

THE BIRTH OF CHILD CARE OPPORTUNITIES?

A growing young demographic, increased women participation in the workforce and new government funding is likely to result in significant demand for child care services over coming years. In this case, opportunities exist for both current and potential operators.

Following the recent announcement of the 2015-16 Budget, the child care sector stands to become a major beneficiary as part of the \$4.4 billion *Families Package*. The redirection of government funding from child care centres to families is anticipated to put more money back in the pockets of low to middle income earning households while resulting in an increased participation in both the number of children attending and the number of private centres operating. To this effect, child care has become a key development opportunity with the number of private operators growing exponentially.

From its humble, community-based origins, child care has emerged into a large, nationally-regulated industry employing over 140,000 people and providing care to 1.13* million children across over 16,200* child care centres. The growth has been facilitated by an uplift in the national birth rate over the past 10 years combined with a growing number of new mothers re-entering the workforce (see Figure 2). In recent years, women participation in the workforce has

remained steady at approximately 59%, however given the incentives announced in the 2015-16 Budget, we expect to see an uptick from 2017, in line with the new Child Care Subsidy.

Rising housing and living costs have meant that more and more mothers are re-entering the workforce. Over the five years to December 2014, the number of part-time positions in Australia increased by approximately 314,000. Notably, 73% of these positions had been filled by females, which underpinned growth of 85,450 child care places over the past 12 months alone.

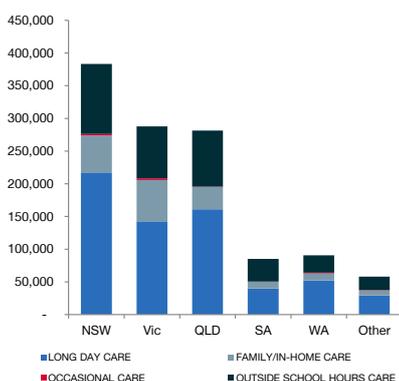
As at June 2013, there were over 3.8 million children aged 0-12 in Australia, meaning almost one in three children attend some form of child care. With the exception of WA, the utilisation rate across states is consistent at around 30%. For WA, the low utilisation appears to be a case of weak supply rather than weak demand. On the other hand, these calculations are based on approved care services (i.e. centres who meet government requirements and standards and are eligible to receive the Child Care

Benefit on behalf of parents) indicating there may be a high provision of unapproved centres. The low concentration of approved centres relative to the size of the population aged 0-12 indicates a potential opportunity for providers/operators.

Looking ahead, the demand for child care services is expected to strengthen off the back of a growing younger demographic and further support through government funding measures. According to ABS population projections (medium series), the number of persons aged between 0-12 is set to total over 4.3 million by 2020. Using current utilisation rates, demand for child care services will exceed over 1.28 million by 2020, which represents a shortfall of 150,000 places over current demand. However, the proportion of children attending child care services is expected to increase which will result in greater demand for child care provisions.

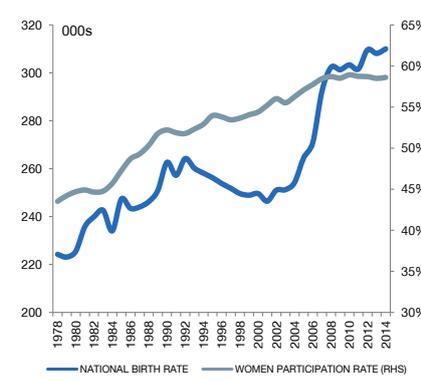
By state, the shortage between current and future demand is expected to be most pronounced within Queensland

FIGURE 1
Number of Children Using Child Care
By Service & State—2014



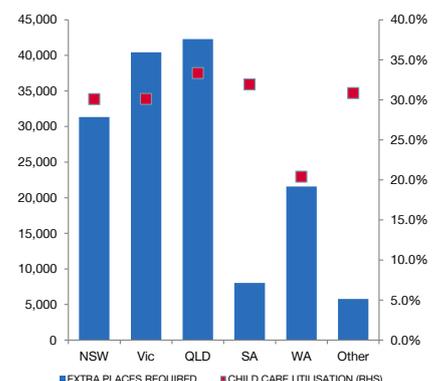
Source: Department of Social Services

FIGURE 2
National Birth Rate & Women
Employment Participation Rate



Source: Knight Frank, ABS

FIGURE 3
Additional Child Care Places
Required & Utilisation by State



Source: Knight Frank, ABS, Department of Social Services

* Approved care—services approved by the Australian Government to receive Child Care Benefit on behalf of families.

and Victoria where there will be the need for a further 42,296 and 40,432 places respectively by 2020. There will also be wider economic benefits associated with the uplift in demand, particularly from an employment perspective. New workforce standards (child to teacher ratios) as part of the National Quality Framework will underpin additional growth, boosting employment prospects in the sector.

