

# Early Education



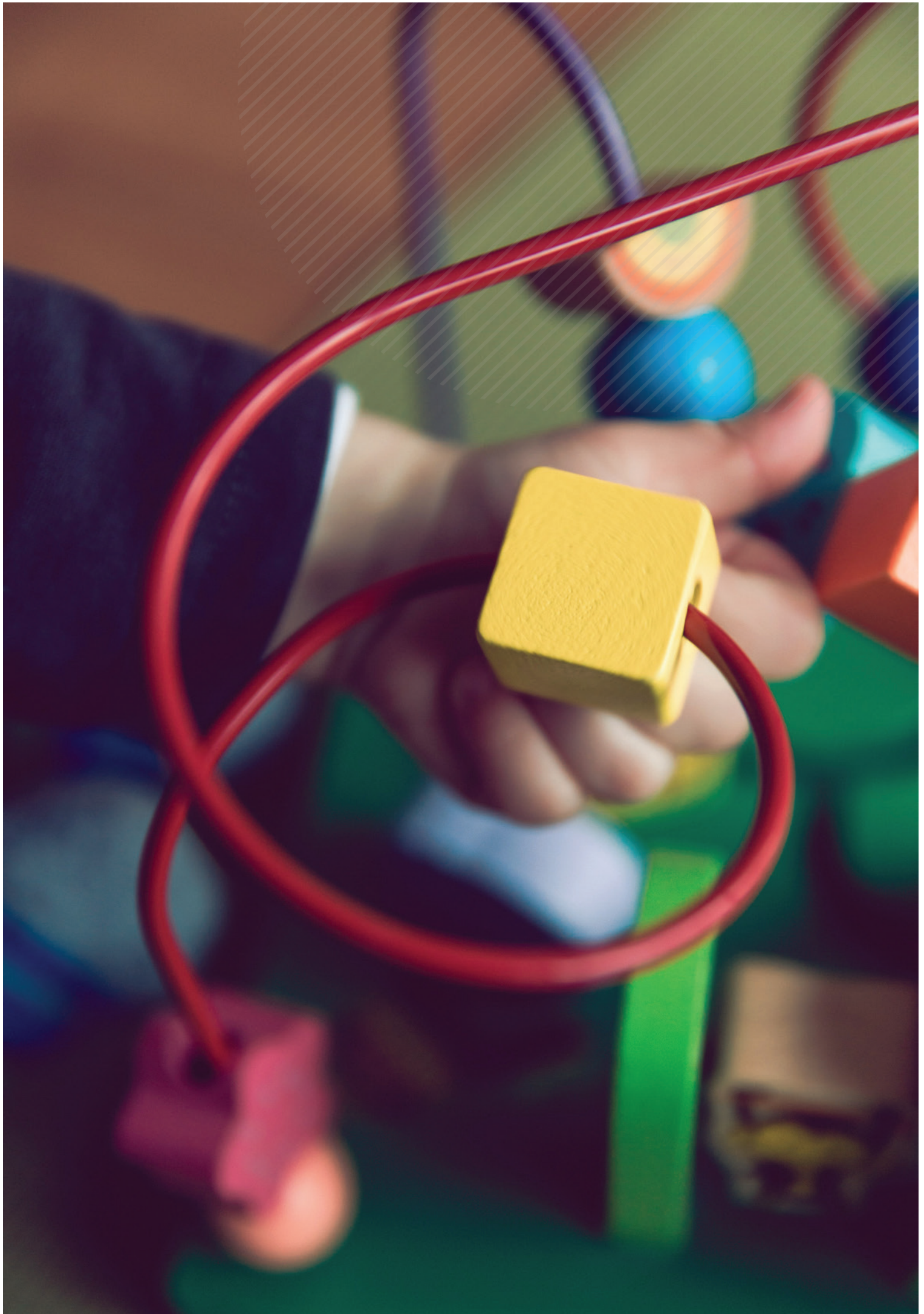
## Industry Insights Report



October 2024



**Burgess Rawson**



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# Welcome



**Adam Thomas**

Partner | Managing Director QLD



**Jesse Lapham**

National Director Research & Data

Welcome to the October 2024 edition of Burgess Rawson's Industry Insights Report series. This report will focus on one of the country's fastest growing and most highly sought-after asset classes - early education.

As Australia's undisputed leader in the sale of early education investments, Burgess Rawson has transacted 52% of all assets offered to market in the last 18 months. Unrivalled experience, expertise and industry data has put us at the forefront of this exciting asset class, and we're excited to share such knowledge with you in this publication.

Since 2012, we've witnessed the unabated appetite for early education assets increase forty-fold as investors continue to seek strong underlying land value, secure long-term leases and quality tenants.

Unwavering bipartisan support from both Federal and State Governments continues to underpin the sector. Increased workforce participation and sustained population growth remain driving factors for compounding government investment, reinforcing the stability and security of early education investments.

Major industry players are also steering the industry, as they always have, through innovative new offerings such as the strategic co-location of swim schools to provide value-add services to busy parents.

All these factors combined will see continued demand for early education for many years to come, both as an essential service for everyday Australians and, consequentially, as a solid choice for commercial investors.

Join us as we explore the ever-changing landscape of early education and offer our insights on what we can expect for the future from this undeniably darling investment class.

# Overview

The early education sector in Australia continues to be a high-demand asset class, experiencing significant growth over the past decade. Investor interest has surged, driven by strong fundamentals such as population growth, increasing workforce participation, and bipartisan government support. This sector has demonstrated resilience, offering long-term leases and strong tenants, making it a reliable choice for investors seeking stable returns.

Cap rates have shown a steady trend, with the median cap rate at 5.77% in 2024. There has been a notable stabilisation since 2022, with cap rates narrowing, reflecting a more predictable market environment. Sale volumes remain strong, with the average price per licenced place increasing to \$71,564 in 2024, up from \$60,786 in 2022. These price increases reflect not only investor demand but also rising construction costs, which continue to push rents and asset values higher.

Geographically, cap rates vary across regions. Metropolitan areas, especially in New South Wales, exhibit lower cap rates, with some transactions in 2024 recording rates as low as 4.59%. In contrast, regional areas typically command higher cap rates, often exceeding 6%, reflecting differing risk profiles.

