

SDA INVESTMENT INSIGHTS

Specialist Disability
Accommodation explained



WealthAdviser

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Before you get started

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Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

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Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That's why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

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At the rear of this handbook you will find details on how to book an appointment.

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About this eBook

The residential property market for an estimated 28,000 of the more than 400,000 participants in the National Disability Insurance Scheme (NDIS) is chronically under-supplied, with around 12,000 of those participants in urgent need of more suitable accommodation.

This includes around 6,000 younger participants living in aged care facilities, and a further 6,000 or so living at home in unsuitable and burdensome situations (with aging parents for example, or in properties with unsafe or inappropriate design characteristics).

In a bid to attract private investment into the market, the federal government has created a program known as Specialist Disability Accommodation (SDA) that provides the opportunity for significant upside for residential property investors.

With SDA presenting the potential for 16%* (or even higher) gross investment yields from residential property, and with such positive ethical and social objectives at its core, no wonder some Australian property investors are thinking that maybe it's time to forget negative gearing their next investment property!

But is SDA really all that it seems and what are the pitfalls. This eBook has been created to provide the reader with an overview of the SDA scheme and explore not just the opportunity but what those potential pitfalls are.

In this eBook we will explore:

- What is SDA and how does it work
- What are the objectives of the scheme and what are the vital social outcomes it seeks to achieve
- What potential returns might be available to property investors through the scheme
- Who can invest and how might an investment be achieved
- What are the risks and the pitfalls
- What is 'impact' investing

The SDA Scheme overview

SDA is a relatively new Australian federal government scheme, with positive ethical and social objectives at its core. SDA presents the opportunity for residential property investment that can achieve gross yields of up to 16% pa* (or greater) for properties registered into scheme, while still retaining the long-range capital upside that has long been attractive to investors in Australian residential property.

The Australian residential property market for an estimated 28,000 of the more than 400,000 participants in the National Disability Insurance Scheme (NDIS) is chronically under-supplied, with around 12,000 of those participants in need of more suitable accommodation.

This includes around 6,000 younger people with disabilities living in aged care facilities, and a further 6,000 or so living at home in unsuitable and burdensome situations (with aging parents for example, or in properties with unsafe or inappropriate design characteristics).

The federal government's SDA scheme has been designed to address this chronic under-supply.

SDA is a sub-set of the NDIS, and through it the federal government is striving to motivate private investment of circa \$5Bn in its bid to see residential properties built to accommodate around 12,000 SDA qualifying tenants.

SDA potentially provides retail and wholesale investors with the opportunity to participate in, and achieve above market returns from, this important emerging market, and to help deliver vitally important social outcomes for people with disabilities and their families and carers through a unique impact investment.

The NDIS is a legislated commitment of all Australian governments requiring agreement of all governments for any change. The SDA commitment forms part of the legislated framework. Like other parts of the NDIS, SDA employs a market-based approach by making funding available to participants who meet the criteria for SDA.

The intent of the SDA pricing approach is to stimulate growth in the supply of high quality and fit-for-purpose SDA. The timeframe for the pricing has also been aligned with the expected investment horizon of institutional investors, having been set at 20 years.

Potential property portfolio yields with SDA
Gross rental yields of residential property in Australian capital cities have tended to range from lows of 2.5% pa to highs of 6.0% pa (in select circumstances). As such, investors have had to sacrifice cashflow and rely on long-range capital (and rental) growth to achieve higher returns.

The federal government's SDA scheme tips that equation in the favour of investors seeking short-term yield with gross yields of up to 16% pa* (or greater) achievable for properties registered into scheme.

Who's paying the rent and for how long

Many investors may gain comfort from the fact that, in effect, it's the federal government who's paying the "rent". Subject to the provisions of the scheme, including of course occupancy by an SDA qualifying participant, SDA registered properties have "rent" paid in two components, with "new build" payments running for a period of up to 20 years, reverting to "established stock" payments if the property remains in the scheme thereafter.

The most significant component of "rent" is the SDA subsidy which is paid by the federal government direct to the registered SDA provider (that the property is registered to), with a smaller component direct from the tenant through their RRC (Reasonable Rent Contribution allowance). (*based on \$650,000 house meeting SDA criteria for High Physical Support needs, with overnight on-site assistance (ODA) and with two (2) SDA qualifying residents.

