

A bright, modern childcare room with light-colored walls and a white ceiling with recessed lighting. The room features wooden furniture, including tables and shelving units, and is filled with various toys and educational materials. Large windows on the left side offer a view of lush greenery outside. A blue bird-shaped decoration hangs from the ceiling. The overall atmosphere is clean, organized, and child-friendly.

RWC

WESTERN **S**YDNEY INSIGHTS

NSW Childcare

ISSUE 5

RWC WESTERN SYDNEY

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Executive Summary

The NSW childcare investment market enters 2026 navigating a fundamental correction. Record 2025 activity at \$471 million gave way to significant cooling, with year-to-date sales of just \$123.8 million representing significant declines.

This deceleration reflects not market weakness but genuine market maturity and investor sophistication.

DEMOGRAPHIC REALITY REPLACES POLICY OPTIMISM

Despite \$3.98 billion in government subsidies and unprecedented policy support including the "3 Day Guarantee," NSW childcare participation has fallen to 274,160 children. Declining birth rates mean the addressable market is contracting despite policy expansion. Subsidies alone cannot overcome demographic constraints, signalling investors must focus on location specific supply demand dynamics rather than assuming policy driven growth.

GEOGRAPHIC DIVERGENCE DEFINES MARKET

The market presents two distinct stories. Growth corridors including outer west, south west and the Hunter demonstrate genuine undersupply with high children per service ratios and active development momentum. Established inner Sydney areas face oversupply with operators competing for shrinking pools of families. Only 43 projects are under construction despite 385 DA approvals, reflecting developer caution learned from 2021-2022 oversupply.

FEDERAL BUDGET ACCELERATES RESIDENTIAL TO COMMERCIAL PIVOT

Federal Budget changes to negative gearing and capital gains tax treatment are driving investor reallocation from residential to commercial property. Childcare's defensive characteristics, government backing, land tax exemptions, and net lease structures position it as a preferred alternative for investors seeking to exit residential exposure. This capital reallocation is offsetting demographic challenges, supporting continued institutional interest in quality assets.

INVESTOR FOCUS SHARPENS ON SUSTAINABILITY AND QUALITY

Buyers are conducting extended due diligence, prioritising operator covenant quality, staff retention capability, and design differentiation over asset size. Larger facilities face extended marketing periods as investors recognise labour shortage risks and operational complexity. Quality design, child centred layouts, and strong operator fundamentals command premium positioning.

YIELDS DEMONSTRATE RESILIENCE DESPITE REPRICING

Metropolitan yields at 5.30% and regional at 5.90% widened despite falling interest rates in 2025, reflecting market repricing of operational risks. Interest rate increases through 2026 are likely to apply upward pressure. However, yield stability relative to other commercial assets combined with government backing and structural advantages continue to support investor appeal for quality assets in fundamentally sound locations with proven operators.

If you'd like to discuss this report in more detail or to learn more about the childcare market, we would be delighted to engage in a conversation with you.



PETER VINES
Managing Director
RWC Western Sydney
0449 857 100

A Snapshot of Childcare in NSW



456,840
CHILDREN IN CARE



323,580
FAMILIES USING CARE



5,419
APPROVED SERVICES



33.8 hours
AVERAGE WEEKLY USAGE



\$14.60
AVERAGE HOURLY FEE



\$3.98 billion
TOTAL SUBSIDIES
(AUSTRALIA-WIDE)

Source: Department of Education | December 2025

715 new childcare facilities are currently in the development pipeline across NSW worth \$14.9 billion

