11th March 2015

Ms Vicki Wilkinson
Social Policy Division
Treasury
Langton Crescent
PARKES ACT 2600

Dear Ms Wilkinson

Affordable Housing Working Group Submission

The Summer Foundation welcomes the opportunity to provide a submission to the Affordable Housing Working Group. We applaud the Federal Government’s leadership in exploring new, viable, scalable financing models to deliver additional affordable housing.

Over the past few years, the Summer Foundation has been working with a range of financiers, investors and other relevant stakeholders to develop innovative financing models to facilitate sustainable long-term private sector investment at scale to increase the supply of housing for people on a Disability Support Pension. While our financial models are focused on housing for people with a disability, the work we have done is also applicable to a funding housing for a broader group of disadvantaged people with low incomes.

We strongly encourage the Affordable Housing Working Group to take a close look at and provide constructive feedback on the implementation of the National Disability Insurance Scheme’s (NDIS) $700 million annual housing payments while the scheme is still being finalised. The Federal Government has a significant opportunity to make NDIS housing a stable, predictable and to low risk investment, which will enable housing providers to access significant amounts of finance and to lower the overall cost of finance. Getting the NDIS housing payment policy and funding right will provide a unique to opportunity to pilot and trial some of the innovative, transformative financing models described in the Affordable Housing Working Group Issues Paper.

Attached is a paper called Financing housing for NDIS Participants that has been written in consultation with JBWere, Commonwealth Bank and National Australia Bank. This paper summarises the elements of the NDIA housing payments scheme that are critical to get right to
attract significant long term investment to housing for people with disability. The paper also looks at how to progress models of social finance from individual deals to national scale and from early deals to a mature market.

In June 2014, the Summer Foundation convened a Social Finance Think Tank chaired by Simon McKeon AO (Macquarie Bank) to explore the development of a model of social finance to replicate our housing demonstration projects for young people in nursing homes. The Think Tank brought together experts from finance, law, housing and philanthropy and provided an opportunity for this group to have grounded conversations to explore a model of social finance for a real life project.

The Social Finance Think Tank Report attached summarises the briefing papers provided to the Think Tank participants, and documents the ideas, discussion and conclusions reached by the Think Tank. The Think Tank identified a range of strategies that can be used in future projects to bridge the gap between the rental income stream provided by people on a disability support pension, and the cost of the apartments. The strategies and insights documented are relevant to a broad range of housing projects, for people with complex disability and other groups of people who are disadvantaged.

Over the past few years there has been a growing interest in social investment. However, in Australia there is a limited pipeline of projects and enterprises that are “investment ready” and inherently scalable to make use of this capital. We urge the Federal Government to provide leadership and take the opportunity to develop an NDIS housing payments scheme that facilitates the implementation of new financing models that use this capital to build affordable and accessible housing.

Sincerely

Dr Di Winkler
CEO
Citation Guide


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Thank you to the members of a Social Finance Think Tank for their robust discussion and valued contributions at each session.

Thank you to the Macquarie Group for providing the venue and catering for each of the three Think Tank sessions in Melbourne.

DISCLAIMERS

The Summer Foundation and Social Finance Think Tank participants have contributed information towards this report and believe it to be accurate and reliable. Neither the Summer Foundation nor any participants make any warranty, express or implied, regarding any information, including warranties to the accuracy, validity or completeness of the information. This report is for educational purposes and should not be interpreted as promotional. Readers should be aware that the Summer Foundation has had and will continue to have relationships with many of the organisations identified in this report, through some of which the Summer Foundation has received and will continue to receive financial and other support.
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Impact investment has tremendous potential to improve society. In the current economic environment, government and philanthropy combined do not have the resources required to address the social and environmental challenges in Australia. Social investment provides a different approach to solving social challenges by using private capital for public good.

Over the past few years there has been a growing interest in social investment. We have seen a range of forums, initiatives, conferences and reports regarding the potential of social investment to improve society. The many international examples – and a few local examples – of successful social investment projects and enterprises have been well documented. There are a number of high net worth individuals and philanthropic trusts that have been educated and engaged by the concept of social investment and are ready to provide investment capital. However, in Australia there is a limited pipeline of projects and enterprises that are “investment ready” and inherently scalable to make use of this capital.

The Summer Foundation Social Finance Think Tank provided an opportunity for people from a range of disciplines to have grounded conversation and explore a model of social finance for a real life project. The Summer Foundation has developed an innovative model of housing and support based on years of practical experience and research that provides a compelling story for potential investors. While there is no silver bullet to providing funding for quality housing for people who are as disadvantaged as young people in nursing homes, the Think Tank grappled with the challenges and identified a number of potential solutions. It also assisted in refining a model of social finance for the Summer Foundation’s next housing demonstration project in the NSW trial site of the National Disability Insurance Scheme (NDIS). We identified a range of strategies that can be used in future projects to bridge the gap between the rental income stream provided by people on a disability support pension, and the cost of apartments that are well located and designed and incorporate communications and smart-home technology.

Given the dearth of accessible and affordable housing and the current reform of the disability sector in Australia, the Summer Foundation’s Housing Demonstration Projects are timely. This model is challenging current thinking about housing for people with significant disabilities, and I congratulate the Summer Foundation on the progress it is making on this important piece of work.

Simon McKeon AO
Chair of Social Finance Think Tank
ABOUT THE SUMMER FOUNDATION

The Summer Foundation, established in 2006, is a not-for-profit organisation that works to change the human services policies and practices related to young people living in, or at risk of, entering aged care nursing homes.

**OUR VISION** is that young people with disability and complex support needs will have inherent value as members of our society, with access to services and housing that supports their health and wellbeing.

**OUR MISSION** is to stop young people from being forced to live in nursing homes because there is nowhere else for them.

The Summer Foundation is working in three key ways to support change:

- **Research**: conducting and fostering research that provides an evidence base for policy change;
- **Creating a movement**: supporting people with disability to tell their story, raise awareness and keep the issue on the political and public agenda; and
- **Housing**: developing integrated housing and support demonstration projects in order to increase the range and number of supported housing options.
ABOUT THE AUTHORS

Dr Di Winkler
CEO and Founder, Summer Foundation Ltd
Di Winkler is an Occupational Therapist who has worked with people with acquired brain injury for more than 20 years. In January 2006, Di established the Summer Foundation. In 2011, she completed her PhD at Monash University, which involved five published studies focusing on the social inclusion of young people in nursing homes. Di is an adjunct researcher in the occupational therapy department at Monash University.

Astrid Reynolds
Innovative Housing and Support Project Manager, Summer Foundation Ltd
Astrid Reynolds has specialist expertise in housing and coordination of housing and support approaches for people with more complex needs. This expertise was developed through research and consultancy work, as well as practical experience.

Libby Klein
Principal, Moores
Libby Klein is a legal and governance advisor for not for profit organisations including disability organisations, independent schools, welfare agencies and churches. A principal at Moores in Melbourne, Australia, she spends most of her time working with boards on strategic and governance issues including structuring, mergers and tax.

John McLeod
Philanthropy Consultant, former Partner and Executive Director, Philanthropic Services, JBWere
Following his initial studies in Engineering and Commerce and various roles in the Resources industry, John joined JBWere, where he was a leading analyst and later Resource Strategist and Manager of Resource Research within the firm’s top-ranking strategy team. He joined JBWere Philanthropic Services on its establishment in 2002, researching and analysing trends in the not-for-profit and philanthropic sector. He has completed the Swinburne University postgraduate course in Philanthropy and Social Investment and co-authored Impact Australia: Investment for social and economic benefit.
SOCIAL FINANCE THINK TANK PARTICIPANTS

SOCIAL FINANCE THINK TANK

Between April and June 2014, the Summer Foundation convened a Social Finance Think Tank to explore the development of a model of social finance for the Summer Foundation’s Housing Demonstration Projects for young people in nursing homes. The Think Tank was chaired by Simon McKeon AO and brought together experts from finance, law, housing and philanthropy to attend three Think Tank sessions. The Summer Foundation is very grateful for the generosity of Think Tank participants in providing their time and insights.

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## GLOSSARY OF TERMS

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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>CEHL</td>
<td>Common Equity Housing Limited</td>
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<td>CRA</td>
<td>Commonwealth Rental Assistance</td>
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<td>DGR</td>
<td>Deductible gift recipient</td>
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<td>DSP</td>
<td>Disability Support Pension</td>
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<td>DHA</td>
<td>Defence Housing Australia</td>
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<td>LVR</td>
<td>Loan to valuation ratio</td>
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<td>NDIA</td>
<td>National Disability Insurance Agency</td>
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<td>NDIS</td>
<td>National Disability Insurance Scheme</td>
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<tr>
<td>NRAS</td>
<td>National Rental Affordability Scheme</td>
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<tr>
<td>PAF</td>
<td>Private Ancillary Fund</td>
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<tr>
<td>POE</td>
<td>Post occupancy evaluation</td>
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<tr>
<td>RAC</td>
<td>Residential Aged Care</td>
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<td>RIPL</td>
<td>Residential Independence Pty Ltd</td>
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<td>RIT</td>
<td>Residential Independence Trust</td>
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<tr>
<td>SDT</td>
<td>Special Disability Trust</td>
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<tr>
<td>SLB</td>
<td>Sale and lease back</td>
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<td>TAC</td>
<td>Transport Accident Commission</td>
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EXECUTIVE SUMMARY

There is a growing interest in social investment in Australia, where investors see a positive social benefit as well as a financial return. Government and philanthropy alone do not have the resources to build the number of housing and support options needed to resolve the issues of young people in nursing homes in Australia.

There are a number of philanthropic trusts and high-wealth individuals with capital ready to invest in compelling social enterprises and projects. However, there is a limited pipeline of social investment opportunities in Australia. Over the past few years, the Summer Foundation has collaborated with a range of partners to develop a model of social finance that will benefit young people in nursing homes. This social finance model uses government and philanthropic funds to leverage private capital for housing.

Each year in Australia, over 200 people aged under 50 are admitted to nursing homes, where the average age is 84 years. Young people in nursing homes are one of the most marginalised groups of people in our society, with 53% receiving a visit from a friend less than once per year, and 82% seldom or never going out to visit their friends.

The launch of the National Disability Insurance Scheme (NDIS) is a significant part of the solution to resolving the issue of young people in nursing homes.

In 2013, the Summer Foundation launched its first housing demonstration project. This project has six accessible apartments for people with high support needs peppered throughout a 59-unit development of mixed private and social housing in the inner Melbourne suburb of Abbotsford. The Summer Foundation purchased two apartments for young people living in (or at risk of entering) aged care nursing homes. Transport Accident Commission (TAC) clients tenant the four other accessible apartments. The whole site was developed by a community housing provider, Common Equity Housing Limited (CEHL), and CEHL manage the tenancies for the Summer Foundation apartments.

This housing development is centrally located, within 500 metres of a train station and shops. This maximises independence and inclusion, and minimises transport costs and reliance on paid support staff. Use of home automation technology and communication technology allows tenants to alert staff of unanticipated needs for assistance. There is a small on-site office that provides a hub for support staff 24-hours a day.

The Social Finance Think Tank was convened to explore the development of a social finance model for the Summer Foundation’s next housing demonstration project in the Hunter NDIS trial site in NSW. This provided an opportunity for people from a range of disciplines to explore funding and investment options for a real development scheduled for completion at the end of 2015.

There is no simple solution to bridging the gap between the rental stream available from people on a disability support pension and the cost of good quality housing that is well located. However, a number of strategies can be used concurrently.

The Summer Foundation has used the insights from the Think Tank to develop funding proposals for government regarding a model of social finance for the Hunter Housing Demonstration Project. Some of the strategies and ideas generated by the Think Tank are not practical for the Summer Foundation’s target group or other projects, but may have relevance for other organisations working with people with disability and other groups of disadvantaged people. This report summarises the briefing papers provided to the Social Finance Think Tank participants, and documents the ideas, discussion, and conclusions reached by the group.
1. INTRODUCTION

The aim of the Social Finance Think Tank was to explore the development of a model of social finance for the Summer Foundation’s Housing Demonstration Projects for young people in nursing homes.

The Think Tank’s initial work focused on the development of a model of social finance specifically for the Hunter Housing Demonstration Project, which is due for completion in December 2015. The Think Tank also explored the development of replicable and scalable models beyond financing this initial project that have the potential to develop the scale of housing required to solve the issue of young people in nursing homes in Australia.

While most of the discussion focused specifically on the Summer Foundation’s housing demonstration projects, some of the insights and conclusions may have relevance for a broader range of housing projects for both people with disability and other groups of disadvantaged people. The intended audience for this report is housing providers, disability providers, government, private investors, philanthropists, and financial institutions with an interest in financing affordable and accessible housing for people with disability. The Think Tank generated a range of strategies to bridge the gap between the cost of appropriate good quality housing and the rental stream available from people on a disability support pension. Some of the strategies discussed are not practical for our target group but may be relevant to other affordable housing projects. The aim of this report is to collate the briefing papers prepared for the Social Finance Think Tank and summarise the ideas, discussion, and conclusions reached by the group.

