Creating a future to invest in

The early years sector has been constantly fighting the impact of Covid-19. While it has stayed resilient, the future is still unknown. However, **Anna Grotberg**, associate partner, EY-Parthenon explains the investment prospects going forward

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It is impossible to deny that the COVID-19 crisis has had an immediate negative impact on the nursey sector. Many nurseries having to stay open for key workers are seeing low occupancy but with similar staff levels, most nurseries have several months of near zero revenue. Furlough has been an option to try to save cash – but cannot be implemented fully if you have funded hours. For some individual nursery operators, these months of crisis may be the final straw.

Investors may see an opportunity once the economy reopens as from an investor perspective, nurseries are likely to remain a segment of the education sector which will become investable in the near term. The most resilient segments historically – higher education and private schools – have been the most impacted by this crisis with key drivers changing and shifting making it challenging to evaluate a potential investment (i.e. international students and proliferation of online learning). And despite the immediate challenges facing the nursery sector, the key drivers of nursery – dual working households and demand for a more education-orientated childcare environment – are unlikely to materially change. For better or for worse, a 3-year-old cannot dial in and out of Zoom lessons and still needs full time care.

So, what then will investors be looking for when the majority of nurseries are able to open their doors again? There will be a larger macroeconomic question to unpick – the impact of unemployment and recession on occupancy levels and the ability to raise fees. We know from history that in the UK there is some correlation between unemployment count and occupancy levels – the differential occupancy dips regionally reasonable align to differential increase in unemployment count. However, the increase in eligibility from 15 to 30 hours for a large proportion of 3- and 4-year olds comes with a grace period if one or both parents become unemployed which may impact the occupancy decline as observed in prior recessions. During the last recession we saw private nursery fees (as private school fees) increase at above inflation rates. However, overall pressure on fees has already been seen in the market and it is unlikely that continued above inflation fee rises will be as accepted by parents this time around.

Once investors can get comfortable with the wider macro picture, it will come down to the same micro questions investors historically have looked at: individual catchments and the supply-demand dynamics therein and how the site/group is able to grow occupancy. There will likely be challenges to occupancy throughout the rest of the year with return to work being staggered and work from home continuing to be encouraged by many companies.

But despite these challenges, we are already seeing providers – who are transparent, with a clear communication strategy and using technology to keep connected and provide some continuation of educational experience where possible – building even stronger parent advocates. Some nurseries, mainly in areas of high demand (and typically more private pay than funded hours), have even had parents willing to continue to pay for a place just to ensure continuity once the economy opens again. Other nurseries have tried to keep charging parents without transparent communication, have offered little in terms of remote experience and may be waiting on further government support (that may not come). Those individual nurseries and groups who are seeing the crisis as a moment to build stronger parent advocates are likely to fair well when investors can look to provide what will be much needed capital into the sector.