

# Deal or no deal?

How did the early years property sector perform in 2013, and what does 2014 look like? *Karen Faux* talks to the experts to find out

In 2013, acquisitions were driven by corporate groups and 'cash-rich, experienced' buyers, according to property sales expert Christie + Co. It was a year that saw a number of major sales of nursery chains, the most notable of which were the acquisition of Busy Bees by Ontario Teachers' Pension Plan, and Bright Horizons' purchase of kidsunlimited.

So far this year, the biggest deal to hit the headlines is Busy Bees' purchase of Kinder Nurseries, a group of 12 nurseries and nine out-of-school clubs in Kent and London offering more than 1,300 places (see page 34).

The acquisition will also see the nursery group take over the running of Meredale Independent School in Rainham, Kent. This will be the first school operated by Busy Bees.

Indicators for the rest of the year look good, with an eased economic climate and greater confidence from lenders widely predicted.

However, as the Christie + Co *Business Outlook 2014* highlighted when it was published in January, the nursery market risks being held back by continuing Ofsted downgrades. This was a trend that damaged sales last year.

Christie + Co director of childcare Courteney Donaldson says, 'The increase in complaint-triggered inspections in 2013 created some uncertainty for nursery businesses, as going from outstanding to inadequate, or even satisfactory, can have an effect on a nursery's occupancy and revenue.'

'Ultimately, this could influence the price that a purchaser may be willing to pay, and in some cases a bank's or investor's perception of the business, in terms of risk.'

'As a result, some downgraded providers had to change sales strategies

while matters were addressed, in order to mitigate any concerns that purchasers may have had about the impact of the "downgrading" on the longer term performance of the business.

'This was particularly the case for those businesses at risk of losing free entitlement funding.'

Looking ahead to 2014, Christie + Co is keeping an open mind as to how the situation will develop with Ofsted. Meanwhile, it is predicting increased activity across the regions, particularly among regional groups.

'For many years, buyer demand for nurseries in London and the South East has outstripped supply,' says Ms Donaldson.

'With quality opportunities remaining few and far between, the focus of buyers is beginning to shift toward regional acquisition and organic growth opportunities.'

She adds, 'We expect to see an increase in regional sales. Regional nursery groups, and owners of high-quality single asset nurseries, will undoubtedly receive direct approaches from buyers seeking confidential off-market deals via negotiations in non-competitive environments.'



Christie + Co's  
Courteney Donaldson  
and RDK's Paul Miller

## DEMAND FOR FREEHOLDS

Redwoods Dowling Kerr (RDK) reports a strong start to 2014 – completing deals on seven nurseries within the first six weeks of the year, with a further six due to complete at the time of going to press.

These deals represent a mix of buyers, including one corporate buyer that was looking to expand its portfolio by acquiring a well-established day nursery setting in London. Activity has also involved smaller groups and existing operators expanding their portfolios, most notably in areas such as Wiltshire and Bristol.

Looking ahead to the rest of 2014, the company says it has lots of deals in the pipeline for March to June across the full spectrum of buyers.

Paul Miller, chief executive of RDK, says 'The childcare sector is continuing to attract interest and throughout the year it will continue to do well as the banks become more competitive in the maturing economic climate.'

'Freehold settings are gaining traction in the market, with 71 per cent of the early deals this year being on freehold nurseries.'

RDK's predictions for 2014 include activity from the large corporate groups.

'Expanding groups will acquire quality settings or nurseries where they can develop childcare provision and value,' says Mr Miller.

'Multiples will continue to strengthen in key areas, looking for good-quality freehold and leasehold nurseries. I expect demand may outstrip supply in key areas.'

He adds, 'As the banks become more competitive, their appetite for the sector will continue to increase and buyer confidence will grow as the economic climate becomes more favourable.' ■

## More information

- Christie + Co, [www.christie.com](http://www.christie.com)
- RDK, [www.redwoodsdk.com](http://www.redwoodsdk.com)

## THE SHAPE OF 2014

- Likely increase in sales of regional groups.
- Mid-sized and growing corporate groups will continue to drive their individual strategies and selectively acquire settings/smaller groups that fit their criteria.
- Demand for single settings is likely to increase, fuelled by buyer demand and backed by a more receptive funding climate.
- Demand will remain for businesses providing care and education for children with complex needs.
- The nursery ratio issue could raise its head again.
- Ahead of the 2015 election, some parties' proposals to increase free entitlement will be subject to much debate among providers, particularly in respect of funding and deliverability.