YOUNG PEOPLE IN NURSING HOMES

More than 6000 Australians aged under 65 currently live in nursing homes because they have no other options. Young people in nursing homes are one of the most marginalised groups of people in our society, with 53% receiving a visit from a friend less than once per year, and 82% seldom or never going out to visit their friends. They are effectively excluded from society, with 45% seldom or never participating in leisure activities in the community.

Improved medical technology has increased the survival rates and life expectancy of people who sustain severe brain injuries. People also live longer with degenerative diseases such as multiple sclerosis. This has resulted in a new population of people with severe disabilities and complex care needs that require 24-hour supervision or very high levels of daily care and support, which challenges the current disability service system. Each year in Australia, 200 people under 50 years are admitted to nursing homes, where the average age is 84. Their lives are characterised by boredom, loneliness and grief, the distress this causes their families is immense.

For the past 20 years, the group home has been the dominant disability housing model, with people expected to live with four or more others with limited privacy. While group homes may work for some people with disability, they do not work for everyone. More contemporary models of housing and support are needed that support an individual’s ability to have greater choice and control over how they live. Many young people in nursing homes acquire their disability as adults; some have partners and 27% are parents of school-aged children. Most existing models of housing and support do not work well for people with families.
Average age of nursing home residents is 84 YEARS.

27% are parents of school age children.

45% seldom or never participate in leisure activities in the community.

Over 6,000 people under 65 live in nursing homes.

635 people UNDER 50 live in nursing homes.

Prior to their first admission to nursing homes, 59% of young people are in hospital.

46% of young people in nursing homes receive a visit from a friend less than once per year.

53% of young people in nursing homes receive a visit from a friend less than once per year.

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The NDIS is a no-fault social insurance scheme for people with severe or profound disability. The NDIS promises historic disability reform to an inequitable, underfunded, fragmented and inefficient disability service system. The National Disability Insurance Agency (NDIA) has been established to implement the NDIS.

The NDIS is a massive and complex reform. Unlike the existing disability service system in Australia, which is largely a welfare-based and rationed model where people with disability are passive recipients of block-funded services, the NDIS is a market-driven system based on rights where people with disability are empowered to make choices regarding services and supports. The NDIS aims to provide individualised person-centred processes where people with disability have choice and control over the supports and services they need to make progress towards goals. People with disability will also have choice regarding who provides their supports and how they are delivered, the extent to which they manage their own funding and the level of risk they take in organising their lives.

On 1 July 2013, the NDIS began in Tasmania for young people aged 15-24 years; in South Australia for children under 14; and in the Barwon area of Victoria and the Hunter area in NSW for people up to 65 years. From 1 July 2014, the NDIS commenced across the Australian Capital Territory, the Barkly region of Northern Territory, and in the Perth Hills area of Western Australia. Rollout of the full scheme in New South Wales, Victoria, Queensland, South Australia, Tasmania, the Australian Capital Territory, and the Northern Territory will commence progressively from July 2016. The NDIS will be fully implemented across Australia by 2018-2019.

The launch of the Scheme is a significant part of the solution to resolving the issue of young people in nursing homes. The NDIS will provide funding for the support and equipment that people with disability need to live in the community. However, people need somewhere to live. The NDIS has limited funding for capital to build new housing and it is not expected that many young people will move out of nursing homes as a result of the NDIS. Australia desperately needs more housing that is both accessible and affordable.

In July 2008, Australia ratified the United Nations Convention on the Rights of Persons with Disabilities. These rights include the right of all people “to choose their residence and where and with whom they live on an equal basis with others, and not be obliged to live in particular living arrangements.” This right has not yet become reality for many people with disability. This is largely due to the significant lack of housing options.

The positive impact of the NDIS will be limited, however, if there is not a significant increase in a range of affordable and accessible housing across all communities. The lack of affordable and appropriate housing remains the major obstacle to people with disability being able to maximise their independence and have greater choice and control over their lives, even with the additional resources available through the NDIS.
The Unmet Need for Affordable and Accessible Housing in Australia

Few things are more fundamental than having somewhere to live, to be as independent as possible, maintain connections with family and friends and access a range of opportunities in the local community. Having little or no choice about where you live or who you live with has a profound impact on mental and physical health and the ability to participate in community life.

People with disability experience multiple challenges gaining access to appropriate and affordable housing. The income levels for people living with disability are generally lower than community averages. People with disability often incur additional day to day living expenses as a result of their disability. There are also additional costs when purchasing a home related to modifications. If the person with disability needs any significant modification it can effectively exclude them from the private rental market. The Australian Institute of Health and Welfare found that people with disability tend to be concentrated in the fringe and outer suburban areas where housing costs are lower.

There are limited opportunities for people with disability to participate in the mainstream housing market because of their low rates of employment and therefore limited purchasing power. This group often lacks the capital to establish a deposit and the income to service a mortgage. Rental housing is also often inaccessible to people with disability, both because of the high cost of renting privately and the physical characteristics of the housing stock. Central to including people with disability in the mainstream of society is providing a stable living environment (both housing and support) and moving away from a crisis response to addressing accommodation, services, and support needs.

There is a chronic shortage of well-located, affordable housing for people with disability, particularly for those with high and complex needs, and those who need accessible and adaptable housing design. There is a critical need for new housing options that are close to shops, services and public transport, both for ease of access but also because a disproportionate number of people with disability are on low incomes. But such well-located housing is often relatively expensive or not designed for people with disability and mobility impairments.

The Productivity Commission’s report on Disability Care and Support identified an overall lack of housing options for people with disability. This shortage is particularly severe for those with profound disability and complex needs who require supported and accessible housing. For this group there are limited models and significant shortfalls in supply, with options for those requiring near 24-hour support and/or monitoring usually limited to nursing homes, living with parents, or living in group homes (also called “shared supported accommodation”). This predominant group living model limits choice in where people live, with whom they live, and how they live.

For the past 20 years, the group home has been the dominant disability housing model for people with more complex support needs. In this model people live with four or more people with limited privacy. While group homes may work for some people with disability, they do not work for everyone. Research and consultation with young people in nursing homes (or at risk of entry to nursing homes) have strongly indicated the desire for a wider range of living options than those which have traditionally been available.
More contemporary models of housing and support are needed that support an individual's ability to have greater choice and control over how they live. Most existing models of housing and support for people with significant disability do not work well for people with families and most are not well integrated within mainstream housing. Many people who have acquired their disability as an adult want to live in their own homes as they have experienced independent living prior to their disability.

Many people with high and complex support needs who require access to 24-hour support and/or monitoring are not on public housing waiting lists because of the complexity of sectors working together to meet housing and support needs. Improved planning and co-ordination across government services is an essential part of the process to align available and suitable housing with individualised disability support funding, funding for equipment and ongoing rehabilitation.

Provision of housing for people with disability should be viewed as a mainstream housing issue. The housing needs of people with disability should be an integrated part of national and state urban and housing planning strategies. These strategies need to recognise that many people with significant disabilities are on low incomes and need access to affordable rental housing. However, there are also likely to be people with disability who have access to some financial resources that would enable them to pursue partial or full ownership options.

The 10-year National Disability Strategy focuses on the need to improve provision of accessible and well-designed housing, which offers security of tenure and choice for people with disability about where they live. A key area for action identified in this strategy is to develop innovative options to improve affordability and security of housing across all forms of tenure for people with disability.
ESSENTIAL ELEMENTS OF HOUSING FOR YOUNG PEOPLE IN NURSING HOMES

Stable, quality housing is essential to bringing young people in nursing homes back into mainstream society. The following aspects are considered essential to future housing and support options for young people in nursing homes:

- **LOCATION**: Proximity to shops, transport and other services is critical to enabling people with disability to easily get out of their home and have a meaningful life. Being located near family and friends and living in a familiar neighbourhood is also essential for maintaining relationships and community inclusion.

- **RANGE OF HOUSING OPTIONS**: Young people in nursing homes are a diverse group; they need a range of options to meet their needs, preferences and family circumstances.

- **PHYSICAL DESIGN**: Accessible design that is adaptable to the diverse needs of this group is essential in order to maximise independence and community inclusion, and reduce life-time care costs.

- **TECHNOLOGY**: Advances in technology provide the potential for increasing independence and autonomy, and decreasing reliance on paid supports. Mainstream smart-home and communications technology can provide cost effective solutions that enhance independence, allow people with disability to alert others when they need assistance, and remotely monitor a person’s safety and wellbeing, if required.

- **INDIVIDUALISED AND FLEXIBLE SUPPORTS**: Supports should assist people to develop as much independence as possible, build people’s capability to live more independently, and encourage and facilitate building a life that is meaningful and satisfying. Support approaches need to be tailored to the individual’s needs and be flexible enough to respond to changing needs, abilities and preferences. Many people with disability, and their families, have learned to live with very low expectations. Support providers often need to focus on building capacity and enabling people to have bigger dreams and a meaningful life\(^{15}\).

  As many young people in nursing homes have complex support needs, skilled support is essential to enable them to transition successfully to more independent housing options. Past support models, expectations and practices brought from nursing homes and shared supported accommodation can impede their ability to benefit from more independent housing options.

- **COMMUNITY BELONGING**: Housing and support options should maximise opportunities to build and maintain relationships with spouse, family, friends and acquaintances and build new connections\(^{15}\).
2. HOUSING DEMONSTRATION PROJECTS

The purpose of the Summer Foundation’s demonstration housing projects is to develop and refine an innovative, flexible and cost effective support model that is consistent with the direction being proposed of the NDIS:

- **Affordable**: many tenants will be on low incomes (often the disability support pension)
- **Secure**: the person can stay there when they want to, and while it remains suitable
- ** Appropriately designed and adaptable**: a number of tenants will be people using larger electric wheelchairs, but some people will have cognitive or multiple disabilities, and needs may change with time, and
- **Well located**: close to shops, services and transport.

While these demonstration projects focus on young people in nursing homes, this model of housing and support is relevant to a much wider range of people with disability across Australia. These projects aim to demonstrate that the provision of good quality housing that is accessible and well located and will improve quality of life and social inclusion, will simultaneously decrease reliance on paid supports and reduce life-time care costs.

Smart technology is a key feature of these demonstration housing projects. This technology enables residents with severe physical disabilities to use their smart phone or tablet to open doors, open and close window blinds, control the air conditioning and turn lights off and on. Communications technology enables residents to contact staff when they need unexpected help, or in the event of an emergency. Residents will be able to maximise their independence and privacy while still having access to 24-hour on-call support.

The Summer Foundation is not a service provider - it is a broker with expertise in housing for people with disability and project management, and expert knowledge of the specific needs and preferences of young people in nursing homes. The tenancies and properties will be managed by a community housing organisation so that people with disability have the same tenancy rights that the rest of the population take for granted. A disability service organisation will be appointed to provide tenants with the support they need. This organisation will initially be contracted for two years and tenants will have input into the selection of the support provider at the end of the initial contract. It is envisaged that the Summer Foundation will be involved in the project for at least the first five years to evaluate and document the project.

In evolving and establishing demonstration projects, the Summer Foundation will use an action research approach, where the model continues to be refined based on:

- Ongoing critical reflection on key project issues
- Feedback from all parties involved
- Examination of learning from any relevant initiatives developed by others
- Findings from formal evaluation of outcomes for tenants.
ABBOTSFORD HOUSING DEMONSTRATION PROJECT, VICTORIA

In 2013, the Summer Foundation launched its first Housing Demonstration Project. This project has six accessible apartments for people with high support needs, peppered throughout a 59-unit mixed private and social housing inner city development in Melbourne. The Summer Foundation purchased two apartments for young people at risk of or in facilities. TAC clients tenant the other four accessible apartments.

This housing is centrally located, within 500 metres of a train station and shops. This maximises independence and inclusion, and minimises transport costs and reliance on paid support staff. Use of home automation technology and communication technology allows tenants to alert staff of unanticipated needs for assistance. There is a small on-site staff office that provides a hub for support staff 24-hours a day.

The establishment of this project was the result of close collaboration between the Summer Foundation, the TAC and CEHL, a Victorian registered housing association. Annecto was selected as the support provider, and its skilled staff individually supports the tenants to make the most of the accessible features of the housing, the technology, and the excellent access to the local community. This assists the tenants to maximise their independence and engagement with the many “ordinary” opportunities available in the community.
‘I NEED THE ABILITY TO RUN MY OWN LIFE’

COMMUNITY HOUSING

Twenty years ago Billy Hurley’s life changed forever. The young street artist was out with friends celebrating the opening night of his first solo art exhibition when he was assaulted by a nightclub security guard. Billy suffered an acquired brain injury, losing the ability to walk and speak.

Now 41, Billy faces another challenge. He has to move out of his rental in Melbourne’s north-east and desperately needs to find a new home. He does not receive enough government funding to get his own place and faces the prospect of being forced to move into an aged-care facility or a shared home.

