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Impact Investing Australia

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CITATION GUIDE

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FOREWORD

The field of impact investing continues to grow at an incredible pace as interest among private, institutional and philanthropic investors increases yearly. The investment options across various environmental and social impact areas are expanding, but the most significant impact investment opportunity in Australia today is Specialist Disability Accommodation (SDA). This is because SDA investments combine deep benefits for people with disability, the chance for the government to encourage the investment of private capital, and an appropriate balance between risk and return for investors. This is a unique market that can demonstrate how finance and government can work together towards positive outcomes.

Taking on the role of chairing the SDA Investor Think Tank was an opportunity for me to work with a group of investment fund managers who are pioneers in the early stages of the SDA market. These fund managers are seeking positive outcomes for NDIS participants and are doing their best to balance this alongside the fiduciary duty they owe to investors in their funds. Getting this balance right is even more important given the long investment horizon required in SDA. A notable aspect of SDA is the timeframe of 15+ years investors must wait to see the capital value of their investment appreciate. Investment in SDA often begins by holding an asset that is worth less than what was paid for, due to the modifications required for SDA compliance. This timeframe presents some particular challenges in assessing the drivers of risk. While investors are always nervous about regulatory risk, this risk is all the more pronounced in a market where the regulator also sets the prices, finances support packages, and shapes demand. The NDIA has a challenging role to play in a market in which it is required to wear several hats. All of these factors make for an early-stage market with unique complexities for stakeholders to manage as it moves into the next phase of growth. Moving beyond this early-stage market towards the shared vision of all market players requires understanding, communication and collaboration.

Clearly the most important group of ‘stakeholders’ in the SDA market are NDIS participants and their families. However, I would not presume to speak on their behalf. This report offers the perspective of SDA investors because they play an important role in contributing towards the sustainability of the NDIS and SDA. The needs of the government, NDIA, participants and investors are not in competition. Everyone benefits if the SDA market reaches its full potential – participants access appropriate housing, investors finance projects that offer positive outcomes and returns, and the government leverages private capital that helps achieve Scheme sustainability. This is the collective vision of the Think Tank. I trust that this report will help in making that vision a reality.

Daniel Madhavan
SDA Investor Think Tank Chair
EXECUTIVE SUMMARY

The sustainability of the National Disability Insurance Scheme (NDIS, Scheme) is currently being reviewed by the Australian government, as rising costs are placing significant pressure on the system as a whole. The Specialist Disability Accommodation (SDA) market has the potential to leverage $5-12 billion of private capital to address the unmet demand for housing and the refurbishment or redevelopment of old stock. Without this flow of private capital a difficult choice would be required between a reduction in housing supply or an increase in the utilisation of public funds. The SDA market is widely considered the largest social impact investment opportunity in Australia. Early progress has been made, with a number of market players establishing a presence that has seen the total value of the market exceed $2.5 billion. The SDA market is poised to enter a period of significant growth, but to ensure that investors have the confidence to continue investing, a number of challenges need consideration.

The National Disability Insurance Agency (NDIA, Agency) is a pivotal actor in the SDA market, with responsibility for implementing the Scheme. Its roles include: setting prices; shaping demand by determining participants’ SDA eligibility; and allocating funds in plans. As the market steward, the NDIA builds and maintains market confidence, monitors and actively manages risks, and facilitates the provision of reliable and accessible information.

The Summer Foundation established the SDA Investor Think Tank in early 2021 in response to uncertainties in the market. Its purpose was to inform and support active and appropriate market stewardship. Think Tank contributors included fund managers active in the SDA market, who collectively have invested nearly $650 million in the market to date, financing nearly 1,000 places for NDIS participants. Fund managers identified 2 broad areas needing urgent attention to drive the next phase of the market’s development, and underlying issues that require collective attention to help achieve market maturity. These are:

1. Improving market engagement and signalling – in response to the need for increased market engagement between market players and the NDIA to support an informed market that is responding appropriately to demand signals.

2. Optimising the demand and supply pipeline – to address distortions in the demand pipeline causing a marked difference between potential demand and actual demand for SDA, which impacts the appropriateness of the supply response.

Focusing on these broad areas and the issues within them is key to understanding opportunities for collaborative action to unlock latent potential and avoid weakening investor confidence. As the market begins to enter its next phase, timely changes are needed. Some fund managers noted that if action is not taken soon, pressure from the underlying investors in their funds may limit their ability to finance further SDA.


Fund managers noted that $5 billion is a conservative estimate and the real size of the market could be more than double this size.

2 Estimate based on the number of enrolled SDA (excluding ‘in-kind’ arrangements with state governments) multiplied by an approximate cost per dwelling: $109 * $500,000 = $2.55 billion.
Think Tank contributors are hopeful that the findings and recommendations in this report will support NDIA stewardship of the SDA market, provide a platform for collaboration, and help build confidence among market players. Investors are capable of managing the risks associated with their investment decisions. They are also willing and able to collaborate with the NDIA to ensure the SDA market functions in a supportive, predictable and orderly way. Accordingly, fund managers recommended that the NDIA should take the following actions.

### Recommendations

1. **Work with SDA stakeholders to develop a *Stakeholder Engagement Framework* that articulates a platform for open communication.** Complementing the existing SDA Reference Group, a clear framework will assist investors in understanding the rules of engagement and assist the NDIA in managing investor expectations.

2. **Make a senior appointment with primary responsibility for SDA market stewardship, which would be the key point of engagement between the Agency and market players.** To be effective, this role would be best filled by an individual with government and private sector experience. Experience in financial markets and infrastructure investments would also facilitate engagement with SDA investors.

3. **Release a quarterly *SDA Market Statement* to provide guidance that supports informed decision-making by market players.** This Statement should provide an analysis of recent market activity, but also information on anticipated future market conditions and emerging areas of interest and focus for the NDIA. To be most effective this market outlook would offer commentary on consistent themes with a medium-term outlook (i.e. 3+ years). Market players view this as an opportunity to collaborate with the NDIA in an effort to design an effective format.

