

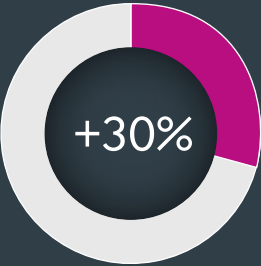
CHILDCARE & EDUCATION

# MID-YEAR REVIEW 2023

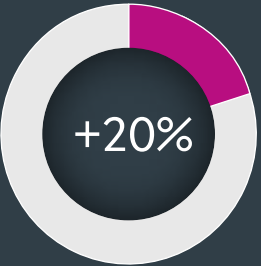


# UK DAY NURSERIES

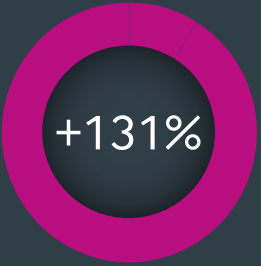
## FROM 2022 TO 2023 YEAR TO DATE:



**increase** in number of children's day nursery inspections\*



**increase** in new children's day nursery instructions\*\*



**increase** in the capacity of day nurseries we've sold, with the average per setting being 83 places, compared with 63 places in 2022



of asking price **achieved** on children's day nurseries, a 6.5% increase on the previous year

\* Inspection: Evaluation of a business's true value and state  
\*\* Instruction: Business for sale

## POLICY, FUNDING & REGULATION

At the 2023 Spring Budget, the Chancellor announced that 'free childcare' for working parents in England will be expanded to cover all children aged from nine months up to school age by September 2025, as the Government looks to get more parents back to work.

According to the Office for Budget Responsibility's Economic and fiscal outlook – March 2023, this could allow 60,000 more parents of young children to enter the workforce.

In 'Stop Underfunding - Start Building Futures England', the National Day Nurseries Association (NDNA) reports that 79% of survey respondents continue to experience a shortfall in funding, with prevailing funding rates failing to meet the costs providers incur in delivering 30 hours. During the first six months of this year, we saw many smaller settings close – most of which were in deprived areas - which was partly due to these funding shortfalls.

Data published by Ofsted (29 June 2023) shows there were 4,800 fewer childcare providers at the end of March compared with the same time the prior year, raising fears over how the expansion of the funded hours will be met.

Alongside ongoing funding limitations, workforce challenges have prevailed. At the start of the summer, the Department for Education (DfE) launched an eight-week consultation on possible changes to the Early Years Foundation Stage (EYFS) as part of reforms which the DfE hopes will help providers.

In Scotland, Audit Scotland's review of the 1,140 hours expansion report found that, despite £1 billion invested annually, the sector is fragile and funded providers continue to report risks to their sustainability.

In Wales, National Minimum Standards came into force on 18 May 2023 with a key focus on safeguarding, paediatric first aid, and training.

## MARKET ACTIVITY

Whilst 2023 has been busy in terms of transactions across the country, we have also seen some of the larger operators and single-site operators who are looking to buy, take stock and review the performance of their own portfolios to ensure their cost bases are under control.

Alongside operational reviews, to meet increasing costs, particularly last year and in the first six months of 2023, operators have needed to significantly increase their fees, taking them to percentage levels we have not seen before.

The integration of acquisitions has been made slightly more challenging for everyone due to the shortage of staff across all qualification levels. High-quality staff are being lured out and, in some cases, poached, as the pool of suitably qualified recruits continues to shrink.

While our data shows that 9.5% of qualified staff hold a formal teaching qualification, many operators are now focussing on their own training academies to ensure they have the necessary talent in their settings.

So far this year, not much has changed in terms of what buyers are looking for; at the top of buyers' wish lists are high-performing individual settings and small clusters, and we have seen some of the larger groups become targets for private equity investors looking to gain further ground in the sector. All the major UK hubs have seen activity, and, for the right assets, there has been plenty of competitive tension between buyers, resulting in owners continuing to achieve superb prices for their businesses.