“[I]f I can’t live a life without reliance on other people I would be depressed, with a feeling of uselessness,” said Billy, who communicates through a light switch. “Not having complete control of my choices makes me feel not quite human.”

Billy could be a candidate for a new housing project being launched in Abbotsford this week, according to the Summer Foundation, which advocates for an estimated 3500 people under the age of 60 living in nursing homes.

The organisation recently bought two one-bedroom apartments in the Gipps Street development to house people with disabilities. The 59-unit complex, jointly funded by Common Equity Housing Limited and the Department of Human Services, also includes 25 social housing apartments.

“Group homes work for some people with disabilities but not for everybody,” Summer Foundation CEO Ely Winkler said. “This project demonstrates a new way of providing housing and support for people with disabilities. People with high needs can live in the community and have neighbours like everyone else but still have access to on-call support.”

The integrated housing model has support from the disability sector. The National Disability Services, which represents 880 service providers across Australia, recently called on the state government to revise accommodation options for people living with a disability. In a budget submission last year it said cutting the number of people living in group homes was critical so the country moves towards the National Disability Insurance Scheme.

It recommended that some disability services be outsourced from the Department of Human Services to the non-government sector.

“There will be some people whose, with the right level of tailored support, can make the transition from living in a community residential unit to living more independently in a place that better meets their individual needs,” the report said.

Disability Discrimination Commissioner Graeme Innes welcomed the developments.

“It’s critical as the NDIS rolls out that there are actually houses for people to move into,” he said. “It’s good to have funds available so that people can get the services they need, but if there isn’t this sort of accommodation available it all comes to nothing.”

Minister for Disability Services Mary Wooldridge said the government was in favour of new models of supported accommodation. “People with a disability have told us they want more choice in their living arrangements,” she said.

Ms Winkler said residents in the two new units would have access to 24-hour on-call support as well as state-of-the-art technology, allowing them to open and close doors and control lighting from a handheld tablet. She said the new housing model would decrease reliance on paid support staff.

For Billy, moving to Abbotsford would mean maintaining his independence.

“I need the ability to run my own life,” he said. “What is freedom if you can’t choose how you live?”

One example of media for the Abbotsford Housing Demonstration Project
Outcomes research
The Abbotsford Housing Demonstration Project aims to demonstrate that the provision of good quality housing that is well located and designed, and incorporates technology, will maximise the independence and community inclusion of people with disability and decrease their life-time care costs. Monash University is evaluating the impact of this project by measuring the level of independence, support costs and community inclusion of tenants pre-move and then at six months, one year and two years post-move.

Initial findings from Monash University research shows that all tenants increased their level of home, social and economic participation at six months and one year after moving into their apartments. Tenants had more opportunities to make everyday choices. Their number of life roles (e.g. homemaker, family member, student) either remained the same or increased. Tenants reported increased participation and levels of independence in meal preparation, shopping and organising social events in their new home and community, compared with their baseline setting. They attributed this change to the excellent location of their housing, (near accessible public transport, shops and recreation services) as well as the increased home participation as a result of living in their own home. The support received from a community inclusion facilitator was also seen as key to planning their transition, testing out new life roles, and developing community links in their new neighbourhood. The Summer Foundation is keen to continue research on different cohorts to ensure the model of support keeps evolving to meet the individual goals of different tenants.

Knowledge Translation
The Summer Foundation is partnering with a range of organisations to document, translate, and disseminate the knowledge generated through our housing demonstration projects. Sharing this knowledge is critical in assisting other organisations and government to replicate similar models of housing and support. We also seek to influence state and federal government departments making decisions regarding regulation, planning and funding that increases the scale and range of disability-specific social and public housing.

Development of the Abbotsford Housing Demonstration Project report
A report on the knowledge generated from the development of our first housing demonstration project will be available in 2015. An independent researcher was engaged to interview key stakeholders involved in the development of the Abbotsford Housing Demonstration Project. Interviewees included the developer, housing provider, disability service provider, Summer Foundation staff, and TAC staff involved in the implementation of this model of housing and support. This report gathers the key learnings for other organisations interested in replicating this model.

Video showcasing smart-home technology and virtual tour
Our first housing demonstration project generated a great deal of interest from government, disability service providers, community housing providers and the NDIA. More than 100 people participated in a tour of our first apartments prior to tenants moving in. Now that tenants have moved in to these apartments, tours are no longer appropriate. A virtual tour of an apartment is available online so that people can explore each room and the design features to learn from our project. We also have produced a short video that demonstrates the communications, monitoring and smart-home technology incorporated into the apartments. The Macquarie Foundation funded the video and virtual tour.
HUNTER HOUSING DEMONSTRATION PROJECT, NSW

The Summer Foundation is purchasing 10 fully accessible apartments for people with significant disability in the Hunter NDIS trial site, plus one smaller apartment for support staff. These apartments are peppered throughout a five-storey development that has 110 units for private sale. The Summer Foundation has worked closely with the developer at the design stage to ensure that all 10 units, parking, lifts, common area doors and the building security system will meet the needs of people with disability. Structural support for the installation of hoists will also be incorporated into the build.

Apartments will incorporate two-way communications technology and capacity for smart-home technology. Via a smart phone or tablet, residents will be able to operate features such as lighting, blinds, cooling and heating, external doors, and security functions, as well as contacting support staff when needed. Residents will be able to maximise their independence and privacy while still having access to 24-hour on-call support. The Summer Foundation will be working closely with the local community, people with disability and their families, NDIA, and government to develop this innovative demonstration model of housing and support, which is due for completion by December 2015.

Learnings from the existing Abbotsford Housing Demonstration Project have already been applied in the development stages through improvements in design and adaptability of kitchens, bathrooms and wardrobes and sliding door automation technologies. The units are also designed to be more adaptable to meet the specific requirements of each tenant.

The 10 apartments for people with disability have a range of configurations to suit different household structures. It is anticipated that six apartments will be occupied by one person with disability and two apartments will accommodate either two people with disability, or one person with disability and their partner. Ideally, the three-bedroom apartments will enable two people with disability to live with their partners and/or children.
The Summer Foundation has worked with architects to design the layout and fit-out of these units to achieve the following:

- Aesthetically pleasing design such that units look as much as possible like other units in the building, with use of mainstream (i.e. rather than disability-specific) design, products and equipment wherever possible
- Functional units for people with a range of abilities and disabilities
- Accessible units that also have a number of adaptable features that can be cost efficiently tailored to individual tenant requirements
- Inclusion of technology infrastructure to support communication between staff and tenants in case of an emergency, and installation of full smart-home technology for tenants who require this
- Ability to sell the units as either accessible or standard units at some later stage
- Platinum certification under Livable Housing Design Guidelines.

The tasks involved in this project include:

- Designing and building appropriate housing
- Maintaining a relationship with the NDIA so that tenants receive recurrent funding for support
- Marketing the properties to people with disability, their families and disability networks in the Hunter region
- Appointing a suitable community housing organisation to manage the tenancies and the properties
- Establishing a partnership with a support provider
- Developing a process for managing vacancies
- Conducting a registration of interest process for potential tenants
- Developing a tenant selection panel process that ensures selection of suitable tenants
- Evaluating outcomes for tenants – conducting post-occupancy evaluations of the build design and technology; measuring peoples’ progress towards their goals and independence; and auditing staff culture to ensure it is positive and appropriate.

Building an Evidence Base

Impact

Outcomes for tenants: As with the Abbotsford Housing Demonstration Project, independent researchers will evaluate the impact of this project by measuring the level of independence, support costs, and community inclusion of tenants pre-move, and then at six months, one year and two years post-move.

Post occupancy evaluation of built environment and technology: Post occupancy evaluation (POE) is the examination of the effectiveness of occupied designed environments for people. POE is a careful, systematic, and reliable research process intended to ensure that evaluation findings can be applied to future buildings. The Summer Foundation will partner with the occupational therapy and architecture departments at Monash University to undertake a comprehensive POE of the build and technology design used in the Hunter Housing Demonstration Project, from the perspective of tenants, their nominated family members, and direct support workers.
Knowledge Translation

The Summer Foundation is partnering with a range of organisations to document, translate and disseminate the knowledge generated through our housing demonstration projects. Sharing this knowledge is critical in assisting other organisations and government to replicate similar models of housing and support. We also seek to influence state and federal government departments making decisions regarding regulation and funding that increases the scale and range of disability-specific social and public housing. See Appendix A for a budget for measuring impact and translation of knowledge generated through the Hunter Housing Demonstration Project.

We will share knowledge in the following ways:

i. Production and dissemination of report on the design and technology incorporated into the Hunter Housing Demonstration Project: This report will document the design principles of this project and collate the detailed specifications for the build design, fit-out and technology developed for this project. This information will be incorporated into a stand-alone report for use by housing providers, disability providers, government, and funders interested in replicating these apartments.

ii. Hunter Housing Demonstration Project - description and key learnings: This research will be based on interviews with key stakeholders (developer, housing provider, disability service provider, Summer Foundation staff, NDIA) involved in the implementation of this model of housing and support project in order to summarise the key learnings for other organisations interested in replicating this model.

iii. Video showcasing smart-home technology and virtual tour: We will produce a virtual tour of the apartments (available online) in the Hunter Housing Demonstration Project so that people can explore each room and its design features, and thus learn from our project. We also will produce a short video demonstrating the communications, monitoring and smart-home technology incorporated into the apartments (similar to this video.)

What will success look like?

Tenant outcomes: Empirical data will show improved quality of life, social inclusion, increased independence, decreased reliance on paid supports, and reduced life-time care costs.

Replication: Others will replicate this model for both young people in aged care facilities and other people with disability.

Social finance: Demonstration of a model of social investment for housing for people with disability that is replicable and scalable.
SIMILAR MODELS OF HOUSING & SUPPORT

The Summer Foundation’s demonstration models of housing and support are unlike most other housing options for people with high support needs in Australia, which have an element of segregation. This planned approach to allocating and designing a small number of units specifically for people with high and complex support needs into larger multi-unit developments (alongside planning for appropriate support arrangements) is more complex than building 6-10 units on one site. However, it is strongly believed this model will result in better outcomes for tenants. There are two other similar projects in Australia: one in Woodville, South Australia, and another planned for Southbank, Victoria.

Woodville, SA
The South Australian Government housing division has redeveloped an old social housing estate known as “The Square Woodville West Project”. The first stage of this redevelopment included an apartment block of around 40 units being developed with a contribution from the Commonwealth Housing Affordability Fund. Seven units in this block have been designated for people with disability and complex support needs and have been designed to be fully accessible, with a range of technology to support greater independence and safety. This project represents a collaborative initiative between the state government housing authority and state government disability services, with a non-government organisation providing ongoing personal supports to tenants.

Southbank, VIC
In Victoria, construction is yet to commence on a housing and support model that has been funded through the Commonwealth Shared Accommodation Innovation Fund ($4.1 million capital funding), where 10 units will be purchased for people with severe and profound disabilities, sitting within a larger privately developed inner city apartment building. This is known as the “Cairo Project” in Southbank. Loddon Mallee Housing Services Ltd (trading as Haven) is the registered housing association responsible for the properties and management of the tenancies.

Victoria’s state government disability services will identify tenants for these properties through the disability vacancy management system and will provide support funding through the existing system, which will be replaced by the NDIS when it rolls out across the state from July 2016. In this model there will be on-site support services to enable flexible and responsive provision of individual support. Support will be co-coordinated by Scope Victoria Ltd, a large disability support provider.
3. SOCIAL INVESTMENT

WHAT IS SOCIAL FINANCE?

The task of providing capital to meet the demand for housing for people with disability far outreaches the funding available from government or philanthropy. This is where social investment has a role to play. There is an increasing interest in social investment in Australia, where investors see positive social benefits as well as a measure of financial return.

A distinction is often made between “finance first” investors and “impact first” investors. Finance first investors are investors for whom financial returns are primary and social impact is secondary. Mainstream financial institutions engaging in social impact investment are likely to come into this category. Impact first investors put social impact before profit. The early adopters of social investment are likely to be impact first investors, such as high net worth individuals and philanthropic trusts.

The Summer Foundation is collaborating with a range of partners to develop a model of social finance that uses government and philanthropic funds to leverage funding from private capital.

INVESTMENT IN RESIDENTIAL PROPERTY

Residential property is the largest investment asset class in Australia, with individual owner-occupiers and investors making up the significant majority of equity ownership. Other property “sub-sectors” are also available for investment to investors. For example: retail, office or industrial assets. Given the larger average asset size and the higher barriers to access debt finance to purchase assets from these sub-sectors, ownership here is typically skewed towards the wholesale investment market including property funds, superannuation, and high net worth investors.