4. **Develop the capability and systems needed to routinely release detailed and timely demand data that includes:**
   - A forecast of the total expected demand for SDA, including design categories
   - The number of participants seeking SDA determinations and what types of SDA match their needs
   - Assumptions behind the modelling for the annual budget for SDA

5. **Undertake a demand activation campaign to support awareness among SDA-eligible participants,** including by:
   - Identifying SDA-eligible people on the NDIS database
   - Contacting SDA-eligible people and providing capacity building on housing options so participants can outline their housing needs and preferences
6. Implement a plan to eliminate the backlog of decisions under review and appeals. Resolving this issue will lead to a decrease in financial pressures for some SDA providers, and increased market confidence.

7. Increase the transparency and consistency of SDA eligibility determinations by:
   - Publishing plain language guides on SDA eligibility
   - Defining the decision-making processes for SDA and associated supports, including details of decision-makers and timeframes
   - Committing to decision timeframes\(^1\) and releasing performance reports on adherence to timeframes

8. Commission an independent review of the costs of SDA and associated supports to ensure assumptions about relationships between Supported Independent Living (SIL) and SDA are evidence-based. The review should compare the cost of SIL across a range of dwelling types and settings and make recommendations about housing and support models that are cost-effective.

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\(^1\) Time from when a request for SDA determination is made to planners, to when the decision is communicated back to participants.
INTRODUCTION

Thousands of Specialist Disability Accommodation (SDA) dwellings are required to meet Australia’s accessible housing needs. Private capital has been invited to play a significant role in funding the considerable build and refurbishment of housing stock that is needed. This investment plays an important role in supporting the Australian government’s vision for a market-based system and reduces the pressure on already constrained public funds. Maintaining this flow of private capital is critical to ensuring the build continues and the National Disability Insurance Scheme (NDIS, Scheme) remains sustainable for generations to come.

Prior to the NDIS, disability housing was either owned by state governments or funded by grants from government and philanthropy. Housing was often built on an institutional model and did not provide for the individual needs of people with disability. Neither government nor philanthropy alone have the resources to meet the housing needs of SDA-eligible NDIS participants or redevelop the majority of legacy stock that does not meet current design standards. If private investment in building the required supply of SDA were to slow, public funds would be required to make up for the shortfall.

The SDA market has grown quickly to be worth over $2.5 billion since its inception in 2016. At that time it was acknowledged that strong market stewardship by the National Disability Insurance Agency (NDIA, Agency) would be required to ensure the market functions efficiently and supports the achievement of the Scheme’s objectives. The NDIA has been clear that, ‘the vision of the NDIS is to build a competitive and contestable marketplace that is flexible and responds to the choices and preferences of participants.’

There is now wide acknowledgment of the opportunity presented by SDA to mobilise large-scale investment to support outcomes in the public interest. The SDA market is poised to enter a new phase of significant growth, but there is a need to build on the progress already made to ensure that it is thriving, self-sustaining, and meeting the goals and aspirations of government, participants, providers, and investors. A range of challenges place this vision at risk and preventing these risks from becoming reality requires a concerted effort on behalf of all market players. A collaborative effort by all stakeholders in the SDA market can contribute to the sustainability of the Scheme by facilitating large-scale private capital flows into SDA and reducing the pressure on public funds.

Investment fund managers play an important role in this process by acting as intermediaries who invest capital on behalf of their clients (private, institutional and philanthropic investors) into regulated funds and then deploy this capital into the market. Attracting capital from clients is always the challenge for fund managers and attracting capital into SDA as an asset class is more challenging again. This is because SDA investment fund managers are seeking to attract investors who have the choice of allocating capital into other forms of infrastructure and housing which may be perceived as carrying lower risk than SDA.

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4 Estimate based on the number of enrolled SDA (excluding ‘in-kind’ arrangements with state governments) multiplied by an approximate cost per dwelling: 5,109 * $500,000 = $2.55 billion.
Investment fund managers know that part of their role is managing the risk inherent in their investment decisions. Under their investment mandates, fund managers are only allowed to deploy capital within a defined risk tolerance. It is their responsibility to manage risk at the asset level through their investment decision-making processes. Within the SDA market, active and appropriate stewardship is required to ensure the overall investment environment is sufficiently supportive, predictable and orderly. Such an environment will increase the attractiveness of SDA as an asset class and enable a diverse and healthy set of investment activities to occur. All Think Tank contributors recognise the benefits that a well-functioning market can provide to NDIS participants and the Australian public, and therefore approached this initiative with this impact squarely in focus.

About the Think Tank

In May 2021, the SDA Investor Think Tank was convened to deliver a coordinated and representative perspective on behalf of impact investors actively participating in the SDA market. As a not-for-profit organisation active in the disability advocacy space, the Summer Foundation was uniquely placed to bring together market players to inform and support government stewardship of the SDA market.

The aims of the Think Tank were to:

- Define focus areas for developing the SDA market and quantify challenges to investing
- Identify a range of potential solutions both inside and outside government
- Engage with government and the NDIA to help support active and appropriate market stewardship

Think Tank contributors were fund managers who are managing money on behalf of third-party investors. Each fund manager is an active investor in the SDA market, and collectively they have invested nearly $650 million in the market to date. Between them, fund managers are financing the building of over 500 dwellings, representing nearly 1,000 current and future places for tenants. While the majority of the SDA dwellings they finance are single-resident apartments, a considerable minority are, or will be, shared dwellings for 2 or more tenants. The dwellings they finance are located across New South Wales, Victoria, Queensland, South Australia and Western Australia, and include all 4 new build design categories (Improved Liveability, Fully Accessible, Robust, and High Physical Support).
SDA Investor Think Tank participants

Fund managers

Jacob Edwards
Australian Unity

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Conscious Investment Management

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Alecia Rathbone
Housing Hub

Philanthropic investors and supporting organisations
During the Think Tank consultations, fund managers identified 2 areas that require attention in order to propel the SDA market into the next phase of its development. Firstly, there is an opportunity for the NDIA to introduce a more structured engagement framework with the market, and mechanism for clear market signalling. Secondly, a number of related factors are distorting the pipeline of SDA demand, including a lack of participant demand activation and opaque decision-making processes by the NDIA. Under both areas a number of key issues were identified that will continue to weaken market confidence and the flow of capital to build new SDA, if not addressed. Based on these issues, 8 recommendations were developed which fund managers believe will facilitate the market’s development and provide conditions that are supportive, predictable and orderly. These will help to restore and build investor confidence to deploy capital.

