RESEARCH

MARKET IN MINUTES

UK Children's Day Nursery Market

Q4 2026

savills

KEY STATS

- **500,000** ADDITIONAL FUNDED PLACES
- **4%** RISE IN NURSERY REGISTRATIONS
- **6.0%** PRIME NURSERY YIELD
- **60%** OF TOWN CENTRE OPENINGS IN REPURPOSED UNITS

HOW IS CHILDCARE FUNDING EVOLVING THE MARKET?

Phased changes to government funding in the last two years have reshaped the children's day nursery sector, driving demand for childcare spaces and supporting revenues. The revised funding mechanism has extended eligibility towards children aged nine months to two years, providing the funding equivalent of around 500,000 nursery places.

The new allowances in England bridge the gap from entitlements introduced in 2015 and 2018, which supported children older than two years old. The phased expansion of Flying Start in Wales has also extended funded childcare for two-year-olds across a wider geographical area.

Furthermore, the expansion of funding has increased demand for childcare places. The total number of registered children across English early years providers was 4% higher in 2025 than in 2023, representing an increase of more than 60,000 children[1].

As a result, the share of registrations accounted for by children under three has increased two percentage points from 2023, representing 53% of all registered children in 2025. Therefore, while declining birth rates continue to pose a long-term challenge to demand for the sector, the expansion of entitlements has helped offset short-term pressure by supporting a greater uptake of formal childcare.

While funding is welcomed by both parents and nursery providers, it is creating significant bottlenecks in some locations. New analysis from Nuuri shows that the average waiting list for nurseries is 6-12 months, but 65% of parents leave inquiring about nursery places to less than 5 months before their desired start date. This results in increased pressure on available places and funding provision.

To meet this demand, many operators are accepting an increased proportion of funded childcare places. Around two thirds of private group-based providers offered funded childcare places in 2025. Participation has increased across all age groups following the expansion of funded entitlements and funding rates, with approximately 3.7% more providers accepting funded places than in 2023.

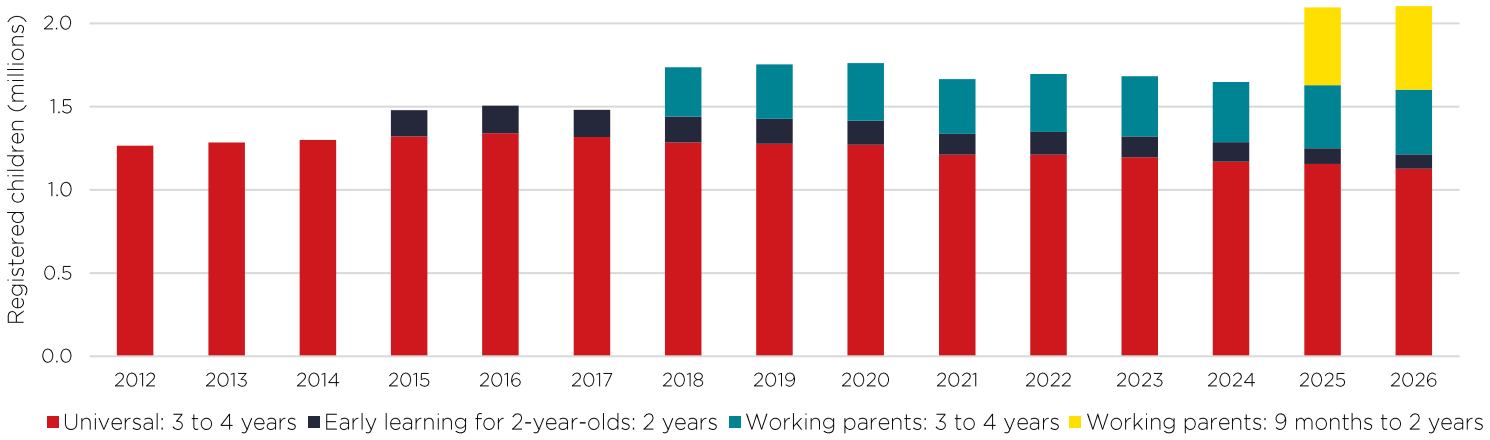
There are a number of ways in which funding streams can have a direct impact on the operational demand and viability of private children's day nursery provision, and an indirect influence on the future demand for stock.

First, greater availability of funded places can improve consumer choice, alleviate capacity pressures and reduce waiting lists. Secondly, a larger pool of eligible children can improve the viability of underperforming assets by supporting higher occupancy rates. Thirdly, funded entitlements can make formal childcare more accessible to families who might otherwise be unable to afford it while working.

In effect, by extending the demographic reach, the market should see an increased demand for locations and increased viability of smaller operations, with the larger nursery groups potentially able to operate in markets they may have previously avoided.

The shift in funding towards early years provision also has implications for physical space allocation. Younger children require significantly more space per child, as well as dedicated baby rooms and specialist facilities. UK (devolved) policies dictate that under-two-year-olds have 50-60% more indoor space per child than those over the age of three. As demand grows, operators may need to reconfigure, extend existing nurseries or develop new sites to accommodate increased provision.