Each property “sub-sector” offers investors different risk and return profiles. Historically, residential property investment in Australia has produced relatively attractive returns with lower volatility compared with other asset classes. Figure 1 demonstrates the risk vs. return proposition of the Australian residential property sector over the 10 years ending 31 December 2014. While the office sector (Sydney only) and Australian equities have delivered higher average 10-year returns than residential property, the following needs to be considered:

- **Volatility levels**: The standard deviation of annual returns for residential property (6.4%) is materially lower than that for office – Sydney (12.1%) and Australian equities (22.4%)
- **Geared vs. ungeared returns**: A crucial consideration. Average total returns in Figure 1 are calculated on a gross basis for the property asset classes (i.e. before considering debt finance to amplify equity returns). Share markets provide returns at the equity level
- **Timeframe considerations**: The data series behind the chart is for the 10 years ending December 2014. Results would differ should a different timeframe of analysis be employed.
The residential property market in Australia has generated attractive average annual total gross returns of 8.4% per annum (higher returns on equity after use of debt finance) with a relatively low standard deviation of annual returns of 6.4% per annum (Figure 1).

**Figure 1: Historical asset class returns 2004-2014**

![Figure 1: Historical asset class returns 2004-2014](image)


While residential property has generated attractive total returns, we see that the majority of this return is driven by capital growth, rather than income. Indeed, of the 8.4% per annum total return for residential property, 5.5% has been generated from capital growth, and only 2.9% from income returns (Figure 2). Relative to other property sub-sectors, residential property has historically generated superior capital growth, with lower income returns.

**Figure 2: Historical total property returns split into income and capital growth 2004-2014**

![Figure 2: Historical total property returns split into income and capital growth 2004-2014](image)


The strong and well regulated banking system in Australia has allowed home owners and investors to often access loans of up to 70%, 80% or even 90%+ to fund residential purchases. This has allowed actual equity returns to be amplified. Unsurprisingly, many Australians have had a “good experience” when it comes to residential property in terms of building net wealth over this timeframe.

When it comes to property investment in Australia, history would show that income yield is less important to total return for residential property, compared to other property sub-sectors such as industrial, office, retail, and listed Australian Real Estate Investment Trust (A-REITs) (Figure 2).
OTHER RELEVANT MODELS OF SOCIAL FINANCE FOR HOUSING

**Elderly Parent Carer Innovation Fund, Queensland**

There is a model of social investment currently raising capital for housing for people with disability in Australia. In January 2014, Foresters Community Finance announced the issue of the Elderly Parent Carer Innovation Fund. Investors who co-invest with Foresters will provide a $1,000,000 capital warranty and income assurance by way of a grant from the Queensland Government Department of Communities, Child Safety and Disability Services. The Fund aims to raise $2,000,000 wholesale capital and its objective is to provide community finance to Queensland based not-for-profit organisations providing housing solutions to people with disability aged over 25 who have ageing parent carers.

**Real Lettings, United Kingdom**

The Real Letting Property Fund plans to raise £45m to purchase 240 one- and two-bedroom homes to rent in Greater London to house up to 600 people who are vulnerable to homelessness but fail to qualify for social housing. Broadway (a homelessness charity) takes a headlease (Broadway leases from private market, then sub-leases to approved tenants) and takes risk on any vacancies and the operational and maintenance costs. The investment is a minimum of seven years (and potentially nine), and the income is generated primarily by the government-funded Local Housing Allowance.

The target internal rate of return (IRR) is 5.4% – the return on investment is dependent on rental inflation and property price trends over the life of the fund. The exit strategy is managed over a two-year period during which time the properties are sold. A significant difference between the Real Lettings model and the Summer Foundation Housing Demonstration Projects is that the latter aims to provide long-term housing for people with disability - “selling off” apartments as an exit strategy for investors is not an ideal outcome.

**Residential Independence Pty Ltd, Victoria**

In August 2009, concerns regarding the lack of housing and support options for TAC claimants was first raised with the TAC board. The following year, a decision was made to invest in the development of purpose-built housing. In 2010, the annual cost of supporting TAC claimants with severe disabilities was $76M, with a liability of $3,170M. Investment in purpose-built housing for TAC claimants is one of the strategies that TAC is using to decrease its liability and ensure the long-term viability of the scheme.

The Residential Independence Trust (wholly owned by the TAC) was created with Residential Independence Pty Ltd (RIPL) acting as trustee. RIPL will develop accessible housing in areas of need in both metropolitan Melbourne and regional areas of Victoria. The combination of best practice design and shared support aims to enable tenants to live as independently as possible in a home environment.

**Defence Housing, Australia**

Lack of availability of housing for defence personnel was historically a major reason for early loss of skilled personnel from the defence forces. Defence Housing Australia (DHA) was established in 1988 to provide quality housing and related services for defence members. By acquiring and developing land, and constructing and purchasing houses, DHA was able to supply more than 17,000 dwellings in 2013.

DHA sells the properties to retail investors and leases them back for a 9 – 12-year term. Revenue from this “sale and lease back” (SLB) program is DHA’s primary source of capital. The attraction for investors is a rental guarantee provided by the government, a long-term lease, and hassle-free property management by DHA at a fee of 16%. The SLB model has potential applicability provided it could be adapted to extend the term of the lease to longer than 12 years.
INTRODUCTION TO THE BUSINESS MODEL CANVAS

The “Business Model Canvas” is a framework for describing, analysing and designing a business model. It is used to assist commercial and social enterprises to get “investment ready” by prompting clear thinking about the fundamentals of what value the business will create, and the way it will create, deliver, and capture that value.18

The Business Model Canvas consists of nine building blocks. The proposed business model, and issues arising from it, were discussed at the Think Tank sessions; these are set out below under the nine building block headings.

**Figure 3: Business model for Hunter Housing Demonstration Project**

### KEY PARTNERSHIPS

<table>
<thead>
<tr>
<th>COMMERCIAL</th>
<th></th>
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<tbody>
<tr>
<td>Property developer</td>
<td></td>
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<tr>
<td>Architects</td>
<td></td>
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<tr>
<td>Body corporate manager</td>
<td></td>
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<tr>
<td>Occupational therapist to assess potential tenants</td>
<td></td>
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<tr>
<td>Government</td>
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<table>
<thead>
<tr>
<th>IMPACT</th>
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<tbody>
<tr>
<td>Community housing provider</td>
<td></td>
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<tr>
<td>Disability support service provider</td>
<td></td>
</tr>
<tr>
<td>National Disability Insurance Agency</td>
<td></td>
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<tr>
<td>Monash University to measure impact</td>
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<tr>
<td>Social investors</td>
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### KEY ACTIVITIES

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Design and build 2 and 3 bedroom apartments</td>
<td></td>
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<tr>
<td>Specify, implement and test smart home and communications technology</td>
<td></td>
</tr>
<tr>
<td>Identify and attract investors</td>
<td></td>
</tr>
<tr>
<td>Market the apartments</td>
<td></td>
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<tr>
<td>Identify appropriate tenants</td>
<td></td>
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<tr>
<td>Develop vacancy management strategy</td>
<td></td>
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<tr>
<td>Arrange agreements with each type of funder</td>
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<table>
<thead>
<tr>
<th>IMPACT</th>
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<tbody>
<tr>
<td>Select and appoint disability service provider</td>
<td></td>
</tr>
<tr>
<td>Select and appoint community housing provider</td>
<td></td>
</tr>
<tr>
<td>Coordination of the partners involved</td>
<td></td>
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<tr>
<td>Evaluate outcomes and impact</td>
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</table>

### KEY RESOURCES

<table>
<thead>
<tr>
<th>COMMERCIAL</th>
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<tbody>
<tr>
<td>2 and 3 bedroom apartments</td>
<td></td>
</tr>
<tr>
<td>Smart home and communications technology</td>
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<tr>
<td>Source range of impact investors</td>
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<table>
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<tr>
<th>IMPACT</th>
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<tbody>
<tr>
<td>Design and technology expertise</td>
<td></td>
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<tr>
<td>Support staff with expertise</td>
<td></td>
</tr>
<tr>
<td>Outcome and impact measurement expertise</td>
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<table>
<thead>
<tr>
<th>COMMERCIAL</th>
<th></th>
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<tbody>
<tr>
<td>Quality apartments - well located &amp; adaptable</td>
<td></td>
</tr>
<tr>
<td>Reduction in reliance on paid supports</td>
<td></td>
</tr>
<tr>
<td>Potential reduction in life time support costs</td>
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</table>

<table>
<thead>
<tr>
<th>IMPACT</th>
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</thead>
<tbody>
<tr>
<td>Long term housing for people in or at risk of admission to a nursing home</td>
<td></td>
</tr>
<tr>
<td>Maximise independence and autonomy of tenants</td>
<td></td>
</tr>
<tr>
<td>Maintain and foster family relationships</td>
<td></td>
</tr>
<tr>
<td>Community inclusion of tenants</td>
<td></td>
</tr>
<tr>
<td>Proof of concept regarding model of housing and support</td>
<td></td>
</tr>
<tr>
<td>Proof of concept regarding model of social finance</td>
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</table>
The Think Tank defers to Summer Foundation to design the best housing and support model for the target group identified. This thinking is well developed and the inner Melbourne model is being trialled. Other models involving aggregating people with disability would be cheaper but would not achieve the objective of enabling young people with disability to have greater participation in community life.
5. WHAT IS THE FUNDING GAP?

COSTS

There are three different types of costs associated with the Hunter Housing Demonstration Project:

- The cost of providing disability supports to tenants with disability
- The capital cost of purchasing and fitting out the apartments
- The ongoing operational costs associated with the apartments e.g. body corporate fees, maintenance, rent collection.

Cost of disability supports

The proposed tenants are NDIS participants. The NDIS will fund the disability supports and equipment that tenants need to manage in their home and participate in the community.

Capital cost

The estimated total cost of the project including project management, evaluation and the purchase and fit out 10 apartments for people with disability, plus one apartment that will be a hub for disability support workers, is $6,632,300.

In order to provide housing to support opportunities for independent living, and social inclusion for NDIS participants in or at risk of entry to nursing homes, a number of elements are included in the housing that are over and above non-accessible mainstream housing provision.

Additional costs are associated with the following:

- Central location
- Cost of larger floor area required to enable wheelchair and certification at Platinum level Livable Housing Design Guidelines
- Accessible and functional design
- Adaptability features to support cost effective adaptation
- Wiring, cabling, Wi-Fi and programming to support smart-home unit and building technology
- Emergency communication system
- Home automation technology infrastructure inside units
- Use of products that reduce maintenance costs associated with wheelchair damage
- Whole building accessibility features.

Funding of the capital cost is expected to be a layered investment from a number of sources including philanthropy, social investment and NDIA/government. The cost of this capital will vary depending on the source and type of funding arrangements available. NDIA/government will influence structuring options and level of returns to social investors.

Housing – operational costs

There is a range of ongoing housing costs associated with this project. The owner of the apartments will be responsible for expenses, including water rates, water usage council rates, body corporate fees, insurance, rent collection fee, and maintenance.
RENTAL REVENUE

Most (96%) young people in nursing homes are on a disability support pension (DSP). Tenants in the housing project will generally pay 25% of their DSP plus Commonwealth Rental Assistance (CRA). Appendix B provides an indicative operational budget for the Hunter Housing Demonstration Project that includes the income from tenants and outgoings.

The annual operating costs of the housing in the Hunter Housing Demonstration Project show a small surplus from tenant rent and CRA, which will cover costs including utilities, an owner’s corporate fee, maintenance fund etc. Appendix B sets out the estimated operational budget for property-related income and expenditure for one full year. This assumes no income from other sources apart from tenant rental payments (25% of DSP) and CRA. This income and expenditure is based on the following key assumptions:

- Six (6) units are rented to single people on a DSP
- Four (4) units are rented to alternate household types:
  - A couple, both on a DSP
  - One person with disability on a DSP and one person on an aged pension + carer allowance
  - A family unit with an annual income of $40,000
  - Two (2) people each on a DSP
- There is a transfer of $900 per annum per unit to a maintenance fund
- There is no rental income for the unit which is a hub for disability support workers.

The unit providing a hub for support workers will be funded by a philanthropic trust and owned by the Summer Foundation. The disability support provider will pay a nominal rent which will cover any ongoing costs to the Summer Foundation (e.g. maintenance, body corporate fees, etc.) Across a full year, with a conservative estimate of occupancy (allowing for four weeks per unit vacancy), a surplus of $12,372 exists across the portfolio of properties. This surplus does not enable any significant return on investment for the owners or investors of the property.

This positive operating result is strongly influenced by the higher rental income for the four units which will have more than one occupant. As there are two three-bedroom units in the Hunter Housing Demonstration Project and a number of larger two-bedroom units, it is not unrealistic to assume that there will be a mixture of household types across the 10 units.

The financial risk with the operational budget is in the first year, when not all units will be fully occupied for the whole year, therefore accounting for reduced rental income. It is anticipated that people will move in progressively across the first year.

As shown in Appendix B, the annual operating costs for the housing in this project deliver a small surplus from tenant rent and CRA, which covers costs including utilities, an owner’s corporate fee, maintenance fund, etc. There is no return available to investors from the current rental income stream model due to the significant financial disadvantage experienced by the tenants, who are all likely to be recipients of the DSP. The model of social finance therefore deals only with the capital funding of the project.

