



CHILDCARE IS BIG BUSINESS IN NEW ZEALAND, AND IT'S EASY TO SEE WHY.

Since 2008, the proportion of children enrolled in early childhood education (ECE) has risen from 93.6 percent to 96.6 percent, while time spent in ECE has reached an average of 21.7 hours a week, up from 13.5 hours in 2000. Public funding for the sector is reliable and secure, rising from \$860 million in 2008 to almost \$1 billion now.

The Government fully funds 20 hours of care a week for all children aged three, four and five. They have recently pledged to spend an extra \$193 million over three years for ECE and increase funding for centres that employ 100 percent qualified and registered teachers. Its stated goal is to have 98 percent of children attending an early childhood service before starting school.

BEHIND THE BOOM

Population growth has been the key driver of demand for childcare places.

New Zealand's 4.8 million population is tipped to exceed 6 million by 2027, with the majority of the growth expected to be in the "Golden Triangle" area of Auckland, Hamilton and Tauranga. In Auckland alone, the population is expected to virtually double to more than 3 million in the next 25 years with the number of children aged four years and under expected to grow by approximately 14%. Bay of Plenty, Waikato and Canterbury are other stand-out growth regions.

This boom presents an opportunity for smart business investors.

There are currently 4,544 ECE services in New Zealand, 160 of which were newly licensed in 2016. On average, 152 new services open each year.

Auckland has 1,407 ECE services, 79 of which were licensed in the past year. The ministry is currently assessing dozens of applications that may potentially open early this year.

OPPORTUNITIES

ECE businesses in New Zealand can fetch into the multi millions, depending on size and location, with demand for those coming onto the market high.

The majority of ECE centres in New Zealand – more than 85 percent – are run by small independent operators, who might

own one or two and be licensed for less than 50 places. Investors' ROI depends on multiple factors, including whether they're buying a freehold going concern, leasehold or investment centre.

Freehold going concern ROI can vary between 12 percent to 18 percent. For leasehold, returns of 20-25 percent can be expected, depending on the term of the lease and other features of the business.

If purchasing a freehold property as a passive investment the return can range from 5 to 7 percent depending on the property, location, size, presentation and lease terms and conditions. Many investors prefer to hold onto the ECE business and sell the freehold property to free up cash to buy more businesses.

Another option is to build a new centre from scratch and sell off the land and building with a lengthy leaseback in place. The rewards can be greater than buying an existing going-concern although developers will need to take into account set up costs, such as site purchase, construction and hiring staff, and apply to the Ministry of Education for a licence.

The limits on inner-city developments are likely to encourage more creative solutions to building more ECE centres, including mixed-use developments, to keep up with growing demand.

REVENUE STREAMS

Profit margins for private childcare centres are significantly more than community-owned centres.

On average, private centres receive income that is higher per child per hour than that of community-owned childcare centres and they pay out less in expenses.

Charges vary but the average hourly rate is \$5-\$6, with parents paying between \$150 and \$350 a week.

Income comes from a variety of sources, including fees charged to families, funding, donations, extra charges in addition to fees, such as enrolment fees and charging when the service is closed, or a child is sick.

THE MAJOR PLAYERS

The largest childcare operators in New Zealand are BestStart Educare, which owns more than 250 ECE centres and offers more than 15,000 full-day care places, and Evolve Education Group, which owns more than 120 centres across the country operating under several leading brands, including Lollipops Educare, Leaps & Bounds and i.Kids.

Evolve only entered the market four years ago but its aggressive acquisition strategy has seen it become a dominant player - and driven the price of childcare businesses upwards, with operators reaping four to five times their earnings in some cases.

For the six months ending 30 September 2017, Evolve's total revenue grew by 6.5 percent to \$81.3 million - driven by new centre acquisitions and the development of new centres.

A STABLE AND REWARDING FUTURE

There are a range of opportunities for business owners to enter the market making ECE centres a strong investment at a relatively affordable price. The future looks bright with the stability of the sector underpinned by population growth and the government's commitment to childhood education.

Although private sector players remain a stalwart of the industry, the emergence of large-scale operators provide an additional and lucrative pool of potential buy-out opportunities for those considering their future exit strategy.



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