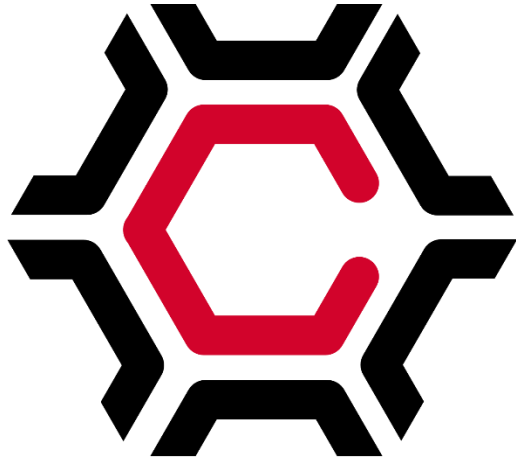


INQUIRY INTO EARLY CHILDHOOD EDUCATION AND CARE SECTOR IN NEW SOUTH WALES

Organisation: Centre for International Corporate Tax Accountability and
Research (CICTAR)

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**Centre for
International
Corporate Tax
Accountability
and Research**

**Submission to NSW Parliamentary Inquiry
into early childhood education and care
sector in New South Wales**

June 2025

About CICTAR

The size and wealth of multinational corporations give them huge power over our everyday lives. Opaque corporate structures and unfair global rules allow for rampant tax avoidance and the proliferation of corporate power.

That's why CICTAR carries out detailed, accurate and accessible research into the tax and financial arrangements of global businesses. Our investigations provide a growing global network of trade unions and campaigners with the tools, evidence and ammunition to expose tax dodging and runaway profit extraction. Together we advocate for fairer tax rules and to restore the balance of power in favour of workers, public services and communities.

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Executive summary

The Centre for International Corporate Tax Accountability and Research (CICTAR) welcomes the opportunity to provide a submission to the NSW Parliamentary inquiry into the early childhood education and care sector in New South Wales.

Public discussion so far has revealed significant failures to deliver high quality education and care to all children. Missing from much of the analysis is attention to a growing mechanism for profit extraction from the sector: corporate landlords charging high rents. Our submission draws on publicly available information to estimate the scale of this issue, both quantitatively and qualitatively.

We find that the sector as a whole pays \$2.71 billion in rents each year, enough to fund the Federal Government's 15% ECEC wage increase – and another 7.58% on top. The evidence also reveals that **corporate landlords' influence on the supply, type, quality and cost of ECEC services is substantial and increasing**. The research presented in this submission was recently covered in an ABC News report. That report included comments from a former ECEC centre manager who noted that corporate landlords' leasing structure "negatively affects child safety".¹

Addressing this significant and growing role of corporate landlords is needed to ensure that any additional funding for the sector – including likely funding increases from the Federal Government – are not siphoned out through profits but are directed to ensuring high quality ECEC services are available and accessible to all children.

We recommend that the NSW Government work with the Federal Government to increase transparency about how government subsidies and families' contributions are spent in ECEC. This is a necessary first

step for regulators to identify potential systemic risks, and for the community to identify services that prioritise spending on the provision of education and care.

We also recommend that the NSW Government support and invest in alternative models of land ownership in ECEC. These could include measures to restrict excessive profiteering by landlords, and direct ownership of ECEC real estate by State and Local Governments.

Rent: a growing form of profit extraction from early childhood education and care

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Corporate landlords: the frontier of profit extraction from early childhood education and care

Early childhood education and care (ECEC) in Australia has made many people wealthy. Eddie Groves' now-infamous climb up the rich list, followed by his equally dramatic fall, is just the most well-known example of profiteering from operating for-profit ECEC services.² Yet a growing site of profit extraction from this vital social service has largely escaped scrutiny: rent extraction by corporate landlords.

This report examines the rise of a new strategy of corporate profit extraction from ECEC. Corporate investors are exerting increasing influence in the sector as they acquire long day care centre real estate in the most desirable locations and drive up rents. This strategy, which transforms essential social services into property portfolios, has already taken hold across sectors such as aged care and private hospitals – as exposed by the recent collapse of Healthscope. Real estate acquisitions are generally made through structures called Real Estate Investment Trusts (REITs) which potentially create opportunities to minimise or avoid taxes. The major corporate investors benefit from speculative trades in centre real estate, all while siphoning off government subsidies by charging increasingly high rents to ECEC operators.

Corporate landlords extract profit from the sector through lease structures that push almost all costs onto centre operators and ensure rents will ratchet up. Rents in the sector are already high: rent and related costs are operators' most important expense after the cost of labour.

This report estimates that \$2.71 billion is drained from early childhood education and care each year in rental payments. That would be more than enough to pay for the Federal government's 15% wage increase – one and a half times over. It represents about 20% of government spending on the Childcare Subsidy.

Corporate landlords' ability to extract profits through rental payments is likely to increase unless action is taken to regulate this behaviour. Government funding intended to address a critical labour shortage and to expand access to high-quality ECEC will continue to be siphoned off through increasing rents. Corporate landlords' growing market power is also remaking ECEC in ways that exacerbate access difficulties outside of the most desirable areas and may push out non-profit providers.

Measures to improve transparency about how much is squeezed out of the sector through rent are needed. The government should also expand existing, but narrowly targeted, programs that experiment with alternative models for land ownership in such a socially significant sector.

Corporate landlords an emerging form of ECEC profiteering

Disastrous and exploitative profit extraction from early childhood education and care has become familiar in Australia. When for-profit operator ABC Learning infamously collapsed in 2008, hundreds of centres risked closure. Its rapid rise and even more rapid collapse put the spotlight on operators of essential social services that benefit from significant government subsidies. Analysis of ABC Learning's

finances revealed “questionable revenues” and extensive related party transactions.³ Now, another means of extracting private profits from public funding of social services is growing in Australian ECEC and care sectors worldwide. Corporate landlords are discovering that they can leverage government subsidies to ECEC into secure and lucrative rental revenue streams.

Institutional investors’ interest in care sector real estate is taking various forms around the world. The giant Canadian investment company Brookfield controversially acquired a property portfolio including hundreds of kindergarten properties in Norway in late 2023. The portfolio included so-called “sale-leaseback” agreements with kindergarten operators that appear to fix rents at higher rates than rents paid by other comparable kindergartens.⁴ In France, a recent CICTAR (Centre for International Corporate Tax Accountability and Research) report estimated that property investment funds extracted €2.5 bn in rent from privately owned hospitals, clinics and residential care homes in 2023, enough to pay the salaries of over 82,000 nurses.⁵ In Australia, profit extraction through rents from aged care was identified as a significant drain on the sector by the audit and accounting advisory firm BDO in a report to the Royal Commission into Aged Care. BDO’s report also cites instances of high rent payments by aged care operators to related party landlords.⁶