The total cost of the project is more than $6.6 million, of which $1.46 million of philanthropic funding is already secured. The net base purchase price for the 10 units for people with disability, and the staff unit hub providing support, is more than $4.6 million. The interior of the apartments has been redesigned to maximise the independence of people with disability. Infrastructure for smart-home and communications technology has also been built into these apartments.
6. OPTIONS FOR FILLING THE GAP

There are a range of strategies that could be used to fill the gap between the rent that tenants on a DSP can afford, and the market rent of good quality housing that is well located and designed. Table 1 below summarises the range of strategies generated by the Social Finance Think Tank in June 2014. Not all of these can be applied to the Summer Foundation’s next housing project but they are relevant to future projects.

Table 1. Strategies for bridging the gap between what people on a DSP can afford and the cost of good quality accessible housing that is well designed and located

<table>
<thead>
<tr>
<th>Option</th>
<th>For Hunter</th>
<th>For scaling up</th>
<th>Difficulty to access &amp; implement</th>
<th>Impact on project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philanthropic grants</td>
<td>Y</td>
<td>Y</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Philanthropic capital (with no or low return)</td>
<td>Y</td>
<td>Y</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Catalytic first-loss capital</td>
<td>Y</td>
<td>Y</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Government capital</td>
<td>Y</td>
<td>Y</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Government annual housing subsidy</td>
<td>Y</td>
<td>Y</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Tenant or family equity in apartments</td>
<td>N</td>
<td>Y</td>
<td>Medium</td>
<td>Low – Medium</td>
</tr>
<tr>
<td>Project development by not for profit</td>
<td>N</td>
<td>Y</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Developer corporate social responsibility</td>
<td>N</td>
<td>Y</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Loan financing</td>
<td>Y</td>
<td>Y</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Other social investment (low return)</td>
<td>Unlikely</td>
<td>Y</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Residential investment (market return)</td>
<td>N</td>
<td>Y</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Land banks owned by government or not for profits</td>
<td>N</td>
<td>Y</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Volunteer labour</td>
<td>N</td>
<td>N</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Use of capital gains in financing</td>
<td>N</td>
<td>N</td>
<td>Medium</td>
<td>Medium</td>
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<tr>
<td>Lower cost construction</td>
<td>N</td>
<td>Y</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Government guarantee on investments</td>
<td>N</td>
<td>Y</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Government guarantee on rental</td>
<td>N</td>
<td>Y</td>
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<td>High</td>
</tr>
<tr>
<td>Community Land Trusts</td>
<td>N</td>
<td>Y</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

Legend

- High priority to pursue
- Medium priority to pursue
- Low priority to pursue
Philanthropic grants

The Summer Foundation has already sourced some philanthropic grants and is seeking further funding to cover the expenses related to this project – these include state-of-the-art design, specification of smart-home and communications technology, project management, and documentation of the design features and technology for others to replicate. Funding is also required for evaluation of the project and dissemination of findings.

Philanthropic capital

There is significant scope for Private Ancillary Funds (PAFs) and charitable trusts to participate in social investment. This opportunity remains largely untapped, with less than 1% of an estimated $10 billion of capital used in this way. While the current size of PAF/charitable trust investment is minimal, this is mainly due to lack of awareness, knowledge and investment readiness of opportunities. Significant growth is expected over the next five years as asset allocations rise to 2-3% of corpus, taking this pool of potential funding to more than $250m.

This is relevant for PAFs whose trustees are interested in achieving both a social and financial outcome, and who may be willing to accept a lower financial return in order to achieve that positive social result. For some PAFs - provided the trust deed allows it - there is an added incentive in that the foregone return (difference between market and actual return) can be counted towards the mandatory minimum distribution. This concession means that the effective financial return for the PAF is higher than the return paid by the social investment.

For example, consider a PAF with a corpus of $10 million, a 7% rate of return on the corpus, a 2% social investment return (where market rates were 4.2%), and a 5% distribution requirement. In this instance, the net PAF return after distributions is $200,000 where there is no social investment, and not that much less ($172,000) where 10% of the corpus is invested for social impact. Because the foregone return can be counted towards the minimum distribution, trustees of a PAF can achieve a social return at lower “cost” to the PAF (in terms of return) than would otherwise be the case. This investment opportunity is probably best structured as a loan, such that there is no need for the PAF to have direct ownership of the investment.

The ability to access patient and potentially sub-financial return capital where there is value placed on the social returns achieved is important. In addition, the potential to have these returns effectively increased to a market rate – through the recognition of the rent or interest foregone if the recipient of the investment is a deductible gift recipient (DGR) – only adds to the attractiveness of this funding solution.

Recent reports from the Productivity Commission\(^\text{19}\) and Kylie Charlton et al\(^\text{20}\) highlighted the ability of PAFs and other charitable trusts to invest in below-market return assets where their trust deed allows them to have regard for social impact of their investments. This would usually require the investment to be made to a DGR. Both reports also highlight the ability of the PAFs to include the amount of foregone return to be included in their required annual distributions calculation.

This represents a significant opportunity, such that it would be worth taking up the challenge of convincing PAF trustees willing to contemplate something other than a pure financial return, that it can be done. Investors who are not taking a purely commercial approach may be more patient (i.e. willing to wait if necessary for another PAF investor to come along before they can access their capital, as is the case, for example, in the Australian Chamber Orchestra Investment Fund\(^\text{21}\) and Chris O’Brien’s LifeHouse\(^\text{22}\)). They may also be more forgiving (i.e. willing to contemplate forgiving the loan at some point in the future) if they are sufficiently impressed by the social outcomes being achieved. As such, these investors could be powerful partners for the Summer Foundation.
**Catalytic first-loss capital**

Catalytic first-loss capital is socially driven credit enhancement provided by an investor or grant-maker who agrees to bear first losses in an investment in order to catalyse the participation of co-investors that otherwise would not have entered the deal.\(^{23}\)

As with other investment opportunities, there are risks to capital security. Investments can be structured to prioritise the risks among different classes of investors. While there is normally a risk/return relationship where accepting lower levels of risk relative to other investors will equate to lower levels of return, this doesn’t need to be the case. There is an opportunity for social investors (including philanthropic capital) to also accept a higher level of risk and in the event of investment failure, see their investment lost before other investors, e.g. a bank, even though they were receiving a lower return. This type of agreement may provide the catalyst for other larger investors to become involved at risk levels acceptable to them.

**Government capital**

Given the significant financial disadvantage of the potential tenants and the meagre rental income stream, any model of social finance will need to obtain significant funding from the government and/or philanthropy source to leverage private and philanthropic capital from social investors. Obviously, the greater levels of government support and philanthropy, the better the returns that can be offered to social investors. Government support could take the form of a capital grant, a housing subsidy or a combination of both.

**Government annual housing subsidy**

The National Rental Affordability Scheme (NRAS) sought to address the shortage of affordable rental housing by offering financial incentives to persons or entities (such as the business sector and community organisations) to build and rent dwellings to low and moderate income households at a rate at least 20 per cent below the market value rent. With the suspension of the NRAS, some form of annual subsidy is required for genuine situations which encourage the construction of much-needed housing, such as that proposed by the Summer Foundation.

In the ongoing absence of any clarity about NDIS “user cost of capital” funding approaches, we have assumed (based on assessment of possible options) the availability of an annual housing subsidy. The “user cost of capital” is the additional capital cost of an integrated housing and support model for people with high support needs that exceeds a reasonable contribution from individuals.\(^{24}\) Housing for people with high support needs requires more expensive design, reinforced walls and ceilings and larger rooms to enable circulation space for wheelchairs. The design and fit-out of the apartments in this project will maximise independence, and the co-location of apartments on one site will enable efficiencies in the provision of support.

In the model of funding developed by the Productivity Commission, 12% of the annual per person cost of care and support was allocated to the user cost of capital for 28,000 (6% of the total number of NDIS participants) NDIS participants with the highest support needs. The annual per person cost of care and support for these NDIS participants with the highest needs was estimated to range between $168,000-280,000 per annum. Based on the initial work of the Productivity Commission (i.e. the 12% figure), the user cost of capital for NDIS participants with the highest needs therefore equates to $20,160 - $33,600 per annum.\(^{6}\)
Government planning requirements

If it is possible to obtain apartments at cost, this could be a significant saving. The size of the potential savings margin would depend on market conditions in the particular location. Recognising that there is a developer profit margin built into the price of newly constructed units, it may be possible to have this effectively passed on to the Summer Foundation through a lower acquisition cost as a government requirement for certain unit developments. This would result in a higher investment return being available to social investors.

For example, the Summer Foundation could collaborate with government and developers to impose an expectation that, in exchange for the use of public land, developers of urban renewal sites provide 5% of apartments for people with disability at cost. These dwellings would be purchased through social finance and managed by a community housing provider.

Scope may exist for some sharing of developer profit, in aid of the cause. Many national apartment developers will target returns on their equity of 15-20% per annum. This higher return is required to encourage developers to take on the risk of project delivery, planning approvals, and selling of the units. This target return typically implies a 5-15% pre-tax profit margin on apartments sold (thus targeting between $25,000 and $75,000 profit for every $500,000 apartment sold) depending on specifics of development timeframe, sources of funding, specific developer hurdles/thresholds, and market conditions.

With some developers today paying up to 6% sales commission to external parties to sell apartments, scope may exist for a sharing of this payment given the sales certainty that the Summer Foundation may be in a position to offer earlier in the sales process.

Tenant or family equity in apartments

Some people with disability have assets available and they, like other Australians, wish to be able to have some ownership of their home. Other families are willing and able to put significant funds towards building housing for their family member. More commonly, a family may be able to provide, for instance, $100,000, and would be keen to do so if it meant more choice and/or better housing. A scheme that caters to these needs will also have the important effect of facilitating the addition of private capital to assist in bridging the gap between the unmet need for accessible housing and the resources available from government.

Mechanics

Normally, a person who has contributed to the purchase price of a home would be a registered proprietor on the property title. This is not practical for our purposes, where it is proposed that the Summer Foundation (or another DGR) be the owner on title.

Housing Choices Australia provides an example of an alternative mechanism. Its mixed equity program enables families and people with disability to finance and secure equity in their long-term housing. It is targeted at people with disability who have sufficient assets to be disqualified from government subsidised housing, yet they have difficulty using their own funds because of the challenges of the responsibilities that go with home ownership.

In this case, a house is purchased with funds from the applicant, the Office of Housing, and Housing Choices Australia. Housing Choices Australia retains title and the applicant has secure tenure under a lease, pays rent at Office of Housing rates, and signs a Mixed Equity Partnership Agreement securing their financial interest in the property.

The applicant’s investment in the property is in accordance with their initial project contribution. If an applicant wishes to end the agreement in the future and has contributed 30% to the cost of purchase, they will receive 30% of the sale price of the property, less selling costs.
In Western Australia, the Keystart Housing Loan Scheme provides home ownership opportunities for people on low to moderate incomes through loan schemes. The Disability (or Access) Loan product is a shared equity scheme where the state holds up to 40 per cent equity. Between 2009-10 and 2011-12, there were 162 Disability Loans to people with disability, their families or partners. The income limit for a family is $80,000 per family.

The New South Wales Government also provides assistance for social housing tenants who wish to buy a home. The assistance is not in the form of mixed equity, but enables people in certain circumstances to buy their home from the government with exemption from transfer duty, and in some cases with the assistance of a government rebate.

**Special Disability Trusts**

Special Disability Trusts (SDT) were established in 2006 as a legal form, as a mechanism for making it more attractive for families to make provision for a family member with a severe disability. The typical scenario whereby a special disability trust adds value is when parents of the person with disability have assets which can be applied for care and accommodation, and where the parents can qualify for a pension by utilising the Centrelink exemption which applies to special disability trusts.

While the concept of the SDT has merit, in practice the strict eligibility criteria and other limitations are such that they have not been widely used. This is the case despite a Senate Inquiry in 2008 and the relaxation of some of the restrictions progressively between 2008 and 2011. There are still significant limitations, potential disadvantages and complexities associated with using SDTs, including that the person with disability cannot invest their own funds and cannot decide who should act as trustee, plus a raft of other matters such as stamp duty, Centrelink gifting rules, and first home owners grants, adding to the perception that the SDT was a good, but ultimately flawed, idea. As at 2012, some 320 SDTs were in existence with total assets around $30m. Anecdotally, most of these are established via the execution of a will rather than during the parents’ lifetime.

SDTs are potentially relevant to the housing projects discussed here. For example, some of the people who wish to participate in the Hunter Housing Demonstration Project or other projects may have an existing SDT.

Conceivably, it could be the SDT that enters into the kind of mixed equity partnership agreement with the Summer Foundation described above (if the Summer Foundation were to adopt the Housing Choices Australia model). That is, the person with disability would indirectly become a (partial) homeowner via a SDT, the trust would provide funds to the Summer Foundation and in return would be entitled to a share of the capital gain of the apartment when the person with disability terminates the agreement (in the event of their death, or deciding to live elsewhere).

