**National Disability Insurance Scheme**

**SDA Pricing Review 2022-23**

**Report on Consultations**

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# Executive Summary

As part of the Specialist Disability Accommodation (SDA) Pricing Review 2022-23, the National Disability Insurance Agency (NDIA) has undertaken extensive consultations with interested parties. This document summarises the issues that were raised with, and the evidence that was provided to, the NDIA through those consultations.

The views expressed in this document are not necessarily those of the NDIA and the publication of these views by the NDIA should not be taken to be an endorsement by the NDIA of the views expressed. The NDIA is publishing this report of the issues raised, and evidence provided, by stakeholders during the SDA Pricing Review to ensure greater transparency in its decision-making processes. The NDIA’s response to the issues raised in the consultations is published separately in the final report of the SDA Pricing Review.

The NDIA sought the views of stakeholders through three methods: submissions in response to a consultation paper that was released by the NDIA on 27 October 2022, discussions with consultation groups, and individual consultations. The NDIA acknowledges the quality of the submissions received and is grateful to all the individuals and organisations who brought their considerable experience and expertise to the consultations.

The issues that were raised by stakeholders through the consultations are summarised below under the ten themes that were set out in the [*SDA Pricing Review 2022-23 Consultation Paper*](https://www.ndis.gov.au/media/5247/download?attachment)*.*

## Build Costs

Stakeholders reported that the cost of building SDA has increased by between 20% and 45% in the last few years, with cost increases varying by location, build type and design category. The higher build costs (materials, transport, and labour) were attributed to supply chain disruptions, shortages, and delays in sourcing materials as a result of COVID-19 and the war in Ukraine. Labour costs were also reported to have increased due to a tight labour market, with SDA builders competing with government funded infrastructure projects and the mining sector for workers.

Stakeholders also reported that they were designing and building SDA above the SDA Design Standard requirements to meet market expectations and attract suitable Supported Independent Living providers and improve participant outcomes. Stakeholders indicated that they are including additional features such as ensuites, additional parking for support workers, outdoor spaces, and extra living rooms to increase privacy and enable participants to entertain friends and family.

Stakeholders indicated that changes to the SDA Design Standard are onerous to adapt to, and often generate additional costs and delays in the design and build of SDA. They recommended that the NDIA align changes to the SDA Design Standard with the SDA pricing cycle to reduce potential gaps in costs and funding.

Stakeholders also indicated that the cost to construct Fully Accessible and High Physical Support dwellings are very similar and that the differences in these costs were not in line with differences in the payments for these types of dwellings under the current SDA pricing arrangements. Stakeholders recommended that the SDA amounts payable for Fully Accessible dwellings should be brought more in line with the SDA amounts payable for High Physical Support dwellings.

Stakeholders further indicated that current SDA prices do not accurately allow for the additional costs incurred in building Robust SDA (which uses specialised materials, is more complex and takes longer). They argued that this was one of the main reasons why there was a lower supply of Robust SDA in the market. Stakeholders recommended that the amounts payable for Robust dwellings should be increased.

There were mixed views amongst stakeholders on whether SDA should be built to the National Construction Code’s Class 1b standards or Class 3 standards. Some stakeholders expressed concerns about the additional construction and compliance costs incurred with building to the provisions of Class 3 and noted that these buildings may create an institutionalised environment and reduce the participant’s sense of homeliness. However, other stakeholders reported that they are building SDA to the Class 3 standard due to increasing pressure from SDA certifiers, planning authorities, and local fire services to provide additional protections from injury, hazards, and fire.

Stakeholders broadly agreed that, if building to the Class 3 standard was mandated by the NDIA, then SDA prices would need to be increased, because of:

* The need to use commercial builders;
* The costs of meeting the additional fire protection and prevention requirements; and
* Additional requirements such as requirements of site setbacks, vacuum stairwells (for apartments) and backup battery generators on lifts.

Alternatively, several stakeholders across a range of Consultation Groups suggested that the NDIA consider developing a separate price for Class1B and Class 3 SDA, or otherwise compensating builders that choose to develop to the Class 3 standard.

Stakeholders reported that SDA is being designed and built to be more resilient to climatic risks such as cyclones, floods, and bushfires, which is adding to the cost to build SDA. They also reported that sustainability features to improve energy efficiency are also often being included in new SDA builds to help reduce participants’ on-going living costs.

Stakeholders recommended that the NDIA consider three key types of costs in determining the cost of delivering SDA: a development margin to account for the risk in constructing of the asset. One stakeholder suggested SDA developers typically seek development margins of 15% to 20% of the total build and land cost; a rate of return for the SDA investor to account for the risk in financing and owning the asset; and the costs associated with managing the asset.

## Land Costs

Stakeholders indicated that the cost of land had increased in the last three years, with increases observed across both metropolitan and regional areas as well as for greenfield and brownfield sites. Stakeholders reported that land costs are now accounting for about 70% of the aggregate cost of development and are not reflected in the current SDA prices.

Stakeholders indicated that the cost of land is driving them to pursue higher density SDA developments on smaller sites. Stakeholders also noted that BCA Class 3 SDA often requires larger land areas to include mandatory provisions such as fire setbacks, wider parking spaces and compliant escape routes.

Stakeholders generally agreed that participants should have choice and control over where they live. They noted that in general, participants prefer to live in developed locations where they have long established relationships with service providers, supporting infrastructure and family and friends. Stakeholders were concerned that, because the recent increase in land costs is not captured in the current prices for SDA, some developers were choosing to build SDA on cheaper greenfield land on the urban fringes, which was not in line with participant needs and expectations. Stakeholders indicated that the current Location Factors used in the SDA pricing arrangements do not accurately reflect the true cost of land and hence should be updated to reflect increase in land values.

There were divergent views on whether Location Factors should be set at the Statistical Area 4 (SA4) or Statistical Area (SA3) level. Some stakeholders recommended using SA3 to minimise SDA developments built in greenfield locations on the urban fringes. However, other stakeholders recommended the Location Factors remain at SA4, as this provides stability and investor confidence and also allows for adequate choice for participants. One stakeholder suggested that the NDIA should develop separate rural and remote Location Factors to encourage investment in SDA in these areas.

## Sprinkler Costs

Stakeholders expressed mixed views about the purpose, use and necessity of sprinklers in SDA. Some stakeholders were concerned that the inclusion of sprinklers may reduce the amenity and lead to a more institutionalised setting for SDA which, they argued, was against the intent of the Scheme. Other stakeholders cited ethical reasons for including sprinklers and stressed the importance of sprinklers in ensuring the safety of participants, particularly given their vulnerability.

Stakeholders also indicated that the current sprinkler cost allowance of 1.2% of total build costs for apartments and 1.9% of total build costs for other build types was insufficient to cover the cost of installing sprinklers in SDA. Some stakeholders suggested that an allowance of 4% to 13% of total build costs would be more appropriate. Other stakeholders suggested a flat dollar value for each build type would be more appropriate than a percentage, given the costs for installation are relatively fixed across design categories and building types.

Stakeholders also indicated that the complications of installing sprinklers in mixed-use (SDA and non-SDA) apartment developments, where sprinklers are required due to the presence of SDA meant that the total cost of installing sprinkler systems may be passed on by the developer to the SDA provider.

## Other Acquisition Costs

Stakeholders indicated that building SDA on brownfield sites typically involves higher land costs, and incurs additional costs (demolition consent and works, site remediation, tree and vegetation removal and management) that are not currently adequately factored into the SDA pricing arrangements. These costs can reduce gross rental yields and impact the feasibility of an SDA project. Stakeholders noted that these additional costs can range between $20,000 and $75,000 per property. They recommended that these costs should be factored into the SDA pricing arrangements.

Stakeholders also indicated that there is a limited supply of suitably qualified SDA assessors and valuers. Stakeholders have observed a significant increase in the requirement for and cost of consultancies in the last few years, with consultants passing on increases in the cost of professional indemnity insurance to SDA developers.

Stakeholders further indicated that inconsistent planning approvals, regulations and requirements across state, territory and local governments are generating additional costs and project delays which are not accounted for in the current SDA pricing arrangements.

## Exit Costs

Stakeholders indicated that the requirement to undertake a major refurbishment of SDA at 20 years, regardless of asset condition, to meet New Build requirements, is a major barrier, does not align with other asset classes, and incentivises SDA owners to exit SDA and transition the asset to an alternate use.

In general, stakeholders stated that they believe this assumption is misaligned to the market’s willingness to invest longer-term in SDA. Some stakeholders suggested SDA providers should be required to establish a sinking fund to ensure capital is made available to refurbish the asset at more regular periods. Other stakeholders suggested a bespoke approach which assesses the quality of the asset at re-enrolment to determine the refurbishment requirements, rather than a fixed amount.

Stakeholders also indicated that the minimum refurbishment cost requirement is a significant obstacle for self-providers wanting to buy their own SDA house and suggested that the NDIA should reduce or eliminate the minimum refurbishment requirements to qualify for New Build SDA funding.

Stakeholders suggested the 20-year investment horizon for New Build SDA should commence from the date of first payment by the NDIS, rather than when the certificate of occupancy is issued.

## Ownership Costs

There were divergent views amongst stakeholders on the appropriateness of the allowance for maintenance costs in the current SDA pricing arrangements.

Some stakeholders indicated that damage caused by participants with behaviours of concern living in Robust SDA posed a significant cost that was not adequately accounted for in the current SDA pricing arrangements. In some cases, stakeholders also noted insurance premium renewals (approximately $10,000 on a four-bedroom home), and difficulties in obtaining insurance for Robust SDA and SDA in areas prone to natural disasters.

Some stakeholders also suggested that vacancy and tenancy management costs are not adequately reflected in the current SDA pricing arrangements.

Stakeholders also indicated that corporate overhead costs, such as those to do with stakeholder engagement, research, legal, portfolio management, accounting and tax, reporting and compliance, are not adequately covered in the current SDA pricing arrangements.

Stakeholders suggested the 3% to 10% vacancy rates assumed in the *NDIS Pricing Arrangements for SDA* were too low and did not reflect actual vacancy rates experienced by the sector. Stakeholders stated they experience higher vacancy rates early in an SDA’s asset lifecycle, with vacancy rates sometimes reaching approximately 70% for the first six months.

Stakeholders suggested that the Agency should consider the time taken to match participants in setting the vacancy assumptions, noting that matching participants in multi-bedroom homes often contributes to higher longer-term vacancy rates. Successfully matching participants requires considering the compatibility of residents, as well as their families, Supported Independent Living services, and space requirements for equipment.

Some stakeholders noted they were managing vacancy risk by utilising vacant SDA to provide social housing or Medium-Term Accommodation for NDIS participants as well as accepting participants with a lower level of funding to fill rooms more quickly. One stakeholder noted the compatibility of Improved Liveability SDA for social housing residents who often have disabilities but do not qualify for SDA. The argued that utilising vacant Improved Liveability SDA for social housing would help address a need in the community, reduce vacancy, and provide income for SDA providers (noting the funding for social housing is lower than the funding for SDA).

## Tax Costs

Stakeholders noted that Goods and Services Tax (GST) credits can only be claimed by SDA providers and cannot be claimed by developers, owners, self-providers and investors who are not registered SDA providers. Stakeholders raised concerns about the equity of different organisational legal structures being able to claim GST concessions and the implications for investability of the SDA market. Stakeholders recommended the SDA pricing arrangements should recognise that not all developers and self-providers are eligible for GST input tax credits.

Stakeholders indicated that there are also inconsistencies with the application of land tax and stamp duty concessions across different organisational legal structures and state and territory jurisdictions. The inconsistencies are viewed by some stakeholders as inequitable and may inhibit further investment in the SDA market, particularly for foreign investors who are subject to additional surcharges. A stakeholder suggested setting separate SDA prices for those providers who can access the land tax and stamp duty concessions and those that are unable to access tax concessions to level the playing field.

## Financing Costs

Stakeholders indicated that investment in the SDA market is constrained by the level of risk that is present in the sector and the comparative returns to similar but lower risk asset classes such as aged care and social housing. Stakeholders generally agreed that the Equity Beta used in the Capital Asset Pricing Model for SDA should be higher than the Equity Beta of aged care and social housing, with one stakeholder suggesting an Equity Beta of 1.27 assuming a 50% gearing.

Stakeholders suggested that the lack of available and accurate data on demand and vacant supply is preventing developers from making informed decisions regarding potential developments. The lack of supply and demand data is resulting in a mismatch of demand and supply leading to higher vacancy rates, which ultimately is impacting investor confidence. Stakeholders requested a range of data be provided to the market including: unmet SDA demand, sources of demand (for example, aged care, hospitals, Legacy Stock), vacancy rates by design category, location and building type, supply and demand gaps and actual tenancy allocations. One stakeholder requested further information on participant preferences and disaggregated data on Aboriginal and Torres Strait Islander participants to meet their specific cultural needs.

Stakeholders indicated that there are few valuers that understand the SDA market and the NDIS Pricing Arrangements for SDA, and that, as a result, valuers frequently undervalue SDA. Stakeholders noted that many valuers and financiers use the alternate use (that is, residential house) to value SDA as opposed to a 10-year discounted rental cashflow method. The undervaluation of SDA assets impacts the gearing ratios and total loan to value ratio that financiers offer the market.

## Indexation of Base Prices

Stakeholders noted that SDA is not automatically indexed in participant’s plans each year. Instead, SDA prices only increase when a plan review is undertaken, which may be only every two or three years. Stakeholders indicated that this meant that they currently absorb the CPI increases until a participant’s plan is reviewed and the updated pricing is adopted, which impacts profitability and investor confidence and participation in the market.

Stakeholders indicated that build and land costs increases over the past five years have outpaced the Consumer Price Index. Stakeholder views varied on the most appropriate approach to price indexation. Several investors and financiers recommended CPI should be maintained to promote stability and investor confidence, while other stakeholders recommended the use of other indices. For example, for construction costs, some stakeholders recommended either the Cordell Construction Cost Index or Rawlinson’s trade guide. For land costs, some stakeholders recommended or the Australian Bureau of Statistics Residential Property Price Index or Heron Todd White Property Report.

Stakeholders recommended that limited SDA Price Reviews (smaller reviews undertaken between 5-year SDA Price Reviews) could be used to correct for significant surges in the prices of land or materials.

## Other Issues

Stakeholders noted the current rules for using SDA are restrictive and indicated a desire for greater flexibility in how participants can utilise SDA funding (perhaps through amendments to Appendix G of the *NDIS Pricing Arrangements for SDA*) to better accommodate different lifestyle, family and independence needs in line with the original intention of the Scheme.

Stakeholders recommended promoting Independent Living Options which would allow SDA participants to live with family and friends, which would also reduce care costs for the Agency.

Some stakeholders suggested that alternative finance arrangements should be considered to encourage greater institutional investment in SDA and assist SDA participants with home ownership. Stakeholders suggested allowing self-providers to use their SDA funding for a home deposit or the Agency develop a shared equity model.

# 

# Introduction

Specialist Disability Accommodation (SDA) is one of the supports that may be funded under the National Disability Insurance Scheme (NDIS) for some participants. SDA funding is provided to participants who require a specialist dwelling that reduces their need for person-to-person supports, or that improves the efficiency of the delivery of the person-to-person supports that they receive. SDA funding is only provided for participants who meet strict eligibility criteria. Participants who meet the eligibility criteria will have an extreme functional impairment and/or very high support needs.

The long-term pricing and payments framework for the funding of the land and built elements of SDA under the NDIS is set out in the [*Specialist Disability Accommodation Pricing and Payments Framework*](https://www.dss.gov.au/disability-and-carers-programs-services-government-international-disability-reform-council/specialist-disability-accommodation-pricing-and-payments-framework) (“the Framework”), which was approved by the Commonwealth and all state and territory ministers in 2020. Under the Framework, the National Disability Insurance Agency (NDIA) is responsible for setting the pricing arrangements for SDA. In line with the Framework, the NDIA is currently undertaking the first five-yearly review of the pricing arrangements for SDA in the NDIS. The results of the SDA Pricing Review will be implemented from 1 July 2023.

As part of the SDA Pricing Review, the NDIA has undertaken extensive consultations with interested parties. This document summarises the issues that were raised with, and the evidence that was provided to, the NDIA through those consultations. The views expressed in this document are not necessarily those of the NDIA and the publication of these views by the NDIA should not be taken to an endorsement by the NDIA of the views expressed. The NDIA is publishing this report of the issues raised, and evidence provided, by stakeholders during the SDA Pricing Review to ensure greater transparency in its decision-making processes. The NDIA’s response to the issues raised in the consultations will be published separately in the final report of the SDA Pricing Review.

## Terms of Reference of the SDA Pricing Review 2022-23

The Terms of Reference of the SDA Pricing Review require it to examine whether the existing assumptions that underpin SDA prices will support a sustainable SDA market that fosters choice and control, encourages innovation, provides options for participants, and supports continuity of supply and financial sustainability for governments, participants, investors, and providers. In particular, the Terms of Reference require the NDIA to:

* Develop benchmark estimates of the efficient construction cost in a benchmark Region (excluding the cost of land) for each of the 96 allowable combinations of Building Type and Design Category that are funded as SDA by the NDIS.
* Develop statistical estimates of the cost per square meter of undeveloped and vacant land in each of the 88 SA4 regions, where the land is valued based on its highest and best permitted use.
* Estimate the future rate of growth in the cost per square meter of undeveloped and vacant land, including the extent to which different future growth rates are likely to apply to different SA4 regions.
* Review the current methodology by which the NDIA accounts for the differences in construction costs between geographic locations and the assumptions in that methodology, including whether it is appropriate to use the same relative construction cost multiplier for all Building Types and Design Categories in a given region.
* Review the current methodology by which the NDIA accounts for the presence of sprinklers in estimating the construction cost of a New Build, including whether it is appropriate to use the same adjustment for all Building Types, Design Categories and Regions. The NDIA will also examine whether the pricing arrangements provide an appropriate incentive for the installation of sprinklers given the mobility needs of some participants and test if it might not be more appropriate to require the installation of sprinklers in all New Builds.
* Estimate the loss in value that can be expected to occur on the conversion of SDA to general property at the end of an investment, including the extent to which this varies by Building Type and Size, Design Category and Region.
* Estimate the fees that are incurred on the sale of SDA properties, including the extent to which these fees vary by Building Type and Size, Design Category and Region.
* Estimate the vacancy rates that efficient SDA providers can expect to encounter, including the extent to which these rates vary by Building Type and Size, Design Category and Region.
* Estimate the efficient costs of ownership, including maintenance, property management and vacancy management, and examine whether these costs significantly vary by Design Category, Building Type and Size, and Region.
* Estimate the key parameters of a Capital Assets Pricing Model for SDA investments, including:
* The Equity Beta for SDA investments;
* The efficient Gearing Ratio for SDA investments; and
* The extent to which the typical equity investor in SDA can use the franking credits attached to its dividends because of the payment of company tax.
* Estimate the typical gross rental yields that can be expected from SDA type properties in the Australian economy, including the extent to which gross rental yields significantly vary by Design Category, Building Type and Size, and Region.
* Examine any other factors that have the potential to impact on the ability of the Scheme to attract the required level of investment over the next twenty years across the range of SDA to meet the reasonable and necessary support needs of participants.

In developing the new SDA Benchmark Prices, the NDIA is required to be cognisant of the need to both attract investment to meet current demand and support investment to meet changing demand on a regional basis.

In undertaking the SDA Pricing Review, the NDIA is also required to:

* Develop supply and demand projections for SDA properties and examine the extent to which the demand mix will change in the medium to long term; and
* Examine the implications for SDA pricing of the decision on 30 April 2022 by building ministers to include minimum accessibility standards in the 2022 National Construction Code. The new standards will come into effect in September 2022.

In framing its recommendations, the NDIA is required to be cognisant of the provisions in paragraphs 99 to 101 of the *Specialist Disability Accommodation Pricing and Payments Framework,* which provide that the NDIA can make other payments in respect of housing or accommodation arrangements that are consistent with the *National Disability Insurance Scheme Act 2013*, including funding arrangements to facilitate the supply of SDA where the market is not responding appropriately to the demand for places, and/or where innovative built forms or financing arrangements are needed.

In framing its recommendations, the NDIA is also required to be cognisant of the objectives and principles of the NDIS, as set out in the *National Disability Insurance Scheme Act 2013*, including that the NDIS should:

* Support the independence and social and economic participation of people with disability.
* Enable people with disability to exercise choice and control in the pursuit of their goals and the planning and delivery of their supports.
* Facilitate the development of a nationally consistent approach to the access to, and the planning and funding of, supports for people with disability.
* Promote the provision of high quality and innovative supports that enable people with disability to maximise independent lifestyles and full inclusion in the community.
* Adopt an insurance based approach, informed by actuarial analysis, to the provision and funding of supports for people with disability.
* Be financially sustainable.

## Consultations

The NDIA sought the views of stakeholders through three methods: submissions in response to a consultation paper that was released by the NDIA, discussions with Consultation Groups and individual consultations. Each of these methods are explained further below. The NDIA acknowledges the quality of the submissions received and is grateful to all the individuals and organisations who brought their considerable experience and expertise to the consultations.

### Consultation Paper

The NDIA published the *Specialist Disability Accommodation 2022-23 Pricing Review Consultation Paper* (“the Consultation Paper”) on 27 October 2022. Interested parties including participants, builders and developers of SDA, institutional investors, SDA providers, and governments were asked to make submissions in response to 29 questions (grouped in 10 themes). Submissions were required to be lodged by 9 December 2022. Some late submissions were accepted. A total of 46 written submissions were received, of which six were confidential submissions. A list of submissions is at page 84.

Submissions were received from a diverse range of stakeholders, including participants (10), peak bodies (9), builders and developers of SDA (7), institutional investors, including major banks and social impact investment funds (7), SDA providers (11), and governments (2).

### Consultation Groups

Eleven (11) stakeholder Consultation Groups were established to garner feedback from a diversity of stakeholders on the Consultation Paper. The Consultation Groups included:

* **Consultation Group 1 (Participants and SDA Self-Providers):** SDA participants / and or family members who own SDA for their own personal use or for their family.
* **Consultation Group 2 (New South Wales and Australian Capital Territory):** SDA stakeholders, including developers, investors, owners and providers, with operations and interests predominately based in New South Wales and the ACT.
* **Consultation Group 3 (Victoria):** SDA stakeholders, including developers, investors, owners and providers, with operations and interests predominately based in Victoria.
* **Consultation Group 4 (Queensland):** SDA stakeholders, including developers, investors, owners and providers, with operations and interests predominately based in Queensland.
* **Consultation Group 5 (South Australia and Northern Territory):** SDA stakeholders, including developers, investors, owners and providers, with operations and interests predominately based in South Australia and/or the Northern Territory.
* **Consultation Group 6 (Western Australia):** SDA stakeholders, including developers, investors, owners and providers, with operations and interests predominately based in Western Australia.
* **Consultation Group 7 (Tasmania):** SDA stakeholders, including developers, owners, investors, and providers, with operations and interests predominately based in Tasmania.
* **Consultation Group 8 (Large SDA Providers):** SDA stakeholders that have a large number of Existing and/or Legacy assets from state governments, operating across a range of states.
* **Consultation Group 9 (SDA Builders and Developers):** Builders and developers of SDA, operating across a range of states.
* **Consultation Group 10 (SDA Institutional Investors)**: Institutional investors providing finance to developers and owners of SDA.
* **Consultation Group 11 (SDA Banks and Funds)**: Banks and funds providing finance to developers and owners of SDA.

