ECEC Property Market Dynamics

Final Report

October 2026

dandolopartners

Introduction to this report

Background

dandolopartners (dandolo) has been engaged by The Front Project to research property dynamics in the Early Childhood Education and Care (ECEC) sector.

dandolopartners is a public policy firm that delivers high quality policy, strategy and evaluation advice to clients in and around government, and holds a specialisation in early childhood.

The Front Project is a national, philanthropically-funded organisation that works with the early childhood sector, government and business leaders to ensure the early childhood system lives up to what children and families want from it. They believe in matching the quality of our nation's early childhood system with the high expectations we hold for all children.

Purpose

As part of this work, we wanted to better understand:

- The types and prevalence of different property arrangements in the ECEC sector
- Property dynamics to build a shared knowledge base for ECEC policy thinkers
- How ECEC property dynamics impact on delivery, on services, and ultimately on outcomes for children

Our approach

This project drew predominantly on desktop research, data analysis and stakeholder consultation with members of the ECEC and property sectors. See page 14 for a summary of our methodology.

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Foreward

Why did the Front Project commission this work?

Property is the second-largest cost in early childhood education and care, after wages.

According to the ACCC, it's roughly 15 cents of every dollar a provider spends. It's also the part of the system we understand least.

Plenty of people have theories about it. Some say REITs are driving up rent, others that developers are making out like bandits or mum-and-dad landlords are charging rents no centre can sustain. Yet there has been remarkably little evidence to test these theories.

So we asked dandolopartners to see what they could find. They matched approximately 20,600 property transaction records going back to the 1940s against the national register of services, and spoke to 50 developers, landlords, fund managers, providers, regulators and advisers.

As far as we know, nobody has looked this closely before at who owns the buildings our children spend their days in, and what that ownership means for the services inside them. The question we heard most often was: where's the leak in the bucket? Where is the one place public money pours out of the system and into someone's pocket? We didn't find one.

The REITs that attract most of the attention own fewer than one in ten centres. Developers aim for margins of around 25%, much like developers everywhere else. What we found instead is a long chain of clips on the ticket. The lender, the developer, the adviser and the landlord each take a cut that's unremarkable by commercial property standards, and almost nothing pushes the other way. Rents rise every year by contract, and ratchet clauses stop them falling at review. None of that is unique to ECEC.

What's unusual is that nothing in the system caps it. Families can't easily switch services, governments have tended to lift the subsidy when fees start to bite and the fee cap's effect on leases is as yet untested. The owners on the other side of the lease aren't who the folklore says, either.

Where we could identify an owner, around 68% of long day care properties are held by individuals: SMSFs, retirees, mum-and-dad' investors, and high-net-worth private investors. The data on whether these 'individual' owners are independent small investors or part of larger holdings is opaque, and should be read as an upper bound on small-scale ownership.

This isn't a policy paper, and it doesn't make asks of government, beyond a nudge or two. Its job is to help the sector understand itself.

It raises at least as many questions as it answers, about oversupply, who carries the risk when occupancy falls and what happens when a generation of SMSF landlords decides to sell.

We don't have good answers to those yet. That's partly why we're releasing a lot of the data inside the report. The most useful thing we can do with it is hand it back to the system and see what others find.

Dr Caroline Croser-Barlow

CEO

The Front Project

Executive summary

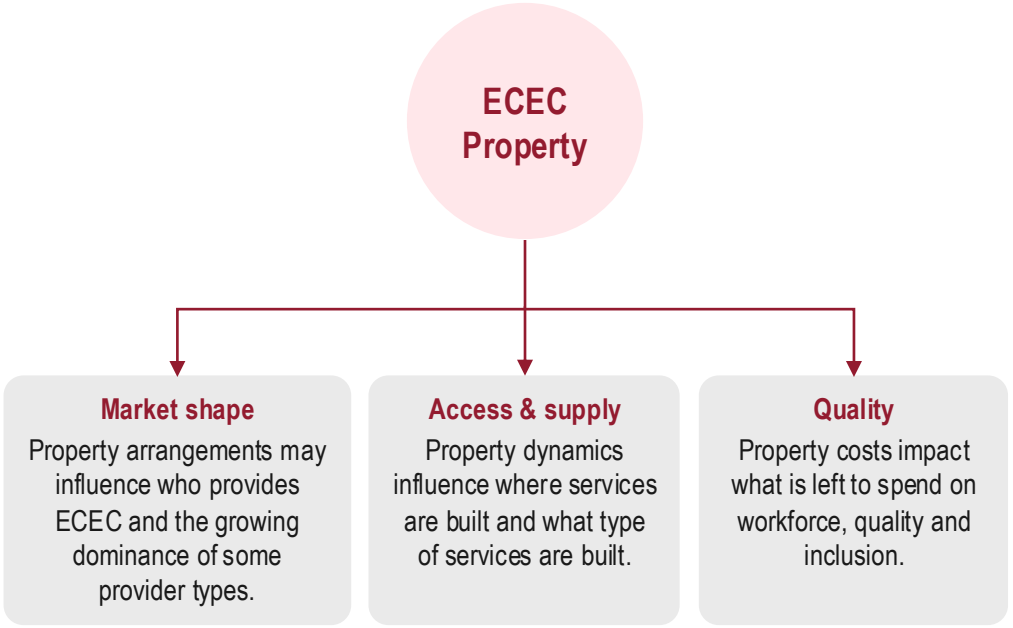
The importance of understanding ECEC property

Property is the second largest cost category for the delivery of ECEC and the most poorly understood.

Property costs are the second largest overall expense for ECEC providers after wages and labour costs,[1] accounting for on average 15% of operational costs.

Despite this, property remains one of the least understood aspects of the system.

Property both shapes and responds to the operation of the ECEC system and the extent to which system objectives can be met.



Governments contribute significantly to funding property costs.

While direct government ownership and capital funding of ECEC property is relatively limited, a significant proportion of operational funding goes towards property costs.

- Governments spend around $20 billion annually across Australia on the Child Care Subsidy (CCS) and operational funding to preschool / kindergarten providers.[2]
- With the money providers receive from government (in combination with parent fees) they fund their operational costs. This includes paying rent, purchasing facilities and investing in maintenance and upkeep.
- With property accounting for around 15% of operational costs, this implies that a significant proportion of government funding goes towards infrastructure costs (albeit indirectly)

Building a stronger understanding of property dynamics is critical to inform productive conversations about policy reform, market stewardship and the incentives shaping provider and investor behaviour, and to ensure government is getting value for money.

1. Australian Competition and Consumer Commission (ACCC) (2023), Childcare inquiry: Interim report – September 2023, ACCC, Canberra.
2. Productivity Commission. (2026). Report on Government Services 2026: Early childhood education and care.

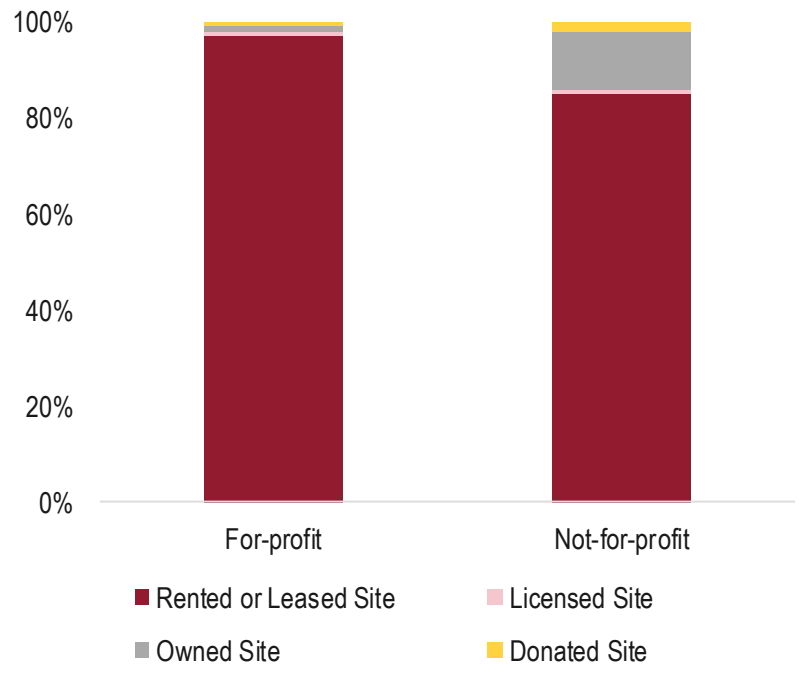
The separation of ownership and provision

Most ECEC providers lease, rather than own, their facilities.

In 2022, the ACCC Childcare Inquiry found that over 80% of centre-based day care services are rented.[1] This was consistent with what we heard from providers, and is common across many real estate intensive industries, not just ECEC.[2]

The ACCC also found that not-for-profit providers had a much higher share of owned sites (12%) and donated sites (1.4%) than for-profit providers.[1]

Property model for centre-based day care, by provider type 2022.[1,3]



Ownership and operation are usually split because investors and providers bring different expertise, capital and appetite for risk.

Providers will generally:

- Not have access to the capital required to purchase property
- Prefer to invest capital in growing and operating services rather than owning property
- Hold expertise in education and care, not property

Property owners will generally:

- Have greater access to large amounts of long-term capital and tolerance for property related risks
- Have a preference for stable, property-backed income streams (i.e. rental income and growth in property value) over the operating challenges and lower margins of an ECEC service
- Hold specialist skills or enduring partnerships across every stage of the property lifecycle, from developing, acquiring and financing to managing real estate

The implication of separated ownership and operation is that ECEC property owners (for the most part) have an entirely different set of incentives and motivations to others with an interest in ECEC (whether they be providers, governments, regulators or other).

1. Australian Competition and Consumer Commission (ACCC) (2023), Childcare inquiry: Interim report – September 2023, ACCC.
2. Interviews with ECEC providers.
3. This chart is based on data used in the ACCC Childcare inquiry. The data has limitations. It skews towards large providers, who were legally required to report, while small and medium-sized providers contributed data voluntarily.

Who invests in ECEC property, and why?

There is a diverse range of ECEC property owners, but it appears individual investors dominate.

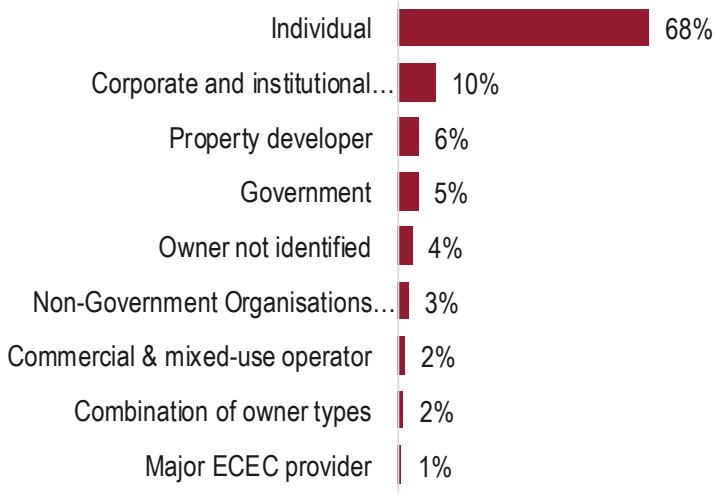
There is limited existing data available on who owns ECEC property.

We have estimated ownership shares using property transaction records spanning more than 80 years. This analysis indicates that individuals are the most prevalent identifiable owner type, accounting for around 68% of properties.

This category is made up of small-scale investors and is highly diverse, including self-managed super funds, 'mum-and-dad' investors, and high-net-worth private investors.

However, individual ownership is a key area of remaining uncertainty. A number of stakeholders have suggested that ownership is more consolidated than it seems, with individual corporate entities having related owners. This could be examined in future work using ASIC and other data sets

Estimated share of LDC property ownership by owner category, 2026[1]



ECEC has been considered an attractive investment that can generate low-risk, reliable long-term returns for owners.

ECEC has been seen as an attractive investment.

People have wanted to to own and invest in ECEC property because it has been seen as:

- **A reliable, low-risk income source.** It is government-backed, supported by demand from working families and is a better performer (in recent times) than other forms of commercial property, underpinned by long leases and predictable cash flow
- **An opportunity to secure a 'quick win' capital return.** ECEC has demonstrated capital returns in the past due to significant growth in demand for ECEC, rising land values and development and add-on opportunities
- **A relatively accessible investment compared to other forms of property.** ECEC requires less capital and is seen as relatively simple to construct and own

While the factors that attract investors to ECEC property are fairly consistent, the type of owner influences their:

- **Scale** – individual investors tend to own 1-2 properties, whereas an institutional investor may own multiple hundreds of ECEC properties.
- **Sophistication and market power** – larger scale owners tending to have better access to information to inform their decisions and greater scope to influence outcomes
- **Motivations for owning** – some are more likely to seek profit either through rental or capital returns, while others own to support service provision or for historical reasons.
- **Preferences for the providers they lease to** – with some tending towards large, established for-profit providers, and others seeking out not-for-profit providers.
- **Behaviour as landlords** – including the kind of rental terms they set, and the extent to which they are profit maximising in the short-term vs looking for long term steady returns.

1. dandolopartners analysis of property transaction, ASIC and ACECQA NQAITS data Note: This analysis uses Domain transaction data as a proxy for property ownership. The purchaser in the most recent recorded transaction is assumed to be the current owner.

Property dynamics impact what gets built, and where

Commercial incentives are driving larger, denser centres. This is being driven by economics rather than by considerations of what would be best for children.

Our analysis shows that:

- The average size of centre-based day care services in Australia has **increased by around 24% over the past 12 years.**[1]
- The share of **larger services** (75 places or more) **increased from 23% of total services in 2014 to 39% in 2026.**[1]

The main driver for this is likely increasing land prices and construction costs requiring a higher sale price to justify the investment. The number of licensed places is directly linked to rental income, which in turn is linked with property value.

As a result, decisions about size are being driven by economics more than by considerations about what would be best for children

- Increasing size and density of facilities raises questions about the trade-offs between scale, profitability and the physical environment. When commercial incentives are a driving force behind decision making – rather than incentives to maximise child development – this doesn't always lead to optimal results.

Once facilities are built, they will likely be part of the system for a long time

- Property 'stock' stays in the system for at least 20-30 years, so decisions made now about property requirements will shape the learning environments for generations of children. These decisions should be intentional.

Stakeholders suggested that current market incentives can concentrate development in some locations while leaving others underserved, impacting quality and access.

This report does not seek to quantify oversupply or undersupply but provides an explanation for dynamics – including developer incentives - that may lead to these outcomes.

Market forces determine where things get built: There is currently no role for government to consider demand and supply holistically and influence where new services are built. Market forces have – on the whole – done a reasonable job of balancing demand and supply, particularly over a period of high growth (driven by increasing workforce participation and policy settings that have expanded access).

The market doesn't always get it right, and doesn't always self correct

- Oversupply and undersupply can still be an issue. Our stakeholder engagement indicated increasing concern about oversupply in the sector. In other areas, commercial incentives are insufficient to create new supply where it is needed, combined with long development times causing long lag times.
- It can be hard for the market to self-correct, because ECEC buildings are purpose-built (making them hard to convert to another use), owners and providers have varying levels of commercial sophistication – meaning that the 'irrational' actor doesn't always exit even when standard economic theory would predict they should - and it can be challenging for providers to exit underperforming leases.

Together, these factors mean oversupply in ECEC can take much longer to correct than economic theory would suggest. In the meantime, families may face higher fees, or services may be forced to cut costs for an extended period, impacting on quality.

When market forces fail, quality and access can suffer.

- **Oversupply impacts quality** – Low occupancy and resultant financial pressure means that there is less funding available for things that matter to quality, like a high-quality workforce.
- **Undersupply impacts access** – When children are unable to access high-quality ECEC, it can have a significant impact on their lifelong outcomes.

1. For all LDC and PSK services across Australia according to NQAITS Annual Data Splits (Q1 2014 – Q1 2026)

Access to information and bargaining power is uneven

Uneven access to information and expertise can lead some participants to accept commercial arrangements that prove unsustainable, distorting market outcomes over time.

Variation in bargaining power advantages larger providers in lease negotiations.

Market participants range from sophisticated corporate and institutional investors and large providers to individual investors, not-for-profit and smaller providers.

Sophistication levels are influenced by a myriad of factors, including size. Larger players often have specialist property, legal and financial expertise in-house, while smaller providers may have more limited resources.

As a result, participants' ability to assess risk and evaluate opportunities can vary significantly. This impacts sector participants' ability to make decisions, including which leases to sign or which sites to purchase.

When information or expertise is lacking:

- Providers can lease centres that aren't commercially sustainable over the long-term (e.g. by signing on to unsustainable rents, or triple-net leases).
- Owners can purchase sites even when demand is too weak. More informed providers are more likely to identify and avoid commercially unviable sites, while others may not recognise the risks until after making a long-term commitment.

Different types of market players have varying ability to influence market outcomes (i.e. different levels of bargaining power).

A clear example of this we heard about relates to lease negotiations. We heard that lease terms are often negotiated between parties with significantly different levels of bargaining power, and that this directly impacts the types of leases they sign on to, and the extent to which they can negotiate terms. We heard that:

- Smaller providers, not-for-profits and less experienced providers have limited capacity to negotiate favourable lease arrangements, which can lead them to arrangements that prove difficult to sustain over time.[1]
- Larger providers have more bargaining power as they are desirable to landlords. Larger providers generally have a stronger covenant and therefore add value to the property when they take on a lease.[1]



These dynamics tend to favour larger providers, who often have greater access to information and bargaining power, enabling them to secure more favourable commercial terms and strengthen their market position over time.

Ultimately, this is likely to be impacting on provider diversity and system composition.

1. Interviews with stakeholders.

How risk is distributed matters for sector outcomes

Under current property arrangements, providers hold most of the risk. This supports private investment in ECEC property, but there are trade-offs for service outcomes, and ultimately for children and families.

Property arrangements mean providers hold the operating risk

Long-term leases lock providers into fixed obligations that are difficult to exit. While this gives providers security of tenure and time to build their business, it also reduces their capacity to respond to changing circumstances.

A provider's ability to meet lease commitments depends heavily on occupancy levels, which can be difficult to predict or can shift unexpectedly. When occupancy is lower than expected, lease costs remain unchanged. When this happens, providers have traditionally had two options:

- Increase fees to cover costs, or
- Cut back on other discretionary costs (e.g. above ratio staffing, professional learning and other investments in quality that support children's education and care)

Under the current fee caps associated with the ECEC Worker Retention Payment (WRP), providers are more limited in their ability to raise fees. This means cutting costs – potentially at the expense of quality – may be more likely if rental pressures continue.

In extreme cases where financial pressure becomes unsustainable, providers may exit their lease (although this may be influenced by lease expiry dates) or ultimately enter voluntary administration, causing service disruption.

In many ways providers holding occupancy risk makes sense, but this can negatively impact on sector outcomes

Providers have more levers to influence occupancy than owners do. Providers control the day-to-day factors that drive enrolments and retention: the quality of educators and programs, fee-setting, marketing and community engagement, and operational factors such as opening hours. This makes them best placed to hold occupancy risk, in general terms.

The stability of revenue also encourages private investment in ECEC facilities. For many years, this has made it a relatively low risk investment that attracts private capital, something the sector currently relies on. However, this arrangement also creates risks.

- It can allow financial stress to build within a provider for an extended period before it becomes visible to owners. Which can cause impacts that hit families through fees and children through cost cutting measures, before the impact reaches the owner. The risk to owners only materialises in the extreme cases where a provider is unable to continue meeting its lease obligations.
- It also means that market signals about where new services should be supplied, or what rents are reasonable, aren't always working particularly well.



The distribution of risk shapes incentives

- The stability of revenue for owners underpins incentives for private investment in ECEC facilities.
- But there are clear trade-offs of this arrangement – providers carrying so much of the risk can create incentives that are detrimental to sector outcomes.

This has implications for government. Shifting market outcomes requires changes to the current incentive structure, but this needs to be carefully calibrated to avoid discouraging private investment in the ECEC sector.

Compounding impacts and a vicious cycle

It is the cumulative and cascading impacts of multiple factors within the property market that shape the availability, affordability and appropriateness of ECEC infrastructure.

Our analysis did not identify any single standout issue or problem.

- None of the individual trends, incentives or dynamics we've described in this report appear to be solely or predominantly responsible for the trend towards increased rents, more expensive and larger services, and supply that's not always aligned with demand.
- It also did not substantiate some of the hypotheses we heard about the core issues or challenges with the early childhood property market – for example, that the presence of REITs was driving higher rents (their market share is very small) or that developer profits in ECEC were excessive (they appear to be broadly consistent with wider market trends).

Rather, we found that it's the accumulation of a range of factors that leads to outcomes that may not be aligned with the intentions of ECEC system stewards.

There are multiple factors that drive costs up and any downward pressures have been relatively weak, effectively creating a vicious cycle.

Multiple factors are driving property cost increases …

In addition to economy-wide increases in land and construction costs, there are a range of ways that property costs keep ratcheting up in ECEC, including that:

- Everyone along the value chain is necessarily 'clipping the ticket' e.g. the lenders are seeking interest payments, the developers need to make a margin
- Property value is linked to rental returns – so there's a clear incentive to optimise rent and the number of licensed places, to drive higher property values
- Leasing norms ensure the cost increases steadily
- Demand for properties – even low-viability prospects – has been persistently high

… combined with weak downward pressures…

These are not necessarily unique market characteristics, but in ECEC, there has been no natural or effective limit on the market to constrain cost growth.

- Providers increase fees when their costs go up
- Demand is fairly inelastic because families have little choice but to use ECEC services.
- However, when fees become so high that they put families under financial pressure, this becomes politically sensitive.
- There's a perception (and some evidence) that governments will continue to increase the Child Care Subsidy to maintain affordability for families.



… resulting in an imbalanced market where there's significant risk of families, taxpayers and governments paying more than is necessary for ECEC property

Sector headwinds and a role for government

There are a range of challenges that have recently emerged, and some on the horizon that potentially have significant implications for the ECEC property sector.

- **Sector headwinds** - The ECEC sector is currently facing significant structural challenges that are impacting provider viability. This includes lower occupancy, revenue constraints and cost pressures.
- **Cooling investor sentiment** – particularly among institutional investors, in direct response to sector challenges.
- **Challenges facing not-for-profit providers** including government and faith-based owners increasing property costs and ageing assets requiring significant reinvestment.
- **Additional influences such as an ageing owner population and potential policy changes on the horizon** that could change ECEC property fundamentals in the years to come.

While interventions require careful consideration, government is not a passive observer and has multiple levers to influence market outcomes.

The current dynamics of the property market are not inevitable; they reflect decisions and incentives that have developed over time and can be changed.

Investors and developers are highly sensitive to perceived risk and the formulas that determine whether or not investments 'stack up' are well understood and transparent

Governments have the ability to influence and shape market behaviour.

Government can:

- Use policy / regulatory levers
- Use funding levers
- Influence or constrain the supply of services, including acting on oversupply and undersupply
- Collect and share data and insights to address information asymmetries
- Commission further research into market dynamics
- Actively fill data gaps, including those identified in this report and other reports such as the ACCC and PC, and share data and insights to address information asymmetries

Any decision to intervene in the market carries risk and is likely to change how the market operates. It is important to avoid an overcorrection that discourages private investment in the ECEC sector and results in supply constraints.

To make good decisions, government needs better information. Significant knowledge gaps remain, highlighting the need for further research and more systematic collection of property-related data across the sector.

Context, scope, methodology

Why is property important to explore?

Property is the second largest cost category for the delivery of ECEC and the most poorly understood

Property costs...

