

Children's Day Nursery 2024



Market Update

While the market remains largely fragmented with c.70% of private day nurseries being operated by independents, the early years sector has undergone considerable change in recent years. An influx of private equity interest has fuelled the growth of corporate groups, while operators have increasingly embraced leasehold tenure structures compared to traditional freehold ones.

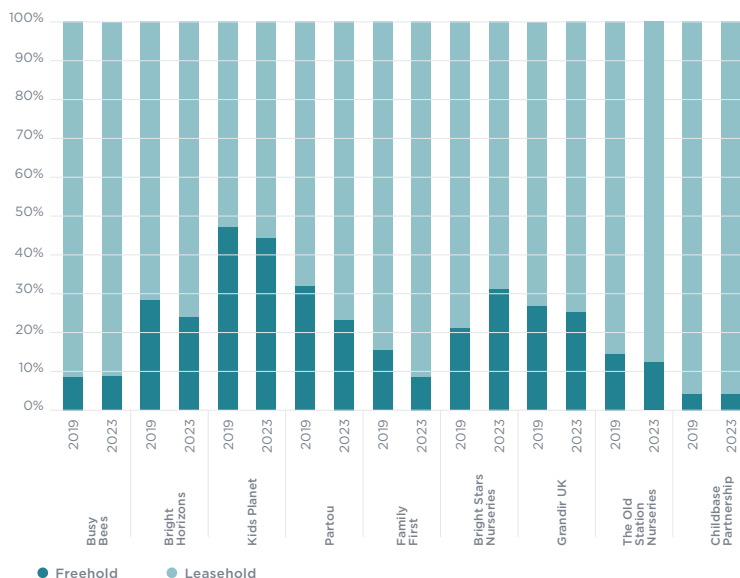
Savills analysed the tenure holdings of several of the largest operator's portfolios as of 2019 and 2023. On the whole, most operators have increased the number of settings and when analysed on a percentage basis, they have increased the number of sites held leasehold. Leasehold structures are increasingly enabling nurseries to grow at speed, as operators have more access to capital compared to it being locked within property assets. This enables groups to meet immediate demand and fill gaps within their portfolio without the debt often needed to purchase freehold properties.

Busy Bees, *Bright Horizons* and *Kids Planet* remain the top operators by number of settings. *Kids Planet* have had the biggest increase in number of sites, including their entry into the Welsh market through the acquisition of *Springfield Day Nurseries* in January 2024. This represented the first portfolio acquisition in Wales by a group based in England for some time and may act as a catalyst for other groups to enter the Welsh market in future. Other notable movement has included the merger of *Just Childcare* and *All About Children* who now operate under a single unified name *Partou* as of January 2024, which almost doubled the number of settings operated under the *Partou* brand, and the creation of *Chalk Nursery Group* formed by investment manager Downing.

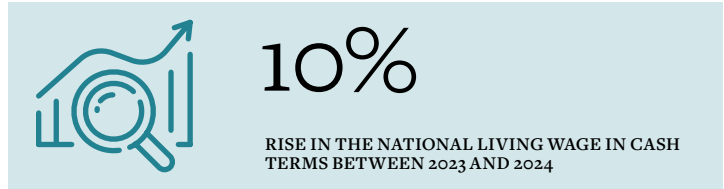
The Funding Landscape

Since the announcement to the expansion of the current free childcare offering outlined within the spring mini-budget in April 2023, we have seen a new government take power, and this expanded childcare provision continues to be released through a phased approach. Since April 2024, working parents of two-year-olds now receive 15 hours of funded childcare during term time. Around 248,000 codes were issued for two-year olds by 31 March 2024 (the deadline to apply for the new 15-hour entitlement for the term starting in April). Of these 85% were validated (DfE), highlighting the use of the new entitlement by parents. In September 2024 this was also applied to children from nine months of age, and from September 2025 this will be expanded to 30 hours as part of the government's efforts to encourage parents to return to work.

Tenure holding structure of select operators as of 2019 & 2023



Source: HM Land Registry Data

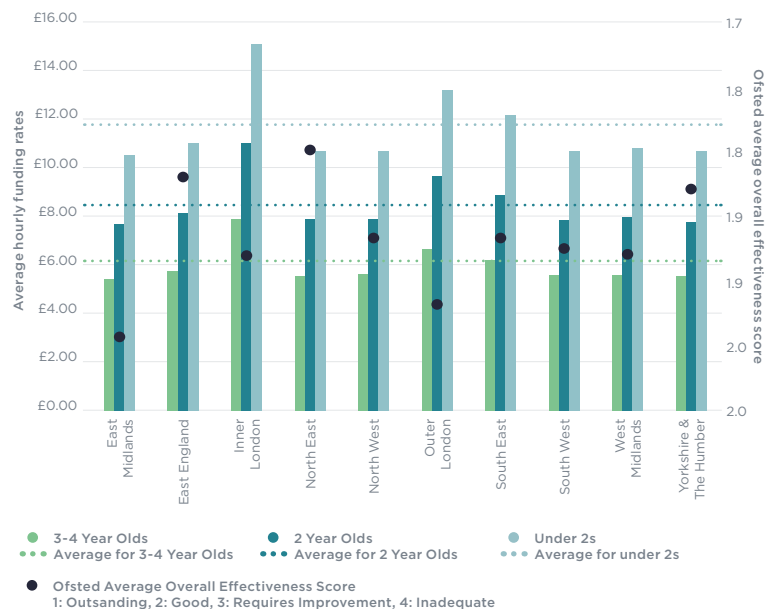


Although government funding for operators has increased by 4.6% to accommodate these changes, there is a stark mismatch between the government's funding per child compared to the actual cost of delivering the childcare and education which is catalysing insufficiency gaps. Increases to the funding landscape over the next two years will be largely welcomed by the sector, but should be monitored to ensure they align with other financial pressures to ensure costs are not passed onto operators and parents, as they have been historically. With the national living wage rising by around 10% in cash terms between 2023 and 2024, in addition to increasing energy and business rates, operational cost inflation is largely counteracting uplifts in funding.