Beyond the initial \$5Bn investment phase

Whilst the federal government's initial objective is to see around \$5Bn plus of investment through the scheme the opportunity is perhaps even greater. Of the approximately 28,000 NDIS participants

who will qualify for housing funding, around 12,000 of these do not currently have an appropriate home. Clearly this is where the need is greatest for participants and their carers; and for the government. However, in addition to this initial 12,000 participants, it is envisaged that over time a reasonable percentage of the further 16,000 participants (who currently have an existing housing solution) will be drawn to relocating to more modern housing.

As such, long-term demand has the potential to go well beyond the initial supply target of properties to accommodate 12,000 tenants, as participants exercise increased independence when provided a greater choice within the SDA market.

Specialist Disability Accommodation (SDA) scheme in more detail

Within the National Disability Insurance Agency (NDIA) budget, an estimated \$700 million per annum is to be spent creating and maintaining housing for 28,000 participants with the highest needs. This equates to approximately 6% of the participants within the NDIS at full rollout. The NDIS will provide housing funding to participants through their individual plans.

Participants can then select the housing provider and style of their choice.

The NDIA estimates that of the 28,000 participants that will have housing funding, around 12,000 participants do not currently have an appropriate home. These may include people living at home with aging carers or young persons in residential aged care facilities (RACF). To meet this demand, the NDIA has estimated that between 500 and 900 new properties will need to be constructed each year for the next 10 years. It seems likely that peak demand will occur well before 10 years has passed as the full rollout of all 460,000 NDIS participants is planned for 2019 at which time most, if not all, SDA payments that are likely to be authorised will be assigned to plans.

In addition to this initial 12,000 participants in most need, it seems likely there may be a gradual shift from the existing 16,000 participants that currently have existing housing but want to relocate to more modern, appropriate and accessible housing. Therefore, demand may again increase towards the end of the first 10-year period as participants become more independent and exercise greater choice and control by moving between SDA options within the market.

It should be noted that the SDA scheme has been developed to support accommodation for participants who require specialist housing solutions to assist with the delivery of supports that cater for their extreme functional impairment and/or very high support needs.

SDA does not refer to the individual support services (often referred to as Supported Independent Living or SIL), but the homes in which these SIL supports are delivered. SDA may include special designs for people with very high needs and/or may have a location or features that makes it feasible to provide complex or costly supports. SDA funding is not intended to cover SIL costs, which are assessed and funded separately by the NDIS. It is an adjusted contribution to the cost of the physical building, including the land it is on. This contribution is designed to ensure that participants don't have to pay more for their homes because of their disability.

SDA registration process

The process for registering SDA with the NDIA involves two main stages, being; registering as an SDA provider with the NDIA; and, following registration, enrolling each SDA dwelling with the NDIA.

SDA dwellings can only be registered by an approved and registered SDA provider.

SDA providers must operate in accordance with the NDIA's Terms of Business (including addendum for SDA), SDA Guide to Suitability, and the Quality and Safeguards Working Arrangements (which vary from State to State).

An SDA provider must also ensure its SDA dwellings are provided in compliance with all applicable Commonwealth, State and Territory codes and laws. For example, habitability requirements, quality and safeguards requirements, building standards and tenancy laws. For SDA this includes the obligations in the NDIS Act and the SDA Rules; all State and Territory laws, codes and standards that apply to the properties; and all State and Territory quality and safeguarding requirements.

SDA payments

SDA is a payment that the NDIA allocates to a participant within their plan and is in addition to their day-to-day and goal based individual SIL supports. The decision to include the payment in a participant's NDIS plan is on a case-by-case assessment of the person's need for housing.

The SDA Rule released mid-March 2017 provides insight into the decision processes the NDIA (or delegates) implements in determining if SDA is appropriate for a participant's plan and what type of SDA is also appropriate in terms of location, style and availability.

The NDIA's approach is designed to ensure stability for those currently in accommodation including SDA, while at the same time providing incentives to stimulate new supply, reflecting the choices and preferences of people with disability.

SDA payments commence only once a tenant moves into the dwelling. The SDA provider is required to fully fund the development or acquisition of properties and assume the vacancy risk from when the dwellings are first registered (until the first tenant/s move in); and when a participant moves out.

Payments can only be claimed when the dwelling is occupied; and has met and maintained all of the minimum requirements, including all relevant certifications and declarations, that are required to claim payments; and the claim is made in relation to a participant that has long term residence at the SDA dwelling; and there is a written agreement regarding SDA with the participant, in accordance with the Specialist Disability Accommodation Addendum to the Terms of Business for Registered Providers.