Meetings with the Consultation Groups were held in November and December 2022. A list of the members of the Consultation Groups can be found at page 85.

A state/territory government Consultation Group for SDA was also established. Consultations were also held with the Department of Social Services and the NDIS Quality and Safeguarding Commission.

### Organisation Consultations

Some 130 stakeholders were engaged to provide specialised, technical evidence to the NDIA as part of the SDA Pricing Review. A list of the organisations consulted can be found at page 91.

## Structure of this report

This report is structured around the 10 themes posed in the Consultation Paper:

* Build costs
* Land costs
* Acquisition costs
* Sprinklers
* Exit costs
* Ownership costs
* Tax costs
* Financing costs
* Indexation of Base Prices
* Other issues.

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# Build Costs

The NDIA received 30 written submissions that responded to the following questions in the *SDA Pricing Review Consultation Paper*:

* What does it cost to construct an SDA dwelling (excluding the cost of land)?
* Is the current methodology by which the NDIA accounts for the differences in construction costs between geographic locations appropriate? If not, how can the methodology be improved? Is it appropriate to use the same relative construction cost multiplier for all Building Types and Design Categories in a given region?
* To what extent does the National Construction Code classification of an SDA dwelling affect its construction costs? Should these differences be taken into account in determining the pricing arrangements for SDA dwellings.

Issues about building costs were also raised in almost all of the Consultation Groups.

## Building Materials, Labour, and Other Inputs

Many submissions provided evidence that the cost of materials and labour have increased significantly in recent years and at a faster rate than the increase in the Consumer Price Index (CPI) over the same period.

The submissions from PowerHousing Australia and the SDA Alliance reported that the costs of building materials as measured by the Cordell Construction Cost Index (CCCI) have risen faster than the CPI, with the CCCI increasing by 25.77% in the last seven years compared to a 16.01% increase in the CPI.

Several stakeholders, including Enliven Housing, Lighthouse, Summer Foundation and BlueCHP, reported that the Australian Bureau of Statistics recorded a 42% increase in house construction costs from December 2015 to December 2022. Australian Unity stated that building costs for SDA developments had increased by 30% since the current SDA prices were established six years ago. A similar increase (25%) was reported by stakeholders in the SDA Builders and Developers Consultation Group.

Although there was general agreement that costs had increased significantly there was also some variation by location. Members of the Queensland Consultation Group indicated that SDA building costs had increased by approximately 45% over the last six years. Inspire Impact stated that SDA building costs had increased by 47% on greenfield sites in outer Metropolitan Melbourne over the same period. Members of the Western Australia Consultation Group stated that SDA building costs had increased by approximately 40% over the same period, and WAIGROUP estimated that SDA construction costs in metropolitan Perth had increased by an average of 25% to 30% between 2019/20 and 2021/22. Members of the Tasmania Consultation Group stated that SDA building costs had increased by approximately 25% over the same period.

Stakeholders reported that the cost increases were due to a combination of COVID-19, border closures, supply chain disruptions and delays in sourcing building materials from overseas, increased transport costs and construction price inflation, which collectively has placed upward pressure on the availability of building materials.

Stakeholders did not expect the cost of construction to decrease in the near future. Youngcare, for example, stated that “expected inflationary pressures are forecasted to remain for the next 12 months to three years”.

Stakeholders also reported that they are including higher contingency allowances in contracts and wider development margins to mitigate the risk of further cost increases and ensure project delivery.

### Materials

While few submissions included a breakdown of cost increases by material, a submission from Perth Design Construct provided information on specific cost increases for building materials in Western Australia:

* 42.1% increase in the cost of steel.
* 14.1% increase in the cost of glass.
* 20.6% increase in the cost of timber, timber boards and necessary joinery.
* 16.2% increase in the cost of metal products.
* 26% increase in the cost of plastic piping.

The submissions from Youngcare and BlueCHP stated that the cost of materials with high iron content like reinforcement, structural steel, duct work and cables have increased most significantly.

* Stakeholders indicated that costs vary by location, with building materials generally more expensive in regional and remote environment. BlueCHP, for example, stated that the cost per brick in regional locations had risen from $1.27 to $2.60 since 2020.
* Many stakeholders stated that they are taking some form of action to mitigate the risk of increasing input costs, with one stakeholder from the South Australia and Northern Territory Consultation Group noting that “it is very difficult to get fixed prices for many materials, with builders including renegotiation clauses in contract to manage the risk of increasing cost supplies”. To manage rising construction costs and supply shortages, several stakeholders indicated that they are increasing contingency allowances. One stakeholder in the Queensland Consultation Group stated that they now include a 10% contingency in their SDA build budgets, up from the 2.5% contingency pre COVID-19.

PowerHousing Australia raised concerns about the impact of rising material costs on the delivery of high-quality and bespoke SDA, stating that “many masterplans have had to be scaled down to meet the minimum SDA standards and to be more cost-effective”. The submission stated that masterplan revisions often impact the size of a bedroom or living space, impact the inclusion of ensuites and was potentially making SDA dwellings less comfortable and well-designed.

### Cost, Capacity, and Capability of Labour

A number of stakeholders across New South Wales and Australian Capital Territory, Victoria, Queensland and Western Australia Consultation Groups stated that construction of SDA is competing with the pipeline of state and federal government funded infrastructure-projects, the mining sector and residential housing development activity.

The Queensland Consultation Group argued that the competition from infrastructure construction is exacerbating material and labour market shortages, and further increasing costs. One member of that Consultation Group expressed concerns about the ability to compete for labour against government-funded and guaranteed infrastructure projects associated with the 2032 Brisbane Olympic Games. Stakeholders in the Western Australia Consultation Group stated that they are similarly competing against the mining sector for appropriately skilled labour, particularly due to the higher salaries offered in mining in comparison to housing construction.

Edenbridge Living stated that there were significant differences in the cost of labour across metropolitan Sydney. They stated that it is becoming standard practice for subcontractors to levy additional fees that recognise the time taken and distance travelled to building sites within the Eastern Suburbs, North Sydney and Northern Sydney SA4 regions. Anecdotal evidence cited in the submission indicates that the fee can be an additional 25% to 50% of the total labour cost.

PowerHousing Australia stated that there were added difficulties in securing suitable labour in Regional Australia. They stated that various regional areas have been affected by local factors including labour shortages and that regional labour costs were increasing faster than observed in the capital cities.

The capacity and capability of residential builders to build SDA was also highlighted as an issue across submissions and Consultation Groups. Stakeholders in the SDA Builders and Developers, and the Queensland and the Tasmania Consultation Groups stated that fewer residential builders are choosing to build SDA due to the perceived complexity and risk in meeting the SDA Design Standards and potentially lower margins. Lighthouse stated that decreasing building margins was also reducing the number of builders willing and available to build SDA.

One stakeholder in the Tasmania Consultation Group stated that “there’s actually quite a few builders that are interested in SDA, however builders are choosing standard residential building that is an easier volume build with a known margin”.

Several stakeholders stated that the limited supply of capable residential builders means that developers are engaging commercial builders that specialise in high-end residential developments. The SDA Builders and Developers Consultation Group stated that commercial builders are better equipped to meet a higher standard of build and the provisions of the National Construction Code Class 3. Stakeholders that engage commercial builders, including one stakeholder in the Tasmania Consultation Group, stated that commercial builders are generally more expensive than residential builders. They recommended that this additional cost should be considered as part of the SDA Pricing Review. The Tasmania Consultation Group also recommended the Agency encourage the Housing Industry Association to award Continuing Professional Education points to builders that undergo specialist SDA training to help build the capability and capacity of the SDA construction industry.

### Transporting Materials

Several regionally based stakeholders discussed the additional cost of transportation to regional areas of Australia, which they believed was not adequately addressed in the current SDA pricing model. PowerHousing Australia indicated that delays in transporting materials was also impacting timely project delivery. One SDA-builder located in Cairns stated that build costs are compounded by the need to transport materials from Brisbane, which is also delaying completion. Stakeholders in the Tasmania Consultation Group highlighted that being an island state meant they that relied on shipping to transport materials from the mainland, which increases material costs. In addition, one stakeholder in the Consultation Group estimated that disruptions to shipping schedules and delays in receiving materials had driven construction costs up by approximately 20% to 30% since the beginning of 2022.

A stakeholder in the Victoria Consultation Group also stated that additional costs are incurred in the delivery of assistive technology such as hoists and rails with another stakeholder in the same discussion stating that the “majority of the highly specialised things that need to go into the house, we need to get [them] from metropolitan to regional [areas], which can be expensive”.

## Building Classification

There were mixed views amongst written submissions and the Consultation Groups about the classification of SDA as National Construction Code Class 3 buildings or as Class 1b buildings. Several stakeholders expressed concerns about the additional construction and compliance costs incurred with building to the provisions of Class 3. They also stated that these buildings may reduce the participant’s sense of homeliness. However, other stakeholders reported that building to the Class 3 standard provides additional protections from fire, injury, or hazards for participants.

Many stakeholders were concerned about the additional costs incurred in building to the Class 3 standard, which included additional fire protection and prevention requirements, including sprinklers, site setbacks, vacuum stairwells and (for apartments) backup battery generators on lifts and setbacks. A stakeholder in the SDA Builders and Developers Consultation Group suggested that the cost of building SDA to the Class 3 standard could “be anywhere from 20% to 30% more expensive than the cost of building traditional [Class 1B] SDA”.

The Summer Foundation indicated that the additional safety features associated with meeting the Class 3 standard can include, among other additional costs, fire sprinkler costs of between $6,000 to $8,000 per apartment and must also be added to each (non-SDA) unit in the development.

A stakeholder in the New South Wales and Australian Capital Territory Consultation Group stated that for a mixed-use apartment block, these fixtures could cost up to $1 million and that developers would be unlikely to absorb this cost. The stakeholder suggested that “the developer will] be pushing you for the seven square metres of battery generator backup space you’ve taken out of his basement… He’ll charge you for the generator. He’ll charge you for the implementation and he’ll charge you for the maintenance … it ends up being a very expensive proposition”.

Several submissions observed that National Construction Code Class 3 developments can take longer to deliver due to the specialised materials and skills required. Edenbridge Living observed that mandating the class 3 standard for SDA would increase competition for suitably qualified and capable builders, and further increase the cost of construction.

In addition to higher costs, stakeholders also raised concerns about creating an institutionalised feeling if SDA is built to National Construction Code Class 3 requirements. They stated that National Construction Code Class 3 buildings are commercial buildings (hotels, schools, hospitals, gaols, hostels, and boarding houses) and may reduce the homeliness and amenity for participants. the NDISP stated that National Construction Code Class 3 is “wholly inappropriate” for SDA as it reduces the participants’ ability to exercise choice and control over their housing solution.

However, several stakeholders did suggest that Class 3 buildings should be mandated for SDA. Stakeholders in the SDA Builders and Developers Consultation Group acknowledged that given the accessibility requirements of participants, it was in their interest to develop SDA to the Class 3 standard so that they are protected from serious injury or death. Liveable Homes Australia argued that “all housing for people with [a] disability should be built to ensure the safety of occupants in the event of a fire”. They were therefore supportive of future SDA being built to the provisions of Class 3.

One stakeholder in the SDA Builders and Developers Consultation Group suggested that developing to Class 3 standard today is a way to future proof the building for potential future residents and ensure the greatest chance of participant survival in the event of a fire.

Stakeholders in the Victoria Consultation Group suggested that building to the provisions of the Class 3 would ensure that the additional safeguards required to protect and support residents, including access provisions, pathways, and fittings, are included by default.

While supportive of mandatory Class 3 designation for all SDA, Liveable Homes Australia stated that its provisions were designed for larger institutional facilities and recommended that a special classification in the National Construction Code should be established for SDA.

Alternatively, several stakeholders across a range of Consultation Groups suggested that the NDIA consider developing a separate price for Class1B and Class 3 SDA, or otherwise compensating builders that choose to develop to the Class 3 standard.

## SDA Design Standard

Several stakeholders across the Consultation Groups reported that SDA developers were building beyond the provisions of the SDA Design Standard to meet market expectations and deliver high-quality SDA properties. They stated that improved outcomes for SDA participants are realised when the design and development of properties is matched to participant needs. A stakeholder in the Queensland Consultation Group recommended that the Agency require developers to co-design SDA with prospective tenants to ensure that their needs are reflected in the design.

Stakeholders discussed a range of additional features they typically include in New Build SDA to meet market expectations and improve the quality of life and independence of their residents. These include:

* Onsite Overnight Accommodation with office and ensuite, and often including locked medication cabinets, safe filing systems, and a computer.
* Home automation including automated doors, mechanical blinds and lighting controls to promote accessibility and enable greater independence for participants.
* Extra storage to accommodate multiple wheelchairs, other large equipment, and consumables.
* Elevators in multi-story SDA houses and villas to support mobility needs.
* Wider door fixtures to accommodate and respond to the increasing prevalence of bariatric participants.
* Additional living spaces to provide greater choice and privacy for participants and facilitate the delivery of therapies in the home.
* Higher fence lines to reduce the impact of behaviours of concern on neighbours and the community, and increase distance to the property boundary.
* Individual outdoor spaces and gardens to allow participants to entertain friends, family and carers, and receive therapy supports.
* Multiple exit pathways for participants, increasing their sense of security and providing adequate fire escape routes.
* Media rooms to provide alternative leisure and recreation activities.

The most commonly raised additional features included in SDA were ensuites, additional parking, and the design of Onsite Overnight Accommodation.

### Ensuites

Attitudes towards the inclusion of ensuites in new builds were mixed. A stakeholder in the Victoria Consultation Group indicated that inclusion of ensuites in new SDA is by exception, while acknowledging that participants are generally seeking SDA properties with ensuites. A stakeholder in the SDA Institutional Investors Consultation Group reported that they exclusively support SDA developments that include an ensuite for each resident.

The submissions from the WAIGROUP, Excelsior Housing Services and a confidential submission stated that they are including ensuites in masterplans. Additionally, a stakeholder in the South Australia and Northern Territory Consultation Group suggested that ensuites provide privacy and dignity to participants, which is something that also matters to the families and carers of participants living in SDA.

Stakeholders that do not include ensuites as a standard feature in their SDA suggested that this was because of the additional land required to embed ensuites in the design and including ensuites reduced the space available for shared living areas. A stakeholder in the Victoria Consultation Group suggested that the cost of including ensuites in a build can impact the development margin.

### Parking

Stakeholders in the South Australia and Northern Territory Consultation Group discussed the number of parking spaces required on each site. Stakeholders that include car parking on their sites indicated that these spaces are mostly being used by care support workers and visiting family, with participants in Fully Accessible and High Physical Support dwellings often unable to drive.

During the meeting of the Victoria Consultation Group, one stakeholder stated they included 16 onsite car spaces for an eight-villa development to reduce impact on neighbours. Another stakeholder estimated that a four-participant, four-villa property would require approximately eight car spaces.

Given the additional cost associated with building underground garages, the same stakeholder expressed a preference for ground-level car spaces over underground garages, which may also facilitate easier access to the vehicle.

Stakeholders reported that they are having to consider including car parking onsite due to concerns raised by neighbours, and restrictions on street parking. A stakeholder in the SDA Builders and Developers Consultation Group and the Endeavour Foundation stated that for one of their current developments, the local council has requested a car-park demand report to inform the number of street parking spaces needed.

### Onsite Overnight Assistance

A stakeholder in the New South Wales and Australian Capital Territory Consultation Group stated that higher quality Onsite Overnight Accommodation spaces and facilities are critical to securing ongoing Supported Independent Living services.

The SDA Alliance recommended that the NDIA should issue a (design standard) determination on the provision of Onsite Overnight Accommodation in future SDA developments.

Another stakeholder in the Tasmania Consultation Group indicated that strategically placing an Onsite Overnight Accommodation within a development with two, one-bedroom self-contained units had allowed for more responsive management of participants with behaviours of concern. One stakeholder in the Queensland Consultation Group reported that they had built Onsite Overnight Accommodation facilities that could securely store industrial chemicals (used for washing and cleaning) and medication, therefore reducing the number of hazards in participant living spaces and minimising the risk of an incident or injury.

The New South Wales and Australian Capital Territory Consultation Group also discussed the practicality of delivering Supported Independent Living and Onsite Overnight Accommodation in an apartment setting, highlighting the trade-off between maximising land use (and being able to fit more apartments on a block) and the participant experience (losing out on common living areas that participants can share).

One stakeholder in the Tasmania Consultation Group provided an example where Onsite Overnight Accommodation is shared by multiple units, but enrolled and attached to one of them, warning that “you could end up in a situation where you have a vacancy in the unit that has the Onsite Overnight Accommodation attached, and therefore, even though you’re still providing the service or half that service out of the Onsite Overnight Accommodation for the other unit, you're not getting recompense for that”.

### Mandatory inclusions

JFA Purple Orange discussed the purpose of mandatory inclusions under the SDA Design Standard. Given the cost of various features, JFA Purple Orange suggested that the list of mandatory inclusions should be reviewed to ensure that they are genuinely common requirements of SDA tenants. They cited the requirement for uninterrupted power-supply units as an example inclusion that is expensive to install, difficult to maintain, and generally unnecessary given reliable power supply in metropolitan areas. They argued that the main focus of mandatory standards should be on adaptability and that the list is regularly reviewed to keep pace with improving technology.

### Suitability of the SDA Design Standards

Several stakeholders questioned the suitability of the current SDA design categories, noting difficulties determining which category to build and how to design a masterplan that meets evolving participant demands.

The Summer Foundation suggested that the increased prevalence of HPS SDA apartments is indicative of greater flexibility and additional tenanting options. The submission stated that “High Physical Support dwellings are often constructed even when a tenant only requires a Fully Accessible design”. The Summer Foundation also stated that the costs of constructing High Physical Support and Fully accessible SDA is closer than assumed in the current SDA pricing arrangements and that in practice “the majority of the SDA Guidelines required for High Physical Support are also required for Fully Accessible builds”. As such, the Summer Foundation stated that the cost of building High Physical Support dwellings and Fully Accessible dwellings are closer than assumed.

A confidential submission stated that additional construction costs are only incurred when features like ceiling hoists, reinforced structures and additional electricity cabling are included in an HPS masterplan. These costs were cited to range from $30,000 to $50,000 per apartment, which is significantly lower than the assumption of $276,000 that underpins the current SDA pricing methodology.

Submissions from BlueCHP, WAIGROUP and NDISP indicated that the minimum Robust design standard is not sufficient for participants with complex behaviours and Robust housing needs. They indicated that the construction of Robust SDA is generally more complex, takes longer to build and requires specialised materials. The complexity, risk and additional cost of building Robust SDA was cited by Australian Unity as a reason for its reluctance to acquire Robust stock.

The Summer Foundation stated that “robust housing needs are not being fulfilled to the same extent as other design categories”. It reported that different behaviours of concern often require different housing responses, with some participants requiring both Robust and High Physical Support design features. PowerHousing Australia argued that delivering Robust and High Physical Support design features can incur additional costs that are far greater than those seen in conventional builds. Liveable Homes Australia echoed this concern and identified that construction cost overruns typically occur when unfunded Robust features are included in the masterplan for a High Physical Support dwelling.

Prader Willi Syndrome Australia highlighted the fact that investors in the SDA market generally avoid investing in the Robust design category. They suggested that the considerable damage (and corresponding costs) to properties that can be caused by participants can act as a disincentive for investment. Additionally, WAIGROUP suggested that the bespoke nature of Robust SDA, the potential requirement for larger blocks, and the perceived risks of integrating Robust properties within broader SDA developments can contribute to investors being deterred from investing.

Australian Unity stated that the Robust Design Category is of critical importance and can “deliver significant social and economic benefit if appropriately remunerated”. They recommended that the SDA Pricing Review consider underwriting property damage. Alternatively, or in conjunction, they also recommended materially increasing the return for Robust SDA to meet the level of perceived and actual costs associated with this Design Category.

WAIGROUP also highlighted that the risks with investing in Robust SDA (such vacancy risks) can be exacerbated when considering regional developments, where the demand market is thinner. WAIGROUP suggested that risk mitigations could be included such as “special rules for the continuity of SDA payments where a Robust vacancy occurs” and recommended up to 90 days of vacancy payments in metropolitan regions and up to 180 of continuity payments in regional locations.

### Changes to the SDA Design Standards

The SDA Alliance states that changes to the SDA Design Standard can be onerous to adapt to, and often generate additional costs for the design and build of SDA. Stakeholders across multiple Consultation Groups recommended that the Agency should regularly review SDA prices when any change is made to the SDA Design Standards to ensure that prices accurately reflect the new design requirements.

Stakeholders also emphasised the need for stability in the SDA Design Standard. The SDA Alliance reported that clarifications to the SDA Design Standard have “inadvertently held up SDA development projects (sometimes for many months) resulting in significant holding costs and rework*” and* this was impacting investor confidence in the SDA market.

Liveable Homes Australia echoed the concern and argued against any changes to the SDA Design Standard during a pricing cycle. NDISP provided an alternative recommendation that the Agency provide six months’ notice before any changes to the SDA Design Standard.

## Other Costs

### Floods, Fires and Cyclones

Several stakeholders reported that external factors such as floods, cyclones, and bushfires are influencing the design and build of SDA. For example, the risks associated with developing SDA on a flood plain was discussed by the Queensland Consultation Group. One stakeholder highlighted that any development in Cairns, for example, is occurring within a flood zone, and therefore is built to the Q100 Flood Standard, requiring the SDA to be raised on stilts.

The Endeavour Foundation stated that developments on a flood plain also require an open foundation, which are generally more expensive to build than a concrete slab. Stakeholders located in far north Queensland stated that they are required to build to a standard that can withstand cyclones (Standard AS1170.2). One stakeholder in the Queensland Consultation Group estimated that climate-related enhancements, including the use of steel and stilts to elevate the property, had seen the cost of construction increase by about 45%. As such, it was recommended that the Location Factor for developments in cyclone and flood-prone regions be reviewed and upgraded to reflect the additional cost of construction.

Difficulties developing in bushfire-prone regions were raised in the Western Australia Consultation Group, with one stakeholder noting that developers are required to embed a driveway capable of accepting a fire truck and access pathways around the house. A stakeholder cited an example development where approximately 5% of the land was in a designated bushfire zone, requiring the inclusion of a compliant driveway that was expensive, ultimately challenging the viability of the development.

### Sustainable Development Practices

Stakeholders indicated that the design and build decisions are being increasingly influenced by climactic and environmental factors, with inclusions often going beyond the SDA Design Standard.

Stakeholders in the Queensland Consultation Group reported that increasing temperatures (and number of warmer days) and higher energy prices are adding additional strain on energy consumption and affordability for participants. For example, one stakeholder stated that they had installed additional solar panels to meet demand for energy arising from more frequent use of air conditioning systems, and reliance on electronic dryers given the inability to air-dry laundry due to humid conditions. Stakeholders in the Queensland Consultation Group expressed concern that while solar energy may reduce the cost of energy for participants, the cost of installing solar panels and batteries is being incurred during construction, and is not recognised in the current SA prices.