43 Projects Under Construction

385 Projects DA Approved

NSW CHILDCARE TURNOVER

2026* **\$123.7 million**

2025 **\$471.3 million**

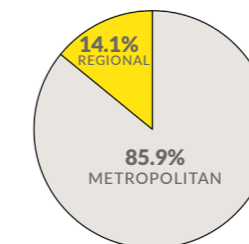
2024 **\$394.2 million**

AVERAGE YIELD*

Metropolitan **5.30%**

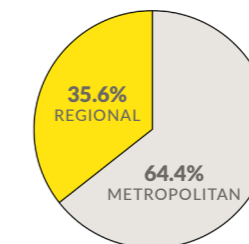
Regional **5.90%**

REGIONAL V METROPOLITAN SALES



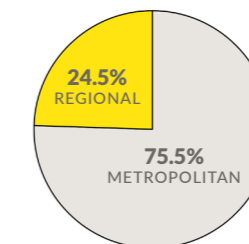
2026*

METROPOLITAN **85.9%**
REGIONAL **14.1%**



2025

METROPOLITAN **64.4%**
REGIONAL **35.6%**



2024

METROPOLITAN **75.5%**
REGIONAL **24.5%**

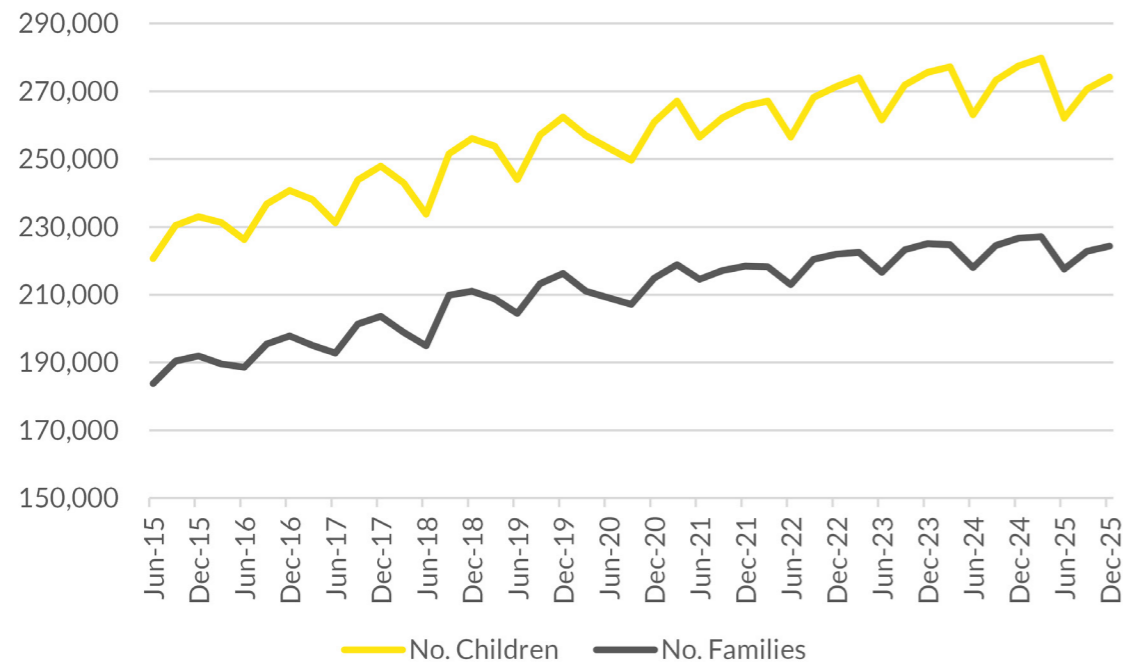


Western Sydney represents 40% of all Metropolitan sales*

Source: RWCWS *to 1 June

Government Support Fails to Drive Growth as Demographic Constraints Limit

NUMBER OF CHILDREN & FAMILIES UTILISING CHILDCARE
CENTRE BASED CHILDCARE, NEW SOUTH WALES



\$3.98 billion in annual government subsidies and unprecedented policy support, NSW childcare participation declined to 274,160 children in December 2025

Government investment in childcare has reached unprecedented levels with \$3.98 billion in subsidies during the December quarter 2025, centre-based day care capturing 86.2% of support. NSW commands 31.8% of national participation at 456,840 children. Yet participation has contracted from peak, with NSW centre-based families declining 1.3% year

on year despite policy expansion and the "3 Day Guarantee."