A claim can be for no more than the price per participant that applies to the enrolled property as described in this Price Guide for SDA.

Note that RRC payments are made direct from the tenant to the SDA Provider.

Establishing and Maintaining SDA Registration

Before SDA payments can be claimed by an SDA provider, each SDA dwelling must be enrolled with the NDIA through the provision of information which must be submitted independently of the provider registration process. Dwelling Enrolment Forms may only be submitted by a registered SDA provider.

Once a dwelling is registered as an SDA property there are ongoing requirements for the physical maintenance of the property as well as requirements in line with Quality & Safeguarding framework that are currently a state-by-state transitional approach.

Some of the key requirements for ongoing SDA registration include the following:

- Provider to have a third-party accredited Quality and Safeguarding manual, procedures and policies, and maintain records of the systems use.
- Procedures for both urgent and routine maintenance requirements requested by the tenant.
- An annual declaration regarding maintenance and servicing attesting that the property remains in a suitable condition and details of any works performed that result in a change to registration category.
- Tenancy agreement that complies with the requirements of the NDIA.

SDA dwelling types

SDA payments can only be made to an SDA provider that provides housing which meets the NDIS' SDA design requirements. The SDA accommodation categories include apartments; villas, duplexes and townhouses; houses; and group homes.

The Building Code of Australia (BCA) classifications are used to define the physical characteristics of each category. The SDA Price Guide provides further information around the categories as illustrated in the table below.

Building Type	Definition	Typical Building Code classification
Apartments	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.	Class 2
Villas Duplexes Townhouses	Villas, duplexes and townhouses are dwellings for one, two or three 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 by a fire-resisting wall (although fire resistance 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 traverse 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 (e.g. fully self-contained 'granny flats').	Class 1(a)(ii), or Class 3 Class 1(a)(i)
Houses	Houses are detached low-rise dwellings 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 (e.g. separated by a fence, hedge or other form of delineation that is in keeping with the character of the neighbourhood) and must not share a wall, roof, entry area, driveway, car parking or outdoor area with any dwelling other than an ancillary Villa/Townhouse/ Duplex 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/Townhouse/ Duplex). Each house must have a land area that is commensurate with the number of residents and in keeping with similar properties in the neighbourhood.	Class 1(a)(i), Class 1(b)(i), or Class 3
Group Homes	Group Homes are houses and the description of houses above applies to Group Homes except Group Homes are distinguished from other houses by the larger number of residents (four or five long term residents).	Class 1(b)(i), or Class 3

Design requirements

The SDA Price Guide and SDA Rule also expand on the minimum requirements and the minimum functionality required.

Dwellings of all Building Types must, as a minimum, contain a kitchen, bathroom, living/dining area, entrance/exit, and at least one bedroom. Dwellings that do not contain each of these elements cannot be enrolled as SDA or must be enrolled as part of a larger building type. Dwellings may contain more than one of each of the elements.

Within each of these categories there are a number of levels of SDA registration depending on the level of accessibility and support required. These categories are defined by Liveable Housing Australia's (LHA) design guidelines and are listed in the table below. The LHA Guidelines are publicly available from the LHA website.

The requirements for each category are set out in the table on the following page.

SDA design category, description and minimum requirements

Basic: 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. The Basic design category only applies for Existing Stock or Legacy Stock (SDA Rules 6.10(c)) and cannot be included in a participant's plan except as an alternative interim option or if the participant already lives in Basic design SDA (SDA Rules 4.4 and 4.11).

Improved Liveability: 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. Liveable Housing Australia 'Silver' level -The designed environment responds to the needs of participants through improved physical access and enhanced provision for participants with sensory, intellectual or cognitive impairment. For example, Improved Liveability dwellings should include one or more additional design features such as luminance contrasts, improved wayfinding and/or lines of sight depending on the needs of the participants.

Fully Accessible: Housing that has been designed to incorporate a high level of physical access provision for people with significant physical impairment. Liveable Housing Australia 'Platinum' level -External doors and external outdoor private areas to be accessible by wheelchair. Bathroom vanity/hand basin to be accessible in seated or standing position. Power supply to doors and windows (blinds), for retrofit of automation as necessary. Consideration must be given to whether it is appropriate for the kitchen sink, cooktop, meal preparation bench area and key appliances (dishwasher, oven, microwave oven, laundry appliances) to be accessible in seated or standing position.