Think Tank contributors are hopeful that these findings and recommendations will help the Australian government understand both the challenges and opportunities arising in the current SDA market, and support active and appropriate market stewardship by the NDIA. The Think Tank represents an opportunity for ongoing dialogue and collaboration between the various interdependent stakeholders in the market, including people with disability, SDA providers, impact investors, and the federal government – all of whom have an interest in working together to create a flourishing market.
About Impact Investing

The SDA market presents a unique opportunity for investors looking for investment products that offer a financial return alongside a positive social outcome. One of the solutions to financing a range of social and environmental activities is through organisations (both for-profit and not-for-profit) creating sustainable models which produce both social and financial returns. There is a fast-growing awareness within the financial community of the need for, and advantages of, including social and environmental impacts when making investment decisions. What has changed over the last decade is the urgency of need, the breadth of relevant activities and investment products, and the number of interested and active investors.

What is impact investing?

As commonly understood, impact investing relates to:

[I]nvestments made with the intention to generate positive, measurable social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market to market rate, depending on investors’ strategic goals. The growing impact investment market provides capital to address the world’s most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services including housing, healthcare and education.

The interest in matching how investments with responsible and sustainable themes are managed continues to grow. This is mainly due to investors’ increased understanding that investing in companies or assets which consider sustainability or social impact has a positive link to their own long-term quality of life and better financial returns or lower risks. While there are many worthwhile ‘cause’ themes that can increase impact through financially rewarding investments, some causes can absorb more capital than others. Areas such as housing, energy and microfinance have employed more capital per project than others such as food and agriculture, healthcare and education. This has implications for larger scale investors such as superannuation or pension funds, which need deals at scale to efficiently enter the impact investment market. The potential for large sums of capital to be deployed in a manner consistent with supporting outcomes in the public interest continues to gain government interest globally.

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The total value of impact investment products in Australia has tripled over the past 2 years, from $5.7 billion in December 2017 to $19.9 billion in December 2019. Investors are looking to increase their allocation to impact investment over the next 5 years from 0.7% to 4% of assets under management, which would result in a five-fold increase to $100 billion.\textsuperscript{11} The Australian Government’s Social Impact Investing Taskforce (SIIT) found in 2020 that a major barrier to growth in the impact investing market in Australia was a shortage of investment-ready opportunities.\textsuperscript{12}

Impact investors are ready to mobilise capital at scale, and the SDA market is likely the largest social impact investment opportunity in the country. With an estimated $5-12 billion needed to be invested,\textsuperscript{13} the SDA market allows investors to deploy capital on a scale that dwarfs other impact investment opportunity sets, including social impact bonds ($66 million) and impact private equity ($97 million currently deployed).\textsuperscript{14} Clear market stewardship by the NDIA would instil confidence in investors that SDA is an investment product worth pursuing, and catalyse significant capital flows.

However, the SDA Investor Think Tank identified some challenges in the market that need addressing. These issues are destabilising to current investors, providers, and participants, and are also barriers to future investment. The section below will present the findings of the Think Tank, emphasising the challenges and issues in the market, as well as recommendations for where fund managers believe market stewardship should currently be focused.


\textsuperscript{13} PricewaterhouseCoopers and Summer Foundation (2017). ‘NDIS Specialist Disability Accommodation: Pathway to a Mature Market.’

MARKET STEWARDSHIP

As an emerging market, SDA has enormous potential to both meet the housing needs of thousands of people with disability and also provide long-term stable returns to impact investors. This potential will only be reached with sustained and appropriate market stewardship by governments and the NDIA. Globally, there is a growing recognition that governments and regulators may need to take on the market steward role to ensure their objectives are met. The role for government in stewarding markets is removing unnecessary regulatory barriers and creating incentives for participation. The stewardship role can include: engaging closely with users; setting the ‘rules of the game’ and allowing market players to respond to the incentives these create; monitoring the ways in which the market is developing; and adjusting policy settings to help steer the system towards high-level aims.15

What is meant by market stewardship in this context?

The SDA market is still developing, and to ensure its progress to date continues, strong stewardship is required. The role of the Australian government, through the NDIA, as the SDA market steward is well acknowledged and documented. The 2017 Productivity Commission report on NDIS costs states that the Agency has a stewardship role, which it defines as ‘those actions required to define and support the effective functioning of sustainable and enduring markets for participants and providers.’16 The NDIA acknowledges its role as a market steward, and that a flourishing market requires Agency activity in:

- Facilitating the provision of reliable and accessible information
- Undertaking activities to accelerate market supply responses
- Identifying and managing short-term market risks
- Creating an environment in which innovation in technology will thrive around the Agency
- Engaging with existing and potential new providers, and understanding the barriers they face transitioning to the Scheme
- Establishing Agency processes, capability and systems to enable its role as market steward17

The Joint Standing Committee on the NDIS recognised the importance of the Australian government’s role as market steward and indicated that it would continue as the Scheme matured.18 In response, the NDIA released the Market Enablement Framework (MEF), which further articulated the Agency’s role of ‘monitoring, evaluation, oversight and, where necessary, intervention’ in the market.19

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Similarly, the *NDIA Corporate Plan 2016-2022* explains that the need for government stewardship of the market was not just limited to the early years of the Scheme, but would be ongoing:

The Agency will act as a steward, encouraging competition and innovation. This includes providing information on potential opportunities in the market, facilitating contestability and managing as far as possible market risks such as lack of supply or price inflation.20

The Centre for Social Impact recently released a report on the importance of market stewardship in ensuring the NDIS meets its objectives. This role is vital, since:

In a conventional market, changes in price provide information on supply and demand. Traditional market economics argues that price variations ‘signal’ to market actors that they need to change (e.g. through telling market actors about supply and demand shifts) ... In a quasi-market like the NDIS, prices do not change according to purchases between providers and participants. Rather, they are set by the NDIA ...