Are the **second largest overall expense for ECEC providers** after wages and labour costs[1]

15%

And account for, on average …

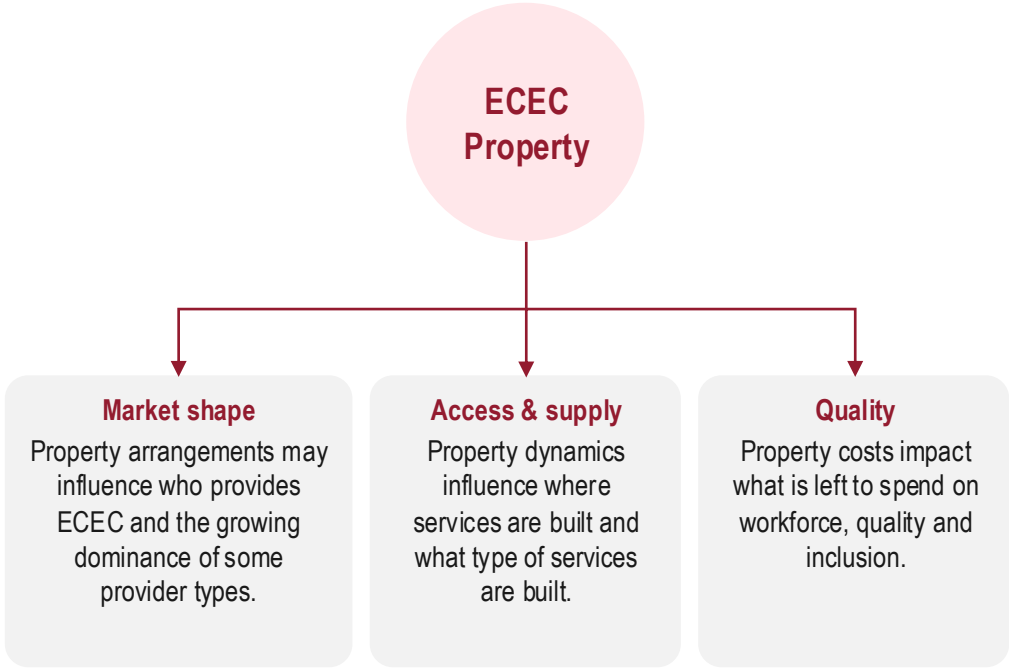
…of operational costs.[1]

Despite being the second largest cost category in ECEC, property remains one of the least understood aspects of the system.

While there are strong hypotheses about how property arrangements influence costs, quality, accessibility and market shape, there is limited evidence to validate or challenge these views.

Building a stronger understanding of property dynamics is critical to inform productive conversations about policy reform, market stewardship and the incentives shaping provider and investor behaviour.

Property both shapes and responds to the operation of the ECEC system and the extent to which system objectives can be met.



1. Australian Competition and Consumer Commission (ACCC) (2023), Childcare inquiry: Interim report – September 2023, ACCC, Canberra.

Scope and limitations

This report is intended as an explainer of ECEC property dynamics, focusing on LDC, preschool and kindergarten.

The purpose of this report…

This report is	This report is not
An explainer of key concepts related to property in ECEC, targeted at a non-specialist policy-oriented audience	A deep dive intended for property experts or potential investors
Distils diverse and often competing perspectives, supplemented with some data, rather than offering definitive findings	An advocacy piece arguing for a particular outcome or policy direction, or a comprehensive and objective profile of ECEC property
Insights for further consideration and a new framing of the issue, with consideration of emerging issues and trends in ECEC property	A policy paper with clear directions or recommendations or a comprehensive overview of the current state

Scope

- **This report doesn't capture all ECEC service types and this is intentional.** Out of School Hours Care (OSHC) and Family Day Care (FDC) are out of scope. OSHC is typically delivered in existing school infrastructure and provides services to school-aged children. FDC is often delivered in private homes. Neither relies on dedicated ECEC infrastructure.
- **This report covers Long Day Care (LDC), preschool and kindergarten centres, but much of the analysis and conclusions focus on LDC,** including services with an integrated preschool (or kindergarten) program**.** While we talk about these service types collectively, it is important to note they are distinctly different forms of care, and tend to have quite different infrastructure models and trends.
  - Preschools and kindergartens generally have smaller services, and a greater role for government, community and school-affiliated owners and operators rather than private investment
  - Preschools and kindergartens provide education and care for children typically aged between three and five years old, while LDC serves children from six weeks old to school starting age
  - LDCs are generally; larger, have stronger growth and are more commercial with a greater presence of private providers, leased premises, third-party landlords and institutional investors.
  - Our analysis tends to focus on LDCs because they are more impacted by commercial property incentives and trends

Limitations

- **There is limited available data on property and ECEC.** We have used available data to undertake analysis and draw conclusions where we can, but this isn't our primary information source.
- **We have predominantly relied on consultation and desktop research to inform our conclusions**. As a result, our findings capture a diversity of insider perspectives across a range of topics rather than an in-depth examination of one view or topic.
- **We are interested in perspectives as well as facts**. We are as interested in how different parts of the sector think about the world and perceive property dynamics as we are in objective facts.

We have taken the perspectives of all stakeholders we spoke to, and determined where there is agreed understanding and where there is divergence.

All experts we consulted through the course of this project have shared their insights anonymously.

Methodology

We undertook desktop research, an extensive program of stakeholder interviews and data analysis to develop our findings.

Desktop research

Our research relied on publicly available reports including:

- Australian Competition and Consumer Commission (ACCC) Childcare Inquiry reports
- Productivity Commission (PC) ECEC Inquiry report
- Jobs and Skills Australia (JSA) workforce report
- Australian Children's Education and Care Quality Authority (ACECQA) National Quality Framework (NQF) Annual Performance Report
- Public institutional investor reports
- Public provider reports and information
- ASX announcements
- Media articles

Stakeholder interviews

- We conducted 30 interviews with a total of 50 participants
- Interview participants included ECEC providers, government, property owners / investors, developers, brokers and sector experts

Stakeholder group	Number of participants
Property sector actors (developers, landlords, investors, valuers, REITs)	12
ECEC providers (large, medium, small, not-for-profit and for-profit providers)	14
Government and regulators (policy, funding, planning and regulatory bodies)	11
System intermediaries and experts (peak bodies, industry commentators, advisers)	13

Data analysis

We used available data to analyse:

- ECEC property ownership and changes over time
- Property transaction activity and turnover
- Property price trends, including sale price per licensed place
- Service size, entry and exit
- ECEC development activity and costs

Our data sources included:

- Public ECEC data: Report on Government Services (RoGS); Child Care Subsidy data; National Workforce Census tables; ACECQA NQF data (including NQF Snapshots and the National Register)
- Property transaction and sale price data from Domain
- ECEC construction and development data from Cotality
- Company and ownership information: ACN / ABN information and public provider, investor and company information from Australian Securities and Investments Commission (ASIC)
- Australian Bureau of Statistics (ABS) data population demographics and construction cost

Report structure

The report covers eight key topics. The topics are often interrelated, but the structure aims to build the reader's understanding of the key concepts along the way.

Section 1 introduces the size and shape of ECEC property.

This section:

- Describes the stock of ECEC infrastructure.
- Explores how the stock has changed over time.

p. 16 to 22

Section 2 describes the role of government in ECEC property.

This section provides an overview of the roles of government in the ECEC property market, including its role as:

- A funder
- A property owner or landlord
- A regulator

p. 23 to 27

Section 3 explains how income is generated through ECEC property.

This section covers:

- How ECEC properties are valued
- How developers generate profit
- How owners generate capital returns
- How owners generate rental returns

p. 28 to 36

Section 4 explores commercial trends in ECEC property.

This section explores recent and emerging trends including:

- Increasing rents
- Increasing volume of property transactions
- Increasing sale prices
- Increasing construction costs

p. 37 to 43

Section 5 articulates why ECEC is an attractive investment.

This section examines attributes of ECEC property that have made it an attractive investment, including that it is seen as:

- A reliable and low-risk investment
- A way to generate 'quick-win' capital returns
- A relatively accessible asset class

p. 44 to 48

Section 6 sets out who owns ECEC property and property owner types.

This section:

- Provides an overview of ECEC property ownership and patterns
- Unpacks each owner type in detail
- Explores other market players that support owners

p. 49 to 74

Section 7 analyses the emerging issues impacting ECEC property.

This section explores:

- Sector headwinds
- Cooling investor sentiment
- Challenges facing the not-for-profit sector
- Other emerging dynamics

p. 75 to 80

Section 8 concludes the report by reflecting on how property dynamics influence the ECEC sector.

This section explores:

- How property market dynamics have implications for sector outcomes – both positive and negative.
- The potential role for government in more actively seeking to influence outcomes.

p. 81 to 92

The size and shape of ECEC property

This section: Size and shape of ECEC property

This section examines the size and shape of ECEC property, and how it has changed over time.

In this section we:



Describe the stock of ECEC infrastructure

p. 18

We find that:

The stock is large and highly diverse. There are more than 12,000 centres nationally. Centres vary considerably in terms of building type, age, size and location.



Explore how the stock has changed over time

p. 19 - 22

The stock is growing faster than population, and centres are getting bigger. Growth in stock above population growth reflects higher participation levels. Increases in average centre size reflect new centres getting bigger, and smaller centres exiting.

ECEC infrastructure overview

Centre-based ECEC services are delivered through a stock of infrastructure that varies significantly in type, age, size and location.

In 2026, Australia has…[1]

9,685 LDC services and…
3,084 kindergarten / preschools providing education and care to children[2]

≈ 800,000 licensed places for LDC, preschools and kindergartens

ECEC infrastructure stock varies considerably, including across:

Building type
ECEC buildings include repurposed buildings (such as converted houses, commercial buildings and churches), purpose-built centres and floors in high-rise buildings.

Age
The age of the infrastructure varies widely. Newly built centres are being added each year but still represent a relatively small percentage of ECEC infrastructure.

Size
There is a significant range in the size of centres, with the largest centres catering for several hundred children.

From 10 to more than 300 licensed places, 68 licensed places on average

Location
While services are located right across the country, the vast majority of centres are located in major cities, reflecting where most Australians live.

73% of services are located in metropolitan areas

1. For all LDC and PSK services in 2026, across Australia according to NQAITS Annual Data Splits (Q1 2014 – Q1 2026)
2. Note: This is based on ACECQA data (NQAITS Annual Data Splits (Q1 2014 – Q1 2026). This data does not include preschools and kindergartens outside the scope of the NQF or that aren't regulated under the National Law including Tasmanian and most Western Australian preschools and kindergartens.
3. Cotality (2026), Construction Project Data. Kindergartens, day nurseries and childcare centre development projects as a proportion of LDC and PSK services operating in 2026.

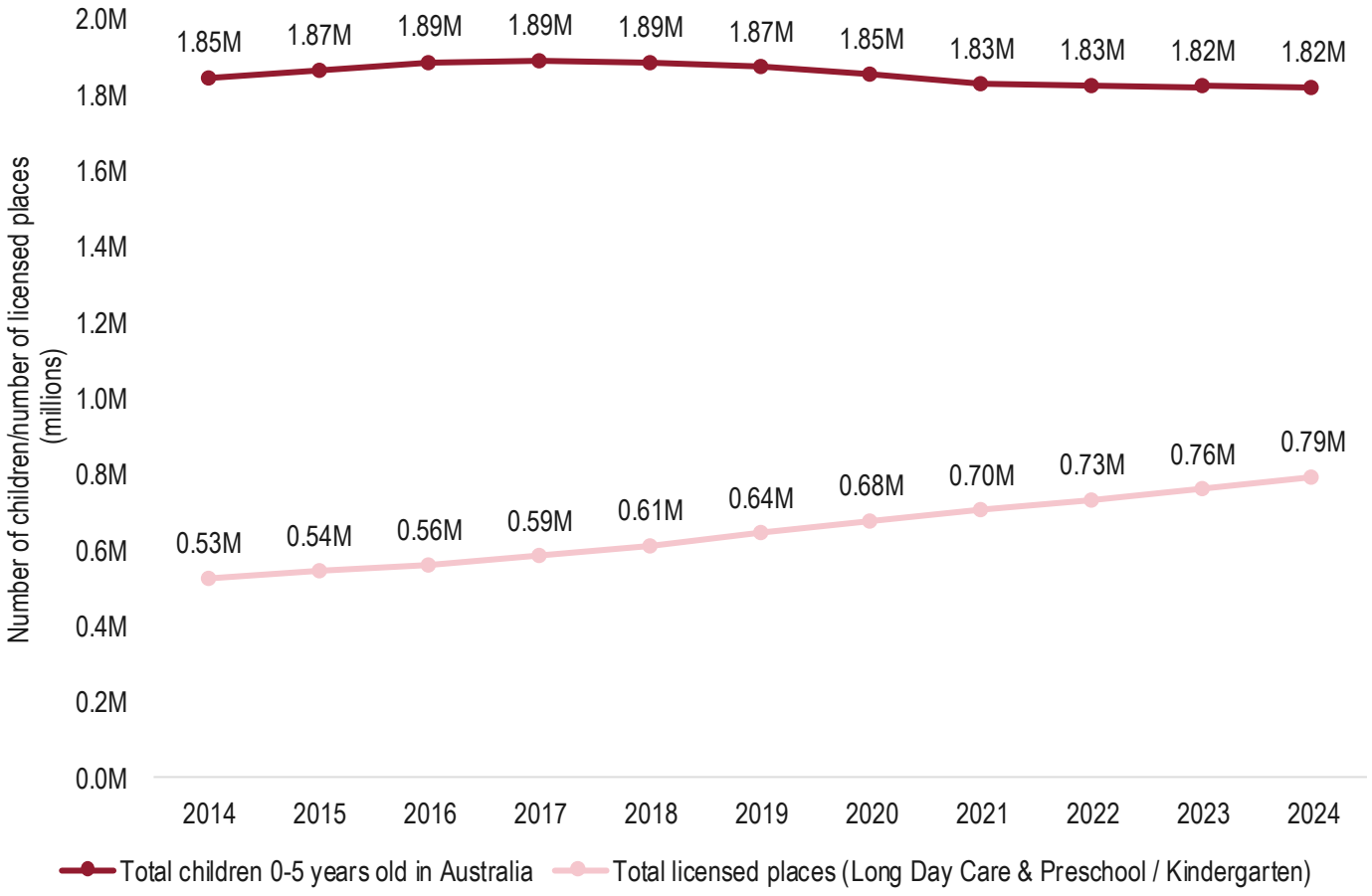
Growth in total licensed places

Licensed places have grown steadily over time, reflecting increased participation levels.

Data insights:

- In 2024, there were a total of approximately 800,000 licensed places in centre-based day care
- The number of licensed places has **increased by about 51%** from 2014 to 2024, reflecting an **average annual growth of 4.2%**
- This growth has primarily been driven by LDC growth. From 2014 to 2024 the growth in licensed places was an **increase of 64% for LDCs and only 6% for preschool / kindergartens**
- Over the same period, **the eligible population** (children aged 0-5) **has marginally declined**
- Growth in the number of licensed places can be explained by **rising levels of participation** over the same period. There has been a **20% growth in participation** for 0-5-year-olds in early learning more broadly (from 2016 to 2025)[1]

Change in total population of 0-5 year olds in Australia and total licensed places (2014-2024) [1,2]



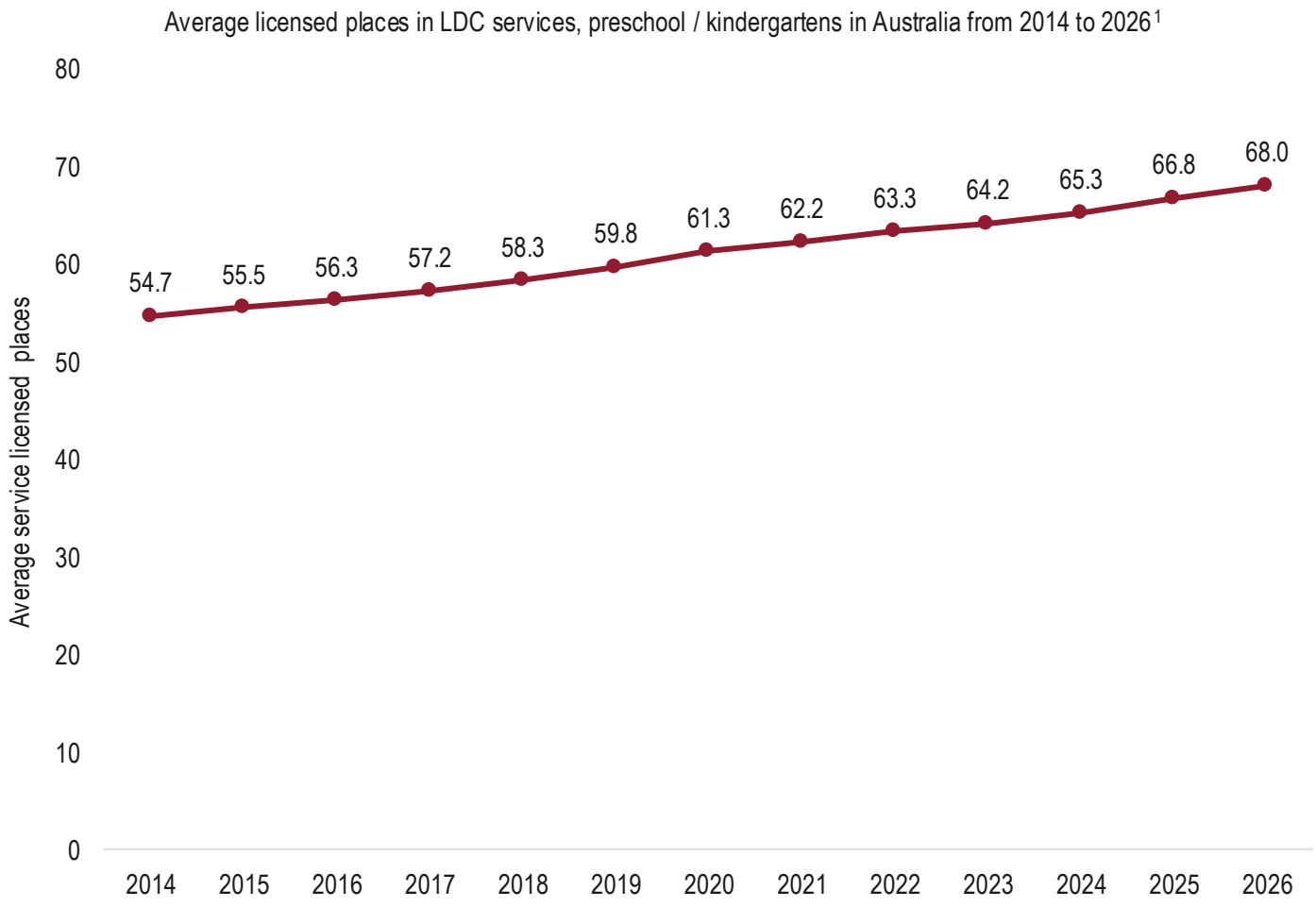
1. Total licensed places across Australia according to NQAITS Annual Data Splits (Q1 2014 – Q1 2026);
2. Total children 0-5 years old ABS 3101.0 National, state and territory population TABLE 59. Estimated Resident Population By Single Year Of Age, Australia. This data source is only available up to 2024, hence why the chart only shows up to 2024.

Growth in average service size

Services are getting bigger – the average number of licensed places per service has increased over the same period.

Data insights:

- The average size of centre-based day care services in Australia has been **increasing steadily since 2014**
- In 2014, services had an average of 54.7 licensed places, which has grown to 68 licensed places in 2026
- This is an **increase of about 13 licensed places, or 24% in 12 years**



1. For all LDC and PSK services across Australia according to NQAITS Annual Data Splits (Q1 2014 – Q1 2026)

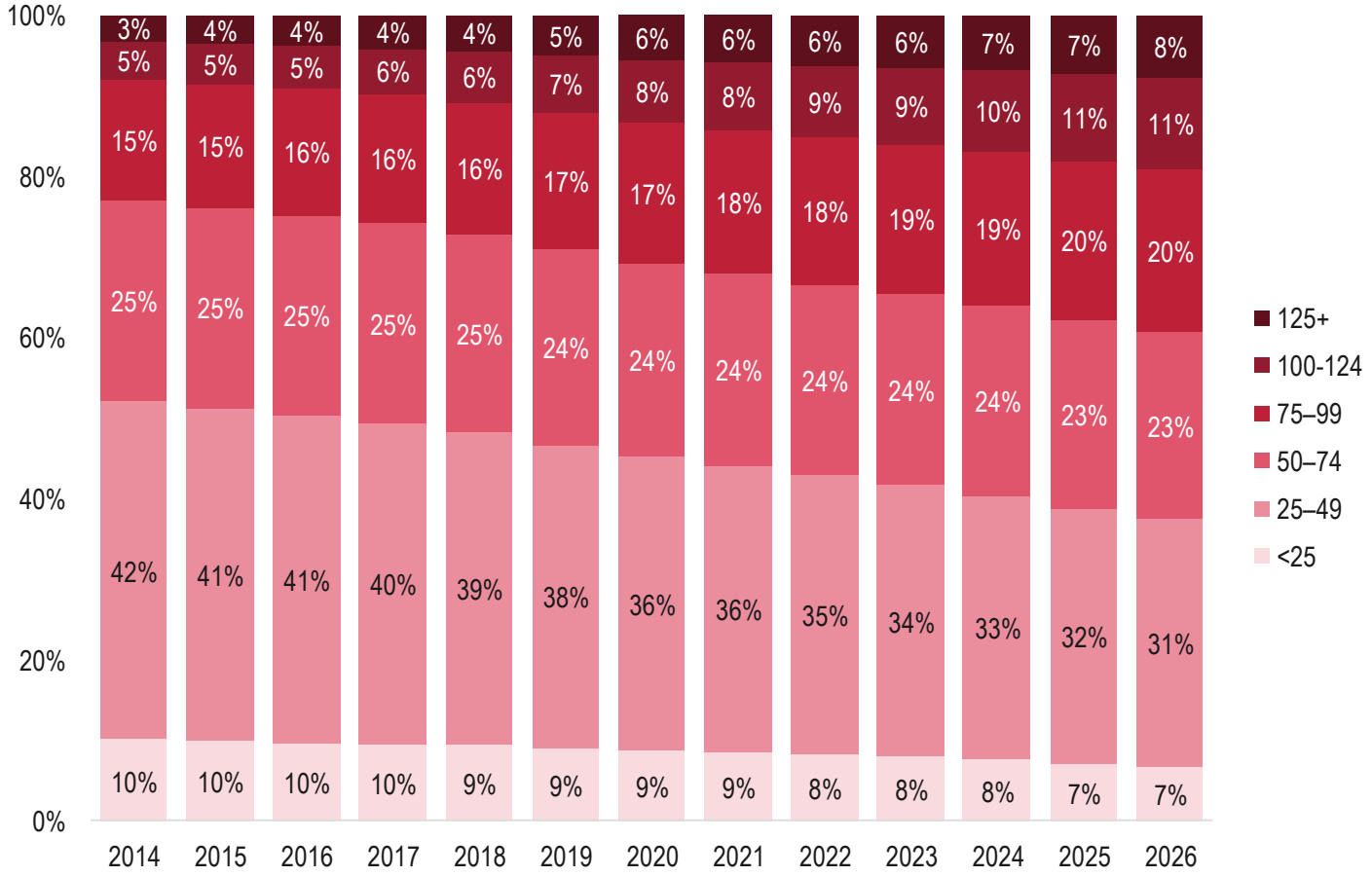
Changes in service size proportions

This has resulted in larger services (75 places or more) taking up an increasing share of the total stock over time.