Robust: Housing that has been designed to incorporate a high level of physical access provision and be very resilient, reducing the likelihood of reactive maintenance and reducing the risk to the participant and the community. Liveable Housing Australia 'Silver' level - Resilient but inconspicuous materials that can withstand heavy use and minimises the risk of injury and neighbourhood disturbance including high impact wall lining, fittings and fixtures (e.g. blinds, doorhandles) secure windows, doors and external areas; and appropriate sound proofing if residents are likely to cause significant noise disturbances (if required must retrofit in new builds if not previously installed at building stage) laminated glass. Layout with areas of egress and retreat for staff and other residents to avoid harm if required • Consideration must be given to providing adequate space and safeguards throughout the property to accommodate the needs of residents with complex behaviours.

High Physical Support: 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. Liveable Housing Australia 'Platinum' level -External doors and external outdoor private areas to be accessible by wheelchair. Bathroom vanity/hand basin to be accessible in seated or standing position. Power supply to doors and windows (blinds), for retrofit of automation as necessary. Consideration must be given to whether it is appropriate for the kitchen sink, cooktop, meal preparation bench area and key appliances (dishwasher, oven, microwave oven, laundry appliances) to be accessible in seated or standing position. Structural provision for ceiling hoists. Assistive technology ready. Heating/cooling and household communication technology (e.g. video or intercom systems) appropriate for the needs of residents. Emergency power solutions to cater for a minimum two-hour outage where the welfare of participants is at risk. 950mm minimum clear opening width doors to all habitable rooms.

Concentration limits

There are restrictions on the number of dwellings that can be registered within a single land parcel. This has been designed with the goal of the elimination of large group homes over the next 10 years.

In situations where more than two residents will reside in at least one of the dwellings on the single parcel of land, the dwellings that may be enrolled as SDA on the single parcel of land can house no more than 10 residents. In situations where two or fewer residents will reside in each dwelling on the single parcel of land, the dwellings that may be enrolled as SDA on the single parcel of land can house no more than 15 residents or 15% of the total number of expected residents whichever is greater.

Provision for onsite overnight assistance

SDA payments are higher in circumstances where an SDA registered property has facilities for Onsite Overnight Assistance (OOA). OOA is only paid when an additional space is used by support staff who provide support services overnight to participants living in the same dwelling complex as the OOA space or in a nearby dwelling. The form of OOA varies between building type and the amount of the OOA assistance payment made in relation to this space as a consequence may depend on whether access to the OOA is shared between multiple dwellings.

Given the likely support requirements of qualifying SDA tenants, it would seem advisable to endeavour to always include provision for OOA in assets an investor buys/builds to maximise to broaden the potential market for participant tenants (and to maximise potential returns).

In a house or town home situation OOA may be a separate room inside the dwelling or in an adjoining dwelling. While OOA may be shared across multiple dwellings, it can only be claimed against one.

In an apartment situation the OOA space must be a separate apartment in the same building as the SDA apartment. A maximum of ten (10) SDA apartments can be associated with an OOA apartment. OOA

may be claimed across each of the up to ten (10) apartments.

Design and acquisition considerations

When designing and/or acquiring a property a primary consideration for investors will be the target registration level of the property. SDA funding is to be included within the NDIS plans for approximately 6% of the total NDIS participants and this 6% will comprise those participants that have the highest and most complex needs.

Taking this into consideration it is logical to assume that there will be many participants seeking SDA within the higher registration categories –that is the Robust and/or High Physical Support categories.

Whilst the costs associated with buying/building a property to comply with these LHA categories are typically more expensive (than with say a Fully Accessible or Improved Liveability property), the potential yield is greater, and likely tenant pool considered much greater, thereby likely justifying the buy/build premium.

The physical location within a selected town/city/ suburb is also a very important consideration for investors as amenity is a key consideration for SDA. Close and convenient travel to shops, transport, entertainment, employment and alike is considered a key consideration in the decision of where to build SDA as this will maximise the attractiveness to tenants.

Amenity may also influence vacancy rate of the SDA as less desirable locations without access to amenities will be less favourable to tenants.

Density restrictions for SDA properties as they relate to a land parcel also need to be considered when selecting suitable sites to ensure the proposed SDA can be delivered on the land parcel.

Locating SDA Tenants

Locating and maintaining SDA tenants is a key risk factor to be considered by investors considering SDA. The NDIS requires an SDA provider to take full vacancy risk. That is, there are no guarantees or safety nets provided by the

NDIA should an SDA provider be unable to find (or retain) a tenant with SDA within their NDIS package, other than a brief period (up to 90 days) of continuity of payments between tenants in certain circumstances.