ANNUAL REGISTERED CHILDREN BY FUNDING ENTITLEMENT IN ENGLAND



1. Childcare and Early Years Provider Survey: 2025, Department for Education

Source: Funded Early Education and Childcare: 2026, Department for Education

INCREASED TOWN CENTRE OPPORTUNITIES

The challenges facing town centres are well reported. The response to decline takes time, but transformation is underway and slowly seeing excess space being repurposed to alternative, but synonymous uses.

For the nursery sector, with housing development and construction costs remaining elevated, purpose-built standalone nursery sites have become harder to deliver. The development pipeline is therefore lagging behind operator demand.

With nursery operators continuing to favour leasehold properties, this is encouraging new entrants to retrofit existing commercial buildings, rather than residential dwellings, which were historically a primary source of nursery stock.

Town centre vacancy rates have improved in recent years but remain above pre-pandemic levels. This availability of space presents opportunities for nursery operators to occupy units that may previously have been difficult to secure. The size of large vacant town centre units with outdoor areas can be well suited to accommodate 80-120 place settings.

This has led to the repurposing of town centre units for childcare uses, providing a valuable alternative use for otherwise vacant stock and helping to support occupancy and activity in town centres.

For operators, locations with high employment density, good transport links and demand drivers, can also offer clear operational advantages.

Savills analysis indicates that children's day nurseries are increasingly opening in town centres, with more than 110 settings opening in town centre locations in 2025, a 58% increase on levels recorded in 2020. This trend has remained broadly consistent over the past three years.

Many recent town centre nursery openings are in premises formerly occupied by other childcare providers, benefitting from the relative ease of conversion. However, a growing proportion are conversions from other uses, including shops, offices, banks, bookmakers, pubs and cafés, many of which also sit within Use Class E.

Since 2020, there have been more town centre nursery openings in premises converted from alternative uses than in former childcare properties, many of which had become obsolete for modern requirements. In 2025, 60% of new town centre nurseries were repurposed from former retail or office premises, compared with 40% in 2020.

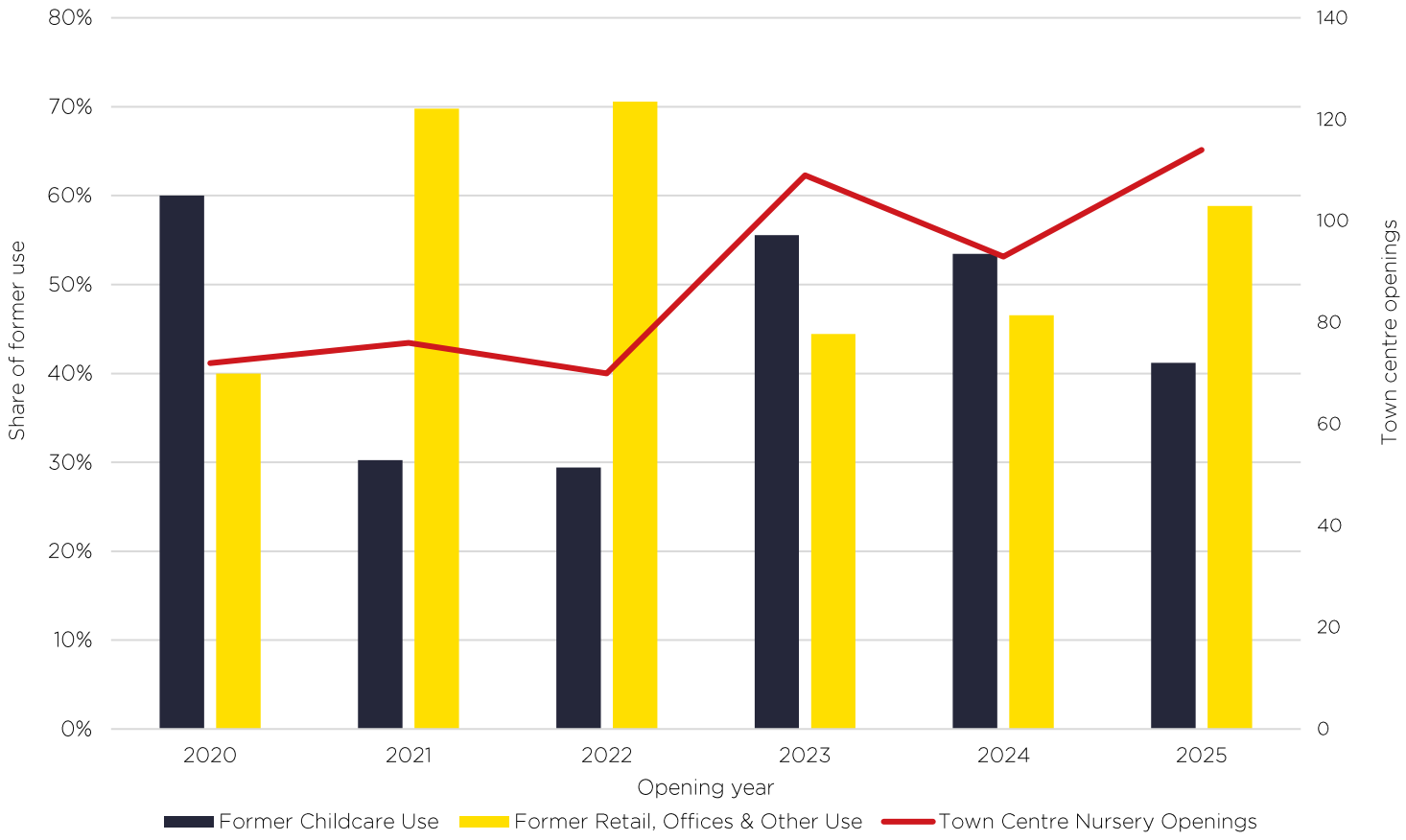
Commercial space presents an opportunity to create nursery accommodation akin to purpose-built settings, with free flow and flexible room sizes which meet spatial and staffing requirement without the significant cost of developing a purpose-built setting.