Increased investment in ECEC property is reflected in media reports of record-breaking property sales and a wave of marketing materials. For example: a near-new, 112 place centre leased to Nido Early School in the inner-city suburb of Maylands, WA, sold for \$7.2m in September 2024, the “largest ever single childcare transaction in Western Australia”.⁷ Another near-new centre, licensed for 171 places, leased to G8 Education, and located in “one of Melbourne’s most exclusive suburbs” sold for \$17.5m in March 2024, the second-highest price ever paid in Victoria.⁸ Commercial real estate agents Burgess Rawson, which claim to be “Australia’s undisputed leader in the sale of early education investments”, celebrated “unprecedented demand for well-leased centres” in February 2025, calling the sector “one of the hottest asset classes”.⁹ Interest in capitalising on these trends is evident in plans for the “2nd Annual Childcare and Early Learning Real Estate Summit”, to be held in Sydney from 7-8 May 2025.¹⁰

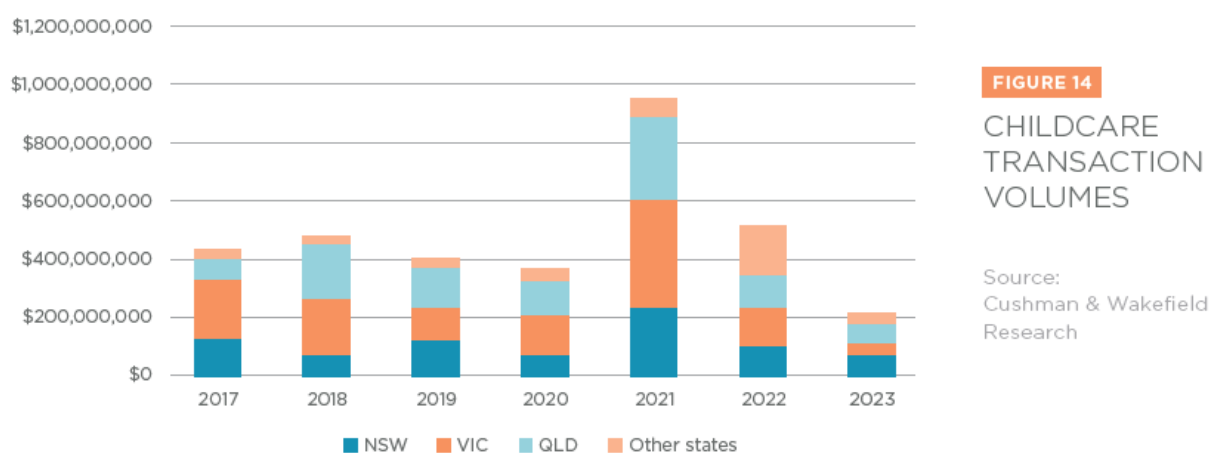


Figure 1: Childcare transaction volumes, 2017-2023. Source: Australian Property Insights, Investing In Tomorrow: An overview of the Australian childcare real estate investment market”, Cushman & Wakefield, 2024, p15

Evidence from industry insiders suggests that demand for ECEC properties, especially those in metropolitan areas on the East Coast, remains strong. Data from commercial real estate agents Cushman & Wakefield shows that the value of ECEC property sales in 2021 more than doubled total value in previous years. While the total value of transactions nation-wide fell in 2023, Burgess Rawson, one of the top sellers of ECEC property, reported a major jump in price per licensed place from 2023 to 2024.¹¹

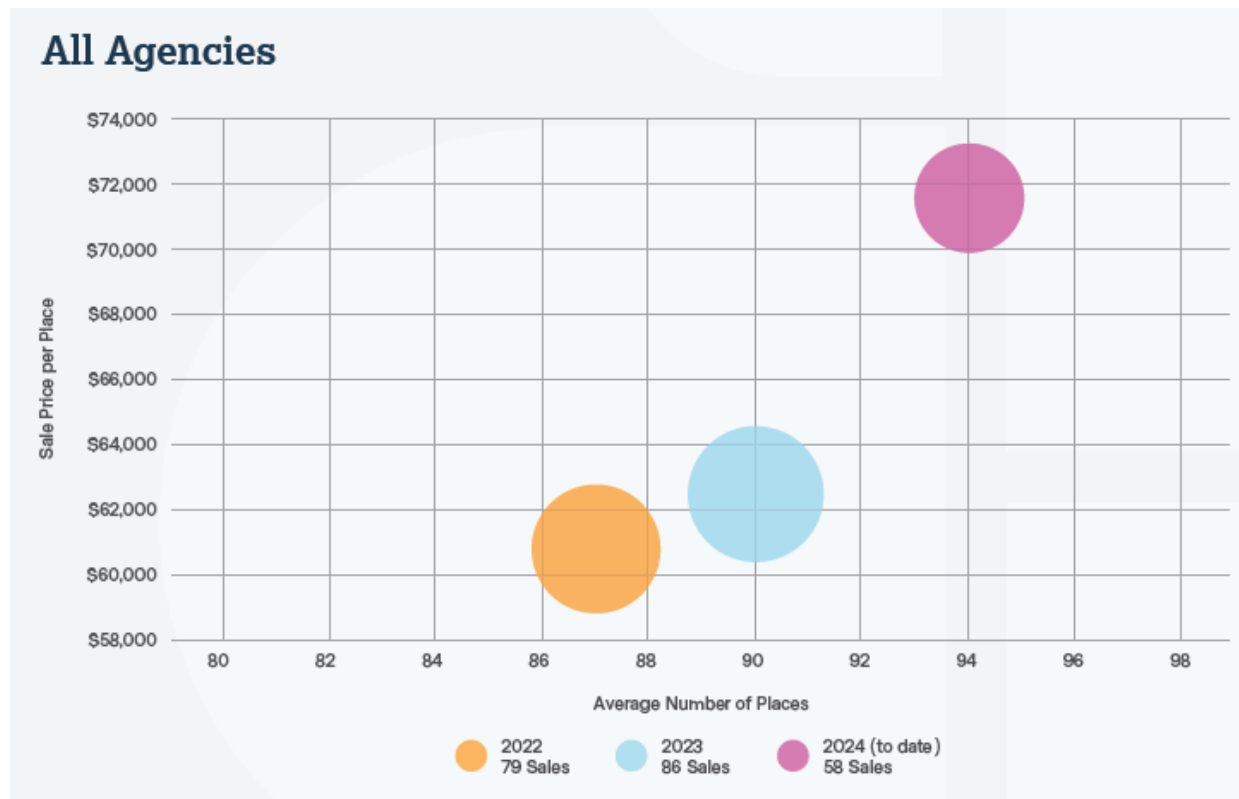


Figure 2: Sale price per place vs Average number of places, 2022-October 2024. Source: Burgess Rawson, Early Education, Industry Insights Report, October 2024, p13