Data insights:

- The share of larger services (75 places or more) increased from 23% of total services in 2014 to 39% in 2026
- The share of smaller services (fewer than 75 places) fell from 77% in 2014 to 61% in 2026
- This represents a **16 percentage points shift towards larger services** over the period

Percentage breakdown of LDC, preschool and kindergarten service size in Australia from 2014 to 2026[1]



1. For all LDC and PSK services across Australia according to NQAITS Annual Data Splits (Q1 2014 – Q1 2026)

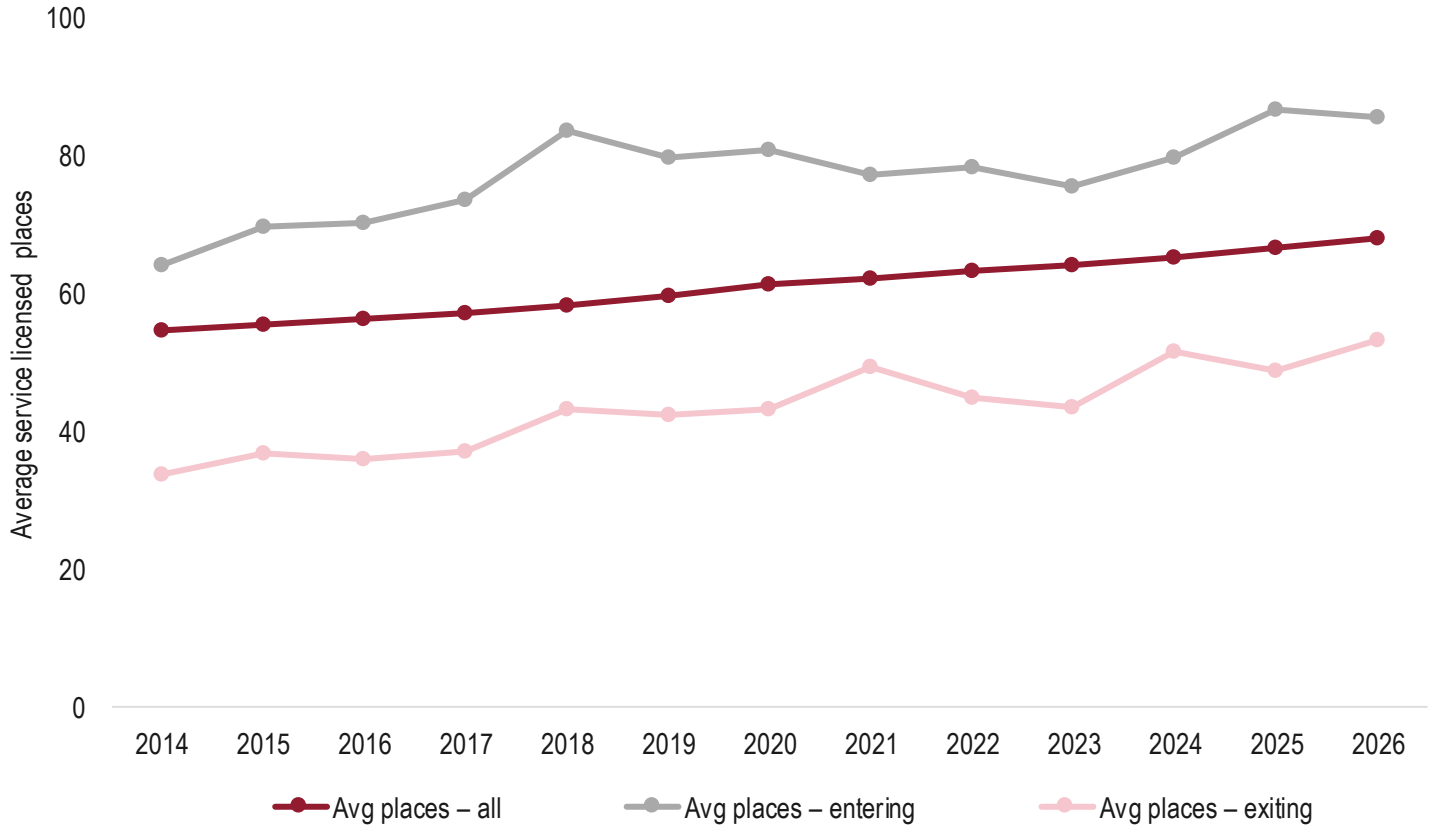
Service entry and exit

Smaller services have been exiting the market, and larger services have been entering. This is driving the increase in the average licensed places of existing services.

Data insights:

- New services entering the market were, on average, **34 licensed places larger** than those exiting (2014-2026)
- The pattern suggests that growth in average service size is occurring partly through turnover in the service stock: smaller services exit and are replaced by larger services

Average licensed places for all, entering and exiting LDC and preschool services[1]



1. NQAITS Annual Data Splits

Note: Entering services are those appearing as an LDC or PSK in the current year but not the previous year. Exiting services are those appearing as an LDC or PSK in the previous year but not the current year; licensed places reflect their last observed year. All services includes all LDC and PSK services observed in each year.

The role of government in ECEC property

This section: Role of government in ECEC property

This section provides an overview of the direct and indirect roles of government in the ECEC property market.

In this section we explore government's role as:

We find that:



A funder

p. 25

Government plays a substantial role in funding property. Subsidies and recurrent funding are the primary mechanisms through which governments contribute to the cost of ECEC infrastructure. Direct capital funding makes a relatively small contribution.



A property owner

p. 26

Governments play a small but significant role in direct ownership of assets. This includes situations where governments are also the service provider, and arrangements where governments lease centres to (generally) not-for-profit providers at subsidised/peppercorn rents.[1]



A regulator of property

p. 27

There are multiple layers of regulation in the ECEC property system, no single entity is responsible for the system as a whole. Key players include all levels of government (local, state, federal) and regulatory authorities.

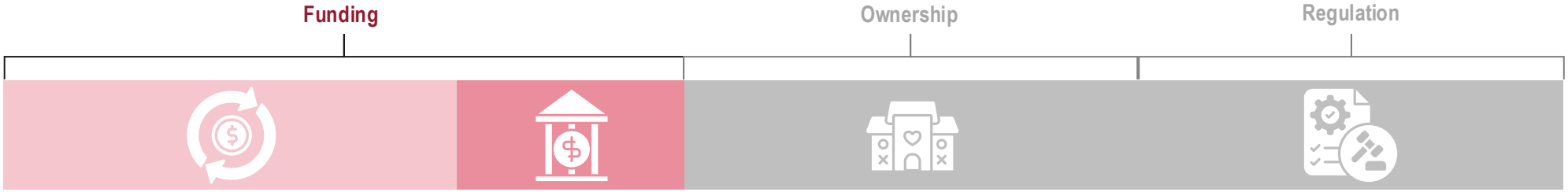


Although government has not been considered – and has not considered itself – a significant player in the ECEC property market, their funding and regulatory levers are significant.

1. Peppercorn rents/leases are leases that have significantly below market terms

Government funding

Government subsidies and recurrent funding are the primary mechanisms through which governments contribute to the cost of ECEC infrastructure. Direct capital funding plays a smaller role.



Government subsidies / recurrent funding

Governments cover a significant proportion of the operational costs of services, through payments to families via the Child Care Subsidy (CCS) and operational funding to preschool / kindergarten providers.

Together this funding equates to $20 billion annually across Australia.[1]

With the money providers receive from government (in combination with parent fees) , they pay rent, purchase facilities and invest in maintenance and upkeep.

With property accounting for around 15% of operational costs, this implies that a significant proportion of government funding goes towards infrastructure costs (albeit indirectly).

Capital grants build or expand ECEC services

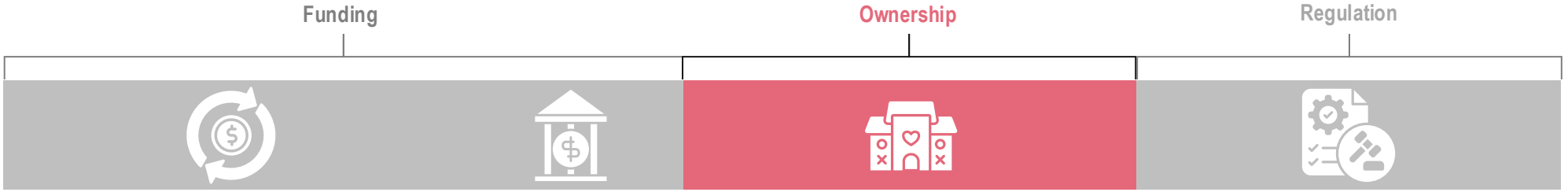
Some governments also fund infrastructure via capital grants programs that support the development of new or expanded not-for-profit centres in areas of identified need by another party. In these cases, the asset is not retained by government. This is a relatively small contribution to the overall cost of infrastructure. Examples include:

- Building Early Education Fund (BEEF) (around $500 million of the total $1 billion commitment takes the form of sector grants)[2]
- Victoria's Building Blocks Program (as part of the $1.68 billion commitment under Best Start, Best Life reforms)[3]
- New South Wales' Building Early Learning Places Program ($20 million)[4]
- South Australia's Flying Start Infrastructure Grants Program ($40 million commitment to support new and expanded preschool infrastructure to deliver the rollout of 3-year-old preschool)[5]

1. Productivity Commission. (2026). Report on Government Services 2026: Early childhood education and care.
2. Australian Government Department of Education. (n.d.). Building Early Education Fund.
3. Victorian School Building Authority. (n.d.). Building Blocks Grants – Capacity Building.
4. NSW Government. (n.d.). Building Early Learning Places Program.
5. Office for Early Childhood Development. (n.d.). Office for Early Childhood Development. Government of South Australia.

Government ownership

Governments play a small but significant role in direct ownership of assets. Governments are more likely to own preschool or kindergarten centres, with government-owned LDCs only representing a fraction of the sector.



State and local government asset ownership

A small but significant proportion of total assets are directly owned by state / territory and local governments. ACECQA data indicates that around 21% of preschool / kindergartens were operated by state / territory and local government-managed providers. While this data does not indicate property ownership, it is fairly safe to assume that these centres are also government-owned.[1] For LDCs, our estimates indicate that governments own the property for around 5% of LDCs in operation as of June 2026.[2]

This can take the form of:

Owner-provider models

- Some state / territory governments fund, own and operate early childhood facilities as part of the public education system. For example, in Western Australia and South Australia, government-run preschools are included as part of their core school infrastructure. In Victoria, the state government is progressively delivering 50 government-owned and operated LDCs, with 18 centres already operating and the remainder expected to open by 2032.[3] Local governments in some states and territories also often operate under this model, providing kindergarten/preschools or long day care services from council-owned facilities.

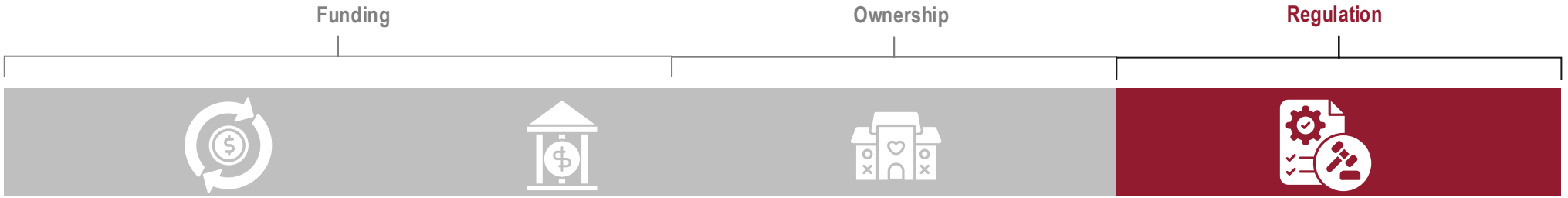
Lease or donation models

- In other cases, state / territory and local governments lease or donate their assets, generally to not-for-profit providers.
- Where leasing occurs, this is often at highly subsidised or peppercorn lease arrangements. This subsidisation of infrastructure costs often enables not-for-profit providers to invest more in workforce and other measures that support quality service provision.

1. ACECQA NQF Annual Performance Report: National Quality Framework December 2025. As previously noted, this does not include services outside the scope of the NQF or that aren't regulated under the National Law
2. dandolopartners analysis of property transaction data, ASIC and ACECQA NQAITS data. See page 96 for the limitations of this data.
3. Victorian School Building Authority. Early learning Victoria centres. https://www.schoolbuildings.vic.gov.au/early-learning-victoria-centres. Updated 8 September 2026. Accessed 30 September 2026.

Government regulation

All layers of government are involved in regulatory approvals for ECEC centres, with each layer having different objectives and performing different functions at various stages of the process.



Local government

Local governments **determine where new ECEC services can be built, and what these services look like**. They do this through:

- **Land use planning controls**: that determine where ECEC services are permitted through planning schemes and zoning
- **Development assessments**: that assess applications for new centres, expansions and changes of use
- **Building permit assessments**: that ensure buildings comply with national and local building requirements

Regulatory authorities

State and territory ECEC regulatory authorities **determine whether an ECEC service is suitable for the delivery of education and care**. They:

- Assess whether facilities comply with the physical environment requirements of the NQF as part of the service approval process (e.g. minimum indoor/outdoor space requirements per child, layouts that allow adequate supervision, indoor-outdoor connection, accessibility requirements, emergency evacuation requirements)
- Assess any significant service modifications where these may affect compliance
- Monitor ongoing compliance throughout the life of the service

Service approval assessments occur when the building is already completed, although more informal advice may be sought from the regulator during the construction period to help avoid costly redesigns.

State and territory governments

State and territory governments **set the rules of the development system** by establishing the legislative, planning and building frameworks that govern the development of new facilities. This includes establishing:

- State statutory planning frameworks and policies that guide local governments
- State-based building requirements
- State infrastructure policies and land use frameworks

State and territory governments provide funding for ECEC regulatory authorities and influence the pace and posture they take to service approvals. Jurisdictions differ in how early and actively regulatory authorities are involved in the approvals processes

Australian Government

The Australian Government's **primary role is through overarching regulatory and funding systems**. It:

- Approves providers and eligible services to participate in the CCS system – underpinning the commercial viability of any service/development
- Funds the national regulatory body (ACECQA)

Both state and territory and the Australian governments are involved in setting National Law, which stipulates requirements for ECEC buildings (e.g. minimum space requirements).

How income is generated

This section: How income is generated

This section explores the main ways that ECEC property investors generate returns through rental income, capital growth and development.

In this section we unpack:



How property owners generate returns

p. 30 – 31

We find that:

Commercial returns from ECEC property investment can be generated through different mechanisms, which shape the incentives and behaviours of property owners. Property owners generate returns in different ways at different points in the property lifecycle. The same asset may move through multiple stages over time.



How ECEC properties are valued

p. 32

The main factors influencing the value of an ECEC property are the income it generates and market perceptions of risk.



How developers generate profit

p. 33

Developer returns are derived from the difference between the completed value of the centre, all the costs the developer has borne (including land acquisition, approvals, construction and financing), and a premium for the risk they have carried.



How owners generate capital returns

p. 34

Capital returns can be earned passively or actively. Passive capital returns occur through broader market appreciation, whereas active returns involve the owner taking actions to increase the property's value (such as redevelopment, securing higher rents, or attracting a strong tenant).



How owners generate rental returns

p. 36

Landlords charge rent based on the number of licensed places in a centre. Landlords will seek to secure favourable lease terms that provide them with a stable and low-risk return by shifting risk to the provider.



Different actors generate revenue from ECEC property in different ways.

Most profit-making strategies are general features of commercial property in Australia, rather than being ECEC-specific.

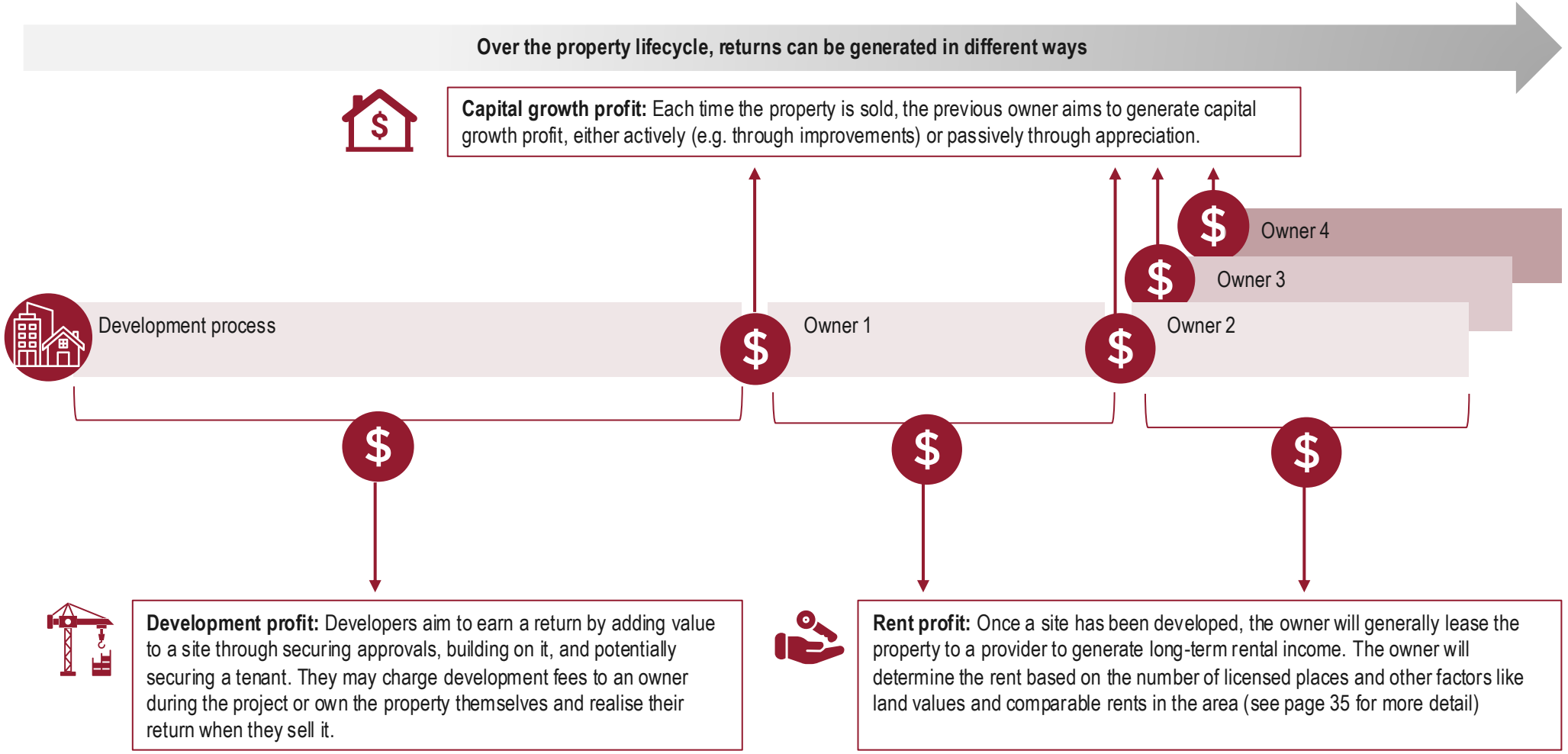
How property owners generate returns - overview

Commercial returns from ECEC property investment can be generated through different mechanisms, which shape the incentives and behaviours of property owners.

Description		Typical investor	Typical investment horizon	How it shapes incentives and behaviour
Development profit Capital returns through developing a new ECEC service and selling the completed asset *See page 33 for more detail*		Investors with a relatively high-risk appetite and expertise in property development	Short-term	• Investor will seek tenants with a strong covenant (i.e. a tenant with a strong financial position and a low risk of defaulting on rent payments) to increase the property value • Investor will actively seek greenfield and urban-infill sites where there is increasing demand for ECEC services
Capital growth Capital returns through appreciation in the value of the property	**Active** Capital returns through purchasing, then improving an existing asset before sale *See page 34 for more detail*	Active investors with a relatively higher risk appetite	Short to medium-term	• Investor will seek to increase value by making improvements to: ○ The property (e.g. renovation, packaging with other services) ○ The business (e.g. lower tenant risk, improve lease terms)
	Passive More reliant on market trends and asset appreciation than actively creating value through development or service improvements	Investors seeking growth in asset value in addition to rental income	Medium to long-term	• Investor will seek and hold assets in areas where underlying land prices are increasing • Benefiting from land value appreciation, increased investor demand, or increasing demand for ECEC assets; less reliant on active intervention
Rent profit Long-term rental income from leasing ECEC properties to a provider *See page 36 for more detail*		Passive investors seeking stable, low-risk returns	Long-term	• Investor will: ○ Determine the rent based on the number of licensed places and other factors (*see page 35 for more detail*) ○ Secure long lease terms that transfer risk (e.g. maintenance) to the tenant ○ Be conservative in asset and tenant selection (areas with demand for ECEC, reputable providers) ○ Conduct regular market reviews and apply annual rent increases

Commercial returns across the property lifecycle

Property owners generate returns in different ways at different points in the property lifecycle. The same asset may move through multiple stages over time.



Key: Signifies points in the property lifecycle at which profit is being generated

How ECEC properties are valued

The main factors influencing the value of an ECEC property are the income it generates and market perceptions of risk.

The price the market is willing to pay for an ECEC property depends on two key pieces of information:

1. **The net income expected to be generated through the property.** This involves taking the annual rent and then deducting the outgoings the landlord is responsible for (rates, insurance, maintenance, management).

2. **The annual percentage return on investment required** for the property (referred to as the **capitalisation or 'cap' rate**). In other words, the 'cap rate' is the expected annual net income relative to the property value.

   Investors will require a rate based on several considerations, including:

   - The risk of the income (e.g. strength of demand, competition from other providers, reliability of the operator, length of lease and other factors.
   - Comparable market evidence (i.e. recent cap rates in which ECEC properties have recently sold)
   - Broader factors (interest rates etc.)

   Risk is a key consideration. An investor will seek a higher return/cap rate for a property that is seen to be riskier (to compensate for the perceived risk). Conversely, an investor will accept a lower return/cap rate for a property that is seen to be lower risk. Cap rates and property value have an inverse relationship. When the cap rate goes up, the property value goes down.

   Interest rates are also a key factor. When interest rates rise, cap rates also tend to rise. This is because investors typically seek a higher return from property to remain competitive with safer investment alternatives like government bonds.

   Expectations of future income and capital growth can also influence the cap rate investors are willing to accept. If investors expect strong capital growth, they'll accept a lower cap rate and therefore pay a higher price today.

Investors generally know the cap rate or yield they are seeking for an ECEC centre. Given a property's expected rental income, this determines the maximum price they are willing to pay.

Owners wishing to sell may increase rental income to increase property value. They may try to make the income appear as secure and low risk as possible (e.g. a reliable tenant).

Developers typically work backwards from the expected sale value. Because rents are relatively predictable, the key question is whether the ECEC centre can generate enough income for the property to sell, at the expected cap rate, for a price that covers development costs and delivers a profit.

They make these decisions due to the fact that rental income, cap rate or yield and property value are all connected in this well-established property valuation formula shown below.

$$\frac{\text{Net rental income}}{\text{Cap rate or yield}} = \text{Property value}$$

For example, if a LDC:

- Generates **$180,000** in annual net rental income; and,
- The **cap rate is 5.0%** (the mid-point of the typical range)[1]
- The property would be valued at **$3.6 million.**

The formula is essentially a way of answering the question 'How much would I pay today for an asset that generates this much income every year?'.

Key takeaway: The income an ECEC property generates – and how risky this income is perceived to be – are the key determinants of its market value.

Raising income (through raising rents) or lowering perceived risk (e.g. through securing a reputable provider as a tenant) are ways that the value of an ECEC property can be increased.

1. Burgess Rawson. (2024, October). *Early Education Industry Insights Report*.

How developers generate profit

Developer returns are the gap between a centre's completed value and the developer's costs, including land, approvals, construction and financing. This margin compensates the developer for the risk they carry during the development process.

What does a developer do?



Property development in ECEC is a multi-step process of:

- Identifying and purchasing land (which may include seeking an external capital source)
- Seeking approvals (i.e. planning, building)
- Building the service
- Securing a tenant
- Selling the property

Each stage of this process requires knowledge, skill and expertise to navigate. This process is outlined in more detail in the Appendix 5 on page 98.

More information about property developers in the 'Property owners' section of the report, in particular on pages 66 & 67.

How is profit generated through the development process?

Property developers seek to add value to the land they've purchased and then sell for a profit.

We heard that developers will typically aim for a 25% return on their investment (over the project, which usually spans a number of years), and that this margin is consistent across different sectors (i.e. it is not specific to ECEC). This return reflects the risk developers carry through the development process, including:

- Securing approvals – which can be time consuming and unpredictable
- Construction and financing costs – which can change between initially buying the land and completing the build
- Securing a good tenant and finding a good buyer at the end of the process – which may not be guaranteed

Developers determine whether a site is worth the investment by:

- Calculating the estimated cost of site purchase and development (factoring in the cost of financing and approvals)
- Estimating the property value upon completion (using the formula on p.32).
- Determining an estimated return on investment (ROI) and if it meets a minimum threshold / is 'worth their while'
- Comparing this ROI against alternative uses of the land.

For example:

- For a service with 120 licensed places, and predicted rent of $4,000 per place per year, the centre will generate $480,000 income per year
- At a cap rate of 5%, the property would be valued at $9.6 million.
- To generate a 25% return, the cost of development would need to be no more than $7.68 million.

'The reality is…if it costs them six million, maybe it makes them seven million. So they take all that risk for that particular margin' ***– Property insider***

How owners generate capital returns

Property owners also generate capital returns as the value of the property grows over time.

What is capital growth?

Capital growth, or capital gains, occurs when the value of a property increases over time, allowing the owner to realise a gain when the asset is sold.

This includes:

- **Passive capital returns** that occur through broader market appreciation i.e. the property's value increases over time due to broader market growth, enabling the owner to sell it for more than they purchased it for.
- **Active capital returns** that are generated through actions that increase the property's value, such as redevelopment, securing higher rents, or attracting a stronger tenant, and then selling the property for a profit.

