Rising building costs are shaping how big childcare centres are and where they go, with children's needs missing from the equation

Media release

New report on property in childcare highlights the need for coordinated planning of early learning services, as Education Ministers back Independent Commission approach

Rising land and construction costs are shaping how big childcare centres are and where they get built, with the needs of children and communities largely absent from the decision, according to a new report on the property market behind Australia's early childhood education and care system.

Released today by The Front Project, who commissioned dandolopartners, the report is the most in-depth look yet at who owns the buildings where children spend their days.

It matched more than 20,000 property transaction records and conversations with 50 developers, landlords, fund managers, providers and regulators, to understand how property shapes the supply and demand of early learning services, which have seen a proliferation of uncontrolled exits from both high and poor quality providers.

Key insights:

- Sale prices of long day care centres have grown at more than twice the rate of residential properties since 2017, driven up by the value of high rental returns and increases in construction costs.
- Historically ECEC has been an attractive investment because of stable and steady financial returns, but that is now shifting.
- Long day care centres are getting bigger and able to accept more children, but this is driven by return on investment, not children or community needs.
- Most investors are self-managed super funds, 'mum-and-dad' investors, and high-net-worth private investors and own only one or two centres.
- 80% of providers rent their properties, and 15% of their costs are on their lease.
- Providers hold the operating risk, with fixed obligations within their lease that are difficult to exist or change.
- There is nothing in the system to put downward pressure on costs – rents aren't capped and families can't easily switch services.
- Oversupply impacts quality across all services in the local areas and has ripple effects across all services within that provider, as they work to offset losses. This means government must act on market shaping in order to lift ECEC quality.
- The ECEC property market is an entirely separate part of the ECEC ecosystem, and one barely touched by government. There are many opportunities for governments to shape and influence market behaviours to ensure it is working to meet child and family interests.

- Raising just as many questions about the role of the market property in early learning as it answers, the research points to the need for leadership and coordination around the provision of long day care services.

CEO of The Front Project Dr Caroline Croser-Barlow said that an independent early childhood education and care commission should lead the work that this report starts.

“We went looking for the leak in the bucket, the one single thing that we can fix in order to make it more affordable for families. We didn’t find one. What we found is a system that behaves like a market, where costs only go up, and almost nothing pushing costs back down.

“Right now, how big a centre is and where it’s located comes down to what it costs to build. Children’s needs barely come into it. That’s why some communities have no access to childcare and others have too much.

“For years demand was so strong that if one provider said no to a lease that didn’t stack up, someone else would say yes. Now that demand has softened, we are seeing how those terms impact communities. There is nothing in the system to stop us ending up back here in the future.

“The risk of viability doesn’t sit with the people making the decisions when the property is built. It ends up with providers, families and governments. A handful of unviable leases can drag down a whole provider, and because the lease follows the business when it's sold to the next provider, the impact can last for years.

“There is no one player to blame for the issues we are seeing with childcare property. The system is fragmented, and no one oversees how many services open or where. That is exactly what a Commission can do.”

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