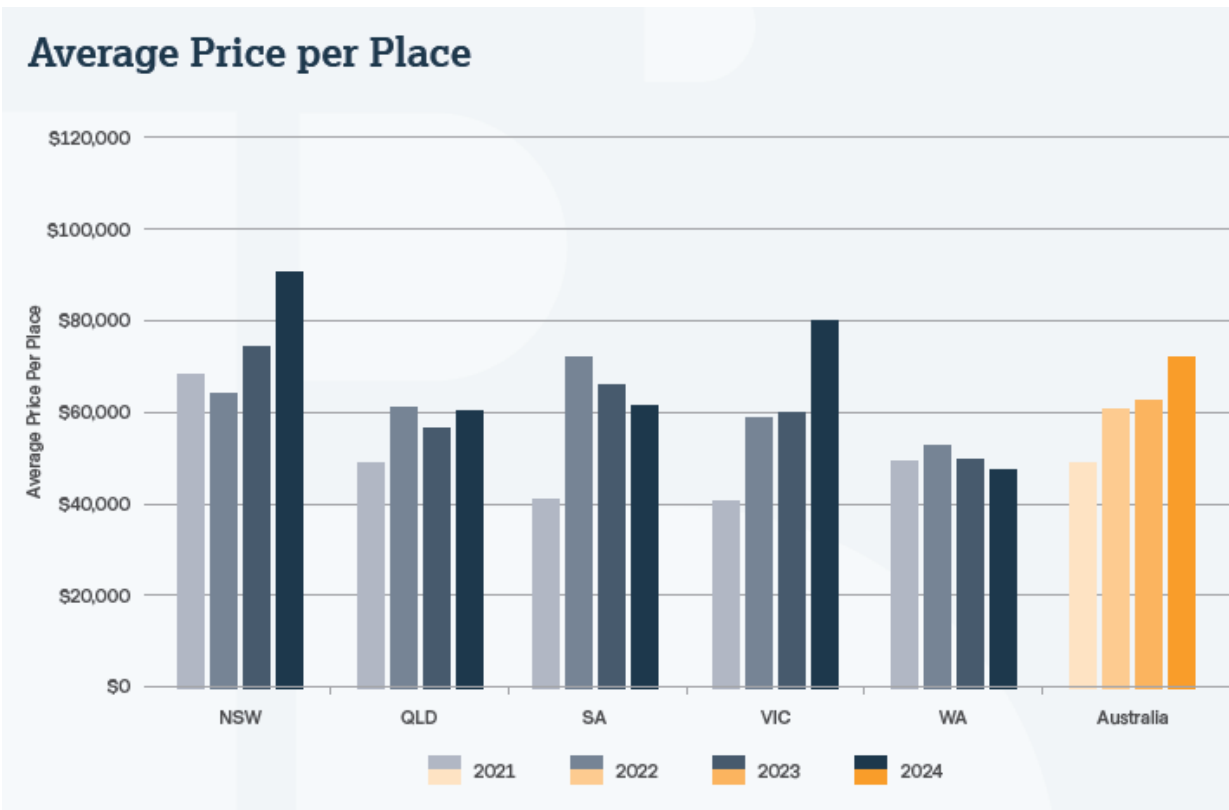


Figure 3: Average price per place, by state and nation-wide, 2021-2024. Source: Burgess Rawson, Early Education, Industry Insights Report, October 2024, p14

Very few long day care centres are owned by operators of early childhood education and care. Over 90% of centre based day care services operate on rented or leased sites.¹² Historically, ECEC properties are most often owned by wealthy individuals.¹³ (The predominance of wealthy individual landlords is a reason why the 2024 Federal Government budget allocated funding for identification of people potentially using childcare property for money laundering.¹⁴) Now, a new type of landlord is growing in significance: the Real Estate Investment Trust, or REIT.

Rise of the REIT

Real Estate Investment Trusts, or REITs, are a popular vehicle for investments in industrial, office, residential, and other types of real estate. This structure is known for its tax benefits: trusts are generally not required to pay taxes. Instead, dividends paid out by the trust are treated as income for the trust's investors and taxed according to each investor's own financial position.

In recent years, so-called "social infrastructure" like ECEC and healthcare real estate has become a prime target for REIT and other forms of institutional property investment. While the Covid pandemic negatively impacted office property markets, governments demonstrated their commitment to the financial sustainability of social services like ECEC and healthcare – and investors took note.¹⁵

There was a surge in ECEC transactions in 2021 that Cushman & Wakefield attribute directly to "changes in subsidies and robust government support during the pandemic, which positioned the childcare sector as a secure destination for capital."¹⁶ That year, CBRE's healthcare and social infrastructure director

commented that “investment groups who historically have not played within the childcare space are pivoting toward the sector at a rapid rate”.¹⁷

HMC Capital’s investment record in property underpinning essential social services illustrates how this strategy of corporate profit extraction is now deployed across multiple sectors in Australia – and increasingly in ECEC. HMC Capital was established by David Di Pilla as an “alternative asset manager which invests in high conviction and scalable real estate strategies”. It spent at least \$108m buying up ECEC real estate between 2021 and 2023. Not long after that it changed strategy and had divested almost all of its centres by mid-2024, including one sold for a Victoria state record of \$20.5m and another for a WA state record of \$7.2m.¹⁸

Di Pilla’s interests in ECEC began in 2020 with his HomeCo REIT investing \$5m in a new operator named Aurrum Childcare.¹⁹ Aurrum Childcare was a partnership between Aurrum, another Di Pilla company that until then was primarily an aged care operator, and HomeCo – which was 30% owned by Aurrum.²⁰ When HMC Capital launched an IPO for HealthCo Healthcare and Wellness REIT in September 2021, it announced plans to make \$200m of property acquisitions. According to the REIT’s “fair value” assessments, the value of its ECEC portfolio peaked at \$195.1m for 17 properties at 31 December 2022.²¹ HealthCo seems to have changed its investment strategy shortly after this. It acquired a portfolio of hospitals leased to Healthscope, the second-largest for-profit hospital group in Australia, which entered receivership in late May 2025.²² Healthscope had sold off its hospital real estate in 2019 in a “sale-leaseback” deal associated with the aforementioned Canadian investment giant Brookfield’s acquisition of the company. The deal saw Brookfield pocket \$1.7bn from the hospital property sales,²³ while saddling Healthscope with ongoing lease liabilities.²⁴ HealthCo called its hospital property purchase a “transformative acquisition”, and began an “asset recycling program” that appears to have targeted its childcare properties for sale.²⁵ HealthCo’s refusal to reduce rents for Healthscope hospitals was highlighted in recent media coverage of the private hospital operator’s financial crisis.²⁶

Alongside new entrants, some of the major corporate landlords in ECEC have origins in an earlier boom period in for-profit delivery of early childhood education and care. The largest of the REITs with investments in ECEC property in Australia, Charter Hall Social Infrastructure REIT (trading as CQE) grew from a property trust linked to ABC Learning in the 2000s. “Complicated business arrangements between mutually dependent entities”, specifically between ECEC property trusts and ECEC operating companies, was a feature of the rapid expansion of for-profit ECEC provision that culminated in ABC Learning’s collapse.²⁷ It is one of those property trusts that, after being traded by a couple of different owners, was acquired by the Australian real estate investment management company Charter Hall Group in November 2018.²⁸

Over the last decade, there appears to have been a process of consolidation of ownership in relation to the more profitable long day care centres in metropolitan areas. Both CQE and another major corporate ECEC landlord, Arena REIT, have sold less desirable properties while acquiring and developing new ones, and in both cases, diversifying property holdings to include other types of “social infrastructure” that receive substantial government funding like healthcare real estate. Arena REIT uses particularly complex financial structures to achieve this diversification.²⁹ Less desirable ECEC properties are often smaller centres or centres located in lower income areas. In the five years before its acquisition by Charter Hall, the trust (then trading as Folkestone Education Trust) focused on consolidating its holdings in metro areas with “stronger population and income growth prospects”, using an Australian Bureau of Statistics

socio-economic index to measure the quality of its portfolio.³⁰ The major REITs are also now seeking to diversify their tenant base which has been dominated by Goodstart, a legacy of ABC Learning’s past dominance in corporate ECEC. REITs’ emphasis on diversifying away from Goodstart is notable because the ACCC’s 2023 report found large non-profit providers, such as Goodstart, “have lower land and related costs than for-profit providers” and “these savings appear to be invested into labour”.³¹

