**National Disability Insurance Scheme**

**Specialist Disability Accommodation Pricing Review**

**2022-23**

**Consultation Paper**

**October 2022**

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Table of Contents

[Introduction 5](#_Toc116293066)

[Legislative and Policy Framework 5](#_Toc116293067)

[Scope of the Review 7](#_Toc116293068)

[Process and Timing 9](#_Toc116293069)

[How You Can Contribute to the Review 10](#_Toc116293070)

[Further Information 10](#_Toc116293071)

[Current Pricing Arrangements 11](#_Toc116293072)

[New Builds 11](#_Toc116293073)

[Existing Stock 12](#_Toc116293074)

[Legacy Stock 13](#_Toc116293075)

[Adjustments for Geographic Location 13](#_Toc116293076)

[Annual Indexation 18](#_Toc116293077)

[Current Pricing Methodology and Assumptions 19](#_Toc116293078)

[Overview of the Pricing Methodology 19](#_Toc116293079)

[Detailed Methodology – Price Limits for New Builds 20](#_Toc116293080)

[Detailed Methodology – Price Limits for Existing Stock 32](#_Toc116293081)

[Consultation Questions 34](#_Toc116293082)

[Acquisition Costs 34](#_Toc116293083)

[Exit Costs (Residual Value) 35](#_Toc116293084)

[Ownership Costs 35](#_Toc116293085)

[Tax Costs 36](#_Toc116293086)

[Financing Costs 36](#_Toc116293087)

[Indexation of Base Prices 36](#_Toc116293088)

[Other Issues 36](#_Toc116293089)

[Appendix A – Limited Cost Assumptions Review 37](#_Toc116293090)

Terms that we use

The formal definition of the following Terms can be found in 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)*.*

|  |  |
| --- | --- |
| **Term** | **Meaning** |
| ***Building Type*** |  |
| Apartments | Self-contained units that are part of a larger residential building. |
| Duplexes, villas, and townhouses | Separate but semi-attached properties within a single land title or strata titled area. This also includes stand-alone villas or granny-flats. |
| Houses | Detached low-rise buildings with garden or courtyard areas with fewer than 4 bedrooms. |
| Group Homes | Houses that have 4 or 5 bedrooms. |
| ***Design Category*** |  |
| 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. |
| 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. |
| Fully Accessible | Housing that has been designed to incorporate a high level of physical access provision for people with significant physical impairment.  |
| Robust | 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. |
| 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. |
| **Enrolled Dwelling** | A dwelling enrolled under section 26 of the *NDIS (Specialist Disability Accommodation) Rules 2020* to provide SDA. |
| **NDIA** | National Disability Insurance Agency |
| **NDIS** | National Disability Insurance Scheme |
| **SDA** | Specialist Disability Accommodation |
| ***SDA Type*** |  |
| New Build | A 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. |
| Existing Stock | A 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. |
| Legacy Stock | A dwelling that meets the Existing Stock requirements except that it houses more than 5 residents. |
| New Build (Refurbished) | A 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 a New Build. |

# Introduction

The National Disability Insurance Scheme (NDIS) was established in 2013 to support people with disability to pursue their goals, to realise their full potential, to assist them to participate in and contribute to society, and to empower them to exercise choice and control over their lives and futures. The NDIS provides funding to eligible individuals (“participants”) so that they can purchase, in the open market, the disability related goods and services (“supports”) that they need.

The NDIS is administered by the National Disability Insurance Agency (NDIA). The NDIA has a role, as market steward, to create an efficient, sustainable, consumer driven market for the supply of disability supports. It also has a role in regulating the commercial relationships between providers and participants, including through price regulation. The pricing arrangements seek to support a sustainable SDA market that fosters choice and control, encourages innovation, provides options for participants, continuity of supply and financial sustainability for governments, participants, and providers.

Specialist Disability Accommodation (SDA) is one of the supports that may be funded under the 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.

As at 30 June 2022, some 21,085 participants had identified needs for SDA (3.9% of all participants). Of these participants, 91.8% (19,358) were active SDA participants with SDA supports in their NDIS plans. The average SDA funding amount included in the plans of participants receiving SDA on 30 June 2022 was $14,024 per annum.[[1]](#footnote-2)

Some 7,086 dwellings were enrolled for SDA as at 30 June 2022. These dwellings have the capacity to support 19,630 participants. A further 3,085 dwellings, with capacity to support 5,464 participants, were SDA Design Certified. The dwellings in this development pipeline were either built but not yet enrolled, or under construction or designed but not yet contracted for development.

Some 319 providers received SDA payments in respect of one or more participants in the last quarter of 2021-22. Total SDA payments in 2021-22 were $186 million (including via in-kind arrangements). SDA payments accounted for 0.6% of all payments made through the NDIS in 2021-22[[2]](#footnote-3).

## Legislative and Policy Framework

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 NDIA is responsible for setting the pricing arrangements for SDA.

The NDIA is required by the Framework to undertake a review every five years of the specific underlying assumptions that underpin the pricing methodology for SDA. The NDIA is now undertaking the first five-year review and is releasing this Consultation Paper as part of that review. This is the first comprehensive review of the underlying assumptions and methodology that are used to calculate the price limits that apply in SDA and timing for this review has been brought forward in order to properly consider recent changes in housing market conditions and affordability.

However, it is important to note that the Australian Government has also established a broader NDIS Review that will look at the design, operations and sustainability of the NDIS. It will also look at ways to make the market and workforce more responsive, supportive and sustainable. Among other things, the broader review will make recommendations to Disability Reform Ministers on reforms to ensure adequate supply of appropriate and cost-effective accommodation and supports, including SDA.

A final report of the NDIS Review is to be provided by the Independent Review Panel to Disability Reform Ministers by October 2023. Where specific opportunities for reform are identified prior to the final report, the Independent Review Panel may bring forward recommendations and a supporting paper on these to Disability Reform Ministers ahead of the final report. The outcomes of the SDA Pricing Review will take into account any early findings of the NDIS Review.

Further information on the broader NDIS Review can be found at [ndisreview.gov.au](http://www.ndisreview.gov.au) and readers of this document are encouraged to participate in that process.

The legislative framework for providing SDA to participants under the NDIS, including the criteria for when a participant will have SDA included in their NDIS plan, the dwellings that can be used for SDA and the payments that will be paid to providers of SDA are set out in the [*National Disability Insurance Scheme Act 2013*](https://www.legislation.gov.au/Series/C2013A00020) (NDIS Act) and the NDIS Rules under the Act, including the [*NDIS (Specialist Disability Accommodation) Rules 2020*](https://www.legislation.gov.au/Series/F2020L00769) and the [*NDIS (Specialist Disability Accommodation Conditions) Rule 2018*](https://www.legislation.gov.au/Series/F2018L00627).

Some people living with disability have very high support needs. This could mean they need to live in a specially designed dwelling. Most participants don’t need to live in specialist disability accommodation, and there may be other home and living supports that are more suitable. To be eligible for SDA, a participant must have an extreme functional impairment or very high support needs. In addition, the NDIA needs to be satisfied that the combination of SDA with the participant’s other supports will lead to better outcomes by, for example:

* Improving or maintaining the participant’s functional capacity, or preventing the participant’s functional capacity from getting worse; or
* reducing the participant’s future support needs; or
* creating better connections with the participant’s family, community, health services, education, and employment.

Further information on eligibility for SDA can be found in the [SDA Operational Guideline](https://ourguidelines.ndis.gov.au/media/1668/download?attachment).

When a participant has been determined to be eligible for SDA then funding is included in their plan for this support and they can use this funding to purchase SDA supports from an eligible provider. That is, the participant can move into a dwelling operated by the provider. The provider can also ask the participant to pay rent from their own funds up to maximums specified in 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)

In brief, an SDA provider can receive SDA payments from the NDIS in respect of a participant living in a dwelling only if all the following criteria are met:

* The NDIA has determined that SDA is a reasonable and necessary support for the participant.
* The participant is living in the dwelling and has agreed to purchase their SDA supports from the provider.
* The provider is a registered NDIS provider with the NDIS Quality and Safeguards Commission.
* The provider is approved for the SDA Registration Group by the NDIS Quality and Safeguards Commission.
* The provider has enrolled the dwelling with the NDIA. Note, apart from limited transitional provisions that can no longer be applied for, a dwelling can only be enrolled with the NDIA if an accredited third party SDA assessor has certified that it meets the minimum design requirements specified in 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)and in the [SDA Design Standard](https://www.ndis.gov.au/media/1868/download?attachment).

The maximum (per SDA-eligible participant) amount of the SDA payment for a participant living in an enrolled dwelling is determined by the NDIA based on the age, location and features of the dwelling. The price limits for SDA are set out in 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)*.*[[3]](#footnote-4)

Note, when claiming payment for SDA from an individual participant’s plan, a provider is only able to claim the lesser of:

* The maximum per participant price for which the dwelling is enrolled; and
* The amount of SDA funding for which a participant has been assessed – that is, the amount of SDA in the participant’s plan. For example, if a participant has been assessed as needing a dwelling that is Fully Accessible but is living in a dwelling that is enrolled as High Physical Support the amount of funding in the participant’s plan and the maximum amount that the provider can claim will be set at the amount for an equivalent Fully Accessible dwelling.

The Framework requires that the level of SDA funding, when combined with resident contributions and land price inflation, is sufficient to cover the efficient cost of providing accommodation over its full lifecycle (that is, establishing, operating and replacing the accommodation), and therefore should allow providers to attain finance (debt and equity) in the private market to meet these lifecycle costs.

## Scope of the SDA Pricing Review

As part of the SDA Pricing Review, the NDIA will examine, through submissions, consultations, research, and analysis, 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, continuity of supply and financial sustainability for governments, participants, investors and providers.

In developing the new SDA Benchmark Prices, the NDIA will be cognisant of the need to both attract investment to meet current demand and support investment to meet changing demand on a regional basis. It will also develop supply and demand projections for SDA and examine the extent to which the demand mix will change in the medium to long term.

In undertaking the Review, the NDIA will, in particular, (based on the advice of technical experts and information received from stakeholders):

* Develop benchmark estimates of the efficient construction cost in a benchmark Region (excluding the cost of land) for each of the 86 allowable combinations of Building Type and Design Category that are funded as SDA by the NDIS.
* Develop statistical estimates of the cost per square metre of undeveloped and vacant land in each of the 87 Statistical Local Area Level 4 (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 metre 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 fire sprinklers (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 property 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.
* For Existing SDA, 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.