This means quasi-markets like the NDIS need to rely on other mechanisms for supply and demand information to be translated across the market.21

What do investment fund managers think market stewardship should look like?

While it is a broad concept, fund managers identified several key components which they believe should form part of the NDIA’s market stewardship role. These are:

1. **Building and maintaining market confidence**
   - Setting, articulating and adjusting the ‘rules of the game’
   - Engaging in active dialogue with market stakeholders
   - Encouraging competition and innovation

2. **Monitoring and actively managing risks**
   - Intervening to manage impacts of thin markets
   - Actively solving for market failures
   - Addressing inequity within the market system

3. **Facilitating the provision of reliable and accessible information**
   - Communicating and signalling preferred demand and supply outcomes
   - Equipping consumers (demand) with adequate information to support their participation in the market
   - Providing suppliers with timely information and data that accelerates market supply responses

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THINK TANK FINDINGS

During May and June 2021, the Summer Foundation collected feedback from fund managers investing in SDA through a series of workshops. Since SDA payments through the NDIS are expected to total approximately $700 million per year at full Scheme, fund managers agreed that building the scale of housing required for the SDA market has the potential to stimulate around $5-12 billion in private sector investment.22 According to the NDIA, $204 million of the budgeted $700 million is currently allocated in NDIS participants’ plans.23 However, while the NDIA anticipates that approximately 28,000 participants will be eligible for SDA funding,24 currently only 16,033 are receiving SDA payments.25 This suggests that further supply of housing is needed to meet demand.

As a policy and funding category, SDA was created by the NDIA to build a marketplace for disability housing by attracting private investment.26 The supply of SDA housing is a market-based response to the potential demand created by NDIS participants who are SDA-eligible. These types of markets are often described as quasi-markets because governments or government agencies often play an active role within the market itself. In the SDA market, the NDIA is both the insurer of the Scheme and responsible for setting prices. This means the Agency is ultimately in control of demand, since it determines participants’ SDA eligibility and allocates funding. These overlapping roles provide the NDIA with significant control over the SDA market. Therefore, the Agency’s policy positions, market signals, and decision-making are integral factors determining the shape and functionality of the market as a whole.

As with any market it is possible to describe what the SDA market might look like in an efficient state. Key to any description of an efficient market is a definition of market equilibrium. The original assumed range for vacancy rates for SDA dwellings was 3-7%.27 If we utilise vacancy rates as a proxy metric for assessing market equilibrium, an outline of an SDA market operating efficiently might appear something like that outlined in Figure 2.

26 NDIA (2018). ‘SDA Provider and Investor Brief.’
While the above chart demonstrates a robust SDA market, a number of factors indicate that the current market is moving away from a state of equilibrium. The current dynamics of the market are providing inconsistent and increasingly challenging experiences for participants, providers and investors. Unless the level of transparency on future demand improves then the health of the market may be compromised.

Fund managers said they are optimistic about the opportunity to work with government to address the challenges the SDA market is experiencing. Active and appropriate stewardship of the SDA market could help ensure that investor confidence remains positive, and the right supply of housing over the long term (leading to positive outcomes for participants, providers, investors, and the NDIA). Fund managers identified 2 key areas which need strengthening. These are: improving market engagement and signalling, and optimising the demand and supply pipeline. These issues are discussed below, with recommendations for government action.
Improving market engagement and signalling

A central component in any effective market is clear communication between stakeholders.

Fund managers agreed that the needs of both the NDIA and investors would be best met with an engagement model that provided for:

- A good flow of formalised and structured feedback into the NDIA from the SDA Reference Group.
- A single point of contact within the NDIA that could engage individually with investor firms and other market participants. This would provide more tailored and less formal communication to benefit the Agency and build confidence among market players.
- Strong market signalling on a regular basis directed at investors and the market as a whole to stimulate the preferred supply response.

Finding 1: Inconsistent expectations for stakeholder engagement

Fund managers participating in the Think Tank each held different views and experiences of how the NDIA should engage with market players and noted that there is no stated model or principles that outlines the rules for stakeholder engagement within the SDA market. While fund managers acknowledged that the SDA Reference Group is one element of a useful and important mechanism for gathering market feedback, it only provides a partial opportunity for a small number of stakeholders in the market to relay information back to the NDIA. Fund managers suggested that engagement models which have proven effective in other mature markets might be usefully applied by the NDIA to the SDA market. Among these was the possibility of the Agency publishing a Stakeholder Engagement Framework, which clarifies the relationships and mechanisms guiding engagement between the NDIA, investors and providers. This framework could emulate that which is released by the Australian Energy Regulator (AER), which is an example of best-practice.28

Recommendation 1

The NDIA to work with SDA stakeholders to develop a Stakeholder Engagement Framework that articulates a platform for open communication. Complementing the existing SDA Reference Group, a clear framework will assist investors in understanding the rules of engagements and assist the NDIA in managing investor expectations.

Finding 2: Single point of contact required for better investor engagement

Fund managers noted that there is no delegated single point of contact on the SDA market within the NDIA for investors to engage with directly. This can result in timely and important feedback from the market not being communicated back to the NDIA. This also presents significant difficulties for both existing and new players in navigating into and around the SDA market. The lack of a clear and dedicated line of communication reduces investor confidence that their concerns and feedback are being received and understood fully by the NDIA.

As part of a broader engagement framework, fund managers identified the need to establish a single point of consultation that individual SDA investor groups could utilise to engage in two-way dialogue. This would enable a more complete and nuanced flow of information between the NDIA and the investor market (see Figure 3). Improving this communication would generate greater confidence in investors that their feedback is impacting Agency decisions, and ultimately leading to a more appropriate supply response. It would also support a smoother pathway for new entrants into the market, thereby increasing competition and investment flows. It was noted that the scope of this role would ideally extend beyond investors as a single stakeholder group. The preferred scope would also extend to other stakeholders in the SDA market to support dialogue between a diverse range of players in the market and the NDIA.

Recommendation 2

The NDIA to make a senior appointment with primary responsibility for SDA market stewardship, which would be the key point of engagement between the Agency and market players. To be effective, this role would be best filled by an individual with government and private sector experience. Experience in financial markets and infrastructure investments would also facilitate engagement with SDA investors.