Ideally, there would be a “new and improved” version of the current SDT that could operate in this way. It should be noted that in most cases it would be anticipated that the party to the partnership agreement would be the person with disability or a family member, unless the SDT vehicle could be improved to the extent that it had wider appeal.

The idea behind the SDT concept may have general application to make it as easy as possible for families to set up housing and support models for the family member who has the disability housing and other supports. The idea is to enable people with disability to enjoy the same access to home ownership as others. People with disability and their families should not have to navigate through a minefield of practical and legal issues; nor should they be prejudiced by the inordinate complexity and disadvantageous application of Centrelink and other rules. The solution might lie in providing a combination of “off-the-shelf” legal options and subsidised access to practical and legal advice about how to establish housing and other supports, supported by a commitment by all governments to reduce red tape for people with disability.
Maximising private contribution

The Summer Foundation’s vision is that its housing and support model will be available to people for whom it is suitable, regardless of whether they can afford it. However, when considering the provision of housing and support for people with disability on a national scale, the scarcity of government capital compared to the demand for accessible housing makes it necessary to contemplate whether people who have access to private capital should contribute towards the capital cost of housing.

This issue does not need to be resolved for the Hunter Housing Demonstration Project, but is important to consider if the model is to be significantly scaled. Issues include:

- Whether and how to take the person with disability’s assets and income into account?
- Whether and how to take the family’s assets and income into account?
- How does this change as the person with disability moves through childhood to adulthood?
- How to treat an inheritance?

Project development by not-for-profit

In the purchase of apartments there is a significant developer margin. If the site was developed by a not-for-profit organisation, the cost of the apartments would be reduced and the developer margin on other units could be used to fund the apartments for people with disability.

While accessing the developer margin to reduce purchase costs for a single unit does boost returns, there are obvious difficulties in encouraging or legislating for this. Another alternative that generates multiple structuring options is for the Summer Foundation to either be (or partner with) the developer across part or all of a project. Not only does this provide the same lower capital cost for the units developed for people with disability, it also provides a potential further profit on units sold at market rates, which can be used to effectively lower costs on the retained units.

If the entire site was managed and developed by the Summer Foundation, the benefit of the developer margin would be applied across the whole development. The Summer Foundation could sell all of the standard apartments, or retain ownership of small number for renting on the open market. While retaining some apartments for renting would come at a cost, this would help facilitate home ownership for people who are living in the purpose-built apartments. When such a person moves away or dies, they (or their family or estate) could transfer ownership to a standard apartment rather than the apartment they had been living in; the purpose-built apartment is therefore retained by the Summer Foundation.

A margin of approximately 15% would be necessary for this option to be viable as a stand-alone project financing option, which is ambitious in the current market. Significant risks are associated with this option, in particular the development risk and risk associated with sourcing the necessary capability. The Summer Foundation could recruit the necessary capability, or partner with another organisation (for example, a Community Housing Provider). This option may have potential for future projects, possibly in combination with some of the other project enhancement options detailed here.
Developer corporate social responsibility

The opportunity to purchase apartments at cost might come via a generous developer under the banner of corporate social responsibility. Recognising there is a developer profit margin built into the price of newly constructed units, it may be possible to have this effectively passed on to the Summer Foundation through a lower acquisition cost, either as part of a developer’s generosity or as part of their corporate responsibility. This would result in a higher investment return being available to social investors. For example, the Elizabeth Street Common Ground housing and support project for people who have experienced long-term homelessness is a partnership between HomeGround Services, Yarra Community Housing, the Victorian Property Fund, the Victorian and Federal Governments, and Grocon. It is a first for Australia in terms of both the housing model and the multi-million dollar philanthropic contribution from Grocon31.

Land banks owned by government or not-for-profit organisations

There is a significant amount of land owned by government and churches that is currently under-utilised. Obtaining land free of charge or at a reduced cost would make a significant impact on the model of social finance. For example, where there is currently old public housing stock in good locations, the entire site could be redeveloped with a higher yield and a mix of private and social housing. The sale of the private apartments would effectively fund the social housing, including accessible units for people with disability. In order to include the Summer Foundation model of housing and support sites, land would need to be large enough to build a minimum of 50 units.

Volunteer Labour

Volunteer labour to build or fit out apartments could reduce the cost of the apartments. However, given that our apartments are situated within a larger residential site, it is difficult to allow volunteers on site during the build due to the restrictions of insurance and a unionised workforce. Once the bulk of apartments are complete and residents are moving in, developers and residents are unlikely to want other tradesmen on site fitting out apartments for people with disability. However, the use of volunteer labour could work if a developer was engaged in the project and asked his suppliers and contractors to partner with him as part of their corporate social responsibility.

Use of capital gains in financing

Given that the Summer Foundation aims to provide long-term housing for people with disability, it is difficult to make use of the capital gains from increasing property prices to provide a return to investors. Selling off apartments as an exit strategy for investors is not an ideal outcome, although it is used as part of the financial model in a number of overseas schemes.

Lower cost construction

Some developers (for example, Stockland and Lend Lease) have been experimenting with economical timber construction building methods for residential developments with a non-unionised work force, which could potentially reduce construction costs by up to 25-30%. A prefabricated timber panel system32 was used on a 57-apartment, five-storey building in Parkville, Melbourne, which was completed in only 11 months. The lightweight prefabricated floor “cassette” system is a fast and safe method of structural floor erection that results in a significant reduction in construction programming, and lowers overall development costs. This method of construction takes full advantage of utilising domestic labour and materials, which in turn produces more cost effective building developments for large-scale residential projects. Prefabrication without using timber may also further reduce the cost of building.
Government guarantee on investments
A government guarantee for investment in housing for NDIS participants (e.g. a AAA rating) would effectively halve the cost of debt (i.e. 2.5%) without any real cost to government. This model has been used in a range of countries to stimulate investment in affordable housing, including England, United States of America, Switzerland, Netherlands, Austria and France. International experience has shown that government guarantees do not cost the government but are highly effective in leveraging finance.

For example, using a capital cost of $6 million:
- LVR (Loan to valuation ratio) - 60:40
- Debt with a government guarantee - $3.6 million at an interest rate of 2.5%. This is a key assumption, consistent with affordable housing models in Europe that come with a government guarantee
- NDIA user cost of capital 30% - $1.8 million, consider this as equity at zero cost
- Residual equity required - $0.6 million, this could come from families at $60k per unit or from investors
- Leverage of NDIA funds 2.33=($4.2/$1.8).

Government guarantee on rental
Government guarantee on the rental stream would also make a “sale and lease back” program more attractive for investors. This might involve the NDIA taking the risk and paying for any vacancies in the apartments developed for people with disability.

Community Land Trusts
In the USA and UK, land trusts have been established to both benefit disadvantaged groups and to revitalise certain locations. For example, in the USA a not-for-profit organisation owns the land and leases the buildings (usually for 99 years) and places restrictions on how and what price the lease can be transferred. This cannot be done in Australia - at present there is no simple way to separate the ownership of the home from the underlying land without new legislation.
The indicative annual operating costs for the housing in this project deliver a small surplus from tenant rent and CRA, which covers costs including utilities, an owner’s corporate fee, maintenance fund, etc. There is no return available to investors from the current rental income stream model due to the significant financial disadvantage experienced by the tenants, who are all likely to be recipients of the disability support pension. The model of social finance described below deals only with the capital funding of the project. These figures represent the information and estimates that were available at the time of the Think Tank.

### Table 2. Capital costs of Hunter Housing Demonstration Project

<table>
<thead>
<tr>
<th>Capital Costs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Base cost of 10 units for people with disability plus support unit</td>
<td>$4,639,500</td>
</tr>
<tr>
<td>Extra fit-out and project establishment costs</td>
<td>$1,992,800</td>
</tr>
<tr>
<td><strong>Total cost of 10 units plus support unit including extras</strong></td>
<td><strong>$6,632,300</strong></td>
</tr>
<tr>
<td>Less existing Philanthropic grants</td>
<td>$1,460,000</td>
</tr>
<tr>
<td><strong>Required Capital</strong></td>
<td><strong>$5,172,300</strong></td>
</tr>
</tbody>
</table>

### Table 3. Different mixes of funding from grants and housing subsidies and return to social investors

<table>
<thead>
<tr>
<th>REQUIRED CAPITAL SOURCED FROM</th>
<th>GOV’T CAPITAL 23% OF TOTAL CAPITAL</th>
<th></th>
<th></th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>New Philanthropic Grants</td>
<td>$250,000</td>
<td>$500,000</td>
<td>$750,000</td>
<td>$1,000,000</td>
<td></td>
</tr>
<tr>
<td>Social/Impact Investors</td>
<td>$3,422,300</td>
<td>$3,172,300</td>
<td>$2,922,300</td>
<td>$2,672,300</td>
<td></td>
</tr>
<tr>
<td>Gov’t capital (incl NDIS)</td>
<td>$1,500,000</td>
<td>$1,500,000</td>
<td>$1,500,000</td>
<td>$1,500,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total required capital</strong></td>
<td><strong>$5,172,300</strong></td>
<td><strong>$5,172,300</strong></td>
<td><strong>$5,172,300</strong></td>
<td><strong>$5,172,300</strong></td>
<td></td>
</tr>
<tr>
<td>Gov’t annual housing subsidy - $50,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td></td>
</tr>
<tr>
<td><strong>Return available to Social/Impact Investors</strong></td>
<td>1.5%</td>
<td>1.6%</td>
<td>1.7%</td>
<td>1.9%</td>
<td></td>
</tr>
<tr>
<td>Gov’t annual housing subsidy - $100,000</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$100,000</td>
<td>$100,000</td>
<td></td>
</tr>
<tr>
<td><strong>Return available to Social/Impact Investors</strong></td>
<td>2.9%</td>
<td>3.2%</td>
<td>3.4%</td>
<td>3.7%</td>
<td></td>
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<tr>
<td>Gov’t annual housing subsidy - $150,000</td>
<td>$150,000</td>
<td>$150,000</td>
<td>$150,000</td>
<td>$150,000</td>
<td></td>
</tr>
<tr>
<td><strong>Return available to Social/Impact Investors</strong></td>
<td>4.4%</td>
<td>4.7%</td>
<td>5.1%</td>
<td>5.6%</td>
<td></td>
</tr>
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</table>

### CAPITAL SOURCES

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Philanthropic Grants</td>
<td>26%</td>
<td>30%</td>
<td>33%</td>
<td>37%</td>
</tr>
<tr>
<td>Social/Impact Investors</td>
<td>52%</td>
<td>48%</td>
<td>44%</td>
<td>40%</td>
</tr>
<tr>
<td>Gov’t Capital</td>
<td>23%</td>
<td>23%</td>
<td>23%</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
The total cost of the project is more than $6.6 million, of which $1.46 million of philanthropic funding is already secured (Table 2). The net base purchase price for the 10 units for people with disability, plus the unit that will be a hub for staff providing support, is more than $4.6 million. The interior of the apartments has been redesigned to maximise the independence of people with disability. Infrastructure for smart-home and communications technology has also been built into these apartments.

The proposed model of social finance uses funding from the government and philanthropy to leverage private and philanthropic capital from social investors. Initial discussions with potential social investors in Sydney and Melbourne indicate that there is a significant amount of interest in social investment in housing for disadvantaged people with disability.

The analysis in Table 3 explores different mixes of funding from government, philanthropy and social investment and the range of returns available to social investors. The analysis does not include capital growth or exit options apart from refinancing to new investors. For example, an annual housing subsidy of $15,000 per apartment per annum ($150,000 across 10 units) combined with a capital grant of $2 million (30%), and $250,000 of additional philanthropy, would return 5.1% to social investors. This innovative financing structure would provide the Australian Government leverage of 2.3x its capital grant contribution.

<table>
<thead>
<tr>
<th>GOVT CAPITAL 30% OF TOTAL CAPITAL</th>
<th>GOVT CAPITAL 38% OF TOTAL CAPITAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>$25,000</td>
<td>$25,000</td>
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<tr>
<td>$292,230</td>
<td>$242,330</td>
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**Capital Sources**

| Philanthropic Grants | 26% | 30% | 33% | 37% |
| Social/Impact Investors | 44% | 40% | 37% | 33% |
| Gov't Capital (incl NDIS) | 23% | 23% | 23% | 23% |
| Total required capital | 100% | 100% | 100% | 100% |

**Return available to Social/Impact Investors**

| Gov't annual housing subsidy | $50,000 | $100,000 | $150,000 |
| Return available to Social/Impact Investors | 1.7% | 3.4% | 5.1% |

**KEY**

Potential investors indicate that a return close to 5% is required for engagement.
Obviously, the greater levels of philanthropy and government support, the better the returns that can be offered to social investors. Potential investors have indicated that a return close to 5% is required for engagement. It is critical that a close-to-market return is achievable for prospective impact investors to ensure that the capital structure underpinning the Hunter Housing Demonstration Project is replicable. We believe the below scenarios provide the most optimal financing structure for this project and other future concepts given the following characteristics:

- Limited government contribution
- Leverage in excess of 2x government investment
- Maximise private sector investment by meeting minimum return hurdles.