As part of the SDA Pricing Review, the NDIA will also 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 (NCC). NCC 2022 will commence on 1 May 2023, with a transition period to 1 October 2023.

In undertaking the SDA Pricing Review, the NDIA will be cognisant of the provisions in paragraphs 99-101 of the Framework, which provide that the NDIA can make other payments in respect of housing or accommodation arrangements that are consistent with the NDIS Act, 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.

The NDIA will also be cognisant of the objectives and principles of the NDIS, as set out in the NDIS Act, 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.

## Process and Timing

In accordance with the Framework, the SDA Pricing Review, including any consultations, will be undertaken by the NDIA. The NDIA will invite submissions from the public and consult with stakeholders, including governments, participants, investors, providers and their representative bodies. The NDIA will also test changes in the specific assumptions underpinning the SDA methodology with stakeholders, including governments, participants, investors and providers.

A panel of independent experts with relevant skills and expertise in pricing (“the Expert Panel”) will work with the NDIA to oversee the work of the SDA Pricing Review. The role of the Expert Panel will be to:

* Provide advice to the NDIA on the conduct of the SDA Pricing Review; and
* Provide advice to the Board of the NDIA, through the CEO, on options and recommendations developed by NDIA as part of the SDA Pricing Review.

Final prices for 2023-24, following Consumer Price Index (“CPI”) indexation of the SDA Pricing Review’s outcomes, are expected to be released in May 2023. Any new pricing arrangements will come into effect on 1 July 2023.

## How You Can Contribute to the Review

This Consultation Paper is intended to assist you to prepare a submission to the SDA Pricing Review. You do not need to comment on every issue raised in this paper and you are free to raise any other issues or ideas that are relevant to the terms of reference. The NDIA anticipates submissions regarding the Consultation paper from a wide range of individuals and organisations including NDIS participants, SDA providers and investors.

Submissions may range from a short note outlining your views on a particular topic to a much more substantial document covering a range of issues. Where possible, you should provide evidence, such as relevant data and documentation, to support your views. If you are a provider, then a brief overview of the nature of your organisation, the number of employees and participants, and the types of SDA that you offer, and the locations in which you operate would be helpful.

Any information that you consider to be of a confidential nature should be clearly marked or identified as confidential. The NDIA will not disclose such confidential information to third parties, without first providing you with notice of its intention to do so, such as where it is compelled to do so by law.

**Submissions on this Consultation Paper can be lodged via email to** **SDAPR@ndis.gov.au****.**

**Submissions must be lodged by midnight AWST Friday, 9 December 2022.**

## Further Information

Further information on the SDA Pricing Review can be found at the NDIS [website](https://www.ndis.gov.au/providers/housing-and-living-supports-and-services/specialist-disability-accommodation/sda-pricing-and-payments/sda-pricing-review).

# Current Pricing Arrangements

The amount of SDA that is payable in respect of an SDA-eligible participant in an SDA enrolled dwelling varies according to:

* Whether the dwelling is a New Build or Existing Stock or Legacy Stock.
	+ The definitions for Existing Stock, Legacy Stock and New Build are set out in sections 6, 7 and 8 of the SDA Rules.
	+ The Building Type of the dwelling (Apartment, Villa/Duplex/Townhouse, House and Group Home). The features and Building Code of Australia classification of each Building Type are set out in Schedule 1 of the SDA Rules.
* The Number of Bedrooms in the dwelling.
	+ The Design Category of the dwelling (Basic, Improved Liveability, Fully Accessible, Robust and High Physical Support). The features of the different Design Categories are set out in Schedule 2 of the SDA Rules and the [*SDA Design Standard*.](https://www.ndis.gov.au/media/1868/download?attachment)
* Whether or not the dwelling includes Onsite Overnight Accommodation (OOA).
* For Robust buildings, the amount of SDA that is payable also varies according to whether the dwelling includes an additional breakout room.
* Whether the dwelling has sprinklers.

## New Builds

For New Builds there are 172 different combinations of these factors for which price limits have been determined (see Table 1 below)

Table 1: Types of New Build Dwellings (with or without sprinklers)

|  | Improved Liveability | Fully Accessible | Robust | High Physical Support |
| --- | --- | --- | --- | --- |
| Building Type / Design Category | No OOA | With OOA | No OOA | With OOA | No OOA | With OOA | +1 Room | No OOA | With OOA |
| Apartment, 1 bedroom, 1 resident | Y | Y | Y | Y |  |  |  | Y | Y |
| Apartment, 2 bedrooms, 1 resident | Y | Y | Y | Y |  |  |  | Y | Y |
| Apartment, 2 bedrooms, 2 residents | Y | Y | Y | Y |  |  |  | Y | Y |
| Apartment, 3 bedrooms, 2 residents | Y | Y | Y | Y |  |  |  | Y | Y |
| Villa/Duplex/Townhouse, 1 resident | Y | Y | Y | Y | Y | Y |  | Y | Y |
| Villa/Duplex/Townhouse, 2 residents | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Villa/Duplex/Townhouse, 3 residents | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| House, 2 residents | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| House, 3 residents | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Group home, 4 residents | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Group home, 5 residents | Y | Y | Y | Y | Y | Y | Y | Y | Y |

The Annual Base Prices for New Builds (without sprinklers) in 2022-23 are set out in Table 2 below. They vary from $13,922 per participant per annum for a 3-bedroom Improved Liveability Townhouse to $120,206 per participant per annum for a 2-bedroom High Physical Support Apartment with OOA with a single participant.

If the New Build includes sprinklers, then the amounts in **Table 2** are increased by 1.2% for Apartments and 1.9% for all other Building Types.

Table 2: Annual Base Price per SDA-eligible Participant for New Builds ($2022-23)

|  | Improved Liveability | Fully Accessible | Robust | High Physical Support |
| --- | --- | --- | --- | --- |
| Building Type / Design Category | No OOA | With OOA | No OOA | With OOA | No OOA | With OOA | +1 Room | No OOA | With OOA |
| Apartment, 1 bdrm, 1 resident | $38,664 | $45,111 | $62,429 | $72,836 |  |  |  | $82,808 | $96,610 |
| Apartment, 2 bdrms, 1 resident | $46,035 | $53,706 | $76,046 | $88,719 |  |  |  | $103,035 | $120,206 |
| Apartment, 2 bdrms, 2 residents | $17,985 | $20,982 | $32,811 | $39,148 |  |  |  | $46,485 | $54,232 |
| Apartment, 3 bdrms, 2 residents | $24,030 | $28,034 | $43,792 | $51,091 |  |  |  | $63,004 | $73,506 |
| Villa/Duplex/Townhouse, 1 resident | $27,234 | $30,120 | $41,976 | $46,193 | $49,462 | $54,616 |  | $56,835 | $61,620 |
| Villa/Duplex/Townhouse, 2 residents | $17,044 | $18,400 | $25,973 | $28,022 | $30,999 | $33,485 | $2,091 | $36,449 | $38,750 |
| Villa/Duplex/Townhouse, 3 residents | $13,922 | $14,844 | $22,115 | $23,486 | $26,874 | $28,530 | $1,393 | $31,967 | $33,500 |
| House, 2 residents | $24,892 | $26,249 | $34,016 | $36,064 | $39,710 | $42,197 | $2,091 | $44,984 | $47,287 |
| House, 3 residents | $19,564 | $20,596 | $28,743 | $30,277 | $33,773 | $35,603 | $1,540 | $42,208 | $44,064 |
| Group home, 4 residents | $17,240 | $18,017 | $25,827 | $27,000 | $30,545 | $31,934 | $1,168 | $37,923 | $39,319 |
| Group home, 5 residents | $14,569 | $15,205 | $22,750 | $23,677 | $26,960 | $28,055 | $922 | $33,821 | $34,922 |

The SDA amount is in addition to the rent paid by residents in these dwellings. In the base case where all residents are SDA-eligible participants, the total annual revenue per dwelling (with sprinklers) varies from $37,870 for a 1-bedroom Improved Liveability Townhouse to $228,521 for a 5-bedroom High Physical Support House with OOA.

## Existing Stock

For Existing Stock there are 194 different combinations of these factors for which price limits have been determined. As well as the 172 combinations in Table 1 above, there are also 22 combinations for Basic Design Category dwellings.

The Annual Base Prices for Existing Stock (without sprinklers) in 2022-23 are set out in 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)](https://www.ndis.gov.au/providers/housing-and-living-supports-and-services/specialist-disability-accommodation/sda-pricing-and-payments). They vary from $5,048 per participant per annum for a 5-bedroom Basic Group Home to $88,369 per participant per annum for a 2‑bedroom High Physical Support Apartment with a single participant.

If the Existing Stock includes sprinklers, then the amounts are increased by 1.2% for Apartments and 1.9% for all other Building Types.

The SDA amount is in addition to the rent paid by participants in these dwellings. In the base case where all residents are SDA-eligible participants, the total annual revenue per Existing Stock dwelling (with sprinklers) varies from $21,226 for a 1‑bedroom Improved Liveability Townhouse to $145,804 for a 5-bedroom High Physical Support Group Home with OOA.

On average the total revenue from Existing Stock with sprinklers is 61.6% of the total revenue from equivalent New Builds. This percentage varies from 48.0% for a 2-bedroom Improved Liveability House to 77.4% for a 3-bedroom High Physical Support Apartment without OOA for two participants.

## Legacy Stock

For Legacy Stock, there are five design categories, with the price limit varying by the number of bedrooms in the dwelling and by the presence of OOA, but not by the Building Type of the dwelling. The Annual Base Prices for Legacy Stock with 6 to 10 bedrooms (without sprinklers) in 2022-23 are set out in Table 3. The 2022-23 Annual Base Prices for Legacy Stock with 11 or more bedrooms can be found in Appendix D of the [*SDA Pricing Arrangements and Price Limits*](https://www.ndis.gov.au/providers/housing-and-living-supports-and-services/specialist-disability-accommodation/sda-pricing-and-payments).