## LARGE PROVIDERS IN THE UK DAY NURSERY SECTOR

GROUP	HOW MANY SETTINGS
Busy Bees Group	367
Bright Horizons Family Solutions	287
Kids Planet	162
Family First	102
Bright Stars	96
YMCA	83
Grandir UK	81
Monkey Puzzle	71
Just Childcare	62
Childbase Partnerships	44

Sources: Nursery Chains and Christie & Co data as of 30 June 2023



**NICK BROWN**  
DIRECTOR & HEAD OF BROKERAGE  
CHILDCARE & EDUCATION



# WHAT WE ARE SEEING ACROSS THE UK DAY NURSERY MARKET



CALLUM LANCASTER & MARTIN DAW - Scotland



SOFIA BECK - North West & North Wales



**High Hopes Day Nursery**  
*East Cheshire*

- Leasehold
- 'Outstanding' rated
- Sold to Bright Stars



JASSI SUNNER - Midlands



**Three Giggles & Wiggles settings**  
*Staffordshire*

- Exceptional, fully managed day nurseries
- Multiple bidders and quality offers received
- Sold to Kids Planet



RACHEL GODWIN - South West & South Wales



**Inwood Nursery**  
*North Somerset*

- Leasehold
- Retirement sale
- Sold to local childminder, Estella Wilmott



**Kingsmeadows Nursery**  
*Peebles*

- Consistently high CI grades
- Operating capacity of 94
- Sold to Bright Stars



VICKY MARSLAND - Yorkshire & North East



**Pearls Poppets Day Nursery**  
*Market Weighton*

- Profitable setting
- Unique aesthetic
- Sold to retail business owners, David Sellers and Alysha Forbes



DAVID EAVES - East Midlands & Home Counties



**Kids Play Nurseries Group**  
*Milton Keynes*

- Four high-profile settings
- Group revenues of more than £3 million
- Sold to Family First Day Nurseries