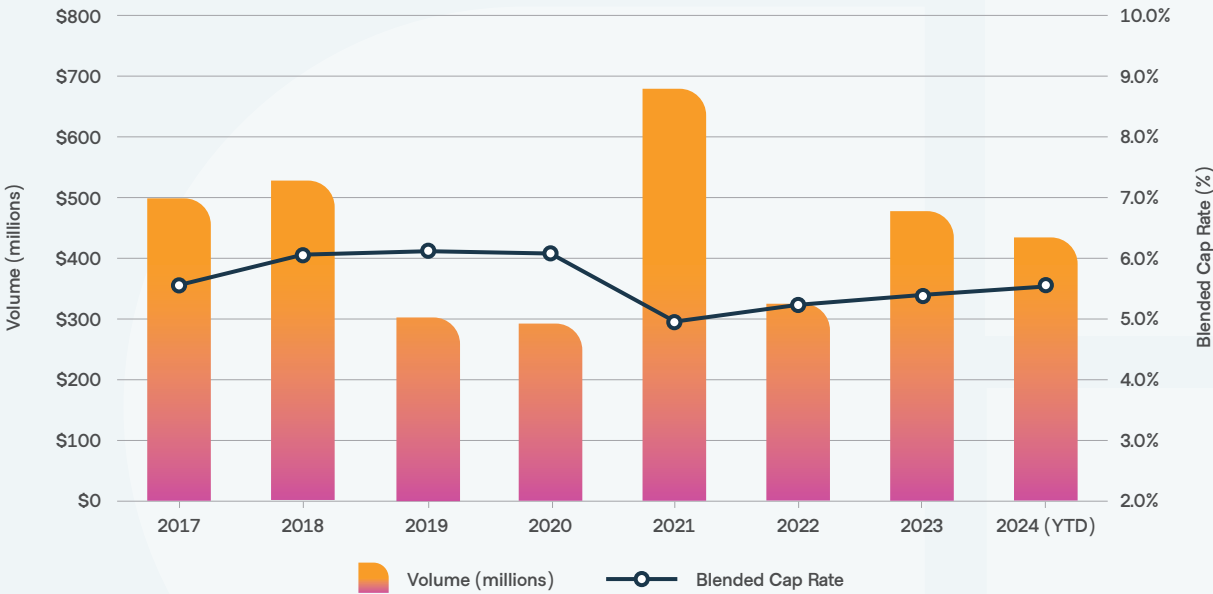
As government investment continues to support early education, particularly in response to increasing demand for childcare services, this sector remains a compelling investment opportunity. This report provides a comprehensive analysis of market trends, cap rates, and sector dynamics, highlighting the ongoing strength and future potential of early education investments in Australia.

With stabilised returns, increasing asset values, and strong long-term leases, the early education sector is well-positioned to remain a key focus for commercial investors in the coming years.