Table 3: Annual Base Price per SDA-eligible Participant for Legacy stock ($2022-23)

|  | Basic | Improved Liveability | Fully Accessible | Robust | High Physical Support |
| --- | --- | --- | --- | --- | --- |
| Number of Bedrooms | No OOA | No OOA | With OOA | No OOA | With OOA | No OOA | With OOA | No OOA | With OOA |
| 6 bedrooms | $3,861 | $4,011 | $4,451 | $7,734 | $8,198 | $10,087 | $10,646 | $15,773 | $16,411 |
| 7 bedrooms | $2,904 | $3,046 | $3,455 | $6,508 | $6,940 | $8,698 | $9,215 | $13,987 | $14,579 |
| 8 bedrooms | $2,126 | $2,256 | $2,641 | $5,508 | $5,912 | $7,563 | $8,050 | $12,529 | $13,085 |
| 9 bedrooms | $1,484 | $1,609 | $1,970 | $4,683 | $5,068 | $6,629 | $7,090 | $11,327 | $11,853 |
| 10 bedrooms | $949 | $1,069 | $1,416 | $3,999 | $4,364 | $5,853 | $6,290 | $10,329 | $10,831 |

The SDA amount is in addition to the rent paid by residents in these dwellings. In the base case where all residents are SDA-eligible participants, the total annual revenue per Legacy Stock dwelling (with 6-10 bedrooms) varies from $83,878 for a 6-bedroom Basic dwelling to $209,497 for a 10-bedroom High Physical Support Legacy Stock with OOA.

For properties with 11 or more residents, SDA payments will cease after the end of the immediate five-year period after the property’s location transitions into the Scheme. For properties with 6 to 10 residents, SDA payments will cease after the end of the immediate ten-year period after the property’s location transitions into the Scheme.

## Adjustments for Geographic Location

The amount of SDA that is payable in respect of a participant in an SDA enrolled dwelling also varies according to the Geographic Location of the dwelling. Dwellings are categorised according to the Statistical Local Area Level 4 (SA4) in which they are located. Further information can be found on the Australian Bureau of Statistics [website](https://www.abs.gov.au/ausstats/abs%40.nsf/Lookup/by%20Subject/1270.0.55.001~July%202016~Main%20Features~Statistical%20Area%20Level%204%20%28SA4%29~10016). The NDIA calculates different SDA price limits for 87 different SA4s.

This calculation is done by applying a multiplier to the base SDA amount. The multiplier is intended to account for different land costs and building costs in different regions. The current values of the multipliers are given in **Table 4** below.

