

Why Early Education is a *Win-Win-Win*.

ereana

In a world of zero-sum investing, allocating to Australia's Early Education sector offers *a win for Investors, a win for Children and a win for the community at-large.*



Early education a compelling *investment opportunity*

Early education in Australia is an important part of the social and economic fabric of Australia. It is a sector driven by demographic shifts, evolving employment trends and an increased recognition of the benefits it provides to both children and society more broadly.

A combination of bipartisan support for early education from federal and state governments, increased workforce participation and an appreciation of early education's benefits have created a sizable gap in supply-demand dynamics.

The supply shortfall has been a key driver of the increase in private for-profit services, which have increased from around 40 percent of early education providers in 2013 to more than 50 percent a decade later. Industry revenue has grown at a CAGR of 6.2 percent over the past five years, to reach an estimated \$21.8 billion in 2024¹.

It is therefore not surprising that early education has emerged as an attractive investment opportunity in Australia. Solid growth in demand is expected to continue, supported by increased workforce participation and population growth. Government support and funding, as well as a protected regulatory framework, provide stability for investors. Elevated margins, near-full capacity and the potential for capital growth and regular income add to the attractiveness of the sector to investors.



¹ Child Care Services in Australia, IBIS World, September 2024

Early education *landscape*

Growth in the early education sector is supported by several demographic drivers, including population growth and increased workforce participation. Importantly, bipartisan government support through the provision of subsidies and recognition of the sector's importance for child development and workforce participation promotes this growth. The benefits of early education are far-reaching, particularly for child development; longer-term benefits that extend beyond early childhood to primary, secondary and tertiary education. Early education also supports employment, which delivers economic and social benefits to the broader Australian economy.

There is significant evidence that early education results in better outcomes later in life. More than 50 years of research have demonstrated that investment in quality early education supports health, education and employment outcomes for individuals throughout their lives. These benefits have economic impacts that reach beyond the children and their families, to benefit the broader economy. It is therefore unsurprising that federal and state governments are supportive of the industry.

Strong demographic drivers

The early education sector is inherently linked to demographic trends, particularly the anticipated rise in the child population and increased workforce participation. Forecasts suggest a 24 percent increase in the child population from 2022 to 2042,² increasing from 4,363,000 in June 2022 to 5,345,000 by June 2042. This growth will underpin sustained demand for quality early education services and the expansion of facilities to deliver them.

Adjacent to population growth is the increased workforce participation rate which, in turn, has resulted in a significant shift in the participation rate of 0-5-year-old children in early education. Over the past 13 years, the child participation rate has increased 39 percent, rising from 33.9 percent in 2009 to 47.2 percent in 2021.³ Workforce participation has risen due to an increased number of women entering or returning to the workplace and the concurrent rise in dual income families.

Government support

Early education has enjoyed bipartisan support from federal and state governments. There is wide recognition of the value of early education: to the child, the economy and society.

In 2022, Treasury unveiled an additional investment in the sector of \$4.5 billion over four years – in addition to the \$13 billion already budgeted – to increase Child Care Subsidy rates. This took effect from 1 July 2023. The government's intention is to make childcare more affordable and support an increase in workforce participation. It was estimated this reform will increase the hours worked by women with young children by up to 1.4 million hours per week, an equivalent of 37,000 extra workers⁴. Analysis by the Grattan Institute estimates that an additional \$5 billion invested in the Child Care Subsidy would yield an \$11 billion higher workforce participation dividend.⁵

At the same time as the federal government confirmed its increased support, state governments also acted. The Victorian government confirmed an investment of \$9 billion over the decade and New South Wales allocated \$5 billion over the same time frame.

² Child Care Services in Australia, IBIS World, September 2024

³ Child's Play: An Overview of the Australian Childcare Real Estate Investment Market, Cushman and Wakefield, 2022

⁴ 2022/2023 Federal Budget Speech, Jim Chalmers, October 2022

⁵ Grattan Institute (2020) Recovery Book, <https://grattan.edu.au/report/cheaper-childcare/>

Better outcomes for children

For the individual, early education provides a myriad of benefits. Children who attend quality preschool programs are up to 40 percent ahead of their peers by year three of primary school⁶ and experience higher levels of educational success, employment, and social skills in adulthood.