This raises questions about the influence that corporate landlords’ preferences might have on the character of ECEC in Australia. Are these corporate landlords divesting Goodstart centres because they prefer the business model of for-profit, ASX-listed ECEC providers?³² Could corporate landlords be penalising Goodstart for its success in keeping rents relatively low, success which has directly contributed to Goodstart’s ability to pay higher wages?³³ If so, corporate landlords’ market power could lead to a reduction in non-profit provision of ECEC. This is particularly concerning because research shows that non-profit providers are associated with higher quality in ECEC.³⁴ For example, a recent study found that non-profit providers were more likely to improve their National Quality Standard ratings than for-profit providers.³⁵

The major corporate landlords are CQE, Arena REIT and Australian Unity

Large providers of early childhood education and care reported to the Australian Competition & Consumer Commission’s (ACCC) Childcare Inquiry in 2023 that “many of their centres are leased from Charter Hall Social Infrastructure Real Estate Investment Trust and Arena Real Estate Investment Trust”. The inquiry reported that other prominent real estate investors include Australian Unity and other real estate investment trusts (REITs).³⁶

There are likely other corporate investors with significant and growing ownership interests in ECEC real estate. However, availability of information is largely at the discretion of each fund as neither operators nor landlords are required to make public who owns centre property. Australian Unity’s unlisted Childcare Property Fund is unusual: other unlisted funds rarely publish any information about their property portfolios. Funds listed on the ASX must publish annual financial statements but are not required to disclose further details about their property portfolios.

Landlord – ultimate owner	Fund name	ASX code	Value of ECEC holdings as of 30 June 2024	Number of centres as of 30 June 2024
Charter Hall	Charter Hall Social Infrastructure REIT	CQE	\$1.7bn	347
Arena REIT		ARF	\$1.4bn + \$45.6m in development sites	255 + 12 development sites
Australian Unity	Childcare Property Fund	Unlisted	\$87m	15
HMC Capital	HealthCo Healthcare and Wellness REIT	HCW	\$35.9m	4

Table 1: funds investing in Australian ECEC real estate. Value and number of holdings compiled from the most recent available financial reports published by the respective funds.³⁷

REITs profit by banking government subsidies and pushing costs onto operators

Government commitment to the sector seen as guarantee of ongoing profits

These growing corporate landlords spruik ECEC real estate to potential investors as both profitable and very low risk. Chief among the claims made in marketing material and annual results presentations is the notion that the government's commitment to the sector is all but a guarantee of ongoing profits.

Underlying the recent boom in corporate landlords' spending on ECEC property is federal government support to the sector during the first years of the Covid pandemic, and the sector's apparent resilience even during economic downturns. Commercial real estate agent JLL has declared childcare assets "recession-resistant", offering investors "stability and consistent returns due to non-cyclical demand, government support, long-term leases, population growth, and recession-resistant characteristics ... stable cash flow, land tax exemption in NSW, annual rent increases and depreciation benefits".³⁸

Corporate landlords and commercial real estate agents appear to view boosts to government subsidies as an opportunity for collecting higher rents. Cushman & Wakefield identify increased government funding, and associated increased demand for places, as drivers of rent increases.³⁹ "Investors see favourable fundamentals and can benefit from new subsidies and \$4.7 billion in government funding to boost access as demand rises", according to its research manager, and expect further funding increases to come.⁴⁰

Australian Property Investor magazine quotes an agent's pitch: "The Federal Government's role in this unfolding story cannot be understated, and with strong support and funding flowing into the childcare sector, policymakers are clearly signalling their commitment to fostering an environment where both children and the childcare industry can thrive ... This [Government] backing provides a solid foundation for long-term growth and stability in the sector".⁴¹

Lease structures push costs and risks onto operators

While for-profit ECEC operators are often in the spotlight, analysis by the ACCC indicates that investors have identified corporate landlords as the biggest profit extractors from the sector. The ACCC's analysis shows that market valuations of Arena REIT and CQE both outperformed publicly listed childcare providers – and Arena REIT even consistently outperformed the All Ordinaries index.⁴² Key to corporate landlords' superior profitability in relation to ECEC operators is their use of "triple net" leases and "ratchet clauses".

"Triple net" lease structures push almost all costs onto ECEC operators, allowing the landlord to book rent receipts as pure profit. Under a triple net lease structure, the tenant is responsible for all property operating expenses such as management fees, insurance, structural repairs and maintenance.⁴³ The only cost borne by the landlord is interest, if there is a mortgage on the property. If the property is owned outright, rental income received by the landlord is pure profit.

A recent study of REITs in the US confirmed that “triple net” leases increase profitability (“operational efficiency”) for these corporate landlords. The study found that a REIT’s expenses relative to revenue are lower – and thus profit is higher – when the REIT uses triple net leases. This is in contrast to the traditional “gross” lease that imposes more costs on the landlord but allows the landlord to charge higher rent. The study concludes that higher “efficiency” associated with triple net leases likely derives from the nature of those leases “where most of the property operating burden is placed on the tenant ... allowing for significant reductions in operating costs”.⁴⁴

“Ratchet clauses” are another mechanism that corporate landlords use to lock in profits for themselves and shift risk to ECEC operators. These clauses specify that when a market rent review takes place, only rent increases are possible outcomes: i.e. rent never decreases. ECEC leases are often for 10 or 20 years with a market rent review linked to the option to renew. The ACCC’s inquiry into childcare found evidence that ratchet clauses are used in some ECEC lease agreements. On top of the market rent review, the lease will specify an annual increase that is either a fixed percentage of the previous year’s rent or linked to CPI. The ACCC’s inquiry into childcare found evidence of ratchet clauses and annual rent increases of “3% to 4% or CPI, whichever is higher ... appear to be common for centre-based day care providers”. It also found that providers may be liable for the cost of a market rent review if they seek to negotiate the annual rent increase.⁴⁵