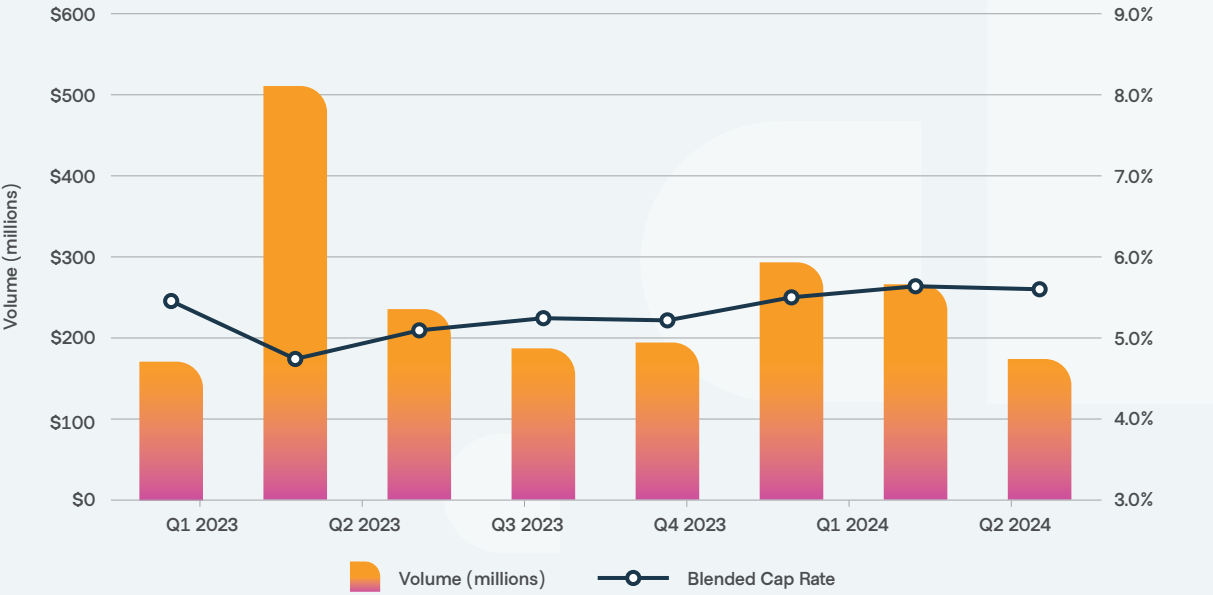


# Volume and Cap Rate Review

## Yearly Volume and Cap Rate

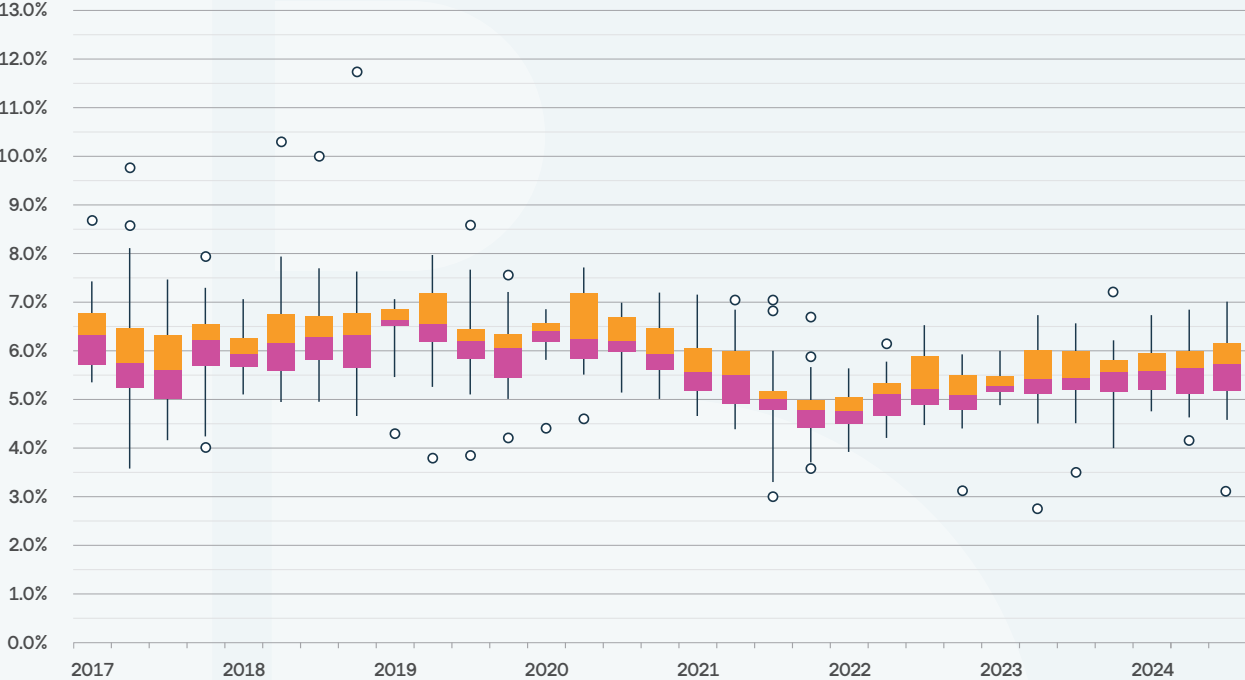


## Quarterly Volume and Cap Rate



# Sector Analysis

## Early Education Cap Rates



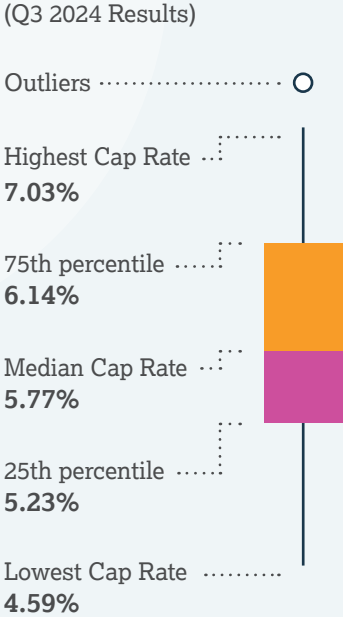
### Cap Rate Trend

There was a gradual decline in cap rates from 2017 until 2021, reflecting a period of compressing yields, driven by increasing demand and rising property values. This suggests that investors were accepting lower returns as the market grew more competitive and confident in the long-term value of early education properties.

From 2022 onwards, the cap rates began to stabilise, showing less fluctuation and indicating a more predictable market environment. However, outliers throughout the period, especially in earlier years, suggest some volatility in specific transactions.

Overall, the trend highlights sustained confidence in the sector, with investors betting on its stability.

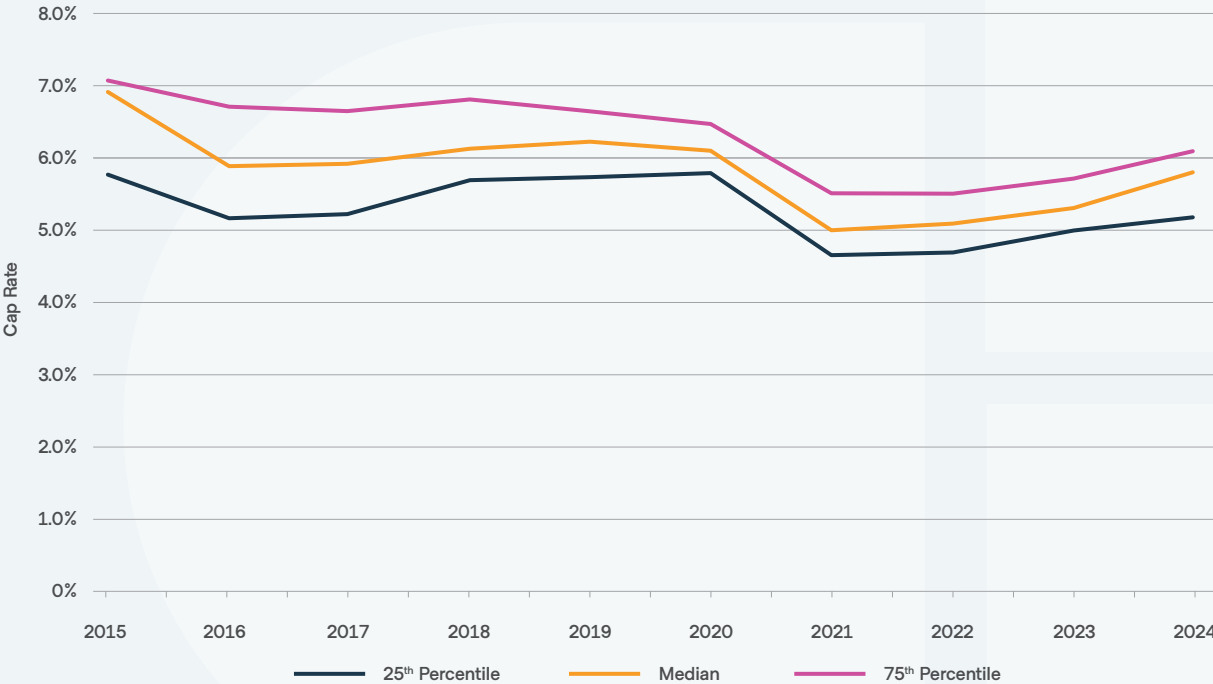
### Legend



**Note**  
Outliers are calculated using the IQR method, which has been set at 1.5 IQR. Sample size includes competitor sales.

# Sector Analysis

## Early Education Cap Rate Trend



### Quartile Convergence

The convergence in yield spread from 2017 to 2020 suggests a period of increasing market uniformity, where differences between high and lower yield properties diminished, reflecting a consolidation in investor expectations and market standards.

The subsequent decrease in yields in 2021 indicates a broader market adjustment, possibly driven by economic factors or shifts in investor confidence.

The recent widening between 25th percentile and 75th percentile yields, points to a renewed differentiation in the market, with investors showing a preference for prime assets while showing caution towards secondary ones, indicating a strategic shift towards more selective investment decisions.