Table 4: Location Factors

| Location | Apartment1 bed1 resident | Apartment2 beds1 resident | Apartment2 beds2 residents | Apartment3 beds2 residents | Villa DuplexTownhouse1 resident | Villa DuplexTownhouse2 residents | Villa DuplexTownhouse3 residents | House2 residents | House3 residents | Group Home4 residents | Group Home5 residents | Legacy |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Median Capital City | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| **ACT** |  |  |  |  |  |  |  |  |  |  |  |  |
| Australian Capital Territory | 1.02 | 1.02 | 1.02 | 1.02 | 0.99 | 0.96 | 0.95 | 0.97 | 0.97 | 0.96 | 0.95 | 0.95 |
| **NSW** |  |  |  |  |  |  |  |  |  |  |  |  |
| Capital Region | 1.07 | 1.08 | 1.08 | 1.09 | 1.01 | 0.96 | 0.95 | 0.98 | 0.97 | 0.96 | 0.95 | 0.95 |
| Central Coast | 1.04 | 1.04 | 1.04 | 1.05 | 1.01 | 0.99 | 0.99 | 1.00 | 0.99 | 0.99 | 0.99 | 0.99 |
| Central West | 1.07 | 1.08 | 1.08 | 1.09 | 0.99 | 0.94 | 0.92 | 0.96 | 0.94 | 0.94 | 0.92 | 0.92 |
| Coffs Harbour - Grafton | 1.07 | 1.08 | 1.08 | 1.09 | 1.01 | 0.97 | 0.95 | 0.98 | 0.97 | 0.96 | 0.95 | 0.95 |
| Far West and Orana | 1.16 | 1.16 | 1.16 | 1.19 | 1.07 | 1.01 | 0.99 | 1.01 | 1.01 | 1.01 | 0.99 | 0.99 |
| Hunter Valley excl. Newcastle | 1.07 | 1.08 | 1.08 | 1.09 | 1.01 | 0.97 | 0.95 | 0.98 | 0.97 | 0.97 | 0.95 | 0.95 |
| Illawarra | 1.08 | 1.09 | 1.09 | 1.10 | 1.06 | 1.04 | 1.04 | 1.04 | 1.04 | 1.04 | 1.04 | 1.04 |
| Mid North Coast | 1.07 | 1.08 | 1.08 | 1.09 | 1.02 | 0.97 | 0.96 | 0.98 | 0.98 | 0.97 | 0.96 | 0.96 |
| Murray | 1.07 | 1.08 | 1.08 | 1.09 | 0.99 | 0.94 | 0.91 | 0.96 | 0.94 | 0.93 | 0.91 | 0.91 |
| New England and North West | 1.07 | 1.08 | 1.08 | 1.09 | 0.99 | 0.94 | 0.91 | 0.96 | 0.94 | 0.93 | 0.91 | 0.91 |
| Newcastle & Lake Macquarie | 1.08 | 1.09 | 1.09 | 1.10 | 1.06 | 1.05 | 1.05 | 1.04 | 1.04 | 1.05 | 1.05 | 1.05 |
| Richmond – Tweed | 1.08 | 1.08 | 1.08 | 1.10 | 1.03 | 1.00 | 0.99 | 1.00 | 1.00 | 1.00 | 0.99 | 0.99 |
| Riverina | 1.07 | 1.08 | 1.08 | 1.09 | 0.99 | 0.94 | 0.91 | 0.96 | 0.94 | 0.93 | 0.92 | 0.92 |
| Southern Highlands & Shoalhaven | 1.07 | 1.08 | 1.08 | 1.09 | 1.02 | 0.97 | 0.96 | 0.98 | 0.98 | 0.97 | 0.96 | 0.96 |
| Sydney – Baulkham Hills and Hawkesbury | 1.05 | 1.05 | 1.05 | 1.06 | 1.08 | 1.11 | 1.13 | 1.08 | 1.10 | 1.12 | 1.13 | 1.13 |
| Sydney – Blacktown | 1.00 | 1.00 | 1.00 | 1.00 | 1.02 | 1.03 | 1.03 | 1.02 | 1.03 | 1.03 | 1.03 | 1.03 |
| Sydney – City & Inner South | 1.20 | 1.18 | 1.18 | 1.16 | 1.76 | 2.25 | 2.53 | 1.93 | 2.15 | 2.31 | 2.53 | 2.53 |
| Sydney – Eastern Suburbs | 1.18 | 1.16 | 1.16 | 1.15 | 1.63 | 2.04 | 2.27 | 1.78 | 1.96 | 2.09 | 2.27 | 2.27 |
| Sydney – Inner South West | 1.03 | 1.02 | 1.02 | 1.02 | 1.15 | 1.24 | 1.29 | 1.18 | 1.22 | 1.25 | 1.29 | 1.29 |
| Sydney – Inner West | 1.18 | 1.17 | 1.17 | 1.16 | 1.36 | 1.59 | 1.71 | 1.44 | 1.54 | 1.61 | 1.72 | 1.72 |
| Sydney – North Sydney & Hornsby | 1.08 | 1.08 | 1.08 | 1.08 | 1.25 | 1.39 | 1.47 | 1.29 | 1.36 | 1.41 | 1.47 | 1.47 |
| Sydney – Northern Beaches | 1.03 | 1.03 | 1.03 | 1.02 | 1.18 | 1.30 | 1.36 | 1.22 | 1.27 | 1.31 | 1.36 | 1.36 |
| Sydney – Outer South West | 1.04 | 1.04 | 1.04 | 1.05 | 1.01 | 1.00 | 0.99 | 1.00 | 1.00 | 1.00 | 0.99 | 0.99 |
| Sydney – Outer West & Blue Mountains | 1.04 | 1.04 | 1.04 | 1.05 | 1.01 | 0.99 | 0.99 | 1.00 | 0.99 | 0.99 | 0.99 | 0.99 |
| Sydney – Parramatta | 1.02 | 1.01 | 1.01 | 1.01 | 1.08 | 1.13 | 1.16 | 1.10 | 1.12 | 1.14 | 1.16 | 1.16 |
| Sydney – Ryde | 1.03 | 1.03 | 1.03 | 1.02 | 1.17 | 1.29 | 1.35 | 1.21 | 1.26 | 1.30 | 1.35 | 1.35 |
| Sydney – South West | 1.00 | 1.00 | 1.00 | 1.00 | 1.03 | 1.04 | 1.05 | 1.03 | 1.04 | 1.04 | 1.05 | 1.05 |
| Sydney – Sutherland | 1.02 | 1.02 | 1.02 | 1.02 | 1.13 | 1.22 | 1.26 | 1.16 | 1.20 | 1.23 | 1.26 | 1.26 |
| **Northern Territory** |  |  |  |  |  |  |  |  |  |  |  |  |
| Darwin | 1.35 | 1.36 | 1.36 | 1.41 | 1.29 | 1.26 | 1.28 | 1.21 | 1.24 | 1.27 | 1.28 | 1.28 |
| Northern Territory – Outback | 1.39 | 1.40 | 1.40 | 1.47 | 1.29 | 1.24 | 1.24 | 1.19 | 1.22 | 1.24 | 1.24 | 1.24 |
| **Queensland** |  |  |  |  |  |  |  |  |  |  |  |  |
| Brisbane – East | 0.95 | 0.95 | 0.95 | 0.94 | 0.93 | 0.92 | 0.91 | 0.94 | 0.93 | 0.92 | 0.91 | 0.91 |
| Brisbane – North | 0.95 | 0.95 | 0.95 | 0.94 | 0.95 | 0.95 | 0.94 | 0.96 | 0.95 | 0.95 | 0.94 | 0.94 |
| Brisbane – South | 0.95 | 0.95 | 0.95 | 0.94 | 0.97 | 0.98 | 0.98 | 0.98 | 0.98 | 0.98 | 0.98 | 0.98 |
| Brisbane – West | 0.95 | 0.95 | 0.95 | 0.94 | 0.98 | 0.99 | 0.99 | 0.99 | 0.99 | 0.99 | 0.99 | 0.99 |
| Brisbane Inner City | 0.96 | 0.96 | 0.96 | 0.95 | 1.02 | 1.06 | 1.08 | 1.04 | 1.06 | 1.07 | 1.08 | 1.08 |
| Cairns | 1.15 | 1.16 | 1.16 | 1.19 | 1.08 | 1.03 | 1.02 | 1.03 | 1.03 | 1.03 | 1.02 | 1.02 |
| Darling Downs – Maranoa | 1.01 | 1.02 | 1.02 | 1.02 | 0.94 | 0.88 | 0.85 | 0.91 | 0.89 | 0.87 | 0.85 | 0.85 |
| Fitzroy | 1.15 | 1.16 | 1.16 | 1.19 | 1.08 | 1.03 | 1.01 | 1.03 | 1.03 | 1.03 | 1.02 | 1.02 |
| Gold Coast | 0.98 | 0.98 | 0.98 | 0.98 | 0.95 | 0.93 | 0.92 | 0.95 | 0.94 | 0.93 | 0.92 | 0.92 |
| Ipswich | 0.98 | 0.98 | 0.98 | 0.98 | 0.91 | 0.86 | 0.84 | 0.90 | 0.87 | 0.86 | 0.83 | 0.83 |
| Logan – Beaudesert | 0.98 | 0.98 | 0.98 | 0.98 | 0.93 | 0.89 | 0.87 | 0.92 | 0.90 | 0.89 | 0.87 | 0.87 |
| Mackay | 1.15 | 1.16 | 1.16 | 1.19 | 1.08 | 1.04 | 1.02 | 1.03 | 1.03 | 1.04 | 1.03 | 1.03 |
| Moreton Bay – North | 0.98 | 0.98 | 0.98 | 0.98 | 0.94 | 0.91 | 0.89 | 0.93 | 0.91 | 0.90 | 0.89 | 0.89 |
| Moreton Bay – South | 0.98 | 0.98 | 0.98 | 0.98 | 0.94 | 0.91 | 0.89 | 0.93 | 0.91 | 0.90 | 0.89 | 0.89 |
| Outback | 1.10 | 1.10 | 1.10 | 1.12 | 1.02 | 0.96 | 0.94 | 0.97 | 0.96 | 0.96 | 0.94 | 0.94 |
| Sunshine Coast | 0.98 | 0.98 | 0.98 | 0.98 | 0.94 | 0.91 | 0.89 | 0.93 | 0.91 | 0.90 | 0.89 | 0.89 |
| Toowoomba | 1.02 | 1.02 | 1.02 | 1.03 | 0.96 | 0.91 | 0.89 | 0.93 | 0.92 | 0.91 | 0.89 | 0.89 |
| Townsville | 1.15 | 1.16 | 1.16 | 1.19 | 1.08 | 1.04 | 1.02 | 1.03 | 1.04 | 1.04 | 1.03 | 1.03 |
| Wide Bay | 1.01 | 1.02 | 1.02 | 1.02 | 0.94 | 0.89 | 0.86 | 0.92 | 0.89 | 0.88 | 0.86 | 0.86 |
| **South Australia** |  |  |  |  |  |  |  |  |  |  |  |  |
| Adelaide – Central and Hills | 1.00 | 0.99 | 0.99 | 0.99 | 1.01 | 1.02 | 1.03 | 1.02 | 1.02 | 1.03 | 1.03 | 1.03 |
| Adelaide – North | 1.03 | 1.03 | 1.03 | 1.03 | 0.99 | 0.96 | 0.94 | 0.97 | 0.96 | 0.96 | 0.94 | 0.94 |
| Adelaide – South | 0.99 | 0.99 | 0.99 | 0.99 | 0.96 | 0.94 | 0.93 | 0.95 | 0.94 | 0.94 | 0.93 | 0.93 |
| Adelaide – West | 0.99 | 0.99 | 0.99 | 0.99 | 0.99 | 0.99 | 0.99 | 1.00 | 0.99 | 0.99 | 0.99 | 0.99 |
| Barossa – Yorke – Mid North | 1.02 | 1.02 | 1.02 | 1.03 | 0.94 | 0.89 | 0.86 | 0.92 | 0.90 | 0.88 | 0.86 | 0.86 |
| Outback | 1.15 | 1.15 | 1.15 | 1.18 | 1.06 | 1.01 | 0.99 | 1.01 | 1.01 | 1.01 | 0.99 | 0.99 |
| South East | 1.02 | 1.02 | 1.02 | 1.03 | 0.94 | 0.89 | 0.86 | 0.92 | 0.90 | 0.88 | 0.86 | 0.86 |
| **Tasmania** |  |  |  |  |  |  |  |  |  |  |  |  |
| Hobart | 1.00 | 1.00 | 1.00 | 1.00 | 0.94 | 0.90 | 0.88 | 0.93 | 0.91 | 0.90 | 0.88 | 0.88 |
| Launceston and North East | 1.08 | 1.09 | 1.09 | 1.10 | 1.01 | 0.95 | 0.93 | 0.97 | 0.96 | 0.95 | 0.93 | 0.93 |
| South East | 1.08 | 1.08 | 1.08 | 1.10 | 1.00 | 0.94 | 0.91 | 0.96 | 0.94 | 0.94 | 0.92 | 0.92 |
| West and North West | 1.08 | 1.09 | 1.09 | 1.10 | 1.00 | 0.95 | 0.92 | 0.96 | 0.95 | 0.94 | 0.93 | 0.93 |
| **Victoria** |  |  |  |  |  |  |  |  |  |  |  |  |
| Ballarat | 1.04 | 1.05 | 1.05 | 1.06 | 0.98 | 0.93 | 0.91 | 0.95 | 0.94 | 0.93 | 0.91 | 0.91 |
| Bendigo | 1.05 | 1.05 | 1.05 | 1.06 | 0.98 | 0.93 | 0.91 | 0.95 | 0.94 | 0.93 | 0.91 | 0.91 |
| Geelong | 1.01 | 1.01 | 1.01 | 1.01 | 0.97 | 0.93 | 0.92 | 0.95 | 0.94 | 0.93 | 0.92 | 0.92 |
| Hume | 1.04 | 1.05 | 1.05 | 1.06 | 0.97 | 0.92 | 0.89 | 0.94 | 0.93 | 0.91 | 0.89 | 0.89 |
| Latrobe – Gippsland | 1.00 | 1.01 | 1.01 | 1.01 | 0.94 | 0.89 | 0.86 | 0.92 | 0.89 | 0.88 | 0.86 | 0.86 |
| Melbourne – Inner | 1.00 | 1.00 | 1.00 | 0.99 | 1.13 | 1.22 | 1.27 | 1.16 | 1.20 | 1.23 | 1.27 | 1.27 |
| Melbourne – Inner East | 1.03 | 1.03 | 1.03 | 1.02 | 1.06 | 1.11 | 1.14 | 1.08 | 1.10 | 1.12 | 1.14 | 1.14 |
| Melbourne – Inner South | 0.99 | 0.99 | 0.99 | 0.98 | 1.07 | 1.13 | 1.16 | 1.09 | 1.12 | 1.14 | 1.16 | 1.16 |
| Melbourne – North East | 0.97 | 0.97 | 0.97 | 0.97 | 0.96 | 0.94 | 0.94 | 0.96 | 0.95 | 0.94 | 0.94 | 0.94 |
| Melbourne – North West | 1.01 | 1.01 | 1.01 | 1.01 | 0.96 | 0.92 | 0.91 | 0.94 | 0.93 | 0.92 | 0.91 | 0.91 |
| Melbourne – Outer East | 1.02 | 1.02 | 1.02 | 1.01 | 0.94 | 0.91 | 0.90 | 0.93 | 0.92 | 0.91 | 0.90 | 0.90 |
| Melbourne – South East | 1.06 | 1.06 | 1.06 | 1.07 | 1.05 | 1.03 | 1.03 | 1.04 | 1.03 | 1.03 | 1.03 | 1.03 |
| Melbourne – West | 0.97 | 0.97 | 0.97 | 0.97 | 0.95 | 0.93 | 0.91 | 0.94 | 0.93 | 0.92 | 0.91 | 0.91 |
| Mornington Peninsula | 0.97 | 0.97 | 0.97 | 0.96 | 0.93 | 0.91 | 0.89 | 0.93 | 0.91 | 0.90 | 0.89 | 0.89 |
| North West | 1.04 | 1.05 | 1.05 | 1.06 | 0.96 | 0.90 | 0.88 | 0.93 | 0.91 | 0.90 | 0.88 | 0.88 |
| Shepparton | 1.04 | 1.05 | 1.05 | 1.06 | 0.97 | 0.92 | 0.89 | 0.94 | 0.92 | 0.91 | 0.89 | 0.89 |
| Warrnambool & South West | 1.04 | 1.05 | 1.05 | 1.06 | 0.97 | 0.92 | 0.89 | 0.94 | 0.93 | 0.92 | 0.90 | 0.90 |
| **Western Australia** |  |  |  |  |  |  |  |  |  |  |  |  |
| Bunbury | 1.11 | 1.12 | 1.12 | 1.14 | 1.05 | 1.00 | 0.99 | 1.01 | 1.01 | 1.00 | 0.99 | 0.99 |
| Mandurah | 1.07 | 1.07 | 1.07 | 1.08 | 1.01 | 0.97 | 0.96 | 0.98 | 0.98 | 0.97 | 0.96 | 0.96 |
| Outback | 1.20 | 1.21 | 1.21 | 1.24 | 1.12 | 1.07 | 1.05 | 1.06 | 1.06 | 1.07 | 1.06 | 1.06 |
| Perth – Inner | 1.07 | 1.06 | 1.06 | 1.07 | 1.22 | 1.34 | 1.42 | 1.26 | 1.32 | 1.36 | 1.42 | 1.42 |
| Perth – North East | 1.03 | 1.03 | 1.03 | 1.04 | 1.01 | 1.00 | 0.99 | 1.00 | 1.00 | 1.00 | 0.99 | 0.99 |
| Perth – North West | 1.04 | 1.04 | 1.04 | 1.04 | 1.04 | 1.04 | 1.05 | 1.03 | 1.04 | 1.04 | 1.05 | 1.05 |
| Perth – South East | 1.08 | 1.08 | 1.08 | 1.09 | 1.06 | 1.06 | 1.06 | 1.05 | 1.05 | 1.06 | 1.06 | 1.06 |
| Perth – South West | 1.03 | 1.03 | 1.03 | 1.04 | 1.03 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 | 1.02 |
| Wheat Belt | 1.11 | 1.11 | 1.11 | 1.13 | 1.03 | 0.97 | 0.95 | 0.98 | 0.97 | 0.97 | 0.95 | 0.95 |

## Annual Indexation

The amount of SDA that is payable in respect of an SDA-eligible participant in an SDA enrolled dwelling in each of the combinations discussed above was initially calculated in 2015-16. The SDA amounts in later years for each combination was then determined by multiplying the 2015-16 SDA amounts by the annual movement in the CPI to the end of the March Quarter (see **Table 5** below).

