WESTERN SYDNEY INSIGHTS

NSW Childcare

ISSUE 2

RWC WESTERN SYDNEY

Executive Summary

RWC Western Sydney is pleased to present our NSW Childcare Market Report.

In a period where many commercial markets face headwinds, the childcare sector stands out with quality results. 2022 did see a lull, largely due to the swift increase in financing costs. However, the recent stability in the cash rate has invigorated the sector, bringing much-needed confidence back.

Key trends and indicators worth noting are:

- **Investment Activity:** The previous slump has given way to quality outcomes in investment. Metropolitan assets, in particular, have been favoured, with yields registering only limited upward movement since the investment zenith of 2021.
- **Appealing Price Points:** The childcare sector, with its various price points, continues to be a magnet for a spectrum of investors. They're drawn to the promise of secure, long-term, stable income.
- **Shift in Stock Availability:** This year, while investment stock has been somewhat scarce, there's been a conspicuous rise in development site stock entering the market.
- **Strong leasing demand:** This year has seen strong increases in rents and growing income levels in this high inflationary environment. Demand to lease is favourable given the low capital required to start operating compared to building or purchasing a childcare asset, allowing operators to grow their footprint in multiple locations more rapidly.

The state's robust population gains, coupled with the Federal Government's subsidies and training commitments, have further stoked activity in the sector. This is evident in the spike in development projects: a whopping 716 are in various planning stages, with 89 under construction and over 360 awaiting DA approval. Challenges like the high cost of construction and labour shortages have hampered some projects. Yet, there's newfound optimism with raw material costs stabilising and skilled immigrants, particularly in Western Sydney, poised to give a much-needed boost.

Emerging developers in this space are being strategic, gravitating towards locations with rates above $140/day, with a discernible preference for single-level developments, thereby sidestepping the complexities and costs of basements.

If you're interested in talking about this report or have questions about how a customised market analysis can contribute to your success in the real estate sector, we'd be happy to have a conversation with you.

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716 new childcare facilities currently in the development pipeline across NSW.

NSW CHILDCARE TURNOVER

2023*	$213.44M
2022	$178.84M
2021	$279.77M

AVERAGE YIELD

METROPOLITAN
4.84%

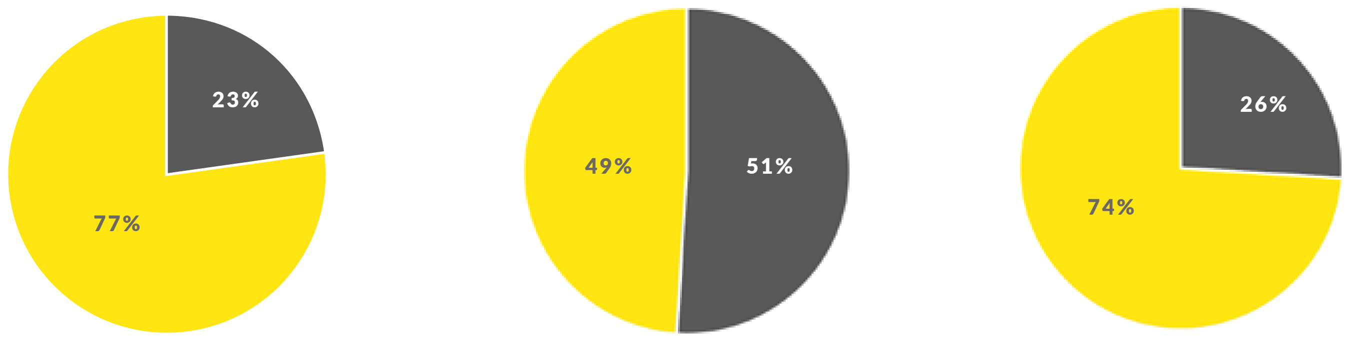
REGIONAL
5.29%

MORE THAN
80%
IN METRO-POLITAN AREAS

89
PROJECTS UNDER CONSTRUCTION

362
PROJECTS DA APPROVED

REGIONAL VS METROPOLITAN SALES



2023*		**2022**		**2021**	
METROPOLITAN	**77%**	METROPOLITAN	**49%**	METROPOLITAN	**74%**
REGIONAL	**23%**	REGIONAL	**51%**	REGIONAL	**26%**

SOURCE: RWCWS *TO 30 SEPTEMBER

Childcare *Pipeline*

Over the past six months, the childcare development pipeline in NSW has seen a surge.