This however does not apply in the initial stages of finding the first tenants for new SDA registered dwellings.

Whilst demand for SDA properties is likely to well outstrip supply, in particular in the first 5-10 years of the scheme, the complexities of identifying and securing tenants for new properties, which include the need to align properties with SIL providers and ensure that potential tenants have approved NDIS plans that include SDA approval that aligns with the property, expose SDA providers to possible extended vacancies, particularly when a property is first registered into the scheme.

There are a number of key considerations by investors in minimising vacancy risk. These include:

Supply and demand –there is currently not a large amount of SDA registered (or being registered), therefore in most settings, it is likely that there will be more demand than supply initially.

Location, Location, Location –amenity in relation to services and employment is a key consideration and those properties with greater amenity are considered to be at lower risk of being vacant.

Early engagement –to mitigate vacancy risk SDA providers will need to engage with a variety of stakeholders on an ongoing basis. This includes NDIS Local Area Coordinators (LAC); existing disability support providers and disability organisations; aged care accommodation providers; parents/carers and participants of the NDIS; and local allied health providers. All of these stakeholders can potentially assist in linking SDA providers with prospective tenants.

SDA providers might use a variety of models in sourcing and maintaining tenants. These include engaging specialist SDA tenant matching agencies; entering head

lease agreements with SIL providers; and/or appointing specialists SDA agencies (generally not-for-profit disability services agencies) to manage tenancy sourcing and maintenance on an ongoing basis. SDA providers might consider joint-venture; fee-for- service; and/or revenue share arrangements with such service providers.

Support Provider Considerations

A foundation principle of the NDIS is for the participants to have choice and control with regards to how they live their lives. This spans to the choice (and control) over where they live, who they live with, and who they chose to provide their SIL supports that are included within their NDIS plan. Ongoing consideration needs to be given to maintaining participants' right to choose their SIL support provider, whilst also considering the practicalities of how supports can be efficiently and effectively supplied within an SDA provider's properties.

For example, within a group living environment, participants are provided with some shared SIL support that recognises that some of the day- to-day SIL (and other) supports can be supplied to multiple participants by one care worker on a participant to worker ratio of greater than 1:1.

The practical application of this requires that one support organisation/worker is providing these supports.

SDA providers will therefore need to enter into arrangements with support organisations to provide many of the SIL supports within its various SDA settings. The participants are required to enter into separate support provision agreements with the SIL support provider which adds a degree of complexity to the provision of SDA by an SDA provider.

SIL provider arrangements made by SDA providers need to ensure that participants may still exercise choice and control over the support provision. To achieve this, arrangements between the SDA providers and SIL support providers will need to clearly outline a process of review of the support provided and the mechanism(s) by

which the participants can participate in the determination of the ongoing provider of supports.

Provisions for termination of the arrangement will also need to be considered, should a decision be reached to change provider. Arrangements will also need to contemplate situations where a participant may require a support from another organisation (or individual) and in that scenario how the relationship between the main support provider and the additional provider will be managed on a practical day-to-day basis.

Vacancy rates for SDA

Vacancy rates within disability accommodation throughout Australia have historically been extremely low. Some providers have reported overall vacancy rates less than 1%. Experience from large accommodation providers indicates that their average vacancy rates for specialist disability housing across 20 properties is 0.1% (across 2015 to 2017, after initial bedding in period).

While the vacancy rates in broader social housing stock were 1.4% between 2015 to 2017. The average duration of tenancy in disability accommodation, especially larger institutional settings, are reported to be approximately 45 years.

These historical vacancy rates and tenancy durations are expected to change over the longer term as SDA supply meets the estimated demand. When this occurs, it is anticipated that vacancy rates, especially in some styles of SDA, may increase as participants exercise choice and control over their housing solution.

Vacancy rates may be influenced in future by a number of factors that are important for investors to consider when considering opportunities. These factors include the following.

Housing Type -larger group home settings are considered to be less favourable in the longer terms as tenants gain independence and life skills that enable them to live in more independent settings. This outcome is aligned with the goals of the NDIS. Smaller

homes or townhouses with up to three (3) tenants, or smaller townhouses and apartments with one (1) or two (2) tenants are considered to be a long-term preference with the majority of participants.

Design Category -It is likely that tenants within Improved Liveability or Fully Accessible settings will be more mobile than tenants within Robust or High Physical Support accommodation. This is due to the fact that their support needs are generally less than tenants in the higher accessibility settings and their housing is less specialised. This translates to it being easier for these tenants to move between housing.

