

'Large drop' in occupancy and increase in insolvencies hits childcare market ^[1]

Nursery owners are being hit by a decrease in occupancy which is making them less able to be resilient in the face of wage hikes and funding shortfalls, a property expert said today.

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EXCERPTS

Despite investors continuing to see the sector as lucrative, Courteney Donaldson said that a drop in demand was a 'common theme' being felt by nursery owners 'from the south east to the north west' of England last year, leaving some fearing they would not be able to make ends meet when the National Living Wage (NLW) rises in April.

The Christie and Co property expert told Nursery World, 'A number of operators across England in particular say they saw a large drop in occupancy last summer compared to what they were expecting. They had more school leavers leaving in July, and the number of new starters in September were not where they would normally be, and they haven't seen the same numbers in January either. I think that is fueling some of the concerns around salary increases in April.'

Several high profile nursery owners have said that the sector 'won't survive' when the NLW increases from £8.21 to £8.72 per hour given current funding rates. David Wright, owner of award-winning PaintPots nurseries, told Nursery World 'It is not too strong to describe this as an existential crisis for the sector.'

The reported drop in occupancy is despite children losing places because of nursery closures. Ms Donaldson said one operator in the south of the country told her the birth rate had fallen in her area and she was facing stiff competition from school nurseries.

This leaves settings with a dilemma. 'We know there are major workforce challenges. In some cases settings are overstaffed but they want to keep their staff on as they know how hard it would be to recruit again.'

Some settings were looking to diversify their offer. Ms Donaldson said this included expanded hours, concierge services, opening at weekends, opening later in the evenings for shift workers, and acting more as community hubs with activities for families.

2019 was also marked by increases in nurseries 'in distress'. She said, 'The nurseries with the greatest challenges are in the more deprived locations. Not only are funding rates a challenge but some of these children require additional input and time. We continue to see closures of single settings particularly in deprived areas.'

Settings were struggling for a variety of reasons, not just funding, she said, adding that Christie and Co's bank support and recoveries team, who works with insolvency practitioners and administrators, has seen a 25 per cent increase in demand on last year. She said 'We see some settings going into administration and that is new as we saw more closures in 2018 rather than administrations.'

Despite reports of up to 500 childcare settings closing per month, official figures show the number of childcare places has remained broadly stable. Ms Donaldson thinks that while 'April could be a challenge for some, and there is a high chance we will see further closures and a contraction of places in the third and fourth quarter of this year', numbers will remain stable overall because of the number of new openings.

Deals

Despite these domestic challenges, the market for quality assets is still 'really buoyant', with Christie and Co's Business Outlook report stating there has been a 31 per cent increase in transactions (sales) of day nurseries between 2016 and 2019.

She said, 'Investors are looking at the UK and see significant consolidation opportunity. This demand for the right business continues... There is still no sign of that slowing down. The market has to come to a peak at some point but when that peak will be we just don't know.' While there were fewer regional transactions this year, more single sites have been bought and sold. Demand was from a mix of first time buyers, regional groups, and UK and international investors, with new operators wanting to come into the nursery sector and existing operators wanting to expand.

International interest is still high – and plenty are looking to follow in the footsteps of Les Petits Chaperons Rouges and La Maison Bleue, two French nursery operators who each bought UK nursery groups over the past two years. As well as investors from Europe, interest is coming from countries in Asia such as Hong Kong. She said, ‘For any international purchaser it’s very important to have a good management team. The owner and founder provide the strategic direction and support to their management team. So it can be difficult to replace them. If they can’t find an experienced nursery CEO they are looking at CEOs from other sectors.’

Over the past few years some UK operators have been expanding in China with success. For example, Stone Eden, a single setting based in Carlisle which opened its first nursery franchise in Guangzhou, near Hong Kong, in 2018, and is now operating a partnership with another new English speaking EYFS based setting further up the coast in Quanzhou, scheduled to open in June 2020.

Ms Donaldson said however that this trend was slowing down, partly due to recent Chinese legislation introducing more stringent regulation and caps on funding. ‘Some operators had issues and came out of China pretty quickly’ she said, adding this had a chilling effect on other operators. ‘The market here has been buoyant but owners have had challenges – recruitment, retention and funding rates - so they’ve been focused on their own businesses here.’

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