Additionally, PowerHousing Australia stated that recent updates to the National Construction Code requires that all newly built residential dwellings meet a minimum energy efficiency rating of seven stars under the Nationwide House Energy Rating Scheme. A confidential submission stated that the introduction of minimum energy efficiency standards in 2022 generated additional costs that is not captured by historical data. The submission indicated that the cost of meeting these new requirements was approximately $30,000 per dwelling.

Several stakeholders in the SDA Builders and Developers Consultation Group stated that they are adopting more sustainable, carbon-neutral build materials during construction; with some materials (including sustainable concrete and timber) often charged at a premium. Both the Queensland Consultation Group and PowerHousing Australia recommended that the pricing arrangements for SDA should be revised to consider the additional cost associated with adopting more sustainable building materials, solar panels and batteries.

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# Land Costs

The NDIA received 19 written submissions that responded to the following questions in the *SDA Pricing Review Consultation Paper*:

* What land size and frontage are practically required to build SDA, in particular given SDA requirements around circulation spaces, minimum distances and other spatial requirements, or associated building implications, such as categorisation as a class 3 building requiring larger setbacks?
* What does it cost to purchase undeveloped and vacant land in each of the 87 SA4 regions, where the land is valued based on its highest and best permitted use?
* What is the expected future rate of growth in the cost per square metre of undeveloped and vacant land? To what extent are different future growth rates likely to apply to different SA4 regions?
* Is undeveloped/vacant land generally available in all locations, and if not in which locations is undeveloped/vacant land not generally available?
* What additional costs are incurred when land that is not undeveloped and vacant is purchased in order to build an SDA dwelling? How do these costs vary by SA4 region?

Issues about land costs were also raised in most of the Consultation Groups, including at the New South Wales and Australian Capital Territory Consultation Group; the Victoria Consultation Group; the Queensland Consultation Group; the South Australia and Northern Territory Consultation Group, the Western Australia Consultation Group; the Tasmania Consultation Group; and the SDA Builders and Developers Consultation Group.

## Land Size and Frontage

Stakeholders identified varying land size requirements and discussed the impact of increasing land costs on the way land is used.

### Land Size

In its submission, Bayley House stated that it seeks land of 700 metres squared (700m2) to develop two three-bedroom Improved Liveability villas. A stakeholder in the Queensland Consultation Group stated that the constrained supply of land in amenable, inner-urban locations had caused them to develop two two-bedroom villas on a 400m2 block. Members of the South Australian and Northern Territory Consultation Group cited 400m2 as the minimum land size required to build a three-bedroom house. One member of that Consultation Group stated that they had successfully developed a four-bedroom Improved Liveability house on a 450m2 block. The stated that the house was consistent with the SDA Design Standard, and contained ensuites, adequate outdoor space and personal living quarters.

BlueCHP suggested that a two-bedroom Fully Accessible house inclusive of Onsite Overnight Accommodation requires 560m2 and stated that identifying blocks of this size is challenging across Metro (Inner City) Melbourne. The Endeavour Foundation indicated that a 650m2 block is suitable for a four-bedroom Fully Accessible house with Onsite Overnight Accommodation in Southeast Queensland.

NDISP reported that they seek blocks of 450m2 for a three-bedroom Fully Accessible house. NDISP also expressed a preference for developing a complex containing four, two-bedroom Fully Accessible apartments on 800m2 blocks.

A stakeholder in the Victoria Consultation Group suggested that the most successful four-bedroom Robust SDA houses tend to be built on 1,000m2 blocks, where the impact of behaviours-of-concern on neighbours and provision of amenities can be contained on the site. A stakeholder in the New South Wales and Australian Capital Territory Consultation Group similarly agreed, noting that a Robust villa development on a 1,100m2 is usually comprised of three, one-bedroom and two, two-bedroom units. The stakeholder suggested that this design profile facilitates better coordination of living supports, provides breakout areas and includes adequate parking for participants, visitors, carers and support workers. Excelsior Housing Services stated that the minimum land size required for a four-bedroom Robust group home in Regional NSW is 640m2.

A stakeholder in the New South Wales and Australian Capital Territory Consultation Group reported that a three-bedroom, Onsite Overnight Accommodation inclusive High Physical Support home, requires a minimum land size of 450m2. NDISP indicated that a 600m2 block of land is adequate for a complex containing two two-bedroom High Physical Support villas.

A member of the Victoria Consultation Group observed that the minimum suitable size for a four-bedroom High Physical Support house with Onsite Overnight Accommodation was approximately 650m2. Members of the Western Australia Consultation Group similarly stated that a 1200m2 block of land was appropriate for two three-bedroom High Physical Support houses, with one stakeholder noting that this configuration provides “efficient scale for Supported Independent Living supports”. Another stakeholder in the Consultation Group suggested that blocks between 1,000m2 to 1,200m2 are only available in newer suburbs south of the Perth CBD.

One stakeholder in the Tasmania Consultation Group pointed to the development of nine SDA units on a former 5,000m2 lawn bowls site in inner-Launceston, highlighting the opportunity to embed new SDA properties within established communities as part of broader urban rejuvenation and precinct renewal programs. This development was also unique in that it contained a mix of categories, with five, two-bedroom units and four, three-bedroom units. Of these, seven were enrolled as HPS and two were Improved Liveability. Another stakeholder suggested that they were generally building three Robust units on blocks ranging from 1,000 m2 to 1,500m2, but stated difficulty identifying suitable land in Hobart.

A stakeholder based in the Northern Territory stated the recent emergence of contemporary configurations where living spaces had been transitioned from communal spaces to being embedded in the participant’s room.

### Frontage

Stakeholders across the Consultation Groups and written submissions indicated that the ideal land frontage for SDA ranges between 10m2 and20m2, but varied by location and SDA design category. The SDA Builders and Developers Consultation Group suggested that an Improved Liveability dwelling that complied with the National Construction Code Class 3 standard requires a minimum frontage of 14-metres. The Tasmania Consultation Group suggested that the most optimal frontage for a Robust SDA house was 18 metres, accommodating adequate evacuation pathways and minimising the need for special approvals.

Stakeholders in the New South Wales and Australian Capital Territory Consultation Group stated that they expected that the minimum frontage for SDA will increase over time to accommodate the larger footprint of SDA that meets changing participant needs. They stated that additional features like ensuites, outdoor spaces and adequate garaging facilities are land intensive, and therefore driving developments closer to the boundary of the block.

One confidential submission expressed concern that providers would be able to meet this demand by participants as there is limited land lots with more than 14-metres of frontage in established suburbs. Stakeholders across the Consultation Groups echoed this concern and stated that suitable land is only available on the urban fringe of Sydney, Melbourne, Brisbane, Hobart and Perth.

### Other Considerations

Stakeholders emphasised that the size and shape of land is material to the design and feasibility of future SDA. Stakeholders stated that the shape of the land and frontage enables them to construct standardised build-designs, and reduce the risk of incurring additional costs associated with amending the design of an SDA to fit an irregularly sized block.

Stakeholders in the Western Australia Consultation Group expressed a preference for developing on a corner block, as *“*the space can be used well to create two very separate houses*.”* However, the Endeavour Foundation raised a concern that development on a corner block may impose a second setback on the edge of the block and reduce the envelope to build on.

An individual stakeholder compared land use requirements between standard residential housing and SDA. It observed that the development of multi-story SDA house and villa types was not possible without the inclusion of a lift, and that additional bedrooms, ensuite and Onsite Overnight Accommodation space for a High Physical Support site often required a block that is approximately 300m2 larger than needed for a multi-story traditional house.

While stakeholders in the Queensland Consultation Group acknowledged that development of villa-accommodation on comparatively smaller sites may increase the density of the site, they argued that villa-developments encourage greater choice for participants and control over who they live with. A stakeholder in the Queensland Consultation Group, based in Cairns, cited an example of one developer buying house and land packages to build 15 High Physical Support SDA in the one street, which they believed was not in the interests of the Agency nor participants and would impact on quality of life.

Multiple submissions stated that National Construction Code Class 3 requires larger land sizes to meet the additional requirements. Barwon Investment Partners was concerned that the current SDA pricing arrangements failed to account for the increased land size provisions for National Construction Code Class 3 Buildings, noting that the Code requires additional land to enable separation in shared residency contexts to reduce the institutional like setting and improve the liveability of the property.

A confidential submission was also concerned with the provisions in the National Construction Code regarding the width of parking spaces, with land for SDA needing to be adequately sized to enable inclusion of a double garage that complies with the 4.8 metre width specified under Australian Standards for Disability.

Multiple submissions acknowledged the fire hazards provisions required in the National Construction Code for Class 3 buildings would have an impact on land size and use. A confidential submission indicated that a National Construction Code Class 3 SDA house or villa requires a 1.5 metres side and rear setback from a fire source feature.BlueCHP argued that the site setback is dependent on land cost and boundary length, which in turn reduces the building envelope and increases the land value per square metre.

## Land Costs

Stakeholders across the Consultation Groups and written submissions stated that the cost of land has increased over the last three years, with increases observed across both metropolitan and regional areas of Australia as well as for greenfield and brownfield sites. They indicated that, as a result of these increases, the land cost assumptions that underpin the current pricing arrangements for SDA were no longer appropriate and needed to be reviewed to better align with the current cost of land.

A member of the New South Wales and Australian Capital Territory Consultation Group stated that the price of suitable greenfield land has, on average, increased by approximately 40%-60% since early 2022. Similar statements were made in a number of submissions in response to the consultation paper. Power Housing Australia, for example, state that real land prices per square-metre had increased fivefoldover the six years between 2016 and 2022.

While stakeholders acknowledged that land values in regional communities have a lower base, they also argued that the cost of land in regional areas has increased at a similar rate to metropolitan areas. Data included in Barwon Investment Partners suggested that “land rates are at least 3 - 4 times that being assumed [in the current SDA pricing methodology] in the Central Coast of NSW”.

A stakeholder in the New South Wales and Australian Capital Territory Consultation Group cited an example of land with development approval in Coffs Harbour (NSW) that had been sold for $560,000 in 2022 after being valued at $280,000 in 2020.

A confidential submission stated that the price of land in greenfield master planned communities in the Melbourne Southeast Statistical Area Level 4 (SA4) region had risen to $1,366.07/m2 in the six years since 2016. They argued that this equates to a difference of $920.89/m2 between the true land cost and the assumption that underlies the current SDA prices for that region.

BlueCHP stated that the current average cost across the more established Melbourne Northeast SA4 region is $879.46/m2, which is $622.99 higher than the price assumption that underlies the current SDA prices for that region.

The Queensland Consultation Group observed that land values had increased across Queensland. PowerHousing Australia provided information that confirmed there had been significant increases in land costs (per square metre) in Queensland. In particular, the PowerHousing Australia submission indicated that land costs had increased by:

* 10.6% in the Sunshine Coast SA4 region
* 37.2% in the Brisbane North SA4 region
* 58.2% in the Gold Coast SA4 region, and
* 66.0% in the Brisbane Inner SA4 region.

The situation was not, however, uniform across Queensland. For example, PowerHousing Australia also showed that land prices on a square-metre basis had decreased by 80.0% in the Brisbane East SA4 region since 2016.

The Endeavour Foundation stated that development in regional Queensland is “exceptionally restricted” due to extensive flood zoning.

The Western Australia Consultation Group quoted data from the Real Estate Institute of Western Australia for September 2022, which indicated that the average price of land in Perth ($624/m2) was approximately $168/m2 higher than the land price assumed in the calculations that led to the current SDA prices. However, PowerHousing Australia stated a potential softening in the cost of land in WA, with land costs reducing by 20% since 2016.

There was limited discussion of land costs in the South Australia and the Northern Territory Consultation Group. PowerHousing Australia stated that land costs have decreased by:

* 2.8% in the Adelaide South SA4 region
* 13.8% in the Adelaide Central and Hills SA4 region, and
* 31.4% in the Adelaide North SA4 region.

The same submission observed a 131.9% increase in the cost of land in the Darwin SA4 region, which was consistent with general feedback provided in the Consultation Group.

PowerHousing Australia provided data that indicated that the cost of land in the two Hobart SA4 regions has increased, with land values increasing by 63.8% since 2016 in the Hobart SA4 region, and 8.67% in the South East SA4 region.

Stakeholders observed that the cost and availability of land in regional and remote communities was less of a challenge. However, they also stated that the distance from day-to-day amenities and activities may displace participants from the community.

### Brownfield Sites

In general, stakeholders indicated that participants preferred to live in brownfield locations where they have long-established relationships with the service-providers, specialists and supports. A member of the SDA Builders and Developers Consultation Group stated that participants often require a taxi to fulfil their daily activities, and as such are very conscious of needed to be close to their day-to-day activities so that their travel costs are as small as possible. They argued that moving participants to greenfield locations further from amenities can disrupt their care, quality of life and independence. However, given the challenges associated with acquiring and developing land in inner-metropolitan areas, stakeholders reported that new SDA is occurring on the urban fringe where land is cheaper and investment returns are more attractive.

A number of submissions observed that vacant land is generally unavailable in established areas across Melbourne and Sydney, and that providers therefore faced a higher cost of land than was assumed in the current SDA pricing methodology. They argued that this makes many locations in those cities commercially unfeasible. BlueCHP, for example, stated that the land cost estimates that were currently used in setting SDA prices greatly underestimated the cost of land as they were based on vacant land values, which do not account for the cost of purchasing land and demolition costs with an existing house.

Noting the constrained supply of suitable brownfield land in urban SA4 region, the submissions from Link Wentworth, Synergis and the Summer Foundation all advocated for the use of established land prices in the SDA pricing methodology.

Members of the New South Wales and Australian Capital Territory Consultation Group similarly recommended that the pricing assumptions for land in the SDA pricing model should be updated to reflect the fact that brownfield development requires providers to pay for both the land and existing building on the site. As one stakeholder in the SDA Institutional Investors Consultation Group pointed out, SDA developers of brownfield sites are in competition with owner occupiers who would like to live in the current house on the block of land.

For this reason, stakeholders in the New South Wales and Australian Capital Territory Consultation Group identified the potential cost of demolition and site remediation as a key barrier to purchasing land and a cost that needed to be recognised in the SDA pricing model if construction was to happen in developed locations close to amenities.

## Location Factors

In general, stakeholders across the Consultation Groups and written submissions suggested that the Location Factors that are currently used to adjust SDA prices do not accurately reflect the true cost of land in many locations nationally, particularly in inner metropolitan locations.

Stakeholders in the New South Wales and Australian Capital Territory Consultation Group considered the current Location Factors for metropolitan Sydney problematic, with the calculations failing to consider substantial variations in the cost of land. In the North Sydney and Hornsby SA4 region, for example, there are vast variations in wealth and socio-economic status. A single Location Factor for the SA4 cannot therefore accurately reflect the market conditions nor the variability in land prices of the area. In its submission, Edenbridge Living stated that the Location Factor for the Sydney, Eastern Suburbs SA4, failed to reflect real land values. The submission cited two examples where the actual cost of land (per square metre) was six-times higher than the cost that had been assumed in setting the current Location Factors.

Bayley House stated that land costs in the Melbourne, Inner South SA4 region, were four-times higher than the cost that had been assumed in setting the current Location Factors.Inspire Impact stated that land values in the urban-fringe suburbs of Cranbourne and Lyndhurst had increased by 44% in the period since July 2020.

Competition in the residential property market was cited as the reason for increasing land costs, with the submission suggesting that Location Factors for outer metropolitan areas had been outpaced by growth in land values.

Stakeholders in the Queensland Consultation Group suggested that the Location Factors for the five SA4 regions covering metropolitan Brisbane (currently ranging between 0.92 and 0.97) do not reflect the actual relative cost of land in metropolitan Brisbane. Interstate migration was cited as a driver of increasing land values in Queensland.

The submission from NDISP echoed this concern and suggested that incorrect Location Factors in Brisbane are impacting the development pipeline for SDA villas and houses. Given the significant variance in land costs across metropolitan Brisbane, NDISP also recommended that the Location Factors for the respective SA4 regions be reviewed. Stakeholders in the Queensland Consultation Group also expressed concerns about the adequacy of the Location Factors given forecasted growth in land values leading up to the 2032 Brisbane Olympics.

One stakeholder in the Western Australia Consultation Group observed that the mining boom has driven the demand for land in metropolitan Perth, with the cost per square metre rising considerably as a result.

The Tasmania Consultation Group reported that the current Location Factors for the four Tasmanian SA4 regions fail to reflect the true land costs in regional Tasmania. With limited supply of suitable land in metropolitan Hobart, stakeholders indicated that developments are increasingly occurring in non-metropolitan and regional areas, where the cost of building increases due to the undulating topography – this constrains where houses, including SDA can be built while meeting feasibility requirements.

### Location Factor Methodology

A number of stakeholders suggested that the current approach, which determined Location Factors at an SA4 level, may be creating a perverse incentive for profit driven developers to seek out cheaper land options where investment returns may be more attractive, but participant outcomes impacted. To encourage more equitable distribution of SDA across the community, stakeholders recommended that the Location Factors should be set at the SA3 in some densely populated areas (but not all of Australia) to encourage SDA in inner city, metropolitan areas where many participants want to live.

One submission suggested that the current Location Factor methodology fails to accurately reflect the requirements and costs of regional and remote locations across Queensland. Excelsior Housing Services suggested that a separate Regional and Remote factor should be established to encourage development in regional and thin markets. They observed that the supply of suitable land in the Central West and Far West and Orana SA4 regions of New South Wales is limited, with competition driving the actual cost of land between 250% and 440% higher than is assumed in the current SDA pricing model.

A confidential submission opposed changing the method by which Location Factors were determined and argued that setting Location Factors at an SA4 region allows for “adequate choice of locations proximate to amenity in metropolitan areas”.

One stakeholder in the SDA Institutional Investors Consultation Group also urged caution about changing the current approach to determining Location Factors, noting that financial models and investment decisions have been informed by the current classifications set out in NDIS Pricing Arrangements for SDA.

PowerHousing Australia, however, acknowledged that the Location Factors cannot reasonably be expected to account for unforeseeable events. PowerHousing Australia specifically cited the potential for land prices to decrease in the ACT as a result of changes to land release and use policy. To encourage greater flexibility in the Location Factors methodology, the submission recommended that the NDIA review pricing assumptions as significant events occur.

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# Sprinkler Costs

The NDIA received 16 written submissions that responded to the following questions in the *SDA Pricing Review Consultation Paper*:

* Is the current methodology by which the NDIA accounts for sprinklers in estimating the construction cost of a New Build appropriate?
* Is it appropriate to use the same adjustment for sprinklers for all Building Types, Design Categories and Regions?
* Do the current sprinkler pricing arrangements provide an appropriate incentive for the installation of sprinklers given the mobility needs of some participants? Would it be more appropriate to require the installation of sprinklers in all New Builds?

Issues about the capital and recurrent costs of sprinklers were also raised in many of the Consultation Groups.

## Need for Sprinklers

Stakeholders expressed varying views about the need for installing sprinklers in SDA, with strong views both for and against sprinklers. One stakeholder from the New South Wales and Australian Capital Territory Consultation Group stated that while they do not build to the full provisions of Building Class 3, their organisation would not operate SDA properties without sprinklers as this enabled them “to sleep soundly at night knowing that service provision has been delivered in a property that is suitable for a person living with disability”.

Another stakeholder, from the Victoria Consultation Group, cited a number of serious, fire-related incidents across the sector as justification for the inclusion of sprinklers in SDA dwellings. Home Fire Sprinkler Coalition Australia emphasised that sprinklers are effective in reducing the risks posed by typical modern home fires and suggested that Australian and international studies indicated there is a 90% improvement in occupant survivability for sprinklered buildings.

Written submissions from several stakeholders recommended that sprinklers should be mandated in all new SDA builds because of the importance of sprinklers for participant safety. However, some stakeholders disputed the necessity of sprinklers in SDA, especially when their additional cost and their impact on a building’s amenity were taken into account. For example, a stakeholder in the Victoria Consultation Group suggested that the requirement for Class 3 features in SDA “can create a more institutional feel to the home – which is what SDA is designed not to do”.

This concern was echoed in the submission by NDISP, which stated that institutional-looking sprinkler systems with fire panels are not required for other cohorts who may have difficulty evacuating on their own, such as children or elderly persons, and therefore questioned why they should be mandated in SDA.

Another stakeholder, from the Western Australia Consultation Group, suggested that most operators adopt fire prevention approaches, with appliance tagging, electrical system maintenance, smoke detectors and effective management of candles and decorations by support workers reducing the risk of a critical incident. The stakeholder suggested that the risk of flow on problems if something goes wrong with sprinkler system, such as disruption, damage to electrical equipment, flooring, and personal belongings, also influenced their decision not to include sprinklers.

It should be noted that the effectiveness of sprinklers in preventing serious harm to SDA residents was also questioned by some stakeholders.

MyLife Housing also stated that sprinklers are only one component of an overall fire engineering brief, and that in some cases, an alternative solution may provide better fire safety. One stakeholder from the South Australia and Northern Territory Consultation Group suggested that the presence of 24-hour support workers on site reduced the need for sprinklers in their SDA properties.

There are also state-based differences. One stakeholder stated that, with the exception of Victoria, local building regulations required the bedrooms in Class 3 buildings to be compartmentalised to contain the spread of fire, regardless of the presence of sprinklers. The stakeholder stated that in these cases, sprinklers added an additional cost.

## Cost of Installation

Sprinklers were identified as a significant cost by stakeholders across the Consultation Groups. There was broad consensus among stakeholders that the current allowance in the pricing arrangements of a 1.2% loading on prices for houses and a 1.9% loading on prices for apartments was insufficient to cover the cost of sprinkler installation and maintenance. Stakeholders provided a variety of examples of the costs incurred in installing sprinklers in SDA dwellings (see Table 1 below).

table 1: Sprinkler installation costs

| Dwelling type | Quoted sprinkler installation cost |
| --- | --- |
| House | $120,000 for two houses; $51,000 for one three-bedroom house |
| House | $30,000 for a four-bedroom house |
| House | $69,991.63 for a 2-3-bedroom Class 3 House in Widebay and Fitzroy |
| House | $50,000 for a two-resident house |
| House/Villa | $70,000 to $100,000 per dwelling for non-apartment dwelling types |
| House/Villa | $45,000 to $60,000 for a Part 4 sprinkler system in a house or villa (including $30,000 to $40,000 for mains water connection and $15,000 for uninterruptable power supply batteries) |
| House/Villa | $45,000 to $70,000 per dwelling, depending on water pressure in the area. |
| Villa | $40,000 per Villa development |
| Apartment | $180,000 for a nine-unit development |
| Apartment | $5,000 to $7,500 per apartment, however stated that actual cost could be $60,000 to $80,000 per SDA apartment if 10% of apartments in a development were SDA. |
| Apartment | $78,000 to $90,000 *additional* for a Class 3 building (as compared with Class 1a or 1b) |
| Apartment | $6,000 to $8,000 per dwelling x (total units / SDA units). |
| Apartment | $122,180 for 10 x 1 resident apartments in QLD, including the cost to design, supply, install, commission automatic sprinklers with water tanks and electric booster pump set. |

End of table 1

One submission provided a detailed breakdown of the costs associated with installing sprinklers in SDA dwellings (see Table 2 below).

table 2: Example sprinkler installation costs

|  |  |
| --- | --- |
| Installation cost component | Cost |
| Fire alarm system | $14,249.79 |
| Fire sprinkler system | $35,970.00 |
| Power for fire alarm system | $180.00 |
| Plumbing for fire sprinkler system | $3,000.00 |
| Extra concrete path to fire booster | $390.00 |
| Building certifier fees | $3,315.00 |
| QLD Fire fees | $3,004.84 |
| Council water meter | $6,932.00 |
| Fire evacuation plans drafting | $450.00 |
| Builder fees to collate and organise above | $2,500.00 |
| Total installation cost | $69,991.63 |

end of table 2

There was a common view amongst stakeholders in the Consultation Groups and written submissions that an allowance of 4% to 13% of total build costs would provide the necessary incentives for developers to include sprinkler systems in New Builds.