Core benefits include:

Brain development:

Over 90 percent of brain development occurs in the first five years of life. The young brain develops connections faster during this period than at any other time in their lives, and it is the time when the foundations for learning, health and behaviour throughout life are laid down⁷. Quality early education helps support this development.

Social and emotional skills:

Early education helps children develop social skills, which supports language development, emotional regulation and relationship building.

Cognitive and language skills:

Early learning environments promote cognitive development through play-based activities that include problem-solving and language recognition. Strong speech and language development sets the foundation for all future learning.

Academic success:

Children who attend quality early education programs are more likely to be better prepared for the transition to formal schooling. Research findings unequivocally agree that the early years of life are a critical period of intense learning that provide the foundation for later academic and social success⁸.

⁶ Early Bird Catches the Worm: The Causal Impact of Pre-school Participation and Teacher Qualifications on Year 3 National NAPLAN Cognitive Tests, Melbourne Institute D. Warren and J.Haisken-DeNew

⁷ <https://raisingchildren.net.au/newborns/development/understanding-development/development-first-five-years>

⁸ Literature review of the impact of early education and care on learning and development, Australian Institute of Health and Welfare, September 2015



Societal and economic outcomes

The benefits of early education extend beyond the individual to the wider economy; this positive social (and economic) impact explains the bipartisan support the sector has received from successive federal and state governments.

Benefits to the broader economy include:

Increased workforce participation:

Early childhood education allows parents to participate more fully in the workforce. The increased labor force participation has been estimated to boost Australia's GDP by around 7.5 percent.

Long-term economic returns:

A cost benefit analysis that formed the central thesis of a report into the economics of early education found that for every \$1 invested, Australia receives \$2 back over the child's lifetime. The research demonstrates that investment in early education boosts productivity and increases workforce participation⁹. Estimates have suggested that quality early learning could provide up to \$10 billion in economic benefits for Australia by 2025.

Financial benefit for government:

The government stands to benefit from higher tax revenues from two sources; a larger tax base as parents return to work, and children who may earn more over their lifetime thanks to better educational outcomes.

Business and productivity gains:

Early childhood education contributes to a more capable and highly qualified workforce, which can improve productivity over time. The early education sector itself is a significant economic contributor. In 2021, more than 216,000 staff were employed in the sector¹⁰ and the sector itself is valued at more than \$16 billion.

Cycles of disadvantage:

Investment in early education can help break cycles of disadvantage. In turn, this can reduce the future social welfare burden on governments and improve economic participation across generations.

Early education has notable benefits for children from disadvantaged backgrounds. Quality early education can help break cycles of disadvantage and reduce developmental vulnerabilities when starting school.



⁹ A smart investment for a smarter Australia, the Front Project, June 2019 (prepared by PWC)

¹⁰ About the Early Childhood Workforce, Department of Education

Supply + Demand *in early education*

Despite broad support for early education in Australia, the demand for places far outstrips supply. In 2023, 337,305 children aged 4 or 5 years were enrolled in a preschool program, a 0.9 percent increase compared with 2022¹¹. In 2022, 1,392,860 children from approximately one million families attended a childcare subsidy approved service, nearly 5,000 more than the previous year¹². Rising attendance numbers indicate increased demand for early education services. This is particularly acute in ‘childcare deserts’ where three or more children compete for each childcare place¹³.

There is a significant push from state governments, including the more populous New South Wales and Victoria, to support early education that meets the developmental needs of children, improves access (especially in regional areas), helps alleviate workforce shortages and challenges, and delivers on inclusion and support programs for vulnerable families.

There is a significant need to expand access, improve quality, address workforce challenges and ensure equitable provision of services across Australia. Federal and state governments recognise this and acknowledge that both private markets and the private sector need to play a significant role in the supply of early education in Australia.

The shortfall of available places in early education centres is the result of several factors:

Workforce shortage:

The sector requires growth of around 8 percent to meet sustainable staffing levels, and another 8 percent to meet unmet demand for services. There is an urgent shortage of more than 20,000 workers to meet current demand; a shortfall that may lead to centres being forced to cap enrolment numbers.

