Childcare Property Fund

Fund Update
31 March 2024

Picture: The Childcare Property Fund's latest development at 531 Kalamunda Road, High Wycombe, WA nearing completion.

Fund facts as at 31 March 2024

Quarter Distribution	Unit Price	Gross Asset Value	LVR
0.3713 cents per unit	$1.0165 (based on NAV, ex-distribution)	$87.85 million	35.30%[1]

Number of properties settled	Number of Operators	Portfolio Occupancy	Weighted Average Lease Expiry (WALE)
15 Properties $86.49 million[2]	7	100%	14.74 years by base rental income

1. Calculation based on drawn Bank Debt against Accounting Book Value of Properties as at the date of this Fund update.
2. Accounting Book Value of Properties as at the date of this Fund update.

Performance as at 31 March 2024

	3 Months %	6 Months %	1 Year %	Since Inception %p.a.
Distribution return	0.36	1.14	2.52	2.62
Growth return	-1.40	-1.24	-1.29	0.64
Total Return	**-1.04**	**-0.11**	**1.24**	**3.25**

Inception date for performance calculations is 3 September 2021.
Performance figures are calculated in accordance with FSC Standard No. 6.

Contribution summary as at 31 March 2024

The relative contribution of major variables on growth returns over the last quarter and year.

Contributor	3 Months %	1 Year %
Property revaluation	-1.49	-1.12
Other*	0.09	-0.17
Growth Return	**-1.40**	**-1.29**

* Other may include all movements in the period relating to net profit including net property income, interest income, borrowing costs, interest expense, management fees, valuation fees and all other scheme-related expenditure

Key direct property statistics as at 31March 2024

Portfolio: summary

State	No. of Operating Centres	No. of Centres in Development	%[1]
QLD	6		36.20
SA	3		22.75
WA	2	1	19.16
VIC	1		9.20
ACT	1		7.06
TAS	1		5.64
Total	**14**	**1**	**100%**

Debt

LVR[2]	35.30%
Interest Cover Ratio (ICR)[3]	2.34x
Hedging (% of debt hedged)	-

Financials

Asset Type	Total $ millions
Property assets[4]	86.49
Cash & other assets	0.41
Total assets	87.85
Total liabilities[5]	31.52
Net Assets	**56.33**

1. Calculation based on Book Value.
2. Calculation based on drawn Bank Debt against Accounting Book Value of Properties as at the date of this Fund update.
3. Calculation based on Fund's Lender definition as at the date of this Fund update.
4. Accounting Book Value as of the date of this update (includes forecast values for the month of March)
5. Liabilities consist of; bank borrowings, property lease security, bonds, accrued expenses and provision for the March 2024 Distribution.

The financial information in this Fund Update extracted from the Fund's accounting and property management records as at 31 March 2024. Past performance is not a reliable indicator of future performance.

Introduction

Management is pleased to report on the Fund's activities for the March 2024 quarter.

During this quarter, the Fund continued the annual revaluation of all assets. Asset valuations remained relatively stable, except for our Western Australia (WA) properties where annual revaluations evidence a softening of yields in response to recent rate rises. The impact of the softening yields has been partially offset by rent adjustments linked to CPI which feature in some of the leases at our Western Australia Assets.

Across the quarter, management has noticed a "flight to quality" trend throughout Australia with sales data showing premium assets retaining value and secondary stock selling for less than their previously recorded values. Discussions with agents reveal a significant increase in enquiries since the start of 2024, as expectations of interest rate cuts intensify. The heightened interest in the sector bodes well for yields should interest rate cuts materialise in the latter part of 2024.

Childcare market update

The market for childcare centres has remained relatively stable in the past quarter.[6] The forecast stability in the sector is underpinned by an anticipated 6.2% revenue growth for the 2023/2024 financial year and forecast growth of 3.1% for the next 5 years to an estimated revenue of $20.3 billion in 2028/29.[7]

The sector continues to adjust to the turbulence of the past 2-3 years, with the economy experiencing high inflation, increased construction costs and labour cost pressures.