To increase the value of an ECEC property and generate a capital return, property owners may seek to increase income or decrease risk

Owners can increase income by:



- **Increasing rent** through rent reviews or annual rent escalations
- **Improving the property**, to support demand, increase the attractiveness of the property to tenants and enable higher rents to be charged
- **Waiting for land value to appreciate over time**. The market value of residential land (where most ECEC properties are located), has increased by an average of 6-7% per year over the past 30 years[1]
- **Improving lease terms**, creating more predictable income growth and increasing the property's attractiveness to investors

Because higher income will drive a higher property value (refer to page 32).

Owners can decrease perceived risk by:



- **Securing a longer lease term,** providing greater certainty of future rental income
- **More favourable lease conditions** to reduce risk to the owner, such as triple-net leases that transfer maintenance obligations to the tenant
- **Strengthening the tenant covenant***, by securing a tenant with a stronger financial position, greater scale or a stronger track record. For example, replacing a smaller or higher-risk provider with a large, established provider may reduce perceived risk and increase property value

Because lower risk to the owner (that is a lower 'cap' rate) will drive a higher property value (refer to page 32).

'Property valuation is a function of the covenant of the tenant. So, if you have a tenant with a strong covenant, the value of the property goes up.' ***– ECEC insider***

1. CBRE Research (2026), Child Care Centres: Intelligent Investment, March 2026.
2. Australian house price growth over the last 30 years, DPN, n.d.; Tracing 30 Years of Australian House-Price Growth, Propell Property, n.d

*** Tenant covenant** is a term used to describe the financial strength, creditworthiness and overall reliability of a tenant to meet their lease obligations over the full lease term.

How owners set rents

Landlords typically quote rent per licensed place. The rate per licensed place is influenced by multiple factors including local market conditions, tenant quality and lease terms.

Licensed places are used as a proxy for the income-generating capacity of the centre. This is because:

- **The physical building is only one component of value.** Unlike conventional commercial property, an ECEC building can't generate income based on its floor area alone and must be approved for use as an education and care service.
- **Regulatory capacity determines earning potential.** The number of licensed places sets the maximum number of children a service can accommodate, making this a key driver of, and constraint on, revenue and the rent a provider can afford to pay.

Factors influence the rate per licensed place:

- **Local market conditions including:**
  - **Land values**. When land values rise, the property is worth more, and landlords expect a return on that current value, not on what they originally paid. To hold the same yield, they seek higher rent at each lease renewal or review. Rising land values also lift the cost of new centres, which pushes up comparable rents for existing ones.
  - **Strength of demand**: Landlords consider local demand for places and occupancy levels. Strong demand supports higher occupancy and revenue, which increases what operators can afford to pay.
  - **Comparable rents**: Landlords consider the rents charged for other ECEC properties in the area, which indicates the price that providers are willing to pay. This is linked to the strength of demand, but not perfectly. If providers in the area have signed leases that are unsustainable (i.e. not reflective of occupancy levels), this still sets broader market expectations.
- **Tenant quality.** Landlords may accept a lower rent from an operator with a strong reputation and track record, because the income is more secure. Investors accept a lower return for lower risk.
- **Lease terms.** Lease length, rent review mechanisms (such as fixed annual increases or market reviews) and incentives such as rent-free periods all affect the starting rate. Longer lease with built-in rent increases offer more security, which can support a lower starting rent.
- **Interest rates.** Rents need to support investors target returns (the cap rate). When interest rates rise, borrowing costs and required returns rise too, which puts upward pressure on rents.
- **Development costs**. For new builds, the cost of approvals, construction and finance costs set the base on which the landlord needs a return. Rent must deliver an acceptable yield on that total cost, so higher costs push rents up.
- **Landlord type.** Return expectations differ between landlords. Private investors and developers typically seek market returns. Some landlords, such as not-for-profits and government bodies, generally accept lower financial returns because they also have community or service objectives.

'Construction costs identified as the single biggest shift in the sector over the last decade…rents have increased alongside this.'

– Property insider

'High interest rates make the investment riskier – and this is driving higher rents to cover higher risk.'

– ECEC insider

dandolopartners

How owners optimise rental returns

Landlords will seek to secure favourable lease terms that provide them with a stable and low-risk return by shifting risk to the provider.

Lease feature	Description	Method of shifting risk to the provider
Long lease terms	Rental terms locked in for the long term (often 10-20 years).	→ Owners have security of income for the long term – regardless of utilisation and demand. Long lease terms can also provide certainty for the provider, so can reduce provider risk.
Fixed annual increases	Rents automatically rise each year (often by CPI or CPI plus an additional percentage).	→ Annual rent increases are guaranteed, and don't need to be negotiated.
Periodic rent reviews and ratchet clauses	Set review points allow the landlord to reassess rents against current market rates. With a ratchet clause, the tenant still pays at least the previous rent level (the 'floor'), even if market rates have gone down.	→ Owners can capitalise on increases to market rates and secure additional rental income – without any downside risk.
Providers share in maintenance costs	The provider is often responsible for a share of the property maintenance costs. The most extreme version of this is a 'triple-net' lease, where the provider pays the building's rates, repairs and insurance.	→ Owners are shielded from certain maintenance costs, which can be large, lumpy and unpredictable. On the other hand, this also gives providers greater agency to make repairs and upgrades, important when these can be compliance or safety requirements.
Exit penalties	Many leases will have exit penalties for early termination, making them difficult and costly to exit.	→ Owners are compensated if a provider seeks to leave a lease prematurely.
Make-good obligations	Often, the lease requires that the tenant must restore the building when the lease ends.	→ Owners are protected from costs associated with restoring the building.

Commercial trends

This section: Commercial trends

This section explores recent and emerging commercial trends impacting the ECEC property market.

In this section we explore trends from the past decade including:

We find that:

Average rents have increased
p. 39

ECEC property rents have increased over time, reflecting both annual rent increases and market rent reviews.

The volume of property transactions has increased, but property turnover rates have remained stable
p. 40

Annual transactions have remained consistent as a proportion of the total stock, indicating the level of 'churn' (rate at which properties change hands) hasn't increased in relative terms.

Sale price and sale price per licensed place have also increased
p. 41 - 42

Average inflation-adjusted LDC property sale prices increased by around 27% between 2017 and 2025. Estimated price per licensed place has also increased. This suggests that increasing service size is not the only contributor to the growth in property prices.

Construction costs have risen
p. 43

Rising construction costs are creating challenges for new developments.

In recent years, transaction activity, sale prices, rents and construction costs have all increased, contributing to rising property values across the sector.

Average rents have increased

ECEC property rents have increased over time, both through annual rent increases and market rent reviews.

At the time of writing this report, there was limited reliable publicly available data on ECEC rent costs. Available data indicates that ECEC property rents have risen over time.

The ACCC collected rent data from a sample of providers through its 2023 Childcare Inquiry. The data has limitations. It skews towards large providers, who were legally required to report, while small and medium-sized providers contributed data voluntarily. Notwithstanding these limitations, the ACCC found that:

- Annual rent increases of 3-4% or CPI (whichever is higher), appeared to be common[1]
- Yearly rental increases and periodic market reviews, combined with increasing land values, resulted in property costs for childcare providers increasing faster than CPI between 2018 and 2022.[2]

In a small demonstration of this, Charter Hall Social Infrastructure REIT conducted 69 rent reviews in FY2025, with an average 10.5% increase in rent across these properties.[3]

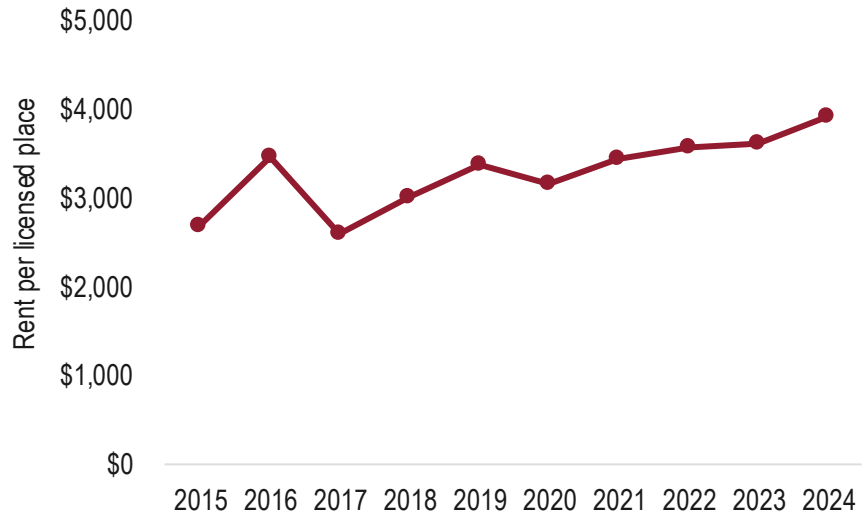
'Increasing construction costs leads to higher rent and then existing builds rent goes up because there is benchmarking.'

- ECEC insider

'Rents have significantly increased in the past five to 10 years and that is because of construction costs…because it is so much more expensive to build now…which has driven the rents as well.'

- Property insider

The annual growth rate in market rent per licensed place from 2015 – 2024[4]



Data insights:

- Market estimates indicate average market rents per licensed place grew by approximately 3.9% per year between FY15 and FY24.

1. Australian Competition and Consumer Commission (ACCC) (2023), *Childcare inquiry: Interim report – September 2023*, ACCC, Canberra.
2. Australian Competition and Consumer Commission (ACCC) (2023), *Childcare inquiry: Final report – December 2023*, ACCC, Canberra.
3. Charter Hall Social Infrastructure REIT (2025), *2025 Full Year Results*, Charter Hall, Sydney.
4. Charter Hall Social Infrastructure REIT (2024), *FY2024 Results Presentation*, p. 16, 'Average Market Rent Transactions / LDC', Charter Hall, Sydney. **Note:** dandolopartners has interpreted 'LDC' as licensed daily capacity.

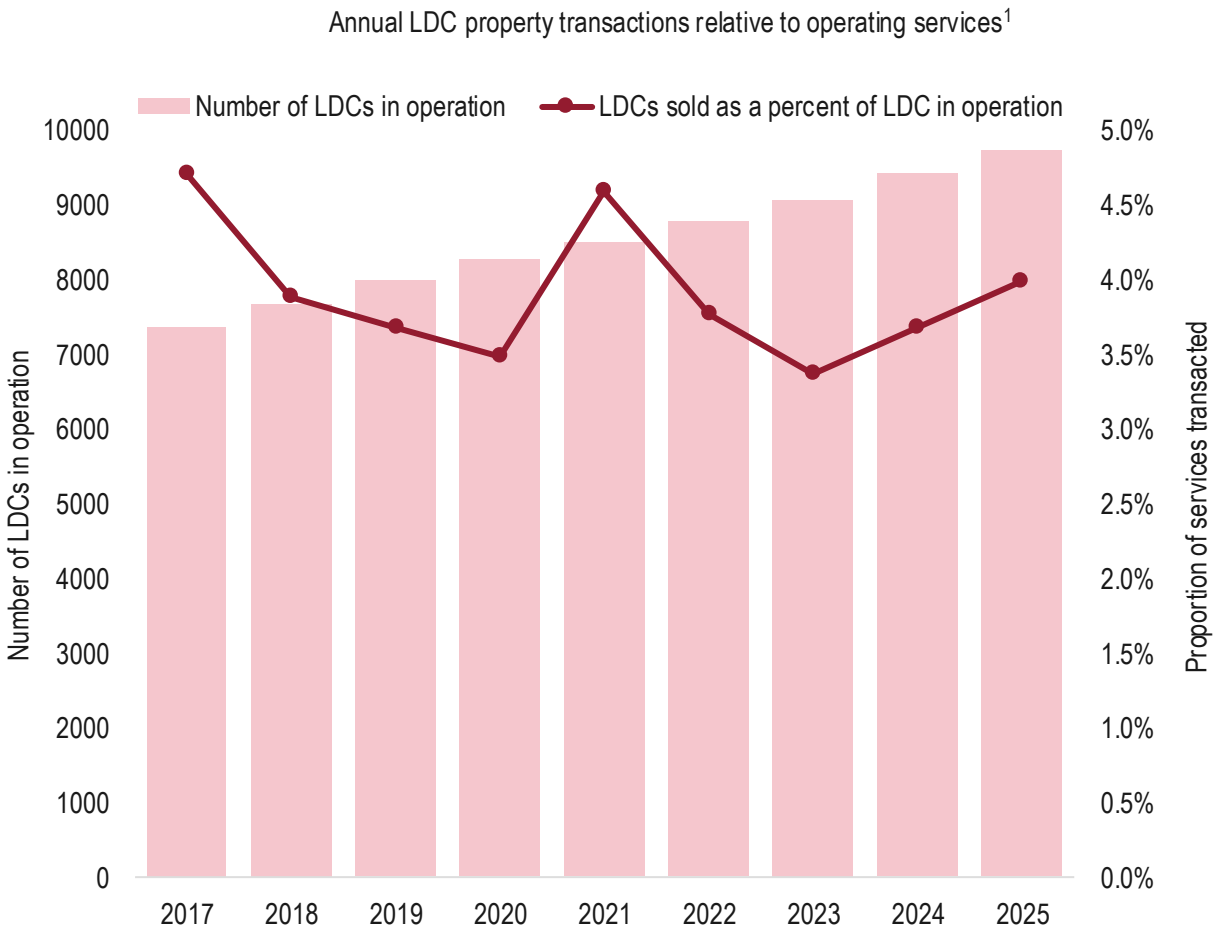
Property transactions have increased, but turnover rates have remained stable

Annual transactions have remained consistent as a proportion of the total stock, indicating that although LDC property transactions increased, the level of 'churn' hasn't increased in relative terms.

Data insights:

- LDC property transactions increased by around 12% between 2017 and 2025.
- Transaction activity has been volatile rather than steadily increasing, with notable peaks in 2017 and 2021 followed by periods of decline. Since the 2023 decrease, transactions have risen for two consecutive years, returning close to the 2021 peak by 2025.
- The proportion of LDC properties transacted each year has remained relatively stable at around 3-5% of operating services.
- While the number of operating LDCs has grown substantially, transaction activity has broadly increased in proportion to this growth, rather than indicating increasing property churn.

Growth in transaction volumes appears to reflect growth in the size of the sector, rather than LDC properties changing hands more frequently



1. dandolopartners analysis of property transaction data, ASIC and ACECQA NQAITS data.

ECEC sale prices have increased

Average inflation-adjusted LDC property sale prices increased by around 27% between 2017 and 2025, more than twice the growth in Australian residential property prices.

Data insights:

- Average inflation-adjusted LDC property sale prices increased by around 27% between 2017 and 2025.
- This was more than twice the growth in Australian residential property prices over the same period, which increased by around 12%.
- LDC sale prices have been considerably more volatile, with particularly strong growth between 2020 and 2021 and a substantial fall in 2023 before recovering.

LDC property sale price growth has outpaced the broader residential property market since 2017, suggesting broader property market trends explain only part of the increase.

Factors that may be contributing to this trend include:

- Increasing service size (see page 20)
- Rising construction costs (see page 43)

Growth in LDC and Australian residential property prices, 2017–2025[1-3]



1. dandolopartners analysis of property transaction data, ASIC and ACECQA NQAITS data.
2. OECD Analytical House Price Indicators.
3. ECEC sale prices are adjusted to 2025 dollars using CPI. Both series are expressed as cumulative percentage change from 2017 to enable comparison of relative price growth. The comparison does not account for geographic differences in property markets. LDC property sales may be concentrated in areas with different price trends from the national residential market, which may influence observed price growth.

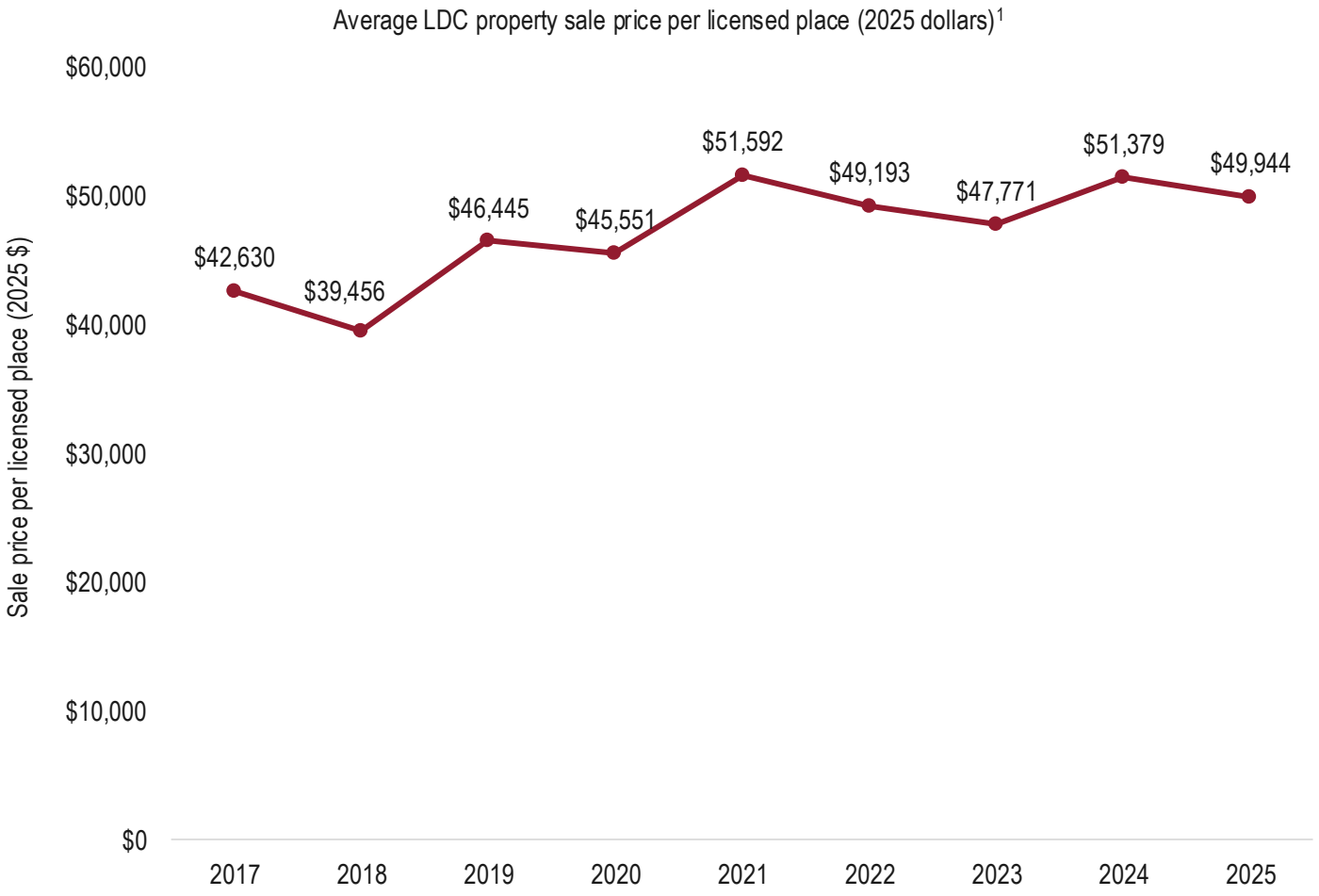
Sale price per licensed place has also increased

Sale price per licensed place has increased by around 17% in real terms since 2017, suggesting increasing service size explains only part of the growth in property prices.

Data insights:

- LDC sale price per licensed place increased by around 17% in real terms between 2017 and 2025, from approximately $42,600 to $49,900.
- Most of this increase occurred between 2018 and 2021, after which sale price per licensed place has remained relatively stable at around $48,000–$52,000.

Larger LDC services appear to explain part of the increase in total property prices, but the increase in sale price per licensed place suggests service size does not explain the full increase.



1. dandolopartners analysis of property transaction data, ASIC and ACECQA NQAITS data

Construction costs have risen

Rising construction costs are creating challenges for new developments.

Construction costs have risen in ECEC and across the board

- Construction costs have increased materially since the COVID-19 pandemic, driven by a combination of:
  - Labour shortages
  - Public infrastructure and defence projects competing for trades
  - Contractor insolvencies increasing project duration and uncertainty
  - Higher costs for materials like concrete, aluminium and copper
  - For ECEC specifically, recent changes to NQF requirements may also have contributed to higher construction and fit-out costs where they required upgrades to facilities, infrastructure or technology systems

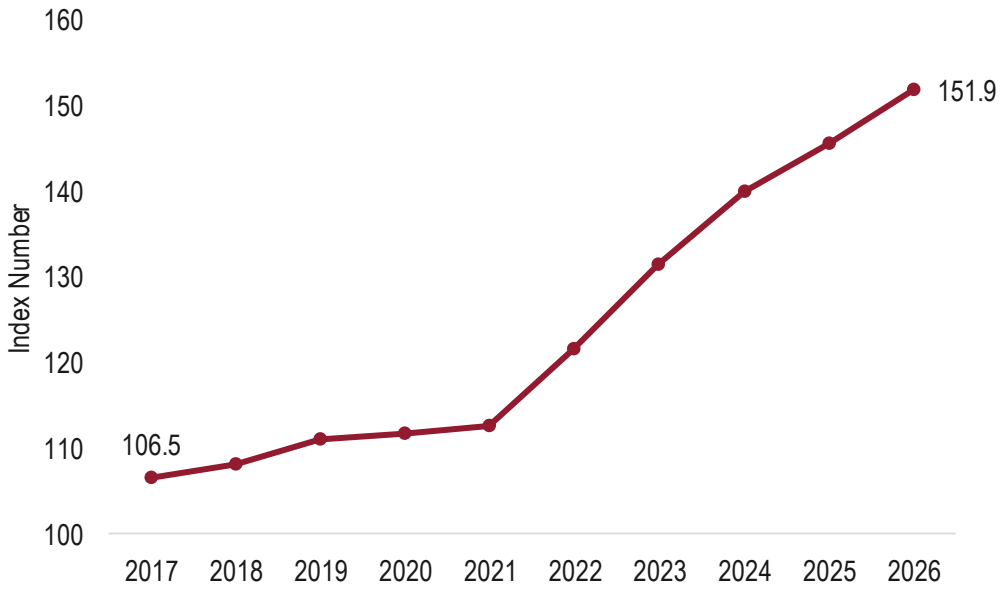
'Construction costs have increased dramatically… Many developments no longer stack up financially'

– Real estate insider

'What used to be around $25,000 per [licensed] place construction. It's now pushing upwards of $50,000.'

– Real estate insider

Non-residential Construction Index (2017–2026)[1]



Data insights:

Non-residential construction output prices increased by 42.6% between March 2017 and March 2026.

Rising construction costs are increasing the cost of bringing new ECEC supply to market

1. Australian Bureau of Statistics (ABS) (2026), Producer Price Indexes, Australia, March 2026 – Output of the Construction Industry: Non-residential Building Construction, ABS.

Why ECEC has been considered an attractive investment

This section: Why ECEC has been considered an attractive investment

This section examines attributes of ECEC property that have made it an attractive investment.

We unpack ECEC property's attractions as:

We find that:



A reliable and low-risk way of earning long-term rental returns

p. 46

ECEC has been seen as reliable and low risk because it is government-backed, supported by demand from working families, a better-performing investment (recently) than other forms of commercial property and underpinned by long leases and predictable cash flows.



A way to deliver quick-win capital returns

p. 47

ECEC has demonstrated capital returns in the past due to:

- Significant growth in demand for ECEC services, making assets relatively easy to sell and realise gains
- Rapidly rising land values
- Development and value-add opportunities

Strong gains have been achieved by some investors, although we heard this is less prevalent than it once was.



A relatively accessible asset class

p. 48

ECEC requires less capital and is seen as relatively simple to construct and own making it a relatively accessible form of investment. This helps to explain why ECEC ownership appears to remain dominated by individual investors



People have wanted to own and invest in ECEC property because it has been seen as a reliable, low risk income source, it can deliver a 'quick win' capital return and is relatively accessible compared to other forms of property.

This section explores the factors that have historically made ECEC an attractive investment. However, some of these conditions may be changing, as explored in *Emerging Issues* (p. 75–80).

A reliable and low risk investment

For most investors, ECEC property has been seen as a reliable and low-risk way of earning long-term rental returns.