Figure 3. Optimal SDA stakeholder engagement model
Finding 3: Regular forward-looking market signalling will help shape supply responses

Investment decisions are made based on assumptions about the future. Investments into SDA are typically made with an investment horizon of 15+ years. Investors who are better informed about the likely shape of future demand can allocate capital more efficiently and lessen investment risk. Well informed investors also decrease the risk of a supply-demand imbalance. One challenge currently being faced by SDA investors is the low level of forward signalling provided by the NDIA on market sentiment or changing policy settings. Fund managers agreed that stronger signalling from the NDIA would enable investors to make decisions that are more aligned and responsive to the NDIA’s view on the future needs and overall shape of the market.

It is important to recognise that the supply response to any market signalling has a significant time lag. Dwellings that are coming to market today were planned, financed and built based on investment decisions and market conditions 2 years ago. Market signals need to be made with the understanding that they will shape the pipeline of supply in coming years.

To illustrate the type of signalling that may support a more orderly market, the Reserve Bank of Australia (RBA) releases a quarterly Statement on Monetary Policy that provides the Australian economy with the RBA’s ‘assessment of current economic conditions ... along with the outlook of Australian inflation and output growth.’ The statement is written in a way that is easily understood, and includes critical information on recent developments and trends in the economy, as well as an outlook of expected conditions in the coming months. If applied to the SDA market, this combination of both retrospective analysis and comments on potential future market conditions would provide investors and providers with key information to help inform their decisions.

While the NDIA’s quarterly reports to disability ministers do provide information about activity in the preceding months, the lack of an SDA market outlook results in investors and providers having to look for less reliable information and market signals in order to make decisions. The Market Enablement Framework states that ‘access to accurate, timely, and relevant information will assist the market to function optimally.’ The Framework then lists examples of activities that the NDIA has committed to, which will provide greater information to the market, including publishing regular reports such as ‘Market Insights’, and ‘Market Position Statements’. Some of these reports were produced during the earlier years of the NDIS and Think Tank contributors indicated a keenness to work with the NDIA to develop a format that would best support an informed market.

Recommendation 3 | High Priority

The NDIA to release a quarterly SDA Market Statement to provide guidance that supports informed decision-making by market players. This Statement should provide an analysis of recent market activity, but also information on anticipated future market conditions and emerging areas of interest and focus for the NDIA. To be most effective this market outlook would offer commentary on consistent themes with a medium-term outlook (i.e. 3+ years). This will supplement the Specialist Disability Accommodation National Plan as recommended by the Royal Commission into Aged Care. Commonwealth of Australia (2021). ‘Royal Commission into Aged Care Quality and Safety.’

Finding 4: More complete participant demand data will contribute to market confidence

Fund managers concluded that participant demand data in the market is limited and causes difficulties for making informed investment decisions. Limited demand data can affect investor confidence, since there is a risk that investors will finance inappropriate housing, which either does not meet the needs and preferences of participants or does not align with Agency modelling. Equally, the risk of vacancies is higher in an environment of uncertain demand, which in turn may impact the flow of capital into the market and the supply of housing being built. Fund managers recognise that the NDIA may not possess full participant demand data. For instance, while the Agency may know where participants with SDA in their plans currently live, it is very difficult to know the location and type of SDA where they would like to live. Given this limitation in providing full demand data, fund managers are not expecting a risk-free asset or the Agency effectively eliminating the risk of vacancies. However, they also contend that more participant demand data than is currently provided would create greater market confidence and encourage further deployment of capital into the market. Furthermore, a deeper understanding of the way the NDIA is shaping and intending to shape demand will help inform investor decision-making. As noted above, the Agency’s role is multifaceted, and understanding the assumptions and rationale behind market modelling will enable investors to create the most appropriate supply response.

Recommendation 4

The NDIA to develop the capability and systems needed to routinely release detailed and timely demand data that includes:
- A forecast of the total expected demand for SDA, including design categories
- The number of participants seeking SDA determinations and what types of SDA match their needs
- Assumptions behind the modelling for the annual budget for SDA
Optimising the demand and supply pipeline

SDA housing is a market-based response to the creation of demand brought about by the establishment of the NDIS. This demand for SDA can be described as a ‘pipeline’ whereby NDIS participants eligible for SDA move through a series of stages from becoming aware of SDA, seeking SDA funding, to having SDA funding allocated in their plans. Fund managers shared that the preferred state of this demand pipeline is one where the potential demand (SDA-eligible participants) can move through these stages in a predictable way. This would enable the market to better predict the quantum of ‘actual demand’ at the end of that process resulting in a more appropriate supply response. The preferred state of the demand pipeline has been represented in Figure 4.

**Figure 4. SDA demand pipeline – preferred state**

Currently, the market is experiencing higher than anticipated vacancy rates. Available market information anticipates 28,000 participants to be eligible for SDA and vacancy rates are estimated at 3-7%. However, at present only 16,033 participants have SDA funding in their plans and evidence is emerging that the real vacancy rates in parts of the market are much higher, particularly in single-resident dwellings. Feedback from fund managers suggests these supply issues are caused by several contributing demand-side issues. Figure 5 provides an overview of the current demand pipeline issues and further information is provided on each.

**Figure 5. SDA demand pipeline – current state**

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33 Some fund managers reported vacancy rates well in excess of 25% in the SDA they finance.
Finding 5: Many participants need to become aware of their SDA eligibility

Many people with disability expected to be eligible for SDA payments remain uninformed about their housing options, meaning that significant potential demand remains inactivated. The NDIA’s SDA Provider and Investor Brief estimates that 28,000 NDIS participants are eligible for SDA funding; however, only 16,033 currently have that funding in their plans. A further 12,000 NDIS participants are likely eligible for SDA funding, yet currently there are only 2,949 participants ‘seeking SDA’. The difference between the NDIA’s anticipated demand for SDA, compared with the available demand of participants with SDA in their plans, is complicating investment decisions. This demand gap suggests a strong likelihood that thousands of participants are unaware of the existence of SDA, or if they are aware of it, have not fully engaged with the NDIS and explored their eligibility for SDA funding. Feedback from fund managers indicates that more could be done to increase awareness of SDA eligibility and ensure that supply meets future demand.