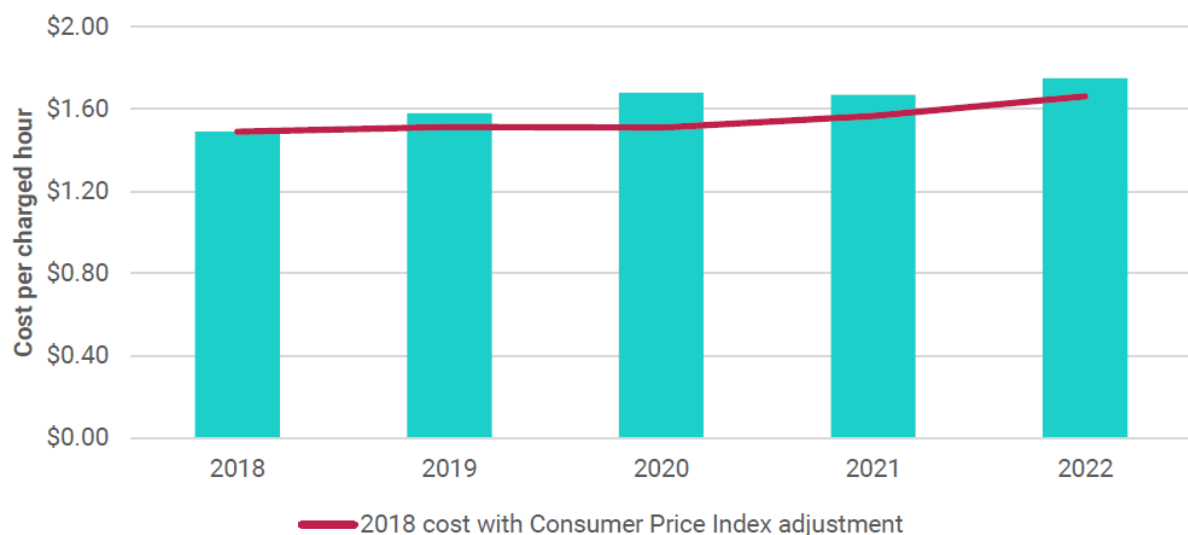
Materials prepared by corporate landlords for investors celebrate these types of lease structures – unsurprisingly, since these structures could eliminate landlords’ costs (except any cost of finance). CQE’s 2024 results presentation noted that the “majority of market rent reviews are structured to be upwards only with a cap 7.5%”.⁴⁶

Property speculation or rent increase?

Large corporate landlords like REITs have significantly greater capacity to profit from ECEC real estate than individual property owners. Acquiring large ECEC portfolios could be part of a strategy of speculation on rising land values. According to the ACCC, “property companies and developers can achieve substantial capital gains from buying and selling centres.”⁴⁷ The use of trust structures creates an opportunity to minimise tax on such gains. REITs generally do not pay taxes. Instead, unitholders are taxed on the income they receive from the trust. This not only creates opportunities to minimise taxes. It also creates a major lack of transparency that only benefits trust unitholders. There is no disclosure of how much tax is ultimately paid on REIT income, in contrast with regulations that require such disclosure by large or listed corporations.⁴⁸

REITs may also hold ECEC properties for the longer term in order to maximise rental income. Already, there is evidence that rents are rising faster than inflation. As corporate landlords become even more important in key segments of the ECEC real estate market, their ability to drive up rents will only increase. The ACCC Childcare Inquiry found that “land and related costs” increased faster than CPI between 2018 and 2022, and that this is “largely driven by increases in rent costs”.⁴⁹ Likewise, real estate agents Cushman & Wakefield found that “rental rates for childcare centres have seen significant increases in recent years”.⁵⁰

Figure 1.11: Average land and related costs for large providers of centre based day care, 2018 to 2022



Source: ACCC analysis of data obtained from childcare providers and Department of Education administrative data.

Figure 4: Land and related costs increasing more than CPI. Source: ACCC interim report, September 2023, p51

In reality, corporate landlords benefit from both speculative investing and from holding rent-paying assets. Large corporate landlords generally have greater capacity to take advantage of changes in the relative profits available from different investment strategies than individual landlords, unless these corporate landlords adopt high risk strategies like heavily debt-financed expansion.⁵¹ The result is that both rents and land prices are pushed upwards. According to a Cushman & Wakefield researcher, “competition for quality locations” is a major driver of rent increases. He estimates rents have risen 47% on average nationally over the last decade.⁵²

Although ECEC operators hold long-term leases, they may be vulnerable at the end of the lease to a shift in investor preferences. For example, a CBRE executive commented in March 2024 that when transaction values are high, agents’ and investors’ priority is “replacement cost” rather than “returns”.⁵³ In 2024, CQE described its strategy of “portfolio curation” in which “older and/or competition affected childcare centres” are selected for “disposal”. The resulting revenue is “re-invested into assets with stronger tenant covenants and superior return profiles”.⁵⁴

To the extent that corporate landlords’ pursuit of rental returns and capital gains leads to more frequent changes of centre ownership, quality is also likely to suffer. A recent study commissioned by the Australian Children’s Education and Care Quality Authority (ACECQA) found that centres with stable ownership were more likely to improve their ratings to “Exceeding” the National Quality Standard.⁵⁵

Anticipating further rent increases

A large part of the REITs’ message to potential and current investors is that there is scope for further rent increases. REITs like CQE and Arena claim that their tenant-operators pay only around 10% of centre

revenue in rents, implying to investors there is potential for growth. Tenant-provided data in CQE's 2024 results presentation showed "net rent to revenue (%)" at 10.7% for the 12 months to March 2023, and 10.0% for the 12 months to March 2024.⁵⁶ Arena REIT reported that, based on its analysis of tenant-provided data, net rent to gross operator revenue was 10.3% for the 12 months to 31 March 2024.⁵⁷ On the release of its half-year results in early 2025, CQE made clear that the trust has already begun taking advantage of scheduled market rent reviews to significantly increase rents. According to its fund manager, "Recent market rent reviews on 15 properties delivered a 16.4% increase, highlighting the under-rented nature of CQE's childcare portfolio."⁵⁸

Portfolio Update

Strong rental growth potential with 48% of income subject to market reviews in next 5 years

- Childcare market rent¹ growth of 3.9% (CAGR) for the 10 year period to FY24 while CQE's portfolio saw a 2.9% CAGR²
- Average childcare market rents for FY24 were \$3,918 / LDC compared to CQE's average childcare rent of \$2,859 / LDC
- 244 market rent reviews (48% of CQE's total income) in the next 5 years, weighted towards FY25 - FY28
 - Passing rent for childcare portfolio assessed at approximately 15% below open market rents³
 - Majority of market reviews are structured to be upwards only with a cap 7.5%
- 4 market reviews completed in FY24 achieving uplift of 5.8%
- Based on tenant provided data as at 31 March 2024:
 - The average daily fees increased by 9.5% over the last 12 months from \$126 to \$138
 - Net rent to revenue for operators reduced to 10.0%, below market parameters

Charter Hall Social Infrastructure REIT
2024 Full Year Results

Figure 5: excerpt from Charter Hall Social Infrastructure REIT's results presentation, 2024, p16

Rents are already high

Rent and the other costs associated with leases are a major contributor to operational costs in ECEC. An inquiry by the ACCC found that after labour, land and related costs are “the other key driver of cost for providers of centre-based day care (15%).⁵⁹

The claim that ECEC operators only pay about 10% of revenue in rent is disputed by the Australian Childcare Alliance and analysis of three lease agreements. The Australian Childcare Alliance argues that even at 90% occupancy, commercial rent “in real terms ... is more likely to sit at between 12-14% of revenue”.⁶⁰

The structure of lease agreements in the ECEC sector creates significant pressure on operators to maximise occupancy. Rent is typically set in proportion to the number of licensed places.⁶¹ A centre’s number of licensed places is determined in the service approval process and is constrained by indoor and outdoor space per child ratios.⁶² Revenue for ECEC operators, on the other hand, is determined by occupancy levels, not by the number of licensed places. Thus, if occupancy falls, the proportion of centre revenue that must be paid as rent increases. Data from the ACCC suggests that 90% is a very high occupancy rate. The ACCC inquiry found that only 50% of large providers of centre-based day care had an average occupancy rate of 80% or above in 2022. Another 20% had an average occupancy rate below 60%.⁶³ High rents thus impose significant pressure on operators to maximise occupancy.