DECLINING BIRTH RATES OVERRIDE POLICY SUPPORT

The fundamental constraint is demographic rather than policy. Declining birth rates mean population cohorts entering the 0-5 year bracket is smaller than historical norms. With 48.8% of all 0-5 year olds using approved care, the market is approaching saturation. Record government investment has failed to generate participation growth, signalling subsidies alone cannot overcome demographic constraints.

GEOGRAPHIC SUPPLY DEMAND DIVERGENCE

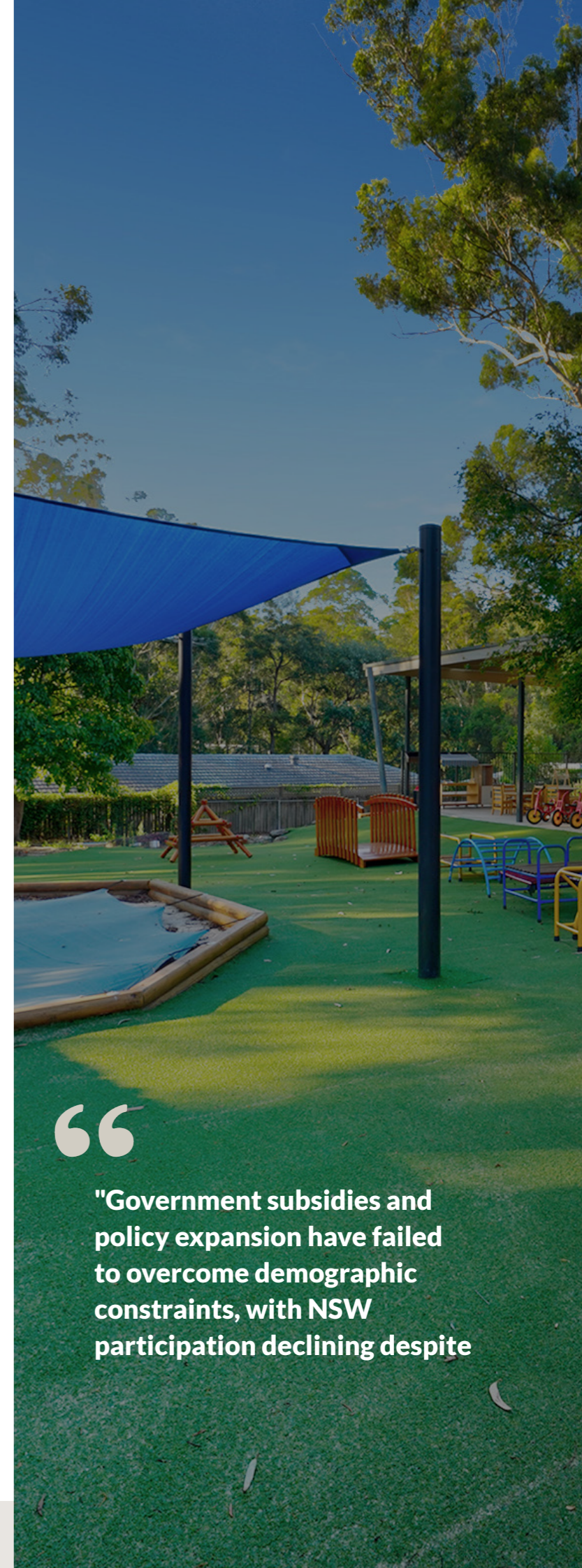
Growth corridors show genuine undersupply. Penrith (12,730 children across 131 services), Bringelly - Green Valley (11,740 across 109), and Newcastle (12,520 across 121) demonstrate high children per service ratios. Established inner Sydney reveals oversupply: Bankstown operates 151 services for 10,190 children; Canterbury has 102 services for 6,930 children. This geographic mismatch explains pipeline concentration in Western Sydney corridors while established suburbs face operator viability pressures.