Fund managers see the awareness-raising role of the NDIA as a key component of market stewardship. This is also in keeping with a recent report by the Centre for Social Impact that argues that in order to have ‘choice and control’, NDIS participants must be properly informed about their options: ‘Without information on what is available, participants may either purchase services that do not meet their needs or not purchase services at all.’

Recommendation 5

The NDIA to undertake a demand activation campaign to support awareness among SDA-eligible participants, including by:

- Identifying SDA-eligible people on the NDIS database
- Contacting SDA-eligible people and providing capacity building on housing options so participants can outline their housing needs and preferences

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34 NDIA (2018) ‘SDA Provider and Investor Brief’
37 Carey, G., Malbon, E. (2020). ‘Information sharing as market stewardship in the NDIS.’
Finding 6: Increased financial pressures on some SDA providers is impacting market confidence

Investor confidence in the SDA market is tied to the experiences of SDA providers. Fund managers reported that some of the SDA providers they finance are experiencing increasing financial pressures. Some of these are caused by complexities and delays in SDA determination processes, which are affecting available demand. Some SDA providers report waiting up to 12 months for decisions on their prospective tenants’ SDA applications. A recent survey of SDA providers conducted by the Summer Foundation and Housing Hub supports fund managers’ feedback that some providers are facing significant financial stress. Together, the 37 providers who responded to the survey had committed over $1.2 billion in the SDA market, accounting for approximately 50% of the total market. Given this significant market share, the insights and warnings from these providers about the state of the SDA market are worthy of further consideration. Providers reported being owed significant sums of money by the NDIA; overdue payments; receiving less than anticipated income for their SDA; and challenges in navigating SDA eligibility determinations and administrative procedures. If continuing financial pressures being placed on SDA providers results in providers failing, this is likely to significantly impact investor confidence.

Recommendation 6

The NDIA to implement a plan to eliminate the backlog of decisions under review and appeals. Resolving this issue will lead to a decrease in financial pressures for some SDA providers, and increased market confidence.
Finding 7: Opaque and inconsistent SDA eligibility determinations are increasing the cost and risks of investments

Fund managers noted that the SDA providers they finance are observing that since late 2020, there has been a rise of SDA determinations that appear to be inconsistent with the SDA Rules and SDA Framework. There also seems to be an observed trend away from determinations for single-resident dwellings. Of the NDIS participants who are deemed eligible for SDA funding, many are receiving less funding than required for the level of SDA they believe they are eligible for and consistent with their housing goals. This presents issues in a market-based system, since it significantly increases uncertainty not only for participants, but also SDA providers and investors.

Firstly, it either leads to costly and prolonged vacancies for SDA providers, or SDA providers are being forced into a difficult choice between waiting for tenants with the expected funding or accepting participants with less funding in their plans than is required to cover the tenancy costs and meet the expected investment returns. And secondly, it makes the predictability of actual demand increasingly difficult and complex. When SDA providers cannot accurately assess the demand for housing this will have an obvious impact on the appropriateness of the supply response. An increasingly unpredictable demand picture makes the risk of investing capital far higher. Without attention this will make SDA a far less attractive investment proposition and constrain the amount of private capital available.

Recommendation 7 | High Priority

The NDIA to increase the transparency and consistency of SDA eligibility determinations by:

- Publishing plain language guides on SDA eligibility
- Defining the decision-making processes for SDA and associated supports, including details of decision-makers and timeframes
- Committing to decision timeframes38 and releasing performance reports on adherence to timeframes

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38 Time from when a request for SDA determination is made to planners, to when the decision is communicated back to participants.
**Finding 8: A conflation of rising SIL costs and SDA determinations is causing market uncertainty**

Fund managers noted that they are uncertain about the drivers behind the observed changes in SDA determinations by the NDIA, in particular, how reliable participant preferences are as a factor that shapes demand. While the housing preferences of NDIS participants ought to be a reliable indicator of demand, fund managers indicated that this was not always the case and pointed to the apparent conflation between the rising cost of Supported Independent Living (SIL) supports and SDA determinations. Fund managers noted that if SDA determinations are being impacted by concerns regarding growing SIL costs, then there is a need to ensure these assumptions are evidence-based. A causal relationship between higher support needs and certain types of SDA has not been explained to the market, so further data collection, analysis and reporting is encouraged.

**Recommendation 8 | High Priority**

The NDIA to commission an independent review of the costs of SDA and associated supports to ensure assumptions about relationships between SIL and SDA are evidence-based. The review should compare the cost of SIL across a range of dwelling types and settings and make recommendations about housing and support models that are cost-effective.

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40 Fund managers noted an opportunity for the NDIA to establish a specialist unit with a focused understanding of this cost information and drivers of cost efficiency. Developing this capability within the Agency would benefit not only the NDIA in its effort to encourage efficient models and practices but may also be invaluable to government in policy making. Market participants would also benefit from data that enables benchmarking. Fund managers indicated a clear willingness to work with the NDIA in understanding costs and cost relationships across their portfolios.
CONCLUSION

The SDA market is already transforming the lives of thousands of people with disability. This market could stimulate $5-12 billion in private sector investment and is currently considered the largest social impact investment opportunity in the country. A strong flow of private capital not only supports government objectives through the NDIS but also reduces pressure on public funds. While the market has grown quickly since 2016, it was acknowledged at the outset that strong market stewardship would be required to ensure the market functioned efficiently and supported the achievement of the Scheme’s objectives. To ensure investors remain engaged in the SDA market it is critical that they remain confident that it is functioning as intended. Currently, there are a number of challenges emerging that are impacting market confidence.

In early 2021, the SDA Investor Think Tank brought together fund managers who together have invested over $650 million in the SDA market and financed places for over 1,000 NDIS participants. The aim of the Think Tank was to explore and present a consolidated perspective from fund managers on how the Australian government, through the NDIA, can help steward the SDA market. Given the current challenges in the market, fund managers agreed that change was needed. Active market stewardship by the NDIA will help ensure the right supply of housing is built over the long term, leading to positive outcomes for participants, providers, investors, and the Australian government. To help instil greater market confidence, fund managers highlighted 2 broad areas that required timely focus: improving market engagement and signalling, and optimising the demand and supply pipeline.