Queensland case studies

Analysis of leases for three long day care centres in Queensland suggest that rents are an increasing proportion of the costs facing ECEC operators – and easily exceed 10%. Identifying information about each lease has been removed as the leases were received in confidence.

	Townsville	Ipswich	Brisbane
Lease commencement	November 2023	November 2021	December 2019
Approved places	100	136	100
Daily fee	\$156	\$152	\$160
Annual revenue at 90% occupancy (a)	\$3,369,600	\$4,465,152	\$3,456,000
Rent for 2024 (b)	\$450,000	\$490,964	\$405,183
Rent as % revenue	13.35%	11.00%	11.72%

Table 2: rent as proportion of ECEC operator revenue at three Queensland locations.

- (a) Annual revenue is estimated based on 90% occupancy over 48 weeks. This is a very high occupancy rate and likely over-estimates centre operators’ annual revenue – and thus, under-estimates the proportion of revenue that must be paid as rent.⁶⁴ Although centres may operate year-round, there is a minimum operating period of 48 weeks per year for long day care centres.⁶⁵

- (b) Each lease sets an initial “base rent” and a schedule of annual rent reviews. Rent is increased on the anniversary of the lease commencement date. The Ipswich and Brisbane leases contain annual fixed increases of 3.5% and 3% respectively. The Townsville lease contains an annual CPI adjustment. Rent for 2024 refers to the rate that was in effect for the majority of 2024, i.e. at the lease commencement date, for Townsville, or at the 2023 anniversary of lease commencement, for Ipswich and Brisbane.

This analysis shows that a 100-place centre in Brisbane that signed a lease in 2019 pays 11.72% of its annual revenue in rent, while a 100-place centre in Townsville that signed a lease in 2023 pays 13.35% of its annual revenue in rent.

\$2.71 billion dollars drained from education and care

Market analysis by commercial real estate agents and REITs consistently reports that rent per place varies widely across Australia. Cushman & Wakefield reported in 2024 that recent sales and leases show annual rents ranging from \$1,200 to \$7,000 per licensed place.⁶⁶ Arena REIT’s 2024 consolidated financial statement assumes for valuation purposes that market rent is from \$2,000 to \$6,250 annually per licensed place.⁶⁷

This wide variation in rent is largely geographical, although other factors also contribute. Metro areas of Sydney, Melbourne and South-East Queensland tend to have the highest rents; “developing areas” similarly “generate higher returns”, according to Cushman and Wakefield.⁶⁸ The ACCC’s 2023 Childcare Inquiry found that large non-profit providers “have lower land and related costs than for-profit providers”.⁶⁹ CBRE’s 2024 Childcare Report suggests that landlords could benefit from easier negotiations with family businesses or small operators, although they often prefer the security of leasing to a large national operator.⁷⁰

None of the major corporate landlords discussed in this report publish any information about the rents charged to their ECEC operator tenants. CQE has not published a comprehensive portfolio list in recent years. Arena REIT’s financial reports contain no centre-level information. Only Australian Unity’s Childcare Property Fund, which is unlisted, publishes a list of its property holdings.

It should be noted that this lack of transparency is not inherent to ECEC real estate investment. Although HMC Capital’s HealthCo REIT has since divested its ECEC holdings, it published portfolio summaries each quarter that included property-level data such as suburb, most recent assessment of fair value, cap rate and site area. While imperfect, this level of transparency provided at least some insight into the profits extracted from centre real estate.

These corporate landlords also use complex corporate and financial structures that further obscure their business models. For example, CQE’s annual report lists 18 wholly owned subsidiaries with names like “CQE Childcare Trust No.6”.⁷¹ Since these are structured as privately owned trusts, there is no requirement to publish financial statements.

Indeed, the ACCC inquiry also called for “more detailed examination of the relationships between landlords and centre based childcare providers” to identify whether high rents may be a method for

large providers to shift profit to related entities.⁷² Such profit shifting is typically used to avoid taxes and also can have detrimental impacts for workers.⁷³

Comprehensive centre-level data is needed to more accurately identify how many centres are currently owned by corporate landlords, and how much rent these corporate landlords are extracting from the sector. Such data would also help reveal which subsets of the ECEC property market are particularly vulnerable to rent increases.

However, it is possible to estimate the total rent extracted from the sector nation-wide. This estimate thus includes rent paid to corporate landlords, but also to “high net worth private investors”, who have been the dominant owners of ECEC property.⁷⁴ As corporate landlords gain a greater foothold in desirable sections of the market, rents overall can be expected to increase, as well as these landlords’ share of total rent receipts.

According to CQE, the average market rent in Australia in 2024 was \$3,918 per licensed place.⁷⁵ Unfortunately, no further information about the source or calculation of this figure is available. However, if it is assumed to be correct, then the total rent paid by the sector can be calculated as the average market rent multiplied by the number of licensed places across all centres. This estimate considers only centres that offer long day care services. Long day care services are provided in centre-based care settings, as opposed to home care. Limiting the scope also excludes stand-alone kindergartens, and centres that exclusively provide outside-school-hours care.⁷⁶ The Australian Children’s Education & Care Quality Authority (ACECQA) database of ECEC service providers, downloaded on December 18, 2024, shows 691,822 places licensed across 9279 centres that offer “long day care”.⁷⁷

Total rent extracted from long day care centres each year is thus estimated as:

$$\$3,918 \times 691,822 = \text{\textbf{\$2.71 billion per year.}}$$

Enough to pay for the 15% wage increase... and another 7.58% on top of that

The Federal government has recognized that low wages are a significant problem in the sector and is funding a 15% wage increase through a worker retention payment.⁷⁸ The payment runs for two years and is budgeted to cost \$3.6 billion in total.⁷⁹ If the rent paid by long day care centres each year were instead used to fund this wage increase, it would not only cover the whole 15% increase but an additional 7.58% on top.

