

Carnegie Catalyst’s Submission to the Residential Aged Care Accommodation Pricing Review – November 2025

1. Carnegie Catalyst Introduction

Carnegie Catalyst welcomes the opportunity to make a submission in relation to the Department’s Residential Aged Care Accommodation Pricing Review Consultation Paper (**Consultation Paper**).

Carnegie Catalyst is a Real Estate Investment Trust (REIT) that is primarily focused on residential aged care. We have fifteen aged care facilities (> \$650M in value), with plans to continue to invest and grow in this vital sector. Carnegie Catalyst is determined to provide world-leading residential aged care and is a thought-leader in the provision of residential aged care facilities.



2. Industry Observations and current Consultation Paper considerations

We note that an independent review of RADs is out of scope of the Consultation Paper. We welcome the opportunity to have a proactive, time-bound pathway to remove RADs, anchored by default-DAP pricing and a staged removal of RADs as per our 2024 submission to the Aged Care Task Force.

The Consultation Paper frames two practical levers now under review:

- (i) redesign of the Accommodation Supplement for supported residents and
- (ii) pricing settings for non-supported residents, notably the suitability of the MPIR-based equivalence and whether DAPs should become the default way to express room prices.

The key directions of the Consultation Paper are broadly consistent with Carnegie Catalyst’s submission to the Aged Care Task Force in September 2024 (see Appendix 1 for ease of reference):

1. Shift the system away from RADs toward a DAP / full rental model;
2. Stabilise the DAP rate setting so it reflects the sector’s long-run cost of capital rather than short-term rate movements under the MPIR; and
3. Create an accommodation pricing matrix that reflects the type of room and the amenity that the room offers (e.g., room size, age of asset, shared vs single room, shared bathroom vs ensuite bathroom and regional loadings).

Industry sentiment of late echoes our position. At Stewart Brown’s 2025 Sydney Finance Forum, Grant Corderoy urged providers and policymakers to show courage and reset toward a DAP model to attract capital to the sector as a means of supporting the continuous renewal of beds and buildings. His argument is that a rental footing, coupled with credible pricing signals, is what brings lenders and long-term investors to asset classes. We strongly agree with this and urge further consideration by the Department.

The Department’s current consultation guidance underscores the transition mechanics that the review must balance. Aligning the supplement with measurable quality outcomes and moving to daily fees by default would improve comparability for consumers, while reducing interest rate driven uncertainty for both residents and operators.

3. Carnegie Catalyst Submission to Aged Care Taskforce- Recap

The key thesis of our position at that time are still relevant and have been succinctly recapped below. We strongly advocate for phasing out of RADs, with our proposed pathway below.

Core positions

- Transition away from RADs to a transparent DAP model.
- DAP pricing to be based on a long-run, cost-of-capital basis- not short-term interest movements.
- Make DAP pricing the default expression of room prices for clarity and comparability.
- Lift quality and supply via targeted incentives that reflect room size, asset age/renewal and location.

Phasing out RADs

- Increase the RAD retention from 2% to 4% p.a. (capped at 5 years) to improve operator cashflow during transition.
- 1 July 2027: all *new* DA-approved facilities cannot accept RADs.
- 1 July 2028: each operator’s RAD liability capped at its 30 June 2027 balance (can’t rise).
- 1 July 2029: no RADs for any incoming residents (allow timing flexibility for regional/remote).

DAP structure, simple, transparent daily pricing

- Index DAPs annually at a fixed rate (illustratively 2.5%–3%) providing certainty for all stakeholders.
- Matrix-based pricing to reflect value and cost drivers:
 - Room type (shared / single / single + ensuite)
 - Room size (sqm metric)
 - Asset age / time since last significant renovation
 - Location: inner-city premiums (higher cost of land and greater alternate-use land value) with regional/remote loadings.
- Pension parity: introduce a proxy “room value” (e.g., $DAP \times 365 / 8.5\%$) for means testing so DAP payers aren’t disadvantaged vs RAD payers from means testing for aged and other pensions.