Location –Locations and corresponding demand will have a large impact on vacancy rates. Housing in more regional locations that have lower overall demand may be subject to extended periods of vacancy in the longer term as finding new tenants may be more difficult than in locations with higher overall demand.

The physical location within various towns and cities is also a factor with considerations such as access to amenities and lifestyle potentially making well located housing more attractive to tenants in the longer term.

Support Model -Under the foundation principle of choice and control, the provider of support within housing may also influence tenants' decision to move between SDA housing. Emerging trends indicate that despite the choice and control principle, many providers are "locking in" tenants to receive supports from a pre-determined provider for a minimum period of time from 1-2 years. If a tenant does not like the provider and cannot change them they may exercise their choice and control by moving between housing.

SDA demand and allocation

The SDA scheme is designed to support a specific and limited number of people with disability. The Productivity Commission's costings for the NDIS included sufficient funding to provide a housing contribution for an estimated 27,880 people with disability. We have rounded this number to

28,000 for the purpose of this eBook. Of this 28,000: 12,000 people are currently living in housing or arrangements that are considered unsuitable. This includes younger people living in Residential Aged Care Facility and those living at home with ageing parents or carers.

16,000 people are currently living in existing disability accommodation, mostly funded by State Governments. Of these, 2,800 are living in large residential settings, or legacy settings, that will only be funded by the NDIS for another 4 or 9 years depending on the size. The remaining 13,200 live in group home settings. Over the first decade of the NDIS, many of these properties will need to be replaced.

The table below summarises estimated SDA eligibility and accommodation status of all NDIS participants.

Category	Estimated number	SDA eligibility
Young people in aged care	6,200	SDA eligible
Unmet need and waiting lists	5,800	SDA eligible
Existing Supported Accommodation places**	16,000	SDA eligible
Total SDA eligible NDIS participants	28,000	
NDIS participants in social and public housing	57,000	Not SDA eligible
Other unmet need for affordable housing	80,000	Not SDA eligible
Participants who can afford market rent	245,120	Not SDA eligible
Total SDA ineligible NDIS participants	382,120	

**SDA payments through NDIS plans to residents in Existing Supported Accommodation places are under the scheme's continuity of accommodation

principles. Some of these participants may not qualify for SDA under the general principles of the scheme had they not have been residing in these dwellings.

The NDIS is a legislated commitment of all Australian governments requiring agreement of all governments for any change. The SDA commitment forms part of the legislated framework.

Like other parts of the NDIS, SDA employs a market-based approach by making funding available to participants who meet the criteria for SDA. A participant can then source the supports they choose from the market. For SDA this means that the NDIS provides funding through a participant's plan and the participant (often with additional support such as a support coordinator) then finds and applies for the best SDA option for them.

The SDA Price Guide is a summary of NDIS prices that apply for SDA and is publicly available from the NDIA website. It sets out the current pricing for SDA payments across different dwelling categories and types; and occupant numbers.

Those considering an investment in SDA should read the SDA Price Guide in conjunction with a number of other documents, including the SDA Rules, the SDA Operational Guidelines, the SDA Guide to Suitability, and the NDIS Terms of Business for Registered Providers, which are all publicly available from the NDIA website.

The intent of the SDA pricing approach is to stimulate growth in the supply of high quality and fit-for-purpose SDA. The timeframe for the pricing has also been aligned with the expected investment horizon of institutional investors, having been set at 20 years.

Location Factors

In addition to dwelling type and category, as well as the number of residents in an SDA dwelling; SDA pricing is impacted by other factors such as the inclusion (or otherwise) of fire sprinklers and breakout rooms; and the specific location of a property, known as the Location Factor.

The Location Factors applied in SDA pricing are published in the SDA Price Guide and are based on Australian Bureau of Statistics Statistical Area 4 regions. For more detail on the Statistical Area 4 regions refer to the ABS website. To derive an SDA price for a particular dwelling, the Base Price (before the fire sprinkler allowance) is multiplied by the Location Factor relevant to the property's location and Building Type. Location Factor multiples range from 0.83 to 2.53 with a capital city median of 1.00. They may vary from one dwelling category to another in the same location.

