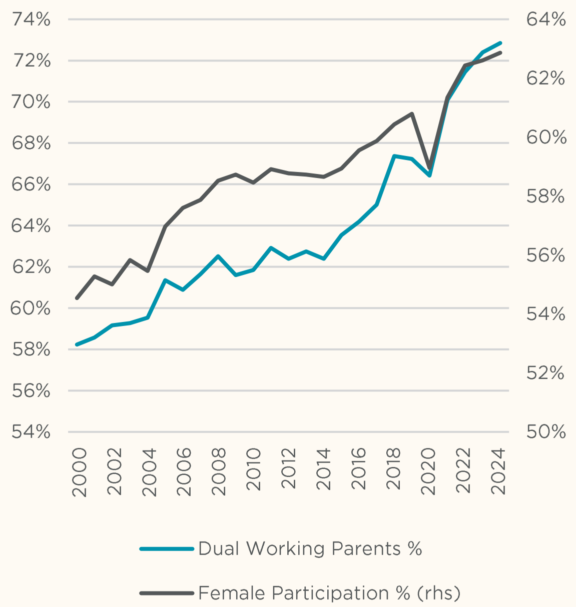
LABOUR FORCE PARTICIPATION



Source: ABS, Cushman & Wakefield

FIGURE 8

DUAL WORKING PARENTS



Source: ABS, Cushman & Wakefield

Increasing inflation and interest rates have caused a substantial increase in dual-income households, driving greater demand for childcare services as more parents, particularly mothers, enter or re-enter the workforce. Rising living costs have made dual incomes a necessity for many families, reinforcing the reliance on/and increasing the demand for formal childcare solutions.

RISE IN DUAL-INCOME FAMILIES:

- **From June 2000 to June 2024 there has been a 73% increase in the number of dual working couples with dependent children, increasing from 1.1 million to 1.9 million. As a proportion of couple families with dependants we have seen the participation rate increase from 58% to 73%.**
- **This directly correlates with greater childcare demand, particularly for centre based care and OSHC.**

Dual working couples with dependants has been largely driven by the number of mothers re-entering or entering the workforce. As more parents' juggle work, the availability and accessibility of childcare services have become increasingly important. This is evident in figure 8, showing the correlation between the increasing rate of dual working parents with dependent children and the female labour force participation rate. This trend is anticipated to continue as cost-of-living pressures continue to rise, further increasing the reliance on Australia's childcare industry.

GOVERNMENT DRIVERS

SUBSIDY CHANGES/ ENHANCEMENTS

The 2024-2025 Budget included major changes to the Childcare Subsidy (CCS):

Income threshold adjustment:

Effective from July 2023, the income threshold for families eligible for the CCS increased from $356,756 to $530,000. This expansion allows a broader range of families to access subsidised childcare services.

Increased subsidy rates:

Families earning below $80,000 annually now receive a 90% subsidy, up from the previous 85%. For incomes above $80,000, the subsidy tapers by 1% for every additional $5,000, phasing out at $530,000. This adjustment aims to make childcare more affordable across various income levels.

POTENTIAL CHANGES AHEAD

The Albanese government has proposed transformative measures to make childcare more accessible and equitable, providing cost of living relief to Australians. Key initiatives include:

Childcare Subsidy (CCS) Changes:
Increased income thresholds and subsidy rates.

Removal of Activity Test:
Guarantees access to subsidised early education for all families.

Building Early Education Fund:
$1 billion fund to construct and expand childcare centres, focusing on underserved regions.

Wage Increases for Educators:
15% pay increase to attract and retain qualified professionals.

Opportunities for the childcare real estate marked if the stated government initiatives take effect:

Increasing demand for facilities:
Enhanced subsidies and the removal of the activity test are anticipated to boost enrolment numbers.

Create investment opportunities:
The Building Early Education fund focuses on expanding services in outer regional and regional areas to create investment prospects in high need locations.

Provide workforce stability:
The wage increase for educators is likely to improve staff retention and service quality, making investments in childcare more ideal due to higher operational stability.

FEES

Figure 9 is based on the cost of care before government assistance and are reflective of fees that a centre receives, rather than the fees that parents pay, which are moderated by government assistance.