While property investment is an established practice across the Australian economy, there are some elements that draw investors to ECEC:

- **Government-backed revenue** (via the CCS), combined with strong bipartisan support for the sector, provides greater confidence in the long-term sustainability and stability of provider revenue
- **Supported by strong and persistent demand** from families that has been:
  - Resilient and relatively inelastic to price – families will always need support caring for their children, even during economic downturns
  - Increasing due to policy settings that support increasing participation rates and attendance hours
  - Historically supported by steady population growth among 0-5 year olds, with recent COVID-related population decline expected to be temporary[1]
- **A better performing asset (recently) than other forms of commercial property,** particularly office and retail, which have faced weaker demand, higher vacancies and declining capital values in the post-COVID era
- **Underpinned by long leases and predictable cash flows** that provide investors with stable income and greater certainty over future returns

*'Not only was it government backed and there were good rationale behind the **government backing**, [but] you also had **bipartisan support...** there was obviously growing support as well. The budget funding was continually going one way…we like the **predictability of the leases**.'*

– Asset Management Firm

*'I wouldn't have thought there's many more asset classes which are as **robust and defensive** as childcare '*

– Asset Management Firm

This perspective is reflected in property sector reports and promotional materials.

Cushman & Wakefield – Property Playground report 2025[1]

*'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 participation'*

Burgess Rawson – Early Education Industry Insights Report 2024[2]

*'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, offer long-term leases and strong tenants**, making it a reliable choice for investors seeking stable returns.'*

Mollard Property Group – 2025[3]

*'Childcare investment properties have become one of the **most attractive asset classes** in the commercial real estate sector. With **sustained demand for early childhood education in Australia and government support for the sector**, childcare centres can offer **long-term leases, predictable rental income and strong growth potential.**'*

1. *Property Playground.* Cushman & Wakefield; 2025. https://assets.cushmanwakefield.com/-/media/cw/apac/australia/insights/property-playground.pdf
2. *Early Education Industry Insights Report*. Burgess Rawson; 2024.
3. *Investing in childcare properties: a smart and sustainable opportunity*; 2025. Mollard Property Group. https://mollard.com.au/investing-in-childcare-properties-a-smart-and-sustainable-opportunity/

Potential for quick-win capital returns

Other investors have been drawn to the sector chasing a 'quick win' through capital returns, though we heard this is less prevalent than it once was.

For these investors, ECEC property has been attractive because of:



The potential for significant capital returns, demonstrated by strong gains achieved by earlier investors



Rapidly rising land values, particularly in residential and growth areas where ECEC centres are often located, creating opportunities for capital appreciation



Development and value-add opportunities, including re-zoning, re-development and re-positioning of sites (i.e. changing how a site is operated, leased or marketed to increase its value).

'One of the features of ECEC is that it's characterised by lots of small-scale players…Barriers to entry are low – capital costs are in reach of individuals…You buy one, five, ten, fifteen services, flip them, buy a Maserati and move to the Gold Coast.'

– ECEC insider

'Over the last 15, 20, 25 years in Australia, a number of childcare entrepreneurs have sort of built their fortune by developing childcare centres'

– Corporate advisory insider

'Lots of small to medium-sized developers in this space – they're small projects, done quickly, the risk doesn't need to be carried for long, up-front capital is relatively low … its not building a hospital or a five-storey apartment block, its simple and low risk'

– ECEC insider

'I would say has [it] matured much more in the past 10 to 15 years and therefore the opportunity to make a lot of money quickly is no longer there in the sector.'

– Property insider

A relatively accessible form of investment

Compared to other commercial property assets, ECEC is smaller and simpler to invest in, making it attractive and accessible for individual investors.

ECEC requires less capital…

- According to stakeholders developing a new ECEC centre including land acquisition and construction costs around $5-10 million, although costs vary by location, size and development type.[1]
- In 2026, ECEC property sale prices ranged from approximately $270,000 to $11.5 million, with an average sale price of $3.5 million.[2]
- By comparison, office, retail and industrial assets can transact for hundreds of millions of dollars

'Barriers to entry are low – capital costs are in reach of individuals….' **– *ECEC insider***

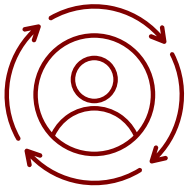
…and is seen as relatively simple to construct and own…

- While ECEC developments must still comply with specialised regulations and design requirements, they are viewed as less complex than comparable alternative assets such as hospitals and aged care facilities.

'Building a childcare centre is a very straightforward exercise…You find the plot, you get the architect, and you throw it up.'

- ECEC insider

…making it a relatively accessible form of investment.



This helps to explain why ECEC ownership remains dominated by individual investors.

- Individual investors span high-net-worth individuals, SMSFs, overseas investors and long-standing 'mum and dad' investors.

1. According to estimates in stakeholder interviews with land costs approximately $2-3 million, and construction costs $3-6 million
2. dandolopartners analysis of property transaction data and ACECQA NQAITS data

Who owns ECEC property?

This section: Property owners

This section digs deeper into patterns of property ownership, and the characteristics of property owners themselves.

In this section we:

Provide an overview of ECEC property ownership and patterns

p. 51 - 57

Unpack each owner type in detail

p. 58 - 73

Explore other market players that support owners

p. 74

We find that:

- Most providers (over 80%) operate from facilities that they lease from an owner – an arrangement that is common to many real estate intensive industries.
- Property ownership is diverse and fragmented. No comprehensive data exists on property ownership within the sector. Our analysis of transaction data suggests that individuals are the largest identifiable owner group, accounting for an estimated 68% of properties.[1]
- However, individual ownership is a key area of remaining uncertainty. A number of stakeholders have suggested that ownership is more consolidated than it seems, with individual corporate entities having related owners. This could be examined in future work using ASIC and other data sets. This might cause an increase in the proportion of owners identified in corporate and institutional investors.
- The type of owner can influence:
  - Their size/scale and therefore level of sophistication and market power
  - Whether and how they seek to generate returns
  - The type of provider they tend to lease to
  - Their behaviour and priorities as landlords

Property owners are supported by other players providing capital, or advisory and brokerage services including:

- Private equity
- Banks
- Investment banking
- Corporate advisory firms

There are a diverse range of property owners that are responding to a range of different incentives meaning there is no 'typical' landlord in ECEC.

1. Note: We have supplemented our estimates with other data sources where available. Given these data limitations, data in this section should be regarded as indicative estimates rather than precise measures of market ownership.

Property owners generally aren't the service provider

Most ECEC providers lease, rather than own, their facilities. This is a common business structure across social, health and commercial sectors.

Renting is the predominant property model for all types of ECEC providers

In 2022, the ACCC Childcare Inquiry found that over 80% of centre-based day care services are rented.[1] This was consistent with what we heard from providers.[2]

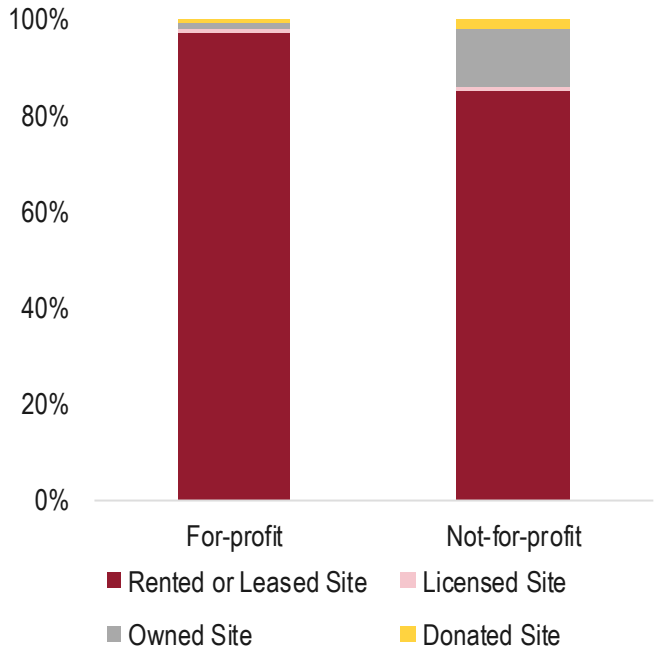
This can be observed across the sector, from small to large for-profit providers and not-for-profit providers.

However, the ACCC found that not-for-profit providers had a much higher share of owned sites (12%) and donated sites (1.4%) than for-profit providers.[1]

'We've got currently got 181 centres, 100% of those are leased, and that has always been our kind of model to lease centres... and it won't change…in our business, it doesn't make sense for us to have large amounts of capital tied up in freehold property.'

– Large ECEC provider

Property model for centre-based day care, by provider type 2022.[1,3]



Separation of operations and property ownership is common across many real estate intensive industries, not just ECEC.

This includes:

- **Supermarkets** such as Coles and Woolworths, which lease a large share of their store networks
- **Large retailers,** which often lease their stores while property investors hold the real estate
- **Private hospitals and medical centres**, where operators often lease purpose-built facilities or more generic consulting rooms from property investors.

The reason for this is explored further on page 52.

Aged care is one of the few exceptions, where providers typically own their facilities. This is facilitated through a feature of the sector's funding model - Refundable Accommodation Deposits (RADs) - which give providers access to capital and enable the purchase of the specialised facilities required.

'Fundamentally, real estate as a general rule is very expensive. And so, if you're a provider or someone who needs to use a lot of real estate, generally as the market has developed over the last 40 years, you'll look to find a way that other people own that real estate. '

- Independent corporate advisory insider

1. Australian Competition and Consumer Commission (ACCC) (2023), Childcare inquiry: Interim report – September 2023, ACCC.
2. Interviews with ECEC providers.
3. This chart is based on data used in the ACCC Childcare inquiry. The data has limitations. It skews towards large providers, who were legally required to report, while small and medium-sized providers contributed data voluntarily.

Why ownership and operations tend to be separate

Ownership and operation are usually split because investors and providers bring different expertise, capital and appetite for risk.



ECEC providers – *They run the service*

Why don't ECEC providers, often, own the property they operate a service from?

Cost and capital constraints

- Many providers may not have access to the capital required to purchase property
- For providers with access to the required capital, they may prefer to invest capital in growing and operating services rather than owning property
- Leasing removes the need for upfront capital to open and grow services

Comparative advantage

- ECEC providers are generally experts in education and care, not property. Few providers have the full suite of property expertise in-house (even if they have an acquisition team, they'll generally partner with developers rather than running the whole process themselves).
- Leasing frees providers up to focus on and invest in running the service

This separation of operation and ownership can suit providers because it ties up less capital and enables them to focus on their core business: delivering education and care.

'Operators don't have the money to own the building and shouldn't be distracted from caring for children by changes in property prices or movements in interest rates, which are the things that my investors are willing to bear.'

– Property fund manager

'It doesn't make sense for us to have large amounts of capital tied up in freehold property when we can have long lease terms.'

– Large ECEC provider



Property investors – *They own the land and the building*

Why does it suit property investors to own the property?

Access to capital and risk appetite

Property investors generally have:

- Greater access to large amounts of long-term capital
- Tolerance for risks inherent in development and property market speculation
- A preference for stable, property-backed income streams (i.e. rental income and growth in property value) over the operating challenges and lower margins of an ECEC service

Comparative advantage: Property investors generally hold specialist skills or enduring partnerships across every stage of the property lifecycle, from developing, acquiring and financing to managing real estate. This means they are better placed to manage property-related risks such as interest rate fluctuations and financing costs.

This split of operation and ownership can suit investors because it allows them to choose opportunities that align with their preferred level of risk, expected returns and available capital.

'It has just become much more efficient to find people who just want good, solid groups of yielding assets as investors and then people who want the opportunity to invest in operating a business.'

– Independent corporate advisory insider

Owner types

There are many different types of owners of ECEC property.

We have developed these 7 typical owner types for illustrative purposes. Ownership categories can be complex and overlapping, but our intention is for these categories to provide a practical way to understand the different motivations, behaviours and roles owners play within the ECEC property market.

Individual investors

Individuals or small groups who own ECEC property typically for rental income or personal investment returns.

See page 60 - 61

Owner providers

ECEC providers who both run the ECEC business and own the real estate of the centres they operate.

See page 62 - 63

Corporate and institutional investors

Organisations that own portfolios of centres as investment assets. Includes Real Estate Investment Trusts (REITs) and private property funds.

See page 64 - 65

Developers

Companies or individuals who build new ECEC centres or redevelop existing sites for sale or lease.

See page 66 - 67

Commercial retail or mixed-use landlords

Owners who operate shopping centres or mixed-use commercial buildings where ECEC is just one tenant type.

See page 68 - 69

Government

State or territory and local government owners (who sometimes also run the service).

See page 70 - 71

Non-Government Organisations (NGOs)

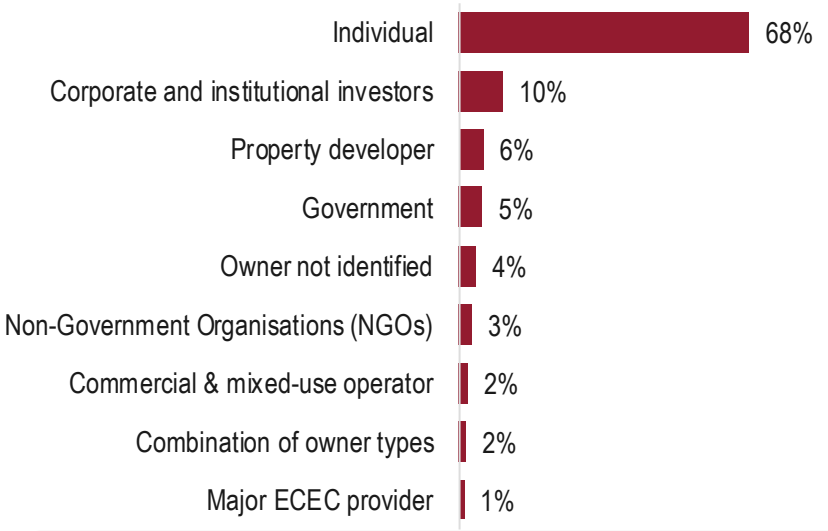
Organisations that are not government bodies and do not operate for private profit, including community-based services, charities, and churches and other faith-based organisations

See page 72 - 73

Estimated ownership shares

We have estimated ownership shares using property transaction records spanning more than 80 years. This analysis indicates that individual investors are the most prevalent identifiable owner type.

Estimated share of LDC property ownership by owner category, 2026[1]



Note: This analysis uses Domain transaction data as a proxy for property ownership. The purchaser in the most recent recorded transaction is assumed to be the current owner.

For approximately 32% of operating LDC services, no property transaction was recorded in the available data. Ownership for these services was estimated using the ownership proportions of services with the same provider management type and a recorded transaction. This may understate the role of certain owner types that are less likely to be represented in transactions, including government. Other limitations of this analysis include the inability to identify related entities which may overstate the extent of individual ownership. See Appendix 3 on page 96 for further limitations.

The table below shows how owners were allocated to categories through the data analysis.

Category	How owners were classified in the analysis
Individual investors	Identified through personal names and naming conventions, businesses classified as self-managed superannuation funds (SMSFs), and businesses associated with only 1–2 distinct properties across the transaction history.
Corporate and institutional investors	Includes both trusts and businesses. Trusts identified through names indicating trust or trustee arrangements. Businesses identified through company names and ASIC records, with those associated with three or more distinct properties retained as businesses.
Property developer	Identified through business names and matching against a register of known property developers and builders.
Government	Identified through owner names containing government-related terms, including councils, departments and public authorities.
Non-Government Organisations (NGOs)	Identified using business subclassifications and entity names indicating charitable, religious, community or other not-for-profit organisations.
Commercial & mixed-use operator	Identified using property land-use classifications indicating commercial, retail, office or mixed-use activity.
Major ECEC provider	Identified through provider names and matching against ACECQA records of related ECEC providers.

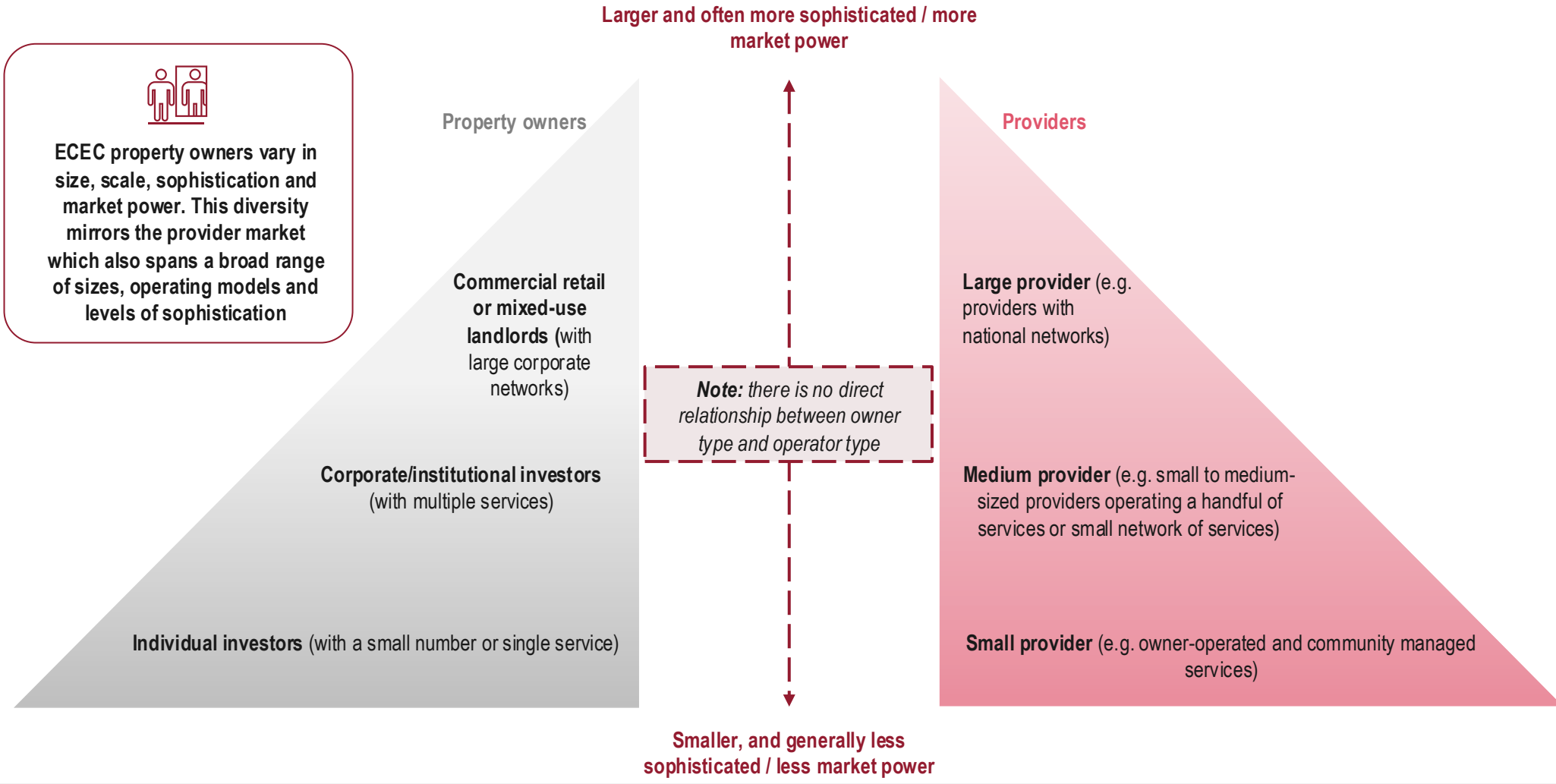
We note that individual ownership is a key area of remaining uncertainty. A number of stakeholders have suggested that ownership is more consolidated than it seems, with individual corporate entities having related owners. This could be examined in future work using ASIC and other data sets. This might cause an increase in the proportion of owners identified in corporate and institutional investors

1. dandolopartners analysis of property transaction, ASIC and ACECQA NQAITS data
2. Transaction data is likely to have a number of gaps, particularly in earlier years. No sales transactions were recorded between 1944 and 1952, with fewer than 10 transactions a year for almost every year from 1945-1978. These gaps may be due to subdivisions of property (where the original owner retained ownership of subdivided properties for many years after), weaker record keeping practices in earlier years and from the tendency for property to be held for many decades (e.g. how 32% of LDC properties appear to not have a transaction over the last few decades).

Owner size and scale

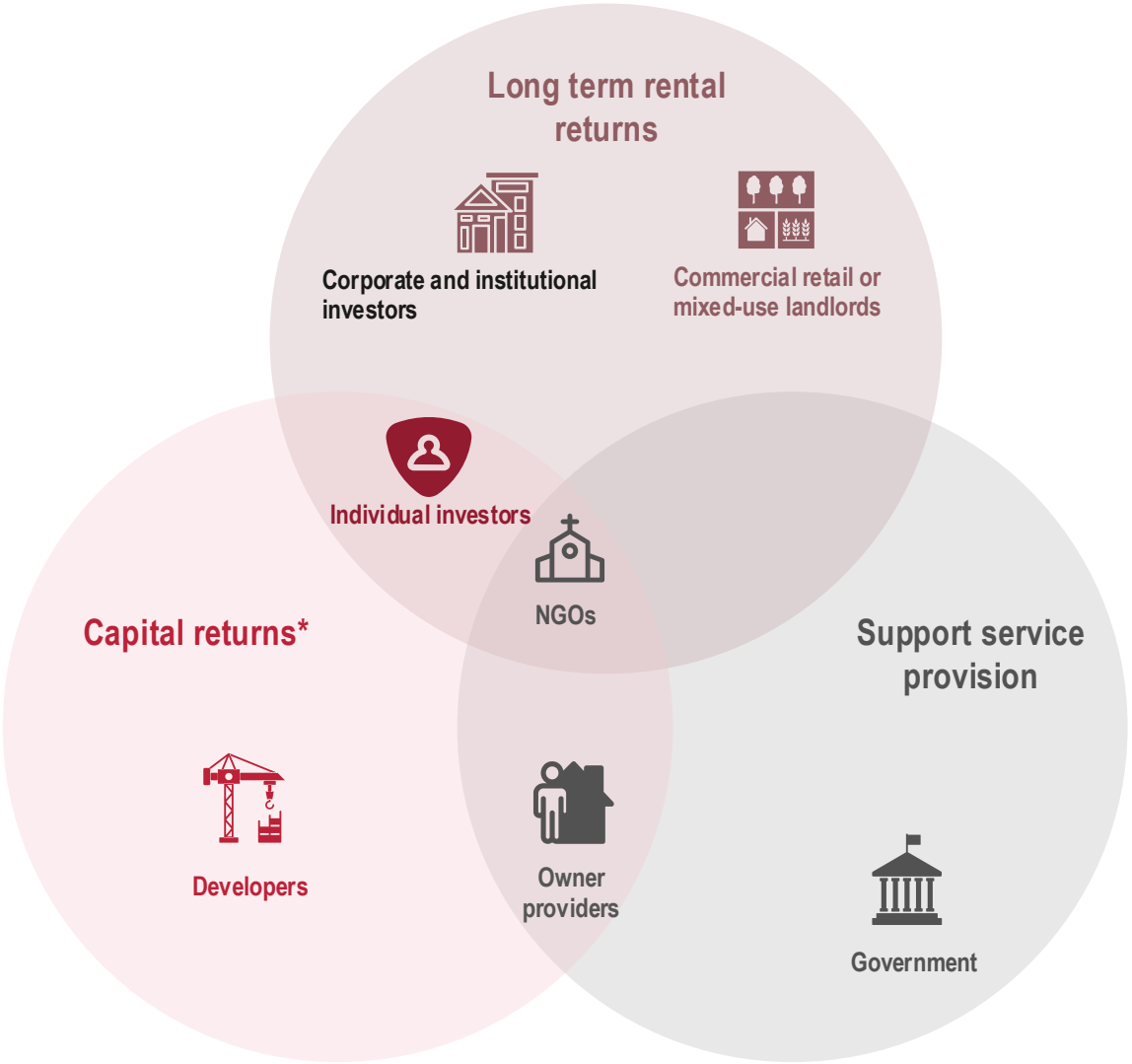
ECEC property owners vary in size and scale – which can impact on their level of sophistication and market power. This mirrors the diversity of ECEC providers.

ECEC property owners vary in size, scale, sophistication and market power. This diversity mirrors the provider market which also spans a broad range of sizes, operating models and levels of sophistication



Why do ECEC property owners choose to own?