The opportunity for potential operators is significant; however location is the key variable. For a centre positioned in a cul-de-sac type location away from major arterial roads, demand is likely to be sporadic as it becomes solely reliant on the surrounding community. Alternatively, if operators were to target sites on or near major employment routes or hubs, this would boost demand as it enables parents to drop-off and pick-up their children to and from work. At the same time, the catchment of potential demand extends beyond local residents.

In recent years, the emergence of child care centres within office assets has become more apparent as it enables greater flexibility in terms of working hours. This trend has been facilitated by a growing 'want' from tenants to be located in buildings with such facilities as it has the ability to attract better staff. At the same time, a number of landlords and developers are recognising this and are incorporating them as part of both new and existing assets to assist with pre-commitments, new leases or retaining major tenants. While small private participation is expected to remain strong, the sector has grown in popularity amongst large listed and non listed groups who recognise the growth opportunities going forward.

Key take-outs from the 2015-16 Budget

The child care sector was a clear winner from the 2015-16 Budget, with the proposed funding measures set to provide for a more affordable, accessible and flexible child care system. At the core of the \$4.4 billion

Families Package is the \$3.5 billion funding commitment over the next five years, which will come as welcome news to both families and operators. The bulk of the proposed \$3.5 billion support is expected to become available from July 2017 in line with the release of the new Child Care Subsidy.

The proposed changes will need to be passed through the Senate to become effective, however given the longstanding frustration from families and operators alike, it is unlikely that they will be met with any major resistance. In summary, the key components of the \$4.4 billion Families Package are as follows:

1. The funding includes a **new Child Care Subsidy (CCS)** which will be introduced from 1 July 2017. To be eligible, children must attend an approved child care service and meet immunisation requirements (No Jab, No Pay). Key points of the CCS are:
 - ⇒ To encourage workforce participation by parents, eligibility for the CCS will be determined by an **'Activity Test'**. Essentially, the test aligns the parents working hours (including training, study or volunteering work) to subsidised care hours. They are as follows:

TABLE 1
Child Care Subsidy Activity Test

Eligible Activity (work per fortnight)	Subsidy Entitlement (per child per fortnight)
0 hours*	Up to 24 hours
8-16 hours	Up to 36 hours
17-48 hours	Up to 72 hours
49+ hours	Up to 100 hours

Source: 2015-16 Federal Budget

- ⇒ *Families with incomes of approximately \$65,000 or less who do not need the activity test will still be eligible to receive up to 24 hours of subsidised fortnightly care.
- ⇒ **Support to low income families.** Families earning up to \$65,000 will

receive support for 85% of the child care cost per child (as of July 2017 it will be capped at \$127 per day per child, up from its current cap of \$110 per day per child under the Child Care Benefit).

- ⇒ For families earning \$170,000 and above, the subsidy will reduce to 50%.
 - ⇒ For families earning less than \$185,000, the existing funding cap of \$7,500 per child per annum will be removed. The funding cap will be increased to \$10,000 for families earning \$185,000 or more.
 - ⇒ From 1 July 2018, the income threshold for the maximum subsidy rate will be indexed to the Consumer Price Index.
 - ⇒ The CCS will be paid directly to the providers/operators of approved centres, replacing other existing child care assistance programmes including the Child Care Benefit.
2. Included in the \$3.5 billion is **\$250 million which will be spent on an Interim Home Based Carer Pilot Programme**. The programme is designed to extend the subsidy support to eligible families (those earning less than \$250,000 per year) who choose to use nannies, providing families with more flexible child care options. The trial will run for two years, commencing on 1 January 2016.
 3. Also included in the \$3.5 billion is **\$843 million in funding over the 2016 and 2017 calendar years for preschool programmes**. This is to help support the *National Partnership Agreement on Universal Access to Early Childhood Education*.
 4. In addition to the \$3.5 billion core funding commitment, the government will spend **\$869 million on the Child Care Safety Net** to assist vulnerable, disadvantaged and additional needs children.



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