Addressing workforce challenges is a priority if supply is to be increased. The Productivity Commission notes this will require accelerated qualification pathways and consistent registration requirements around the country¹⁴.

Childcare deserts:

Around one in four Australians live in childcare deserts, where three or more children compete for each childcare place. In 2020, about 34 percent of regions were classified as a childcare desert, a number that dropped to 24 percent by 2023¹⁵.

Increased workforce participation:

An increase in female workforce participation and the rise in dual working parents has pushed early education participation rates higher, a trend that is expected to continue and increase the demand for places.

A growing demand for places in early education centres, the short-term and long-term benefits to the individual, as well as broader economic and societal benefits suggest the early education and childcare sector is primed for a positive medium-to long-term growth trajectory.

However, it is also evident that state and federal governments are unable to bridge the demand-supply gap alone. Instead, both the private sector and private capital have increasingly supported the supply of quality early education facilities and services.

11 Preschool Education, Australian Bureau of Statistics, March 2024

12 Latest early education and care data released, Department of Education, February 2023

13 Mapping the deserts: Childcare accessibility in Australia, Victoria University, August 2024

14 A Path to Universal Early Childhood Education and Care Inquiry Report, Productivity Commission, September 2024

15 Mapping the deserts: Childcare accessibility in Australia, Victoria University, August 2024

Solutions to *increase supply*

There are numerous ways in which the private sector can contribute to closing the gap between supply and demand for places in early education centres.

The opportunities for the private sector to contribute to the early learning sector are numerous. Given the sheer magnitude of the shortfall, the supply-demand gap for early education in Australia looks set to persist for some time.

Private sector solutions include:

Increased investment in new centres	Investment from private companies can support the development of new centres to address the shortfall to meet current and future demands. There is particular opportunity in those areas identified as childcare deserts.
Innovative staffing solutions:	Private providers can implement staffing strategies to attract and retain quality people to meet the shortfall in early education staff.
Technological advancements:	Technology can be leveraged to increase the operational efficiency and profitability of centres.
Focus on quality and innovation:	Private providers can differentiate their early learning centres by focusing on high-quality facilities, as well as educational and innovative programs.
Sustainable practices:	Sustainable practices can be attractive to families and potentially reduce operating costs over the longer term.
Urban and Regional demand:	The private sector is well placed to identify those urban and regional areas with unmet demand for early education services and address shortages where they are most acute.

Opportunities *for investors*

The investable universe of Australian early education real estate is estimated to be valued at approximately A\$28 billion. Small individual asset sizes have enabled a broad range of investors to participate in the market, enhancing liquidity. A-REITs account for approximately seven percent of the investable universe, with the remainder owned by a variety of private investors, syndicates and owner-operators.

Strong fundamentals, income and the long-term security of the early education sector have made the sector attractive to a range of institutional and individual investors because of the following:

Strong growth drivers.

Positive revenue growth and margins across the sector.

Potential for capital growth and regular income from some investment structures.

Potential for capital appreciation and steady income in some investment structures.

Generally less correlated with equity investments (unless investing via a listed structure).

As an essential service, the sector is more resilient to market volatility.

Investors can access early education investments via public or private markets. Both offer the benefits of income and capital growth. On the downside, public market investment can be subject to general market volatility and drawdowns and investments are closely correlated to the broader equity market. Private market investment is typically less liquid, can have larger initial investment requirements and may be subject to additional risks.

Investment opportunities available to investors in Australia in the early education sector include:

Public market investments in early education companies:

Investors can invest in publicly traded early education companies or in listed private equity firms that invest in or own early education centres. These investments trade freely on the Australian Securities Exchange and the valuation of the shares in each company is determined by the market. Shares in listed securities may be subject to market sentiment and the price may not reflect the underlying fundamentals of the investments.

Property Investment:

Early education centres can be accessed directly as a property investment. Investors can buy early education facilities outright. This can be an attractive option for investors because early education centres generally operate at near-full capacity and, therefore, investment can offer relatively stable and predictable income streams due to long leases and strong demand that typically remains consistent throughout the economic cycle.