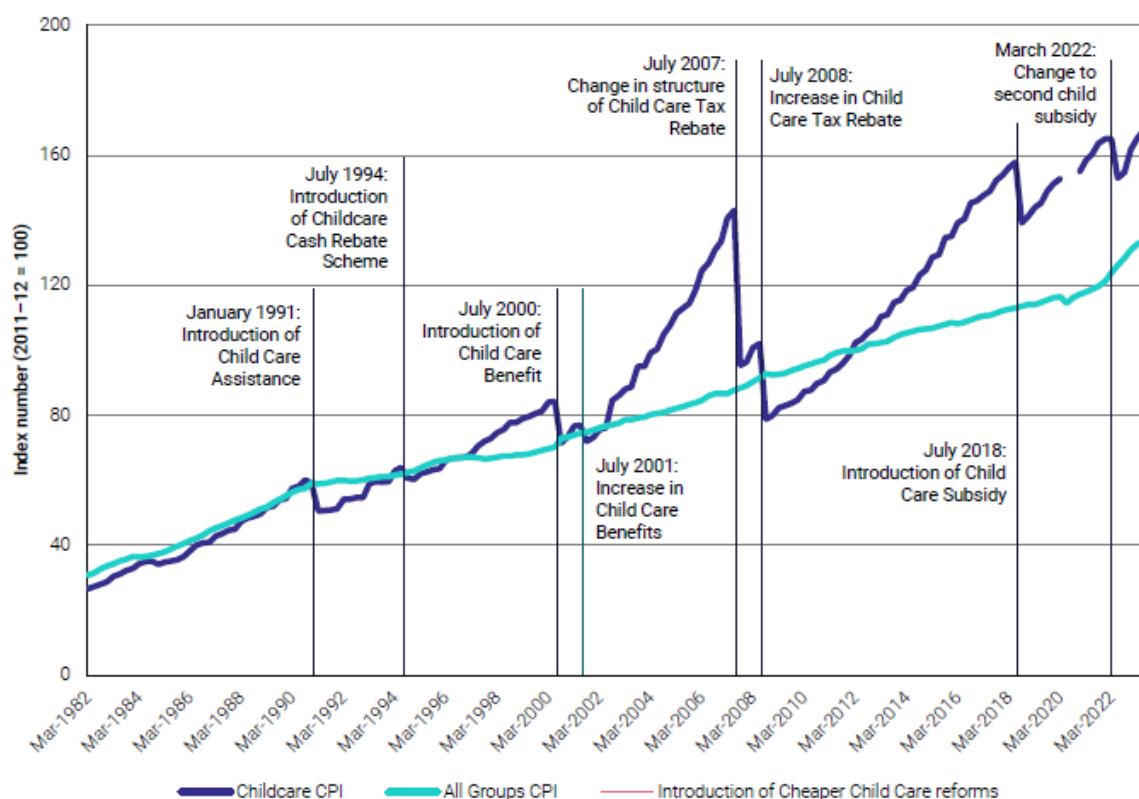
\$2.71 billion in rent is a significant proportion of the sector’s funding. It is equivalent to 21.3% of the Australian government’s forecast \$12.716 billion spending on the Child Care Subsidy for 2023-24.⁸⁰ Is paying rent to corporate landlords the best use of that money?

Corporate landlords significantly increase the risk that government subsidies are diverted to corporate profit

The history of government subsidies to Australia’s marketised ECEC sector is the history of corporate appropriation of additional funding through fee increases. Multiple studies have shown that increases in

subsidies are followed by an initial decline in out-of-pocket expenses before those costs “quickly revert to their trend.”⁸¹ The 2023 ACCC Childcare Inquiry confirmed this continues to be the case. A significant increase in subsidies in March 2022 was followed by a fall in average out-of-pocket expenses in the June 2022 quarter; yet this fall was “mostly eroded” in the September 2022 quarter.⁸² The Cheaper Child Care reforms introduced in July 2023 reduced average out-of-pocket expenses, but the ACCC’s final report found that average fees continued to increase more than indexation.⁸³ A consistent pattern of increasing childcare costs, with brief periods of relief after policy changes, is evident in figure 6.

Figure 2.27: Childcare and all groups Consumer Price Index, and major childcare policy changes, March 1982 to September 2023



Source: ACCC analysis of the Australian Bureau of Statistics data, 'Consumer Price Index, Australia', ABS Catalogue No. 6401.0, ABS, Canberra.

Figure 6: Childcare costs typically fall after policy changes but soon return to previous levels and even increase more quickly than before the change. Source: ACCC Childcare Inquiry – Final report, p68⁸⁴

The rise of corporate landlords represents a new mechanism through which increases in government subsidies are likely to be appropriated as corporate profit. Corporate landlords’ reports to investors reveal an expectation that increased subsidies will strengthen landlords’ capacity to charge higher rents, as centre operators can use increased subsidies to increase fees without affecting families’ capacity to pay.

Educators and families pay the cost of corporate landlords' profit

Profit extraction from ECEC by corporate landlords comes at a significant cost to children, educators, and families. Billions of dollars drained from the system each year in rent payments is money that is not supporting the quality provision of early childhood education and care. Moreover, the growing influence of corporate landlords is likely to reshape the sector in ways that promote the expansion of for-profit operators while exacerbating existing problems such as a lack of access to quality care and critical labour shortages.

The corporate landlords identified in this report operate in ways that are distinct from the traditional “high net worth” individual ECEC property owner. Corporate landlords like CQE and Arena REIT do not only own much larger property portfolios. They demonstrate a set of preferences for particular properties and tenants that are already shaping the sector in Australia. They use so-called “triple net” lease structures that push all the costs associated with property maintenance onto their tenants and ratchet clauses that guarantee ever-increasing rents over long-term contracts. They have demonstrated preferences for ASX-listed operators, and actively “curate” their portfolios to maximise profits.⁸⁵

These strategies likely have detrimental impacts on service quality. Non-profit providers may be pushed out of certain markets while for-profit providers expand rapidly. There is a risk that corporate landlords create instability for individual centres through speculative trading. Greater involvement by corporate landlords in ECEC real estate is also likely to exacerbate inequalities in access to high-quality care and education as they concentrate investment in higher income, metropolitan areas. Increased competition for land in these areas will increase rents even further.

There is also an urgent risk that increased government subsidies to ECEC will be siphoned off through rent increases rather than improving wages and working conditions. The staffing crisis in ECEC is well documented and a priority for improving access.⁸⁶ A 2024 report by Jobs and Skills Australia called low levels of remuneration a “fundamental barrier for many people looking to build a successful career in ECEC”.⁸⁷ Low wages make it difficult for passionate, skilled ECEC professionals to justify staying in the sector. Indeed, the Federal Government’s increased funding to the sector is in part intended to address this – but without greater transparency and tighter regulations, may well become instead a boost to corporate landlords’ profits.

Recommendations to prioritise investment in education and care

To prioritise investment in education and care, two types of reforms are needed. First, reforms must increase transparency about where money is going in the sector. Second, new models of real estate ownership should be considered.

Transparency

As corporate landlords expand their property portfolios and gain market power, rents are becoming a “backdoor” way to transform government subsidy into private profit. A vital first step is greater transparency over how government subsidies and families’ contributions are spent in ECEC. Information

about how much each centre is spending in the most important categories, such as labour costs and land-related costs, should be made public. Without transparency, regulators and the community are left guessing about whether increased funding is an investment in the sector – or being siphoned out through rent increases. Increasing transparency about how fees and subsidies are spent would also help families identify services that prioritise spending on the provision of education and care.

Ideally, publication of this data would occur at the Federal level, to complement the existing National Quality Standards (NQS). The NQS do not yet include information like staff qualifications or staff-child ratios.⁸⁸ Expanding the types of data included in the NQS is particularly important because of the inherent difficulties in measuring quality in ECEC.⁸⁹ Objective, quantitative data on how much each centre spends on key items like wages and rents would help families contextualise composite measures like the NQS. This would be in line with practices in other care sectors – for example, the US government publishes quality, staffing and ownership information for nursing homes.⁹⁰ Centre-level data could be incorporated into the existing centre database on the Australian Children’s Education & Care Quality Authority (ACECQA) website.

The Federal Government, through ASIC, should also act to increase transparency from entities such as REITs that do not pay taxes. Transparency requirements should include disclosure of all properties within their control.