An example of sprinkler costs as a proportion of total build costs, is shown in Table 3 below. In both de-identified project examples shown below, apartments were purchased prior to construction commencement, so sprinkler installation was as efficient as possible.

table 3: Example sprinkler costs as a percentage of total build costs

|  |  |  |
| --- | --- | --- |
| COSTS AND PERCENTAGE | Project A | Project B |
| Purchase price | $4,380,768 | $7,150,000 |
| Total fire sprinkler cost | $497,851 | $252,905 |
| Percentage of purchase price | 11% | 4% |

End of table 3

However, many stakeholders stated that given sprinkler costs were relatively fixed relative to total build costs, it would be more appropriate for sprinkler allowances to be a flat dollar value for each build type, rather than a percentage of total build costs. A confidential submission stated that “sprinkler capex, fire engineering costs and on-going maintenance are relatively fixed across various design categories”.

Stakeholders also discussed the difference in cost between different types of fire sprinkler systems. SDA Alliance stated that the National Construction Code stipulates that an SDA dwelling with two or more unrelated residents with a disability must be classified as a Class 3 Building, and therefore requires the installation of an AS2118.4 compliant sprinkler system. The submission stated that the cost of an AS2118.4 sprinkler system for a two or three participant house can cost between $15,000 and $40,000 to install.

The SDA Alliance stated that AS2118.4 can trigger other requirements, imposing additional cost. The submission quoted one SDA Alliance member, who described how the installation of a commercial sprinkler system would change the classification of the dwelling from Class 1a or Class 1b to Class 3, noting that this triggered additional building requirements including fire rated windows and a minimum distance between exterior walls and the site boundary. The SDA Alliance stated that these factors add significant additional cost, and risk making SDA developments unviable.

Home Fire Sprinkler Coalition Australia emphasised the differences between FPAA101D sprinkler systems, which are integrated into domestic water supply, and AS2118 systems, which require a standalone water supply. Their submission suggested that installing FPAA101D systems in Class 1 buildings can cost between $3,000 and $5,000 per dwelling, based on previous industry engagements. It suggested that AS2118 systems could cost notably more, quoting a difference of $900,000 between AS2118 systems and FPAA101D systems for a typical mid-rise apartment block.

### Sprinklers in Robust SDA

The SDA Alliance stated that, in some instances, the cost of sprinkler system installation can be higher due to the needs of participants. The submission quoted one alliance member, who described how “in the event of a Robust installation that requires concealed sprinkler heads, and/or caged vandal-proof heads, the cost factor increase from a normal sprinkler installation would be approximately 20% higher”.

The SDA Alliance suggested that these additional costs should be covered in the SDA pricing arrangements particularly if sprinkler installation is mandated.

## Sprinklers in Regional and Remote Areas

Stakeholders reported that there are significantly more challenges in installing and operating sprinklers in rural and remote areas. The submissions from the SDA Alliance and Home Fire Sprinkler Coalition Australia stated that the higher cost of sprinkler installation in rural and regional areas is due to a lack of tradespeople in these areas, with an SDA Alliance member stating that in their experience, it “would be almost impossible to find a registered fire contractor… more than 100km out of the greater Melbourne area”.

However, the submission also stated that these areas have a particular need for effective sprinkler systems given that they are not serviced by the network of distributed fire stations found in metropolitan areas, and therefore “intervention [by a fire brigade] will start later in the fire’s development”. The submission therefore suggested that location-specific costs for regional and remote areas should be considered when setting SDA prices.

The SDA Alliance also stated that if sprinklers are mandated in SDA, then it would be important that the NDIA ensure that any mandate does not limit supply in regional and remote areas. They recommended long sunset periods prior to implementing a sprinkler mandate and working with industry to ensure SDA developers in remote areas could access relevant professionals and services.

## Sprinklers in “Salt and Pepper” Apartment Developments

Some stakeholders raised concerns about the cost of installing sprinkler systems and other National Construction Code Class 3 fire protection requirements in developments that comprised a mix of SDA and non-SDA apartments (salt and pepper developments). A stakeholder in the New South Wales and Australian Capital Territory Consultation Group highlighted the benefit of being engaged early during the planning of mixed-use apartments, noting that “if there is not perfect cohesion in the communication between the development in a salt and pepper development and fire services, then, at the 11th hour, that can trigger change”.

One stakeholder provided, as an example, details of a project in Canberra where they had had to outlay $300,000 (4% of the project cost) to make the entire building compliant with local fire protection guidelines.

Similarly, stakeholders stated that where sprinkler systems were only required due to the presence of SDA in a mixed apartment development, the total cost of installing the system may fall to the SDA provider. One stakeholder suggested that the cost of sprinklers per SDA apartment was less than houses, and added that: “the problem with apartments is that you can't just put sprinklers in 10 [SDA] apartments in an apartment [block] … you have to put them in all of the apartments”.

## Sprinkler Infrastructure Costs

Installing supporting infrastructure required for sprinklers in some locations was cited as another cost that was not fully accounted for in the current SDA pricing model. One stakeholder in the Western Australia Consultation Group stated that a number of more established suburbs in Perth lack the water pressure required for sprinkler systems, and that it was necessary to install tanks and pumps, which added significant cost and delays arising from the approval process. Multiple stakeholders in this Consultation Group stated that the current SDA price loadings for sprinklers did not adequately cover the costs of installing these systems and the necessary additional infrastructure (including additional water connections and ceiling piping), suggesting that these costs made some developments unviable.

The SDA Alliance stated that: “a significant portion of water infrastructure in the outer suburbs of major metropolitan cities and in regional Australia do not have sufficient water pressure and flow to accommodate AS2118.4 systems sprinklers … [and so] …a separate break tank or booster system is required to create enough flow to meet Australian Standards”.

The SDA Alliance cited the experience of one alliance member, who faced an $80,000 additional cost to upgrade mains to support an AS2118.4 system, as required by the National Construction Code, instead of a simpler FPAA101D system. It also described how another member, after discovering that town mains were not sufficient in pressure and flow to maintain appropriate sprinkler pressure, faced the option of either installing a $50,000 tank and pump system, or contributing $200,000 to upgrade the authority water mains.

## Sprinkler Operating Costs

Many stakeholders that include sprinklers in their SDA developments cited additional costs associated with the ongoing maintenance and service over the asset’s lifecycle. One stakeholder from the South Australia and Northern Territory Consultation Group stated that their sprinkler maintenance costs were around $2,000 per annum, with these costs increasing if water pressure on the site is insufficient. Another stakeholder, from the Western Australia Consultation Group stated that their ongoing service charges included $1,700 per annumto connect sprinkler systems back to base, and maintenance costs of $2,500 to $3,000 per annum.

A stakeholder in the SDA Builders and Developers Consultation Group suggested that they were required to have back to base controls in place for homes over 300m2, and indicated that they would require monthly audits to comply with fire requirements, which added a cost of $190 per week. An example of one state has been provided below of the breakdown of on-going costs for a provider, see Table 4.

table 4: Example Sprinkler Ongoing Costs

|  |  |  |
| --- | --- | --- |
| Ongoing cost component | Period | Cost |
| Licenced fire inspector to undertake a sprinkler test | Monthly | $145.00 inc. GST |
| Licenced fire inspector to undertake fire indicator panel test | Monthly | $72.50 inc. GST |
| Fire and Emergency Services | Annual | $3,492.00 inc. GST |
| Other costs, including conducting and recording annual fire safety management plan audit, conducting annual fire escape training, onsite and offsite recording keeping as per Fire and Emergency Services requirements. | Annual | $3,000 inc. GST |
| Total ongoing cost | Annual | $9,105.60 |

End of table 4

Noting the continued cost of maintenance and servicing, the submission recommended that the NDIS should include these costs in the revised SDA pricing model.

# Other Acquisition Costs

The NDIA received 12 written submissions that responded to the following question in the *SDA Pricing Review Consultation Paper*:

* Are there any other costs associated with the acquisition of SDA dwellings that the NDIA should take into account in estimating the construction cost of a New Build, including cost differences between greenfield and brownfield developments?

Issues about other acquisition costs were also raised in most of the Consultation Groups

## Demolition costs

A number of stakeholders reported that the cost of demolishing existing dwellings on a brownfield site is a significant additional impost on brownfield developments, and one that is not adequately accounted for in the current SDA pricing arrangements. One stakeholder in the SDA Builders and Developers Consultation Group stated that while greenfield SDA developments may not be possible or appropriate in some areas, additional costs associated with brownfield development may reduce yield or make projects unfeasible, and recommended that these costs are considered in the SDA Pricing Review.

Stakeholders stated that brownfield land valuations need to consider the cost of the land as well as any demolition costs, site remediation costs and connection of utilities, which can make brownfield sites more expensive to redevelop. Examples of demolition costs of between $20,000 and $50,000 per dwelling were given in various submissions, with the cost depending on the amount of asbestos in the building and other issues. The submission by Edenbridge Living provided a breakdown of demolition costs, including consent, contractor, remediation, vegetation removal and management (see Table 5 below). The submission also stated that other related costs may include service relocations and replacements, particularly in older suburbs, as well as driveway relocations.

table 5: Example Demolition Cost Breakdown

|  |  |
| --- | --- |
| Item | Cost |
| Demolition consent | $1,500 |
| Demolition contractor | $37,000 |
| Remediation (asbestos) | $15,000 |
| Tree and vegetation removal | $17,500 |
| Management | $2,500 |
| Total | $73,500 |

End of table 5

As well as the direct costs associated with demolition, Barwon Investment Partner’s submission stated that the additional time required for demolition created additional cost that should be considered.

## Valuation costs

Stakeholders stated that valuation was a significant additional acquisition cost, due in part to the low number of SDA valuers. One stakeholder in the Western Australian Consultation Group stated that there was only one valuer working for banks valuing SDA in their area, and that “the lack of valuers may contribute to higher valuation cost[s]”.

Carra Property stated that due to a lack of SDA valuers in the market, the cost for valuing two adjoining properties was $7,865. However, advice from their bank manager suggested that valuation of comparable standard residential property would be about $700.

## Consultancy Capacity and Cost

Stakeholders indicated that the cost of consultants and professional fees necessary to support the development of SDA have increased significantly. For example, a member of the Tasmania Consultation Group reported that the allowance for consultancy fees as a proportion of aggregate build costs had increased from approximately 4% at the time of the last SDA Pricing Review to 6.5% in 2022. When discussing the reasons for this, a stakeholder operating an SDA-focussed consultancy cited a ten-fold increase in the price of professional indemnity premiums, with insurance costs accounting for approximately 8% of their aggregate operating costs. The stakeholder suggested that assessors increasing the price charged for their services in line with the increase in their operating costs.

The availability of suitably qualified SDA Assessors was also raised as a challenge by a number of stakeholders. One stakeholder in the Tasmania Consultation Group stated that there are no SDA assessors operating in Tasmania, and as such, have had to use an assessor based in Victoria and cover the cost of their travel. Carra Property indicated they had been “quoted up to $6,000 per dwelling for SDA design certification fees compared to the Liveable Housing Australia certification that used to be under $1,000”.

## Planning Approvals

Several stakeholders stated that the costs for development approvals for SDA development needed to be adequately accounted for in the SDA pricing model. Challenges associated with state planning regulations were discussed in the Victoria Consultation Group, where one stakeholder highlighted the lack of standard rules across Local Government Areas (LGAs) about developing to the site boundary. The point was made during the discussion about land requirements for Robust SDA houses, and how developers are building to the boundary to deliver the high-physical access provisions within the category. The stakeholder stated that developments in certain LGAs require approvals, which compound approval costs and can further delay the delivery of projects.

Planning challenges were also reported by a stakeholder in the Queensland Consultation Group, who expressed difficulty and delays seeking approval from the City of Gold Coast for mixed-use apartments. Another stakeholder stated that the current SDA pricing model fails to account for the administrative burden associated with seeking development approvals from council, delayed development periods and the compliance requirements associated with developing across multiple LGAs.

Endeavour Foundation also stated that in Queensland, local council adopted infrastructure charges create an additional cost for SDA developers. These charges are applied when there is reconfiguration of a lot, a material change of use or building works that generate additional demand on trunk infrastructure, such as water and sewerage networks. The submission stated that these charges are applied differently depending on the Council. It stated that the Endeavour Foundation had observed costs of between $40,000 per site and $120,000 per site and recommended that these additional costs are considered in the SDA pricing model.

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# Exit Costs

The NDIA received 15 written submissions that responded to the following questions in the *SDA Pricing Review Consultation Paper*:

* Are there any alternative use options for the property on exit?
* What loss in value can be expected to occur on the conversion of an SDA property to a general property or other alternative use options at the end of an investment? Does this vary by Building Type and Size, Design Category and Region?
* What fees are incurred on the sale of SDA properties? Do these fees vary by Building Type and Size, Design Category and Region?

Issues about exit costs were also raised in most of the Consultation Groups.

## Costs of Major Refurbishment

Stakeholders broadly agreed that the cost of undertaking the required major refurbishment on SDA at the end of the 20-year investment horizon was a major barrier to investment and incentivises SDA owners to transition SDA to an alternate use at the end of the 20 years. They recommended that the refurbishment assumptions in the SDA pricing model should be reviewed to incentivise SDA as a long-term asset class.

Several stakeholders suggested using a bespoke approach for the minimum refurbishment costs during the re-assessment and re-enrolment process, focused on ensuring outcomes and meeting the minimum SDA Design Standards. In this way, the minimum refurbishment costs would be based on the quality of the dwelling and its design, as opposed to meeting a monetary threshold.

### Self-Providers

Several stakeholders in the SDA Self Providers Consultation Group argued that the minimum refurbishment costs are an obstacle for self-providers to purchase and obtain their own SDA. These stakeholders expressed frustration about the need to meet a minimum refurbishment spend when purchasing an existing property, particularly if the property is compliant with the SDA Design Standard and argued that “if someone, or a family, can purchase an existing property and renovate it to meet the new build SDA design standards then why should it matter how much money they spent along the way”.

Some members of the SDA Self Providers Consultation Group also suggested that participants should be able to renovate existing dwellings to meet the minimum SDA Design Standards to enrol as Existing Builds so they could remain in their own homes for longer. One stakeholder argued that this would “make a difference to housing affordability for some people with SDA funding, where they may be able to own their own home whereas they otherwise would not have been able to, which makes for a huge plus in housing security for people”.

## Lifespan Assumptions

Several stakeholders in the SDA Institutional Investors Consultation Group and the written submissions from the SDA Alliance and BlueCHP challenged the current assumption in the SDA pricing model that New Build SDA will revert to standard residential use after 20 years. Stakeholders argued that the real life of the asset is closer to approximately 50 to 60 years, with one stakeholder in the SDA Institutional Investors Consultation Group indicating that they modelled their investments on the basis of an 88-year design life.

Notwithstanding the cost barriers to refurbishment, multiple stakeholders indicated a willingness to retain their SDA assets as SDA after the 20-year New Build lifespan, should they be able to overcome the hurdle of the required refurbishment costs. One stakeholder from the Tasmania Consultation Group stated that “the assumption we're making on ours [SDA assets] is that they'll be 20 years and then an injection of capital to make it fresh again”.

A stakeholder from the South Australia and Northern Territory Consultation Group similarly indicated that their business’s primary mission is “providing accommodation for the most vulnerable [people], whether it be with disability, so we rarely sell”.

BlueCHP suggested that with regular refurbishment throughout the life of SDA homes would last considerably longer than 20 years. The SDA Alliance stated that although they expect SDA to have additional wear and tear resulting from higher usage, their members generally intend to “retain SDA properties after the 20-year New Build funding expires, most likely with a refurbishment to sustain New Build funding for a further period”.

Stakeholders were concerned that the current pricing arrangement reduced the price paid for a New Build to the price paid for Existing Stock after 20 years, noting that this reduction ranges from 26% to 73% depending on the SDA Design Category. the SDA Alliance emphasised that the Existing Stock revenue must generate sufficient returns, otherwise SDA will be converted to alternate uses.

Stakeholders also recognised that competition would operate in their sector. A stakeholder in the Tasmania Consultation Group suggested that they do not necessarily believe all SDA will endure the entire 20-year SDA lifespan, noting that “in some markets some SDA properties are going to become white elephants really quickly and they're going to be forced to be put back to the general market before their lifespan because competition will allow people hopefully allow people to choose their best outcome”.

## 20-year Lifespan Commencement Date

Several stakeholders expressed concerns about the treatment of the 20-year investment horizon commencement date in the *NDIS Pricing Arrangements for SDA*. Currently, the 20-year investment horizon begins once a New Build has been issued its first certificate of occupancy (or equivalent). There was broad consensus among stakeholders within the SDA Banks and Funds Consultation Group that the 20-year investment horizon for a New Build should be amended to start once the first payment by the NDIS is received. Enliven Housing supported this idea, noting that the time from settlement to enrolment can take a further three months.

## Alternate Use Cost Assumptions

Several stakeholders indicated that they do not expect all of their SDA assets will remain as SDA and expect that they will revert to mainstream residential housing. One stakeholder in the Victoria Consultation Group consultation stated that they are already considering alternative uses for dwellings in areas of potential oversupply of SDA, including other forms of social and affordable housing. Barwon Investment Partners suggested that other potential alternate uses for SDA dwellings could be as Supported Independent Living accommodation, sub-acute care accommodation (if within close proximity of a hospital or rehabilitation centre) or aged care (if at scale).

Enliven Housing indicated that for SDA apartments, conversion to mainstream apartments was the only viable option on exit.

Multiple stakeholders highlighted that conversion of SDA to residential housing may not be possible due to local council planning requirements that require approvals for a change in use. Endeavour Foundation stated that if local council approvals are required for building works, to reconfigure lots, or materially change the use or a property, they can incur additional sale costs. These costs are not standardised across Councils throughout Queensland, however they stated that “in our experience charges have been between $40,000 per site and $120,000 per site. This is a significant additional cost for either the buyer or seller to bear”.

Australian Unity also indicated that some properties (such as Robust SDA, regional SDA and SDA at an inappropriate scale) may not be fit for market regardless of reversion. Several stakeholders reiterated that Robust homes are significantly different to regular mainstream residential housing. The SDA Alliance agreed, noting that “robust Design Category dwellings are often much more bespoke in design and are at higher risk of having little or no practical use beyond turnover of the particular participants they have been designed to house”.

The NDISP stated that this can mean that the alternative use valuations are of these properties are the cost of the land minus demolition costs.

Edenbridge also stated that SDA is custom designed and is “not an appealing or at all functional house type for mainstream re-sale”. Instead, they suggested that it should be assumed that SDA buildings are demolished and the land use changed back to general residential. The SDA Alliance noted that certain SDA features such as circulation spaces can mean that SDA are “designed in a way where it is not possible to convert back [to mainstream residential accommodation] … to maximise resale value”.

Australian Unity argued that SDA developers / providers made losses when properties were converted back to mainstream residential accommodation for three key factors: the initial over-capitalisation of SDA (compared to the residential market); the capital costs associated with conversion; and the rate of properties that are unsuitable for residential occupation (for example, Robust homes as discussed above).

A confidential submission provided details on the over-capitalisation of certain SDA dwellings. Given the increased size requirements for one-bedroom apartments and villas (for example, for circulation spaces), larger configurations such as two-bedroom apartments or apartments with a study are typically purchased and reconfigured to a one-bedroom SDA. The same stakeholder stated that “in our experience, this process costs an additional approximately 15% … [and] where the dwelling reverts to standard residential use, this results in an approximate 29% loss on average from the total development cost”.

Where land is excluded, a confidential submission stated that the loss in value on average increases to approximately 34% on the total development cost. They also stated that Class 3 compliant homes would result in a larger loss in value as they require the purchase of larger, under-utilised land.

With respect to conversion costs, the submissions from BlueCHP and the SDA Alliance suggested that these costs might include the costs to remove disability features such as ceiling hoists, grab rails, internal and external ramps, duress alarms, unnecessary fire exit signage, filling spaces (used for storage) and floor coverings to make properties more marketable. A stakeholder in the New South Wales and Australian Capital Territory Consultation Group indicated that they estimated that it would cost approximately $5,000 to $7,000 to convert an SDA apartment for resale in the residential market. The submissions from Australian Unity and the SDA Alliance suggested that the capital costs of reversion would approximately be 5%.

In addition to the above costs, the submissions from BlueCHP and SDA Alliance suggested that open homes and other traditional sales methods would not be possible or appropriate while a tenant is still occupying an SDA property. They stated that vacancy costs will therefore likely be significantly higher and sales efforts may be dependent on the completion of any renovation or reversion works and the availability of tradespeople to undertake these works. The submissions from BlueCHP and SDA Alliance also stated that property disposal costs (such as sales commissions, auction costs, sales/marketing costs, valuation fees and conveyancing costs) are expected to be similar to normal real estate transaction costs.

The submissions from Liveable Homes Australia, BlueCHP and the SDA Alliance also suggested that due to the size of the market, rural and remote SDA would likely be on the market for longer, and would have higher property disposal costs, such as extended advertising periods, less comparative rates of sales commission.

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# Ownership Costs

The NDIA received 14 written submissions that responded to the following questions in the *SDA Pricing Review Consultation Paper*:

* What vacancy rates can SDA providers expect to encounter? Do vacancy rates vary by Building Type and Size, Design Category and Region?
* What costs of ownership, including maintenance, property management, vacancy management, accounting and tax costs, valuations, reporting and corporate compliance costs, other corporate overheads, regulatory compliance costs (NDIS compliance, FIRB compliance etc.), and investment management costs, are incurred by SDA providers? Do these costs vary significantly by Design Category, Building Type and Size, and Region?
* How long does it take to plan, build and enrol SDA, including delays due to variations to planning consents, designs, community and consultant engagement, strata by-laws etc.? What costs are associated with these activities? Do these costs vary significantly by Design Category, Building Type and Size, and Region?
* How long does it take to accrue SDA Payments from enrolment to initial lease-up, including in assisting with participant approvals, participant engagement and move-in? What costs are associated with these delays? Do these timing delays vary significantly by Design Category, Building Type and Size, and Region
* Are there other timing delays that impact cash inflows in operating SDAs? What costs are associated with these delays? Do these timing delays vary significantly by Design Category, Building Type and Size, and Region?

