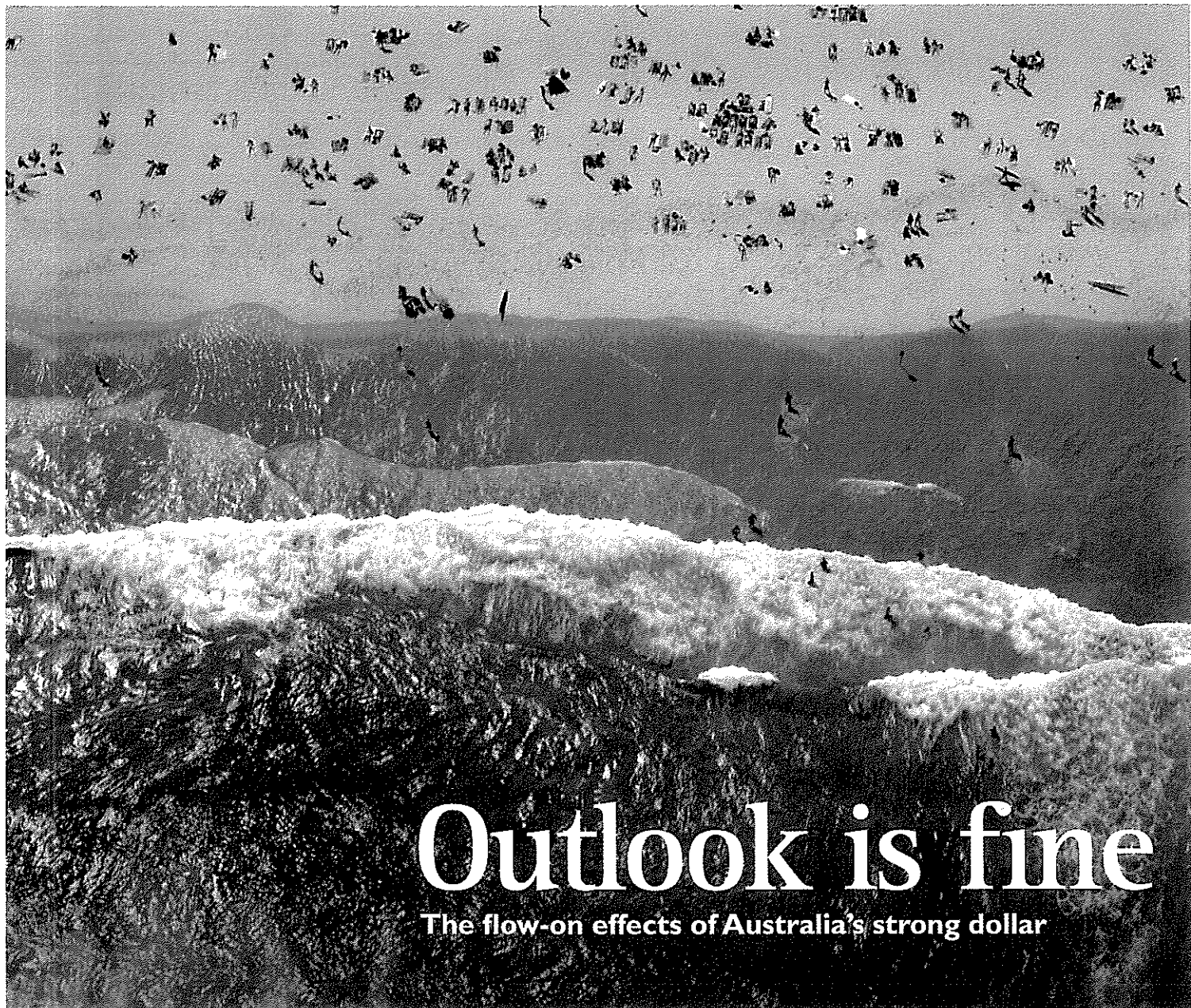


PRIVATE INVESTOR

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Outlook is fine

The flow-on effects of Australia's strong dollar

PLUS



WHAT NEXT?

Property expert Frank Wolf shares his insider's tips for savvy property investors.

SPOTLIGHT ON ADELAIDE

Opportunities abound and confidence is soaring in this often-overlooked city.

CHILD'S PLAY

Why now is the time to consider investing in the childcare industry.

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More than play dough

After the shake-up in the childcare industry, signs indicate that now could be a very good time for investing.

BY SUE ROBINSON

The childcare industry in Australia has had quite a shake-up. However, as it seems it has finally stabilised – with the help of a massive buy-up from not-for-profit group GoodStart and significant assistance from the Federal Government – the question on most investors' minds is: "Is it time to consider investing in childcare yet?" The answer is that, if you are informed and careful, it could be a very good time for investing.

Austock chief operating officer, Nick Anagnostou, says the signs are good, adding: "The asset class produces very attractive returns and is supported by good fundamentals, such as high underlying land values, government support for the operators and long-term leases. Our perspective is very much weighted towards a long-term property investment angle."

Nonetheless, current conditions have to be factored in. Recently proposed federal regulatory changes (due for implementation mid-year), for example, stipulate a minimum ratio of adults to children and minimum qualifications for childcare workers. This may raise staff costs and reduce profit margins. The impact of these changes will vary from state to state, depending on their compatibility with existing state regulations, but everywhere they mean one thing: now is not

the time to be ambitious about rents. Any benefit from higher rents is lost if tenants do not stay.