Owners aren't all motivated by the same thing. Some are searching for profit – either through rental or capital returns – while others own primarily to support service provision or for historical factors.



* *Includes capital returns (increase in value over time) and development profit (value to the developer of selling a completed property)*

Mapping owners to provider types

There is no clear relationship between owner and provider type overall, but there are some tendencies among certain owner types.



Individual investors appear to be the largest category, and they rent to all provider types.

As the largest and most diverse ownership category, individual owners have varied motivations and investment strategies, leasing to providers of all types, small to large, for-profit and not-for-profit.

More likely to rent to not-for-profit providers



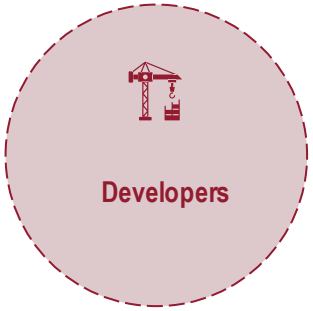
Government and NGO-owned sites are most often leased to:

- Not-for-profit providers
- Community-based services

This is likely because of alignment with mission-driven or policy goals like early learning access and family support.

Some governments and churches are seeking more commercial returns from their property holding and are leasing to for-profit providers able to meet higher rents.

More likely to rent to larger providers*





Developers, corporate/institutional and commercial retail/mixed use landlords will typically seek out **large, established for-profit providers** with a strong covenant but for different reasons:

- Developers prioritise tenants with strong covenants, enabling them to increase property values, supporting stronger capital gains on sale
- Corporate/institutional, retail or mixed-use landlords prioritise long-term stability and predictability.
- This means they tend towards providers with strong financial capacity to commit to long-term leases, and with experience managing regulatory compliance and operational risk

**One exception is a large not-for-profit provider with a strong covenant, which these owners are also more likely to lease to.*

Property owner types

This section digs deeper into the characteristics of property owners themselves and other market players that support them.

1 **This section explores each owner type…**

- **Individual investors -** *page 60 - 61*
- **Owner providers** - *page 62 - 63*
- **Corporate/institutional investors-** *page 64 - 65*
- **Developers** - *page 66 - 67*
- **Commercial retail or mixed-use landlords** - *page 68 - 69*
- **Government** – *page 70 - 71*
- **Non-Government Organisations (NGOs)** - *page 72 - 73*

…including:

- **Who are they?**
- **What is their market share and scale?**
- **What are their typical motivations?**
- **How does this impact how they behave?**

2 **It then highlights other market players that support owners, including:**

- **Private equity**
- **Banks**
- **Investment banking/corporate advisory firms**

See page 74

Individual investors

Individual investors account for an estimated 68% of LDC properties, making them the largest ownership group in the ECEC property market, despite typically owning only a small number of properties each.

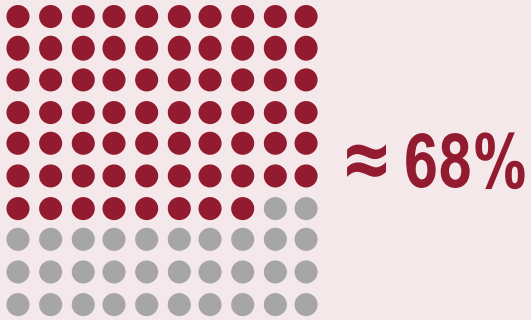
Who are they?

This category is made up of small-scale investors and is highly diverse. This category includes:

- **Self-managed super funds:** private superannuation funds managed by their members, often individuals, couples or families, that invest retirement savings in assets such as ECEC properties.
- **'Mum-and-dad' investors:** everyday individuals or families investing personal wealth in a single or small number of ECEC properties.
- **High-net-worth private investors:** wealthy individuals typically holding services as part of a diversified property investment portfolio.
- **Businesses** that own 1-2 properties.

Scale

Our estimates indicate that **individual investors own around…**



…of LDCs properties in operation as of June 2026.[1] Individual ownership is highly fragmented: **≈3,900** identifiable owners own **≈4,150** properties, with **94%** owning only one property.[1] This broadly aligns with what we heard in interviews:

- Across providers interviewed, individual landlords represented a substantial but varying share of their landlords, ranging from 40–70%.[2]
- Stakeholders similarly described individual landlords as typically owning one or a small number of ECEC properties.[3]

However, individual ownership is a key area of remaining uncertainty. A number of stakeholders have suggested that ownership is more consolidated than it seems, with individual corporate entities having related owners. This could be examined in future work using ASIC and other data sets. This might cause an increase in the proportion of owners identified in corporate and institutional investors.

'They own the majority of the assets in a sector. They are by far and away the biggest owner of these assets.'

– Corporate advisory insider

'The vast majority are owned individually by private landlords who may own, one or two centres, but very rarely own any more than that'

– Large ECEC provider

'Own one to two buildings…Often it's a retirement question… if holding [it is as] a self-managed super fund or passive income in retirement, [or they] might want to liquidate the capital for next stage of life'

– ECEC insider

1. dandolopartners analysis of property transaction, ASIC and ACECQA NQAITS data.
2. Interviews with ECEC providers.
3. Interviews with stakeholders.

Individual investors: Motivations and behaviours

Individual investors appear to be largest owner group and are driven by a diverse range of motivations, meaning there is no single 'typical' landlord behaviour across the sector.

Individual investors vary significantly in their investment objectives and time horizons...

At either end of the spectrum landlord motivations may include:

Prioritising stable long-term returns.

- Hold an ECEC property as a long-term, income-producing asset

Prioritising maximising returns over the short to medium-term

- Focus on increasing rental income and asset value, viewing the property as a financial asset rather than a long-term partnership

...which means their behaviours can also vary substantially in practice.

Characteristics of financial agreements:

- Owners focused on stable long-term returns are more likely to favour **long-term leases, with predictable steady increases over time.**
- Owners focused on maximising short-term returns may be more likely to seek **higher rents, frequent rent reviews and more aggressive lease terms**

Variable sophistication

- Individual investors generally are less sophisticated than larger investors, who have specialist property, legal and financial expertise in-house. Smaller investors often have fewer resources and less experience. Some small investors are well informed, but sophistication generally rises with size.

Property improvements:

- Owners focused on passive long-term returns can be 'set and forget' owners that may be **less likely to fund major upgrades** to older centres potentially contributing to obsolescence of physical stock over time
- Owners maximising returns might more proactively invest in their property to add value in the short-term

May prioritise tenant retention

Owners prioritising stable long-term returns might be more likely to **work collaboratively with the tenant**, for example sharing property maintenance costs or negotiating lease terms, in line with their aim to maintain a quality tenant for the long-term.

Can be willing to pay more

In general, we have heard that individual investors can frequently be prepared to **pay a higher price** for property than institutional investors. Unlike institutional investors, individual investors aren't constrained by having specified portfolio returns and may be willing to accept lower returns for stable income and lower risk. This can also be due to a lack of access to information or bargaining power.

'Some reasonable, some good, they want to work and have long-term relationship, others are unrealistic and difficult and expect large rent rises.'
– ***Large provider***

'Individual property owners [are] slightly varied… some hands on [and] some hands off.'
– ***Former provider***

'They are probably the marginal price setter across the market because they are prepared to pay full prices for these assets because they are seen as being highly attractive'

– ***Corporate advisory insider***

Owner providers

Owner providers are a small but distinctive category of owner that run the ECEC services and own the underlying property.

Who are they?

Owner providers own the property from which they operate an ECEC service. They both run the ECEC centre and own the underlying property. This group includes:

- Smaller providers that choose to own their services
- Larger providers that own a portion of their portfolio

Governments can also sometimes act as owner providers however discussion of this owner group is covered separately on page 70 & 71.

Scale

Owner provider arrangements are much less common than leasing, but its prevalence varies considerably by provider type and scale.

The prevalence of owner-providers is difficult to determine from transaction data. However, consultations with providers indicate that property ownership varies considerably by provider type and scale.

Larger providers

- Among larger providers, the proportion of properties owned varied from **0–11%** and remained a relatively small share of their overall property portfolios.[1]

Smaller providers

- Ownership may be more common among smaller providers. A smaller provider interviewed owned **one** of the **three** services it operated.[1]

'Some of the smaller operators will probably own their own assets'

– Larger provider

'One of the challenges for the sector is that you tend to have…small operators that don't have the balance sheet strength in order to fund the development pipeline.'

– ECEC insider

'They're really on both sides. They're on the property and the operator.'

– Property insider

1. Interviews with ECEC providers

Owner providers: Motivations and behaviours

Because owner providers both run the business and own the property, their incentives are aligned across both – shaping their behaviour.

Owner providers control both the centre and the underlying property.

Their primary motivation is to:

Build long-term business and property value

- Primarily focused on running a successful ECEC business.
- View the property as a long-term strategic asset that underpins business success and generates sustainable capital growth over time.

In practice this can look like:

More likely to **invest in capital improvements**, for example:

- Investing in improvements that enhance service outcomes rather than just property value.
- Investing in preventative maintenance and long-term improvements that support reliable service delivery.
- Upgrading and adapting the building to meet changing educational, regulatory and operational requirements.

Long-term decision making

- More willing to make decisions with a **long-term horizon**, prioritising the sustainability of the service rather than short-term returns.

Responsive to local conditions

- Greater **flexibility to respond to local conditions.** For example, they can respond to occupancy challenges through local marketing and family engagement.

'I think as an owner manager, if you're in the centre every day with the centre manager or you are the centre manager, greeting families…that can be more successful…in certain catchments where a larger provider like us just hasn't been able to kind of get that level of customer service and experience.'

– Large ECEC provider

'I think having a mixed portfolio works because for us with our exit strategy, it will mean that eventually we'll be able to…sell them. We're in our 40s now, so by the time we get to the 60s, we'll be ready to not be doing too much. So, then you… [have] that income coming in.'

– Small ECEC provider

Corporate and institutional investors

Corporate and institutional investors own portfolios of ECEC centres. They account for an estimated 10% of LDC properties in operation.

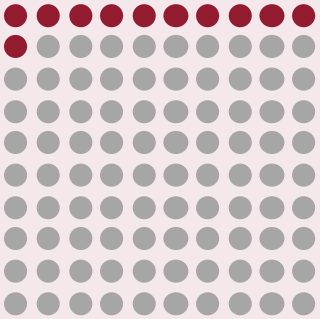
Who are they?

Corporate and institutional investors are organisations that own portfolios of centres as investments that are then leased to providers. This category includes:

- **Real Estate Investment Trusts (REITs) –** listed funds where investors buy units or shares entitling them to a share of rental income and capital growth. REITs can be accessed by any individual via the stock exchange. Examples of REITs include Arena and Charter Hall.
- **Private property funds / unlisted funds –** where investors put money directly into the fund rather than buying and selling shares on the stock exchange. Private and unlisted property funds are typically restricted to wholesale investors (where income and asset tests apply) due to lighter disclosure requirements.
- **Businesses** that hold three or more properties.

Scale

Our estimates indicate that **corporate and institutional investors likely own around…**



≈ 10%

…of LDCs in operation as of June 2026.[1]

The ACCC estimated that major REITs collectively own less than 10% of ECEC centres in Australia.[2]

'Large portfolios but not dominant players'

– Corporate advisory

REITs don't hold significant market share.

REITs disclose more public information than other owners. Focusing on the centres owned by Australia's largest REITs for example:

- As of June 2025, Charter Hall's Social Infrastructure REIT portfolio included 318 ECEC properties.[3]
- As of December 2025, Arena REIT's portfolio included 274 ECEC properties and 18 development sites.[4]
- As of December 2025, Australian Unity's Childcare Property Fund included 14 ECEC properties.[5]

We heard that the overall market penetration of institutional investors has been limited by:[6]

- Competition from individual investors, who are generally willing to pay higher prices
- Fragmented ownership across the sector, which makes assembling a larger portfolio through multiple individual transactions time-consuming and costly
- The relatively small value of individual assets, and the lack of opportunities to acquire established portfolios, meaning that many individual transactions are required to achieve scale
- Overall sector growth outpacing the ability for institutional investors to grow

'The institutional groups have got bigger, but the sector has grown much faster than the growth of the institutional groups.' ***– Corporate advisory***

1. dandolopartners analysis of property transaction data, ASIC and ACECQA NQAITS data.
2. Australian Competition and Consumer Commission (ACCC) (2023), *Childcare inquiry: Final report – December 2023*, ACCC, Canberra.
3. Charter Hall, 2026, Social infrastructure, Charter Hall, viewed 19 August 2026, ; Charter Hall, 2025, Charter Hall Social Infrastructure REIT annual report 2025, Charter Hall, Sydney.
4. Arena REIT, 2026, Arena REIT interim report: 31 December 2025, Arena REIT, Melbourne.
5. Australian Unity, 2026, Childcare Property Fund, Australian Unity, viewed 19 August 2026, https://www.australianunity.com.au/wealth/funds/childcare-property-fund.
6. Stakeholder interviews

Corporate and institutional investors: Motivations and behaviours

Corporate and institutional investors are generally looking for a stable low-risk return. They tend to favour established, large providers as tenants and treat ECEC property as a long-term, stable asset, shaping how they structure leases and manage centres.

Corporate and institutional investors are typically seeking:



Long-term rental income

- Hold the centre as a long-term, income-producing asset



Steady, low-risk returns

- Will have a minimum return they need to deliver on for their clients
- May be leveraging the defensive nature of ECEC real estate to diversify their portfolio



Capital growth

- Want to hold quality assets that appreciate over time

In practice this can look like...

Characteristics of financial agreements:

- **Long-term, escalating leases** including agreements with extension options, and fixed CPI-linked rent escalations
- **Triple-net terms** that pass maintenance administration and responsibility and costs on to the provider

Favouring established, lower-risk tenants

- Such as large providers with strong financials

Curating portfolios, for example by:

- Selectively selling lower-performing and buying higher-performing centres
- Buying a parcel of services from a reputable developer

Acting as 'professional asset managers' for example by utilising:

- Asset-management functions, insurance and regular property inspections.

'Most investors in the childcare sector are looking for something that has a yield as well as capital growth…good, steady combination of... rental income that generally increases with inflation, no kind of shocks, that sort of thing.'

– Property fund manager

'My investors don't want to know if the slide needs to be resurfaced. That's for the provider.'

– Property fund manager

'Most institutional owners like us have large asset management functions…it's always insured…the property inspections get done…we know when to paint it. We don't shirk on safety. We check to make sure that the fire systems are working…they're professional asset owners.'

– Property fund manager

Developers

Developers are a diverse ownership group, owning an estimated 6% of the overall stock of LDC properties. They are transitional owners – owning the property for the development period and then selling on.

Who are they?

The developer group ranges from:

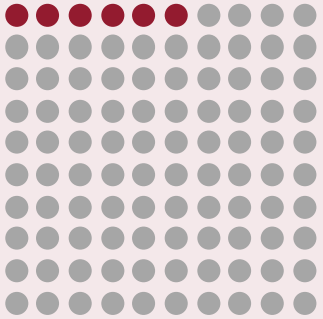
- Smaller more ECEC-specific developers
- Larger developers (e.g. Stockland or Mirvac) that build ECEC centres as part of larger residential or retail/commercial developments.

Developers don't always own the property. In some arrangements, institutional investors are involved as the property owners from the outset and provide the capital for the development.

Scale

Developers tend to build to sell, so don't retain ownership in the long-term.

Our estimates indicate that **developers own around...**



≈ 6%

...of LDCs in operation as of June 2026[1]

Their relatively small ownership share understates their role in the property market. Developers shape where and what type of ECEC property is built, with many projects underway at any point in time.

There are currently **3,700** new ECEC development projects that are incomplete and privately owned with:[2]

- **2,834** (77%) at the Planning Stage
- **234** (6%) at the Tenders & Building stage
- **632** (17%) at the Construction stage

'From a market point of view there is fragmentation of ECEC developers similar to providers'

– ECEC Provider

1. dandolopartners analysis of property transaction data, ASIC and ACECQA NQAITS data
2. Cotality (2026), Construction Project Data. Kindergartens, day nurseries and childcare centre development projects

Developers: Motivations and behaviours

Developers are primarily interested in making a profit through building and then selling either the property, the business or both.

Typical motivations of developers include:

Capital returns from selling the completed centre

- Selling at a ~25% margin above development cost

Earning development or project management fees

- Charged as a percentage of project costs or a fixed fee for overseeing design, construction, and delivery

Selling the business but retaining property as a landlord

- For medium to long-term rental income and capital appreciation, however this is less common

In practice this can look like:

Building in areas where they believe centres are likely to deliver the highest returns, including:

- Where there is strong demand for ECEC based on demographics and population growth, e.g. growth corridors and affluent communities with many young families
- Where land or construction costs are typically lower e.g. growth corridors
- Areas where land value is rapidly increasing e.g. high socio-economic status suburbs

Building larger centres to maximise the number of licensed places and therefore potential rental income and property valuation.

Seeking to pre-lease centres (prior to completion) to established, lower-risk tenants to increase the value of the property prior to sale.

Developing strong and ongoing relationships with large providers for an ongoing pipeline of work.

'A big proportion of developers are building to flip – developers selling to a REIT, that's really common. And the incentives here are the building and the lease structure – the higher the value of the business, the more profit they generate.'
– ECEC insider

'Over the last 15, 20, 25 years in Australia, a number of childcare entrepreneurs have… built their fortune by developing childcare centres, flicking off the operating business to a larger group, retaining the freehold interest and continuing to receive rent on those centres over time.'

*– **Corporate advisory insider***

'A developer might build it ... and then he might sell it to [a landlord].'

– ECEC insider

Commercial retail or mixed-use landlords

Commercial retail or mixed-use landlords incorporate ECEC as part of broader developments, where they retain ownership of the asset in the long-term. Their properties make up an estimated 2% of the overall stock of LDC properties.

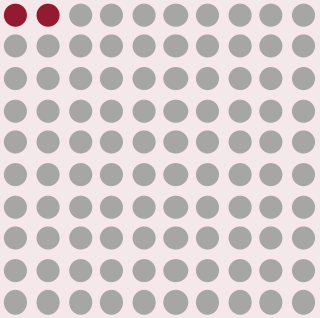
Who are they?

Commercial retail or mixed-use landlords incorporate ECEC into broader developments, including shopping centres, commercial complexes, and office buildings.

Distinct from other larger developers like Stockland or Mirvac, they tend to retain long-term ownership of the assets (e.g. Scentre Group (Westfield)).

Scale

Our estimates indicate that **commercial retail or mixed-use landlords own around…**



≈ 2%

…of LDC properties in operation as of June 2026[1]

From our interviews with providers, we heard that ≈5% of one of a large ECEC provider's landlords are commercial retail or mixed-use landlords.[2]

This makes them one of the smaller identifiable ownership groups, reflecting the relatively specific circumstances in which ECEC is incorporated into a larger commercial or mixed-use asset.

'They have determined that childcare is an attractive use within that asset class, but they own the whole asset and want childcare as a component.'

– Property insider

1. dandolopartners analysis of property transaction data, ASIC and ACECQA NQAITS data
2. Interview with a large ECEC provider

Commercial retail or mixed-use landlords: Motivations and behaviours

These landlords focus on incorporating ECEC as a stable, low-risk tenant as part of a broader tenant pool.

Typical motivations include:

Long-term rental income

- Own ECEC property as part of their development as a long-term investment

Protecting and enhancing the value of the overall development

- Reducing exposure to vacancy, tenant failure and market fluctuations
- Minimising the likelihood of income disruption or capital loss.

In practice this can look like:

Characteristics of financial agreements:

- Typically seek **long-term lease** arrangements (15-20 years) that provide secure and predictable income streams.
- Favour stable long-term tenancies and high occupancy levels across their development, and so may make choices, such as prioritising lease renewals to reduce vacancy risk and income volatility over the life of the asset

Favouring larger, established providers, because:

- They are seen as financially secure and therefore lower risk.

Curating a diversified tenant portfolio:

- Aiming for a **curated tenant portfolio that supports the performance of the whole development**, not just maximising rent from one tenancy.
- ECEC is considered desirable as a low-risk stable tenant that increases foot traffic and utility for local residents / consumers. This helps to stabilise the tenant mix and increase capital value of project.

*'I think that the mixed-use owners…they're a bit of an unusual beast because they're part of a broader asset. They have childcare in there as a particular use, but **their strategy is more around the whole asset and what they're going to do with the asset.***

It is less likely that they would strata whatever that asset is and sell off the childcare into the childcare asset individually. So they typically are developers that are looking to hold those things longer term.'*

– Corporate advisory expert

*In a property context to **strata** an asset means to divide a development or property so that it can be owned and sold independently.

Government

Local, state and territory governments own a meaningful but relatively small share of the overall stock, accounting for an estimated 5% of LDC properties.

Who are they?

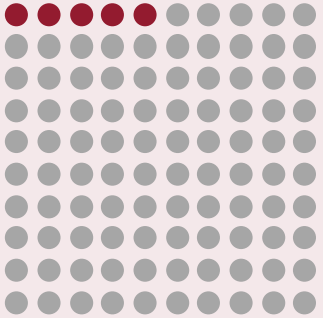
Governments, both local councils and state / territory governments, play a key role in ECEC property ownership. This includes:

- **Local government / councils** who either:
  - Own the centre and run the service
  - Own the centre and lease the service provision to a not-for-profit (most common) or commercial tenant
- **State / territory governments** who either:
  - Own the centre and run the service (e.g. public preschool programs run from school sites)
  - Own the centre and lease to (generally) not-for-profit providers

Government-owned properties can be made available to providers on favourable terms, reducing the property costs associated with service delivery.

Scale

Our estimates indicate that **governments own around…**



≈ 5%

…of LDC properties in operation as of June 2026.[1]

This estimate likely understates overall government ownership:

- Long-held government assets are less likely to appear in transaction data. Our methodology to allocate properties with no transactions data may understate government ownership.
- Government ownership is more prominent across standalone preschools and kindergartens, which are not captured in this LDC estimate.

'Local government still owns a significant share of ECEC infrastructure'

– Local council representative

'We have peppercorn agreements across… Department of Education assets… But we don't have a lot of them.'

– ECEC provider

1. dandolopartners analysis of property transaction data, ASIC and ACECQA NQAITS data

Government: Motivations and behaviours

Government owners generally treat ECEC property as social infrastructure that enables broader objectives for high-quality, equitable and safe ECEC services, rather than a commercial proposition.

Typical motivations include:

A desire to support high quality, equitable and safe provision of ECEC for broader community outcomes, including by shaping where services are and who runs them

In some cases, generate revenue to support cost recovery

In practice this can look like:

Characteristics of financial agreements:

- Government owners often **subsidise rent and other property-related costs** to enable the service to be delivered to families at a lower cost and/or providers to invest more in workforce and other aspects that promote quality service delivery.
- This often takes the form of leasing to not-for-profit or community providers under long-term **below market or peppercorn leases,** where the tenant pays a very small nominal rent (e.g. $1 per year) to make the lease legally binding, and maintenance is funded by the owner.
- Increasingly, some local councils are moving to more commercial leases with higher rents and/or a greater share of maintenance responsibility for the provider to cover costs (see page 79 for further detail).

Investing in and owning new ECEC infrastructure to address market failure, for example:

- Where private investment is unlikely to be viable or sufficient (e.g. thin markets, low-demand or high-cost locations).

Governments can act as owner providers of ECEC services

- Government can also own and run services such as preschool provision on school sites. Examples include:
  - Victoria's state-owned and operated long day care centres, government-run preschool provision in jurisdictions such as South Australia and Western Australia, and local governments that own and operate ECEC services.
- Many of the practices we can observe of owner providers (see pages 62 & 63) also apply to government in this scenario (including longer-term decision making, direct investment in facilities and greater influence over service quality).

Non-Government-Organisations (NGOs)

NGOs – which includes churches and other faith-based organisations - use their property holdings (which have generally been built for another purpose) to support ECEC service delivery. They account for an estimated 3% of LDC properties.

Who are they?

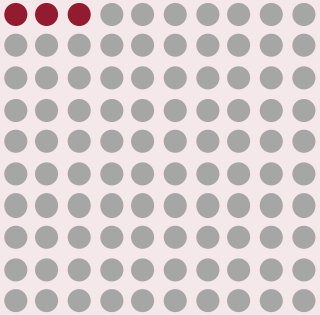
Non-government organisations (NGOs), including churches and other faith-based organisations, can act as:

- Owner providers, that own the centre and run the service (less common).
- Landlords, that typically lease facilities to mission aligned, not-for-profit providers or community-based services. This can include a scenario where the service delivery is performed by the early learning arm of the organisation, which functions as a separate entity.