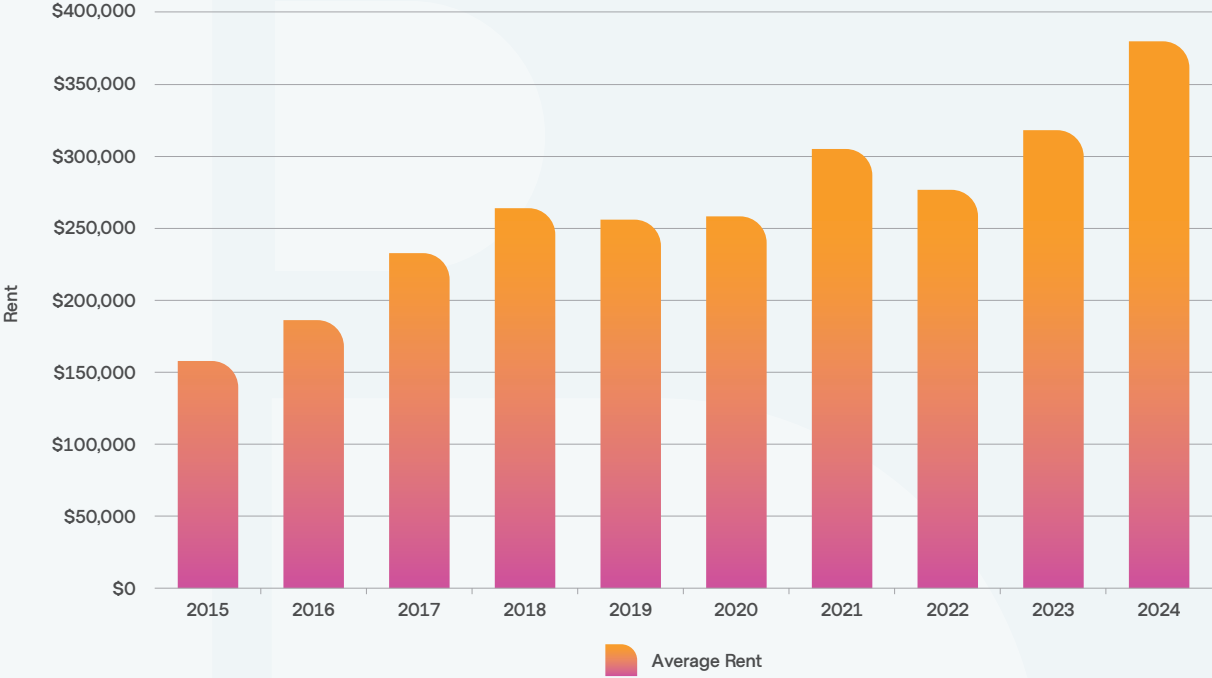
### 2023/24 Base Points

**91bps**  
**2024**

**73bps**  
**2023**

# Sector Analysis

## Average Rent



### Rental Growth

The average rent for childcare centres sold from 2015 to 2024 increased significantly over the decade. The notable increase after 2020 can be attributed to multiple factors including the growth in the number of places within each centre and the corresponding price per place. This is exacerbated by the boom in construction costs, which has inevitably influenced rental prices as developers seek to maintain feasibility in their projects.

The softening in yields prompted a strategic rent increase, allowing developers to secure returns despite rising costs and market pressures. This approach highlights how economic factors and business strategies shape childcare centre developments.

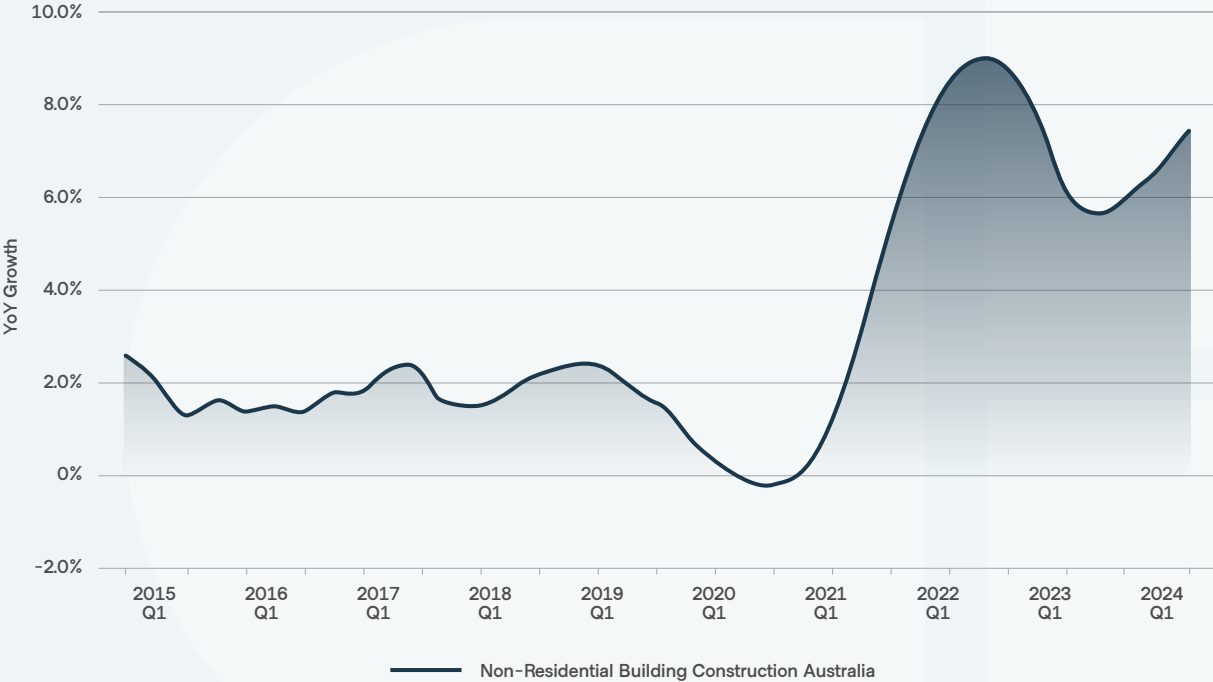
**\$378,000**  
2024

**\$258,000**  
2020

**47%**  
Increase

# Sector Analysis

## Non-Residential Construction Prices Australia (ABS)



### Non-Residential Building Construction Growth

The graph illustrates the trend in non-residential building construction costs in Australia from 2015 to 2024.

From 2015 to mid-2020, construction costs rose by approximately 2% annually. After this period, there were large fluctuations in pricing.

A notable retraction occurred in Q3 2020, followed by significant and somewhat sustained increases beginning in 2021. These increases have continued unabated. The sharp rise in construction costs has exerted upward pressure on rents per place, subsequently impacting yields.