Quality, renewal & supply (how funding lifts outcomes)

- Tie a portion of support/pricing to design quality and amenity (e.g., National Aged Care Design Principles).
- Reward renewal cycles (e.g., 8–10-year refurbishment cadence) and larger/more contemporary rooms.
- Recognise regional cost differentials (construction, workforce, scale, attractiveness for people to relocate to area).

Consumer protection & transparency (resident-first)

- Default to daily prices for all published room rates; keep disclosures simple and comparable.
- Pursue equitable means-testing outcomes across payment choices (RAD vs DAP).

4. Summary of views for Residential Aged Care Accommodation Pricing Review

In all other assets classes rents are determined based on location, size and quality of the underlying premises. Aged Care should be no different.

There should not be a standard “price per bed”. Not all aged care beds are the same, so it doesn’t make sense for all beds to receive a standard level of supplement for supported residents.

When pricing aged care accommodation there should be regard to:

- a) Location of the Residential Aged Care Facility
 - I. A recognition that the land value in Capital Cities is priced at a premium and has a higher alternate use
 - II. A top-up for remote areas to encourage operators to have a presence in remote areas of Australia

We note that the NDIS has different rental rates based on the location of the property.

- b) Age of the facility – build date or date of latest major renovation (suggest >\$5m CAPEX investment). This will encourage and reward investment in the sector to enable Australian’s to age with dignity in high quality accommodation
- c) The type of room
 - I. Shared – twin vs four person
 - II. Single – shared bathroom
 - III. Single- private ensuite
- d) Size of room

Put simply the price of a room differs in other accommodation based sectors like hotels. The price per room differs from the Ibis Budget Airport Hotel to the Novotel to the Sofitel. Residential Aged Care should be no different.

5. Answers to Questions in Consultation Paper

1. **Outline how you think the Accommodation Supplement could be reformed to ensure quality accommodation for residents of low means.**

See section 4.

2. **Should the value of the Accommodation Supplement be universal or tiered such as by location or proportion of residents or other basis?**

The supplement should cover both capital and operating costs and be linked to building cost indices and quality standards. A tiered approach, tied to compliance with the National Aged Care Design Principles, would ensure providers receive adequate funding to deliver modern, homelike accommodation.

We favour a tiered system that reflects room size, facility age, geographical location. The approach is directly comparable to the cost per night of a hotel (as highlighted in section 4) – some hotel brands are of superior quality and in a superior locations than others and are priced accordingly – accommodation for aged care facilities should be priced under the same broad approach.

3. **Should the Higher Accommodation Supplement be staggered over time, so that as the accommodation facilities age the supplement is reduced (with the full value payable again after a new renovation)?**

No, as per section 4 above, facilities that are new or have undergone major CAPEX should be eligible for a higher supplement at practical completion of the works. The supplement should not reduce overtime. This would act as disincentive to invest capital into the sector.

Importantly, a reduction in the supplement is also inconsistent with other property asset classes, where underlying rents increase over time, roughly in line with inflation. To attract capital to the sector rents /accommodation payments need to be consistent with market norms in other asset classes.

4. **How suitable is the current incentive structure to encourage providers to accept low means residents (a discount on the Accommodation Supplement based on a single threshold of 40% supported residents)? How could those incentives be preserved or enhanced?**

The current single 40 % threshold is too blunt. A sliding scale discount on the supplement – e.g. increasing the discount as the proportion of supported residents grows – would better reflect the mix of residents and provide greater incentive for providers to accept low-means residents. Further, it is potentially too rigid as it does not truly reflect the demographics of a particular region that a facility is located.

5. **How can the Accommodation Supplement be reformed to support an uplift in the quality of accommodation?**

Link part of the supplement to quality metrics- providers meeting higher standards (room size, ensuite rooms, access to outdoor space, design principles) should receive higher rates.

6. Outline how the Accommodation Supplement pricing impacts on incentives for capital investment in residential aged care.

Insufficient supplement rates discourage providers from refurbishing or expanding. Setting the supplement high enough to cover depreciation and financing costs would encourage investment and also provide business certainty. As per section 4 above, a matrix type approach with higher payments for newer or larger rooms and for facilities in geographically higher-cost areas (i.e. higher land prices), would make investment more attractive.