Table 5: CPI Multiplier

|  |  |  |
| --- | --- | --- |
| Year | CPI | Cumulative Effect |
| 2016-17 base prices | 2.5% | 2.50% |
| 2017-18 base prices | 2.1% | 4.65% |
| 2018-19 base prices | 1.9% | 6.64% |
| 2019-20 base prices | 1.3% | 8.03% |
| 2020-21 base prices | 2.2% | 10.40% |
| 2021-22 base prices | 1.1% | 11.62% |
| 2022-23 base prices | 5.1% | 17.31% |

Some minor adjustments were also made to SDA prices as a result of the [*Limited Cost Assumptions Review*](https://www.ndis.gov.au/media/1870/download?attachment) that was undertaken in 2019 in order to support investment across the range of SDA types and locations where the NDIA considered that supply should be stimulated. Some location factors in Sydney and Melbourne metropolitan areas were increased and the construction cost assumptions for the Fully Accessible and Robust design categories were also adjusted. Further details of the changes are provided in **Appendix A** of this paper.

# Current Pricing Methodology and Assumptions

This chapter sets out the detailed methodology and assumptions that the NDIA used in 2016-17 to determine the base price limits that apply in SDA.[[4]](#footnote-5)

## Overview of the Pricing Methodology

The SDA Pricing and Payments Framework requires the NDIA to consider the following types of costs when it sets SDA prices:

* Opportunity Cost of Capital (return on capital) – This component recognises the typical sources of capital (debt or equity) and associated costs (at an efficient price), across all aspects of the capital investment in the accommodation (land, buildings, plant and equipment). The Framework requires that the NDIA should determine the weighted average cost of capital by reference to appropriate market indices for similar investments and should be set at a single national rate. The Framework also requires that the NDIA should not assume that the provider is a charity or not-for-profit, and so not discount the price based on any related tax concessions or access to reduced capital costs.
* Consumption Costs (return of capital) – This component equates to depreciation of the dwelling to the end of its useful life and provides the accommodation owner with funds to replace the building as new at the end of its life. This component is required to be adjusted for the investment interest on those payments over time, and the inflation impact on construction/replacement costs.
* Costs of Ownership – This component makes provision for costs that are legally required, that extend the operating life of the accommodation, or that are otherwise necessary. Efficient accommodation-related operational costs of providing SDA could include costs of: facilities management and accounting, rates and other indirect taxes, insurance, utilities not met by the tenants, repairs and maintenance, tenancy management, and reporting and corporate compliance. Costs of ownership may also include loss or gaps in revenue such as delays between issuance of occupancy certificate and enrolment, or delays between initial participant approvals and lease-up.
* Land price Inflation – This component recognises the gain or loss the accommodation owner incurs over time due to changes in the value of land. To minimise short-run volatility in pricing arrangements, the Framework requires the NDIA to adopt a long-run, multi-year approach to establishing this component of the benchmark prices. The Framework provides that the NDIA should also take into account any other gains and losses from the revaluation or inflation of assets when setting SDA prices.
* Resident rent contributions (from all people in the dwelling).

The Framework also requires the NDIA to consider the costs of meeting any quality or safeguarding requirements that apply to SDA when setting SDA prices.

In broad terms, the required revenue (cash flow) from the NDIS over the life of the dwelling is equal to:

$$Opportunity.Cost.Of.Capital+ Consumption.Costs+Ownership.Costs-Land.Price.Inflation-Resident.Rent.Payments$$

The annual price is set at the amount that is equal to the annual loan payment that would need to be made on a loan whose value was the net present value of the after-tax cash flow from the dwelling over the investment period.

## Detailed Methodology – Price Limits for New Builds

The variable **SDA.Payment** represents the annual amount the NDIA would have paid in 2015-16 for an SDA-eligible participant in a New Build dwelling. It is determined as follows:

$$\frac{Dwelling.Revenue.ExcRent.PreTax\*\left[1+Sprinkler.Factor \right]}{Number.Bedrooms\*\left[1-Vacancy.Rate\right]}$$

Where:

* **Dwelling.Revenue.ExcRent.PreTax** is the annual payment that, together with rental contributions by participants, is sufficient for an efficient provider to have sufficient pre-tax revenue to be able to meet all reasonable capital and operating expenses on a dwelling over the period of the investment. The methodology by which this parameter was estimated is set out on page 22.
* **Number.Bedrooms** is the number of bedrooms in the dwelling
* **Sprinkler.Allowance** is currently set at 0% if there were no sprinklers in the dwelling and is otherwise set at 1.2% for Apartments and 1.9% for other types of dwellings.
* **Vacancy.Rate** is the current expected vacancy rate for the dwelling – see **Table 1**. Note, this is the expected vacancy rate for the entire dwelling rather than for a single bedroom in the dwelling.

Table 6: Vacancy Rates

|  |  |  |
| --- | --- | --- |
| Building Type | Bedrooms | Vacancy Rate |
| Apartment | 1 | 3.0% |
| Apartment | 2 | 3.0% |
| Apartment | 3 | 3.0% |
| Villa / Duplex / Townhouse | 1 | 3.0% |
| Villa / Duplex / Townhouse | 2 | 5.0% |
| Villa / Duplex / Townhouse | 3 | 7.5% |
| House | 2 | 5.0% |
| House | 3 | 7.5% |
| Group Home | 4 | 8.5% |
| Group Home | 5 | 10.0% |

As an exception to the general rule, the amount of the **SDA.Payment** for apartments with onsite overnight assistance is determined by the following formula:

$$SDA.Payment.WithoutOOA\*\left[1+ \frac{1}{Number.Apartments}\right]$$

Where:

* **SDA.Payment.WithoutOOA** is the **SDA.Payment** that would apply if the dwelling did not have onsite overnight assistance.
* **Number.Apartments** is the number of apartments that share the onsite overnight assistance. **This is currently assumed to be six (6) in all cases.**

### Weighted Average Cost of Capital (WACC)

The Nominal After Tax Weighted Average Cost of Capital (NATWACC) and the Real After Tax Weighted Average Cost of Capital (RATWACC) are computed as straightforward weighted averages of the costs of debt and equity capital, weighted by the relative proportions of each and by the tax effects:

$$NATWACC=r\_{e}\*\frac{E}{V}\*\frac{\left[1-Tax.Rate\right]}{\left[1-Tax.Rate\*\left\{1-Gamma\right\}\right]}+r\_{d}\*\frac{D}{V}\*\left[1-Tax.Rate\right]$$

$$RATWACC=\frac{1+NATWACC}{\left[1+CPI\right]}-1$$

Where

* $r\_{e}$ represents the return on investment that investors would expect to receive to commit equity capital to a firm.
* $r\_{d}$ represents the return on investment that investors would expect to receive to lend debt capital to a firm.
* $\frac{E}{V}$ represents the relative proportion of equity finance. This is currently assumed to be 40%.
* $\frac{D}{V}$ represents the relative proportion of debt finance. It is currently assumed to be 60%.
* $Tax.Rate$ is the rate of tax payable by the provider. It is currently assumed to be 30% in all cases (see page 22).
* $Gamma$ is a parameter between 0 and 1 which represents the extent to which imputation credits on tax paid by the company can be used elsewhere. It is currently assumed to be zero (0).
* $CPI$ is currently assumed to be 2.5% per annum.

The model uses a Capital Asset Pricing Model to estimate the required return on equity:

$$r\_{e}=r\_{f}+ β\*MRP$$

$$r\_{d}=r\_{f}+ DRP$$

where

* $r\_{f}$ represents the nominal risk-free rate of return. This is the return that is available to investors on an investment that is completely free of risk. It is currently assumed to be 2.7%.
* $β$ represents the equity beta, which indicates the extent to which the particular investment has more or less risk than average. It is currently assumed to be 0.9.
* $MRP$ represents the nominal market risk premium, which is the amount of extra return (over and above the nominal return on a risk-free asset) that investors would require for investing in the asset. It is currently assumed to be 6.0%
* $DRP$ represents the nominal debt margin, which is the amount of extra return (over and above the nominal return on a risk-free asset) that investors would require for lending to an investor in the asset. It is currently assumed to be 2.5%

These assumptions together give

* NATWACC = 5.42%
* RATWACC = 2.85%

### Required Revenue Before Tax Excluding Rent Payments

The value of the **Dwelling.Revenue.ExcRent.PreTax** variable is calculated by reinflating the **Dwelling.Revenue.ExcRent.PostTax** variable (the required revenue after tax excluding rent payments) and is given by the following formula:

$$\frac{Dwelling.Revenue.ExcRent.PostTax}{1-Tax.Rate}$$

Where

* **Tax.Rate** is the rate of tax payable by the provider. **This is currently assumed to be 30% in all cases.**
* **Dwelling.Revenue.ExcRent.PostTax** is the annualised payment that is equivalent to the annual loan payment that would need to be made on a loan whose value was the net present value of the after tax cash flow from the dwelling over the investment period.

#### Required Revenue After Tax Excluding Rent Payments

The value of the **Dwelling.Revenue.ExcRent.PostTax** variable is calculated by the following formula:

$$PMT(RATWACC,Investment.Period,Discounted.Cash.Flow)$$

Where

$$PMT\left(X,IP,Z\right)=\frac{Z\*X\*\left[1+X\right]^{IP}}{1-\left[1+X\right]^{IP}}$$

And

* **Investment.Period is currently assumed to be 20 years in all cases.**
* ***RATWACC*** is the estimated Real After Tax Weighted Average Cost of Capital for an efficient provider (see page 21)
* **Discounted.Cash.Flow** is the net present value of future after tax cash flows from the dwelling over the investment period (see page 23).