The out-of-pocket costs for families are determined by a combination of the fee services charge, type of childcare used, amount of care used and the level of Australian Government subsidies that families are entitled to.

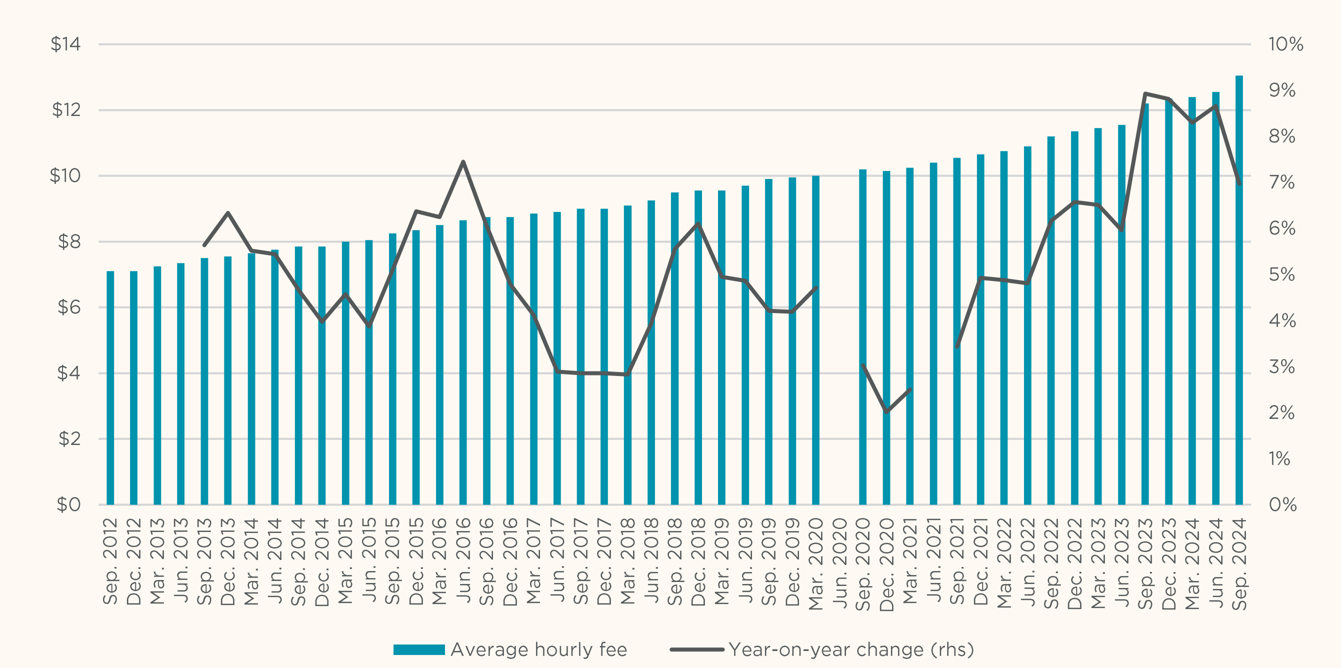
According to Department of Education, fees for centre-based care before government assistance are on the rise:

- **The average hourly fee for centre-based care has increased 84% from September 2012 to September 2024, rising from $7.10 to $13.05 (figure 9).**
- **Year on year change (rhs) has fluctuated but growth has always been positive. The highest year-on-year increase was recorded at 8.93% in September 2023, and lowest at 2.01% in December 2020. However, this was largely driven by the Government assistance provided during COVID-19.**
- **The latest period growth was 3.98% as of September 2024.**

Rising hourly fees in the childcare market can be attributed to general inflationary pressures and increased demand for services. Government assistance, primarily through Childcare Subsidy (CCS), plays a crucial role in making childcare affordable for Australian families.