Issues about ownership costs were also raised in most of the Consultation Groups.

## Maintenance Costs

Some stakeholders discussed the impact and cost of ongoing maintenance and refurbishment. There were different views among stakeholders as to whether these costs were adequately captured in the current SDA pricing arrangements.

Stakeholders stated that the cost of necessary repair throughout the life of SDA should be better accounted for, outside of the assumption about major refurbishment once every 20 years, with multiple submissions noting additional wear and tear in SDA than in typical residential properties. The Summer Foundation, for example, suggested that “damage from wheelchairs and other mobility devices” would potentially necessitate floor replacements and significant repainting. This was supported in the Enliven Housing submission, which stated that wheelchair usage in apartment settings “contributes significantly more damage to floors and walls than anticipated”, and the MiHaven submission, which provided evidence of a $9,970 cost to repair flooring which had been damaged by a participant., Additionally, NDISP’s written submission stated that the organisation had experienced “slightly more than double the maintenance costs of a standard residential property”, suggesting that this was partly the result of participants spending more time in their homes than typical tenants. Endeavour Foundation stated that their maintenance costs for HPS were significant.

Stakeholders did note that repair costs could be partially mitigated by ensuring that robust fittings and fixtures, including doors and windows, were used in SDA builds. One Consultation Group stakeholder stated that maintenance cost allowances in the current SDA pricing arrangements were quite high, and that their “maintenance costs have been very very minimal”. However, the same stakeholder recognised that as the house ages, there are likely to be more maintenance costs incurred. Similarly, a confidential submission stated that the NDIA’s assumed maintenance costs aligned with their expectation of long-term maintenance costs, while BlueCHP and Summer Foundation also tentatively accepted the maintenance costs originally included in SDA prices (adjusted for inflation) as a suitable approximation of actual costs.

As well as costs of refurbishment, it was stated that replacement of necessary equipment was a cost for stakeholders. Enliven Housing revealed that maintenance of assistive technology was a significant cost for the organisation. The submission stated that assistive technology products had short life cycles and were prone to regular failure, with products often needing to be replaced rather than repaired.

Stakeholders from the Queensland Consultation Group discussed the prospect of mandating that providers establish a sinking fund to enable more frequent ongoing refurbishments to maintain the quality of the asset over the 20-year life-span.

### Extraordinary Damages

Stakeholders were particularly concerned about the costs of repairing damages (Extraordinary Damages) to properties caused by residents with behaviours of concern, particularly in the Robust SDA category. One stakeholder, from the Victoria Consultation Group, shared an example of a Robust property that a participant has been in for a few months, explaining that the cost of damage to the property is greater than the annual combined rent for SIL and SDA. They stated that in this instance, prison grade glass and firmer walls were required to minimise damage. Another stakeholder commented on the need to match the Robust build with the individual needs of the participants, and potentially include features that aim to reduce behaviours of concern.

Multiple stakeholders stated that they were finding it challenging to insure their Robust SDA due to the extent of participant damages (Extraordinary Damages), with insurers reported to be hesitant to provide coverage upon understanding the type of behaviours demonstrated by residents.

One stakeholder from the Victoria Consultation Group recommended that the Agency consider developing an additional category, “super-robust”, given the scope of damage that is dealt with in some instances. They suggested that under the current pricing arrangements, participants with severe behaviours of concern are financially unsustainable. Similarly, Carra Property’s submission suggested that there may need to be a mechanism for recovery of damages that are greater than SDA income received.

## Property Management Costs

Stakeholders stated that, while property management costs were broadly in line with those allowed for in the current SDA pricing arrangements at the moment, they were likely to increase over the near term.

Some stakeholders stated that they outsourced the management of their SDA to a separate SDA provider through a management agreement (which can assist in achieving efficiencies), a confidential submission stated that current rates for SDA property management ranged from $2,100 to $2,600 per apartment or villa, and were approximately $5,000 per house. Barwon Investment Partners’ submission stated that property management fees could be between 5% and 15% of revenue. One stakeholder in the SDA Self-Providers Consultation Group indicated that outsourcing the provision of SDA provider services could cost around $4,000 per year, although it was stated that some providers offering these services are currently charging discounted rates and hence these rates cannot be relied upon to remain at this price. A stakeholder similarly stated that “there are indications that [there may be] significant inflation in property management costs in the near term”, with BlueCHP suggesting that this may be due to higher wage costs, a scarcity of suitable staff and “overhead costs such as transport pushing costs higher than the current CPI rate”. In addition, a confidential submission stated that apartments and other dwellings managed by owners’ corporations incur owners corporation fees. It stated that for apartments, this averages $4,700 per dwelling, and for 1-resident villas, $6,100. The submission suggested that these costs are for new dwellings and are expected to grow as they age.

One stakeholder suggested that there may be merit in providing price guidance to assist SDA providers in determining what is fair and reasonable to expect in management fees.

## Vacancy and Tenancy Management Costs

Multiple stakeholders stated the significant time and cost were needed to secure demand for SDA and convert prospects into residents, and that these costs were not fully accounted for in the NDIS Pricing Arrangements for SDA. WAIGROUP’s submission stated that there is a need for clients to go through a lengthy and difficult process to be assessed for SDA, and recommended that “Support Coordinators, SIL providers and SDA Providers be eligible to access payments direct from the NDIA to work with participants who are likely to be SDA eligible who are interested in a new SDA development”.

The time and cost involved with moving new tenants into SDA was also identified, with a submission from Perth Design and Construct noting that “the process for a participant to move in can take several months transitioning from say hospital to a house and involves several viewings and team meetings”. A written submission from Enliven Housing suggested that the cost of finding new tenants could be in the order of $10,000 to $17,000 per tenancy. The submission also stated other changeover costs including SDA administration, cleaning, and property inspection, adding $2,000 to $3,000 per occasion per apartment. In general stakeholders agreed that the current SDA pricing arrangements do not satisfactorily consider these tenancy management costs.

## Vacancy Costs

Stakeholders acknowledged that some vacancy within the SDA market was attributable to oversupply in some areas and may reflect poor investment decisions that should not be incentivised by the Agency. However, there was broad consensus that the 3% to 10% vacancy rates assumed in the current SDA pricing model were too low.Stakeholders stated that vacancy assumptions within these assumptionsdid not allow for periods of higher vacancy in the early stages of an SDA’s lifecycle. Across the Consultation Groups and written submissions, stakeholders stated that they planned for higher vacancy at the beginning of the 20-year New Build lifecycle, with this smoothing over time.

There was also broad consensus among stakeholders that vacancy rate assumptions in the SDA pricing model needed to account for the time between a dwelling’s enrolment as SDA and it being tenanted. One stakeholder stated that because the 20-year lifespan of New Build SDA is measured from the date of the occupation certificate, it has built-in vacancy. They suggested that “it takes so many months to register, so many months for the first person to move in and so many months to fully trade up. If you assume one year to go from occupation certificate to a person moving in, that's actually 5% [of a new-build lifespan]. And then you assume the next 19 years are fully occupied. That's 5% vacancy right there”.

Several stakeholders indicated that participants are having challenges with gaining approval and funding for SDA and supports in their plans. It was stated that this caused downstream impacts on developers who are designing SDA solutions for them and increasing the initial period of vacancy. A stakeholder from the Tasmania Consultation Group suggested that the 20-year lifespan of New Build SDA either needs to begin when the dwelling is first occupied, or the vacancy rates need to be higher to account for the delays in initial tenanting.

### Participant mortality

Stakeholders raised concerns about the impact of participant mortality on vacancy rates in SDA. Stakeholders stated that the assumptions in the current SDA pricing methodology did not adequately account for higher rates of mortality among SDA participants than in the general population, and the time taken to find new occupants following the death of an SDA resident. One stakeholder, from the Tasmania Consultation Group, stressed that they were “dealing with people with degenerative illnesses and multiple disabilities”. The Summer Foundation stated that they had been getting feedback that there are “higher mortality rates in SDA, particularly High Physical Support” than in houses in the broader residential market. This was supported by BlueCHP’s submission, which stated 3% or higher mortality rates among SDA residents.

Stakeholders stated that death among residents can cause significant disruptions to occupancy, and that this was not fully accounted for in the current SDA pricing arrangements The Summer Foundation stated that in most cases, SDA payments cease as soon as a participant passes away. However, they stated that rooms are unable to be used for approximately four weeks following a death, with time required for families to grieve, furniture to be removed, and necessary renovations to be undertaken prior to a new tenant moving in.

WAIGROUP stated that in some situations, particularly in Robust SDA and SDA in regional markets, the SDA Rules currently allow for payments to continue for a period following a vacancy. They stated that this period was 60 days for two- or three-bedroom homes, and 90 days for four- and five-bedroom homes. A stakeholder in the Queensland Consultation Group stated that this period was insufficient to fill the vacancy and introduce a new tenant into a house with existing tenants. WAIGROUP stated that the vacancy risk, particularly in the Robust design category and in regional markets, deterred investment. They recommended that SDA payments should continue for up to 90 days for Robust vacancies in metropolitan markets, and up to 180 days in regional markets. They also recommended that in regional markets, SDA payments should continue for up to 120 days for two- and three-resident homes, and 180 days for four- and five-resident homes.

### Matching Participants and Services

Many stakeholders described the challenges associated with effectively matching participants to available SDA. Stakeholders stated that it could be difficult to find participants who wished to live together, with this impacting vacancy rates, and suggested that the assumptions regarding vacancy in the NDIS Pricing Arrangements for SDA be reviewed.

One stakeholder from the Queensland Consultation Group stated that long-term vacancies can be a particular issue in multi-bedroom homes, suggesting that the longer existing residents get use to a room remaining unoccupied, the more hesitant those participants can become to welcoming another resident. A stakeholder in the Victoria Consultation Group suggested that difficulties with matching can be particularly acute for participants with behaviours of concern. It was also stated that matching SDA participants was not as simple as finding compatible personalities. One stakeholder from the Queensland Consultation Group stated that the process of finding the right home for a participant also required consideration of need, families, care supports and SIL services. Space for required equipment also needs to be taken into consideration when matching participants. SDA Alliance stated that participants often require additional supports, equipment, and materials beyond that anticipated and allowed for in the SDA Design Standards. A stakeholder from the South Australia and Northern Territory Consultation Group suggested that some units are too small to fit all the equipment and consumables required by a participant, and that in group homes, quite often the third bedroom is being used to store equipment and consumables. Given the complexity of matching participants’ needs, Prader Willi Syndrome Australia suggested that vacancy allowances should support “existing residents to participate in the resident vetting process”.

One stakeholder from the SDA Builders and Developers Consultation Group described how they build assumptions into their funding models that they will have a mix of participants in their developments, including “one or two of a lesser category [of SDA supports]”. This might include participants who have funding for Full Accessible dwellings living in a High Physical Support dwelling. Liveable Homes Australia echoed this point, noting that their biggest issue relating to vacancy was having to accept residents with lower funding levels than their accommodation allowed for in order to make Supported Independent Living provision work effectively. They suggested that as a result of accepting participants with lower levels of funding, “their homes generate an income of around 70% of what they could be generating”. Another stakeholder expressed their view that there should be some compensation for situations where, for example, an Improved Liveability participant is living in a High Physical Support dwelling, suggesting that this might confer some benefits on participants such as the potential for “aging in place”.

### Latent SDA demand

Stakeholders suggested that the latency of SDA demand was contributing to higher vacancy rates. Multiple stakeholders suggested that some participants have limited awareness of SDA and their potential to have their eligibility tested for SDA funding. Liveable Homes Australia stated that among vulnerable participants who had not heard of SDA before, there was a perception from participants that Liveable Homes Australia was offering something that was too good to be true. National Disability Services similarly stated challenges with a lack of awareness about eligibility and approval among participants. It was acknowledged by stakeholders that demand activation work being done by the NDIA was important to ease these issues. The Summer Foundation stated that quality data about where people live in SDA, as where they want to live is essential for a “really efficient market”, and that “until we get to that point, we are likely to have a kind of mismatch” between supply and demand, affecting vacancy rates. The SDA Alliance suggested that some SDA and Supported Independent Living providers may be undermining the NDIA’s SDA demand activation efforts. They suggested that Supported Independent Living providers had incentives not to work in the best interests of participants and may provide messaging that dissuaded SDA participants from exercising control and exploring alternative options. The SDA Alliance recommended that the NDIA review Existing Build SDA pricing and pursue other policy measures such as encouraging Existing Stock providers to inform their residents of their right to choose where they live and any alternative options, which may activate demand in the SDA market and reduce vacancy

The Summer Foundation stated there are currently a large number of people (7,000+) currently living in previously state-owned disability housing with either no- or base level SDA funding, who are not aware of their housing options, and that demand activation efforts may be required by the Agency to ensure these people are aware of their options. BlueCHP suggested the Agency could benefit from engaging more with the community housing sector, which has significant housing skills that could be leveraged to assist SDA participants in seeking housing.

### Managing vacancy risk

Stakeholders reported different ways of managing vacancy risk, either by utilising vacant SDA to provide social housing or Medium-Term Accommodation for NDIS participants. One stakeholder in the Large SDA Providers Consultation Group who manages Legacy SDA Stock on behalf of a state government stated that with the increase in alternative, newly built SDA options, it could be difficult to find people with SDA funding to fill their properties. In these cases, properties might be used to provide social housing to non-SDA tenants. The stakeholder therefore receives a return from their otherwise vacant properties, albeit one that is lower than would be achieved with SDA tenants, while using the properties to provide housing to those in need, in line with their social purpose.

A stakeholder from the South Australia and Northern Territory Consultation Group stated the complementarity between the standard build for an Improved Liveability SDA and social housing, with both enable increased amenity and the potential for ageing in place. Another stakeholder, in the SDA Institutional Investors Consultation Group, stated that they are repurposing vacant HPS SDA houses for participants with Medium-Term Accommodation funding. The stakeholder suggested that the Agency should pay the appropriate rate (commensurate to the SDA design category) for a period if Medium-Term Accommodation is being provided in the property.

## Corporate overheads

Several stakeholders stated that they did not believe corporate overhead costs are fully accounted for in the current SDA pricing methodology. BlueCHP, for example, suggested that corporate overheads related to acquisition included time for management, research, stakeholder engagement, regulatory compliance (including Foreign Investment Review Board (FIRB) approval), administration, accounting, legal and other expenses that are only indirectly associated with any single project and could be $6,000 to $15,000 for each apartment and $10,000 to $24,000 for each house.

A confidential submission also stated that organisations with foreign investment are subject to FIRB requirements, requiring “periodic approvals that must be re-applied for every three years, and ongoing compliance and reporting requirements”, which, it was stated, require substantial time, effort and cost. In addition to the corporate overheads related to acquisition, BlueCHP also stated that the organisation faced costs for debt collection of approximately $800 per participant per year, regulatory engagement and compliance of approximately $500 per participant per year and other corporate support costs, estimated at $5,000 per participant per year.

NDISP identified some additional overhead costs unique to SDA service provision, including information technology systems. They detailed how commercially available property management software packages breached Federal participant privacy rules.

The submissions from BlueCHP and a confidential stakeholder also identified overhead costs included stakeholder engagement, research, legal, portfolio management, accounting and tax, reporting, corporate and regulatory compliance, secretarial functions, sustainability report and safeguarding systems. Another stakeholder quoted their audit cost from last year at $6,000, with additional costs of around $1,000 for their policies and procedure documents.

A confidential submission provided approximate ongoing annual costs based on averages to date across their portfolio, by build type. This is summarised in Table 6 below.

TABLE 6: Approximate Ongoing Costs by Build Type

|  |  |  |  |
| --- | --- | --- | --- |
| ONGOING COST | Apartment, 1-resident | Villa, 1-resident | House, 3-resident |
| Tenancy management | $5,800 | $5,800 | $9,500 |
| Vacancy management | $5,700 | $5,700 | $11,100 |
| General property expenses | $3,700 | $4,500 | $14,400 |
| Corporate overheads | $6,600 | $4,700 | $7,300 |

End of Table 6

### Insurance costs and coverage

Insurance was identified as an ownership cost for stakeholders that was not fully accounted for in the current SDA pricing arrangements, particularly for providers of Robust SDA and those operating in areas prone to natural disasters. The submission from Pulse Property Solutions stated that insurance costs had tripled since their first SDA project.

Some specific challenges with obtaining insurance for Robust SDA were identified by stakeholders. One stakeholder stated that they faced a renewal premium of $10,000 on a four-bedroom group home, and that this was “… substantially higher than if you were to just get building contents insurance and other cover for liability outside elsewhere”. They stated that there was only one insurance provider in their market which offers insurance to cover SDA group homes.

Stakeholders from the Queensland Consultation Group stated challenges with obtaining insurance due to the risk of natural disaster. Noting that “… the whole of Cairns is a floodplain” one stakeholder stated that they faced insurance cost for an average house of nearly $7,000 a year, contrasting this with $1,500 to $2,000 in southern states.

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# Tax Costs

The NDIA received 14 written submissions that responded to the following question in the *SDA Pricing Review Consultation Paper*:

* Is the tax treatment of Specialist Disability Accommodation (SDA) Investments, including Goods and Services Tax, Stamp Duty and Land Tax) appropriately accounted for in the current methodology for setting SDA Prices? If not, how can the methodology be improved?

Issues about tax costs were also raised in most of the Consultation Groups.

## Goods and Services Tax (GST)

Many stakeholders argued in submissions and in the Consultation Groups that the current pricing methodology for SDA was flawed as it assumed that Goods and Services Tax (GST) credits could be claimed by SDA developers for any GST costs that they incurred in building SDA dwellings. Stakeholders reported that, in fact, although the supply of SDA was determined to be GST-free by the *A New Tax System (Goods and Services Tax) (GST‑free Supply—National Disability Insurance Scheme Supports) Determination 2021*, the Australian Taxation Office had ruled that GST credits were only claimable under that Determination when the provider of the SDA services was the owner of the dwelling. Stakeholders also reported that the general GST concessions provided to not-for-profit organisations also meant that different organisations (depending on how they were structured) faced different cost structures when they built SDA dwellings. A survey undertaken by the SDA Alliance found that about one-third of SDA developments were able to claim GST credits, while two-thirds of developments required to absorb GST costs.

One group of providers who were reported to face particular difficulties in accessing GST credits for SDA building costs were participants who were seeking to self-provide their SDA. Prader-Willi Syndrome Australia stated that, for families, it can be “onerous, complex, expensive and very impractical” to register as an SDA provider and undertake the ongoing auditing processes. SDA+ stated that self-providers are also in a unique position whereby they are unable (or not easily able) to access GST-free status and are unable to overcome these barriers and offset the loss in revenues unlike larger SDA providers who experience economies of scale.

Stakeholders considered that it was problematic for the development of SDA that the current SDA pricing arrangements did not recognise these differences. Some submissions argued that the current differential treatment of GST for SDA (depending on organisational structure) was a barrier to effective competition, noting that it is unviable for many organisations to adopt business structures that are GST-exempt, and that investors often preferred to separate their investment risks from any regulatory or reputational risks associated with operating the SDA properties.

Stakeholders recommended that, in the short term, the NDIA’s SDA pricing methodology should be amended to recognise that not all developers and self-providers are eligible for GST credits. This could be done by either always including GST costs in the pricing methodology, which would overcompensate some providers, or by differentially pricing SDA based on whether GST credits had been claimed for the GST costs incurred in developing the dwelling.

In the longer term, stakeholders recommended that the Commonwealth and the States and Territories should consider amending the GST legislation so that all developers of SDA could access GST-credits on SDA building costs. They argued that greater clarity would not only reduce costs for the funders of the NDIS but also provide more certainty to investors. Barwon Investment Partners, for example, suggested that a clear and consistent taxation framework would help to minimise hurdles and roadblocks associated with delivering SDA. A confidential submission argued that the lack of clarity in the current legislation was leading to inconsistencies, and to private rulings being obtained at material cost and delay.

Stakeholders also identified that GST issues could arise in the future when SDA properties were sold, either to the general market or to another SDA investor or provider. A confidential submission also stated that the acquisition of brownfield sites for New Build SDA is typically from non-GST registered entities, and are therefore priced at GST-inclusive levels, without the ability to claim a GST refund under the GST-free supply determination that applies to SDA.

## Land Taxes and Stamp Duties

Many stakeholders argued in submissions and in the Consultation Groups that the current pricing methodology for SDA was also flawed as it assumed that all providers faced the same land tax and stamp duty treatment, whereas these treatments varied between for-profit and not-for-profit providers and according to the state or territory in which the SDA dwelling was located. Table 7 below outlines the various stamp duty and land tax rates across each of the states and territories as reported in the submissions received from stakeholders.

Table 7: Land tax and stamp duty – Maximum General Rate

| State | Land Tax | Stamp Duty |
| --- | --- | --- |
| New South Wales | 2.0% | 5.5% |
| Victoria | 2.55% | 6.5% |
| Queensland | 2.75% | 5.75% |
| South Australia | 2.4% | 5.5% |
| Western Australia | 2.67% | 5.15% |
| Tasmania | 1.5% | 4.5% |
| Australian Capital Territory | Fixed charge of $1,392 plus a valuation charge of- 1.14% | 5.0% |
| Northern Territory | n/a | 5.95% |

End of Table 7

A stakeholder from the SDA Institutional Investors Consultation Group stated that there was a 60 to 70 basis points difference on returns between states where a developer can receive a land tax exemption for SDA (such as Victoria) and those where they cannot. Another stakeholder reported that Queensland also offers land tax exemptions in some circumstances, but that these concessions are not commonly employed by SDA providers as it requires declaring properties as commercial builds, which goes against the intent of the NDIS.

Several stakeholders stated that if major investors are located offshore, they can be subject to surcharges on stamp duty and land tax, which can reduce returns further. Table 8 below outlines the various foreign investment land tax and stamp duty surcharges across each of the states and territories as reported in the submissions received from stakeholders.

table 8: Foreign investment land tax and stamp duty foreign investment surcharges

| State | Land Tax Surcharge | Stamp Duty Surcharge |
| --- | --- | --- |
| New South Wales | 2.0% | 8.0% |
| Victoria | 2.0% | 8.0% |
| Queensland | 2.0% | 7.0% |
| South Australia | n/a | 7.0% |
| Western Australia | n/a | 7.0% |
| Tasmania | n/a | 8.0% |
| Australian Capital Territory | 0.75% | n/a |
| Northern Territory | n/a | n/a |

End of table 8

Stakeholders recommended that in the short term the NDIA’s SDA pricing methodology should be amended to recognise the differential application of land taxes and stamp duty. This could be done by differentially pricing SDA based on whether these costs are incurred by the provider and recognising the different rates applicable in each state and territory.

In the longer term, stakeholders recommended that the Commonwealth and the States and Territories should work together to establish a consistent approach to the treatment of stamp duty and land tax exemptions for SDA.

## Other Taxes and Charges

A stakeholder from the Queensland Consultation Group stated that some local government authorities in Queensland also offer reductions in infrastructure charges for not-for-profit entities, which can create an unequal playing field for developers, which can be further exacerbated by other tax concessions offered for not-for-profit organisations.