Their properties are often part of historic property holdings that have been converted for the purpose of ECEC provision – rather than purpose-built.

Scale

Our estimates indicate that **NGOs own around…**



≈ 3%

…of LDC properties in operation as of June 2026.[1]

This ownership group is hard to identify in the data because land may be owned by a church or other faith-based organisation but operated by a separate entity, which may present as a business in the data

'A lot of our services have been inherited from churches, so they're not built for purpose. They've sort of been repurposed…I think we've only got one purpose-built site.'

– Faith-based not-for-profit provider

1. dandolopartners analysis of property transaction data, ASIC and ACECQA NQAITS data

Non-Government-Organisations (NGOs): Motivations and behaviours

This ownership group is primarily mission-driven, using long-held property assets to enable the delivery of early childhood services that advance their community and social objectives.

Their motivations include:



A desire to support high-quality, equitable and safe provision of ECEC in line with broader mission and community aligned outcomes



In some cases, generate revenue to support cost recovery



Delivering a faith-based educational pathway from early learning through to school education including supporting enrolment pipelines into associated schools

In practice this can look like:

Characteristics of financial agreements:

- This ownership group will often subsidise rent and other property-related costs to enable the service to be delivered to families at a lower cost and/or providers to invest more in workforce and other aspects that promote quality service delivery – in line with broader objectives.
- This means that they will generally lease to not-for-profit ECEC providers under long-term agreements at peppercorn or below-market rent, although these arrangements can vary from service to service, even under the same landlord.
- Increasingly, this equation appears to be shifting, with some churches and other faith-based organisations moving towards more commercial rent or cost recovery (see page 79 for further detail).

Preferring providers with similar values or community objectives for example:

- Sometimes operating services themselves or leasing to an aligned not-for-profit provider.

'Our landlords are pretty understanding because they are the church. So I think from a mission aspect, they're sort of like, all right, well, we want to continue from a missional point of view.'

– Faith-based not-for-profit provider

'What we're seeing is there's definitely a bit of a shift towards commercial rent and I think it's because a lot of our congregations, they're just losing manpower and they're needing that investment.'

– Faith-based not-for-profit provider

Who influences capital flow into the ECEC property sector?

These actors influence the availability, cost and allocation of capital across the sector. Their decision-making practices and risk appetite can have a significant impact on investment activity and market growth.

There are other actors operating in the ECEC property sector that influence how money flows through the system:

Private equity

Private equity firms invest in ECEC with the aim of increasing business value over a defined investment horizon. They:

- Typically grow providers through acquisitions, new centre development and operational improvements before exiting via a sale
- May acquire both operating businesses and associated property assets
- Can help create larger ECEC property portfolios that attract institutional investment

Investment appetite influences the amount and type of capital flowing into the ECEC sector.

'[Redacted] was sold to private equity. [Their] profit-making strategy was building the business and selling it.'

– ECEC insider

Banks

Banks are another source of capital in the ECEC property market. They can provide loans for land acquisition, development and property purchases. In doing so they:

- Enable investors and developers to leverage capital and scale investment activity
- Assess borrower and project risk, influencing which developments receive funding. ECEC assets are often relatively small compared to other commercial property investments, making them more accessible to bank financing

Lending appetite and credit conditions can influence the flow of capital into the ECEC property market.

'[An ECEC centre is] between a $2 and $4 million build…you could walk into any bank anywhere in the country any day of the week wearing…no shirt and they would sign you up… They're bite-sized from a bank perspective.'

– ECEC insider

Corporate advisory firms

Corporate advisory firms facilitate transactions between owners, operators, investors and lenders. They:

- Advise on the sale and purchase of ECEC providers, centres and property portfolios
- Help businesses raise funding for acquisitions, expansion and new centre development
- Provide advice on growth strategies, investment options and portfolio management
- Support broader corporate transactions, including mergers, acquisitions and restructures

Their advice, deal-making activity and access to investors can influence how and where capital is deployed across the ECEC sector.

'We've helped for-profit providers refinance their business. We've worked with them on forecasting, business projections, industry structure, acquisition, growth opportunities, as well as capital structure.'

– Corporate advisory firm

Emerging issues

This section: Emerging issues

New challenges emerged in the ECEC property market while we were conducting this research. They are creating volatility and uncertainty, and the long-term consequences remain unclear.

In this section we explore:

We find that:



Sector headwinds

p. 77

The ECEC sector is currently facing significant structural challenges that are impacting provider viability. This includes lowering occupancy, revenue constraints and cost pressures.



Cooling investor sentiment

p. 78

Investor sentiment, particularly among institutional investors, is starting to cool in direct response to these challenges.



Challenges facing not-for-profit providers

p. 79

Property dynamics are increasingly challenging for not-for-profit providers. Reasons include government and faith-based owners increasing property costs, and ageing assets requiring significant reinvestment.



Additional influences

p. 80

Other emerging dynamics could change ECEC property fundamentals further in the years to come. This includes an ageing owner population, and potential policy changes on the horizon.



There are a range of challenges that have recently emerged, and some on the horizon that potentially have significant implications for the ECEC property sector.

Sector headwinds

The ECEC sector is currently facing significant structural challenges that are impacting provider viability.

Despite strong growth over recent years, stakeholders reported that the sector is facing several significant headwinds.

- **Lower birth rates**, though this may resolve in coming years the number of children entering the system has been reduced
- **Cost of living pressures,** leading some families to reduce attendance or seek informal care
- **Reduced parent and carer confidence in ECEC,** following recent high-profile child safety incidents
- **Supply outpacing demand in some markets,** continued centre development coinciding with slower workforce participation growth
- **Compliance costs increasing,** for example recent NQF reforms have strengthened providers' child safety, digital technology, reporting and training requirements, adding to operational and compliance costs
- **Fee caps constraining revenue,** limiting provider ability to manage cost pressures via fee growth

Flow on effects include:

- **Reduced occupancy,** placing pressure on provider revenues and viability
- **Financial pressure among ECEC providers**, with several major operators reporting net losses in their latest available financial reporting, and some closing services.[1]

'[For occupancy] we're hearing anything from kind of minus 5%, minus 6% to about minus 15% on previous years. And unfortunately…we've seen an increasing number of operators that are actually just closing down as well.'

– G8 Chief Executive (Sydney Morning Herald Article)[3]

'Occupancy… is lower compared to 2024 and 2025 due to families experiencing sustained affordability pressures, falling birth rates, increased long-day care supply and confidence being impacted by serious child safety incidents.'

– G8 Education ASX Announcement, April 2026 [5]

Case study: G8 Education's falling occupancy and financial pressure

G8 Education is one of the largest ECEC providers in Australia operating hundreds of centres across Australia. In FY25 G8 Education reported:

- Occupancy declines of 4.9 percentage points to 65.8 per cent[2]
- An overall loss of $303.3 million[2] and $39 million loss for investors after the stock dropped around 90%[3]
- Divesting five centres and surrendering six leases as part of network optimisation
- Plans to suspend the operation of approximately 40 centres in FY26[4]

Recent developments at G8 highlight how falling occupancy can flow through to the property market, resulting in lease exits, centre closures and increased vacancy and income risk for property owners and investors.

Case study: Edge Early Learning entered voluntary administration[3]

Edge Early Learning is a large for-profit provider with over 50 centres. It entered voluntary administration on 25 August 2026. Preceding financial and regulatory pressures included:

- Defaulting on their rent across 31 properties, with one of its major landlords Arena REIT issuing default notices

Recent developments at Edge illustrate how provider failure can create direct risks for ECEC property owners. Rent defaults, tenancy uncertainty and potential centre closures can affect rental income, asset values and investor confidence.

1. Australian Government Department of Education (n.d.), Large Provider Financial Information, StartingBlocks.gov.au.
2. Alston, F. (2026), 'G8 Education FY25: Occupancy decline, safety reform and sector outlook', The Sector, 23 February 2026.
3. Kruger, C. (2026), 'Childcare in upheaval as losses, closures and plunging revenue mount', The Sydney Morning Herald, 26 August 2026.
4. Alston, F. (2026), 'G8 Education confronts defining year as occupancy falls and 40 centres face suspension', The Sector, 30 April 2026.
5. G8 Education Limited (2026), Trading Update – Occupancy and Cost Actions, ASX Announcement, 29 April 2026.

Cooling investment sentiment

We've heard that sector headwinds are making some investors more cautious about investing in ECEC.

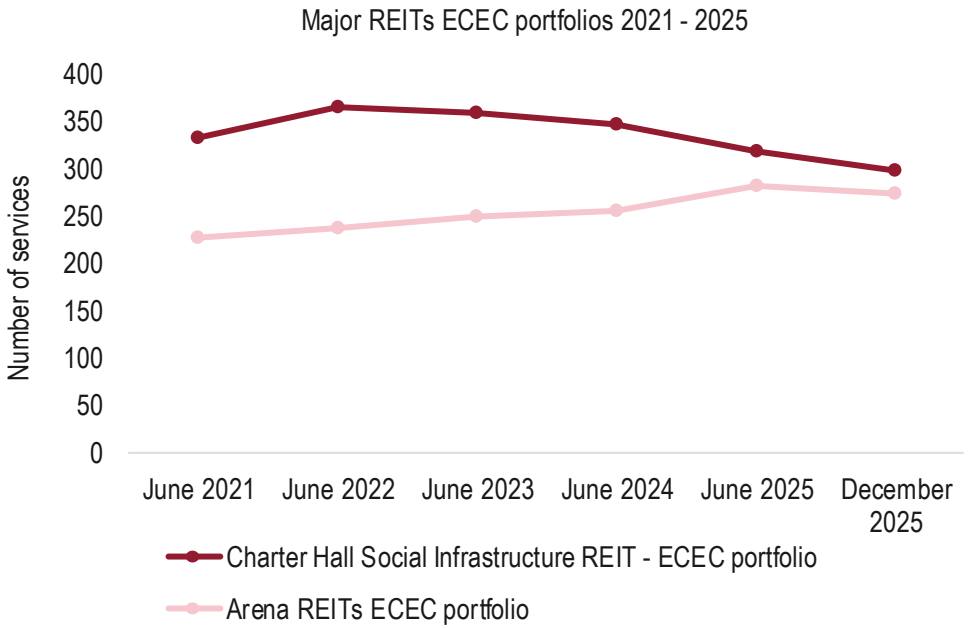
Sector headwinds appear to be affecting both investor returns and willingness to invest, evidenced by recent losses and shifting investment activity.

Examples of **financial impact on investors** include:[1]

- Arena REIT's share price fell sharply after its tenant on 31 of its properties, Edge Early Learning, went into voluntary administration[2] (*see previous page).* These properties represented 14% of Arena's annual rental income.[2]

Examples of **investors taking a more cautious approach** include:[1]

- Charter Hall Social Infrastructure is engaging in "portfolio curation", selling 32 properties in 2025 and lifting its investment in other sectors like education and health.[4] From June 2022 to December 2025 Charter Hall's ECEC portfolio has reduced by 66 properties.[4]
- Arena REIT's ECEC portfolio contracted slightly in the second half of 2025, following several years of overall growth.[5]
- Recent reporting, drawing on company and ASX disclosures*, suggests investment in new ECEC developments may be slowing.[1]



Property counts are based on each REIT's reported operating/leased ECEC/early-learning portfolio. Development sites are excluded.

'It's not a great sector to be invested in at the moment'
– Property fund manager

'You can have childcare… in other funds… but you wouldn't want it in a fund on its own… it's got too many headwinds'
– Property fund manager

Data insights: The composition of major REIT ECEC portfolios is shifting, with Charter Hall reducing its ECEC exposure while Arena's portfolio growth has begun to plateau.

*An **ASX disclosure** is an announcement lodged with the Australian Securities Exchange (ASX) by a listed company. Listed companies are required to publicly disclose information that could impact investors such as financial results.

1. Kruger, C. (2026), 'Childcare in upheaval as losses, closures and plunging revenue mount', *The Sydney Morning Herald*, 26 August 2026.
2. Arena REIT (2026), *Edge Early Learning Update*, ASX Announcement, 10 August 2026.
3. Nido Education Limited (2026), *Appendix 4D and 2026 Half-Year Financial Report*, 26 August 2026.
4. Charter Hall Social Infrastructure REIT (2026), *FY2026 Results Presentation*, 4 August 2026.
5. Arena REIT (various years), *Annual Reports*.

Challenges for NFP providers

NFP provider market-share has been declining and access to suitable sites for NFP providers is becoming increasingly challenging

NFPs account for a smaller share of the market, over time, compared to for-profit providers*

Between 2014 and 2026:

- The not-for-profit share of the provider market, that has seen minimal new entries and some exit, decreased from 39% to 32%
- The for-profit share of the provider market, which has seen significant numbers of new entries, increased from 41% to 55%

NFP capital constraints limit growth and expansion

- NFP providers have less access to capital than for-profit providers
- This constrains their ability to acquire sites, develop centres and expand their footprint

Government and faith-based owners generally aren't investing in new stock, and are starting to increase property costs

- Government and faith-based owners – who have traditionally favoured not-for-profit providers – aren't making large increases to their stock. While some government capital programs exist, they are relatively small compared to for-profit growth.
- In some cases, these owners are moving from below market peppercorn leases to more commercial leases to cover costs/generate revenue, putting additional financial pressure on not-for-profit providers.

'Historically, a lot of people had peppercorns. I think you'd find that there's hardly any that have peppercorns anymore and they've moved to a model of cost recovery.'

– Peak body

Ageing assets require significant reinvestment

- Many not-for-profits operate from older or converted buildings with higher maintenance costs
- These older facilities can also be less attractive to families than modern purpose-built centres, making it challenging to compete

'Old converted houses require significant maintenance and are becoming harder to operate efficiently.'

– ECEC provider

If current trends continue, changes in market composition are likely to continue and accelerate.

*According to NQAITS Annual Data Splits (Q1 2014 – Q1 2026).

Additional influences

Other emerging dynamics – including an ageing owner population and shifting policy settings – could change ECEC property fundamentals further in the years to come.

We've heard that many properties are held by older investors, creating the potential for increased asset turnover in coming years

This includes individual owners holding assets through SMSFs and long-term investment structures. As this cohort ages, changing liquidity preferences may encourage more owners to bring assets to market and sell their properties. While the implications remain uncertain, this could reshape ownership patterns across the sector.

''We've definitely got… anecdotal evidence that there are wealthy older people who are starting to get to the point where they're changing their investment preferences.'

– Corporate advisory firm

''I could make some assumptions of probably some more stuff coming on the market.'

– Corporate advisory firm

Tax reforms are likely to change property-related incentives

Key developments that may impact property dynamics include:

- **Capital Gains Tax** - Government will replace the 50% CGT discount with inflation-based cost-base indexation, together with a 30% minimum tax rate on real capital gains. This means long-term capital growth becomes somewhat less tax-effective for investors
- **Increased taxation of trust distributions** - From 1 July 2028, the Government plans to introduce a 30% minimum tax rate for discretionary trusts, subject to exceptions.
- **Additional tax on earnings for super balances above $3 million** – This change makes holding a high-value, income-producing property within super somewhat less tax-effective once the member's total super balance exceeds $3 million.

These reforms are not specific to ECEC and will affect property investment more broadly. Their impact on ECEC will depend on whether childcare property remains attractive relative to alternative investments, and how the sector's distinctive ownership profile and investment drivers respond.

Sector policy changes are also likely to influence future ECEC property dynamics

Key developments that may impact property dynamics include:

- The shift toward a more universal ECEC system could reshape where new centres are required, influencing demand for ECEC property and development activity
- Potential funding model reform could alter provider revenues and incentives, affecting the attractiveness, value and viability of ECEC property investments
- The potential development of an ECEC National Commission as a sector steward, expected to have a role in supply[1]
- The continued roll-out of the Building Early Education Fund (BEEF) capital funding to build new centres and expand existing capacity
- The introduction of fee caps under the Worker Retention Payment may limit providers' ability to pass on rising costs, including rent increases, potentially increasing financial pressure on some services

1. Australian Government Department of Education (2026), *Exploring an Early Education and Care Commission*, Australian Government, Canberra.

How property dynamics influence the ECEC sector

This section: How property influences the ECEC sector

Private investment has supported sector growth, however property dynamics have direct implications for how the ECEC sector operates, including on supply, sector shape and other market outcomes.



The ECEC property market is an entirely separate part of the ECEC ecosystem.

The separation of ownership from operations means that infrastructure owners (for the most part) are operating with an entirely different set of incentives and motivations to others with an interest in ECEC (whether they be providers, governments, regulators or other).

In many ways, this has worked reasonably well:

- Private investment has supported the significant sector growth required to meet policy objectives around child development and workforce participation, meaning governments haven't had to provide the capital for this.
- For the most part, the market has supplied new services where they are needed to meet demand.
- Providers have been able to focus their funds and capabilities on service provision, without having money tied up in property or needing the in-house expertise to deal with property.



However, as is often the case, the market isn't always working perfectly, or entirely rationally.

This has implications for the sector which we will explore in this section, including how:

- **Commercial incentives drive the supply of new services** – creating clear incentives to build bigger, and in some cases resulting in oversupply and undersupply
- **Access to information and expertise is unevenly distributed** – our estimates indicate that around 68% of LDC property owners are small-scale private investors, most of which only own one centre. This means that market participants have differing levels of expertise and some accept commercial arrangements that prove unsustainable, distorting market outcomes over time
- **Bargaining power impacts market dynamics and composition** - ultimately influencing the shape of the sector
- **Impacts compound and how risk is distributed matters for sector outcomes** – meaning providers, not owners, hold most of the risk. This supports investment in ECEC, but there are trade-offs
- **Many factors drive property costs higher, but few constrain them**

Government could be doing more to address the issues identified above. While interventions require careful consideration, government is not a passive observer and has multiple levers to influence market outcomes.

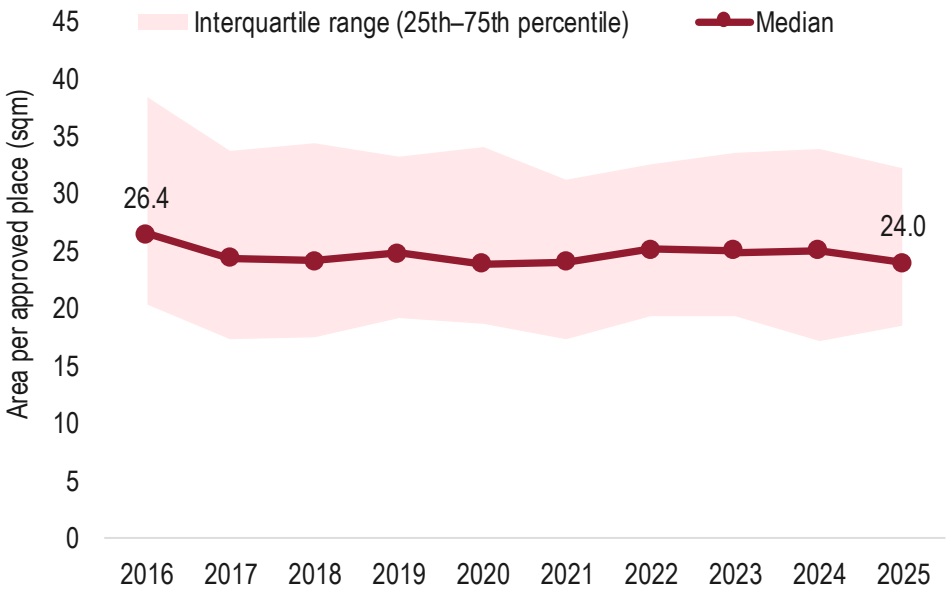


The ECEC sector and governments should understand property and engage with it actively to ensure it is working to meet child and family interests.

Commercial incentives shape what gets built

Commercial incentives are driving larger, denser centres. This is being driven by economics rather than by considerations of what would be best for children.

Area of LDC property per licensed place (sqm)[1]



Data insights: Average site area (sqm) per approved place has declined by around 9% over the period from 2016-2025. This indicates that LDC sites are being used more intensively (i.e. there are more licensed places for a given area of land), as average service size (in terms of approved places) grows.

Commercial incentives are encouraging the development of larger centres (as shown on page 20) **and more intensive use of sites** (as shown on this page).

The main driver for this is likely increasing land prices and construction costs requiring a higher sale price to justify the investment.

As a result, decisions about size are being driven by economics more than by considerations about what would be best for children.

Increasing size and density of facilities raises questions about the trade-offs between scale, profitability and the physical environment. When commercial incentives are a driving force behind decision making – rather than incentives to maximise child development – this doesn't always lead to optimal results.

Once facilities are built, they will likely be part of the system for a long time. Property 'stock' stays in the system for at least 20-30 years, so decisions made now about property requirements will shape the learning environments for generations of children. These decisions should be intentional.

'Driven by cost to build a service… stricter requirements, needing to build bigger services to make it profitable.'
– Former ECEC provider

1. dandolopartners analysis of property transaction data, ASIC and ACECQA NQAITS data

Commercial incentives shape where services are built

Stakeholders suggested that current market incentives can concentrate development in some locations while leaving others underserved.

Oversupply

- Strong concern has been expressed by stakeholders about oversupply
- They suggested this is more likely to occur in high-SES areas (where there is the potential for higher fees) and growth corridors (where land is cheap and demand is strong).
- Data on this is not publicly reported and modelling supply was not in scope for this project.

Undersupply

- 'Childcare deserts' – where the private market will not build or build enough to meet demand – are well documented.[1]
- This mostly occurs:
  - In towns or suburbs where demand is not sufficient to make the economics stack up (especially regional and remote towns).
  - When it's not possible to charge high enough fees to meet the cost of delivery (especially low-SES areas, middle-ring suburbs that are price-constrained)
  - For places for specific age cohorts (i.e. in infant rooms)

'Oversupply is absolutely an issue.'

– ECEC insider

'It is a really, really good system of channelling private capital to 50% of where it's needed. The rest is just not going to get done.'

— Property fund manager

This report does not seek to quantify oversupply or undersupply but provides an explanation for dynamics that may lead to these outcomes.

Market forces determine where things get built

- There is currently no role for government to consider demand and supply holistically and influence where new services are built.
- Market forces have done a reasonable job of balancing demand and supply, particularly over a period of high growth (driven by increasing workforce participation and expansive policy settings).

The market doesn't always get it right

- Our stakeholder engagement indicated increasing concern about oversupply in the sector. Developer incentives can result in oversupply:
  - Many developers build centres to sell rather than operate, reducing their exposure to long-term occupancy and revenue risks
  - Development decisions may be driven by development feasibility and asset values rather than long-term service demand
  - Stakeholders reported that some developers rely on simplified demand assessments and assume providers will accept high rents
  - Occupancy and revenue risks are ultimately borne by providers rather than developers
- Long development pipelines may also result in long lag times intersecting with changing demand
- In other areas, commercial incentives are insufficient to create new supply where it is needed.

We explore the implications of this on the following page.

1. Hurley, P., Matthews, H., & Pennicuik, S. (2022). *Deserts and oases: How accessible is childcare?* Mitchell Institute, Victoria University.

Commercial incentives have limitations

When market forces fail, quality and access can suffer.

ECEC property dynamics impact the stated goals of the system

Oversupply impacts quality:

- When too many facilities are supplied, occupancy suffers, services collect less in fees, but many costs stay the same. A teacher's wage is the same whether they teach 10 children or 20, and rent does not drop when revenue does. This puts services under financial pressure.
- This doesn't just impact the new service – it impacts all services in the local catchment. It can also have much broader ripple effects on the broader network of services operated by a provider.
- Financial pressure means that there is less funding available for things that matter to quality, like a high-quality workforce.

Undersupply impacts access:

- When children are unable to access high-quality ECEC, it can have a significant impact on their lifelong outcomes.
- This often happens in areas of relative disadvantage, where children would benefit the most from access.

Markets can – but don't always – self correct.

Economic theory suggests that when there are too many services for the number of families needing care, the weakest services will eventually close, bringing supply back into balance with demand.

In practice, this doesn't always happen in ECEC, for a few reasons.

ECEC buildings are purpose-built and hard to convert to another use.

- When a provider can't make a centre viable because of low enrolments, the building rarely closes for good.
- The owner has an interest in finding another provider, because there is nothing else the building can readily be used for.
- Another provider takes over the lease and keeps the service running. The centre stays open, so the oversupply doesn't correct.
- This has a knock-on effect. The new provider inherits the same low-occupancy problem. To remain viable, they may need to cut costs (potentially at the expense of quality) or charge higher fees, passing the cost of oversupply on to families rather than the market fixing itself through closures.