Reasonable rent contribution

In addition to the SDA Price funded by the NDIS, providers of SDA may recover a Reasonable Rent Contribution (RRC) directly from participants residing in an enrolled SDA dwelling. The RRC paid by a participant must not exceed:

For singles –25% of the basic rate of the Disability Support Pension (DSP) under the Social Security Act 1991 plus any Commonwealth Rent Assistance for which the participant is eligible.

For couples and under 21's –25% of the relevant rate of the DSP plus any Commonwealth Rent Assistance for which the participant is eligible, before any adjustments for income.

RRC will generally calculate to circa \$7,500 per participant per annum.

SDA pricing examples

The table below is extracted from the SDA Price Guide to provide an overview of typical SDA pricing across a number of design categories and dwelling types (for "new builds"). The table is for illustrative purposes only and does not provide an exhaustive list of all payment types and values. For full details of all dwelling types and categories please refer to the SDA Price Guide available from the NDIA website.

The SDA pricing indicated below (and in the SDA Pricing Guide) is on a per resident, per annum basis. By way of example, referring to the table below, and assuming a Location Factor of 1.00, a house with two (2)

residents, in the High Physical Support category, with OOA, would attract SDA payments of \$84,368 per annum (2 x \$42,184). In the same example, income from the same type of property would increase by approximately \$15,000 per annum (2 x \$7,500) to a total of \$99,368 per annum by way of the addition of RRC payments received directly from residents.

SDA Price Guide Extract

The table below is extracted from the SDA Price Guide to provide an overview of typical SDA pricing across a number of design categories and dwelling types (for "new builds"). The SDA pricing indicated below (and in the SDA Pricing Guide) is on a per resident, per annum basis.

Category	Fully accessible		Robust		High Physical Support	
	No OOA	With OOA	No OOA	With OOA	No OOA	With OOA
Apartment						
1 bedroom, 1 resident	\$48,890	\$57,038	N/A	N/A	\$73,872	\$86,185
2 bedrooms, 1 resident	\$59,360	\$69,253	N/A	N/A	\$91,917	\$107,236
3 bedrooms, 2 residents	\$25,190	\$29,389	N/A	N/A	\$41,469	\$48,380
Villa/Duplex/Townhouse						
1 resident	\$33,205	\$36,449	\$39,620	\$43,654	\$50,703	\$54,972
2 residents	\$20,538	\$22,114	\$24,828	\$26,773	\$32,516	\$34,569
3 residents	\$17,324	\$18,378	\$21,371	\$22,666	\$28,517	\$29,884
House						
2 residents	\$27,559	\$29,134	\$32,393	\$34,338	\$40,130	\$42,184
3 residents	\$22,916	\$24,097	\$27,216	\$28,648	\$37,654	\$39,309
Group home						
4 residents	\$20,344	\$21,245	\$24,402	\$25,487	\$33,831	\$35,076
5 residents	\$17,790	\$18,504	\$21,414	\$22,272	\$30,172	\$31,153

SDA scheme risks

Property type selection

In summary, the possible financial returns for properties in the SDA scheme vary greatly depending on the style, scale and accessibility of the dwellings.

The type of SDA properties delivered into the scheme, the target tenants, demand within a given location and overall amenity of the housing location can all impact the returns an SDA provider is able to generate. Particular accommodation settings may have higher vacancy rates in the longer term.

SDA scheme registration risk

There is a risk that a property is built to SDA standards but then the provider cannot get it registered into the scheme because of design or construction deficiencies or

misinterpretations.

To mitigate this risk of unsuccessful registration SDA providers should consider engaging experienced and expert accessibility consultants to work with building certifiers and LHA assessors to review designs and construction frequently through-out the process of buying/ building properties.

Risks associated with SDA payments

The prices paid by the NDIA for SDA housing are set by the NDIA and reviewed periodically. The SDA Rule states that the prices can be reviewed annually. This has occurred with the release of the SDA Price Guide 1 July 2017 that increased previous prices by CPI (2.1%).

Whilst it seems likely that the NDIA will continue to increase SDA pricing by CPI each year, there can be no certainty that

this will be the case.

There is a risk that the NDIA could change the payment amount and/or frequency of SDA payments in the future. Although the NDIA has outlined that new dwellings will receive payments at the “new build” level for 20 years and then for a further 20 years at the “existing stock” level, it has also stated these payments will be reviewed each 5-years.

There is also the provision for a review of the SDA Framework through the Disability Reform Council of Commonwealth and State and Territory Disability Ministers (COAG). This will occur in the Framework’s third year of operation, which would be in either 2019 or 2020. This review can be brought forward if requested by the NDIA. The notes of the COAG DRC meeting on 20 November 2017 highlight that the DRC will commence the terms of reference for the framework review during 2018.