We recommend that the NSW Government advocate the above reforms, working directly with the Federal Government and through National Cabinet. In the interim, the NSW Government could trial its own public reporting requirements for ECEC that complement and contextualise the NQS.

New models of real estate ownership

Alternative models of land and property ownership should be considered instead of allowing corporate landlords free reign. Large corporate landlords are able to turn ECEC real estate into pure profit after any borrowing costs. They maximise rent extraction by imposing lease structures that push costs onto operators and guarantee future rent increases. They simultaneously pursue potential capital gains through speculative sales and acquisitions, increasing instability in the sector. Potential alternatives should restrict excessive profiteering and support the development and long-term sustainability of an inclusive, accessible and high-quality system of education and care.

The NSW Government should explore alternative models of real estate ownership in ECEC. Potential alternatives include regulating a reasonable rate of return, or rental caps, that would suit investors with a long-term view like local governments or superannuation funds. The historical role of local governments in ECEC, including as landlords, should be examined and potentially expanded.

In particular, the NSW Government should consider direct ownership of ECEC real estate. The Victorian and Federal Governments have already announced versions of such a program. In late 2024, the Federal Government announced a new Building Early Education Fund, which includes \$500m for “owning and leasing a portfolio of early childhood education and care centres”.⁹¹ It follows a Government of Victoria initiative to build 50 new early learning and childcare centres in the state.⁹² These programs are an important recognition of the limitations of marketisation in ECEC. However, their relatively narrow focus on ensuring supply in so-called “thin” markets should be reconsidered given the pressures that corporate landlords exert in high-value locations. In these contexts, government ownership of ECEC real estate

could be a tool to ensure that government subsidies are not diverted to excessive rent payments but directly fund high-quality education and care. The NSW Government should review these existing programs and consider a significantly expanded role for state ownership of ECEC property in NSW.

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⁵ Property Speculators Extract €2.5 bn Annually From the French Health and Care System, Centre for International Corporate Tax Accountability and Research, January 2025, <https://cictar.org/all-research/ramsay-sante-en>

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- ⁷² ACCC Childcare inquiry final report – December 2023, <https://www.accc.gov.au/inquiries-and-consultations/childcare-inquiry-2023/december-2023-final-report>, p111
- ⁷³ Such profit-shifting can reduce tax obligations in a range of circumstances and may or may not be legal. For example, the related party could be a trust or could be incorporated in a low-tax jurisdiction. Workers may be negatively affected by profit shifting if they have shares in the company as part of their compensation package, which was the case for some ABC Learning employees, and because profit shifting obscures the company’s true financial position in collective bargaining. See “What is profit shifting”, Tax Justice Network, <https://taxjustice.net/faq/what-is-profit-shifting/>; “Ending tax avoidance, evasion and money laundering through private trusts”, ACOSS policy briefing, November 2017, <https://www.acoss.org.au/ending-tax-avoidance-evasion->

[and-money-laundering-through-private-trusts/](#) ; Emma Rush and Christian Downie, ABC Learning Centres: A case study of Australia's largest child care corporation, The Australia Institute, Discussion Paper Number 87, June 2006, https://australiainstitute.org.au/wp-content/uploads/2020/12/DP87_8.pdf, p viii

⁷⁴ Megan Neil, "How everyday investors can tap into the growing childcare sector", Morningstar, April 3, 2023, <https://www.morningstar.com.au/insights/stocks/233716/how-everyday-investors-can-tap-into-the-growing-childcare-sector>

⁷⁵ Charter Hall Social Infrastructure REIT's 2024 results presentation, p16

⁷⁶ A notable difference is that outside school hours care typically pay license fees to provide services on-site at schools, rather than leasing or renting land. ACCC Childcare inquiry second interim report – September 2023, <https://www.accc.gov.au/inquiries-and-consultations/childcare-inquiry-2023/september-2023-interim-report>, p45

⁷⁷ Calculated based on services providing "long day care" in Approved services – Australia dataset, downloaded on December 18, 2024. National registers, ACECQA, <https://www.acecqa.gov.au/resources/national-registers>

⁷⁸ Early Childhood Wages, <https://www.education.gov.au/early-childhood/providers/workforce/wages>

⁷⁹ "The Government will provide \$3.6 billion over four years from 2024-25 to support a wage increase for the Early Childhood Education and Care (ECEC) workforce through a worker retention payment". Mid-Year Economic And Fiscal Outlook, 2024-25, Appendix A: Policy decisions taken since the 2024-25 Budget, See Building Australia's Future – delivering pay rises for early educators, p238

https://budget.gov.au/content/myefo/download/08_App_A_WEB.pdf

⁸⁰ Budget Paper No. 1, Budget 2023-24, Table 6.9.3: Trends in the major components of assistance to families with children sub-function expense, p216 https://archive.budget.gov.au/2023-24/bp1/download/bp1_2023-24.pdf

⁸¹ ACCC Childcare inquiry second interim report – September 2023, <https://www.accc.gov.au/inquiries-and-consultations/childcare-inquiry-2023/september-2023-interim-report>, p173

⁸² ACCC Childcare inquiry second interim report – September 2023, <https://www.accc.gov.au/inquiries-and-consultations/childcare-inquiry-2023/september-2023-interim-report>, p173

⁸³ ACCC Childcare inquiry final report – December 2023, <https://www.accc.gov.au/inquiries-and-consultations/childcare-inquiry-2023/december-2023-final-report>, p51-52

⁸⁴ ACCC Childcare inquiry final report – December 2023, <https://www.accc.gov.au/inquiries-and-consultations/childcare-inquiry-2023/december-2023-final-report>, p68

⁸⁵ Both CQE and Arena REIT focus on "assets in strategic locations with strong underlying land value. These assets predominantly feature triple net lease structures to ASX listed operators, providing surety to the funds and their clients." Burgess Rawson, Early Education, Industry Insights Report, July 2023, p14

⁸⁶ UBS analysis cited in Megan Neil, "How everyday investors can tap into the growing childcare sector", Morningstar, April 3, 2023

⁸⁷ Jobs and Skills Australia, The future of the Early Childhood Education Profession: Early Childhood Education and Care Workforce Capacity Study, p15, https://www.jobsandskills.gov.au/sites/default/files/2024-09/the_future_of_the_early_childhood_education_profession_-_extended_report.pdf

⁸⁸ On the limitations of the existing measurement system (the National Quality Standards) see Linda J. Harrison et al, "Structures and systems influencing quality improvement in Australian early childhood education and care centres", The Australian Educational Researcher, 2024, 51, 297-319, especially p314-315.

⁸⁹ For a review of some relevant literature, see Jill S. Cannon et al, Quality Rating and Improvement Systems for Early Care and Education Programs, Perspective, RAND Corporation, 2017, <https://www.rand.org/pubs/perspectives/PE235.html>, especially p8-9.

⁹⁰ Find and Compare Providers Near You, Medicare, <https://www.medicare.gov/care-compare/>

⁹¹ Fact Sheet – Building Early Education Fund, Department of Education, Australian Government, December 2024, <https://www.education.gov.au/about-department/resources/building-early-education-fund>

⁹² 50 early learning and childcare centres for Victoria, Victorian School Building Authority, Victoria State Government, December 2024, <https://www.schoolbuildings.vic.gov.au/50-childcare-centres-victoria>