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# Financing Costs

The NDIA received 29 written submissions that responded to the following questions in the *SDA Pricing Review Consultation Paper*:

* What should the key parameters of the NDIA’s Capital Assets Pricing Model for SDA investments be, including the Equity Beta for SDA investments; the Gearing Ratio for SDA investments; and the extent to which the typical equity investor in SDA can use the franking credits attached to its dividends because of the payment of company tax?
* Does the NDIA’s Capital Assets Pricing Model appropriately account for the costs incurred in drawing investment from a broad range of sources, including institutional investors? If not, how can the methodology be improved?
* What typical gross rental yields can be expected from SDA type properties in the Australian economy? To what extent do gross rental yields significantly vary by Design Category, Building Type and Size, and Region?

Issues about financing costs were also raised in most of the Consultation Groups, including at the New South Wales and Australian Capital Territory Consultation Group; the Victoria Consultation Group; the Queensland Consultation Group; the South Australia and Northern Territory Consultation Group; the Tasmania Consultation Group; the SDA Banks and Funds Consultation Group; the SDA Builders and Developers Consultation Group; and the SDA Institutional Investors Consultation Group.

## Risk

A number of stakeholders expressed concerns about how risks and risk premiums are accounted for in the current SDA pricing methodology. They argued that the risks embedded in the market are more significant than is currently allowed for in the assumptions and methodology that underpin the current SDA prices. Some stakeholders also argued that those risk were higher ow than they had been in the past. A stakeholder from the SDA Banks and Funds Consultation Group stated that “our observation in terms of the risks in reality that have existed over the last four to five years is that there’s been a magnification of risk, rather than a reduction of risk”.

This view was not, however, universal. The WAIGROUP, for example, indicated that they believed that the level of SDA incentives generally provides a satisfactory framework to attract private investment across the different design categories and is sufficient to cover the efficient cost of providing accommodation over its full lifecycle. The WAIGROUP did, however, argue that current prices are not sufficient to cover the costs of replacement and can cause challenges for projects in regional areas and for the Robust design category.

Stakeholders agreed there are a broad range of risks present across the lifecycle of SDA, broadly falling into five categories: Reputational risks; Maturity and scale of the sector; Regulatory risks; Operational risks; and Competitive returns.

### Reputational Risk

Stakeholders from the SDA Institutional Investors Consultation Group and the SDA Banks and Funds Consultation Group stated that, in their experience, many investors have a limited understanding of the SDA market, particularly as it is still in its nascency. They also reported that investors can be especially sensitive to the risk of being implicated in an incident; and were also concerned that some of the options that are available to investors can be difficult to exercise when dealing with vulnerable people. One stakeholder expressed it as follows: “The reputational piece is a huge concern given we’re dealing with extremely vulnerable people and, you know, they cannot be removed from their dwellings”.

Another stakeholder from the SDA Banks and Funds Consultation Group stated that the immaturity of the market made it challenging to undertake qualitative assessments of the level of reputational risk associated with an investment.

Stakeholders also reported that the qualitative assessment of the level of reputational risk involves considering the experience of the SDA operator, their ability to deliver similar projects in similar timeframes, their capability, their historic timeframes to trade up, their closeness to the participants, and their connectivity to SIL providers. Several stakeholders from the SDA Banks and Funds Consultation Group indicated that from their organisation’s perspectives, the least risky investment involves consideration of the scale, operator, geographic diversification of the portfolio, scale of that portfolio and the experience of the operator, and typically involve an “experienced scale provider who’s done it [SDA] across a geographic diversified footprint”.

Stakeholders across several Consultation Groups discussed the challenges that they have experienced in accessing debt capital from banks, due to the risk profile the big four banks place on SDA. One stakeholder from the Tasmania Consultation Group relayed the concerns raised by banks and institutional investors, which was reported as “not sure how would we do that. What happens if something happens? You know, don't want to end up on the front page of the paper that we're kicking people out, you know, with a disability”.

Other stakeholders from the Tasmania and New South Wales and Australian Capital Territory Consultation Groups suggested that unless they can provide evidence to convince banks that they have a solid track record of financial stability, high occupancy, scalability and established organisational processes, it can be challenging to obtain financing.

A stakeholder from the Tasmania Consultation Group explained that they self-funded their first SDA investment after finding bank financing too restrictive, noting that, “with our first SDA development we had to self-fund. We eventually got some finance approved through ANZ but it was just a bit too restrictive and scary to be honest because at the time that was in 2017/ 2018 [and] there was just too much fear across all of the major banks, and so we sold a bunch of assets to self-fund”.

Barwon Investment Partners suggested that lifting barriers to entry for service providers may help to minimise the opportunity for reputational risks associated with incidents as it would enable a scaled and liquid industry. In addition, they stated the importance of “ensuring that in the Public Relations efforts around the NDIS that it is communicated the importance of SDA in delivering the outcomes for Participants and in lowering care costs”.

### Maturity and Scale of the Market

One stakeholder from the Institutional Investor Consultation Group stated that the underlying metrics of the SDA market highlight that it is still in its infancy, and investors are hesitant to allocate capital to the market without greater confidence. A stakeholder from the SDA Banks and Funds Consultation Group similarly suggested that the SDA market is currently “a relatively skinny and illiquid market”. However, this view was not universal., For example, Australian Unity stated that they considered the SDA market no longer nascent, and now in development. Australian Unity did argue, however, that the volatility experienced to date has resulted in hampered institutional investment in the sector.

One issue that was raised by several stakeholders, was that (compared to other established regulated industries such as aged care) the SDA market does not have the same level of scale nor resource capabilities. As one stakeholder from the SDA Banks and Funds Consultation Group stated “there’s a lack of scale, there’s a lack of delivered projects at scale. So we’re way down on an efficient frontier curve, we’ve got a long way to go. And there’s a general lack of comprehension and understanding about the risks across the industry”.

Stakeholders also pointed out that the SDA market “is competing for capital with other asset classes such as commercial real estate and social/affordable housing” and that SDA has a limited pool of tenants (approximately 28,000) which, they argued, suggests that SDA will always be a relatively thin market that will be subject to a higher level of volatility, particularly in comparison to other residential accommodation variant markets.

A confidential submission also suggested that many underlying potential participants in the SDA market “do not yet have their SDA or support funding, placing a limit to the effective size of the market”. They stated that this is increasing the uncertainty surrounding current and forecast demand, whereas other comparable markets have a long history and readily forecastable demand for their product.

Stakeholders stated that the SDA market currently does not have the same depth of transactions, level of investment capital or number/breadth of debt providers (including traditional bank debt and bond markets) as other established infrastructure markets. A stakeholder from the SDA Banks and Funds Consultation Group stated that in time social bonds will be issued for the SDA market, however greater experience, history, and information transparency is required. The same Consultation Group also stated that they have received feedback from large Australian superannuation funds that investment in the SDA market is “…too early, there’s not enough traffic, [and there is] regulatory risk”.

A confidential submission suggested that there is a perception of uncertainty in government commitment to new sectors and schemes (such as SDA), “which has been reflected through protracted and challenging administrative practices”. They argued that this perception has dissuaded investors from wanting to be ‘first-movers’ and waiting instead for an established track record of performance before entering.

Stakeholders from the New South Wales and Australian Capital Territory Consultation Group supported the insights from the Funds and Investor Consultation Group, noting that “larger banking groups are still not seeing a lot of SDA…[and] that level of the bank does find it challenging to do anything other than just value it [SDA] at market value”.

Another stakeholder from the SDA Self-Provider Consultation Group suggested that the main lender typically won’t lend to SDA self-providers due to the small size of the market. SDA+ stated that only three out of 113 home loan financiers in Australia are currently prepared to lend to SDA self-providers, which is significantly limiting the available financing options.

M3 Property suggested that as the SDA market is immature and there is insufficient data to inform long-term trends, they must make educated judgements based on comparative asset classes in order to value assets. Stakeholders in the SDA Institutional Investors Consultation Group also suggested that given the inconsistent information pertaining to performance of the sector, the CAPM should include an illiquidity premium to acknowledge the immaturity of the sector. Barwon Investment Partners agreed, and suggested that an illiquidity premium should be included to account for the unlisted nature of investment in SDA, as listed assets, in comparison, have large amounts of historical data (or close proxies) to inform the CAPM. In addition, as the SDA market does not have the same level of trading history as other comparable social infrastructure markets, it should have a higher risk classification and Equity Beta within the CAPM.

### Regulatory Risk

Several stakeholders indicated that the outcomes of this SDA Pricing Review (and to a broader extent, the NDIS Review) will be crucial for minimising the regulatory risks that are currently present in the SDA market. Stakeholders stated that they are waiting to see how this first SDA Pricing Review assesses the volatility and maturity of the market and adjusts for this in the new SDA pricing arrangements.

Stakeholders (particularly those who invest in SDA) stated that while they are interested in how the SDA Pricing Review will change the pricing arrangements for SDA, they also desire stability in the regulation of the pricing arrangements. Stakeholders stated that significant changes to regulation of the sector may have wide reaching impacts on future investment decisions and investor entry into the market.

Australian Unity indicated that the volatility experienced in the SDA market to date has reduced investor confidence, and suggested that the “2023 SDA Pricing Review is a fundamental point for SDA credibility across the institutional investment market”.

They added that it would be challenging for SDA to reach its intended scale or impact due to a lack of investment if “expected outcomes do not occur, investment fundamentals [are not] upheld or more uncertainty [is] introduced”. A confidential submission reiterated this point, suggesting that “the outcomes of this SDA Pricing Review will be a critical element to build investment confidence in the market and to invigorate the SDA market”.

The importance of maintaining consistent and transparent pricing to attracting and maintaining investment in the market was also emphasised in several of the Consultation Groups and in other submissions. Stakeholders suggested that the SDA Pricing Review, and particularly the level of information and transparency provided through the process, is an important component to providing investors with confidence, reducing perceived risk, and establishing SDA’s stability as an asset class.For example, Barwon Investment Partners indicated that ensuring consistency, certainty and predictability is key to reducing the perception or actuality of risk for investors.

The need for transparency in the pricing arrangements was also emphasised in several submissions and Consultation Groups. For example, recommended that “the NDIA clearly and explicitly outline its assumptions and decision-making processes at every stage of the price calculation” to provide transparency and certainty to help investors assess short term risks. Australian Unity concurred and recommended that any changes that are made to the SDA pricing arrangements should be based on clearly communicated methodologies and indexes so the changes can be maintained in future Pricing Reviews. A confidential submission also highlighted their preference for the use of observable reference points as opposed to long-term assumptions as they better inform the market and provide regulatory confidence.

Several stakeholders also emphasised that the SDA sector was subject to greater regulatory risk than other sectors due to the presence of multiple regulators such as the NDIA, the NDIS Quality and Safeguards Commission, the Australian Taxation Office and regulators associated with fire safety regulation. Barwon Investment Partners argued that the SDA sector has a comparatively greater reliance on government regulation than other real estate classes in Australia, which increases the perception of risk for investment.

### Operational Risk

A number of stakeholders argued that the operational risks present in the SDA market create additional costs, volatility and distrust, particularly in comparison to other comparable regulated asset classes. These operational risks included a lack of insight and transparency into how funding decisions are made; the extended timeframes for decisions to be made or appealed; delayed payment or errors in payments; applications being lost; non-automatic plan renewals and portal related delays; and slow (or no) responses from the NDIA resulting in extended periods of non-communication.

The Queensland Government Department of Seniors, Disability Services and Aboriginal and Torres Strait Islander Partnerships highlighted one of the key points from the Queensland Productivity Commission’s Inquiry into the NDIS, which was that “the SDA approval processes are fragmented, confusing, slow and interlinked, resulting in poorer outcomes for Queensland participants trying to access SDA”.

The submissions from National Disability Services suggested that the lack of transparency and guidance on how eligibility is determined has resulted in difficulties for participants, their families, and SDA providers in understanding if individuals are eligible for SDA, and at what funding category. They argued that the absence of information delays consideration of housing options and building decisions and suggested that there needed to be greater transparency and clarity in the assessment and approval processes to reduce the confusion for participants and SDA providers.

In general, stakeholders argued that greater accuracy, transparency and more detailed information would enable directed and bespoke decisions about the location of assets, build types, desired features, intensity of supports required and the standard to which new developments should be built.

Several submissions indicated that some current Agency processes were unnecessarily increasing operational costs for providers. One stakeholder argued that consistency of cashflows can be a challenge, noting that “it takes a long time to get your initial payment and then once you've got your initial payment, the payments are always in arrears after that”.

Liveable Homes Australia stated that at one point, they were owed $40,000 from the Agency while waiting for missing service bookings to be rectified and issues with back payments to be sorted. A confidential submission stated that on average, it takes 35 days between lodgement of claims and payment to be received. Several other stakeholders agreed with this figure, noting they had estimated the average level of arrears to be 1.2 months, which would reduce investor returns by around 0.5%.

A stakeholder from the SDA Banks and Funds Consultation Group provided data that indicated that on average, it takes approximately 266 days for a participant to move into a property from the start of their SDA journey. This figure was supported by a confidential submission who quoted a total of 151 days for a tenant to receive an SDA outcome and an additional 115 days (on average) to move into an SDA. Delays with moving into SDA were suggested to be due to logistical constraints but also administrative delays with other approvals, such as for SIL or Assistive Technology funding. These timelines were broadly supported by other written submissions, which suggested delays of between three months and up to 12 months from enrolment of an SDA to the move in of a participant.

NDISP suggested that delays are sometimes caused by participants not being approved at the correct level, which requires appeals to be made, during which time SDA providers are still not receiving income. They also indicated that even once a participant is occupying an SDA, it typically takes two months to receive a service booking and be able to make claims (but claim it has taken up to eight months in the past).

### Comparative Returns

A stakeholder from the SDA Banks and Funds Consultation Group suggested that there is no shared understanding of where SDA fits with the traditional asset classes, and in particular if SDA should be considered to be part of the residential sector or as social infrastructure*.*

In general, stakeholders across the Consultation Groups and written submissions recommended that the Agency review the risk premiums associated with the SDA market (and by extension, the Equity Beta) to ensure they are appropriate to attract investors, recognising the comparatively larger risks associated with the SDA market in comparison to other asset classes.

The submissions reported that comparative asset classes such as the residential aged care and supported accommodation markets are perceived by stakeholders to be less risky due to their maturity, volatility, consistency and appropriateness of regulation, and scale. Barwon Investment Partners, for example, suggested that SDA prices need to be set at a level where the sector can “provide attractive returns against other more established sectors” and can compete with other residential and development purchases to enable the purchase of land.

However, some stakeholders saw advantages in the SDA asset class. A stakeholder in the South Australia and Northern Territory Consultation Group, for example, suggested that SDA is more feasible than other social housing alternatives, where only 25% of a resident’s income can be used to pay rent for accommodation.

M3 Property suggested that SDA investors can currently achieve a good return of around 7% to 8%, which when compared to the return on a standard residential asset (usually around 2% to 5%), suggests that SDA is a stable and investable asset class. One stakeholder from the New South Wales and Australian Capital Territory Consultation Group similarly stated that external investors usually look for a rate of return of around 8% to 9%. M3 Property highlighted that some investors seek returns closer to 12% to 15%, however they stated that those returns are neither feasible nor justifiable in this asset class.

## Availability and Accuracy of Demand and Supply Data

Stakeholders in several Consultation Groups and in written submissions argued that there is currently a lack of accurate information about demand and supply of SDA, and that this is impacting the ability of SDA providers, developers, and investors to make financing decisions. They recommended that the NDIA should provide supply and demand forecast data to inform and support development decisions, valuation assumptions, and ultimately provide investor confidence.

TheM3 Property acknowledged that the quality and depth of information that is available has improved over recent years, however they stated that securing demand and matching participants to supply was still a time consuming and costly endeavour. Several stakeholders in the SDA Banks and Funds Consultation Groups were complementary of the demand activation work being undertaken by the Agency, stating that it contributed addressing insufficiencies of the data. However, several written submissions suggested that they would like additional data to be provided relating to supply, demand and vacancies. For example, the WAIGROUP suggested that the following information is provided to the market:

* **Unmet SDA demand**: rolling 3-year estimates by locality, design category and building type.
* **Sources of demand**: for example, older existing and legacy dwellings, new demand from the Young People Residing in Nursing Home cohort, people currently in other inappropriate housing options, hospital exits.
* **Point in time data on vacancy rates**: by dwelling type, design category and locality.
* **Analysis of supply/demand gaps**: by locality, dwelling type, and design category.
* **Actual SDA tenancy allocations**: specifically the funded category of participants in SDA compared to the enrolled SDA classification.

Stakeholders suggested that there are several locations around Australia that have notable mismatches between the supply and demand for SDA. Barwon Investment Partners identified that south-east Queensland “has nearly twice the supply of place[s] than the number of Participant’s [sic] registered with SDA in their plans while other areas are chronically undersupplied”.

Stakeholders from the SDA Institutional Investor and SDA Banks and Funds Consultation Groups suggested that transparent and accurate projected demand and supply data is key to driving better investment decisions by ensuring the market is well informed.

MC Two questioned the pricing model and stated that the SDA market “is not an open market but a set of opportunities open to investors and developers to select the ones [SDA design category, building type and size, location] they consider to be most profitable … [and this has led to] … gaps, oversupplies, shortfalls and housing that is not appropriate”.

JFA Purple Orange also observed that “it appears that the mismatched supply is being driven by both perverse incentives in the current SDA approach and a lack of clear information about what demand there currently is and there will be in the future”.

The WAIGROUP recommended that the NDIA should make a clear statement to the market regarding their position on approving and funding single resident SDA apartments and villas. It was also suggested that more comprehensive information should be released on demand, need, supply and vacancy data to try to reduce risks.

JFA Purple Orange recommended testing alternative approaches to more accurately aligning supply and demand, such as “the NDIA [putting] out tender calls to market for specific developments in specific areas for specific people, and the market resolves its best price in each case”.

### Development and Construction Margins

Several submissions raised a concern that the methodology currently used to set SDA prices does not account for development risk and returns. M3 Property, for example, emphasised the difference between development returns and ongoing returns, and stated that developers are currently seeking a development return of around 15% to 20%. BlueCHP suggested that a developer margin should be included in the methodology that sets SDA prices.

The Summer Foundation also recommended that a developer margin should be considered and stated that developers typically require a margin of around 20% of the total cost for the land and the building. They argued that this margin, which reflects the costs of the development as well as the associated risks “is a direct input cost to SDA investors and is certainly not a component of their investment return”.

The Summer Foundation further suggested that SDA providers also bear project management costs, and pass these on to investors on top of the developer margin, which typically adds an additional 5% to 10%.

## Uncertainty of valuation methods

Several stakeholders indicated that there are few valuers that understand the SDA market and the *NDIS Pricing Arrangements for SDA* and as such, are undervaluing SDA properties.

Stakeholders from the Queensland, New South Wales and Australian Capital Territory, Western Australia and the SDA Self-Providers Consultation Groups indicated that lenders typically value SDA properties as residential properties, which is generating a considerable difference to the true value of the SDA and the return that it provides in comparison to a residential home. Perth Design and Construct also agreed, noting that “banks tend to value on standard rent for the area which doesn’t stack up against the price of the build”.

Synergis Fund stated that there are multiple methods that can be used to value SDA, which can affect the level of gearing, and stated that their valuer bases its valuation on the discounted value of rental cash flows for their SDA.

NDISP concurred, stating that valuations for SDA can be marked down due to uncertainties and risks in the market. They stated that this causes lenders to have low confidence in the market, which often results in higher interest rates or denial of finance. NDISP also stated that when “2nd or 3rd tier lenders [are used], the cost of that finance is typically double”.

One stakeholder from the New South Wales and Australian Capital Territory Consultation Group reported that they have found it challenging to demonstrate to the banks and advocate for an alternative commercial-type valuation model such as a 20-year discounted cashflows model rather than a residential-type market rate model.

SDA+ stated that banks typically don’t recognise SDA payments as income, which results in limited options for SDA self-providers to fund home loans for their own SDA. SDA+ recommended the NDIA should provide a “strong market signal to home loan providers urging them to update their lending policies to recognise a participant’s access to SDA funding as being equivalent to the Disability Support Pension for home loan assessment purposes”.

M3 Property also reported that there are few valuers who are accredited by the Australian Property Institute and sufficiently understand the sector to create unique valuations for SDA. They stated that other valuation firms are adopting standard residential valuation methodologies and use a below the line adjustment for gross rent, however this excludes any ownership costs such as maintenance or service costs. In addition, they stated that these valuation firms tend to lack sales evidence and information about the costs of running an SDA. M3 Property recommended that the Australian Property Institute should monitor the performance of valuation firms to ensure quality and accuracy of valuations across the sector, and enforces compliance actions of valuers that adopt inappropriate methodologies to produce valuations. They also recommended that valuations should be build off actual data rather than benchmarks.

A stakeholder from the Western Australia Consultation Group consultation also stated that the lack of valuers may contribute to higher valuation cost. This sentiment was supported by a stakeholder from the Victoria Consultation Group who suggested that the cost of valuing an SDA asset is generally 5% to 10% higher than for a standard residential valuation as the components and assessments processes themselves have become more onerous.

## Franking Credits

A number of submissions, including the submissions from Australian Unity and the SDA Alliance, pointed that many major institutional investment funds in the SDA market are unlisted managed investment trusts, and hence the inclusion of franking credits in the calculation of SDA prices was not relevant as no company tax is paid by the trust and income is distributed to investors pre-tax. The submissions recommended that the current assumption of a ‘zero’ factor for imputation credits should be maintained in the calculation of SDA prices.

## Gross Rental Yields

Synergis Fund stated that although they do not look at gross rental yield directly as they lease SDA directly to SDA providers under a head lease, they do have target head lease yields which are used determine the viability of a project based on the acceptable operating margin being earned by the SDA provider. For metropolitan and capital city areas, the minimum target yield is 7.00%, and for regional areas, the minimum target yield is 8.00%. They suggested that regional areas require a higher return as a result of a potentially lower target pool of participants, potentially lower appreciation of the underlying land, and the significant premium placed on developing SDA compared to the alternate use of the land (and construction). They also considered that apartments also required a 50-basis point premium over the geographic minimum yields due to the oversaturation of these building typologies.

Barwon Investment Partners suggested that a gross rental yield of 11% to 15% for a fully occupied SDA is desirable in order to maintain the required returns for equity providers. They highlighted that the return to equity providers can however change drastically as a result of the total debt costs (which is contingent on the BBSY rate and the bank’s margin). Additionally, a sufficient return for equity investors may depend on the location (as stated above, metropolitan vs regional areas, as well as the level of amenity surrounding a development), the building type, the participant category (for example HPS may be riskier than IL) and the local demand and supply dynamics.

## Capital Assets Pricing Model (CAPM)

### Gearing ratios

It was widely agreed amongst stakeholders that an appropriate gearing ratio (debt as a share of debt and equity) for the SDA sector is between 20% and 50%. However, there were several stakeholders who favoured gearing ratios closer to 60%.