Fund managers made 8 recommendations for the government to consider, including 3 of particularly high priority. Firstly, the release of a quarterly SDA Market Statement which provides forward-looking market signalling and information on Agency intentions. Secondly, the need to quickly improve the transparency of SDA-eligibility requirements, and consistency of SDA determinations. And thirdly, a review of housing and support costs across different housing models to ensure the relationship between SIL and SDA is properly understood.

The 8 recommendations in this report are premised on the fact that investor confidence will be greatest when there is more stability and transparency in the market and when participant demand for SDA is more predictable. To attract more capital into SDA it is critical that investors, government and other players work together to support and enable the conditions necessary for an effective market. Think Tank contributors are hopeful that these findings and recommendations will support the Australian government’s understanding of both the challenges and opportunities arising in the current market, as well as highlight the need for active and appropriate stewardship. Only careful stewardship will lead to the right supply of housing becoming available over the long term. This report represents an opportunity for ongoing dialogue and collaboration between the various interdependent stakeholders in the SDA market. This includes NDIS participants, providers, impact investors, and the Australian government – all of whom have an interest in working together to help shape a thriving market.
APPENDIX 1: FUND MANAGER PROFILES

Australian Unity

Ryan Banting, Jacob Edwards and Matt Hibbert

About our organisation
Established 180 years ago, Australian Unity is a mutual formed for the benefit and wellbeing of its members. It is the 36th largest private company in Australia. Of Australian Unity’s multi-faceted health, wealth and care services, the SDA Fund sits within the Property division, a comprehensive real estate platform that was established in 1988 and as at 31 December 2020 had $4.5 billion of real estate funds under management. The division manages properties across the healthcare, retail and office sectors throughout Australia.

About our SDA investment fund
The Specialist Disability Accommodation Fund was established in April 2020 and acquired a seed portfolio of 27 operating SDA dwellings to provide immediate distribution yield and growth. A further 65 SDA dwellings have been contracted and are under construction across the eastern seaboard of Australia. The Fund only invests in projects expected to produce exemplary participant outcomes and will not generally invest in single dwellings with more than 3 participants or projects with more than 10 SDA dwellings on site. The Fund has an initial 10-year term, equity will be raised bi-annually in the near term and is limited to wholesale investors.

About our team
Directed by Ryan Banting, the team benefits exemplar investment strategy, portfolio management, precinct and asset development experience. Jacob Edwards joined the Fund in 2021. Previously running Bank Australia’s Impact Finance business, he established its SDA portfolio and was involved with a majority of SDA debt transactions in the country. Jacob is additionally a Director/Treasurer of the Specialist Disability Accommodation Alliance, a not-for-profit established to provide a unified voice to support a diverse and sustainable market. Matt Hibbert also joined the Fund in 2021. Previously Senior Consultant in EY’s Infrastructure Advisory business, he undertook financial modelling and commercial analysis for social infrastructure, transport, power and utilities.

Our approach to impact investing
For more than 20 years, Australian Unity, in partnership with Deakin University, has been studying the wellbeing and life satisfaction of Australians through the Australian Unity Wellbeing Index. The study focuses on factors that combine and work together over time to build an individual picture of life satisfaction including relationships, standard of living, health, future security, community connectedness and achieving in life.

Why we invest in SDA
SDA is critical social infrastructure delivering support to some of the most under privileged Australians who otherwise may live in inappropriate settings including large group homes, aged care or inaccessible homes. SDA as an asset class is aligned to Australian Unity’s real wellbeing brand and offers our investors the ability to use their wealth for good.
Conscious Investment Management

The Impact Fund

*Adam Gregory and Matthew Tominc*

**About our organisation**

Conscious Investment Management (CIM) is an independent funds manager focused on making investments that earn a market rate financial return and have a positive social and/or environmental benefit. CIM invests alongside a number of partners (we call them ‘Impact Partners’ and they are often charities), acquiring assets or funding programs on their behalf, to enable our Impact Partners to better support the people they do and better fulfil their mission.

CIM invests in Specialist Disability Accommodation, social housing, community renewables, seniors housing, and a number of social impact bonds funding various social programs. CIM manages a diversified impact investment fund, as well as various funds specific to these areas.

**About our SDA investment fund**

CIM has been an investor in the SDA market since 2019, funding assets around Australia, including houses and apartments, for all SDA categorisations. CIM currently has approximately $70m invested or committed to SDA assets, and is evaluating a range of new SDA investment opportunities.

CIM’s investors include Australian superannuation funds, charitable foundations and institutional wealth managers. CIM’s investors base is understanding and supportive of the long-term nature of SDA investments and the importance of building high quality housing that provides appropriate accommodation for years to come.

**About our team**

The CIM team includes a mix of individuals with varying experience across finance, not-for-profit and law. Through each of its investments, CIM aims to support its Impact Partners to better achieve their missions. Consequently the CIM team is always focused on the importance of blending both impact and investment.

**Our approach to impact investing**

CIM’s approach to impact investing is grounded in the belief that finance can be a force for good. CIM believes that by working with groups that have lived experience of an area of need, impact and investment can be better combined.

CIM measures its impact by moving beyond the simple measurement of metrics (such as number of beds funded, or number of tonnes of CO2 offset), instead considering the next-level effects of an investment for the ultimate beneficiary. In an SDA context this means that, before making investments, CIM conducts significant due diligence on its SDA partners, their tenancy support models and SIL, and property-specific factors, to seek to maximise the impact of its investments.

CIM has sought to fund areas of SDA that saw less investment and less new development to maximise the positive impact of its investments.
Inspire Impact
Inspire Impact Disability Housing Fund
Irene Vidaller and Jonathan Lim

About our organisation
Inspire Impact, Liverpool Partners’ social impact arm, is a specialist investment group that aims to direct capital to assets and companies that can positively impact society and/or the environment.