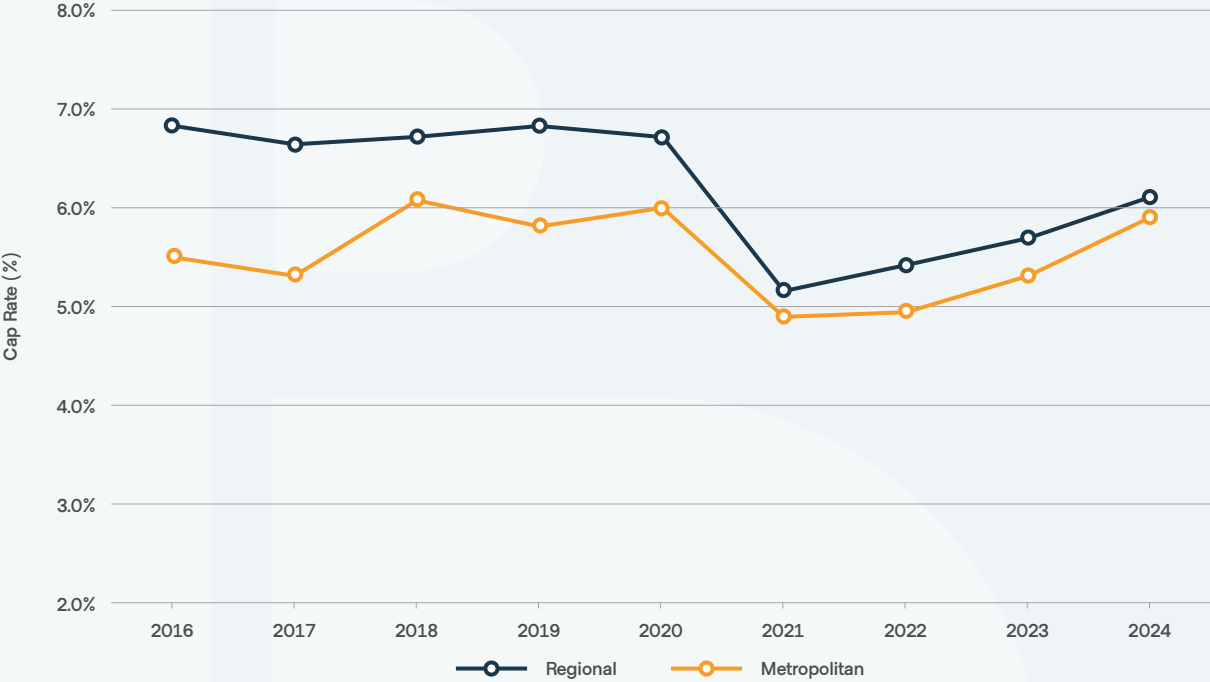
### Index - Non-Residential Construction Prices Australia (ABS)



**27%**  
Increase 2020 - 2024

# Sector Analysis

## Metropolitan vs Regional Cap Rates







### Location Trends

Regional transactions have consistently had higher cap rates than metropolitan transactions. Regional cap rates started around 7% in 2016, steadily decreasing to a low in 2021 before rebounding slightly towards 2024. Metropolitan cap rates, however, remained more stable over the period, with a noticeable dip in 2021 and then steadily increasing.

During 2024, the Eastern Seaboard states have maintained a lower cap rate in metropolitan and regional areas, while Western Australia has provided a higher cap rate. New South Wales has performed the strongest in both instances.

### 2024 Cap Rates

Low	High
 <p><b>Metro New South Wales</b></p> <p><b>5.25%</b></p>	 <p><b>Metro Western Australia</b></p> <p><b>6.30%</b></p>
 <p><b>Regional New South Wales</b></p> <p><b>5.69%</b></p>	 <p><b>Regional Western Australia</b></p> <p><b>6.31%</b></p>