A total of 716 projects, both new establishments and extensions to existing centres (barring renovations), have been updated. This considerable number reflects the increased development site sales activity observed over the last two years and the vast volume of projects currently in the DA approved stage.

Yet, not everything is smooth sailing.

CONSTRUCTION HURDLES

The continuous rise in construction costs, in tandem with labour issues, has led many projects to tread water at the approval stage. The difficulty and cost associated with obtaining construction finance have also been roadblocks, resulting in this glut of approved but not initiated projects.

DEVELOPMENT PREFERENCES

Developers are now favouring single-level developments and avoiding basements, especially in areas showcasing a mismatch between demand and supply.

The greater certainty surrounding interest rates is instilling confidence. Speculations of possible rate cuts next year only add to the optimism for investors and developers.

Delving deeper into the projects

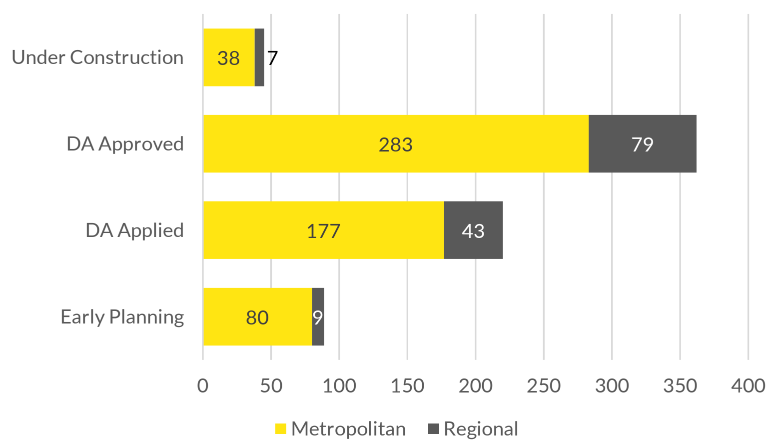
CURRENT CONSTRUCTION

89 projects are mid-construction, with the anticipation to be wrapped up in the next 18 months. The majority are nestled within Sydney's metropolitan regions, prominently in Blacktown, Camden, and Parramatta LGA's.

KEY DEVELOPMENT REGIONS

In the broader development pipeline, the North West is a hub of activity, with Blacktown and The Hills LGA jointly accounting for 130 projects. The South West corridor trails closely with 76 projects at different planning stages. Both corridors are projected to benefit from strong population gains over the coming decades, especially with the influx of immigrants into Greater Sydney and abundant land for housing. Notably, Parramatta is on track to witness a boom in the 0–4-year age group, leading to it housing 58 new childcare projects.

NSW SUPPLY PIPELINE BY REGION



SOURCE: CORDELL CONNECT, RWCWS

Childcare *Transactions*

The childcare sector experienced a notable resurgence in activity after a subdued beginning to the year.

This resurgence was in large part due to the adjustment of the cash rate in June 2023 to 4.10%. With this shift, investment activity surged, bolstered by the newfound stability in the rates, instilling greater confidence and certainty in this investment niche.

Key Developments in NSW's Demography

POPULATION DYNAMICS

- Major influx of international migrants to NSW.
- Notable reduction in departures to Queensland and WA.

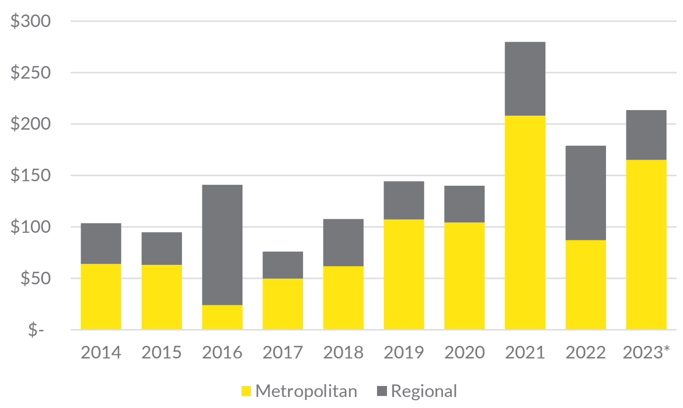
OUTCOME:

These shifts have generated a heightened demand for childcare facilities, an opportunity that diverse investors are keenly capitalising on.