Owners and providers also vary in how commercially sophisticated they are.

- Some make decisions based on immediate operating viability, but others may keep a loss-making centre running, for example, to protect the value of the property or on the expectation that demand will pick up later.
- This means the 'irrational' actor doesn't always exit even when standard economic theory would predict they should.

It is challenging for providers to exit underperforming leases

- Providers can become locked into leases that no longer reflect local market conditions. Operators remain exposed to fixed rental obligations even when occupancy falls.
- Exiting an underperforming lease is often difficult and costly. Providers may need to pay significant amounts to transfer a lease or find a replacement tenant, even where a site is no longer commercially viable. In some cases, large providers have reportedly paid other operators to take on lease obligations rather than continue to operate the centre at a loss.

Together, these factors mean oversupply in ECEC can take much longer to correct than economic theory would suggest. In the meantime, families may face higher fees, or services may be forced to cut costs for an extended period, impacting on quality.

Access to information and expertise is unevenly distributed

Uneven access to information and expertise can lead some participants to accept commercial arrangements that prove unsustainable, distorting market outcomes over time.

Expertise and experience vary considerably across market participants

Market participants range from sophisticated corporate and institutional investors and large providers to individual investors, not-for-profit and smaller providers.

Sophistication levels are influenced by a myriad of factors, including size. Larger players often have specialist property, legal and financial expertise in-house, while smaller providers may have more limited resources. This doesn't always hold true: small, well-informed actors definitely exist. But size definitely plays a role.

As a result, participants' ability to assess risk and evaluate opportunities can vary significantly.

This impacts sector participants ability to make decisions, including which leases to sign or which sites to purchase.

When information or expertise is lacking:

Providers can lease centres that aren't commercially sustainable over the long-term including through:

- **Unsustainable rents.** Stakeholders suggested some providers sign on to leases that are not supported by long-term occupancy or revenue potential.
  - **Rent free periods.** We heard of instances where providers are offered an initial rent-free period to take on a lease that doesn't meet basic demand fundamentals
  - **Triple net leases**. Larger providers told us they were less likely to sign a triple-net lease, that pushes maintenance costs onto the provider.

Owners can purchase sites even when demand is too weak, for example:

- **Choosing a site.** More informed providers are more likely to identify and avoid commercially unviable sites, while others may not recognise the risks until after making a long-term commitment.

'You have a lot of new players, you have a lot of mum and dads potentially overpaying and they're setting the market, so they're paying a price that may not be viable.'

– Large provider

'Unsophisticated end of the market [..] who will take a bad deal because they don't know better'

– ECEC insider

'If people are accepting triple-net leases, I would suspect it's probably because they've got a fairly naïve property team.'

– Large provider

'Unsuspecting provider… new centres 3 years free rent… imagine being in month 36, occupancy only 40% rent rachets up'

– ECEC insider

Poor decisions don't just impact the provider making them – they can distort the broader market by setting market rents higher than demand can sustain and encouraging continued expansion into oversupplied markets.

This places pressure on provider margins reducing capacity to invest in service quality.

Bargaining power impacts market dynamics and composition

Variation in bargaining power advantages larger providers in lease negotiations. This is likely having flow on impacts on provider diversity and system composition.

Bargaining power is unequal

Different types of market players have varying ability to influence market outcomes (i.e. different levels of bargaining power).

A clear example of this we heard about relates to lease negotiations. We heard that lease terms are often negotiated between parties with significantly different levels of bargaining power, and that this directly impacts the types of leases they sign on to, and the extent to which they can negotiate terms. We heard that:

Smaller providers, not-for-profits and less experienced providers have limited capacity to negotiate favourable lease arrangements.

- Stakeholders suggested this can result in smaller providers accepting arrangements that prove difficult to sustain over time.

Larger providers have more bargaining power as they are desirable to landlords.

- Larger providers generally have a stronger covenant and therefore add value to the property when they take on a lease.
- This makes them more desirable to landlords and gives them greater bargaining power.

This dynamic advantages larger providers, who often have greater bargaining power and can secure more favourable commercial terms and strengthen their market position over time.

Ultimately, this is likely to be impacting on provider diversity and system composition.

'We had really bad lease agreements. They could see our outgoings, and we were at the mercy of that landlord'
– Former ECEC provider

'We have very few triple net leases where we're responsible for the structural elements of the property…We've never had triple net leases…we won't sign up to those sort of deals'
– Large provider

'The market differentiates about 0.5% yield on our covenant…that assuming it's market rent, we attract a much higher sale price than the others. So that makes things easier. We agree to triple net leases for the REITs only. We will not agree outside of that. And we don't do a lot of business with the REITs'
– Large provider

'Most landlords are comfortable with our covenant…when we come to the end of a lease, if we want to renew we can review it…Very few landlords will walk away from a centre and us as a tenant'
– Large provider

* **Tenant covenant** is a term used to describe the financial strength, creditworthiness and overall reliability of a tenant to meet their lease obligations over the full lease term.

How risk is distributed matters for sector outcomes

Under current property arrangements, providers hold most of the risk. This supports private investment in ECEC property, but there are trade-offs for service outcomes, and ultimately for children and families.

Property arrangements mean providers hold the operating risk

Long-term leases lock providers into fixed obligations that are difficult to exit. While this gives providers security of tenure and time to build their business, it also reduces their capacity to respond to changing circumstances.

A provider's ability to meet lease commitments depends heavily on occupancy levels, which can be difficult to predict or can shift unexpectedly. When occupancy is lower than expected, lease costs remain unchanged. When this happens, providers have traditionally had two options:

- Increase fees to cover costs, or
- Cut back on other discretionary costs (e.g. above ratio staffing, professional learning and other investments in quality that support children's education and care)

Under the current fee caps associated with the ECEC Worker Retention Payment (WRP), providers are more limited in their ability to raise fees. This means cutting costs – potentially at the expense of quality – may be more likely if rental pressures continue.

In extreme cases where financial pressure becomes unsustainable, providers may exit their lease (although this may be influenced by lease expiry dates) or ultimately enter voluntary administration, causing service disruption.

In many ways providers holding occupancy risk makes sense, but this can negatively impact on sector outcomes

Providers have more levers to influence occupancy than owners do. Providers control the day-to-day factors that drive enrolments and retention: the quality of educators and programs, fee-setting, marketing and community engagement, and operational factors such as opening hours. This makes them best placed to hold occupancy risk, in general terms.

The stability of revenue also encourages private investment in ECEC facilities. For many years, this has made it a relatively low risk investment that attracts private capital, something the sector currently relies on.

However, this arrangement also creates risks.

- It can allow financial stress to build within a provider for an extended period before it becomes visible to owners. Which can cause impacts that hit families, through higher fees, and children, through cost cutting measures, before the impact reaches the owner. The risk to owners only materialises in the extreme cases where a provider is unable to continue meeting its lease obligations.
- It also means that market signals about where new services should be supplied, or what rents are reasonable, aren't always working particularly well.



The distribution of risk shapes incentives

- The stability of revenue for owners underpins incentives for private investment in ECEC facilities.
- But there are clear trade-offs of this arrangement – providers carrying so much of the risk can create incentives that are detrimental to sector outcomes.

This has implications for government. Shifting market outcomes requires changes to the current incentive structure, but this needs to be carefully calibrated to avoid discouraging private investment in the ECEC sector.

Compounding impacts

It is the cumulative and cascading impacts of multiple factors within the property market that shape the availability, affordability and appropriateness of ECEC infrastructure.

None of the individual trends, incentives or dynamics we've described in this report appear to be solely or predominantly responsible for the trend towards increased rents, more expensive and larger services, and supply that's not always aligned with demand.

Our analysis did not identify any single standout issue or problem. It also did not substantiate some of the hypotheses we heard about the core issues or challenges with the early childhood property market – for example, that the presence of REITs was driving higher rents (their market share is very small) or that developer profits in ECEC were excessive (they appear to be broadly consistent with wider market trends).

Rather, we found that it's the accumulation of a range of factors that leads to outcomes that may not be aligned with the intentions of ECEC system stewards.

These hypothetical scenarios illustrate how these factors accumulate and work to impact how the ECEC system operates. They are based on real-life situations and experiences shared with us, although they are fictional.

Hypothetical scenario – information asymmetry and misaligned incentives

- A developer selects a site with weak demand fundamentals and, overestimating its long-term viability, builds a 250-place service
- An inexperienced investor purchases the centre based on optimistic occupancy and rental assumptions – intending that the rent will provide passive income in their retirement and cover the high interest costs they've signed up to
- Experienced providers avoid the site, recognising that the lease is unlikely to be sustainable. However, a provider with less information and bargaining power signs the lease, attracted by an initial rent-free period
- Only after opening does the provider realise occupancy is too low to support the business model. The challenge becomes worse when a new service opens up the road, charging lower fees
- Not only is the owner unwilling to reduce the rent, at the market review it is increased when benchmarked against the new service
- Financial pressure forces cost-cutting, reducing capacity to invest in the service and likely compromising outcomes for children

Hypothetical scenario – ambitious and ill-considered growth

- A larger provider has an influx of capital (private equity or a bank loan) which drives rapid network expansion
- Their property team sign onto leases based on optimistic growth assumptions, and they agree to some problematic lease terms which they expect to be fine because occupancy will be high
- Some new services fail to achieve sustainable occupancy or profitability. Long-term lease commitments make it difficult to exit underperforming sites and unviable services become an ongoing financial liability for the network
- Profitable services are forced to cross-subsidise underperforming locations, and the provider's ability to expand in communities where demand is growing is constrained
- Financial pressure detracts from investment in quality across the broader network, limiting the provider's ability to deliver quality education and care.

Upward pressure

There are multiple factors that drive costs up and any downward pressures have been relatively weak, effectively creating a vicious cycle.

Multiple factors are driving property cost increases …

In addition to economy-wide increases in land and construction costs, there are a range of ways that property costs keep ratcheting up in ECEC, including that:

- **Everyone along the value chain is necessarily clipping the ticket** – the lenders are seeking interest payments, the developers are only in the business if they're making a reasonable margin, the various specialist advisors along the development pathway need to be compensated
- **Property value is linked to rental returns** – so there's a clear incentive to optimise rent and the number of licensed places, to drive higher property values and maximise capital returns
- **Leasing norms ensure the cost increases steadily** – with annual increases and market reviews underpinned by ratchet clauses that ensure rent can never go down even if conditions change
- **Demand for properties – even low-viability prospects – has been persistently high** – with players who are either unsophisticated or in it for short-term rewards being willing to accept high rents. This is partly because of:
  - A persistent and persuasive narrative about low-risk, high-reward investment with low barriers to entry, with limited objective data to counterbalance the rhetoric, and partly because
  - Population growth and access to ECEC has genuinely been expanding and demand has been high

… combined with weak downward pressures…

These are not necessarily unique market characteristics, but in ECEC, there has been no natural or effective limit on the market to constrain cost growth.

- Providers increase fees when their costs goes up
- Demand is fairly inelastic because families have little choice but to use ECEC services. Research shows that the 'switching costs' of moving services are so high that families often choose to stay with their existing service, rather than seek out a small price decrease.[1]
- However, when fees become so high that they put families under financial pressure, this becomes politically sensitive.
- There's a perception (and some evidence) that governments will continue to increase the Child Care Subsidy to maintain affordability for families.

… resulting in an imbalanced market where there's significant risk of families, taxpayers and governments paying more than is necessary for ECEC property

However, these market dynamics may be changing – demand has dropped and providers are now operating in a fee-capped environment where their capacity to absorb rent increases is limited

1. Australian Competition and Consumer Commission (ACCC) (2023), *Childcare inquiry: Interim report – September 2023*, ACCC.

Government has levers that can change how the market operates

While interventions require careful consideration, government is not a passive observer and has multiple levers to influence market outcomes.



The current dynamics of the property market are not inevitable; they reflect decisions and incentives that have developed over time and can be changed.

Past actions have shaped the sector to operate the way it does today, meaning future decisions can also influence outcomes

Investors and developers are highly sensitive to perceived risk and the formulas that determine whether or not investments 'stack up' are well understood and transparent

But also changes to market settings and incentives isn't the only way to change how the market operates



Governments have the ability to influence and shape market behaviour.

Government can:

- Use policy / regulatory levers
- Use funding levers
- Influence or constrain the supply of services, including acting on oversupply and undersupply
- Collect and share data and insights to address information asymmetries
- Commission further research into market dynamics
- Actively fill data gaps, including those identified in this report and other reports such as the ACCC and PC, and share data and insights to address information asymmetries



Need to tread carefully

Any decision to intervene in the market carries risk and is likely to change how the market operates.

While it is crucial that the sector operates in a way that prioritises quality and outcomes for children, it is important to avoid an overcorrection that discourages private investment in the ECEC sector and results in supply constraints.

It is important that government carefully considers all options and the implications of all actions before choosing how to act. Government will need accurate data to be able to inform decision making. In particular, it will need better information on:

- Property costs
- Operating costs for providers
- Supply and demand

Where to from here…

This report sought to improve understanding of property dynamics in ECEC. However, significant knowledge gaps remain, highlighting the need for more systematic collection of property-related data across the sector and further research.

The analysis in this report draws on the best available data; however, significant gaps remain in our understanding of property in the ECEC sector due to the absence of systematic data collection.

Key information is not routinely collected, for example:

- Lease costs
- What kinds of lease arrangements are in place across the sector
- Who owns services and the types of ownership structures

These are all important aspects of the sector that system stewards would ideally understand when making decisions to support affordability, sustainability and supply.

Some of this information may come from a sample of providers through the current Service Delivery Price (SDP) project. But a limited, one-off collection is not enough. The sector needs systematic, ongoing data collection to enable analysis over time.

More systematic data collection

To be an effective system steward, government needs access to transparent system-wide data on:

- Lease costs
- Leasing arrangements
- Property ownership types
- Occupancy levels
- Property maintenance costs
- Other operational costs

This could be collected through a property survey to capture property information from providers or another mechanism

Government also needs a more nuanced picture of local ECEC supply and demand, including the diversity and quality of available places, workforce availability, and the supply of places for different cohorts (e.g. infants, toddlers, preschool-aged children and children with additional needs).

Further research in the following areas would improve transparency, deepen understanding and support informed decision-making across the sector.

- **Property ownership and market concentration.** We've used the best available data to estimate ownership patterns, but we still don't have definitive research on who owns ECEC property, how ownership concentration has evolved, and whether it is becoming more concentrated or fragmented.
- **The relationship between property arrangements and quality.** For example, does rent burden influence quality, how many providers are spending on discretionary costs to improve quality such as workforce and what enables that. When provider rent increases, for example after an annual rent review, how do they respond, e.g. raising fees, cutting costs.
- **What happens to public funding once it enters the property ecosystem.** What is the link between CCS-supported revenues and rents, and to what extent do different actors capture value from public funding.
- **Property churn and service outcomes** i.e. whether ownership turnover impacts service quality.
- **Comparative analysis** of ECEC property dynamics compared with other property markets and international comparisons examining how other countries organise ECEC property.

Appendix

Appendix 1: Key terms – Early Childhood Education and Care

Word / Term	Definition
ACECQA	Australian Children's Education & Care Quality Authority – the national body that administers and oversees the NQF
CBDC	Centre-Based Day Care – education and care delivered in a dedicated centre (includes long day care)
CCS	Child Care Subsidy – the Australian Government payment that subsidises the cost of approved child care for eligible families
ECEC	Early Childhood Education and Care – education and care for children in the years before they start school
ECEC centres/infrastructure	The physical property, buildings and premises in which ECEC services operate
ECEC services	The operating businesses that deliver education and care to children (the provider or tenant), as distinct from the property they occupy
FDC	Family Day Care – education and care provided in an educator's own home
LDC	Long Day Care – centre-based education and care offered across a full working day
Licensed places	The maximum number of children a service is approved to care for at any one time
NQAITS	National Quality Agenda Information Technology System
NQF	National Quality Framework – the national system that sets standards for and regulates ECEC services
NQS	National Quality Standard – the quality benchmark within the NQF (e.g. educator-to-child ratios and qualifications)
OSHC	Outside School Hours Care – before-school, after-school and vacation care for school-aged children
Preschool / Kindergarten (PSK)	Educational programs for children in the year or two before school; naming varies by state and territory
Service size	Measured by the number of licensed places, or the maximum number of children who can be cared for at one time

Appendix 2: Key terms – Property and investment

Word / Term	Definition
REIT / A-REIT	(Australian) – Real Estate Investment Trust is the pooled capital used to purchase and manage real estate investments to provide investors a return. Usually traded on a stock exchange
Capitalisation Rate (cap rate)	Frequently used in the real estate industry, the capitalisation rate, or cap rate, is a measure of the expected rate of return of an asset. Expressed as a percentage, cap rates are generally calculated by dividing the net operating income of an asset by the current market price - or in the case of an acquisition, the acquisition price
Covenant	The financial strength/creditworthiness of the tenant backing a lease
DA	Development application
Direct Property Fund	A property fund, trust or syndicate investing in commercial property but not listed on the ASX
Market Price	The price paid to purchase a property
Market Rent	Rent applicable to a property in the open market
Occupancy	The occupancy rate measures the ratio of occupied to total usable rental space. In the case of ECEC the ratio of active licensed places filled
Triple Net Lease (NNN)	A lease agreement on a property whereby the tenant or lessee agrees to pay all expenses of the property, including property taxes, insurance and maintenance
Yield	Income divided by asset value. For investors in property funds, the income yield is often quoted. This is the value of the annual income distributions paid by the fund divided by the unit price at a point in time
CPI	Consumer Price Index – the standard measure of inflation, commonly used to escalate rents each year
Greenfield	New development on undeveloped land

Appendix 3: Limitations of property ownership estimates

Ownership estimates provide an indication of ownership patterns but are constrained by data coverage and the ability to identify ultimate property owners.

How ownership is estimated

- Estimates draw on property transaction data for properties linked to LDC services, with purchaser and vendor information supplemented by ASIC company information.
- Ownership is inferred between observed transactions: the purchaser becomes the assumed owner until another transaction is observed.
- For approximately 32% of operating LDC services without a recorded property transaction, ownership is estimated using the ownership proportions of services with the same provider management type.

Limitations of this approach are…

- **Ownership for services without recorded transactions is estimated, not observed.** Proportional allocation assumes that properties with and without recorded transactions have similar ownership patterns within each provider management type.
- **The legal entity on a transaction is not necessarily the ultimate owner.** Property may be acquired through companies, trusts, corporate trustees or other structures. Ownership of these entities may also change without a property transaction being observed.
- **Trusts are particularly difficult to unpick.** The recorded entity may be the trustee rather than the underlying beneficiary or investor.
- **Related entities cannot always be linked.** One ultimate owner may hold different properties through separate companies, trusts or special-purpose vehicles.
- **Owner-operators are difficult to distinguish from landlords.** A provider may hold property through a related company or trust, making the operator–owner link hard to identify.
- **There was variation in transaction data coverage.** Differences in completeness may influence observed ownership patterns.[1]
- **Service operating history is only available from 2013.** Property transaction records extend back several decades, but NQAITS service-level data is only available from 2013. We therefore cannot determine whether properties were operating as ECEC services before 2013.

Implications of these limitations are that…

Long-term owners may still be underrepresented. Government, faith-based bodies and other long-term owners may have different ownership patterns from properties with recorded transactions. Proportional allocation may therefore underestimate their share.

Portfolio size may be understated. Where one owner uses multiple entities, they cannot be consolidated and appear as multiple smaller owners.

Changes in ultimate ownership may not be observed. Control of a property-holding entity may change without the property transacting.

Institutional ownership may be understated or dispersed. REITs and funds hold property through subsidiary businesses and trusts, so do not appear as a distinct category.

Owner operator ownership cannot always be identified. Owner operators may own property through a subsidiary business or as an individual making it difficult to link to a particular service.

Some ownership categories rely on proxies. Businesses holding 1–2 properties are classified as individual or small-scale owners, while businesses holding three or more properties and trusts are used as proxies for larger or institutional ownership structures.

Differences in data coverage may affect ownership estimates. Jurisdictions with more complete transaction data may be better represented in the observed ownership patterns used for estimation.

Pre-2013 service status cannot be confirmed. Before 2013, we can observe property transactions but cannot determine whether the property was operating as an ECEC service.

1. Different jurisdictions have different rules governing sharing the identities of parties in property transactions:
   - NSW, NT, QLD, WA: names of vendors and purchasers included for all transactions
   - VIC: only sales for the last 10 years shared, with names of vendors and purchasers included
   - SA: only vendors and purchasers that are / were businesses had names included
   - ACT, TAS: names not included

Appendix 4: Estimating ownership of properties without recorded transactions

Table 1: Provider management type by transaction status

Provider management type	Observed transaction (n=6,584)	No observed transaction (n=3,121)	All services (n=9,705)
Private for-profit	80%	55%	72%
Private not-for-profit other organisations	11%	15%	12%
Private not-for-profit community managed	6%	19%	10%
State/territory and local government managed	2%	7%	4%
Independent schools	1%	4%	2%
Catholic schools	0%	1%	0%
Other	0%	0%	0%
State/territory government schools	0%	0%	0%
Total	**100%**	**100%**	**100%**

What the analysis shows

- Services without a recorded property transaction are more likely to be not-for-profit managed (34% compared with 16%) or government-managed (7% compared with 2%).
- Analysis of services with recorded transactions also shows that property ownership varies by provider management type. For example, government-managed services are more likely to occupy government-owned properties, while for-profit services are predominantly located in individually owned properties.
- These relationships allow us to estimate ownership for services without recorded transactions by applying the observed ownership proportions for each provider management type. This enables these services to be included in the overall property ownership estimates.

Table 2: Property ownership distribution by provider management type: Percentages show ownership distributions within each provider management type for services with recorded transactions. These proportions were applied to services without observed transactions through proportional allocation.

Provider management type	n	Individual	Corporate & institutional investors	Property developer	Government	Owner not identified	NGO	Commercial & mixed-use operator	Combination of owner types	Major ECEC provider
Private for-profit	5,242	75%	10%	6%	1%	3%	2%	2%	2%	0%
Private not-for-profit other organisations	701	47%	20%	7%	7%	3%	6%	1%	1%	7%
Private not-for-profit community managed	376	48%	3%	3%	24%	12%	5%	1%	2%	0%
State/territory and local government managed	143	58%	3%	1%	31%	3%	1%	1%	1%	0%
Independent schools	94	65%	1%	6%	3%	9%	14%	1%	1%	0%
Catholic schools	20	35%	5%	0%	0%	25%	35%	0%	0%	0%
Other	6	67%	0%	0%	0%	17%	0%	0%	17%	0%
State/territory government schools	2	100%	0%	0%	0%	0%	0%	0%	0%	0%
Total	**6,584**									

1. dandolopartners analysis of property transaction data, ASIC and ACECQA NQAITS data

Appendix 5: The process of developing a new ECEC service

The property development process can take about 2-3 years[1] with each stage requiring different skills to navigate.

Buy site	Get planning approval	Get building approval	Build	Operator approval	Get service and CCS approval	Tenant moves in	Centre opens
• Identify a site in an area of need / high demand • Source capital and purchase site • Preliminary architectural plans	• Submission to local council, public notification • Obtain planning approval.	• Detailed Design and Building Approvals, including building permit / construction certificate from a building surveyor or certifier (varies by state / territory)	• Commence construction with builder, inspections by certifier	• Operator must be approved as an ECEC Provider under the NQF by state / territory ECEC regulatory authority (can be done in parallel with construction)	• Service approval – assessment of building compliance, policies, staffing safety, final inspection by state / territory regulatory authority • Child Care Subsidy (CCS) approval from the Australian Government for commercial viability	• Tenant fit out and handover, installing furniture, equipment, IT	• Service delivery begins.

This process may vary in terms of:

- **Capital source —** funding may come from a bank loan, the developer's own resources, or upfront from a REIT or large provider that intends to own the asset long term, which shapes who carries the risk during construction.
- **Timing of tenant commitment —** a tenant secured before construction can influence design and planning to suit their operating model; one secured after completion inherits a building designed speculatively.
- **Transfer of ownership** — value is added at each stage of the pipeline, so the site can change hands more than once. A REIT or provider may fund and own it from the outset, or the developer may hold it until a tenant is found and then sell to a landlord.

1. Stakeholder interviews