There were several comments made during the SDA Institutional Investors Consultation Group which discussed the link between gearing ratios and vacancy rates. It was identified that debt financiers have been placing both interest cover ratio and loan-to-value covenants on their loans to account for risks associated with vacancy rates (in a low-vacancy scenario, it is possible to breach the interest covenant). Another stakeholder from the SDA Banks and Funds Consultation Group concurred with this point, saying “…previously, you might have constrained the amount of debt by a gearing ratio. Now I think it’s just pure serviceability” and stated that the gearing ratio is not always the constraining factor, but it could be the interest cover ratio or loan-to-value ratio (LVR). SDA Alliance concurred with this point, and provided a worked example for a three-bedroom HPS SDA which suggests the interest cover ratio would be breached prior to the LVR being reached.

A stakeholder in the Victoria Consultation Group consultation indicated that before interest rates increased, banks were looking for two-times the interest rate for lending coverage, and as interest rates have increased, so too have the coverage amounts which currently sit around 11% to 12%. National Australia Bank stated that with the increasing interest rates, “gearing has become increasing constrained by the ability to achieve the targeted ICR [interest cover ratio], reducing gearing.” Another stakeholder added with low interest rates it was less of an issue, but now that they are rising, the interaction between the interest cover ratio and high vacancy rates are increasing the risk of default. “You can go into default because your occupancy is not where it needs to be. So, you’re going to manage which assets are in your collateral pool. Because you’re not leased up, that occupancy is a problem unto itself. Your interest cover ratio’s a problem unto itself.” A confidential submission stated that using the assumed occupancy rates in the NDIS Pricing Arrangements for SDA and applying a two-times interest cover ratio (which is typical of the major banks currently), the interest covenant would be breached.

Multiple stakeholders stated that a gearing ratio of 20% to 50% is consistent with approaches used for other social infrastructure and is reflective of the absence of a long-term track record of low vacancy and risk in the market. Several written submissions recommended that as occupancy is below what is assumed in the *NDIS Pricing Arrangements for SDA,* and in practice, is subject to volatility, a 50% gearing ratio would be appropriate. A stakeholder from the SDA Institutional Investors Consultation Group went even further and suggested that a gearing ratio of 40% is high based on current vacancy rates. SDA Alliance agreed, and recommended the gearing ratio be reduced to a maximum of 40% to align with investor preference and lender limitations. Barwon Investment Partners similarly suggested that a gearing ratio of closer to 25% to 45% is appropriate to avoid breaching interest cover ratio covenants in the event of vacancy.

One stakeholder from the SDA Banks and Funds Consultation Group indicated that they “…commonly have a requirement in [their lending agreements] that debt to total development cost is probably no more than 50%, which means that the provider is actually targeting gearing much lower than that”. Synergis Fund clearly stated in their submission that they have a draw stop set at 55% LVR to “…ensure that debt cannot be drawn over a certain level set below the covenant” which is based on the valuation of their properties but also have a long-term gearing target of 30% to 35%. Similarly, Australian Unity suggested that institutional property funds typically have gearing targets between 20% to 35%, with a gearing covenant at or above the target. The Australian Unity SDA Fund’s debt facility has a gearing covenant set at 50%, but currently achieves gearing in the order of 30%, and they stated that a gearing ratio around or above 40% would be likely to result in an interest cover ratio breach. SDA Alliance reiterated the above points and suggested that the major institutional investment funds for the SDA Alliance (which include Synergis Fund and Australian Unity as above, but also Conscious Investment Management and Inspire Impact) aim for a gearing ratio less than 60% (generally maximum of 50%) and a long-term gearing target of 30%.

Several factors affect the level of gearing deemed appropriate and sustainable by investors, which includes the valuation methodology, the interest cover ratio, the LVR covenant and the gearing target. Stakeholders in the Victoria Consultation Group disclosed that the gearing ratios have varied based on the location of the asset, type of SDA and banks appetite to lend, but have typically sat between 45% to 65%, however, the gearing ratio is discounted to account for vacancy risk and GST. Another stakeholder from the Tasmania Consultation Group stated that “…our gearing ratio is much lower than other commercial investments. In terms of a new project, [the gearing ratio is] probably more like 50/50 but blended across the whole portfolio…I think banks fear that the value of an SDA property is lower than the cost. So even though they may say we'll go to 60% or even 65%, they'll discount the valuation which will kind of bring it back to about 50%.”

A stakeholder from the SDA Institutional Investors Consultation Group also raised that lenders commonly rely upon alternate best use values to determine appropriate gearing ratios. These data points are not the most accurate benchmarks as they fail to consider the revenue from the SDA asset itself, or the total value of the asset and its inclusions. M3 Property also indicated that banks have been seeking gearing ratios based on the value of the residential property, not of the value of the SDA build on the land.

National Australia Bank recommended that the SDA Pricing Review considers “gearing in relation to the cashflow/yields generated by Design Categories such as Fully Accessible and Robust, where debt capacity is already considered constrained due to the lower SDA payment level”.

Several stakeholders across a number of Consultation Groups including the SDA Self-Providers Consultation Group and the Queensland Consultation Group and the written submission from an individual stakeholder indicated that from their own experiences, there are few banks who will provide loans for SDA self-providers. Bank Australia was stated as the only bank who would lend based on the future SDA payments to individuals, however they require a 20% deposit on the valuation of the property, not the build. “For some people, it’s been as high as like 40%, the deposit they’ve had to put in.” In relation to building Robust SDA, the individual stakeholder stated that Bank Australia require “…a 40% deposit due to the extra cost of building a Robust Home…” and stated that they will not lend based on SDA payments as it cannot be used as income until a participant moves in. Another stakeholder from the South Australia and Northern Territory Consultation Group indicated that it was not only banks requiring these high deposits, stating that private investors are also seeking deposits of 30 to 40%. Stakeholders from the Western Australia and New South Wales and Australian Capital Territory Consultation Groups stated that the banks have typically been using LVR’s around 60% to 65%.

### Debt rate assumptions

Several stakeholders challenged the accuracy of the current debt rate assumption in the methodology that underpins the *NDIS Pricing Arrangements for SDA*, and suggested that it is too low. Several stakeholders also suggested that the cost of debt should also include other debt costs and fees such as establishment fees, facility holding costs and other ancillary costs.

The current debt rate assumption (rd) in the *NDIS Pricing Arrangements for SDA* is 5.2%, which is based on the 10-year Commonwealth Bond rate (rf) and a 2.5% debt margin (DRP). However, one stakeholder from the SDA Banks and Funds Consultation Group suggested that their average debt rate is around 6.85% (although acknowledged that it is a spectrum). Their debt rate is comprised of the Bank Bill Swap Bid Rate (BBSY) forward curve (which is currently around 3.8%) and a debt margin. They use a higher margin than is currently assumed in the *NDIS Pricing Arrangements for SDA* due to the uncertainties and risks present in the market such as vacancy risks. Conversely, Barwon Investment Partners suggested the debt margin of 2.5% is consistent with their current experience. In a confidential submission, one major bank also estimated the cost of debt, which similarly included a base rate comprised of an average market forecast of the BBSY over the next five years (informed by the 5-year swap rate and 10-year Australian Treasury Bond yield) and a margin of between 2-3%, as well as establishment fees, facility holding costs and other legal costs and fees. Their estimate for the cost of debt ranged from around 6.4% to 7.6% per annum over the next five years.

Several submissions suggested that the risk-free rate (rf), which currently is assumed to be 2.70% is instead based on the Reserve Bank of Australia’s ‘F-16 Indicative Mid-Rates of Australian Government Securities’, and particularly the 10-year maturity. This is a market observed and quoted reference point, which is commonly used to calculate the weighted average cost of capital (WACC) for regulated assets, which will help to provide regulatory confidence. An individual stakeholder also suggested that the current risk-free rate is inappropriate, as “…the 10 year Australian Government Bond Yield is unlikely to be below 2.7% per annum. in the foreseeable future.” Barwon Investment Partners agreed with this sentiment, noting that although the risk-free rate is constantly changing, it is currently sitting at 3.1% and is forecast to go to 3.6% over the next 12 months. As the risk-free rate is continually changing, they recommended more frequent SDA Pricing Reviews or implementing a pricing formula which is contingent on users updating for the current risk-free rate. Similar to the initial pricing decision in 2016, Lighthouse and a confidential submission suggested that a three-month trailing average of the risk-free rate should be used up to the release of the SDA Pricing Review outcomes.

The risk-free rate should be consistently used for calculations of both the cost of debt and the cost of equity assumptions. For this reason, a confidential submission suggested that a swaps-to-bond swaps spread should also be incorporated and referred to the current market premium of 50 to 60 basis points.

Several written submissions recommended aligning the rate to other Australian regulators (such as the Australia Energy Regulator) as they undertake substantial analysis and frequently publish information regarding the topic. The Australian Energy Regulator’s current analysis suggests the use of a 6.8% market risk premium for businesses with an expected regulatory control period of less than five years and one month. Conversely, Barwon Investment Partners suggested the current assumption of 6.0% in the *NDIS Pricing Arrangements for SDA* is consistent with several academic papers, however, did recognise these were written prior to the COVID-19 pandemic. Additionally, several stakeholders suggested that there are other debt costs that should be included within the cost of debt calculation, such as establishment and refinancing fees (between 0.1% to 0.2%), hedging costs (0.74%), commitment fees (0.1%), facility holding costs (0.56% to 0.67%), and security and other ancillary costs (such as legal fees, approximately 0.1%). Synergis Fund, SDA Alliance and Australian Unity also stated that the CAPM does not consider the cost of accessing investment equity, which can be material in both direct cost and time. Australian Unity and SDA Alliance suggested that as the risk-free rate increases, the costs incurred to access capital will also increase, and any policy changes impacting SDA which increase uncertainty or delays may also impact investor confidence. Synergis Fund uses an external capital advisor to assist with raising capital, and stated that the fees typically experienced in the market range from around 1.0% to 1.5% of the value of the equity raised. They recommend there should be an increase of approximately 0.1% to reflect these costs incurred in raising equity. Australian Unity and SDA Alliance recommended the cost of accessing investor equity should be included within the CAPM by increasing the return on equity investment (re) by an additional 0.125%.

A stakeholder from the SDA Institutional Investors Consultation Group suggested that the model should include a more accurate cost of capital, noting that that current WACC is approximately 5.42%.

### Land price appreciation assumption

Stakeholders in the SDA Banks and Funds Consultation Group consultation and in a written submission expressed concerns that the current long-term land appreciation assumption in the *NDIS Pricing Arrangements for SDA* is unrealistic. Stakeholders challenged the assumption and stated that most institutional investors are basing their long-term land appreciation assumption on the top range of the Reserve Bank’s target band, around 3%. A confidential submission concurred with this point and suggested that institutional investors they have previously engaged tend to assume CPI growth. Another stakeholder from the SDA Banks and Funds Consultation Group indicated that their organisation would not accept an assumption of 5% per annum growth on a broadacre land bank. As banks lend against the outcomes of independent valuations and valuers are not adopting 5% per annum growth, they also will not accept this assumption.

A confidential submission also suggested that institutional long-term investors are “not inclined to participate in ventures that rely on land price growth to earn a substantial portion of returns”. They stated that some of their investors prevent material land banking and require a 10% limit to the amount of undeveloped land held, due to the additional risks of holding land that requires a return through SDA development and operation.

### Equity Beta

It was widely acknowledged by stakeholders across a number of Consultation Groups and written submissions that the Equity Beta for SDA investments is too low and should reflect a more generous reward for bearing the level of risk in the market. As outlined in Chapter 1 (Financing costs)of the *SDA Pricing Review Report on Consultations,* there are several factors which support a higher Equity Beta, such as: the immaturity of the market, particularly in comparison to other related asset classes (such as the aged care market); the size and scale of the market; the level and types of risks present in the market; the nascency of the market; and a lack of available and accurate information.

One stakeholder in the SDA Banks and Funds Consultation Group consultation suggested that the aged care market is a decent proxy for the SDA market due to their numerous shared similarities. However, it was recognised that the Equity Beta for the SDA market would be higher than that used in the aged care market as the SDA market is much smaller and less established. The aged care market uses Equity Betas for its assets of around 0.9 to 1.25 and are generally less levered to around 20% to 30%. Several written submissions provided a comparative analysis of the Equity Betas for similar sectors such as retirement villages and aged care in Australia and New Zealand, as shown in Table 9.

table 9: Comparative analysis of equity betas for similar sectors

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Company | Gearing (debt to debt + net assets) | 10 Year Weekly Equity Beta Bloomberg | 5 Year Weekly Equity Beta Bloomberg | 5 Year Weekly Equity Beta FactSet | 2 Year Weekly Equity Beta Axiom (risk model) | Average | Predominant sector | |
| Estia Health Ltd | 0.17 | 1.07 | 1.18 | 1.42 | 0.64 | 1.08 | Aged care |
| Regis Healthcare Ltd | 0.63 | 1.17 | 1.26 | 1.54 | 1.04 | 1.25 | Aged care |
| Arvida Group Ltd | 0.25 | 0.98 | 1.04 | 1.13 | 1.20 | 1.09 | Aged care and retirement village |
| Ryman Healthcare Ltd | 0.39 | 1.32 | 1.25 | 1.82 | 1.56 | 1.49 | Retirement village |
| Summerset Group Holdings Ltd | 0.33 | 1.33 | 1.31 | 1.54 | 1.55 | 1.43 | Retirement village |
| Mean | 0.35 | 1.17 | 1.21 | 1.49 | 1.20 | 1.27 | n/a |
| Median | 0.33 | 1.17 | 1.25 | 1.54 | 1.20 | 1.25 | n/a |

End of table 9

They identified that these relatively comparative sectors have an average Equity Beta of approximately 1.27 (but stated that this does not adjust for the lower level of average gearing across these sectors). They recommended the SDA market should have an Equity Beta higher than these sectors. Lighthouse came to a similar conclusion, suggesting that a higher Equity Beta of approximately 1.27 should be applied, assuming gearing of 50%. Another stakeholder from the SDA Institutional Investors Consultation Group reiterated this point and suggested that the sector is more volatile than a regulated asset with an Equity Beta of 0.9.

Many stakeholders recognised that the Equity Beta for the SDA market should be higher than that of comparative regulated asset classes. As the SDA market is also competing with other mature asset markets (such as the aged care market, but also markets including healthcare and commercial real estate) for capital, it must provide a higher Equity Beta to account for the risks that are present. Australian Unity, SDA Alliance and Synergis Fund all stated that these markets are established and mature, experience low volatility (of both revenue and valuations), are optimally scaled and are appropriated regulated with suitable barriers to entry. A confidential submission reiterated this point, highlighting that the SDA market is inefficient due to delays or errors with approvals, appeals and payment decisions. Other factors raised which lend to a higher Equity Beta than comparable sectors include: the nascency, illiquidity and thinness of the market; limited observable transactions at scale; the effective monopsony structure of the market (whereby the Agency controls both access and renewal of SDA plan approvals and supports the funding granted to participants); high levels of vacancy; delays or errors with payments; low barriers to entry; and insufficient governance.

To further evidence the claim that the current Equity Beta is not appropriate, Australian Unity and Synergis Fund stated that the average pre-tax return on equity of their current operating projects are around 9.1%. This is lower than the notional 11.6% return on equity included within the SDA Position Paper, and the delta between the intended and actual returns (of approximately 27%) suggests the Equity Beta should be increased.

During the SDA Institutional Investors Consultation Group, it was also discussed that there are a number of vacant developments and properties in fringe locations due to a lack of demand. This is creating greater risk for investors, as the market does not have a depth of trading history and an understanding of acceptable vacancy rates. Stakeholders are concerned that if the wrong type of SDA is built, or if it is built in an area where there is no demand, there is no exit strategy or recourse. The result is illiquid assets based on the equivalent residential value less the transition cost to refurbish the asset to something that the residential market would deem acceptable. Stakeholders suggest the CAPM and Equity Beta do not sufficiently account for this liquidity risk, providing further evidence to increase the Equity Beta.

In comparison to the majority of stakeholders who were consulted, M3 Property highlighted that they believe SDA should be considered a less risky investment as the revenue is sourced from government and adequate funding safeguards are available such as vacancy payments, refurbishment costs and loading for Robust participants. Synergis Fund suggested that if the *NDIS Pricing Arrangements for SDA* appropriately address vacancy and land and build costs, an Equity Beta below 1.0 could be defensible. Barwon Investment Partners anticipate that the Equity Beta will reduce over time as investors become more comfortable with the sector and have greater historic data to predict future cashflows and risks.

# Indexation of Base Prices

The NDIA received 25 written submissions that responded to the following questions in the *SDA Pricing Review Consultation Paper*:

* Is the current methodology by which the NDIA indexes SDA base prices each year between 5-yearly price reviews appropriate? If not, how can the methodology be improved?
* Are there any other issues with the indexation of SDA base prices?

Indexation issues were also raised in most of the Consultation Groups

## Indexation of SDA plans

Several stakeholders argued that SDA plans should be indexed in a similar manner to core support plans. They stated that currently they absorb CPI increases until participant plans are reviewed. A stakeholder from the SDA Institutional Investors Consultation Group indicated that for unusually long plans, delaying indexation of the SDA payments can have a significant impact over time.

Multiple stakeholders stated that cashflows can be significantly impacted by the lag in application of CPI indexation, leading to a reduction in investor participation or an increase in the margins required by investors to account for higher risk. A confidential submission stated that due to the timing of when the March CPI increases are introduced to the new *NDIS Pricing Arrangements for SDA* in July*,* there can be a significant lag of three to 15 months (or longer if the frequency for a plan review is lower) for these revenue escalation increases to be included in participant SDA plans.

Australian Unity suggested that annual indexation in March should be continued in order to maintain investor confidence and support continued investment. However, they were one of several stakeholders who recommended automatically enacting CPI indexation on participant SDA plans each year on July 1, rather than at the end of the plan or once a review is undertaken. Alternatively, stakeholders stated that if indexation could not be enacted immediately each year, the *NDIS Pricing Arrangements for SDA* should increase the prices for annual indexation to recover the delay in application.

A confidential submission also stated that the tenancy laws in various states placed restrictions on the frequency of rent reviews, so that the escalation in Reasonable Rent Contribution by Participants was also typically delayed by up to six months.

## CPI versus Construction and Land Cost Indices

Many stakeholders reported that land and build prices have increased significantly over the past five years, and many stated this has been particularly pertinent over the last two years caused by considerable inflation, which has impacted the feasibility to develop SDA. PowerHousing Australia also suggested that the housing stimulus introduced as part of the previous Federal Government’s COVID-19 recovery response inadvertently placed pressure on the availability of land, and escalated land and building material prices.

Several of the stakeholder Consultation Groups discussed using an indexation method that is more reflective of the price changes in the construction market, such as the Construction industry Producer Price Index or the Cordell Construction Cost Index (CCCI) rather than CPI as it is a trusted source which more accurately updates for current market conditions in the construction industry. Other suggestions from stakeholders included using a construction industry index such as the Rowlandson’s trade guide, the Building Cost Index, using CPI but incorporating data from either the Personal Consumption Expenditures Price Index (PCE) or Producer Price Index (PPI), or using the ABS Input Price to House Construction Index to dictate the prevailing base cost of construction. A stakeholder from the SDA Builders and Developers Consultation Group also recommended that a construction price index specific to commercial construction would be ideal to reflect the price increases to the materials typically used within SDA builds.

Several stakeholders across a range of consultation groups recognised however that the indexation method should consider the entire lifecycle of SDA, not only the construction phase. Many stakeholders across the Consultation Groups and in written submissions detailed the increases in underlying land prices caused by significant inflationary pressure over the last few years. Although the increases in land prices vary depending on location, many suggested they have increased beyond CPI and beyond the land price assumptions included in the *NDIS Pricing Arrangements for SDA*. JFA Purple Orange suggested that they were concerned that the “current blunt form of indexation disincentivises building in high value locations”, and PowerHousing Australia suggested that the divergence in land prices and the *NDIS Pricing Arrangements for SDA* has led to geographical imbalances in SDA development. Inspire Impact stated that for two metropolitan high demand regions (Melbourne-Inner SA4 and Sydney-Inner South West SA4), the property yields have fallen from about 6.0% in 2018 to about 3.6% in 2022, which is below the market minimum to attract investment, making them unviable.

Edenbridge Living suggested that land base price assumptions (and Location Factors if necessary) should be indexed annually by a data set such as the ABS Residential Property Price Index or Heron Todd White Property Report (or similar). Alternatively, Liveable Homes suggested that the land component should be indexed by Core Logic Land Price Data. SDA Alliance stated that indexation of the costs of residential land is “… more challenging in the absence of a recognised industry indicator, with the closest available indicator being median house price as a proxy for land price growth…” however stated that this data is only publicly reported at the state/capital city level via the Australian Bureau of Statistics. Stakeholders from the SDA Builders and Developers Consultation Group discussed including a land indexation component to the overall indexation methodology, however it was acknowledged that it would be difficult to determine an appropriate method to combine two indices. As the percentages of land costs and construction costs as a portion of total costs vary significantly between geographic regions, build types and design categories, using a weighted average to determine a single price index would be challenging and inaccurate for a large proportion of SDA developments.

A majority of stakeholders from the SDA Institutional Investors and SDA Banks and Funds Consultation Groups and several written submissions argued strongly against changing the indexation method from CPI. Indexation by CPI is well known, aligns with other regulated assets and is understood by investors. Maintaining indexation by CPI promotes consistency and investor confidence, which is particularly important when attracting foreign investment into the market. A confidential submission emphasised the need to have stability of regulatory practice and Australian Unity highlighted that it is SDA’s “indexation by the CPI that is a fundamental pillar of investor appetite”. One of the stakeholders from the SDA Institutional Investors Consultation Group stated that many investors have undertaken modelling to understand future performance of SDA based on CPI, performed due diligence, and expect outcomes based on CPI. Making significant changes to the indexation method would raise scepticism, reduce consistency, and would make investment, especially offshore investment, into the market more challenging. A stakeholder in the SDA Institutional Investors Consultation Group consultation stated that if build costs are more volatile than CPI, it may raise uncertainty in the market and may not incentivise additional construction.

## Frequency of SDA Pricing Reviews

Several stakeholders were concerned that surges in the costs of land and/or building materials between the five-yearly SDA Pricing Reviews can impact or stall the construction of new SDA as it becomes financially unfeasible. As property prices are cyclical, one stakeholder in the SDA Self-Provider Consultation Group reported that if the market experiences a period of rapid growth after the prices are set, “you could have a period of three or four years where there’s just a total stalling of new projects”. SDA Alliance concurred with this point and suggested that “significant cyclical market movements (such as the massive price inflation experienced in recent past years) might not be efficiently addressed [by five-yearly Pricing Reviews] and this becomes a barrier to supply”.

WAIGROUP indicated that while indexation by CPI is adequate to cover the operational cost increases SDA and ensure a sufficient return for investors, “in an inflationary environment where the Land and Building cost increases are substantially higher, some proposed projects will inevitably become commercially unviable”. Although the residential construction industry experiences regular cost cycles, WAIGROUP stated that over the last 12 months, they have not been able to respond to demand in a “range of mid to high value suburbs in Perth, and has been forced to negotiate alternatives…which is not always ideal”. The NDISP suggested that in order to correct for the sharp price rises that have occurred over the past few years (particularly since the COVID-19 pandemic), a “one-off 16% increase, on top of inflationary increase in pricing, is needed”.