INVESTOR IMPLICATIONS

Government subsidies provide revenue certainty explaining childcare's defensive characteristics. However, the policy participation disconnects signals that investors must focus on location specific supply demand dynamics and operator covenant quality rather than assuming policy support will drive occupancy. Growth

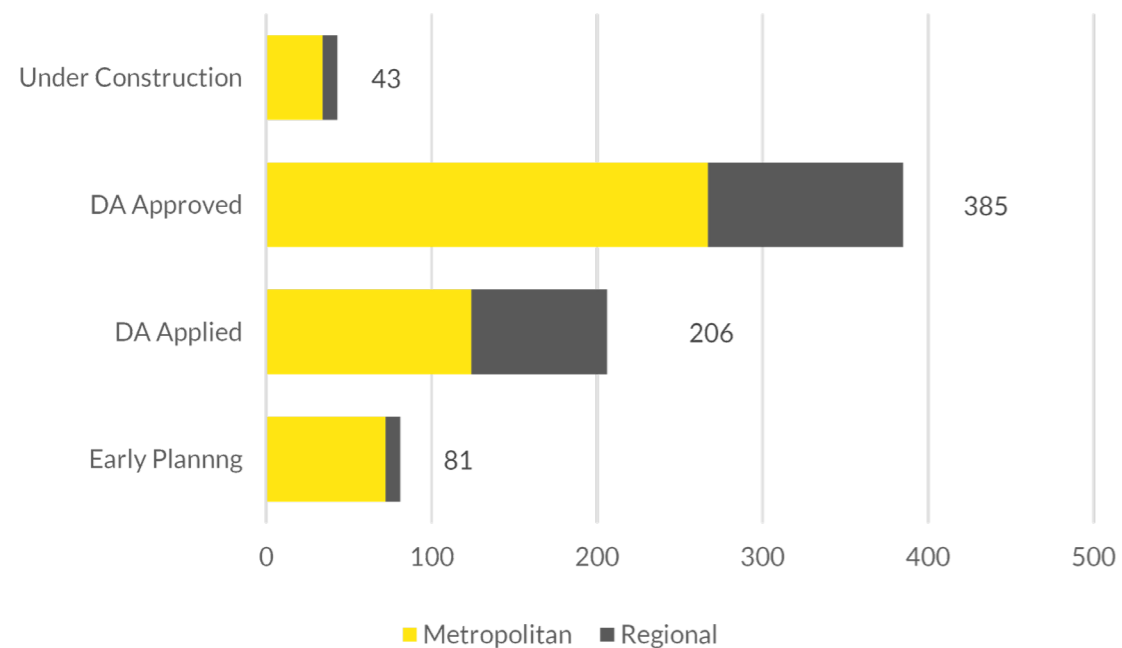


"Government subsidies and policy expansion have failed to overcome demographic constraints, with NSW participation declining despite



Development Pipeline Signals Caution as *Construction Stalls* in Established Markets

NEW SOUTH WALES SUPPLY PIPELINE BY REGION
NO. OF PROJECTS



SOURCE: CORDELL CONNECT, RWCWS

With only 43 projects under construction across NSW, the childcare sectors 715 project pipeline masks a more sobering reality, developer caution in oversupplied established suburbs and concentrated momentum in genuine growth corridors.

CONSTRUCTION ACTIVITY CONCENTRATED IN GROWTH AREAS

NSW's childcare development pipeline contains 715 projects across all stages worth close to

\$15 billion, but actual construction activity reveals the true demand picture. Only 43 projects are currently under construction, with momentum heavily concentrated in specific growth corridors. Liverpool leads with 9 projects under construction, reflecting South West corridor population growth and documented undersupply. Maitland (8 projects) similarly demonstrates strong demographics supporting new supply, while Blacktown (3), Cumberland (3), and Lake Macquarie (2) show meaningful activity.