2021 stands out as a record year for sales in the sector, with transactions nearing the $280 million mark. This was largely driven by the availability of affordable funds, attracting a burgeoning pool of buyers keen to branch out into commercial property. However, 2022 saw a shift in mood as financing rates began to climb, resulting in a 36.1% decline in investment activity.

NSW CHILDCARE TRANSACTION VOLUMES

$MILLIONS



*SOURCE: RWCWS *TO 30 SEPTEMBER*

2023's Investment Landscape

BOUNCING BACK

By the end of September, sales volumes not only surpassed the entirety of 2022 but also set the sector on a trajectory for a potentially record-breaking year.

SALES BREAKDOWN

- Total transactions amounted to $213.44 million.
- Over 50 deals were struck, inclusive of development sites.
- Regional areas accounted for more than 22% of these sales.

The balance between regional and metropolitan assets has regained equilibrium. The initial spike in demand for regional assets, driven by the population surge during the COVID-19 era, is now levelling out. While regional areas have seen growth, they haven't kept pace with Greater Sydney. Today's investors, while discerning in their choices, aren't being forced to venture into riskier secondary locations, even with the existing limitations in investment options.

Childcare *Yields*

Resilience Amid Market Fluctuations

In a market often swayed by external factors, investment yields for childcare centres have stood their ground.

The climbing cash rate, having surged 400 basis points since early 2022, remarkably hasn't seen a mirrored ascend in yields. The statistics from 2023 are revealing: despite this leap in the cash rate, the yield increase for metropolitan assets has been a mere 59 basis points from their 2021 low.

METROPOLITAN VS. REGIONAL ASSETS

While the broader yield movement has been modest, regional markets have had their own narrative. Yields in these territories rose by 84 basis points in 2022, echoing a possible 'flight to quality' by investors towards metropolitan assets. Fast forward to the present, and there's a renewed optimism. Investors are now actively competing for premium assets, irrespective of their geographic shortcomings, maintaining a close yield range.

Metropolitan Assets

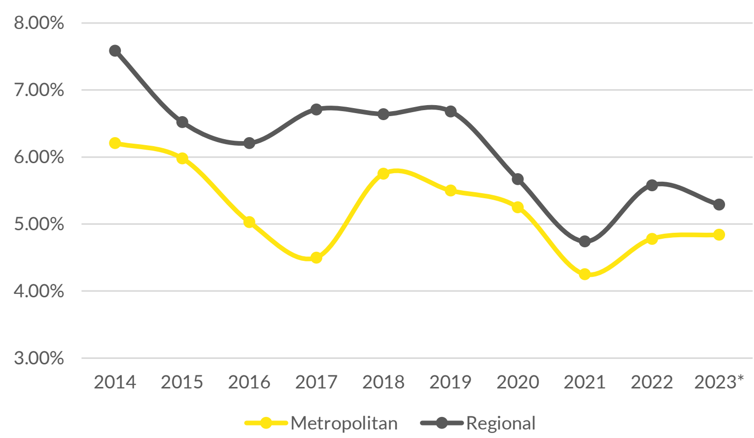
Ranging from **2.75% to 5.25%,** averaging at **4.84%.**

Regional Assets

Ranging from **4.51% and 6.23%**, with an average of **5.29%.**

AVERAGE NSW CHILDCARE YIELDS

BY LOCATION



*SOURCE: RWCWS *TO 30 SEPTEMBER*

The robustness of these results underscores the secure nature of this investment class, complemented by a thriving leasing market. Although inner Sydney has witnessed a decline in birth rates, there has been a marked increase in regional and outer areas, especially in the South West sector, boosting the 0–4-year age cohort. This growth, coupled with strong immigration, has spurred demand for childcare facilities, ensuring consistently high occupancy rates.

Government subsidies further amplify the demand for these centres. For investors, the allure lies in the steady, and often expanding, income streams from reliable tenants. Notably, while these assets are exempt from land tax, outgoings are shouldered by the tenant. This arrangement lets owners reap the benefits of the income while also capitalising on the potential appreciation of the underlying asset value—these assets may offer development opportunities or command higher valuations in the future.