Future funding may even see appetite for repurposed town centre units increase. The Welsh Government's planned expansion of funded childcare will provide up to 20 hours per week for children aged nine months to four years. Supported by £55 million of investment and additional capital funding, the expansion is expected to increase demand by up to 45,000 additional places and consequently there will be a requirement for new and enlarged nursery settings, particularly where childcare availability is constrained[2].

Within our analysis, only c.1.5% of repurposed town centre stock was located in Wales, suggesting that conversion activity has historically been limited. However, the anticipated increase in demand for childcare places may present opportunities for the repurposing of suitable commercial properties across Wales, particularly in locations where existing provision is constrained.

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TOWN CENTRE NURSERY OPENINGS BY FORMER USE, 2020-2025



2. Nesta

Source: Savills analysis of Green Street data

INVESTMENT AND OCCUPATIONAL UPDATE

Transactional activity in the day nursery sector remains robust despite continued headwinds. However, the market is becoming increasingly polarised as investors remain selective. Demand is concentrated among high-quality operators that can demonstrate strong occupancy, sustainable profits, effective workforce strategies and scalable platforms, alongside robust compliance and governance.

Prime nursery investments continue to benefit from healthy investor demand, with prime yields remaining broadly stable at between 6.0% and 6.5%. However, a small number of transactions have achieved yields below 6.0%. Investor appetite remains strongest for institutional grade assets and the sharpest pricing is typically associated with assets benefiting from strong covenants, long affordable unexpired leases and more affluent catchments. Acquisition led growth has continued across the sector and remains an important strategy for group operators.

For the first time in more than a decade, the ranking by estate size among the UK's largest nursery operators has shifted, with Kids Planet overtaking Bright Horizons to become the second-largest operator. This expansion was driven by a combination of acquisitions and new openings, most notably, the acquisition of The Hunny Pot Day Nursery Group in April 2026 that added nine nurseries across Leicestershire to the estate.

Further strategic investments in 2026 include Swedish education provider AcadeMedia's acquisition of Chestnut Nursery Schools. This deal comprised 21 nurseries across London, Norfolk and Cambridgeshire and generates approximately £19 million of annual revenue. Additionally, private equity firm Foresight Group acquired five-site Scottish operator Pinocchio's Children's Nurseries and Greater Manchester's six-site Mulberry Bush. The group also led a £3.5 million co-investment in Northern Irish nursery group Little Rays to support future expansion.



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An estimated 7.5% of the UK nursery market is operated by PE and VC investment backed groups, with their investment focused on driving operational efficiencies and estate expansion. Since acquiring Kids Planet in 2021, private equity firm Fremman Capital has more than tripled their footprint to over 280 nurseries. The group's growth ambitions received a further boost in March 2026 when it secured a continuation fund that attracted investor demand beyond its initial target. BGF, the initial backers of Kids Planet and Irish based group Tigers Childcare, completed a multi-million-pound investment in Durham based group Clever Clogs in November 2026. This continued investor appetite signals positive sentiment towards the UK nursery sector into 2027 and beyond.

Savills has seen transactional demand for smaller settings of fewer than 50 places has increased following the expansion of funded childcare entitlements, which has improved profitability in this segment. Operators are also reporting stronger demand from younger age groups, particularly children aged nine to twelve months, as parents increasingly align their return to work with funding eligibility dates. This has created distinct intake peaks in January, April and September and limited demand for babies under nine months old. It has also increased occupancy pressures, with waiting lists commonly ranging from six months to one year, according to recent research by Nuuri.

Operational cost pressures remain a key concern across the sector amid a sustained inflationary environment and changes to employment policy. In particular, operators have faced rising staff costs following increases in National Insurance contributions and the National Minimum Wage. However, cost inflation has begun to ease, while larger group operators have become increasingly labour efficient.

Savills analysis indicates that staff costs as a proportion of revenue fell by an average two percentage points across group operators in 2026. Additionally, revenue growth, supported by expanded government funding, has outpaced increases in staffing costs, enabling settings to absorb higher operating expenses and improve profitability.

Looking ahead, sentiment remains cautiously optimistic amid ongoing CMA scrutiny and wider regulatory reviews, underpinned by strong demand fundamentals, improving profitability and continued investor interest.

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