#### Discounted (Net Present Value) Cash Flow

The **Discounted.Cash.Flow** parameter represents the net present value of future after tax cash flows from the dwelling over the investment period (Investment.Period = IP). It is determined by the following formula:

$$NPV\left(NATWACC, Investment.Period, Residual.Value+Rent-Ownership.Cost-Tax.Cost\right)- Aquisition.Cost$$

Where the net present value of an income stream Y ($Y\_{i}$ is the income in year i) over the investment period (IP), with a discount factor X, is given by

$$NPV\left(X,IP,Y\right)= \sum\_{i=1}^{IP}\frac{Y\_{i}}{[1+X]^{i}}$$

Note, each of these components is considered separated in the remainder of this document because:

$$NPV\left(X,IP,Y+Z\right)= NPV\left(X,IP,Y\right)+NPV\left(X,IP,Z\right)$$

An alternate calculation for **Discounted.Cash.Flow** is therefore as follows:

$$NPV.Residual.Value+NPV.Rent-NPV.Ownership.Cost- NPV.Tax.Cost- Aquisition.Cost$$

Where

* **Acquisition.Cost** is the initial efficient cost of purchasing the SDA property
* **NPV.Residual.Value** is the net present value of the net resale value of the dwelling and land at the end of the investment period, discounted by the NATWACC.
* **NPV.Rent** is the net present value of the rent received from participants (over and above the SDA amounts paid by the NDIS) living in the dwelling over the investment period, discounted by the NATWACC.
* **NPV.Ownership.Cost** is the net present value of ownership costs incurred in respect of the dwelling over the investment period, discounted by the NATWACC.
* **NPV.Tax.Cost** is the net present value of tax costs incurred in respect of the cash flow from the dwelling over the investment period, discounted by the NATWACC.

#### Acquisition Cost

The **Acquisiton.Cost** parameter represents the initial efficient cost of purchasing the SDA property and is the sum of two components **Build.Cost** and **Land.Cost**.

$$Acquisition.Cost=Build.Cost+Land.Cost$$

##### Cost of Building

The **Build.Cost** parameter represents the initial (all inclusive) efficient costs of building the property in 2015-16.

$$Build.Cost=Build.Baseline\*Build.Multiplier.Location\*Build.Multiplier.Cyclone$$

Where

* **Build.Baseline** represents the initial (all inclusive) efficient cost of building a property in Melbourne. The current assumptions are in **Table 7**, **Table 8** and **Table 9**.
* **Build.Multiplier.Location** adjusts the build cost for the geographic location of the dwelling. The current assumptions are set out in **Table 10**.
* **Build.Multiplier.Cyclone** adjusts the build cost of the dwelling for regions that are prone to cyclones.

##### Baseline Building Costs

The value of **Build.Baseline** varies by Type of dwelling, Number of Bedrooms in the dwelling and Design Category. **Table 7** sets out the current assumptions for dwellings that do not include Onsite Overnight Accommodation.

Table 7: Build Cost without OOA

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Building Type | Bedrooms | Basic | Improved Liveability | Fully Accessible | Robust | High Physical Support |
| Apartment | 1 | $374,283 | $380,330 | $574,959 | na | $838,715 |
| Apartment | 2 | $461,796 | $469,202 | $716,527 | na | $1,060,239 |
| Apartment | 3 | $590,865 | $600,448 | $928,588 | na | $1,406,490 |
| Villa / Duplex / Townhouse | 1 | $218,052 | $222,357 | $334,942 | $402,669 | $519,682 |
| Villa / Duplex / Townhouse | 2 | $278,868 | $284,505 | $420,954 | $509,654 | $668,640 |
| Villa / Duplex / Townhouse | 3 | $364,623 | $371,798 | $552,033 | $674,227 | $890,075 |
| House | 2 | $304,493 | $308,593 | $445,554 | $545,529 | $705,540 |
| House | 3 | $383,073 | $425,098 | $625,833 | $755,715 | $1,070,988 |
| Group Home | 4 | $574,790 | $586,065 | $830,719 | $992,352 | $1,367,945 |
| Group Home | 5 | $625,268 | $636,543 | $917,417 | $1,094,956 | $1,523,852 |

Separate **Build.Baseline** values exist for dwellings that include Onsite Overnight Accommodation (OOA). The current assumptions for these dwellings are set out in **Table 8**.

Table 8: Build Cost with OOA

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Building Type | Bedrooms | Basic | Improved Liveability | Fully Accessible | Robust | High Physical Support |
| Villa / Duplex / Townhouse | 1 | na | $254,890 | $369,184 | $445,260 | $564,743 |
| Villa / Duplex / Townhouse | 2 | na | $315,454 | $453,528 | $549,877 | $711,092 |
| Villa / Duplex / Townhouse | 3 | na | $402,033 | $583,853 | $713,371 | $931,343 |
| House | 2 | na | $339,541 | $478,128 | $585,752 | $747,992 |
| House | 3 | na | $458,981 | $661,484 | $798,970 | $1,120,945 |
| Group Home | 4 | na | $620,164 | $866,596 | $1,035,595 | $1,417,556 |
| Group Home | 5 | na | $669,757 | $952,367 | $1,136,948 | $1,571,895 |

For robust buildings with OOA then the cost also varies according to whether or not the dwelling includes an additional breakout room. The current assumptions are in **Table 9**.

Table 9: Build Cost with OOA + Additional Breakout Room

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Building Type | Bedrooms | Basic | Improved Liveability | Fully Accessible | Robust | High Physical Support |
| Villa / Duplex / Townhouse | 1 | na | na | na | $481,082 | na |
| Villa / Duplex / Townhouse | 2 | na | na | na | $583,706 | na |
| Villa / Duplex / Townhouse | 3 | na | na | na | $746,293 | na |
| House | 2 | na | na | na | $619,581 | na |
| House | 3 | na | na | na | $835,354 | na |
| Group Home | 4 | na | na | na | $1,071,970 | na |
| Group Home | 5 | na | na | na | $1,172,270 | na |

NOTE: There is no separate “with OOA” building cost for Apartments. The SDA amount for Apartments with OOA is calculated at the **SDA.Payment** stage of the calculation (see page 19 above) by adding a specified fraction of the **SDA.Payment** of an equivalent dwelling without OOA.

##### Adjusting Build Costs for Geographic Location

This parameter varies by state and degree of remoteness. The current assumptions are set out in **Table 10**.

Table 10: Building Cost Location Multiplier

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  State | Major city | Inner regional | Outer regional | Remote |
| NSW | 1.03 | 1.08 | 1.13 | 1.24 |
| Vic | 1.00 | 1.05 | 1.10 | 1.20 |
| QLD | 0.97 | 1.02 | 1.07 | 1.16 |
| SA | 1.02 | 1.07 | 1.12 | 1.22 |
| WA | 1.07 | 1.12 | 1.18 | 1.28 |
| Tas | 1.04 | 1.09 | 1.14 | 1.25 |
| ACT | 1.06 | 1.11 | 1.17 | 1.27 |
| NT | 1.26 | 1.32 | 1.39 | 1.51 |

##### Further Adjusting Build Costs for Cyclonic Conditions

The **Build.Multiplier.Cyclone** parameter further adjusts the build cost of the dwelling for regions that are prone to cyclones and applies in five regions. It is currently assumed to be 1.015 and applies to dwellings in the Cairns, Fitzroy, MacKay and Townsville regions of Queensland and in the Darwin region of the Northern Territory.

##### Cost of Land

The **Land.Cost** parameter represents the purchase price of the land on which the dwelling is situated. It is calculated by the following formula:

$$Land.Cost=Area\*Cost.Per.Square.Metre$$

Where

* **Area** is the size of the footprint of the dwelling and surrounding area. The current assumptions are in **Table 11**.
* **Cost.Per.Square.Metre** is the average cost per square metre to purchase land by region. The current assumptions are in **Table 12**.

Table 11: Area of Dwellings

|  |  |  |
| --- | --- | --- |
| Building Type | Bedrooms | Area (M2) |
| Apartment | 1 | 50 |
| Apartment | 2 | 50 |
| Apartment | 3 | 50 |
| Villa / Duplex / Townhouse | 1 | 180 |
| Villa / Duplex / Townhouse | 2 | 360 |
| Villa / Duplex / Townhouse | 3 | 540 |
| House | 2 | 360 |
| House | 3 | 540 |
| Group Home | 4 | 720 |
| Group Home | 5 | 900 |