Due to cost-of-living pressures and the need for dual incomes within households, reports indicate strong levels of utilization and occupancy- particularly for well-placed premium centres.[6]

Yields have remained relatively stable in most parts of the country, albeit with reduced sales activity, with strong sales below 5% yields noted in premium metro locations.[6]

Usage costs have also increased over the last 12 months, not just for new centres, but also older stock. Australia's largest listed childcare provider-G8 Early Learning has increased daily fees by 4.5% across their portfolio reflecting an average charge rate 15% above the national average.[6.] Management feels this is in response to increased operating costs impacting the childcare sector and wider economy.

Management has observed a softening of yields in the last 6 months in Western Australia where the Fund has two stable assets and one in construction but remain very positive about the assets' contribution to the Fund. These assets have been selected due to their premium location and have CPI rent review mechanisms in their leases. In addition, the WA economy has reacted positively to increased cost pressures with the highest workforce participation of 69.5% and 3.2% increase usage of childcare centres.[7]

Portfolio activity for this quarter

This quarter the Fund has provided a distribution of 0.3713 cents per unit taking the 1 Year total return to 1.24%.

The Fund's annual property revaluations have been prepared with Colliers and JLL engaged to perform annual valuations.

Due to the Fund's stabilised portfolio and strong sector performance, Lonsec has provided the fund with a "Recommended" rating, illustrating the quality of the fund

With the portfolio providing regular quarterly distributions, construction prices stablising and forecasted interest rate cuts, management is investigating development opportunities to develop several childcare centres to enhance returns to investors. Management anticipates that any profits from these developments may be used to either provide additional distributions or to accelerate unit price appreciation. Management's strategic analysis of opportunities which aim to provide strong risk adjusted returns will continue as we explore different development options. The Fund currently has one centre in exclusive due diligence at the time of this update.

Management has also negotiated a 0.35% cumulative reduction in line and margin fees with our debt facility provider. This reduction in interest costs will benefit our investors as we will use these savings to enhance distributions. CBA is supportive of the patient strategic move into development due to our balanced portfolio and stable nature of the childcare sector.

Capital management

Management drew down funds from the CBA debt facility this quarter to help fund the construction of the High Wycombe, project. The undrawn facility balance is now approximately $4.8 million which will provide ample funds to assist the completion of High Wycombe.

The Fund's LVR secured against property assets is currently 35.3%, which is well within the Bank's maximum LVR of 50.0%.

All banking covenants are forecast to remain within covenanted limits.

ESG strategy

Management continues to focus of our ESG strategy to grow the ESG contribution to the overall contribution by Australian Unity Group beyond the 2023 financial where the Fund contributed $32.2 million in community and social value (CSV).[8] In all, Australian Unity Group contributed $1.76 billion in CSV value. Further information detailing our efforts to deliver positive well-being and impact for our customers, members, employees, and the broader Australian Unity community is set out in the Australian Unity's 'Our Impact 2023' report. This result is an increase on last year's contribution of $29.6 million and is considered as a positive confirmation of the Fund's acquisition and refurbishment strategy to provide quality childcare real estate.

Fund forecast activity

In the quarter ahead, management looks forward to receiving our Lonsec Rating, consulting with potential investors and continuing to assess the market for opportunities to take advantage of the current economic cycle.

Annual property revaluations will continue throughout the year and we expect the benefits from recurring annual rent reviews to flow through to investors

Management is actively reviewing opportunities including development, to increase returns to investors. Management intends to be patient with such activities to ensure the Fund remains relatively low risk.

ESG strategy work will continue with a focus on the necessary administration to gain utility consumption data at our properties.

6. JLL Monthly Child Care Bulletin March 2024
7. Colliers Childcare market update -Western Australia 2024.
8. Australian Unity September 2023
9. Explanatory Note to the Australian Unity Our Impact 2023 Report

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