The impact of the level of the annual housing subsidy and additional philanthropic grants is illustrated in Figure 4. Figure 4 assumes a $2 million (30%) capital grant from government.

**Figure 4. Impact of different mixes of funding from grants and housing subsidies on the return to social investors**

Hunter Housing Model with 30% Capital from government
8. CONCLUSION

Our long-term vision is that models like the Abbotsford Housing Demonstration Project will be routinely incorporated into all new medium and high-density housing developments across Australia. Australia desperately needs a long-term strategy to create more housing that is both accessible and affordable. Rather than continuing to build segregated specialist housing, the housing needs of people with disability need to be incorporated into mainstream housing strategy. In an inclusive Australia, private housing would be designed so that people with disabilities could visit friends and family and all new social and public housing would be fully accessible inline with Livable Housing Design Australia targets. Smart design of new housing will allow all of us to remain in our own homes for longer as we get older. Giving all people with disability greater access to mainstream housing will enable many people with severe disabilities to move to more independent living options and create vacancies in existing specialist disability housing.

There are two key barriers that need to be addressed to achieving this vision. We need to engage the people involved in funding, planning, designing and building private, social and public housing in Australia to increase the supply of accessible housing. We also need a range a strategies that bridge the gap between what people with disability can afford to pay for housing and the cost of good quality housing that is well located and designed to maximise independence.

While the ultimate ambition is a model of social finance that can fund housing and support for people with disability at a national scale, this is something that needs to be engineered over a series of projects, each building on the previous model through an iterative process.

The first models of social finance will be bespoke. Funded in the main by philanthropy (both grants and use of capital) and government, they will provide proof of concept of the model of social investment and the housing and support model. This will enable the Summer Foundation and other organisations to move on to the next phase - necessary for achieving scale - of attracting more commercially minded investors. Initially this would be superannuation funds that have an active interest in impact investing (such as Christian Super, NGS Super, Australian Ethical Super), and ultimately ordinary commercial investors (large superannuation funds, banks).

**Hunter Housing Demonstration Project**

- Use first loss capital and philanthropy
- Focus on early adopters of social investment – high net worth individuals, trusts and PAFs
- Demonstrate a consistent return on investment
- Approach small super funds with an interest in impact investment once the housing is developed and operational
- Recycle philanthropic capital into new projects
- Summer Foundation to support others to replicate via technology and design briefs and expertise.
1-2 Projects post-Hunter Housing Demonstration Project

- Use first loss capital and philanthropy
- Enable people with disability and family to have equity
- Once there is hard data from the Summer Foundation’s first two Housing Demonstration Projects with regards to outcomes for tenants, and have demonstrated a consistent return to impact first investors, super funds with an interest in impact investment can be targeted
- Consider larger projects with more units and mixed purpose units (e.g. purchase 50 units, sell 29 units, keep 10 units and get market rent, 1 unit for staff hub and 10 units for people with disability).

Long-term aim

- Less reliance on first loss capital and philanthropy
- Enable people with disability and family to have equity
- Larger projects with more units and mixed purpose units (e.g. develop 100 units, sell 79 units, keep 10 units and get market rent, one unit for staff hub and 10 units for people with disability)
- Once there is hard data regarding the impact on the lives of tenants and a track record of a consistent return to impact first investors, we can engage a broader range of super funds (total assets estimated at more than $1.9 trillion in Australia) can be targeted, and
- Begin to secure further revenues through “payment by results”, possibly through a social bond structure for the lower life-time costs of support in this model.

What is evident from this initial scoping work is that there is already a range of agencies that are working on similar issues. There are a number of initiatives and research that are examining strategies to fund social and affordable housing in Australia. We need to ensure that these initiatives and research includes the needs of people with disability and our ageing population. Other organisations have done substantial work and developed campaigns to increase the amount of adaptable housing. Still others are working on models of social finance to fund enterprises and projects for social good including housing for people who are disadvantaged in Australia. There are also a range of levers that local, state and federal governments can use to foster the development of more accessible and affordable housing.

The Summer Foundation is currently considering how it can make a contribution to work at a broader level to increase the availability of accessible and affordable housing, and to develop models of social finance for social housing. We are interviewing a range of stakeholders to scope how we might be able to collaborate with other agencies and use our housing demonstration projects to increase the supply of accessible and affordable housing in Australia.

The Summer Foundation has used the insights from this Think Tank to develop proposals to government regarding a model of social finance for the Hunter Housing Demonstration Project. The replication and scaling of this model of housing and support is likely to involve further collaboration with community housing providers given that the provision of housing for people who are disadvantaged is their core business. Community housing providers have expertise in property and tenancy management with the advantages of their tax exemption status.

There is no single solution to increasing the range and scale of housing for people with disability in Australia.
The NDIS is being introduced at a time of high levels of unmet need for affordable housing across Australia and lack of any comprehensive strategy at the national or state levels for increasing the supply of housing to respond to the needs of people on low incomes. Without the injection of significant government funding support to stimulate and subsidise the development of new housing options for people on low incomes (which includes many people with disability supported through the NDIS) the opportunities for people with disability to live in housing that is well located, affordable, secure and supports their connection with the community will remain very limited.

The NDIS is a huge and exciting reform that has the potential to transform the lives of people with disability in Australia. However, the impact of the NDIS on the social inclusion of people with disability in Australia will be limited by the dearth of accessible and affordable housing. Unless the whole community begins to act now, we may find that when the scheme is fully implemented, young people in nursing homes and tens of thousands of other people with disability will have funding for support – but no new housing options.

“In an inclusive Australia, private housing would be designed so that people with disabilities could visit friends and family and all new social and public housing would be fully accessible inline.”
REFERENCES


APPENDIX A

KNOWLEDGE TRANSLATION DELIVERABLES BUDGET

Budget for measuring impact and translation of knowledge generated through the Hunter Housing Demonstration Project.

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### ESTIMATED OPERATIONAL BUDGET FOR HUNTER HOUSING DEMONSTRATION PROJECT – YEAR 2

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This paper was prepared by Dr Di Winkler and Luke Bo’sher with support from John McLeod (JBWere), in consultation with Michael Bedwell (Commonwealth Bank) and James Waddell (NAB).

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CITATION GUIDE

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3 Disability Services Consulting, AUSTRALIA
4 JBWere Limited, Melbourne, AUSTRALIA

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DISCLAIMERS
The Summer Foundation and collaborators have contributed information towards this paper and believe it to be accurate and reliable but neither the Summer Foundation nor any collaborators make any warranty, express or implied, regarding any information, including warranties to the accuracy, validity or completeness of the information.
1. SUMMARY OF CONSULTATION FINDINGS

Addressing the large housing shortage for people with disability in the NDIS will depend on the ability of housing providers to access significant amounts of capital from the private financial market.

The Summer Foundation has been engaging with private financial institutions to determine how different NDIS housing payment structures would impact on a housing provider’s ability to access finance to build more units of housing. The key messages from these consultations are that:

- **The design of NDIS housing payments should enable financial institutions to lend against the future stream of income from these payments.** If lenders cannot secure loans against NDIS payments, this will require loans to be secured against property which effectively lowers the amount of finance housing providers can access.

- **NDIS housing payments should be attached to the dwelling and paid regardless of whether a participant is residing in the dwelling.** If this is not possible for all housing payments, a payment guarantee should at least exist for highly modified dwellings funded in the early years of the Scheme. Housing providers have very few tools to manage occupancy risk given that the NDIA determines whether someone is a participant and whether they get a housing payment in their plan. If housing providers bear the full occupancy risk we expect to see either very expensive financing rates or very limited construction of dwellings for young people exiting aged care. If governments want to introduce some element of risk sharing we would recommend that housing providers bear risk for a defined number of weeks after which the NDIA bears the occupancy risk. For example, the housing provider bears the occupancy risk for the first 4 weeks after which the NDIA bears the risk.

- **The length of the NDIS’ assignment agreement should be between 20 and 25 years.** Assuming a useful life of a building of approximately 25-30 years it is therefore appropriate for the NDIA to make a funding commitment for the majority of the dwelling’s life. Shorter contract terms will limit a housing provider’s access to finance and require refinancing, which will raise the cost of delivering NDIS housing.

- **Adaptable design for a range of abilities (alternate use of assets).** Housing that is highly adaptable and suitable for people with disabilities and for the general population is more attractive to potential investors. Highly adaptable apartments or townhouses that are peppered throughout larger developments are much more attractive to potential investors than traditional group homes. We should prioritise creating adaptable housing that is equally attractive to the private market, while recognising that the private market may not fully value the additional cost of creating accessible housing. This gap between market value and cost of construction requires an ongoing funding commitment from the NDIS.

Taken together the Summer Foundation’s position on financing NDIS housing would create a stable, predictable and low risk investment. This will enable housing providers to access a larger sum of finance to address the enormous unmet capital needs of young people in residential aged care.
2. BACKGROUND

The Summer Foundation undertook an Expression of Interest (EOI) process on Social Investment for People with Disability in September 2015. The EOI was to both inform the Summer Foundation’s decisions on financing its next housing demonstration projects, and to inform and shape government policy and funding related to housing for people with disability.

Three banks and two financial intermediaries responded to the EOI, providing their advice on potential financing models for NDIS housing. The Summer Foundation has synthesised the findings of this EOI to inform the NDIA’s decision on how to administer its funding for ‘user cost of capital’ in the NDIS.

The EOI was based on the Summer Foundation’s projected cost of capital for creating contemporary housing and support models for young people in RAC. This has a per person capital cost of around $550,000.

This paper builds on the Summer Foundation’s report in September 2015, “Housing Young People in Nursing Homes: A Report from a social finance think tank”. This report explores the development of a model of social finance for the Summer Foundation’s Housing Demonstration Projects for young people in nursing homes.
3. OVERVIEW

This paper covers two key questions about NDIS housing payments, summarising the responses financial institutions made to our EOI and providing our view on potential ways forward in each of these areas.

**Investment term issues:** What elements of the housing payments scheme are critical to get right to make investment work?
- Ability to lend against NDIS housing payments
- Management of occupancy risk (cash flow risk)
- Length of housing contracts
- Adaptable design for a range of abilities (alternate use of assets)

**Exit strategy and scalability:** How are we going to move from individual deals to a national scale?
- Reputational risk and exit strategy
- Working towards national scale and a mature market

Our consultations assumed that the cost of housing people with disability is shared between people with disability and the NDIS, and potentially also with other stakeholders in the community. This creates three primary sources of funds to service debt:

**Disability Support Pension** – The Commonwealth Government provides income support to people with disability who are unable to work through the Disability Support Pension (DSP). Community housing rents usually require around 25% of a person’s DSP payment to be paid in rent to the housing provider. This would provide around $5,300 per annum in income.

**Commonwealth Rent Assistance** – In addition to DSP, the Commonwealth Government also funds Commonwealth Rent Assistance (CRA) to people on DSP in properties with rent above a specified level. Financial models assume this payment would be made to the housing provider. This would provide around $3,600 per year.

**NDIS payments** – The financial models used to estimate how to finance NDIS housing assume that these payments are the most significant contribution towards the cost of housing. The estimated NDIS contribution required for a $550,000 capital cost ranged from $36,000-$50,000 per annum (based on a 6%-8% return for investors).

CRA combined with 25% of DSP alone is generally sufficient to cover operating costs for housing (tenancy and property management, rates, insurance, owners corporation fees and the sinking fund). This is based on CRA and DSP generating around $8,300 in yearly income to cover the cost of operating expenses ($7,000 p.a.) and contributions to a sinking fund ($1,000 p.a.). There is little left over to materially support principal and interest repayments. Any financial model is unlikely to rely on these amounts to make a substantial contribution to the principal and interest repayments. However, surplus CRA and DSP funds could be captured for upgrade or unforeseen capex (e.g. sinking fund).

Importantly, discussions with financial institutions have highlighted the risks that including DSP and CRA pose to projecting the long term financing of housing. All housing models assumed that tenants would contribute to the cost of housing through 25% of DSP and also that CRA was available. Decisions by the Commonwealth to change eligibility, payment rates or indexation of DSP and CRA present a risk to financing housing for this cohort. This risk is especially high when considering a 20-year financing time horizon.
4. INVESTMENT TERM ISSUES

WHAT ELEMENTS OF THE HOUSING PAYMENTS SCHEME ARE CRITICAL TO GET RIGHT TO MAKE INVESTMENT WORK?

This section explores the feedback we received on how the NDIS housing payments can be best designed to generate the most interest from investors and reduce the cost of capital. It looks at what the impact may be of assigning occupancy risk to the NDIA compared with assigning it to a housing provider, and the impact of different lengths in the NDIS agreement for housing funds.

4.1 Ability to lend against NDIS housing payments

The NDIS cash flow of housing payments is an essential part of the financing of NDIS housing. Financial institutions viewed the NDIS housing payments as a stream of revenue that would enable the lending of funds for NDIS housing. If financial institutions had a high level of confidence and certainty in the flow of NDIS housing payments, then loans can be made based on this stream of income, rather than being based on the actual property being purchased. Essentially, this changes the way that financial institutions assess the risk of the loan – it makes the risk assessment based on the flow of income from the NDIA, rather than on the value of the land and buildings being purchased.