An alternative to buying existing centres is to develop new early education facilities. In Australia, there is a relative scarcity of purpose-built facilities, particularly in high-demand areas. While this provides an opportunity for investors to develop new centres, doing so is subject to regulatory requirements, requires an elevated level of due diligence to select the most favourable regions and sites, and carries an elevated risk for inexperienced investors.

These risks, coupled with the specialised nature of early education facilities, provide an incentive for investors to partner with established early education developers and operators with a proven track record. This approach can mitigate risks associated with tenant turnover and other operational challenges.

Private market debt or equity investments:

The early education sector is increasingly perceived as a reliable option for income investing within diversified portfolios. Private market investments have made it possible for investors to gain exposure to income-generating assets – both debt and equity, or a combination – as well as the opportunity to benefit from capital growth through exposure to the underlying property.

As well as the positive macroeconomic environment for the sector, there are also microeconomic drivers that can enhance investments in private markets. These can be broadly categorised as economies of scale and economies of scope.



Economies of scale:

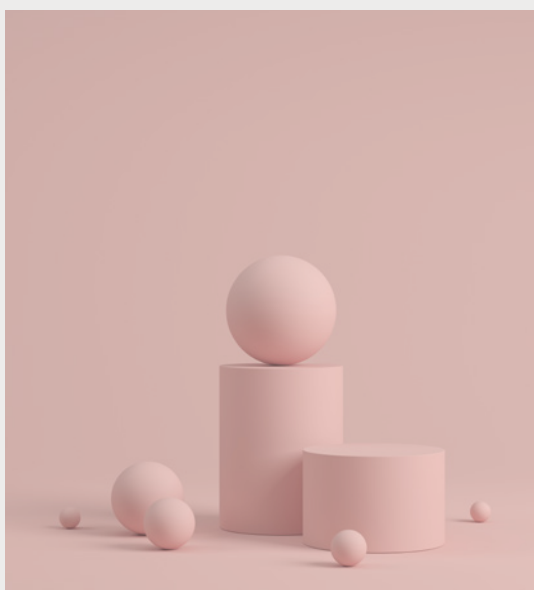
Demand for early education is Australia-wide. While the more populous states require an increased number of places, regional areas also face significant supply shortages relative to demand. Developers and operators that have a broad reach across Australia are well-placed to benefit from demand in metropolitan, urban and regional settings. Furthermore, developers with a proven track record of success in being able to identify, purchase and develop successful early education facilities are best positioned to benefit from that scale, as they are more likely to be offered greenfield sites for development.

Operators with scale may also benefit from reduced overhead costs, improved operational efficiency and may find it easier to recruit and retain staff in an otherwise challenging environment. This improves the profitability of early education centres and ensures that each attains and retains maximum capacity, which further supports profitability and investor returns.

Economies of scope:

The development and operation of early education centres are separate but complementary elements. Quality designed, developed and built properties can enhance value for operators and investors. Likewise, superior operators can maximise the value of managing early education centres. Accordingly, there are synergies between developers and operators working to maximise early education outcomes both for the sector and investors.

Developers can also benefit from economies of scope where they can harness intellectual property – via improved technology, lower costs or features of the development – from expertise outside the sector. For example, design features used in mixed-use or retail to maximise usable space could enhance the design of early education centres. Features that improve the livability of medium-density residential – such as green spaces – could also improve the attractiveness of early education facilities. The ability to harness this intellectual property can increase the capital growth and rental yield that accrues to any given early education centre.



In summary...

an investment in early education offers significant benefits, both economically and socially, making it a compelling opportunity for investors. With strong growth in demand for early education services in Australia, there is a clear need for new early education centers and innovative solutions to close the supply gap.

This growth sector provides an excellent chance to align financial returns with positive social impact. Entrepreneurs and established providers can leverage technology and modern educational approaches to meet demand for services efficiently, while creating scalable and sustainable solutions.

The early education sector benefits from consistent and growing demand, strong government support and an under supply of services, providing a stable foundation for investment. The opportunity to achieve

economies of scale enhances profitability, making it an attractive choice for a range of investors.

Beyond financial gains, investing in early education supports Australia's broader educational and economic goals, fostering a skilled and resilient future workforce. With its combination of long-term growth potential, a regular income stream and societal benefits, the early education sector stands out as a rewarding avenue for investment.



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