"We take a lot of comfort in knowing the rental levels reserved by the leases should sustain the increasing cost that some of those regulatory changes will impose," Anagnostou says.

Initial cost is generally between \$0.8 and \$1.5 million. "What is attractive about the childcare centre is that the quantum of the investment is manageable for small investors," he says.

AS SIMPLE AS A, B, C

Anagnostou lists four reasons for being in this market:

1. The childcare market is liquid with a significant number of sales and availability of funding.
2. The 'footprint' of the sites is usually about 2000m², in a residential area (representing about four to six residential lots), comprising a large percentage of total value. "There is an underlying comfort that goes with that," he says.
3. A similar-sized investment of \$1 million in, say, retail (if you can find an opportunity at that price) can be a merry-go-round of tenants seeking considerable incentives and short-term leases, typically of no more than five years. The standard lease term for the Australian Education Trust (AET) is





Austock's listed property trust for childcare centres) is 15 years. Generally, however, a 10-year lease is standard.

4. Other commercial investments are management-intensive compared with childcare.

However, Anagnostou says, "The one thing that really stands out about the childcare sector is that the yield is attractive." (It is stable at 7.5 to 8.5 per cent.) Also, federal government funding assistance to parents and backing for operators underpin the revenue stream to operators. "That helps you to understand the operators' ability to pay the rent."

Federal funding is unlikely to dry up, because it makes good fiscal sense. Anagnostou quotes a federal study which found every dollar spent on childcare returned \$8 in GDP and about \$1.80 in taxes (by allowing both parents to hold jobs). "Our interpretation of those statistics is that childcare is an integral part of the economy. It has moved a long way from being glorified babysitting and is now recognised as pre-school education. It's the first five years that are recognised as being vital to a child's development."

Demand for childcare is likely to increase because

immigration levels are up and the birth rate has risen again since a low before the turn of the century. It is likely to keep rising. Also, in many households both parents have to work to meet rising costs of living.

LOCATION, LOCATION

As for where to invest, Anagnostou says Austock is "very conscious about investing in areas where there is an abundant supply of land" (creating a risk of oversupply). He prefers strong regional and inner metropolitan areas. City areas are usually undersupplied for childcare due to the amount of land needed to establish a centre (as a rule of thumb, he says, a childcare centre needs about 2,000m² of land).

Troy Allen, director of Succeed Consultancy, which specialises in childcare services, says price drops have made leaseholds affordable, which attracts mum and dad investors. He thinks the Federal Government is likely to raise childcare subsidies for parents. "Banks are a lot tighter at the moment," Allen says, noting that one agent reported losing 20 (leasehold) deals in the last half of 2009 because the banks refused finance. Freehold is easier to fund, because the owner takes about 70 per

AUSTRALIAN BIRTH RATES

	2009	2008	2007	2006	2005
Births per 1000 of population	12.47	12.55	12.02	12.14	12.26
Per cent change	(-0.64%)	(+4.41%)	(-0.99%)	(-0.98%)	(0.00%)

(Source: CIA World Factbook)

cent equity, compared to leasehold's 50 per cent.

His advice to potential investors? "Freehold is definitely better but at the moment more are buying or looking for leasehold. Look for a strong location. Check the competitors' vacancy rates, some areas are oversupplied." He cites Sydney's Kellyville, with 15 centres in

an 8-kilometre radius, as an example. Allen says he was offered a centre there at no cost except ongoing rent. He refused.

New residential areas are fine. Some regional centres in Victoria, Allen says, built for about \$1-1.5 million, are earning \$150-200,000 rent, a yield of about 10 per cent.

In regard to tenants, Allen says to look for somebody who has been in the industry. Check mum and dad investors for evidence of business knowledge and savvy. Locals may trust locals but larger organisations will usually staff their centres with locals anyway. If you have no experience, get a consultant. "Don't just jump in."

According to research by advisory group Herron Todd White last December, overall yields had softened by 80 basis points since 2006/07. This compares favourably with the fall of between 100 and 200 basis points for other types of commercial property.

The research showed that NSW, Western Australia and Victoria have high demand, which is driven by high birth rates and is likely to continue. But in Victoria, supply has grown and there is a potential impact from the Victorian Government's plan to integrate children's services with school sites. Western Australia is expected to have the highest level of population growth in the 0-5 year age group to 2021, and the number of childcare places available per child has fallen to below the national benchmark.

"FEDERAL FUNDING IS UNLIKELY TO DRY UP, BECAUSE IT MAKES GOOD FISCAL SENSE."

South Australia, Tasmania and the Northern Territory figures for places per child are also below the benchmark.

Queensland has the highest provision of childcare centres – one place for every 4.1 children, compared with the national ratio of 5.6 children. This is also affected by the introduction of a preparatory year to primary schools in 2007, which reduced demand for places for children aged four to five. Some operators are facing financial difficulties because of this. Childcare services are more highly used in the ACT, probably because of the higher average income, and it is well supplied with centres. ■

POPULATION BOOM

In 2008, Australia had 1.6 million children aged 0-5 years, with 25 per cent attending childcare. When releasing the intergenerational report *Australia to 2050* in February, Federal Treasurer Wayne Swan said the total fertility rate was projected to average 1.9 births per woman. The level of overseas migration was expected to average 180,000 per year. "If these average projections were to eventuate," he said, "Australia would have 36 million people in 2050, up from 22 million today."

(Source: Australian Bureau of Statistics)