FIGURE 9

CENTRE BASED CARE – AVERAGE HOURLY FEE BEFORE GOVERNMENT ASSISTANCE



Source: Dept. Ed.; Skills & Employment; Cushman & Wakefield Research

CENTRE NUMBERS

The number of all establishments have grown year on year from 2015 to 2024 (noting the collection of data remaining service types changed post 2018). However, the rate of the growth has slowed:

- **Growth in centre-based care services has accelerated, increasing from 6,862 centres in 2016 to 9,472 centres in 2024, with the annual growth rate averaging 4.1% over the past 8 years.**
- **Previous years experienced more growth due to periods of significant oversupply in certain areas but is now starting to shift to more balanced market conditions, with underlying demand meeting new supply.**

Strong demographic metrics and Childcare Subsidy changes have helped bring supply and demand closer to balance at a macro level. At a more localised level, there are areas of oversupply and undersupply, with the areas of oversupply generally in more metro locations, which generally generate higher returns. In terms of investment or building new a catchment analysis is highly recommended.

MARKET SHARE

In terms of market share, the industry is fragmented:

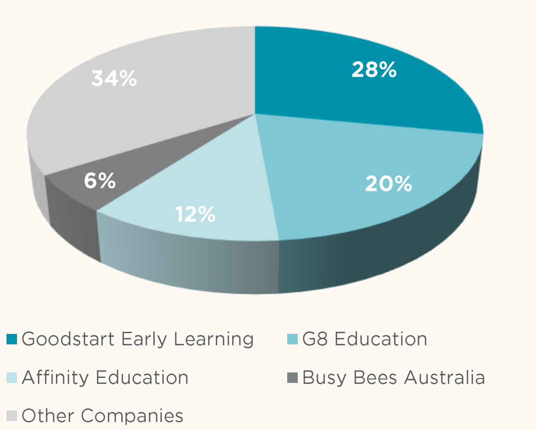
Minor players and independents dominate around 72% of the market, among these, 35% of the market share is held by operators with only one service. However, this landscape is beginning to shift as more operators gain scale through acquisitions or new centre development.

- **Goodstart Early Learning holds the largest market share, valued at $1.5 billion.**
- **G8 Education has expanded rapidly, now holding a market share valued at $1.1 billion. Since listing in December 2007 with 17 centres, they now operate 448 centres.**
- **Affinity Education, Busy Bees Australia, and Guardian Childcare each hold a market share valued at $625 million, $305 million, and $305 million respectively, while KU Children's Services holds a market share valued at $2 million.**

Corporate interest and activity in the sector have driven new private players to enter, including ASX-listed operators and private equity. As the sector increasingly attracts private equity, M&A activity is forecast to continue over the next five years, continuing to drive consolidation as larger for-profit players acquire smaller rivals.

FIGURE 10

MARKET SHARE



Source: Dept. Ed.; Ibis World; Cushman & Wakefield Research

RENT

Childcare rental rate calculation differs from typical forms of commercial investment properties, which are typically calculated on a square metre basis.

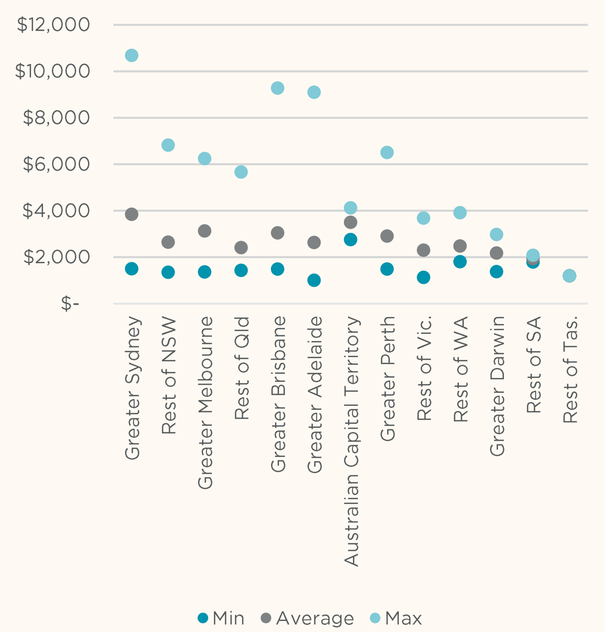
Childcare rents are determined based on the number of licensed places, with the number of places calculated according to a floorspace per child ratio that varies from state to state.