## Guardian Childcare

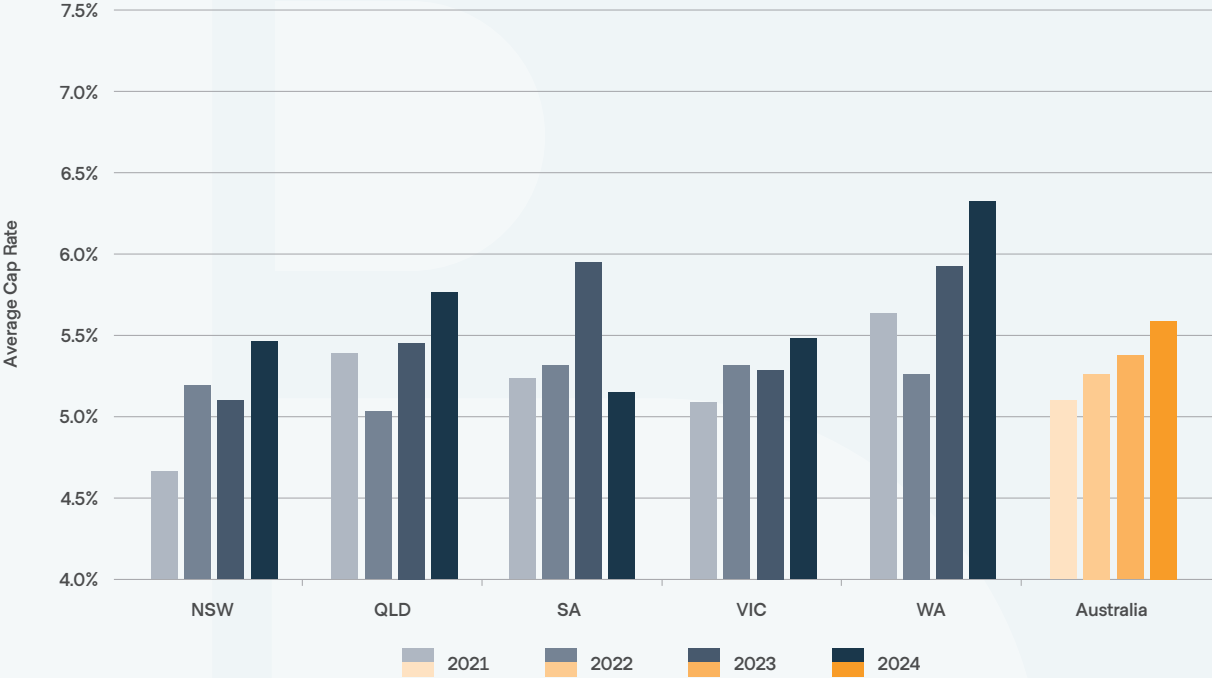
Box Hill VIC

💰 \$9,999,800

📈 5.31% Yield

# Sector Analysis

## Average Cap Rate per State



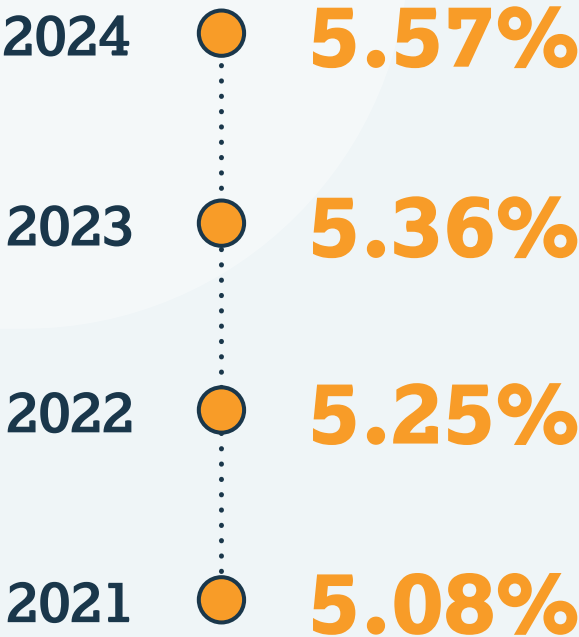
### Cap Rate Analysis by State

Cap rates have trended steadily upwards over the last 4 years. Western Australia consistently has the highest cap rates, currently above 6%, and remaining higher than other states through 2024. Queensland follows behind with cap rates above 5.5%.

South Australia is currently lower than Victoria, but has a smaller sample size and can be more skewed by individual sales.

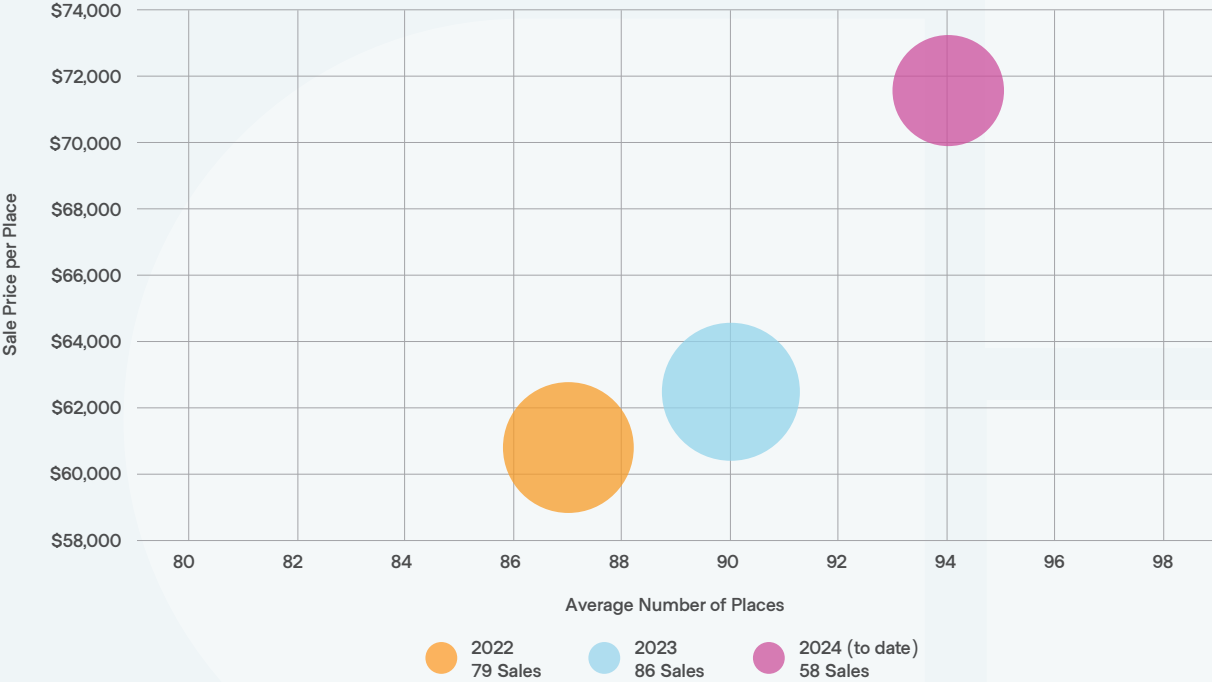
The upward trend from 2021 to 2024 Australia-wide reflects a general rise in cap rates across the country. This could be a response to broader economic factors, such as increasing interest rates, pushing yields higher across the board, especially in regions like WA where the gap remains the most pronounced.

### Average Australian Cap Rate



# Sector Analysis

## All Agencies



### Sale Price Growth

The chart illustrates childcare sales data from 2022 to 2024. In 2022, with 79 sales, the average sale price per place was \$60,786.

In 2023, there were 86 sales, and the average price per place rose to \$62,450. By 2024 (to date), with 58 sales, the average price has further increased to about \$71,564 per place.

This trend shows a steady rise in sale prices, stemming from the increase in construction prices and increased demand from investors.

