Childcare yields fall but investors keen on sector

Larry Schlesinger

Yields for suburban childcare centres continue to tumble, falling as low as 3.9 per cent recently, as private investors look to increase their exposure to an asset class underpinned by lucrative long-term lease agreements and where they can also benefit from capital growth in the underlying residentially zoned land.

In a recent deal, the Smith Street Early Learning Centre in Thornbury about 7 kilometres north of the Melbourne city centre, sold for $1.83 million on a 3.9 per cent year, after more than 100 inquiries and multiple offers to purchase prior to auction.

The childcare centre that had a 10-year lease in place was national operator Guardian Early Learning Group, which owns or manages 90 childcare centres, and sold through Savills agent Tim McIntosh.

In another deal, a China-based investor paid $2.3 million on a low 5.1 per cent yield for a childcare centre at 2 Bernard Hamilton Way, Rowville in Melbourne's outer east, also on a 10-year lease.

The Thornbury sale is most likely a record low-yield for a Melbourne childcare centre, which on average have sold this year on yields ranging between 6 and 7 per cent, according to Savills.

Research by *The Australian Financial Review* suggests the lowest yield achieved to date was for a childcare centre near Kogarah in Sydney's southern suburbs which sold for $4.92 million on a 4.5 per cent yield in April at a Burgess Rawson portfolio auction.

Savills Australia director Julian Heatherich said amid the negative performance of sharemarket investments, demand for bricks-and-mortar childcare centres, backed by 10- to 15-year leases to operators who have a statutory duty to maintain the premises in the best possible order, was a "real no-brainer".

Also fuelling demand has been a 2015 federal budget commitment of $3.2 billion over four years to improve the affordability of childcare for low- and middle-income earners and a recent Productivity Commission report, which said an additional 50,000 childcare places were needed by 2026.

Nick Anagnostou, CEO of the listed Folkestone Education Trust, which owns more than $600 million worth of childcare centres, said the "backstop" for childcare centres was the large residential land they typically sit on. "You don't have incentives and face rents to fund, and with a continued increases in population and density, this supports both childcare operations as well as underlying land value growth – you have two value drivers and small investors see that," he said.

Average yields on childcare centres sold by Folkestone tightened from 7.5 to 6.6 per cent from 93 sales in the last year.