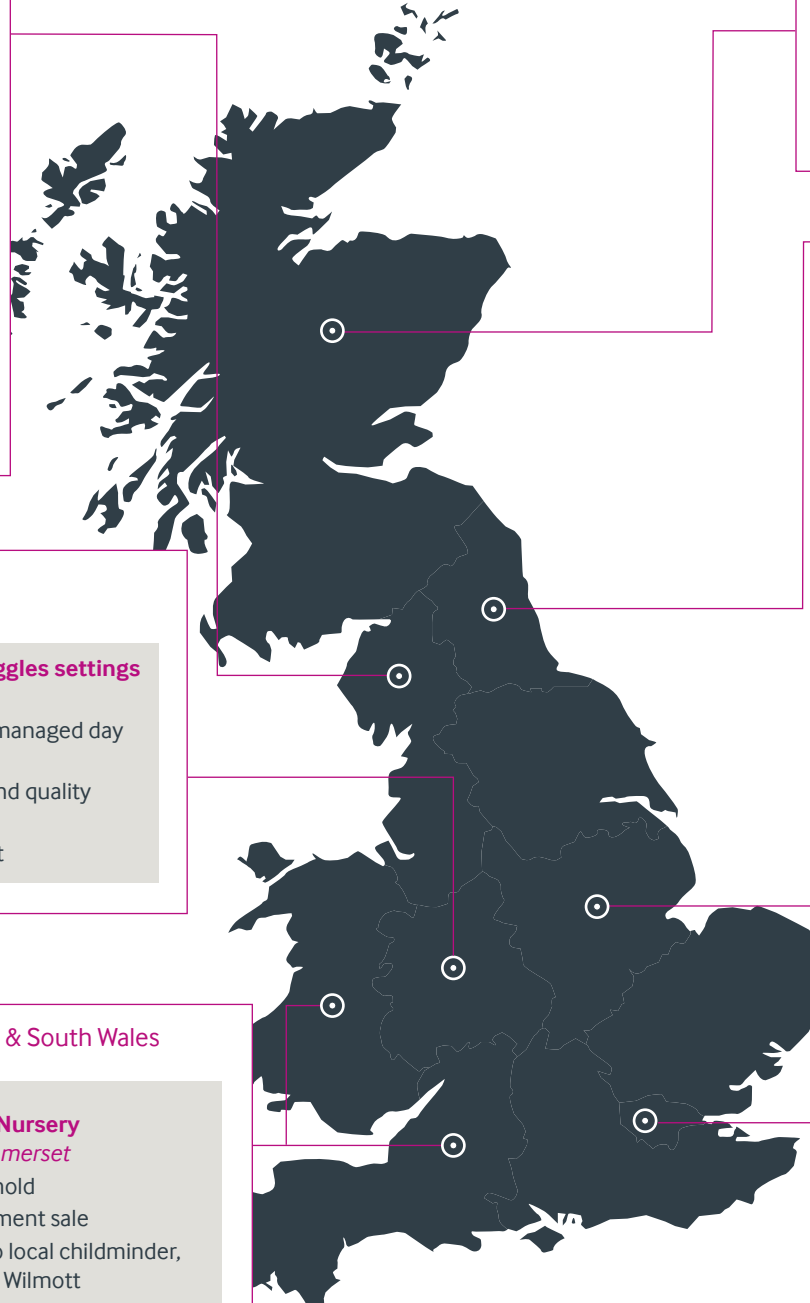


SOPHIE WILLCOX - London & the South



**The Wishing Tree Children's Nursery**  
*Brighton*

- In receipt of multiple offers
- Sold over asking price due to competitive tension
- Sold to Grandir UK



## INTERNATIONAL EARLY CHILDHOOD EDUCATION AND CARE (ECEC) MARKET

Six months into 2023, the volume of anticipated international transactions has been muted thus far, but we fully expect to see the acquisition pace gain momentum during the second half of the year.

Amid uncharted waters, major headwinds have led to many ECEC groups to batten down the hatches – and it's understandable why. Last year, we saw unprecedented levels of domestic and international market activity.

In the UK, the three most active buyers acquired 53% of all ECEC businesses sold by us at Christie & Co while, on the other side of the pond in the USA, as reported in Exchange, the 50 largest for-profit childcare groups either acquired or opened 537 ECEC settings, representing an 8% increase on the previous year's market activity.

Notable international transactions included Bright Horizons' acquisition of 75 ECEC centres in Australia, while Partou, the largest childcare provider in the Netherlands, acquired All About Children, a portfolio of 38 ECEC settings in the UK.

Whether buying in domestic territory or internationally, for those growing their portfolios via acquisitions, the most critical point, which will often have a very significant bearing on the success of the newly acquired ECEC business, be it a single asset or portfolio, centres on the smooth integration of that business within the buyers wider businesses, its culture and operational support system.

While not blind to the changing economic environment, given the volume of global transactions

last year, domestically and internationally, it is both integration and economy which have led to subdued levels of market activity thus far in 2023.

Despite increases in the cost of capital, continued high inflationary levels in some locations, and ongoing global workforce recruitment and retention challenges, owners of high-quality, market-leading ECEC businesses that evidence strong earnings have plenty of reasons to remain confident, and we expect to see international market activity gain momentum in Autumn/Winter 2023.



**COURTENEY DONALDSON MRICS**  
MANAGING DIRECTOR  
CHILDCARE & EDUCATION



## SPECIALIST CHILDCARE & CHILDREN'S SOCIAL CARE MARKETS

From 31 March 2022 to 31 March 2023, there was a 9% increase in the number of children's homes (from 2,642 to 2,880) and a 7% increase in the number of places (to 10,818)



**9% increase**

number of  
children's  
homes

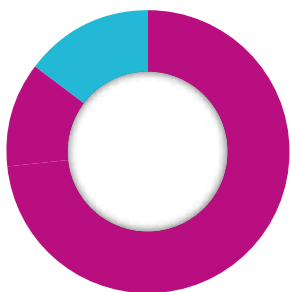


**7% increase**

number of  
places

Source: Ofsted, 2023

Market composition of children's homes providers in the UK as of 31 March 2023



**Private companies** run 85% (2,450) of children's homes, providing 81% of places (8,791)

**Local Authorities** run 12% (333) of children's homes, providing 14% of places (1,529)

Source: Ofsted, 2023

As has been the case for many years in the specialist childcare and children's social care markets, demand from buyers for established operational businesses continues to outstrip supply, resulting in premium prices for owners currently deciding to sell their businesses.