OVERSUPPLY LESSONS FREEZE APPROVAL PIPELINE

The gap between approvals and construction reveals market maturity. NSW holds 385 DA approved projects and 206 in DA application, yet only 43 are building. Blacktown illustrates the stall: despite 75 pipeline projects and 34 approvals, construction has started on just 3. The Hills Shire (41 total projects, 27 approved) and Cumberland (45 total, 29 approved) show similar gridlock. Developers learned painful lessons from 2021-2022 when approval momentum created saturated markets across established suburbs, leaving multiple operators chasing shrinking pools of families. Current caution reflects this experience, with developers holding approved projects pending clearer demand signals before committing capital.

STRATEGIC CAUTION DRIVING APPROVALS

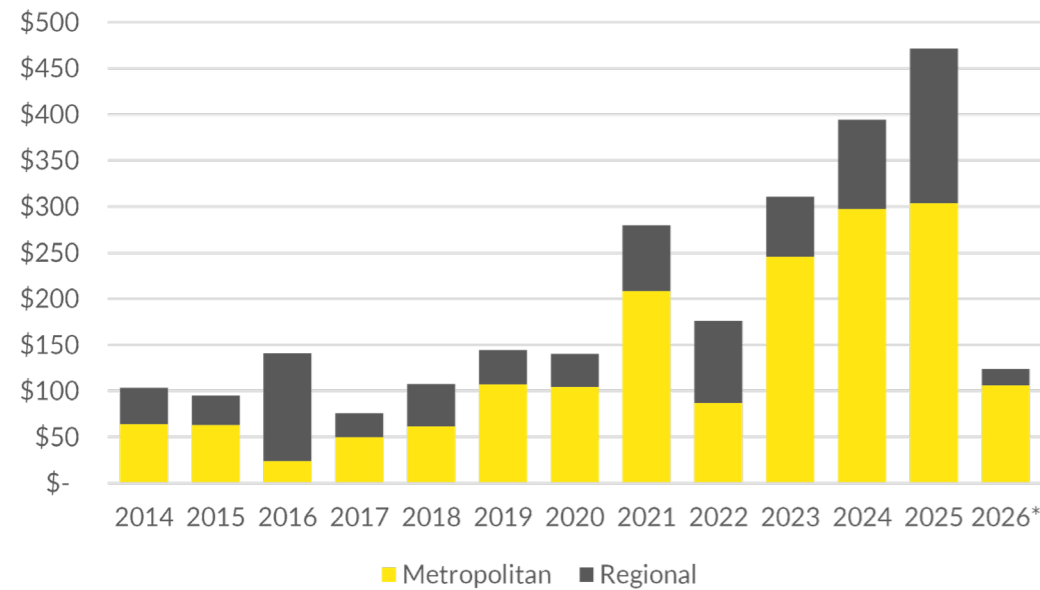
Many developers are holding approvals while monitoring local competition or obtaining pre-commitment before following through on construction. Growth corridors including Liverpool, Campbelltown, and Camden show highest pipeline concentration supported by genuine population growth. Regional areas including Central Coast (25 projects), Lake Macquarie (29), and Maitland (17) demonstrate substantial pipelines backed by migration into the Hunter and Central Coast regions. Established inner Sydney areas face saturation risks, explaining minimal construction momentum despite large approval inventories.



"With only 43 projects under construction despite 385 DA approvals, developer caution reflects hard lessons from 2021-2022 oversupply, with construction concentrated in genuine undersupply corridors including Liverpool, Maitland, and regional growth areas."

Record 2025 Masks *Cooling Momentum* as 2026 Activity Moderates

NEW SOUTH WALES CHILDCARE TRANSACTION VOLUMES
\$ MILLIONS



SOURCE: RWCWS *2026 REPORTED TO 1 AUGUST

NSW childcare investment reached \$471 million in 2025, setting a new record, but 2026 signals significant market cooling with only \$123.8 million so far this year.

The childcare market's trajectory has shifted markedly from the record activity of 2025. Metropolitan sales reached \$303.6 million and regional \$167.6 million in 2025, representing the sector's strongest performance to date. However, 2026 has delivered a sobering reality. Year to date to June 1, metropolitan volumes stand at \$106.3 million and regional at just \$17.5 million, representing a significant decline from 2025's pace.