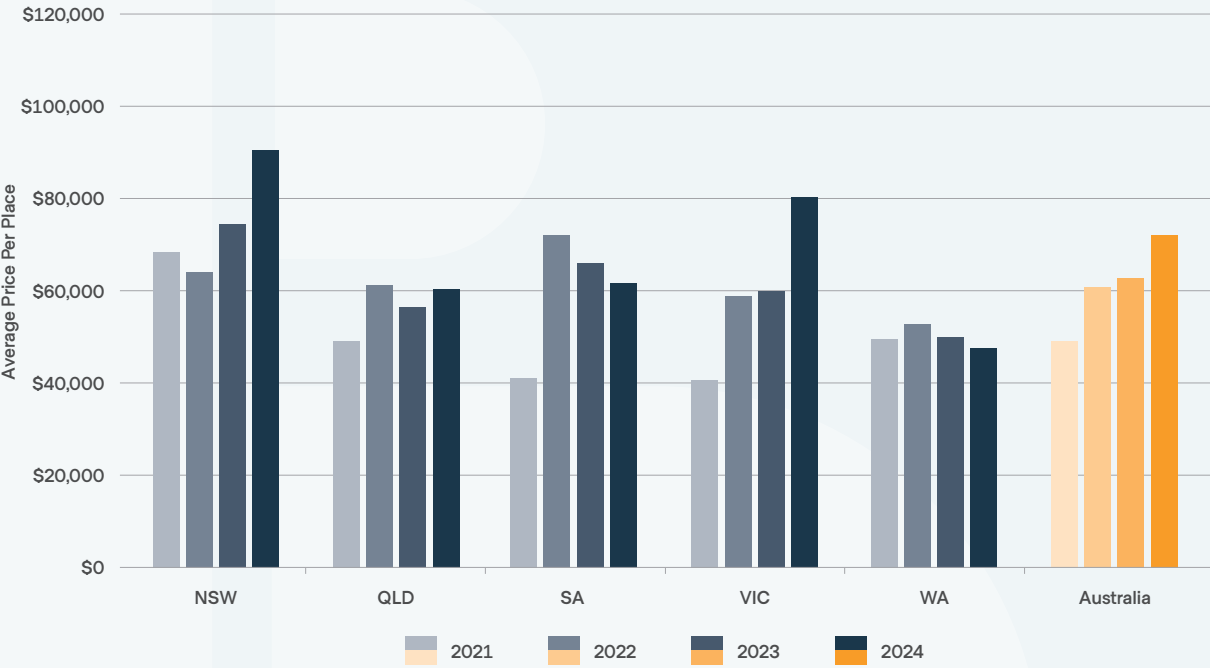
**\$71,564**  
2024

**\$60,786**  
2022

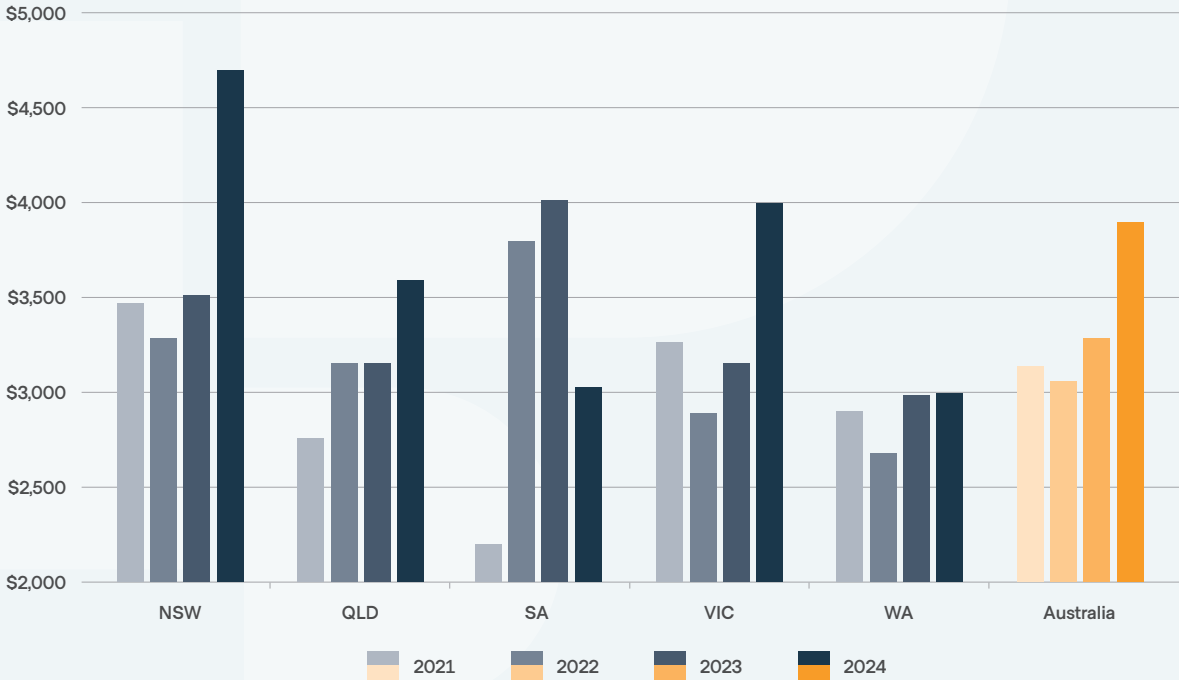
**18%**  
Increase

# Sector Analysis

## Average Price per Place



## Average Rent per Place





## Smartland Boutique

Sippy Downs QLD

💰 \$7,400,001

📈 5.95% Yield

# Burgess Rawson 2023 and 2024 Year to Date Sales



ACT	NSW	QLD	SA	VIC	WA	NT	TAS
Metropolitan	Metropolitan	Metropolitan	Metropolitan	Metropolitan	Metropolitan		Metropolitan
<b>\$12,120,000</b> 5.82%	<b>\$87,755,000</b> 4.82%	<b>\$66,020,000</b> 5.57%	<b>\$27,800,000</b> 5.39%	<b>\$91,526,000</b> 5.40%	<b>\$25,291,000</b> 5.93%		<b>\$4,915,000</b> 5.43%
	Regional	Regional		Regional	Regional	Regional	
	<b>\$33,507,000</b> 5.41%	<b>\$48,798,000</b> 5.99%		<b>\$3,305,000</b> 6.09%	<b>\$3,700,000</b> 6.75%	<b>\$6,600,000</b> 7.03%	

💰 Sales Volume
📊 Median Cap Rate



Sale Price

**\$7,210,000**



Cap Rate

**4.59%**



Sold

**August 2024**

## Case Study

### Guardian Community ELC, South Coogee NSW

Located 9 km southeast of Sydney CBD, the property at 158 Moverly Road in South Coogee benefits from a family-friendly location with strong demographic attributes. Its proximity to 33 schools within a 7-minute drive adds to its appeal, making it an attractive site for childcare services.

The asset is leased to Guardian Childcare & Education, a prominent national operator with over 175 centres across Australia. The lease runs until 2039, with an option to extend to 2049, offering long-term security for the investor.

Guardian is recognised for its high-quality early childhood education and care. Their centres are designed to support child development, featuring purpose-built environments that foster learning.

The property was purchased at auction by a private NSW investor, reflecting its strong market appeal and the stability offered by a reputable tenant in a prime location.