Table 12: Land Cost per Square Metre

| State | Region | Cost per M2 | Geographical Classification |
| --- | --- | --- | --- |
|  | Median Capital City | $552.00 |  |
| NSW | Capital Region | $180.59 | Outer regional |
| NSW | Central Coast | $399.74 | Inner regional |
| NSW | Central West | $98.88 | Outer regional |
| NSW | Coffs Harbour - Grafton | $187.09 | Outer regional |
| NSW | Far West and Orana | $61.90 | Remote |
| NSW | Hunter Valley exc Newcastle | $198.08 | Outer regional |
| NSW | Illawarra | $435.19 | Outer regional |
| NSW | Mid North Coast | $208.65 | Outer regional |
| NSW | Murray | $85.09 | Outer regional |
| NSW | New England and North West | $86.61 | Outer regional |
| NSW | Newcastle and Lake Macquarie | $443.41 | Outer regional |
| NSW | Richmond - Tweed | $285.47 | Outer regional |
| NSW | Riverina | $95.82 | Outer regional |
| NSW | Southern Highlands and Shoalhaven | $212.85 | Outer regional |
| NSW | Sydney - Baulkham Hills and Hawkesbury | $778.32 | Inner regional |
| NSW | Sydney - Blacktown | $639.56 | Major city |
| NSW | Sydney - City and Inner South | $4,592.34 | Major city |
| NSW | Sydney - Eastern Suburbs | $3,911.45 | Major city |
| NSW | Sydney - Inner South West | $1,327.46 | Major city |
| NSW | Sydney - Inner West | $2,443.19 | Major city |
| NSW | Sydney - North Sydney and Hornsby | $1,678.76 | Inner regional |
| NSW | Sydney - Northern Beaches | $1,504.50 | Major city |
| NSW | Sydney - Outer South West | $410.36 | Inner regional |
| NSW | Sydney - Outer West and Blue Mountains | $398.06 | Inner regional |
| NSW | Sydney - Parramatta | $977.53 | Major city |
| NSW | Sydney - Ryde | $1,475.86 | Major city |
| NSW | Sydney - South West | $685.99 | Major city |
| NSW | Sydney - Sutherland | $1,250.41 | Major city |
| VIC | Ballarat | $148.36 | Outer regional |
| VIC | Bendigo | $165.32 | Outer regional |
| VIC | Geelong | $284.14 | Inner regional |
| VIC | Hume | $115.56 | Outer regional |
| VIC | Latrobe - Gippsland | $131.34 | Inner regional |
| VIC | Melbourne - Inner | $1,342.88 | Major city |
| VIC | Melbourne - Inner East | $993.61 | Major city |
| VIC | Melbourne - Inner South | $1,041.78 | Major city |
| VIC | Melbourne - North East | $449.46 | Major city |
| VIC | Melbourne - North West | $256.47 | Inner regional |
| VIC | Melbourne - Outer East | $345.33 | Major city |
| VIC | Melbourne - South East | $445.18 | Inner regional |
| VIC | Melbourne - West | $389.21 | Major city |
| VIC | Mornington Peninsula | $327.94 | Major city |
| VIC | North West | $69.03 | Outer regional |
| VIC | Shepparton | $112.29 | Outer regional |
| VIC | Warrnambool and South West | $117.51 | Outer regional |
| QLD | Brisbane - East | $449.56 | Major city |
| QLD | Brisbane - North | $537.86 | Major city |
| QLD | Brisbane - South | $624.32 | Major city |
| QLD | Brisbane - West | $666.69 | Major city |
| QLD | Brisbane Inner City | $902.09 | Major city |
| QLD | Cairns | $161.29 | Outer regional |
| QLD | Darling Downs - Maranoa | $67.20 | Outer regional |
| QLD | Fitzroy | $150.06 | Outer regional |
| QLD | Gold Coast | $356.48 | Inner regional |
| QLD | Ipswich | $141.14 | Inner regional |
| QLD | Logan - Beaudesert | $232.21 | Inner regional |
| QLD | Mackay | $173.48 | Outer regional |
| QLD | Moreton Bay - North | $281.25 | Inner regional |
| QLD | Moreton Bay - South | $281.25 | Inner regional |
| QLD | Queensland - Outback | $82.67 | Remote |
| QLD | Sunshine Coast | $281.14 | Inner regional |
| QLD | Toowoomba | $169.86 | Outer regional |
| QLD | Townsville | $177.46 | Outer regional |
| QLD | Wide Bay | $89.52 | Outer regional |
| SA | Adelaide - Central and Hills | $657.50 | Major city |
| SA | Adelaide - North | $313.71 | Inner regional |
| SA | Adelaide - South | $381.75 | Major city |
| SA | Adelaide - West | $558.79 | Major city |
| SA | Barossa - Yorke - Mid North | $81.17 | Inner regional |
| SA | South Australia - Outback | $93.03 | Remote |
| SA | South Australia - South East | $88.01 | Inner regional |
| WA | Bunbury | $198.38 | Outer regional |
| WA | Mandurah | $230.89 | Inner regional |
| WA | Perth - Inner | $1,561.68 | Major city |
| WA | Perth - North East | $441.14 | Major city |
| WA | Perth - North West | $590.99 | Major city |
| WA | Perth - South East | $501.56 | Inner regional |
| WA | Perth - South West | $520.73 | Major city |
| WA | Western Australia - Outback | $127.74 | Remote |
| WA | Western Australia - Wheat Belt | $85.68 | Outer regional |
| TAS | Hobart | $215.19 | Major city |
| TAS | Launceston and North East | $116.29 | Outer regional |
| TAS | South East | $71.16 | Outer regional |
| TAS | West and North West | $97.25 | Outer regional |
| ACT | Australian Capital Territory | $358.44 | Major city |
| NT | Darwin | $346.92 | Major city |
| NT | Northern Territory - Outback | $103.55 | Remote |

#### Net Present Value of Ownership Costs

The **NPV.Ownership.Cost** variable represents the net present value of ownership costs incurred in respect of the dwelling over the investment period, discounted by the NATWACC.

The ownership cost in year “i” of the investment period **(**$Ownership.Cost\_{year=i}$**)** is given by:

$$\left[Maintenance.Cost\_{0}+Property.Management.Cost\_{0}+Vacancy.Management.Cost\_{0}\right]\*\left[1+CPI\right]^{i}$$

Where

* $Maintenance.Cost\_{0}$ is the annual maintenance cost for the dwelling expressed in 2015-16 prices and varies by Building Type. The current assumptions about maintenance costs are set out in **Table 13**.

Table 13: Maintenance Cost (2015-16)

|  |  |  |
| --- | --- | --- |
| Building Type | Bedrooms | Maintenance Cost |
| Apartment | 1 | $13,000 |
| Apartment | 2 | $13,000 |
| Apartment | 3 | $14,000 |
| Villa / Duplex / Townhouse | 1 | $11,000 |
| Villa / Duplex / Townhouse | 2 | $17,000 |
| Villa / Duplex / Townhouse | 3 | $20,000 |
| House | 2 | $28,000 |
| House | 3 | $29,500 |
| Group Home | 4 | $30,500 |
| Group Home | 5 | $31,500 |

* $Property.Management.Cost\_{0}$ is currently assumed to be 0.4% of **Acquisition.Cost.**
* $Vacancy.Management.Cost\_{0}$ is currently assumed to be $333 per annum (2015-16 prices).
* $CPI$ is currently assumed to be 2.5% each year.

#### Net Present Value of the Residual Value of the Dwelling

The **NPV.Residual.Value** variable represents the net present value of the resale value of the dwelling and land (after fees) at the end of the investment period, discounted by the NATWACC. Because the resale occurs at the end of year 20 and there are no other cash flow transactions relating to the residual value over the investment period, we have that:

$$NPV.Residual.Value= \frac{Residual.Value\_{year=20}}{[1+NATWACC]^{20}}$$

Where $Residual.Value\_{year=20}$ is the residual value of the land and building at the end of year 20 and is equal to

$$\left[Residual.Land.Value\_{year=20}+Residual.Build.Value\_{year=20}\right] \left[1-Fees\right]$$

Where

* $Residual.Land.Value\_{year=20}$ is the value of the land year 20:

$$Land.Value\_{year=0}\*\left[1+CPI\right]^{20}\*\left[1+Real.Land.Inflation\right]^{20}$$

* $Residual.Build.Value\_{year=20}$ is the estimated value of the building in the general real estate market at year 20 and is equal to:

$$Adjusted.Build.Value\_{year=0}\*\left[1+CPI\right]^{20}\*\frac{Useful.Life-20}{Useful.Life}\*\left[1-Value.Loss\right]$$

* $Adjusted.Build.Value\_{year=0}$ is equal to the standard $Build.Value\_{year=0}$ for dwellings that are in the Improved Liveability Design Category. For all other dwellings it is equal to the standard $Build.Value\_{year=0}$ for the equivalent dwelling in the Fully Accessible Design Category.
* $Fees $are the fees on the sale of the property as a share of the sale price and are currently assumed to be 7.3%.
* $CPI $is currently assumed to be 2.5% each year
* $Real.Land.Inflation $is currently assumed to be 2.4% each year
* $Useful.Life $is currently assumed to be 60 years.
* $Value.Loss $is loss in value on sale because of change in use. The current assumptions are set out in Table 14.

Table 14: Building Value Loss on Sale

|  |  |  |
| --- | --- | --- |
| Building Type | Bedrooms | Loss |
| Apartment | 1 | 20% |
| Apartment | 2 | 20% |
| Apartment | 3 | 20% |
| Villa / Duplex / Townhouse | 1 | 40% |
| Villa / Duplex / Townhouse | 2 | 30% |
| Villa / Duplex / Townhouse | 3 | 35% |
| House | 2 | 30% |
| House | 3 | 35% |
| Group Home | 4 | 30% |
| Group Home | 5 | 40% |

#### Net Present Value of Rent Paid by Participants

The **NPV.Rent** variable represents the net present value of the revenue stream from rent paid by participants (over and above the payments by the NDIS) in respect of the dwelling over the investment period, discounted by the NATWACC.

In the base case where all residents are SDA-eligible participants, the rent in year “i” of the investment period ($Rent\_{year=i}$) is given by:

$$RRC\_{year=0}\*Number.Bedrooms\*\left[1-Vacancy.Rate\right]\*\left[1+CPI\right]^{i}\*\left[1+Real.Growth\right]^{i}$$

Where

* $RRC\_{year=0} $is the reasonable rent contribution for a participant – this is currently assumed to be $8,580 in 2015-16 prices. The NDIA does not regulate the rent paid by residents who are not SDA-eligible participants.
* $Number.Bedrooms$ is the number of bedrooms in the dwelling.
* $Vacancy.Rate$ is assumed vacancy rate for this type of dwelling - see **Table 6** above.
* $CPI$ is currently assumed to be 2.5% per annum (see above).
* $Real.Growth$ is the annual increase in rent from participants above CPI. This is currently assumed to be 0% in all cases.

#### Net Present Value of Tax Costs Incurred

The **NPV.Tax.Cost** variable represents the net present value of tax costs incurred in respect of the cash flow from the dwelling over the investment period, discounted by the NATWACC.

In general, the Tax Cost (Benefit) in year “i” of the investment period ($Tax.Cost\_{year=i}$) is given by:

$$\left[Rent\_{i}- Ownership.Cost\_{i}-\frac{Build.Value\_{0}}{Tax.Life}\right]\*Tax.Rate$$

and in final year of the investment (year = IP), the Tax Cost(Benefit) is given by:

$$\left[Rent\_{IP}-Ownership.Cost\_{IP}-\frac{Build.Value\_{0}}{Tax.Life}+Residual.Value\_{IP}-\left\{Acquisition.Cost-\frac{Build.Value\_{0}\*IP}{Tax.Life}\right\}\right]\*Tax.Rate$$

Where

* $Rent\_{i}$ is the rent from participants in year “i” and is defined on page 30.
* $Ownership.Cost\_{i}$ is the cost of ownership in year “i” and is defined on page 29.
* $Residual.Value\_{IP}$ is the residual value of the property (building and land) at the end of the investment period.
* $Acquisition.Cost$is as defined on page 24.
* $Build.Value\_{0}$ is the initial cost of the building.
* $IP $is the number of years in the investment period. This is currently always assumed to be 20.
* $Tax.Life$ is the life of the building for depreciation purposes and is currently assumed to be 40 years in all cases.
* $Tax.Rate$ is the rate of tax payable by the provider. This is currently assumed to be 30% in all cases (see page 22).