Cushman and Wakefield Research reveals rental rates have continued to rise strongly in recent years, driven by increased Federal Government funding and significant population and childcare participation growth:

- **Rental rates per place range from $1,100 to $10,700, with metropolitan based centres dominating the upper ranges (figure 11).**
- **Sydney holds the highest rental rates in Australia, with max rates reaching $10,700 in Greater Sydney and $6,831 in rest of NSW.**

FIGURE 11

RENTAL RATE RANGES



Source: Cushman & Wakefield

INDUSTRY REVENUE

IBIS World has recorded Australia's childcare industry revenue experiencing an overall trend of consistent increase, however the rate of year-on-year growth has slowed.

- **2024-25 annual growth is forecasted to slow to 2.8%, decreasing significantly from the previous years' (2023-24) annual growth of 9.7%.**
- **The industry has gone through periods of major growth, initially from 2007 to 2015, with the highest annual growth rate recorded at 19.6%. This was driven by increased demand for services and government support.**
- **Growth stabilised and fell during 2018-19 due to the COVID-19 pandemic impacts and reduction of people in the workforce, before surging again from 2021 – 2024, reaching a 9.6% year-on-year change.**
- **Growth is forecasted to remain moderate over the next 5 years, stabilizing to around 2.7% to 2.9% as the market continues to mature. Revenue is forecast to reach nearly $26 billion by 2030-2031, up from the $21 billion recorded this year.**

REVENUE GROWTH DRIVERS

- **Prior to the pandemic, rental growth was driven by government expenditure in the industry, with the bulk of the government funding coming from the Childcare Benefit (CCB), Childcare Rebate (CCR) and more recently, Childcare Subsidy (CCS).**
- **Increased average enrolments driven by strong population growth in the 0–12-year-old cohort.**
- **Increases in the female labour force participation rate.**

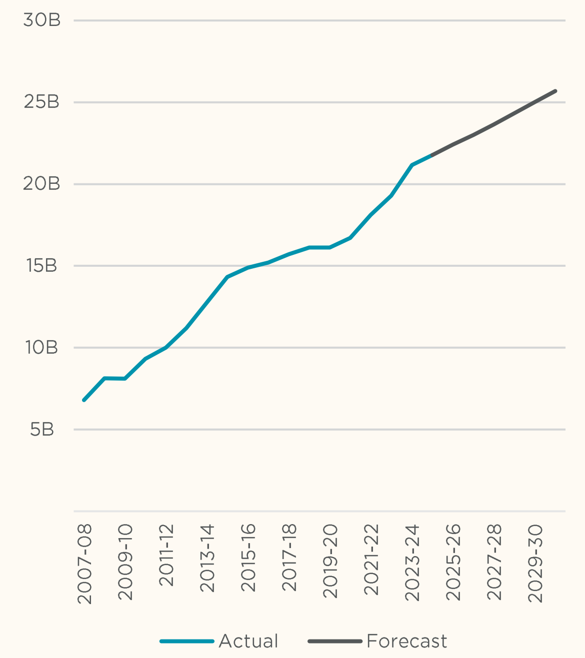
REVENUE AND ENROLMENTS

- **Figure 14 highlights the relationship between industry revenue growth and enrolments growth.**
- **While 0–5-year-old enrolments growth did not hit the early peaks of the revenue growth, it came into alignment prior to the pandemic and changes to childcare funding and fees took place.**

Figure 13 highlights the relationship between industry revenue growth and enrolments growth. While enrolments growth does not hit the early peaks of the revenue growth, it came into alignment prior to the pandemic. The trend is bucked in 2019 when the pandemic hit and the changes to childcare funding and fees changed (childcare was free and the Federal Government paid operators 50% of revenue, based on February revenue). Now out the other side it appears that the relationship will once again continue its trend.