#### Site Area

671sqm\*



#### Licenced Places

44



#### Zoning

R2 - Low Density Residential  
Randwick LEP 2012  
Amendment No. 9



#### Lease Term

Twenty (20) year lease to 2039  
plus a Ten (10) year option to 2049



#### Rental per LDC Place

\$7,520



#### Net Income

\$330,902 pa\* + GST



#### Agents

Yosh Mendis & Michael Vanstone

\* Approx

# Burgess Rawson Sales Highlights



**Edge Early Learning**  
Cannon Hill QLD

Sale Price	Cap Rate	Date
\$8,700,000	5.43%	Sep 2024



**Goodstart Early Learning**  
Linden Park SA

Sale Price	Cap Rate	Date
\$2,230,000	3.11%	Aug 2024



**ChildsPlay Early Learning**  
Lindisfarne TAS

Sale Price	Cap Rate	Date
\$4,915,000	5.43%	Aug 2024



**Kids Academy**  
Killara NSW

Sale Price	Cap Rate	Date
\$7,780,000	4.14%	Jun 2024

# Burgess Rawson Recent Sales

Tenant	Location	State	Sale Price	Date Sold	Cap Rate
Edge Early Learning	Cannon Hill	QLD	\$8,700,000	Sep 2024	5.43%
Journey Early Learning	Thomastown	VIC	\$6,150,001	Sep 2024	5.77%
Busy Bees Australia	Woodend	VIC	\$3,342,000	Sep 2024	6.03%
Insight Early Learning	Dubbo	NSW	\$5,084,000	Sep 2024	6.41%
Goodstart Early Learning	Linden Park	SA	\$2,230,000	Aug 2024	3.11%
ChildsPlay Early Learning	Lindisfarne	TAS	\$4,915,000	Aug 2024	5.43%
Guardian Community Early Learning Centres	South Coogee	NSW	\$7,210,000	Aug 2024	4.59%
Wyreema Early Education	Wyreema	QLD	\$6,288,000	Aug 2024	6.40%
Zuccoli Early Learners	Zuccoli	NT	\$6,600,000	Jul 2024	7.03%
Smartland Boutique Early Learning	Sippy Downs	QLD	\$7,400,001	Jun 2024	5.95%
Kids Academy Killara	Killara	NSW	\$7,780,000	Jun 2024	4.14%
Chatterbox Early Learning	Dutton Park	QLD	\$5,380,000	May 2024	4.84%
Goodstart Early Learning	Mount Hutton	NSW	\$1,910,000	May 2024	4.67%
Insight Early Learning	Dubbo	NSW	\$5,111,100	May 2024	5.95%
Bluebird Early Education	Cardiff	NSW	\$7,050,000	May 2024	6.03%
Guardian Childcare	Box Hill	VIC	\$9,999,800	Apr 2024	5.31%
Children First Education	Windsor Gardens	SA	\$6,350,000	Apr 2024	5.89%
Sparrow Early Learning	Mount Samson	QLD	\$2,550,000	Apr 2024	6.73%

# What's Next for Early Education?

The future of childcare in Australia is seeing significant changes, driven largely by government initiatives aimed at improving the conditions for both workers and families.

One of the most impactful trends is the 15% wage increase for early childhood educators, implemented over two years.

The government will raise wages by 10% in December 2024, followed by an additional 5% in December 2025. This increase is part of a broader strategy to address critical workforce shortages and improve retention in the early education sector. It is expected to cost \$3.6 billion over two years and applies to employers who opt into the multi-enterprise agreement (MEA).

The initiative also introduces a cap on childcare fee increases, limiting them to 4.4% annually, which is designed to balance the interests of families who rely on affordable childcare services with the operational sustainability of childcare providers.

This fee control aligns with government priorities to improve access to affordable and high-quality care, particularly as rising childcare costs have long been a concern for Australian families.

Furthermore, the government's efforts highlight the critical role that early childhood education plays in workforce participation, especially among women, and in supporting child development.

The wage increases and ongoing investment in the sector are part of a broader commitment to ensure that early education remains an attractive career choice and a sustainable industry for the future.

The long-term impact of these reforms is expected to enhance both the quality and accessibility of early education services in Australia, making childcare more affordable while ensuring educators are fairly compensated for their crucial work.

This shift signals strong government support for the sector and underscores the importance of early education in Australia's economic and social landscape.



## Young Academics

Mays Hill NSW

💰 \$10,150,000

📈 5.63% Yield

# What You Need to Know

## What to Look For

There are a number of key fundamentals to be aware of when securing an early education asset that will provide the best returns:

### Strength and profile of tenant

Identifiable and reputable brands known for their strong occupancy rates.

### Assignment provisions

Ensure that adequate due diligence is conducted under this section of the lease. Ensure the tenant cannot simply assign the lease to another, potentially lesser known and less secure operator, consequently decreasing the investment's value.

### Lease tenure and option periods

Reputable operators will invariably seek a long-term lease from the landlord, often with extensive options.

This assurance provides a set-and-forget investment, meaning minimal input from the owner and significant returns over time. Longer options can assist in the resale of an asset later down the track.

### Location, land size & underpinned land value

Strong underlying land values are underpinned by tenant requirements including high profile sites with future development opportunity. Early education sites are in prized locations with amenities within close proximity, making them tightly held by tenants.

## Rent review structure

Ensure your income growth by looking for annual rent increases, and market reviews at the end of the term.

## What you'll pay

Early education investments generally range from \$2 million to \$10 million with incomes ranging from around \$300,000 to \$500,000 plus. The median sale price by Burgess Rawson has been \$6.32 million since 2024.

## How to buy one

Early education assets are sold both privately and at auction.

The benefit of an auction is transparency between all parties. Typically buyers will bid in person, over the phone or online, with full visibility of buyer competition and rental cap rate on-screen in front of them.

This asset class has always featured heavily in all the major commercial agency players' portfolios, given the calibre of tenants and the proven investment security of the sector.

Having sold 52% of all early education assets offered to market in the last 18 months, we've seen no sign of investor demand slowing in this sector and predict steady transaction volumes into the 2025 financial year.



# National Early Education Team



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## How we can help

At Burgess Rawson, we offer solution-based outcomes and data-driven expertise for early education vendors, investors, developers and tenants, with a breadth of knowledge that spans the entire property journey; asset management, sales leasing, valuations, development feasibility and tenancy coordination.

Our national specialty team is at the forefront of the early education sector, with dedicated property professionals able to provide an end-to-end service to clients in all states and territories across Australia.

If you're looking to invest, divest, require management, or simply want to discuss the sector, please don't hesitate to contact a team member today.



# Industry Insights Report

# Large Format Retailing

Explore an industry that has thrived by evolving with changing consumer preferences and retail trends. The large format retail sector has adapted to demographic shifts and evolving consumer behaviors, positioning it as a strong investment opportunity.

Major brands such as Bunnings Warehouse, Costco, Harvey Norman, Officeworks, and Petbarn are demonstrating impressive performance, showcasing the sector's resilience and growth potential.

Our forthcoming Industry Insights Report will delve into the driving factors behind the success of these leading brands. Expect a detailed analysis of emerging trends, supply and demand dynamics, investment yields, and the broader market landscape.

Join us as we discover the substantial investment opportunities within this dynamic and prosperous sector.

***“Australia’s shopping habits saw a significant shift during the pandemic, driving increased demand for large format retailing. The surge in home improvement projects, heightened online shopping, and a growing preference for bulk purchases has collectively reshaped the industry.”***

Yosh Mendis  
Partner | Head of Agency NSW



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

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