This is particularly important in building housing for people with disability. The housing needs of NDIS participants are different to those of the general population and the cost of housing built for NDIS participants may be higher than the standard market value of the property (due to high levels of accessibility that the market does not value). If financial institutions are lending based on the ratio of the loan to the market value of the property, this will increase the gap between the finance available and the equity held by the housing provider. Housing providers will need to hold more equity in properties which will exclude some housing providers from building for NDIS participants and limit the scale of housing that those providers with capital can build.

It will be very advantageous to housing providers if they can access finance through securing loans against the NDIS housing payment, rather than seeking traditional property investment loans.

4.2 Management of occupancy risk (cash flow risk)

One of the most substantial risks in designing the NDIS housing pricing and payments framework is how occupancy risk is managed. Occupancy risk arises when housing has been created for NDIS participants but no participant is living in the dwelling.

In the disability sector, housing has historically been block funded and in the current system it is not unusual to have long vacancies in shared supported accommodation where the housing is highly specialised or house dynamics require careful tenant selection. At present there is not an efficient system that either enables people with disability to find suitable housing or matches people with disability to suitable accessible housing. Community housing providers usually have a vacancy period of less than six weeks and their narrow profit margin cannot tolerate long vacancy periods. Investors/housing providers would bear the occupancy risk if the NDIA housing terms state that the NDIA only makes payments if an approved NDIS participant is...
living in the property. If instead, the NDIA guaranteed to make payments to the investor/housing provider regardless of whether a participant was living in the dwelling, then the occupancy risk would be born by the NDIA.

Occupancy risk has always been an important issue in housing for people with disability because of the importance of creating the right living environment where people who are well suited to living together are placed together. The severe shortage of housing for people with disability has meant that there is usually high demand for any vacancies. The nature of occupancy risk could change in the NDIS when people with disability are given more choice and control over where they live and who they live with. Depending on the NDIA’s decisions, participants could have a much greater role in selecting co-tenants which has the potential to increase occupancy risk. The NDIA has indicated that they expect many participants to continue to live in shared living situations which suggests that there will need to be a clear allocation of roles and responsibilities for selecting tenants for NDIS housing vacancies.

**Feedback through the EOI:**

The cost of equity capital for NDIS housing will be higher if vacancy risk is borne by investors/housing providers. If investors/housing providers are responsible for managing vacancy risk then investors will require a higher return on their investment in order to adjust for the potential risk that they will receive less funding than that originally projected because of vacancies.

The cost of debt financing is unlikely to be affected by vacancy risk, although it may reduce the debt-to-equity ratio. Debt financing would require repayments from the property owner regardless of the cash flow the owner is receiving from the NDIS. As such, the lender would not be directly affected by a vacancy. However, because the lender would be concerned about the borrower’s ability to repay the loan due to higher-than-expected vacancies, lenders may require a higher capital-to-debt ratio to ensure that they are protected against the borrower defaulting on the loan.

**Summer Foundation’s view:**

The NDIA should bear the occupancy risk for highly specialised dwellings, at least in the first few contracting rounds. Over the next 10 years while we are focused on building the market of housing for people with disability, the NDIS housing payments for new housing should be attached to the dwelling rather than the person. This is for two reasons: first, investors are cautious about investing in specialist housing and adding occupancy risk increases the uncertainties, and second, the NDIA is much better placed than investors/owners to mitigate or manage occupancy risk.

Young people in RAC require housing with accessibility features that are beyond the requirement of the general population. In the event that an NDIS participant moves out of the dwelling there are very limited opportunities for the housing provider to find a non-NDIS tenant who will both value the accessibility features in the dwelling and can afford to meet the higher rental/sales price for these dwellings. Investors/housing providers are concerned that if they develop highly accessible housing for NDIS participants that they will not be able to recoup the cost of the housing in any way other than through NDIS payments. Placing occupancy risk with investors is likely to have a particularly detrimental effect on housing for young people in RAC by reducing investor interest in this type of housing and increasing the cost of capital for specialised housing.

It is widely accepted that government procurement should seek to place risk with the party best placed to manage that risk. For example, the Commonwealth Procurement Rules are explicit that where a government agency “is best placed to manage a particular risk, it should not seek to inappropriately transfer
that risk to the supplier. Given that the primary market for this housing is NDIS participants, it is unclear how the housing provider can effectively manage occupancy risk. The NDIA is responsible for deciding which participants have an NDIS housing payment in their NDIS Plan, and so the pool of people who could live in the dwelling is restricted by the NDIA. And given that housing providers are likely to be separated from support providers, housing providers will not have existing networks of NDIS participants to promote the availability of a housing unit. The NDIA is therefore better placed to bear the occupancy risk for specialist housing than the housing provider given the NDIA has many more tools at its disposal to fill a vacancy than housing providers.

Finally, the Summer Foundation is particularly concerned about the effects on housing for young people in RAC in regional and rural locations if occupancy risk is borne by housing providers. In small regional communities there may be only a very small number of people who require highly accessible dwellings. Housing providers would therefore be bearing a very significant risk because the absolute number of NDIS participants in that town with an NDIS housing payment is so small that if one or two people leave the town there is no other person in the town with an NDIS housing payment who could live in the dwelling.

To demonstrate the risk faced by housing providers in regional areas, the percentage of the Australian population with an NDIS housing payment is around 0.12%. This means that in a small city such as Hobart, there could be around 270 NDIS participants with a housing payment in their plan. Yet in a small town such as Port Macquarie (NSW) or Bathurst (NSW) this number drops to 55 and 35 respectively, and in very small communities such as Lakes Entrance (Victoria) the number of NDIS housing payments drops to 5 participants. Housing providers bearing occupancy risk in these communities could face extremely high losses if they develop specialised housing and the NDIS participant ceases to live there (because, for example, the participant moves back in with family, enters long term hospital care or passes away).

Given this housing is primarily for NDIS participants, it is appropriate for the NDIA to bear the occupancy risk in these situations.

If governments wanted to introduce some element of risk sharing we would recommend that housing providers bear risk for a defined number of weeks after which the NDIA bears the occupancy risk. For example, the housing provider bears the occupancy risk for the first 4 weeks after which the NDIA bears the risk. This would create an incentive for housing providers to actively maintain relationships with potential tenants and make genuine efforts to cover vacancies as they arise. This would also recognise that long term vacancies are unlikely to be driven by a lack of effort on the housing provider's part. The NDIA is better placed to manage vacancy risk through decisions about housing payment eligibility and decisions to make highly modified housing for people with disability available in smaller communities.

### 4.3 Length of housing contracts

The period of time that the NDIA authorises a housing provider to be able to receive NDIS housing funds is an important factor in the decisions made by investors.

All EOI respondents structured their advice around a 20-25 year assignment period. This is consistent with the view that housing in the NDIS is likely to have a life of 25-30 years. The shorter the period of time that the NDIA authorises the housing provider to receive an NDIS housing payment, the higher the uncertainty is for the resident and for the housing provider about what happens to the property after the housing payment period ends.
The approach of securitizing the cash flow from the NDIA in order to access finance means that as the period of agreement with the NDIA becomes shorter, the smaller the financing envelope available. Requiring housing providers to refinance their property introduces additional transaction costs that would add to the cost of housing provided in the NDIS. Shorter periods of agreement would also place housing providers at higher risk of being unable to re-finance housing. Failure to refinance housing would reduce stability and security of tenure for NDIS participants.

4.4 Adaptable design for a range of abilities (alternate use of assets)

From an impact investor’s perspective, new housing for people with disability should not be so specialised that it does not have an alternate use. Highly specialised housing that is segregated is often only worth the value of the land that it sits on because it could not readily be sold on the open market. The housing we create for people with disability should be housing that private buyers and renters also find desirable. We should avoid creating specialist dwellings with institutional features, and instead use design that is adaptable and accommodates a wide range of individual preferences and abilities. Highly adaptable apartments or townhouses that are peppered throughout larger developments are a much more attractive to potential investors than traditional group homes.

Creating adaptable housing that is equally attractive to the private market does not always mean the private market will fully value the additional cost of creating accessible housing. For this reason investors require some certainty in NDIS housing payments because while these properties may be attractive to private buyers on the open market, there may be a gap between the cost of building housing that is highly adaptable and the market value of the dwelling.
5. EXIT STRATEGY AND SCALABILITY

HOW ARE WE GOING TO MOVE FROM INDIVIDUAL DEALS TO A NATIONAL SCALE?

This section explores what a mature market for NDIS housing would look like, in particular how do we lay the foundations now to build a solid market for the future. The section looks at the challenges for investors who lend to a housing provider that defaults, as well as what we can do now to design housing financing models that will be able to grow to scale in a national NDIS implementation.

5.1 Reputational risk and exit strategy

Investors are concerned about the reputational risk involved in lending to NDIS housing projects. It is difficult for investors to respond in the event that a housing provider defaults on their repayments. Investors are aware of the vulnerability of the NDIS participant population and the consequences of repossessing the property.

Relatedly, a barrier to increasing the role of social investors is the lack of an exit strategy. In mainstream financial products there is often a clear exit strategy for the investor who can sell their shares or bonds. The small scale of the social impact investing market means that social investors are often concerned that their funds will be tied up until the expiration of the initiative’s term with little opportunity to access funds earlier. This lock in effect deters social investors from participating.

These two issues highlight the need for an exit strategy for investors involved in NDIS housing. It is possible that when the NDIS housing market is sufficiently large, there will be a mature market with numerous investors and appropriate exit strategies.

In the early period of NDIS housing we should be attempting to attract the broadest possible range of investors. This will mean identifying what an exit strategy looks like for these investors – both for financial institutions to address potential default by housing providers, and for social investors who may want flexibility to cease their investment. The development of a well understood and viable exit strategy would help to build the investor base for NDIS housing.

One such strategy is to provide a process that would see the assets and liabilities of special purpose disability housing providers transition to another regulated provider. This reinforces the cashflow centric nature of the borrowing and gives every opportunity to keep residents in situ, in the event of the failure of a housing provider. This is a similar structure to that which exists in some community housing markets (albeit in some markets it is implicit). A caveat on the title could outline the process and link in the respective State or Federal regulatory bodies to manage the process. This model would enable private financing on the cashflow of NDIS housing payments. If, however, NDIS cashflows cannot be securitized then imposing caveats on the property title could pose challenges in accessing finance where the property is used as security.
5.2 Working towards national scale and a mature market

The EOI was concerned with both how we can finance NDIS housing projects in the short term, and what a mature market approach to NDIS housing would look like. The EOI identified two features of a mature NDIS housing market:

1. **Consistency of NDIS funding:** A mature market will be achieved rapidly if the NDIS funding scheme for housing has a well understood model which is consistently applied over time. The lack of historical experience of how housing in the NDIS plays out over time creates uncertainty for investors that is manifested in reduced investor participation and higher perceived risk. Frequent changes in the design and terms of the NDIS housing funds will result in some investors choosing to wait longer to participate until they have seen the results of previous, similar funding rounds.

2. **Replicability of investment models:** When housing investment models are replicated, financial institutions can significantly reduce the transaction costs involved in due diligence on the project. Further, where deals are based on the same financing model it is possible to aggregate these deals together into a package of investments that can be used to raise finance from a larger group of investors (such as through the NAB’s Climate Bonds). Attempting to develop financing models that allow housing initiatives to be aggregated together will therefore broaden the base of investors, reduce the cost of capital and allow for an easier exit strategy for investors.
6. CONCLUSION

Young people in residential aged care will benefit most from an NDIS when they have access to housing that meets their needs. Any undersupply of highly accessible housing will severely restrict young people’s ability to leave nursing homes because there are so few alternative housing options available in the community.

It is because housing is so critical as an enabler to leave aged care that the Summer Foundation is advocating an NDIS housing payment system that creates a stable, predictable and low risk investment. This will enable housing providers to access a larger sum of finance to address the enormous unmet capital needs of young people in residential aged care. It will also lower the cost of the finance which will benefit the NDIS through lower lifetime costs.

Adopting long term funding commitments and attaching funding to the dwelling appears to involve a trade off between accessing finance and maximising choice and control for participants. Yet if the NDIS housing funds are only short contracts that create high levels of uncertainty (through housing providers bearing occupancy risk) participants’ choice and control will be severely undermined because there will be so little new housing created. Finance will be difficult to access creating an undersupply of housing with the most severe impact on highly accessible housing products in thinner markets. Young people in residential aged care would be hit hard by this policy, and particularly in smaller cities and regional locations.

The Summer Foundation’s mission is to stop young people living in nursing homes simply because there are no other places for them to live. We believe this mission is shared by Commonwealth and State governments, as well as the NDIA. Over the early years of the NDIS roll out this objective is best met through NDIS housing payments that can be securitised by lenders, provide certainty of payment by being attached to the dwelling and have a 20-25 year agreement period.

REFERENCES