FIGURE 12

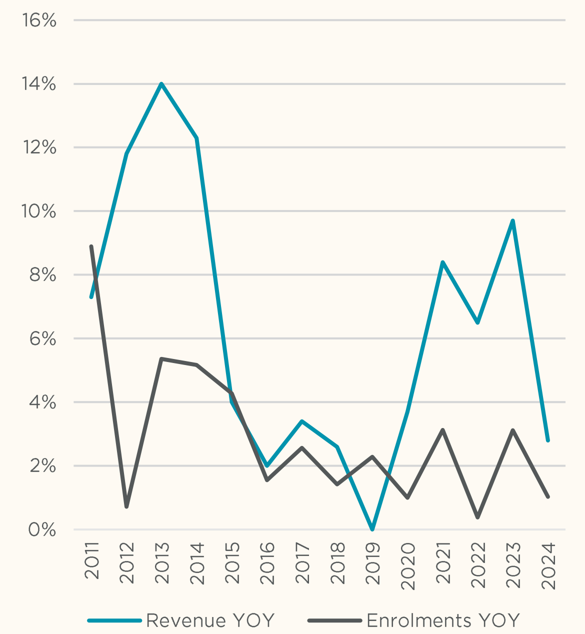
INDUSTRY REVENUE



Source: Ibis World; Cushman & Wakefield Research

FIGURE 13

YEAR ON YEAR REVENUE AND ENROLMENTS GROWTH



Source: IBIS World; Productivity Commission; Cushman & Wakefield Research

TRANSACTIONS

The Australian childcare market continues to be an attractive asset class for investment:

Steady Investment from 2017 – 2020:
Investment volumes consistently ranged between $300-$400 million range each year, with majority of transactions occurring along the eastern seaboard.

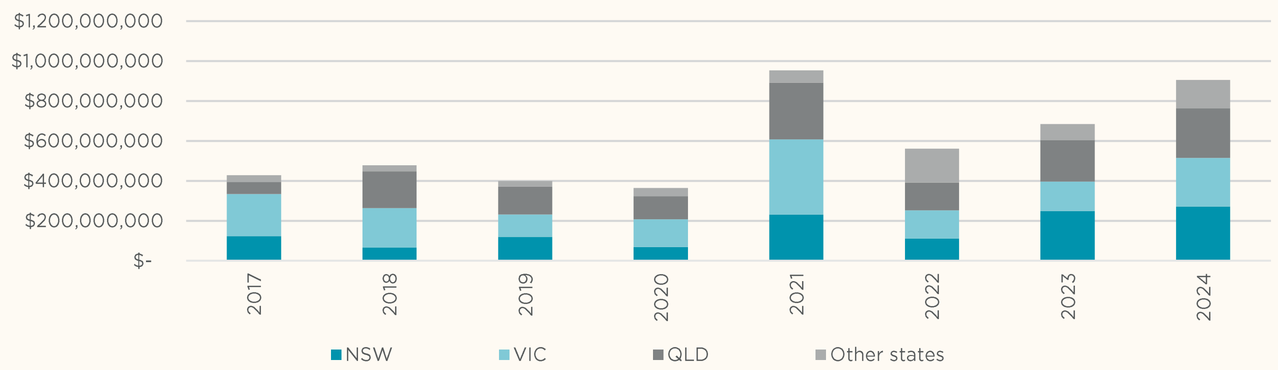
Pandemic Impact from 2019 – 2020:
The COVID-19 pandemic caused slowing investment, reducing volumes to $360 million from a peak of $470 million in 2018.

Post-Pandemic Surge 2021:
Investment activity rebounded dramatically in 2021, reaching $950 million – a 162% increase from the previous year.

Current Trends:
The high transaction trend continues, with 2024 transactions totalling $720 million (figure 14).

FIGURE 14

CHILDCARE TRANSACTION VOLUMES



Source: Cushman & Wakefield Research

YIELDS

Childcare centres have seen significant growth over the last decade, with new entrants to market and existing operators looking to increase their market share:

Locational shares analysis (figure 15) shows that city-based centres (within the Greater Capital City Statistical Areas) have consistently outperformed those outside capital cities (rest of Australia).