Funding is also having a significant impact geographically, with affluent areas of England having the highest number of nursery places available, meaning those in more deprived areas who arguably have the most to gain from high quality early education, are less likely to have access to government funded places. St Albans and Cambridge, for example, have the highest levels of access to early years education places, whilst Walsall and Torridge have the lowest (ONS & Ofsted). The introduction of a standardised approach to funding at local authority level will be necessary to ensure funding is allocated consistently and to areas in most need in future.

At present there does not appear to be a clear relationship between higher funding rates and increased Ofsted quality of education scores regionally. Given the recent announcement to overhaul Ofsted's scoring metric from a single word judgement and transition to a report card within early years settings (which will be implemented from September 2025), geographic discrepancies between the quality of education may become clearer given these updated scoring barometers.

Average hourly funding rates in England by age and region 2024 to 2025



Source: gov.uk and Ofsted

Operational Trends

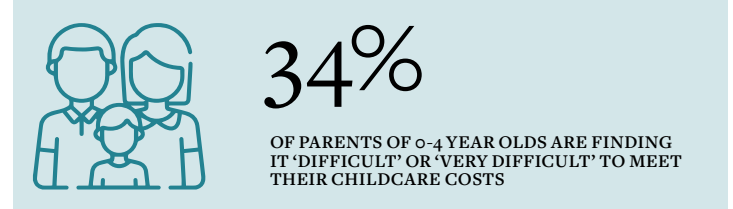
Staffing

Is commonly attributed as one of the largest challenges facing the early years sector due to high vacancy rates, low pay, high staff turnover levels and few opportunities to progress. Early years workers are some of the poorest paid in the labour market, yet their job is integral to the development of the youngest members of our society. The Coram Childcare Survey (2024) reported that 88% of operators saw the lack of local childcare workforce as a predominant barrier to meeting the 30-hours of free entitlement from September 2025. This characterises the mismatch between increasing hourly entitlements without having the staff to facilitate this. The recent rise in the national living wage will impact operators' finances negatively, and the vast majority plan to increase fees to mitigate this cost (NDNA).

Increased Fees

Due to the sustained underfunding of the early years sector, providers have been forced to pass on costs to parents as a result of heightened operational costs.

Since 2021 there has been a 10% increase in the percentage of parents of children aged 0 to 4 years who are finding it 'difficult' or 'very difficult' to meet their childcare costs. At the end of 2023 this proportion was at its highest rate since 2014 at 34% (DfE). With some operators planning to increase fees again this year, it is difficult to envision how these issues will ease later in 2024/25. With cost-of-living pressures still impacting households and the challenge in meeting childcare costs, this could provide a risk factor to operators going forwards in some locations.



Future trends

Consolidation & Diversification

Consolidation in the early years sector has typically derived from single site nurseries being bought by small or regional groups and smaller groups being acquired by large group operators. Although expansion through mergers and acquisitions still dominate the market, in future we expect to see an influx in operators organically growing their portfolio such as Kids Planet's opening of the new purpose-built nursery in Sale (Manchester) in January 2024 and Busy Bees brand-new Montessori nursery which also opened in January 2024 in Loudwater, High Wycombe. We are seeing further changes to holding structures enabling this further consolidation, with more nursery groups adopting a predominantly leasehold model. A high proportion of the largest operators have undertaken some form of ground rent sale and leaseback in recent years and we expect to see demand to undertake such transactions to continue.

Funding & Ownership

The growing interest from private equity investors towards scalable industries has injected further investment into the early years sector. Research by The Guardian in 2023 revealed that 7.5% of all nursery places were fully or partially controlled by investment companies (up from 4% in 2018). In future, we are likely to see smaller groups receiving private equity funding due to the potential for scalability, which is uncommon in other property sectors. Although this investment is allowing operators to expand at speed, there have been some questions surrounding vulnerability of failure due to financial operating models and issues with debt, which could exacerbate issues in unequal geographical coverage.

Government Proposals

With the recent change in government, we are likely to see a gradual reshaping of the sector over the coming years. Labour's intent to retain previous changes to the Planning Use Classes Order will release a greater breadth of expansion opportunities to the market, that could be acquired for operating children's day nurseries without requiring planning permission. Similarly, in addition to

delivering the childcare expansion plan outlined by the Conservative Party in 2023, Labour also plan to create 100,000 additional nursery places across England by converting spare classrooms to high quality spaces for nurseries. This will be paid for by the removal of tax exemptions private schools currently experience in 2025. These plans have been met with some trepidation, with 68% of operators surveyed by Nursery World stating they didn't think this was a good idea, and 77% addressing how the policy would not allow them to expand their early years provision. Although Labour's plans have the potential to target childcare 'deserts', demand would also need to be addressed to verify potential target locations, as demand is often lower in disadvantaged areas due to unemployment rates and eligibility criteria.

Given the challenging operational environment already faced by operators, it seems more emphasis should be placed on ensuring the existing pool of providers is suitable and operating a high quality level of care and education rather than increasing the number of providers in the market. There is a key opportunity to reshape and improve the early years education system should the government become the predominant funder of the sector over the coming years, but how this will be successfully applied in practice does not yet seem clear.



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