WESTERN SYDNEY REMAINS DOMINANT DESPITE MARKET COOLING

Western Sydney continues to command nearly 40% of metropolitan activity in 2026, albeit down from 45.5% in 2025. While this represents a decline in share, it underscores Western Sydney's persistent appeal even as overall market activity has softened. The region's dual income necessity, population growth dynamics, and concentrated childcare undersupply relative to developed supply continue to drive buyer interest. Regional activity has collapsed to just 14.1% of total sales so far this year, reflecting buyers' flight to quality and established market confidence in metropolitan assets over regional alternatives. The slight contraction in Western Sydney's share reflects broader market caution following record 2025 activity rather than fundamental loss of appeal in the region's demographics or supply demand balance.

PRICE POINT SEGMENTATION NARROWING BUYER POOL

Many developers are holding approvals while

monitoring local competition or obtaining pre-commitment before following through on construction. Growth corridors including Liverpool, Campbelltown, and Camden show highest pipeline concentration supported by genuine population growth. Regional areas including Central Coast (25 projects), Lake Macquarie (29), and Maitland (17) demonstrate substantial pipelines backed by migration into the Hunter and Central Coast regions. Established inner Sydney areas face saturation risks, explaining minimal construction momentum despite large approval inventories.

BUYERS TAKING TIME TO REASSESS

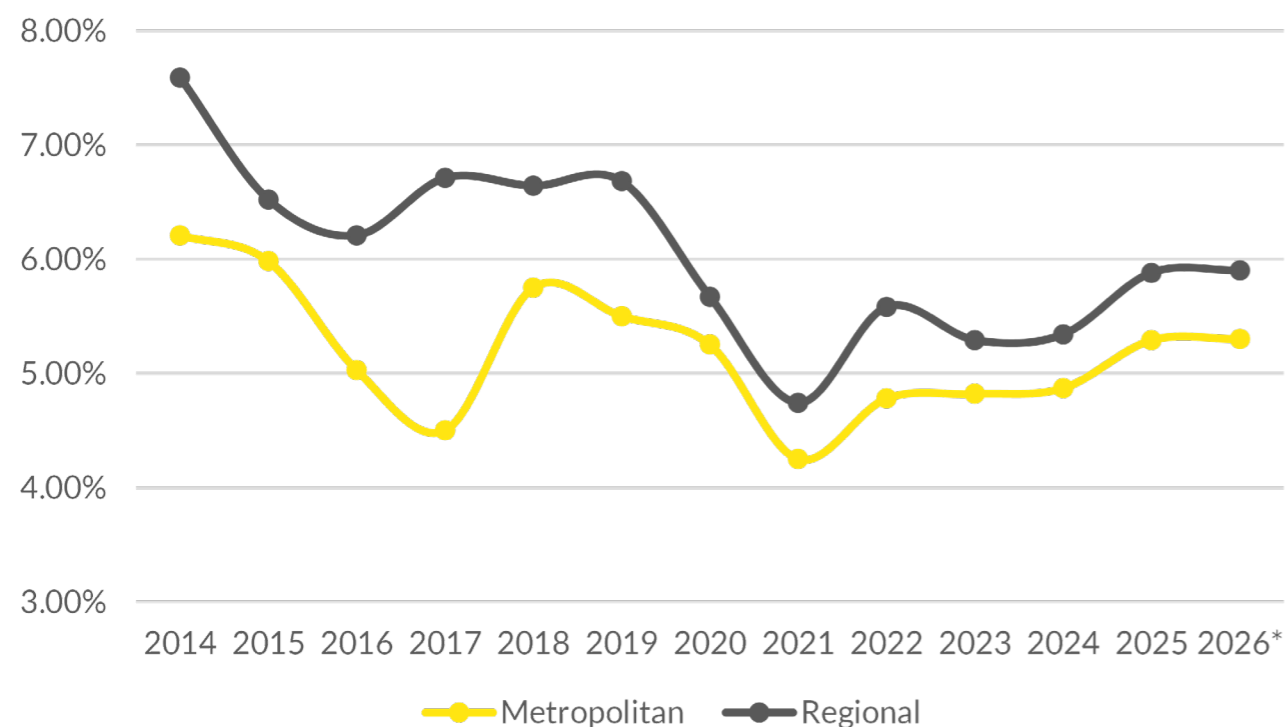
The sharp deceleration reflects genuine market pause rather than seasonal softness. Buyers are conducting thorough due diligence on local competition, occupancy trends, and operator covenant quality following lessons from oversupplied established markets. This deliberate approach suggests activity may remain subdued through the remainder of 2026 pending clearer market signals.



