EXCLUSIVE TUE 21 SEP 21

[+] Investors Cautioned Amid SDA Boom

A massive surge in users of supported independent living will impact the specialist disability accommodation market, according to regulators and investors, but developers must be wary about the type of projects that they initiate.

Users of supported independent living will grow 35 per cent from 26,000 to 35,000 during the next four years, according to a market statement released by the National Disability Insurance Agency in August.

Supported independent living (SIL) and specialist disability accommodation (SDA) differ slightly, with many supported independent living users eligible for in-home assistance or other support rather than specialised housing. However, the NDIA has suggested that “the projections indicate increasing demand” for SDA.

The growth comes on top of an existing cohort of around 12,000 NDIS participants who are eligible for funding but are currently not able to access

appropriate stock, according to the Summer Foundation.

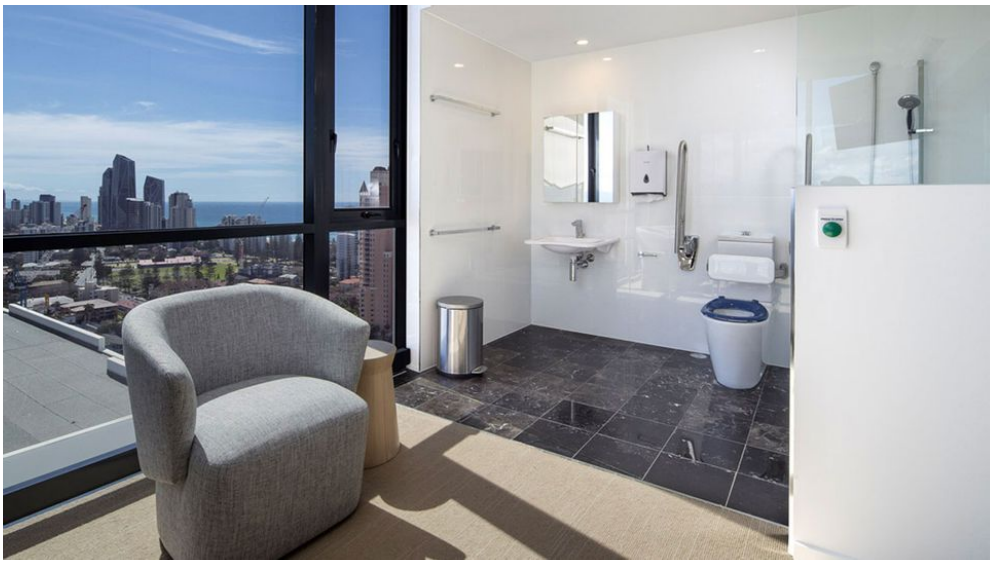
The NDIA has acknowledged these “likely demand cohorts such as young people living in residential aged care and participants who are still living in housing transitioned from state and territory governments”.

“There are people eligible [for SDA] who don’t know about it,” says Summer Foundation chief executive Di Winkler.

“So there does need to be more construction activity. Part of it is meeting the current unmet demand, but we also need to transform disability housing in Australia.”

“One of the issues with living in some of the older stock is it doesn’t actually foster independence.

“People living in some of these situations will have increased support costs because their built environment doesn’t enable them to do what they can for themselves.”



▲ There are more than 28,000 Australians requiring supported specialist accommodation, while there are currently only 4000 such dwellings available across the country.

Another source of growth might come from current supported independent living participants who might be eligible for SDA funding, but have not yet been assessed for it.

“There’s around 9000 participants currently who have SIL arrangements, but without SDA in their plans,” DPN Casa Capace chair Ian Maynard says.

“The NDIA’s been pretty clear that there’s a high correlation between SIL and SDA … I think it’s a safe assumption that 70 per cent to 80 per cent of those participants are likely to be eligible for SDA as well.

“The challenge is that there’s very little publicly available data on demand—very limited information about participants who are eligible for SDA, dwelling type, dwelling size.

“The sector’s essentially running blind about where development is required and what type of dwellings are required.”

Mix of stock not fit for purpose

Stakeholders agree that the mix of stock in the SDA market is not balanced, although the causes and implications have been interpreted differently.

The NDIA, for example, flagged the potential oversupply of single-participant apartments built to high physical support codes in their market statement.

“Further investment at current rates in single-resident high physical support dwellings will likely carry a greater risk of vacancies,” the NDIA warned.

In response, the NDIA will be reporting more demand-side data in quarterly market updates, and a 2023 review of SDA rates should help provide more accurate price signals.

