

Media Release

Private Equity sector strengthens exposure to childcare real estate, offers investors resilient source of income generation.

16 May 2024: The Australian childcare industry is a ~A\$40 billion market that serves over 1.4 million children, an increase of 37% since 2012. Given its service provision to a significant proportion of Australian families, as well as being one of the major employers of women, the sector enjoys bi-partisan political support as a critical constituent of the country's economic and social infrastructure.

Recent increases in the amount of financial assistance available to families have also contributed to an increase in childcare participation rates, both in terms of the number of children attending childcare as well as the average number of hours.

As the Federal Government prepares to respond to the ACCC's recommendations on childcare, along with the final report from the Productivity Commission's investigation into childcare access, Federation Asset Management's CEO Cameron Brownjohn believes firms like Federation play an important role in growing access to affordable childcare.

"Federation's Sentinel Real Estate Investment Trust is the third largest provider of real estate to the Australian childcare sector, with facilities developed or under development for over 10,000 children. We're proud of the breadth of service that Sentinel properties and our operators offer Australian families," Brownjohn said.

In addition to producing benefits for the community, Federation believes in the viability of the asset-class for its investor base.

"There are several factors that continue to grow the Australian childcare industry. Population growth, driven by net migration, continues to bring families in need of childcare services, especially in the growth corridors of major capital cities. With changing demographics, dual-income households becoming the norm, and a heightened emphasis on early childhood education, the demand for quality childcare services has surged," he added.

"Childcare centres have also demonstrated remarkable resilience, even during times of economic uncertainty. As essential services they continue to operate and generate revenue throughout the economic cycle, or even during unforeseen shocks, like Covid-19 lockdowns. This resilience contributes to their appeal to those seeking investment stability amidst market volatility," Brownjohn said.

Institutional investors have been drawn to the Australian childcare real estate market as it offers a social investment with bi-partisan government support and an opportunity to diversify away from traditional real estate sectors such as office and retail.

Federation established a joint venture with a fund managed by BlackRock in October 2021 to source these types of opportunities for institutional investors.

Ben Hickey, BlackRock's Head of Australia Real Estate, added "Childcare real estate is a resilient asset class that can see through different points in the market and economic cycles, offering a long-term inflation linked income for investors with strong underlying supply demand fundamentals. Childcare also plays a crucial role in supporting future generations, advancing female workforce participation, and making positive contributions to communities."

Brownjohn noted “Federation’s investors are attracted to our industry-leading mix of high quality tenants, long leases (often 10 to 20 years with further options), triple or double net leases with minimal capex leakages and strong rental reviews linked to inflation.”

The childcare industry remains highly fragmented, presenting ample opportunities for consolidation and operational optimisation.

“Approximately 80% of the industry’s 9,100 centres are controlled by owner-operators and small private investors who own a handful of centres. This fragmentation provides opportunity for consolidation. Firms like Federation can leverage our expertise in scaling businesses and implementing efficiencies to drive growth and profitability within this fragmented landscape,” said Brownjohn.

Federation’s *Sentinel* is an unlisted real estate investment trust that invests and acquires childcare centres across Australia. For more information: <https://federationam.com/our-funds/sentinel-childcare-reit/>

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About Federation

Federation invests in businesses that meet economic and social needs, with particular strengths in renewable energy, health and education real estate and businesses servicing an aging population and modernising world. The firm manages capital commitments of A\$2 billion for institutional and individual investors. Federation is a signatory to the United Nations Principles for Responsible Investing (UNPRI) and is certified by the Responsible Investment Association of Australasia (RIAA).

For more information please visit: <https://www.federationam.com/>

Media contact

Simrita Virk, Capital Outcomes

E: simrita@capitaloutcomes.co