Note, the last two terms in the brackets in final equation equate to the capital gain on the building and land over the investment period, with the last term in the brackets in final equation equating to the amount of value already written off for depreciation in earlier year tax costs over the life of the investment.

## Detailed Methodology – Price Limits for Existing Stock

For Existing Stock, the amount of the **SDA.Payment** is 2015-16 is determined by the following formula:

$$\frac{Acquisition.Cost\*Gross.Rental.Yield\*\left[1+Sprinkler.Factor \right]}{Number.Bedrooms\*\left[1-Vacancy.Rate\right]}$$

Where:

* **Acquisition.Cost** is the initial cost of the land and buildings (in 2015-16 prices) and is assumed to be the same as the cost of New Builds – see page 24.
* **Gross.Rental.Yield** is the total annual rental income received from a property before tax divided by the value of the property.
* This is currently assumed to be 6.5% for apartments and 5.5% for houses and villas/duplexes/townhouses.
* **Number.Bedrooms** is the number of bedrooms in the dwelling
* **Sprinkler.Allowance** is currently assumed to be 0% if there are no sprinklers and is otherwise 1.2% for Apartments and 1.9% for other Building Types – same as for New Builds.
* **Vacancy.Rate** is the assumed vacancy rate for the dwelling – see Table 15 for current assumptions, which are the same as for New Builds. Note, this is the vacancy rate for the entire dwelling not for a single bedroom in the dwelling.

Table 15: Vacancy Rates for Existing Dwellings

|  |  |  |
| --- | --- | --- |
| Building Type | Bedrooms | Vacancy Rate |
| Apartment | 1 | 3.0% |
| Apartment | 2 | 3.0% |
| Apartment | 3 | 3.0% |
| Villa / Duplex / Townhouse | 1 | 3.0% |
| Villa / Duplex / Townhouse | 2 | 5.0% |
| Villa / Duplex / Townhouse | 3 | 7.5% |
| House | 2 | 5.0% |
| House | 3 | 7.5% |
| Group Home | 4 | 8.5% |
| Group Home | 5 | 10.0% |

As an exception to the general rule, the amount of the **SDA.Payment** for apartments with onsite overnight assistance is determined by the following formula:

$$SDA.Payment.WithoutOOA\*\left[1+ \frac{1}{Number.Apartments}\right]$$

Where:

* **SDA.Payment.WithoutOOA** is the **SDA.Payment** that would apply if the dwelling did not have onsite overnight assistance.
* **Number.Apartments** is the number of apartments which share the onsite overnight assistance. Number.Apartments is currently assumed to be six (6) in all cases ­– same as for New Builds.

# Consultation Questions

## Acquisition Costs

### Build Costs

1. What does it cost to construct an SDA dwelling (excluding the cost of land)? If possible, please provide detailed estimates including transaction dates, site specific costs and information on the location of the dwelling and the Building Type, Design Category, and number of Bedrooms of the dwelling.
2. 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? Please provide detailed evidence.
3. To what extent does the Building Code of Australia classification of an SDA dwelling affect its construction costs? Should these differences be taken into account in determining the pricing arrangements for SDA dwellings.

### Land Costs

1. 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? Please provide detailed evidence.
2. 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? Please provide detailed evidence.
3. 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? Please provide detailed evidence.
4. Is undeveloped/vacant land generally available in all locations, and if not in which locations is undeveloped/vacant land not generally available? Please provide detailed evidence.
5. 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? Please provide detailed evidence.

### Sprinklers

1. Is the current methodology by which the NDIA accounts for sprinklers in estimating the construction cost of a New Build appropriate? Please provide evidence.
2. Is it appropriate to use the same adjustment for sprinklers for all Building Types, Design Categories and Regions? Please provide evidence.
3. 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? Please provide evidence.

### Other Acquisition Costs

1. 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? Please provide evidence.

## Exit Costs (Residual Value)

1. Are there any alternative use options for the property on exit?
2. 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? Please provide evidence.
3. What fees are incurred on the sale of SDA properties? Do these fees vary by Building Type and Size, Design Category and Region? Please provide evidence.

## Ownership Costs

1. What vacancy rates can SDA providers expect to encounter? Do vacancy rates vary by Building Type and Size, Design Category and Region? Please provide evidence.
2. 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? Please provide evidence.
3. 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? Please provide evidence.
4. 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? Please provide evidence.
5. 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? Please provide evidence.

## Tax Costs

1. Is the tax treatment of 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? Please provide evidence.

## Financing Costs

1. What should the key parameters of the NDIA’s Capital Assets Pricing Model for SDA investments be, including:
	1. The Equity Beta for SDA investments;
	2. The Gearing Ratio for SDA investments; and
	3. 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.
2. 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? Please provide evidence.
3. 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? Please provide evidence.

## Indexation of Base Prices

1. 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? Please provide evidence.
2. Are there any other issues with the indexation of SDA base prices? Please provide details and evidence.

## Other Issues

1. 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.
2. 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? Please provide details and evidence.
3. 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? Please provide evidence.

# Appendix A – Limited Cost Assumptions Review

In 2019, the NDIA undertook a limited review focused on SDA location factors and construction cost assumptions for the various building types and design categories.

The Review recommended increases to some location factors in Sydney and Melbourne metropolitan areas (see Table 16) and adjustment to some construction cost assumptions for Fully Accessible and Robust design categories (see Table 17). These changes were recommended in order to support investment across the range of SDA types and locations where the NDIA believed that supply should be stimulated.

The Review also recommended some key monitoring activities be formalised as part of the NDIA’s SDA market steward role, including the incorporation of new data sets into analysis and the establishment of supply monitoring cycles for SDA design categories and locations.

Table 16: Increases in Prices due to Adjustments to Location Factors

|  | Apartment | Villa / Duplex / Townhouse | House / Group Home |
| --- | --- | --- | --- |
| Bedrooms | 1 | 2 | 2 | 3 |  |  |
| Residents | 1 | 1 | 2 | 2 |  |  |
| Sydney - City and Inner South | 5.3% | 5.4% | 5.4% | 5.5% |  |  |
| Sydney - Eastern Suburbs | 5.4% | 5.5% | 5.5% | 5.5% |  |  |
| Sydney - Inner West | 10.3% | 10.3% | 10.4% | 10.5% |  |  |
| Melbourne - Inner East | 4.0% | 4.0% | 4.0% | 4.1% |  |  |
| Melbourne - Outer East | 5.2% | 5.2% | 5.2% | 5.2% |  |  |
| Melbourne - South East | 5.0% | 5.0% | 4.9% | 5.0% | 5.1% | 5.1% |

Table 17: Increases in Prices due to Adjustments to Construction Costs

|  |  | Fully Accessible | Robust |
| --- | --- | --- | --- |
|  |  | No OOA | With OOA | No OOA | With OOA | +1 Room |
|  Apartment, 1 bedroom, 1 resident  | 13.9% | 13.9% |  |  |  |
|  Apartment, 2 bedrooms, 1 resident  | 14.3% | 14.3% |  |  |  |
|  Apartment, 3 bedrooms, 2 residents  | 16.4% | 16.4% |  |  |  |
|  Villa, 1 bedroom, 1 resident  | 12.8% | 13.1% | 11.4% | 11.6% |  |
|  Duplex/townhouse, 2 residents  | 12.8% | 13.0% | 11.4% | 11.6% | 14.0% |
|  Duplex/townhouse, 3 residents  | 13.9% | 14.0% | 12.2% | 12.3% | 14.0% |
|  House, 2 people  | 10.1% | 10.4% | 9.4% | 9.6% | 14.0% |
|  House, 3 people  | 11.9% | 12.1% | 10.7% | 10.9% | 14.0% |
| Group Home, 4 people  | 13.3% | 13.4% | 11.7% | 11.8% | 14.1% |
| Group Home, 5 residents  | 14.1% | 14.1% | 12.3% | 12.4% | 14.0% |

1. Note, the current average funding amount reflects the fact that the majority of current dwellings existed prior to the commencement of the NDIS. As these dwellings are replaced by newer dwellings built in line with new design standards the average annual cost of SDA is expected to increase considerably. For example, the SDA amount payable in respect of each SDA-eligible participant in a newly built three bedroom High Physical Support house is currently $42,208 per annum. [↑](#footnote-ref-2)
2. Please refer figures 72 and 84 of the [NDIS Quarterly Report to disability ministers 30 June 2022](https://aus01.safelinks.protection.outlook.com/?url=https%3A%2F%2Fwww.ndis.gov.au%2Fmedia%2F4615%2Fdownload%3Fattachment&data=05%7C01%7CLachlan.Cottom2%40ndis.gov.au%7Caccab283993b4a8e3cee08dab24b6e4d%7Ccd778b65752d454a87cfb9990fe58993%7C0%7C0%7C638018334282818203%7CUnknown%7CTWFpbGZsb3d8eyJWIjoiMC4wLjAwMDAiLCJQIjoiV2luMzIiLCJBTiI6Ik1haWwiLCJXVCI6Mn0%3D%7C3000%7C%7C%7C&sdata=x5WPTJD40YygN1SnQ%2BDVSBOeBIKTRh60GaKgXH735gU%3D&reserved=0) for further detail. [↑](#footnote-ref-3)
3. The “base price limit” specified in 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)is the price limit that applies when all occupants of the SDA dwelling are SDA-eligible participants, and each occupant has a separate bedroom. Adjustments to the “base price limit” are made in other cases. These adjustments are set out in **Appendix G** of the *SDA Pricing Arrangements and Price Limits*. [↑](#footnote-ref-4)
4. The “base price limit” is the price limit that applies when all occupants of the SDA dwelling are participants, and each occupant has a separate bedroom. Adjustments to the “base price limit” are made in other cases. These adjustments are set out in Appendix G 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)*.* [↑](#footnote-ref-5)