Furthermore, the wide pricing spectrum of these assets means they cater to a diverse array of commercial investors. It's worth noting that the yield growth in this sector hasn't mirrored that of other commercial investment classes. Moving forward, the forecast suggests continued stability in this arena.

Conclusion

The childcare investment sector has defiantly forged its own path recently, registering growth in investment levels even as yields remain competitive. While the rising cost of finance has hindered several commercial investment avenues and uncertainties surrounding occupancy and rental growth have cast shadows on value and demand, the childcare realm has proved resilient. Although there was a noticeable decline in investment sales last year due to the heightened financing costs, the general anticipation of reaching peak interest rates has rejuvenated investor interest, further fueled by an active leasing market.

Key drivers behind this renewed confidence include:

DEMOGRAPHIC DYNAMICS

Robust population growth, particularly a burgeoning 0-4 age bracket in NSW, has sustained high occupancy rates and propelled new projects forward.

GOVERNMENT INCENTIVES

Federal Government subsidies bolster the appeal of these high-occupancy assets, presenting buyers with a secure, long-term investment avenue, often accompanied by fixed increments, with reputable occupants.

INVESTMENT ATTRACTIVENESS

The allure of a "set and forget" investment where tenants cover all outgoings has resonated with a wide buyer base. With asset price points ranging from just under $1 million to as much as $15 million this year, it's an accessible option for diverse private buying groups, although top-quality opportunities are scarce.

TARGET MARKET

Enquiry remains solid across the childcare space, particularly from new entrants looking to capitalise on secure income streams. Owner occupier demand also remains robust while many builders/developers are keen to diversify their investments by holding assets post completion and taking advantage of strong leasing demand.

The development landscape in this sector certainly promises intrigue.

A staggering surge has been noted this year, with over 700 projects lined up. Even as some of these projects advance to construction, concern regarding construction costs and workforce persist, though they're anticipated to moderate by 2024. Interestingly, a fresh wave of residential developers are eyeing this sector, especially in areas with constrained demand and high daily rates.

The trend favouring single-storey developments persists, primarily due to cost considerations. This will see more projects currently with DA approval advance with those in the North West and South West corridors of Sydney together with Parramatta likely to move first, given the expected housing supply and population movements in this area increasing the demand for childcare facilities.

Empowering success with tailored commercial real estate solutions in *Western Sydney.*

RWC Western Sydney is a dynamic commercial real estate agency based in Parramatta and servicing the thriving region of Greater Westerrn Sydney.

We take pride in our deep-rooted local expertise and unrivaled industry knowledge.

Our team of dedicated professionals possesses a profound understanding of the unique opportunities and challenges that the Western Sydney commercial real estate landscape presents. By harnessing this expertise, we offer tailored solutions that cater to your specific requirements, ensuring optimal outcomes for every client we serve.

OUR SERVICES

- Investment Sales
- Development Site Sales
- Special Use Asset Sales
- Commercial Leasing
- Asset Management
- Asian Investment Services

Let's discuss how we can optimise the full potential of your commercial property.

PETER VINES
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OUR OFFICE

With a strong foundation of experience and expertise, we bring a winning combination of dynamism and operational rigour to the commercial agency space.

Our People are *Your Advantage.*

SALES


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Managing Director


JOSEPH ASSAF
Director


VICTOR SHEU
Director


JAI SETHI
Associate Director


TROY WANG
Sales Executive


OWEN WHITE
Sales Executive

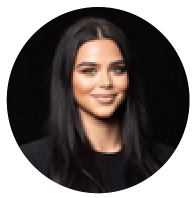

ANDREW SACCO
Sales Associate


VEE LI
Sales Associate


JAYKY WU
Commercial Property Analyst


CHANTEL BRILLANTES
Marketing & Design


MONH LY
Campaign Manager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EA to Peter Vines

LEASING


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ROBERT NAPOLI
Senior Leasing Executive


TERESA MULLINS
Leasing Executive

ASSET MANAGEMENT


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RUBY ROZENTAL
Director of Strategy


HANNAH CARNEY
Director of Operations


PAULINE WATERFORD
Finance Manager


CHRISTIAN BRILLANTES
Office Assistant

Who we are,
what we do,
why we do it