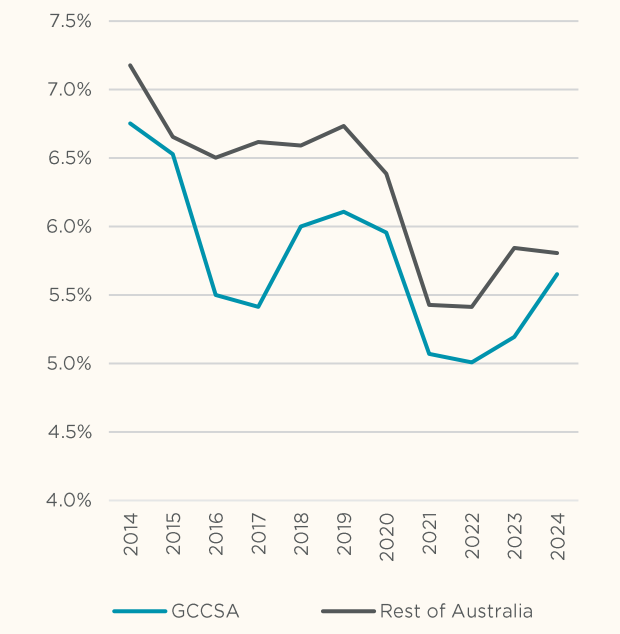
City-Based (GCCSA) Yields:
Average yields have compressed, falling from 7.2% in 2014 to 5.3% in 2024. There was a softening to 6.1% in 2019 before yields compressed to 5.0% 2022. Post 2022 yields softened to 5.7% in 2024, as financial and economic softened as well.

Regional Centres (Rest of Australia):
Centres outside capital cities followed a similar trend but have maintained consistently higher yields on average compared to metropolitan based centres. Yield compression remained more gradual in early years, before picking up in 2020 with yields settling at 5.4% while recovering from post-pandemic impacts. Yields now stand at 5.6% as of 2024.

Childcare remains an attractive investment, with long-term leases and government subsidies ensuring stable cash flows. Both GCCSA and the rest of Australia have shown tight trending yields since 2014, until the rate hike cycle began in 2022. The stabilisation post 2022 aligns with the higher rate environment observed across most commercial property sectors.