About our SDA investment fund
In December 2018, Inspire Impact acquired a seed portfolio housing 60 Australians living with disability and establishing the first Inspire Impact Disability Housing Fund. Inspire’s second fund has 22 new SDA homes nearing completion and its third fund will deliver 60+ new SDA homes by June 2022. By December 2021, Inspire will have $100M of GAV under various stages of operations and has a vision to deliver a national portfolio of SDA houses and capture 10% of the SDA market ($500-750M) by 2025.

About our team
We are a team of passionate investors that aims to do good with our investment and consumption choices. The Inspire team has extensive expertise and deep relationships in the community care industry.

Our approach to impact investing
Our aim is to direct capital to assets that positively impact society and the environment by benefiting stakeholders and contributing to solutions for underserved people. We firmly believe that impact and financial outcomes can be achieved contemporaneously.

Why we invest in SDA
We work closely with our partners to deliver high quality accessible housing that provides people with disability with greater choice and control over where, how and with whom they live. We also set environmental sustainability requirements for our homes. We measure social and environmental impact outcomes qualitatively and quantitatively – and continuously seek to improve our performance.
Lighthouse Infrastructure

Lighthouse Infrastructure Fund Trust (LIFT)

Peter Johnston and Mitch King

About our organisation

Lighthouse Infrastructure is an independent, sustainable infrastructure fund manager that combines innovation and experience to deliver high quality investment outcomes to institutional investors.

Lighthouse Infrastructure specialises in the unlisted renewable energy and social infrastructure sectors. Our focus is on finding investments that deliver high quality, sustainable returns alongside positive social and/or environmental outcomes. The United Nations Sustainable Development Goals (SDGs) guide our investment selection process, which is overseen by our team of highly experienced infrastructure specialists.

Lighthouse Infrastructure’s senior management team has deep infrastructure expertise, and significant transaction and asset management experience in infrastructure and alternative assets. The senior members of the team have been managing infrastructure funds for over 3 decades with investment experience in social, renewable energy, transport, regulated gas and electricity utilities, water and telecommunications in Australia, Europe and North America.

Our approach to investing

Lighthouse manages LIFT whose investment criteria is to invest in infrastructure assets that provide an attractive return and have a positive impact on society and/or the environment with a focus on:

- Social infrastructure that expands the assets available to the community as a whole
- Social infrastructure that improves access to assets for disadvantaged individuals
- Low carbon related energy infrastructure and other environmentally focused assets
- Early stage investments that construct new assets and have a direct impact

Using the SDGs as a guide, we seek to identify the positive impact and contribution that assets deliver, establish strategies for delivery and report to our investors on outcomes achieved from the investments.

Our investments in SDA

LIFT first invested in SDA in 2018. LIFT was attracted to:

- The regulatory pricing model established under the Scheme and familiarity from our experience in other regulated infrastructure sectors
- The quality and capabilities of the partners we had identified
- The potential to improve the lives of people living with disability
Macquarie Group

Ben Barry

Macquarie Group is a global financial services group operating in 32 markets in asset management, retail and business banking, wealth management, leasing and asset financing, market access, commodity trading, renewables development, specialist advisory, capital raising and principal investment.

Macquarie’s 16,400+ people are empowered to innovate and invest for a better future. We bring specialist, global expertise in areas such as infrastructure, energy, technology and commodities. We focus on innovation, careful risk management and delivering sustained long-term value for our clients, partners, investors, staff and the broader communities in which we operate.

The diversity of our operations, combined with a strong capital position and robust risk management framework, has contributed to our 52-year record of unbroken profitability.

Macquarie Asset Management (MAM) provides specialist investment solutions to clients across a range of capabilities including infrastructure and renewables, real estate, agriculture, transportation finance, private credit, equities, fixed income, and multi-asset solutions. As at 31 March 2021, MAM had $A562.2 billion of assets under management.

Since 2017 Macquarie has provided significant capital to develop 236 new-build SDA dwellings across all mainland Australian states.
Social Infrastructure Investment Partners

The Synergis Fund

*Michael Lynch and Jason Walter*

The Synergis Fund is managed by Social Infrastructure Investment Partners, which is jointly owned by Social Ventures Australia (SVA) and Federation Asset Management (FAM). The Fund's vision is for every person living with disability in Australia to have access to high quality, safe, stable and appropriate housing.

**About our organisation**

SVA is a not-for-profit organisation that works with partners to alleviate disadvantage – towards an Australia where all people and communities thrive. SVA’s Impact Investing business manages 3 funds that invest in organisations and projects with the capacity to generate positive social outcomes. FAM is an investment manager that invests in renewable energy; social, education, health and real estate; and operating companies that fit a social and economic need.

**About our SDA investment fund**

The Synergis Fund was established in 2019 and its investment approach is based on generating appropriate returns for our investors and measurable positive outcomes for people living with disability. Our outcomes driven approach is achieved through partnering with carefully selected SDA providers. Provider partners follow a participant led model to ensure investments create the best possible outcomes for participants by developing well located, well designed and quality constructed housing that is conducive to participants receiving the best possible care. The Fund has a diversified approach to SDA investment and does not specifically focus on a single type of SDA. To date we have committed to invest across the spectrum of SDA property types, with a preference for investing in houses and villas, including a strong presence in Robust housing. We have committed over $70m of investment and have a significant identified pipeline.

**About our team**

The investment team comprises members contributed by our shareholders. The team is led by Michael Lynch and Jason Walter. Michael is a member of the NDIS SDA Reference Group and we are a member of the SDA Alliance.

**Our approach to impact investing**

SVA is a pioneer in the social impact investing space with a long history including the establishment of Goodstart Early Learning transaction, Australia’s first social impact bond, Newpin, and one of the first institutional impact mandates from HESTA. FAM is a responsible investor, being a signatory to the United Nations Principles for Responsible Investing and a member of the Responsible Investment Association of Australia.

Positive social outcomes for residents and their families and carers is at the core of the Fund’s strategy. All our investments will be subject to a rigorous outcomes measurement framework and we have appointed an Advisory Board that comprises individuals with lived experience.

**Why we invest in SDA**

We entered the market based on the shared vision of our shareholders and believe that we are uniquely placed to help build a sustainable SDA market through a combination of our shareholders’ industry knowledge and standing, investment track record and outcomes focused approach.