Operational portfolio reviews undertaken by many corporate groups have led to a surge in new opportunities so far this year, and we've been instructed to sell a significant number of closed children's homes that no longer fit corporate operators' strategic plans. This presents a great opportunity for existing children's home operators or new entrants. Many existing operators are finding it hard to expand by acquiring existing profitable companies and are therefore keen to acquire properties with C2 or CLD planning.

Demand for children's services continues to rise, especially in the North, London and the South East, as, since the COVID-19 pandemic and the cost-of-living crisis, there are more socially deprived areas in these regions with younger, single parents, and higher divorce rates which often negatively impact children. There are also more unaccompanied asylum seekers, mainly in the South, who need placements in children's homes.

We're also seeing children with much higher complexities who require specialist one-to-one care and staff with targeted training to sufficiently support them – staffing recruitment and retention is a challenge faced throughout the sector, adding an additional layer of complexity. There are only 13 secure units in the country, and demand is increasing for these services – where children with exceptionally high complex needs require support - to a point where demand is higher than it's ever been.

The key is finding appropriate locations that have the right access, and operators need to work with local authorities to improve the system.

Acting on behalf of Esland Care, we were instructed to dispose of five closed children's homes, all of which had CLD planning. We were successful in achieving the asking prices and above, and all homes were transferred to existing children's homes operators.



**JULIE KITSON**

DIRECTOR  
CHILDCARE & EDUCATION

### GROUP OF THREE CHILDREN'S HOMES

*Birmingham*



**Aston Children's Care**

Three homes, trading as part of Aston Children's Care Holdings – specialist care services for children and young adults with learning disabilities and complex behaviours due to childhood trauma - sold to Resicare Alliance Ltd, an independent provider of secure, supported living for children, teenagers, and young adults.

# INDEPENDENT EDUCATION

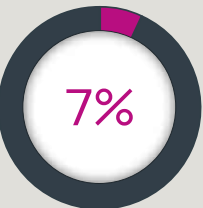


There are circa **2,420** independent schools in the UK



Educating around **625,000** children

Source: Department for Education



of all children in the UK are educated in an independent school

Source: Department for Education

## SEND SCHOOLS

The number of pupils with SEN support in England **increased by 5%** from 2022 to 2023, to **1,183,000** and by **a total of 19%** since 2016

Over the same period, the total pupil population **increased by 6%**

The percentage of pupils with an EHC plan **increased to 4.3%, from 4% in 2022**

Source: Special educational needs in England 2022/23



**RICHARD GREEN**  
DIRECTOR - VALUATION SERVICES  
CHILDCARE & EDUCATION

The independent school market in the UK remains stable, though primary schools are feeling the pinch more than ever with fewer international students enrolling due to changes in overseas regulations and many parents wanting their children to stay closer to home. As a result, finances for a lot of schools, especially smaller capacity, provincial schools are becoming increasingly tight.

There is a limited appetite for schools in financial distress but, once closed, these are often snapped up by expanding SEND operators who see the great potential these properties bring to fulfilling the demand for their services.

Demand from buyers and investors at the premium end of the market remains incredibly strong. Notable transactions so far this year include Oakley Capital's acquisition of a minority stake in Thomas's London Day Schools and Inspired Education's acquisition of the prestigious Alpha Plus Group, a portfolio of 17 schools and nurseries.

2023 has also proven to be an exceptionally busy year for Dukes Education. Their acquisitions during the past six months have included United Lisbon International School in Portugal, Copperfield International School in Switzerland,

We continue to see a huge demand for Independent SEND schools, both day and residential settings, and the trend of groups seeking organic growth has continued unabated as providers endeavour to fulfil a growing need. Suitable properties – including former mainstream schools that have closed and other educational-related use establishments – remain highly sought after by SEND operators who are keen to expand their services in a bid to keep up with meeting the increasing number of referrals they are receiving nationwide.