Several stakeholders across a range of Consultation Groups and written submissions recommended undertaking limited SDA Pricing Reviews in between the regular five-yearly SDA Pricing Reviews to adjust and reset the SDA base prices. SDA Alliance recommended that a limited SDA Pricing Review could be triggered by monitoring the Building Cost Index (BCI) to determine when real construction costs are outstripping CPI, or monitoring when the median house price for a location is outstripping CPI, as both of these will indicate when excessive land and building costs are negatively impacting investment decisions. Alternatively, several written submissions suggested that it could be beneficial to have more regular SDA Pricing Reviews, for example, every two to three years. PowerHousing Australia also agreed with undertaking limited SDA Pricing Reviews given specific issues and events, however emphasised the risks this may pose to investors and developers if prices were to decline under such a review. WAIGROUP suggested however that if prices for land and construction were reset during a ‘boom’ period, already completed SDA projects “…would also be beneficiaries and may in fact make ‘windfall’ gains”. Barwon Investment Partners provided another suggestion, which is to have a minimum indexation of “CPI and another relevant index in periods of high land and construction costs escalation” as CPI often doesn’t capture the sharp escalations in land and construction costs.

Another recommendation that was discussed by multiple stakeholders were variations of setting the *NDIS Pricing Arrangements for SDA* each year and then indexing it using CPI from that point over the lifetime of the asset. Several stakeholders stated that CPI is a good indexation method for ownership and management costs, and Liveable Homes Australia suggested that *“*once the First Payment is made based on the *[NDIS Pricing Arrangements for SDA],* it should then be indexed by CPI as Construction and Land Costs don’t affect Ownership or management costs”. The SDA Banks and Funds Consultation Group suggested that adopting this style of approach could get complex and could result in developers and investors delaying investment and construction of an SDA build to maximise their returns. Additionally, they raised the point that it may reduce the consistency of returns, impacting the attractiveness of SDA to investors. It may also promote investors to trade SDA in the residential market to maximise profits if the rate of return in the SDA market is reduced, which could impact SDA’s attractiveness as a long-term asset to both investors and tenants.

A suggestion was raised by one stakeholder from the SDA Institutional Investors Consultation Group to agree to a 10-year lease with a base price that reflects the costs of construction at the commencement of operation of an asset that is then indexed by CPI over the 10-year period. Other stakeholders in the Institutional Investors Consultation Group indicated that this approach would be complex to implement and would create uncertainty, deterring investment.

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# Other Issues

The NDIA received 7 written submissions that responded to the following questions in the *SDA Pricing Review Report Consultation Paper*:

* What pricing arrangements should apply to dwellings that are designed to meet a mixture of design categories? For example, a 3-bedroom house where one bedroom meets the requirements for the High Physical Support design category and two bedrooms meet the requirements of the Improved Liveability design category. Note, the shared areas would need to meet the requirements of both design categories.
* With regard to New Build (refurbished) dwellings, do the costs set out in Appendix F of the [NDIS Pricing Arrangements for Specialist Disability Accommodation 2023-23](https://www.ndis.gov.au/providers/housing-and-living-supports-and-services/specialist-disability-accommodation/sda-pricing-and-payments/sda-pricing-review) reflect the appropriate amounts needed to be spent to refurbish dwellings to a New Build quality? Do they sufficiently take into account differences in locations?
* Are there any other factors that have the potential to impact on the ability of the Scheme to attract the required level of investment, including from institutional investors, over the next twenty years across the range of SDA to meet the reasonable and necessary support needs of participants?

These questions were also discussed in most of the Consultation Groups

## Flexible funding and living arrangements

Several stakeholders indicated they would like greater flexibility with SDA funding to enable flexible living arrangements for participants, perhaps through Appendix G of the *NDIS Pricing Arrangements for Specialist Disability Accommodation*.

Several stakeholders in the SDA Self-Providers Consultation Group suggested that there were three key variables – care, housing, and technology – that could be varied to reduce costs. In relation to the care part, a stakeholder suggested that the Independent Living Options that exist as part of the NDIS should be promoted and encouraged, as bespoke housing solutions such as living with friends and family could reduce care costs significantly. They stated that it is challenging to utilise these flexible living arrangements under the current *NDIS Pricing Arrangements for SDA*.

A stakeholder from the SDA Self-Providers Consultation Group suggested there should be a mechanism to allow a trade-off between the care/support budget and the SDA budget within a participant’s NDIS plan, as informal care can “really have massive impacts on the costs associated for the Scheme”. One participant involved in the SDA Self-Providers Consultation Group shared that “most people who have my level of injury seem to have care 24-hours a day, and I get by with way, way less than that because I’ve got a house that suits my needs, and I don’t have overnight assistance”.

M3 Property also suggested that allowing participants’ more choice in where they live and the type of funding, they receive may help to reduce longer-term vacancy rates and encourage appropriate matching of demand with supply.

## Innovative financing for self-providers

PowerHousing Australia recommended that the NDIA should consider alternative finance arrangements to encourage greater institutional investment into SDA and greater ownership by participants. They suggested opportunities for attracting private investment and superfunds through providing greater incentivisation within this SDA Pricing Review. Further to this point, another key recommendation raised by PowerHousing Australia was to consider “prospects for home ownership for SDA tenants through a shared equity-like model”. They suggested this could work whereby SDA providers retain 20% to 40% equity ownership of the properties, while allowing the SDA tenant an opportunity to secure a 60% to 80% ownership of the SDA they live in. This idea would support the NDIS principle of supporting the independence and social and economic participation of people with disability. One of the key principles raised by an individual stakeholder is that “SDA residents should be assisted to become homeowners”, and emphasised that home ownership is an economic right, for all Australians. The individual stakeholder highlighted that if “participants [could] use their payments flexibly to become homeowner”, then “instead of paying SDA payments for decades the Australian Government can pay them for the life of a mortgage, then cease paying them”.

Stakeholders stated that accessing funds for a deposit on SDA was a significant challenge for self-providers of SDA. In a submission, an individual stakeholder suggested that while SDA payments would enable participants to service a loan once construction is complete, putting together a deposit of 20% may be “unattainable for a lot of people”. He also suggested that “it would be fantastic if there were some way for some of the SDA funding to be paid upfront to assist self-providing participants with their deposit requirements”, noting that by subsequently providing a lower ongoing payment, the total amount of SDA funding may be no more than would otherwise be paid. Written submissions from a number of other individual stakeholders echoed the suggestion for funding to be provided to participants up-front to assist with deposits or construction costs.

The SDA Self-Provider Consultation Group stated that the deposit requirements for land are a high barrier to overcome, and suggested that the Agency provide an upfront payment, coupled with a discounted ongoing SDA payment stream. This may help self-providers and family investors overcome the initial purchase of land.

SDA+ also suggested that NDIA should work with government agencies in relation to existing government-sponsored home loan schemes to modify their rules to enable fair and equitable access by SDA self-providers, as currently the rules mean that many SDA self-providers are not eligible and do not meet minimum criteria Alternatively SDA+ recommended that a provision should be included within the SDA Pricing Review for a home loan support scheme (or in partnership with existing home loan scheme administrators) to ensure SDA self-providers have adequate and equitable access to home loans.

## Mixed design categories

The Summer Foundation observed that when SDA is designed to meet a mixture of design categories, all of the common areas and mandatory features must meet the requirements of the highest design category. This implies that SDA funding for lower category designs is not sufficient to recover the proportion of shared area costs. To address this issue, the Summer Foundation recommended that the price for mixed category dwellings show be increased to ensure that SDA funding is adequate to recover the cost of the asset.

## Group homes

JFA Purple Orange suggested that the current definition of group homes was problematic and conflicted with the precepts of choice and control that sit at the heart of the NDIS. While the Consultation Paper defines group homes as houses that have 4 or 5 bedrooms, the submission suggests that the “defining characteristic of a group home is not… how many people live there”, but instead is “any circumstance where a person is forced, or compelled due to a lack of alternative options, to live with one or more other people not of their free choice”. The submission stated that JFA Purple Orange had “heard from numerous NDIS participants about how they are pressured or forced to live with ill-matched housemates, including situations where they have been subjected to violence as a result”. The submission suggests that the “forced shared group housing model perpetuates segregation from the rest of the community”. It therefore suggests that the Agency should proactively encourage new innovative individualised options while ending its support for the group home model.

JFA Purple Orange’s submission also noted that the group home model may lead to challenges with attracting occupants in coming years. Managing vacancy within group housing arrangements, in the context of Existing and Legacy Stock, was also discussed in the Consultation Groups. One stakeholder in the Large SDA Providers Consultation Group described how they operate Existing Stock on behalf of the NSW Government through a fee-for-service model. They inherited around 138 existing sites from the NSW Government, mostly in the Sydney metropolitan area, as part of the State’s divestment in 2017 and 2019. Of these sites, the vast majority are grandfathered Basic design, with a few IL and one or two Robust; The stakeholder stated that managing vacancy was a significant challenge for them. Despite spending “... lots of time working with state government on trying to come up with some solutions for their asset management strategy”, they stated that vacancy levels across their portfolio had increased from 89% when inherited from the government, to now around 17% to 18%.

It was stated that higher vacancy rates within Existing Builds is causing challenges for SIL providers by making rosters inefficient. In order to minimise these outcomes, the stakeholder stated that they have on occasion had to move participants out of homes with high vacancy according to a crisis management strategy rather than the participants own choice and control.

The stakeholder suggested that if the SDA pricing methodology were amended to increase the price for Existing Builds, it is likely that they would seek to renegotiate terms with the NSW Government. In particular, they would seek to increase their vacancy allowance to allow additional funding to provide necessary services for participants. Alternatively, they suggested that they may seek to retain additional funding to establish a sinking fund for ongoing maintenance works.

## Leasehold and freehold acquisition of land

The SDA Banks and Funds Consultation Group discussed the difference between leasehold and freehold acquisition of land. It was stated that state governments with land in desirable locations tend to be inclined to offer leasehold options for their land. As such, it was discussed if leasehold and freehold acquisition of land should be considered as part of the SDA Pricing Review. One stakeholder from the SDA Banks and Funds Consultation Group stated that institutional investors typically assume freehold acquisition in their modelling as leasehold introduces a number of additional risks and uncertainty, “particularly around tenure. These [SDA] are long dated assets, so consequently, they need to be very long dated lease arrangements in order for that to align”. Another stakeholder agreed that leasehold would have significant impacts for banks when considering the cost of capital, particularly when assessing their loss given default.

One stakeholder from the SDA Institutional Investors Consultation Group also identified that they was aware of “church-based groups, NFPs and government organisations who have land they would love to see used, but can never sell you the land”. The stakeholder argued that the current *NDIS Pricing Arrangements for SDA* incorporates appreciation of land value, but in order to provide housing in inner metropolitan areas, freehold acquisition of land may not always be possible. The stakeholder recommended considering a solution to allow leasehold acquisition of land, as it may assist in encouraging greater SDA construction in brownfield metro locations. To provide for leasehold acquisition of land, the model would need to assume the land has a terminal value of zero.

## Self-managed super funds

Several members of the SDA Institutional Investors and SDA Banks and Funds Consultation Groups suggested that they have noticed greater involvement from so-called “Mum and Dad” investors into the SDA market. They suggested that this is due to the market having low barriers to entry. One stakeholder from the SDA Institutional Investors Consultation Group suggested that “funding from Mum and Dad investors is a very inefficient use of capital”. Another stakeholder from the SDA Banks and Funds Consultation Group stated that “…there’s been a lot of Mum and Dad investors, property spruikers, coming into that [SDA] market and really seeking to commoditise what is being provided to participants”.

The general sentiment was that these “Mum and Dad” investors are investing primarily in suboptimal and often greenfield locations, which is an inefficient use of their capital. In addition, stakeholders in the SDA Institutional Investors Consultation Group stated that these types of investors are not able to contribute the necessary amounts of capital required to meet the projected upcoming demand for SDA. The Consultation Group emphasised that the pricing model should be built to attract large investments that can support the scale that is required.

# Appendix A – Consultation Activities

## List of Submissions

The following table lists the 46 submissions received in response to the consultation paper.

| Index No. | Organisation |
| --- | --- |
| S000 | Youngcare |
| S001 | Social Infrastructure Investment Partners (Synergis Fund) |
| S002 | Inspire Impact |
| S003 | Enliven Housing |
| S004 | PowerHousing Australia |
| S005 | Excelsior Housing Services Pty Ltd (Excelsior Housing Services) |
| S006 | National Disability Services |
| S007 | Carra Property |
| S008 | Prader Willi Syndrome Australia |
| S009 | Bayley House |
| S010 | WAIGROUP Pty Ltd (WAIGROUP) |
| S011 | Steve Anthony |
| S012 | MC Two Pty Ltd (MC Two) |
| S013 | Karen Shine |
| S014 | MiHaven |
| S015 | Wilmie Hallquist |
| S016 | Allan Hunter |
| S017 | Tom Butler |
| S018 | WesTrac Pty Ltd (WesTrac) |
| S019 | José Robertson |
| S020 | JFA Purple Orange |
| S021 | Australian Unity Limited (Australian Unity) |
| S022 | MyLife Housing |
| S023 | Michelle O’Brien |
| S024 | Lighthouse Infrastructure Management Limited (Lighthouse) |
| S025 | Barwon Investment Partners |
| S026 | Link Wentworth |
| S027 | Edenbridge Living |
| S028 | Endeavour Foundation |
| S029 | Rehability Australia |
| S030 | Liveable Homes Australia |
| S031 | Macquarie Financial Products Management Limited (Macquarie Limited) |
| S032 | National Australia Bank |
| S033 | NDISP |
| S034 | Summer Foundation |
| S035 | Pulse Property Solutions |
| S036 | Home Fire Sprinkler Coalition Australia |
| S037 | BlueCHP |
| S038 | Queensland Department of Seniors, Disability Services and Aboriginal and Torres Strait Islander Partnerships |
| S039 | DEC Housing |
| S040 | SDA+ |
| S041 | Perth Design and Construct |
| S042 | SDA Alliance |
| S043 | Iris M Ives |
| S044 | Lisa Johnson |
| S045 | Vera Living |
| S046 | Victorian Department of Families, Fairness and Housing |

## Organisations Consulted by the Review

The following table provides details of the organisations who were engaged to provide specialised, technical evidence to the NDIA as part of the SDA Pricing Review.

| Name of Organisation |
| --- |
| Ability SDA |
| Access Australia |
| Accessible Homes Australia |
| Adapt Housing |
| AnglicareSA |
| Apeiron Homes |
| Aruma |
| Australia New Zealand Bank (ANZ) |
| Australian Unity |
| Bandara and Associates |
| Bank Australia |
| Barwon Investment Partners |
| Bayley House |
| Blue CHP |
| Bridge Housing |
| Bright Light |
| Carra Property |
| Cerebral Palsy Alliance |
| Community Housing Canberra (CHC Australia) |
| Community Housing Limited |
| Conscious Investment |
| DEC Housing |
| Disability Housing Australia |
| Disability Housing Solutions |
| Disability Living |
| Edenbridge Living |
| Empowered Liveability |
| Endeavour Housing |
| Enliven Housing |
| Everhomes |
| Evolve Housing Limited |
| Excelsior Housing Services |
| Focus ACT (YourHome Canberra) |
| Gen U |
| Good Housing |
| GR8 property |
| Guardian Living |
| Hartley Lifecare |
| Holding Redlich |
| Homes Victoria |
| Hopkins Centre |
| Housing Choices |
| Hume Community Housing |
| Identity WA |
| Illowra |
| Independent Living Villages (ILV) |
| insitu Housing |
| Inspire Impact |
| Langford Support Services |
| Life without barriers |
| Lighthouse Infrastructure |
| Link Wentworth |
| Li-Ve Tasmania |
| Liveable Homes Australia |
| Macquarie Limited |
| MC Two Pty Ltd |
| M3 Property Group |
| Metcalf Group SA |
| Metricon |
| MiHaven |
| Minda Housing |
| MS Society of Queensland |
| Multicap |
| My Specialised Accommodation Solutions |
| MyLife Housing |
| National Australia Bank (NAB) |
| National Disability Services |
| NDISP |
| Nesti |
| Orion Care |
| Perth Design + Construct |
| Pulse Property Solutions |
| Rare Innovation and Unify SDA |
| Rocky Bay |
| Sana Living |
| SDA + |
| SDA Alliance |
| SDA Com |
| SDA Management Australia |
| SDA Options |
| Summer Foundation |
| Super Community Care |
| Synapse Australia |
| Synapse |
| Synergis |
| The Kalculators |
| Uniting Communities |
| Unity Housing |
| Vera Living |
| Westpac Banking Corporation |
| Westrac |
| Yaran Property Group |
| Yooralla |
| Youngcare |

# Glossary

| Term | Definition |
| --- | --- |
| Apartment | Apartments are self-contained units occupying only part of a larger residential building.  Apartments are typically built above or below another dwelling. Self-contained dwellings that are separated from other dwellings by walls alone are not apartments but are likely to be a villa, duplex or townhouse. |
| Basic Design Category | Housing without specialist design features but with a location or other features that cater for the needs of people with disability and assist with the delivery of support services. |
| Brownfield | Denoting or relating to land or premises that are located in an area that previous has been subject to development. |
| CAPM | Capital Asset Pricing Model |
| Class 1b | A class of building defined by the National Construction Code that is used for boarding houses, guest houses or hostels (or the like) that have a total floor area less than 300m2 and ordinarily has less than 12 residents. |
| Class 2 | A class of building defined by the National Construction Code that is used for buildings containing 2 or more sole-occupancy units, each being a separate dwelling. |
| Class 3 | A class of building defined by the National Construction Code that is used for a residential building, other than a building of Class 1 or Class 2, that is a common place of long term or transient living for a number of unrelated people. This may include:   * A boarding house, guest house, hostel, lodging house or backpackers accommodation; * A residential part of a hotel or motel; * A residential part of a school; * Accommodation for the aged, children or people with disabilities; * A residential part of a health-care building which accommodates members of staff; or * A residential part of a detention centre. |
| CPI | Consumer Price Index – [Consumer Price Index, Australia, December Quarter 2022 | Australian Bureau of Statistics (abs.gov.au)](https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release) |
| Duplex | Villas, duplexes and townhouses are dwellings for three or less residents.  Villas, duplexes and townhouses are generally separate but semi-attached properties within a single land title or strata titled area.  Dwellings will be separated from other villas/duplexes/townhouses by a fire-resisting wall (although fire resistance is not required for Existing Stock).  Each villa, duplex or townhouse must have a separate and reasonably accessible entry to/exit from the property, and participants must not be able to internally travel between dwellings. That is, participants must be required to exit one dwelling in order to enter another. Restricted internal access between dwellings may be provided for support staff only.  Villas, duplexes and townhouses may also be ancillary dwellings that are located on the same parcel of land as another dwelling (for example: fully self-contained ‘granny flats’). |
| Equity Beta | A measure of the volatility, or systematic risk, of a security or portfolio in comparison to the market as a whole. |
| Existing Stock | An SDA dwelling that is enrolled to house five or fewer long-term residents and that was built before 1 April 2016 and that was used as disability related supported accommodation under a previous state, territory, or Commonwealth scheme. Existing dwellings must comply with the requirements of a New Build. |
| Fully Accessible Design Category | Housing that has been designed to incorporate a high level of physical access provision for people with significant physical impairment. |
| Gearing Ratio | A measure of how much of a company’s operations are funded using debt vs funding received from shareholders as equity. |
| Greenfield | Denoting or relating to land or premises that are located in an area that has not previously been subject to development. |
| Group Homes | Group homes are distinguished from other houses by the larger number of residents (four or five long-term residents). |
| GST | Goods and Services Tax |
| House | A House is a detached low-rise dwelling with garden or courtyard areas.  To be a house (rather than a villa/duplex/townhouse) the dwelling must be located on a clearly separated land area (for example, separated by a fence, hedge or other form of delineation that is in keeping with the character of the neighbourhood).  It must not share a wall, roof, entry area, driveway, car parking or outdoor area with any dwelling other than an ancillary villa/duplex/townhouse with no more than one resident.  A house is not to have more than two ancillary villa/duplex/townhouses, otherwise the primary dwelling is likely to be considered a villa/duplex/townhouse.  Each house must have a land area that is proportional with the number of residents and keeps with similar properties in the neighbourhood. |
| High Physical Support Design Category | Housing that has been designed to incorporate a high level of physical access provision for people with significant physical impairment and requiring very high levels of support. |
| Improved Liveability Design Category | Housing that has been designed to improve ‘liveability’ by incorporating a reasonable level of physical access and enhanced provision for people with sensory, intellectual or cognitive impairment. |
| Interest Cover Ratio | A debt and profitability ratio used to determine how easily a company can pay interest on its outstanding debt. |
| Legacy Stock | An SDA dwelling that meets the SDA Existing Stock requirements except that it houses more than 5 residents. |
| LVR | Loan to Value Ratio |
| m2 | Metres squared |
| New Build Dwelling | An SDA dwelling that is enrolled to house five or fewer long-term residents and that was issued its first certificate of occupancy, or equivalent, on or after 1 April 2016. All its shared areas, and any bedrooms for use by SDA-eligible participants must comply with the Minimum Requirements for a Design Category other than Basic. |
| New Build (refurbished) Dwelling | An SDA dwelling that was built before 1 April 2016 but that has been significantly refurbished since 1 April 2016 and now meets all of the requirements for an SDA New Build. |
| NDIA | National Disability Insurance Agency |
| NDIS | National Disability Insurance Scheme |
| Onsite Overnight Accommodation | Onsite Overnight Assistance |
| Robust Design Category | Housing that has been designed to incorporate a high level of physical access provision and be very resilient, while reducing the likelihood of reactive maintenance and reducing the risk to the participant and the community. |
| SA3 | Statistical Area Level 3 – see [Australian Statistical Geography Standard (ASGS) Edition 3, July 2021 - June 2026 | Australian Bureau of Statistics (abs.gov.au)](https://www.abs.gov.au/statistics/standards/australian-statistical-geography-standard-asgs-edition-3/latest-release#:~:text=Statistical%20Areas%20Level%203%20%28SA3s%29%20are%20designed%20for,most%20have%20populations%20between%2030%2C000%20and%20130%2C000%20people.) |
| SA4 | Statistical Area Level 4 – see [Australian Statistical Geography Standard (ASGS) Edition 3, July 2021 - June 2026 | Australian Bureau of Statistics (abs.gov.au)](https://www.abs.gov.au/statistics/standards/australian-statistical-geography-standard-asgs-edition-3/latest-release#:~:text=Statistical%20Areas%20Level%203%20%28SA3s%29%20are%20designed%20for,most%20have%20populations%20between%2030%2C000%20and%20130%2C000%20people.) |
| SDA | Specialist Disability Accommodation |
| SDA Design Standard | Documents the detailed design requirements for newly built SDA seeking enrolment under the NDIS. |
| Strata | A model of property ownership in Australia that allows individuals to buy ownership in a larger property or building. Owners of a ‘lot’ within a strata complex own their own lot as well as a share in the ‘common property’. |
| SIL | Supported Independent Living |
| Townhouse | Refer to the definition for Duplex |
| Villas | Refer to the definition for Duplex |