FIGURE 15

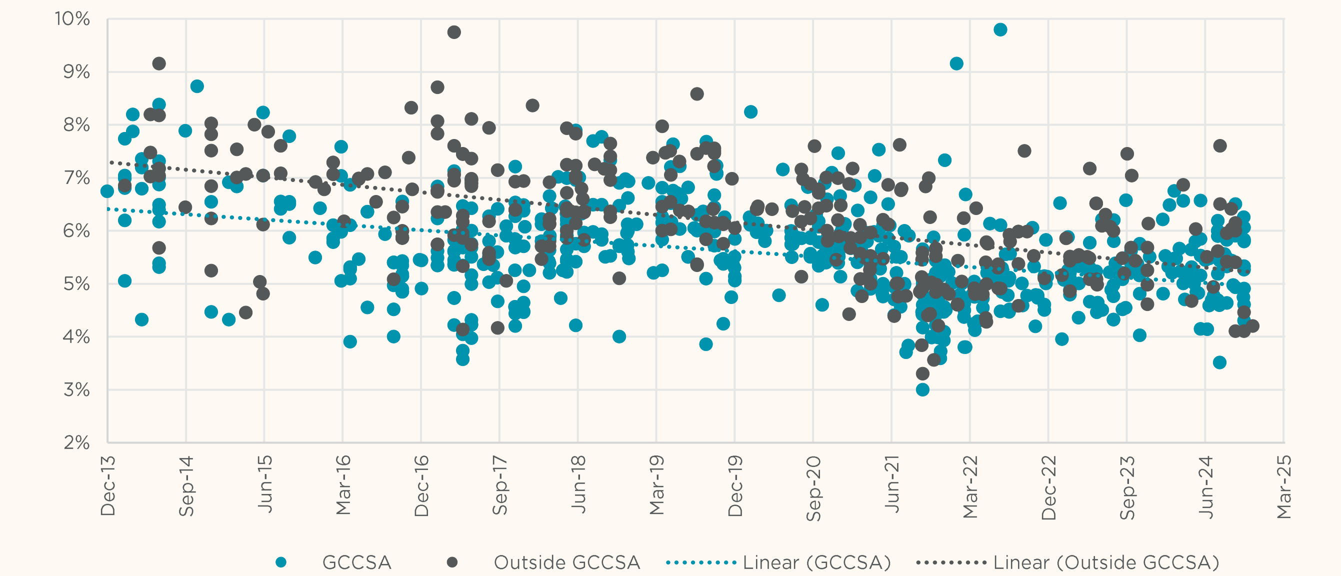
CAPITAL CITY V REGIONAL YIELDS



Source: Cushman & Wakefield

FIGURE 16

2013 TO 2024 YIELD SPREAD



Source: Cushman & Wakefield

Figure 16 illustrates the strong yield compression post 2019 through to when the RBA commenced its hike cycle in 2022. While there has been a softening post 2022, it is largely at the detriment of regional centres. While metropolitan centres have not been immune, the softening was less severe. Comparatively, the childcare investment market has fared significantly better than some of the more traditional asset classes, additionally the affordability of childcare assets compared to others is another reason that the sector has displayed more resilience than some others that have larger debt requirement to purchase.

RATE PER PLACE

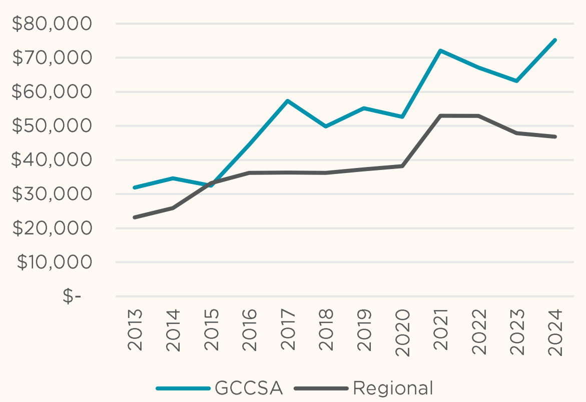
Rate per place has experienced significant growth over the past decade, with stronger increases in Greater Capital City Statistical Areas (GCCSA) than regional markets, aligning with wider market demand and demographic trends.

GCCSA Growth:

- **GCCSA areas outpace regional growth, increasing from $31,894 per place in 2013 to $75,175 in 2024, showing an increase of $43,281.**
- **Regional areas did double in growth since 2013, reaching $46,803 in 2024, but peaked in 2021 at $52,964 before declining. Suggesting a slight market recalibration post-pandemic as investors target metropolitan centres.**

FIGURE 17

RATE PER PLACE



Source: Cushman & Wakefield

BARRIERS / THREATS

The Australian childcare sector continues to evolve, shaped by regulatory changes, labour challenges, and increasing corporate consolidation. While the industry benefits from strong demand fundamentals, various barriers and threats present challenges for operators and investors.

Competition/Supply:

- **The childcare industry remains fragmented, with approximately 35% of providers operating a single facility. The childcare industry is dominated by numerous small-scale childcare providers, many of which are not-for-profit organisations.**
- **Oversupply in certain areas has created some imbalances and redefined catchment boundaries, which can pose threats to achieving a sustainable market share.**

Though the industry's low market share concentration reflects its fragmented structure, increased corporate interest and acquisitions, particularly by entities such as G8 Education and Affinity Education. This activity is changing the industry's dynamic and prompting new providers to achieve scale.

Workforce Shortages and Rising Labour Costs

- **Workforce shortages continue to be a rising challenge in childcare, leading to capped enrolments in many centres.**
- **The need to meet minimum educator-to-child ratios under the National Quality Framework (NQF) has contributed to higher wage expenses, which strain profitability.**

However, in response to labour shortages and high attrition rates, recent government reforms have committed to funding wage increases for early childhood educators.

Regulatory Changes/Compliance

- **NQF and the Education and Care Services National Law has compliance requirements, such as obtaining local council approvals and meeting minimum staffing qualifications – causing barriers to entry for new operators.**

Evolving Consumer Preferences

- **Shifting workforce trends, including work from home arrangements, are altering demand patterns for childcare services.**
- **The industry faces competition from informal care alternatives, such as grandparents, nannies, and family day care, which can offer more flexible and cost-effective solutions.**

The Australian childcare sector presents both opportunities and challenges. While government support and increasing participation rates provide strong demand drivers, workforce shortages, regulatory constraints, and rising operational costs create barriers to entry and growth. Low market concentration and consolidation trends are reshaping the competitive landscape, with corporate players increasingly influencing the industry's future. To navigate these threats, operators must focus on workforce retention, regulatory compliance, and service differentiation to remain competitive in this evolving sector.

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