There are a number of factors that are contributing to the growth in demand for SEND places, including an increase in the number of children with an Education, Health and Care plan (EHCP) and, increasingly over the past decade or so, the parental perception of associated stigma's being lifted around sending your child to a specialist school. Therefore, the benefits of SEN education are now much better accepted and understood which is, ultimately, in the best interests of the pupils receiving the support.

and The Institute of Education in Dublin. Off the back of an incredibly busy period of domestic and international acquisition activity, when the opportunity arose for investors to work with Dukes Education appetite was strong and growth investment received from Universities Superannuation Scheme (USS), Macquarie, Nomura, and a perpetual capital vehicle from KKR. The transaction is due to close by the end of the summer following regulatory clearances.



Image credit: Lungfish Architects

### BEDFORD GREENACRE INDEPENDENT SCHOOL Bedford

In January 2023, we were engaged by HSBC to provide valuation advice on behalf of the trustees of Bedford Greenacre Independent School, a well-established and successful co-educational independent day school located across two sites in Bedford. Plans are in place to develop a new purpose-built educational facility offering up to 650 places.



### NORTON COLLEGE Worcester

In March this year, Outcomes First Group announced its acquisition of two secondary school sites in Worcester and Tewksbury which will join their Acorn Education and Care brand, the UK's leading provider of specialist education and residential care for children and young people with behavioural, emotional, social or learning needs.

## THE FUNDING LANDSCAPE

Lenders are keen to support operators that excel at providing a superior level of early childhood education and care, whilst staying close to the day-to-day financials, and are agile enough to adapt to an ever-changing financial landscape.

The Bank of England base rate has increased by 3.75% in the last 12 months (1.25% in June 2022 to 5% in June 2023), creating unrest amongst buyers and operators alike as the affordability for first-time buyers is reduced and operators are working on lower profit margins due to higher debt service costs. Government underfunding shortfalls have prevailed in early years.

Increased funding into the sector has been long-awaited by childcare providers and parents alike, but it is unclear if the funding will cover rising costs for operators and how it will be implemented.

Compared with 2022, we are seeing a greater demand from operators with single settings in leasehold premises looking to buy the freehold and smaller groups refinancing to acquire additional settings.

Deals facilitated by us at Christie Finance include assisting first-time buyers in securing their first setting, enabling an existing operator to purchase the freehold of their setting by utilising

the goodwill as a deposit and securing 100% funding for an existing operator to expand their portfolio. We continue to secure the most competitive terms available from the lending market, securing interest rate margins as low as 2.2% above the base rate, with committed loan terms of up to 25 years.\*\*\*

\*\*\* Rates and terms are subject to a full application and can change at any time.



**ALENA RAY**  
ASSOCIATE DIRECTOR  
CHRISTIE FINANCE

## ABOUT US

Our award-winning Childcare & Education team is widely recognised as the UK's leading advisors, providing a range of services from brokerage (landlord and tenant) to valuation and consultancy across the day nursery, specialist childcare, children's social care and education sectors. Whether you're looking to buy or sell your business, our specialist brokerage team is equipped with in-depth knowledge and expertise to provide you with professional, accurate advice and help you achieve your business goals. Our childcare valuations and consultancy specialists are known across the industry for their provision of bespoke, innovative and high-quality advice to our clients.



## WHAT WE'VE BEEN UP TO



It's been a very busy six months for our specialist team, who had the pleasure of attending and sponsoring numerous industry events including the NMT Agenda regional events, the NDNA Conference and Awards, Kathy Brodie's Early Years Summit and, internationally, the World Forum Foundation Conference 2023 in Panama City, attended by 500+ delegates from 51 countries, where our Managing Director, Courteney Donaldson, presented seminars on the topics of 'Start-ups, Staffing & Sustainability: ECEC Blueprints for Success' as well as 'Empowering and Changing the Perception of the ECEC workforce'.

2023 has also, so far, been a year of brilliant achievements for our Childcare & Education team, who started the year off strong by being named 'Team of the Year' at the Christie & Co Annual Awards in March. We also raised over £1,200 for childhood cancer charity, The Unbeatable Eva Foundation, by walking 13-miles through London over the Thames bridges.

Shortlisted for the EducationInvestor Property Advisor of the Year Award, and with many more events coming up throughout the year, including nasen Live, Nursery World, and the NMT Annual Awards, the team have much to look forward to.



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## CHRISTIE FINANCE