"Record 2025 activity at \$471 million has given way to marked cooling in 2026, with year to date volumes at \$123.8 million reflecting buyer caution and reassessment of market fundamentals."

Yields Demonstrate *Stability* as Government Backing Attracts Defensive Investors

NEW SOUTH WALES CHILDCARE YIELDS
BY LOCATION



SOURCE: RWCWS *2026 REPORTED TO 1 JUNE

Metropolitan childcare yields hold firm at 5.30% in 2026, demonstrating remarkable stability despite cash rate increases, as government backed essential services attract investors seeking defensive income characteristics.

Childcare yields have compressed substantially since 2014 when metropolitan markets delivered 6.21% and regional 7.59%, settling at 5.30% metropolitan and 5.90% regional through June 2026. This compression reflects strong investor demand for the sector's defensive characteristics rather than yield expansion from capital growth. However, 2025 delivered a significant correction, with yields widening despite a falling interest rate environment. Metropolitan yields moved from 4.87% to 5.29% and regional from 5.34% to 5.88%, signalling market repricing of fundamental risks rather than monetary policy movements. This correction reflects growing awareness of oversupply in established markets, consolidation pressures on smaller operators, and heightened focus on operator covenant quality.

GOVERNMENT BACKING PROVIDES INVESTOR CERTAINTY

The sector's yield resilience stems from powerful government support fundamentals. Nationally, 1.44 million children attend approved childcare, with NSW commanding 31.8% of this market. Centre-based day care dominates, accounting for 58.8% of all children in care and with \$3.98 billion in annual subsidies supporting this demand, operators benefit from predictable revenue streams regardless of economic conditions. The fact that 48.8% of all 0-5 year olds use approved care demonstrates structural demand underpinning the sector. This government backing creates essential service investment characteristics that traditional commercial property cannot match, attracting investors seeking defensive income during uncertain market conditions.

STRUCTURAL ADVANTAGES SUPPORT YIELD SUSTAINABILITY

Land tax exemptions and net lease structures transfer operational costs to tenants, allowing property owners to benefit from income while capitalising on underlying asset value growth. These structural advantages have made childcare accessible to diverse investors from first time commercial buyers to experienced funds, keeping yields competitive relative to other commercial assets.

RATE PRESSURE EMERGING IN 2026

Interest rate increases through 2026 are expected to apply upward pressure on yields as the cash rate rises. The differential between metropolitan (5.30%) and regional (5.90%) reflects genuine location risk rather than market inefficiency. Operators with strong occupancy, quality leases, and stable covenant fundamentals will command tighter yields, while secondary market assets face widening yield spreads reflecting operational complexity and concentration risk.



"Yield correction in 2025 despite falling interest rates reflected market repricing of operational risks, with government subsidies, land tax exemptions, and net lease structures continuing to support investment appeal despite rising uncertainty."

Outlook

The NSW childcare sector faces a more selective market path through 2026 and beyond.

MARKET SEGMENTATION WILL INTENSIFY

Growth corridor assets with genuine demographic support and quality operators will continue attracting capital from budget displaced residential investors seeking defensive income. Established market assets face sustained pressure as participation declines and operator competition increases. Sub-\$5 million assets will maintain broad appeal, while larger facilities above \$7 million will require exceptional operator credentials and yield support to find buyers. The portfolio consolidation trend will accelerate, with smaller independent operators facing margin pressure and covenant uncertainty becoming a pricing factor for property investors.