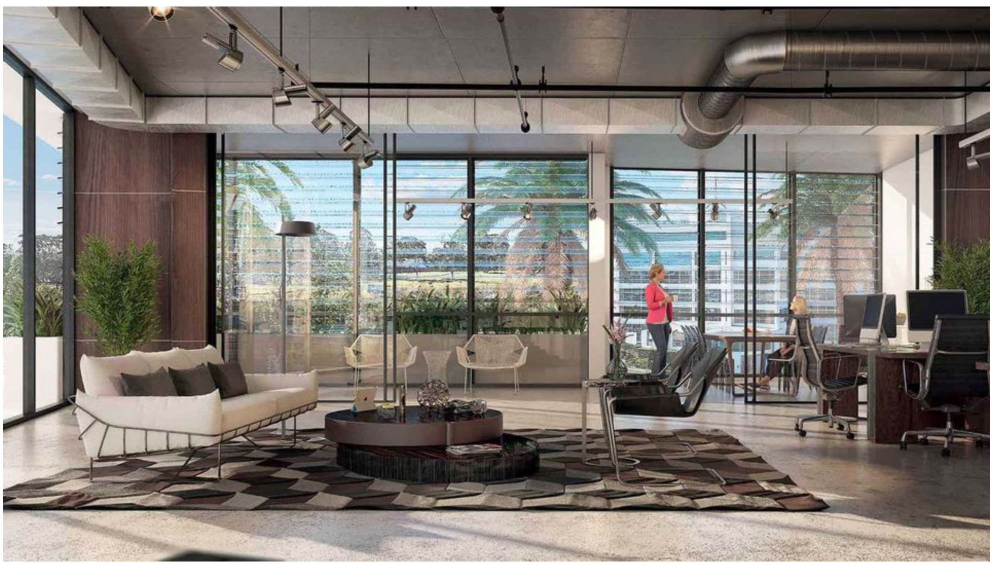
Maynard suggests that some investors may have developed a business model based on the theoretically superior returns that these apartments, which attract the highest SDA payments, can potentially generate.

“There are also SDA providers out there who have built apartments on an ideological basis: that a participant should have the right to choose where they live, and what type of dwelling they live in,” Maynard says.

“However, the NDIA’s been very clear that just because a participant expresses a preference to live alone doesn’t mean that’s a reasonable and necessary decision for funding under an NDIS plan.

“As a result, offers of tenancy have fallen through.”

Developers with vacant apartments may have to accept lower rates or sell the property into the private residential market, according to Maynard, “so there’s some big risks there if you’re developing to that higher standard, which has very high capital costs associated with it without any guarantee of demand”.



▲ SDA accommodation in the new Norwest Esplanade Apartments in Baulkham Hills provide residents, who have SDA funding, with a 24/7 concierge support.

concierge support.

David Whitelaw, chief executive of ADAPT Housing, cautions that "You don't want to go too big, you don't want to create a community of disability".

"When you've got 35 three-bedroom high physical support houses in a new estate still waiting for infrastructure to come through, there's going to be some vacancies.

"We want to provide good-quality accommodation that can be bespoke. It's participant-centric as opposed to investor-centric, but still a good investment."

Winkler says the perception that single-participant dwellings are more expensive in terms of support may not be true, depending on the model.

Co-locating single-participant dwellings throughout a residential block, for example, with one apartment dedicated to a 24-hour on-call support worker, has been proven overseas and might work in Australia.

"There is a risk in the property market that developers build older styles of traditional housing for people with disabilities and assume that will automatically be filled," Winkler says.

"Developers and investors just need to be really aware of what people with a disability want. And largely they want to live in a house that seems, in some ways, much like something anyone would like to live in."

Caution urged for retail investors

The Summer Foundation has estimated that between $5 billion and $12 billion in private investment will be necessary to match SDA market demand, and developers and investment managers are looking to retail investors for a portion of that funding.

However, stakeholders warn that bad actors could be taking advantage of unwary mum-and-dad investors.

The Urban Developer has seen investment prospectuses targeted at retail investors and SMSFs projecting returns on investment above 15 per cent, claim guaranteed occupancy and that investments are underwritten by the Commonwealth.

“When it comes to SDA, if there’s an investment offer where the returns seem too good to be true, then they are,” says Winkler.

“If you’re looking at an investment that implies the income is government-guaranteed, you’re being misled.”

Maynard, who also chairs the SDA Alliance board, says that of the 40 or 50 SDA providers he works with, none are likely to be returning above 15 per cent.

However, he is aware of around 35 other organisations which have made unrealistic investment pitches along those lines during the past 12 months.

“This type of retail prospectus is incredibly irresponsible. The NDIA, in its 2016 market statement, made it very clear that you should be targeting a return of around 8 per cent to 11 per cent. It’s not underwritten by the government. It’s not guaranteed, and certainly the returns are not in the 15 per cent to 20 per cent range advertised.”

Unrealistic claims by developers or investment managers can carry risks for retail investors who may not have the capacity for due diligence, according to Maynard, and could lead to substandard stock for NDIS participants or abandoned projects.

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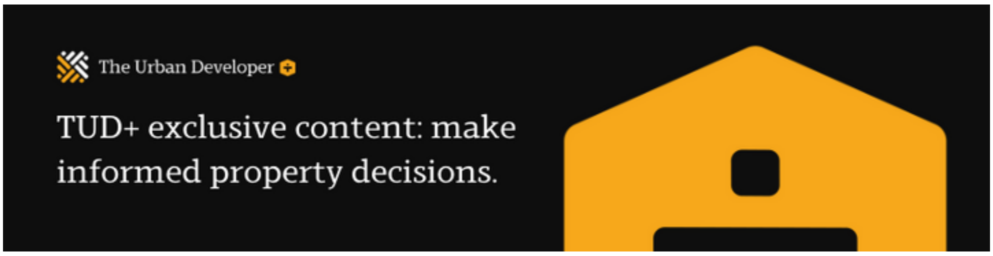

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