Current Landscape

Unlike other social infrastructure such as affordable housing, Specialist Disability Accommodation (SDA) obtained legislative support with capital and management costs funded by the National Disability Insurance Scheme (NDIS) to provide specialist housing solutions.

Previously capital providers were uncertain about the duration of cash flows, costs coverage and exit strategies in providing SDA.

- Recent updates to the SDA Framework have provided significant confidence for both debt and equity participants, with the Federal Liberal National Government displaying a “commitment towards removing barriers to investment, increasing market information and providing greater pricing certainty to investors in this crucial early stage of the SDA market”.

Industry participants are currently in a highly fragmented state, across both non-for-profits and other corporate entities, this has resulted in investment to date well below NDIA hopes .

- This is a reflection of the maturity of the SDA landscape, with a view that over time, both providers and investors will have access to sufficient market information to make informed decisions
- Innovation over time will create efficient ways of providing SDA and funding

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SDA

What elements are required for investment?

While still an evolving and largely nascent sector, **the key elements of a mature and viable market are emerging**.

Capital providers view the below elements as essential to investment:

- Understanding of the sector - *from all participants, the demand pipeline, availability of SDA, pricing model, etc.*
- Scale supply of dwellings – *a broad range of dwellings to meet participant requirements.*
- Regulatory support / transparency – *a regime that supports investment and provides certainty to all participants.*
- Sufficient scale and sophistication of SIL providers –*what are the characteristics of providers that can meet demand?*
- Financing options – *freely available capital from both debt and equity participants .*

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Perceived risks and concerns

Investment has so far been limited, with **uncertainty deferring decisions**.
A **lack of scale projects** has also largely held back ‘institutional’ like capital, necessary to meet unmet demand.

Capital providers will consider the below:

- SILs – *can they meet the required scale? Will some dwelling configurations be unviable?*
- Reputational risk – *how will resident needs be met if difficulty is experienced? Evidence of secondary sales is limited.*
- Inertia – *without invigoration, SDA will remain ‘cottage’ and demand will not be met.*

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What are capital providers considering?

While capital providers are still building sector IP and understanding, the cheque books are open and we are ready for investment.

The following will be critical to successful investment decisions:

- Scale (again!) – *sector confidence/understanding will trickle down. How else can the 5-year $5bn investment be met?*
- Pipeline – *how will demand / occupancy be managed against built configuration.*
- Compliance – *satisfaction/well-managed residents are critical. SDA is viewed as not just a property yield play.*
- Delivery – *what is the track record on delivery, across development and trade-up?*
- Partnerships - *how will tenant selection occur? Tenancy management. Who is the SIL? Step-in/removal rights?*

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SDA Represents Attractive Risk / Reward

SDA provides reliable long-term indexed cash flows which can provide stable long-term yields, with potential for capital growth.

This is complementary to any diversified portfolio, with low correlation and volatility compared to any other asset classes or property sectors.

1

Huge Unmet Demand

- The NDIS roll out since its debut in 2012 is expected to grow over 3 times from $7b to $22.2b by 2020.
- Additional $5b of SDA stock will be required in the near future, as many residents who are qualified currently live in inappropriate accommodation.

2

Projected Cash Flows are Stable

- SDA providers are paid for by the NDIS, where cash flows are calculated based on the dwelling's location, size, level of accessibility and adjusted for inflation every year.
- In addition, SDA providers will also receive a Reasonable Rent Contribution (RRC) which is paid by the tenant and limited to 25% of the Disability Support Pension.
- Tenants are typically "sticky", which minimalizes occupancy risk and reduces volatility in returns

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Investment Strategy

Establish a dedicated fund to invest in SDA, by partnering with sector specialists to locate and acquire assets that are close to amenities, such as transport infrastructure, retail and medical services.

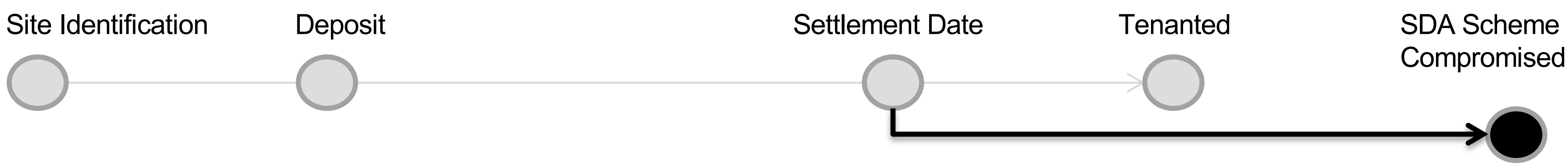
The Fund's strategy will be to **grow opportunistically through the acquisition of SDA portfolios** as well as sponsoring its own 'greenfield' development projects and will consider diversifying into other related social infrastructure assets over time. Targeting 'greenfield' developments gives more control of investment outcomes, by ensuring that design guidelines are met and tenants sourced before completion to maximise occupancy.

Assets will be **acquired on a long term basis**, focusing on generating steady cash flows with potential for capital growth. These can be acquired from current SDA providers, the State, secondary market or pre-purchase with new build developers.

- Cash flows are linked to inflation and reviewed every 5 years
- SDA payment is paid by the NDIA, an independent statutory body directly funded by the Government

Australian Unity

SDA Related Risk



ACTIVITY

- In depth market research on demand and supply, based on NDIS data
- Reach out to existing and potential NDIS/SDA participants to potentially assist in formulating their plan.
- Identify a team of local experts on site (Care Provider and Builder)

- Ensure that any variations are certified to Platinum Level – noting that some of these variations can be claimed from NDIS
- Assist potential residents to finalise plan with NDIS

- Final payment to service provider is based on actual tenant cash flow

- In the event where NDIS no longer paying rent due to unforeseen circumstances, the accommodation could be repurposed and divested on the residential market

Risk Mitigation

- Research reduces demand /supply risk
- Speaking with participants assist in determining potential cash flow
- Getting a team in place reduces operational / construction risk

- Achieving the highest certification allows the provider to be versatile and be able to contract with all participants
- Retaining relationships with potential residents and taking control in the NDIS plan process reduces tenancy risk

- Payment to service provider is based on valuation, which reduces if actual tenant cash flow is lower

- The ability to resell on the resi market reduces regulatory risk

ANZ HEALTH

ANZ's purpose is to '*shape a world where people and communities thrive*' – this includes SDA!

We have a target to fund and facilitate $1bn of investment in Australia by 2023 to deliver around 3,200 more affordable, secure and sustainable homes to buy and rent.

ANZ Health is a national team dedicated to the healthcare sector. We have more than A$10bn invested in the sector, with approximately half of that across the Aged Care and Seniors Living segments.

We have been involved in SDA since early 2017, investing significantly to build IP and educate stakeholders internally. We have secured credit endorsement for projects totaling >$150M to date – across both greenfield and mature assets.

We are seeking scale projects and partnerships with credible, growing operators.