LOCATION ANALYSIS BECOMES NON NEGOTIABLE

Buyers will increasingly demand granular supply demand analysis demonstrating genuine undersupply before committing capital. Development site activity will normalise as DA expiry pressure eases and developers adopt more disciplined approaches. The 715 project pipeline will advance selectively, with construction concentrated in Western Sydney growth corridors and regional migration zones. Established areas will see limited construction momentum despite substantial DA inventory.

QUALITY AND SUSTAINABILITY WILL DRIVE INVESTMENT

Operator quality, staff retention capability, and facility design will command premium pricing. Purpose built facilities with child centred design and professional management will attract institutional capital and quality operators willing to commit long leases. Land banked sites and older buildings face viability challenges as development costs remain elevated and quality operators demand modern facilities. Sustainability credentials and compliance ready design will differentiate assets in competitive markets.

BUDGET IMPACT FLOWS THROUGH TO 2026-2027

The shift of residential investors toward commercial property may continue supporting childcare transaction volumes despite demographic challenges. However, extended due diligence periods and covenant scrutiny will lengthen sale timelines. Interest rate uncertainty through 2026 will apply modest upward yield pressure, though government backing and defensive characteristics will limit movement relative to other commercial assets. Regional childcare investment will remain constrained as metropolitan dominance continues reflecting quality and supply concentration.

FUNDAMENTAL STRENGTH PERSISTS AMID SELECTIVITY

The sector's essential service nature, government subsidy backing, and structural tax advantages continue positioning childcare as a defensive investment alternative. However, the easy growth phase has concluded. Success increasingly depends on location precision, operator quality assessment, and design sustainability rather than broad sector appetite. Investors able to identify genuine undersupply corridors with quality operators and commit to longer due diligence will find compelling risk adjusted returns. Portfolio consolidation toward larger institutional operators will create fewer but higher quality investment opportunities for property investors seeking long term income stability.



PETER VINES
Managing Director
RWC Western Sydney
0449 857 100

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



PETER VINES
Managing Director



JOSEPH ASSAF
Director



VICTOR SHEU
Director



TROY WANG
Sales Executive



OWEN WHITE
Sales Executive



ANDREW SACCO
Sales Executive



MARCUS AUDDINO
Sales Executive



SHANE WILSON
Sales Associate



ROBERT TRIMBOLE
Sales Associate



HARRY VEALL
Sales Associate



MARCUS TOLE
Property Analyst



CHRISTIAN FINIANOS
Property Researcher



CHANTEL BRILLANTES
Marketing & Brand



MONH LY
Campaign Manager



SARAH COPTIL
EA to Peter Vines



CHRISTOPHER BAISSARI
Administrative Assistant



SAMUEL GONG
Senior Leasing Executive



CRAIG GOSPO
Leasing Executive



JACK TALTY
Leasing Associate

ASSET MANAGEMENT



JOYCE ELKOUBERCI
Director



CALLUM MCKAY
Asset Manager



ADRIAN HARB
Asset Manager



ANNIKA WARD
Asset Manager



MARCUS FUNG
Asset Manager



HARRY LAHOOD
Asset Manager



MARISSA KARAILIAS
Administrator



ZEINA TAJIK
Accounts



JACKIE AMYOUNI
Administrative Assistant for PM

OPERATIONS



RUBY ROZENTAL
Director of Strategy



HANNAH CARNEY
Director of Operations



PAULINE WATERFORD
Finance Manager



CHRISTIAN BRILLANTES
Office Manager



MICHAELA HEYS
Administrative Assistant



MARCELA KFURI
Contract Administrator

LEASING

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



The logo consists of the letters 'RWC' in a bold, italicized, sans-serif font, centered within a white square.

RWC

RWC WESTERN SYDNEY

Level 1, 15-17 Argyle Street
Parramatta NSW 2150

(02) 8074 4884

rwcws.com