

Australia: Are greedy developers and landlords gouging childcare parents? ^[1]

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EXCERPTS

Property developers and landlords are inflating the cost of childcare and condemning children to spending their childhoods in crappy environments.

And worse? They're getting government support to do it.

Increasingly, whacking up a childcare centre is looking like a good option to the property developers of Australia. Especially when the dominant narrative is of child care scarcity.

New players enter

But it's no longer just developers. We now also have specialist childcare landlords making big profits buying or building childcare premises and leasing them to operators.

But are these profits being made at the expense of children and their families? Is this one of the key reasons childcare is so expensive?

Two of the biggest childcare centre property owners in Australia are publicly listed - Folkestone Education Trust and Arena REIT. Folkestone owns 406 centres and made \$122.2 million from them in the last financial year. Arena REIT owns 198 centres and made \$28.7 million.

Apartment giant Meriton is also getting in on the act - changing their business model from building and selling off centres in their developments to keeping and leasing them to operators.

Smaller investors want in on the big bucks too, leaving demand for childcare centre properties at a record high.

Cash-strapped councils are increasingly looking at their childcare premises as assets they could be making money from. Their tenants are being forced onto market rents.

Triple-threat leases

Returns for childcare landlords are between 5 and 7 per cent per year.

Landlords boast of 'let and forget' triple-net leases where tenants (childcare operators) pay the building's property taxes, insurance and maintenance.

They also boast of long-term leases with built in 3 per cent rent increases per year. It's a way to profit from the money government and families are pouring into child care without having to be involved in the far more complex business of running a centre.

So who are they leasing to?

Not-for-profit Goodstart Early Learning is Arena and Folkestone's largest tenant with leases inherited when it took over the failed ABC Learning.

But its providers - such as Affinity Education, G8 Education and Only About Children - that are gobbling up new properties as soon as they become available.

Premium provider Only About Children and Affinity Education are both now owned by multinational private equity companies. G8 is a publicly listed corporation. All three are arguably more interested in making the biggest returns for their investors and shareholders than their longevity as childcare operators.

The best way to increase returns is by continued expansion - by continually opening more centres. Paying premium rent is not an issue if it

means you can get more centres open quickly. But their willingness to pay more impacts the rents other operators have to pay.

After wages, rent is the next largest expense for childcare operators. When rents go up, so do childcare fees. So its families and government who unwittingly fund the landlords' profits.

Higher fees, lower quality

The quality of the centres being built is also an issue.

Pesky (to developers) government regulations demand 3.25 metres square of indoor space per child and 7 metres square of outdoor space per child. Developers squeeze the maximum number of children possible onto their blocks.

The problem is these numbers were only meant to be minimums. In developer-built centres, children will only get these minimums.

Arena REIT are also moving into prefabricated construction to increase the speed of rental returns.

Developers and landlords are also increasingly getting government support to build new centres wherever they want.

The NSW Government for example, just legislated a state environmental planning policy for childcare facilities. This trumps any council's existing developmental control plans that may have limited the size or location of childcare centres.

Large centres will become the norm because more children equals higher rents for landlords, despite research showing smaller centres provide higher quality education and care.

So: we have higher fees and lower quality. Families lose out, children lose out.

But it's OK, because someone, somewhere, is making money out of property. Right?

-reprinted from ABC News

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