The NDIS’ documentation about the purpose of the review states that it is “to assess whether it has been successful at stimulating housing supply that delivers on outcomes for participants. After this review, periodic pricing reviews are to be conducted every five years with a focus on continuing to drive market solutions that meet the needs and preferences of participants”.

Following the review of the Framework, the NDIA will review the pricing every five years “to refine the design criteria and adjust prices to promote the best outcomes for participants and update cost and financing assumptions to maintain alignment with market conditions”. The potential for the price review to reduce some or all SDA payments for already registered stock has not been ruled out at this stage.

Whilst it seems that the NDIA recognises the need for certainty surrounding SDA payments and should take a position to “grandfather” payments at the levels that were paid when a particular dwelling was registered, there can be no certainty that this will be the case.

Who can invest in SDA properties

Conceptually, SDA provides the opportunity for individual investors to buy single residential assets directly and have them registered into the scheme. From a practical standpoint however, there are a series of complexities that are likely to negate any broad scale direct investment by individual investors.

These include the need for each property to be registered into the scheme through an “SDA Provider”. Whilst there is nothing from a regulatory perspective to prevent an individual investor becoming a registered provider, the compliance hurdles associated with this are considered impractical for a single investment.

There are further complexities associated with the matching of properties with tenants. These present an operational challenge for single asset investors and could expose the investor to extended periods of vacancy if not handled properly. It must be noted that SDA payments are not payable just by registering a property into the scheme –the property owner must have a qualifying tenant in the property; and finding that tenant is the property owner’s responsibility.

Over the longer term, as the scheme matures, these issues may resolve as scale in the market is achieved.

Initially at least however, it is expected that direct investment is likely to be limited to for-profit institutional investors such as wholesale and/or retail managed investment schemes, and not-for-profits (already active in disability services) that can achieve appropriate scale through multiple-property portfolios.

Investing through a managed investment scheme enables the pooling of funds to build a larger and diversified portfolio. This brings scale to the compliance overhead associated with being an SDA provider, and mitigates individual property vacancy risk.

With gross rental yields of up to 16%* (or higher) depending on the type of property,

location, the design criteria category, and the number of tenants in each property, appropriately structured managed investment schemes would be expected to be able to deliver investors very attractive pre-tax cash distribution rates, potentially as high as 7.5-8.5% pa, (after all operating, maintenance and compliance costs and management and administration fees). That is before considering the longer-range returns through capital appreciation and recycling of assets, which over a 10+ year horizon would be expected to result in long-range annualised returns into double-digits.

Considering the relative stability of the underlying assets (residential bricks and mortar) SDA investment may suit retail, wholesale and institutional investors comfortable with residential property as an asset class who are seeking higher than normally available yield.

What is impact investing

Thorough this eBook we have talked of investing with impact, or impact investing. Whilst a relatively new concept in Australia, impact investing has been gathering momentum throughout Europe for some time and we think you can expect to see more of this type of investment in coming years.

Unlike the more broadly defined term of ethical investing, that can often be applied to investments that merely avoid certain industries, companies, or asset classes, impact investing is about making investments intended to have a definable and measurable social or environmental impact (or outcome).

Impact investing helps solve problems and realise opportunities that are too broad or complex for not-for-profits, government, or philanthropy to tackle alone.

Impact investments may be made via investments into managed or pooled investment schemes or into projects or organisations, with the express intention of generating investors' desired and measurable social and/or environmental outcomes, alongside a financial return (that may be at either below-market or above-

market rates).

Impact investments vary from grants or other philanthropic means because a financial return is expected, and different from broader investments or finance options because measurable social and/or environmental benefits are at their core.

More suggested reading

The SDA Price Guide is a summary of NDIS prices that apply for SDA and is publicly available from the NDIA website. It sets out the current pricing for SDA payments across different dwelling categories and types; and occupant numbers. For a comprehensive understanding of the scheme, the SDA Price Guide should be read in conjunction with a number of other documents, including the SDA Rules, the SDA Operational Guidelines, the SDA Guide to Suitability and the NDIS Terms of Business for Registered Providers, which are all publicly available from the NDIA website.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

Next you will find details on how to book an appointment with an adviser.

We look forward to meeting you soon.

Appointment booking request form

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Please complete the Appointment Booking Request below and scan and email to:

Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

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Day

Date

Time am/pm

Contact details

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

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