7. In what ways could the Accommodation Supplement be reformed to better incentivise capital investment in residential aged care?

Adopt the matrix approach mentioned in section 4 above. Incorporate factors like room type (shared vs single), room size, facility age, location and time since last renovation. Additional loadings for regional/remote to encourage investment and loadings in capital cities where land prices are higher.

8. To what extent are the current rates of the Accommodation Supplement sufficient to cover providers' capital and operational costs relating to accommodation?

Current supplement rates do not appear sufficient. The recent FRAACS report showed per-resident daily income of \$51.45 with expenses at \$59.88. Providers in higher land-cost areas may face even larger shortfalls, underscoring the need for a higher supplement and tiered rate structure.

9. How does the costs of providing accommodation vary across different operating environments, such as differences in location?

Costs vary widely by region with more urban sites facing high land and alternate use costs, while rural sites, broadly speaking, encounter higher construction and operating costs. In capital cities, the highest and best use (i.e. most profitable for investors) for a piece of land is not aged care. A tiered supplement that recognises these differences through regional loadings and locational factors is essential to attract capital to the sector.

10. What factors should be considered in setting an equivalence mechanism and rationale for each?

The sector needs to attract capital in order to meet the demand for Residential Aged Care rooms. Capital is mobile and will invest in the best risk adjusted return assets. The sector needs to look at rates of returns that can be earned in other asset classes.

11. What is an appropriate rate of return on lump sum for providers? Is this an appropriate level for setting an MPIR?

A real rate of 8.5% is reasonable and justified based on financing costs. Setting the MPIR based on long-term capital costs rather than short-term interest rates would reduce volatility and provide certainty for residents, operators and investors.

The MPIR is a variable rate used to compensate for an asset that has a high fixed cost and long economic life. This mismatch is inconsistent with investment fundamentals and acts as a deterrent to attracting capital to the sector.

12. How does this change with economic conditions? Does the MPIR link to the General Interest Charge represent an appropriate way of adjusting equivalence in line with economic conditions?

The MPIR's link to the GIC means it rises and falls with market rates; this can cause price shocks, therefore this is not appropriate. Investors will invest where there is greater certainty.

A smoother adjustment mechanism using multi-year averages or caps would better align with the long life of aged care assets.

As per Q11 above there should be a fixed not variable pricing mechanism to calculate rent that is paid to operators.

13. Would a Weighted Average Cost of Capital be an appropriate equivalence mechanism? If so, how should this be derived?

This would tie returns to the true cost of capital, but that there needs to be caution here as there is no universal WACC across the sector (arguably there is negative WACC on RADs under the newly introduced RAD retention regime- operators get paid to take a loan from residents). The WACC of an operator will be dependent on their resident mix- supported, RAD vs DAP.

However, a sector-wide reference WACC of c.8.5%, updated periodically would represent a good starting point.

14. Is there a case for an equivalence range rather than a single point of equivalence defined by the MPIR and why? How might this work?

A range of acceptable rates could accommodate varying provider costs and quality differences. This would reduce the risk of a single MPIR being misaligned with actual costs. However, for simplicity a sector-wide reference WACC of c.8.5%, updated periodically would represent a good starting point.

15. Should the government introduce a mandated minimum accommodation payment that prevents providers receiving less revenue from non-supported residents than they do from supported residents?

Yes. Introducing a floor could ensure non-supported residents do not pay less than supported residents, promoting equity. However, it should be coupled with the mechanism outlines in section 4.

16. What are the advantages and disadvantages of moving the MPIR-related fluctuations in pricing from the DAP to the RAD?

Minimising uncertainty is key for investors. The sector needs to attract capital and as such needs to minimise uncertainty where it can.

The MPIR is a floating rate which can result in rents reducing overtime. This is highly unusual for property investments where rents usually increase over time.

See also Q3 and Q12 above

17. Would setting DAPs as the default make accommodation pricing easier to understand for prospective residents and their families?

Yes. Daily pricing is easier for residents and families to understand and compare which should improve transparency. As per section 4 above, a rate that varies based on room size, quality and type should be easy to explain to residents and their families as this is how other accommodation based property is priced.

18. Are there other relevant factors to consider in relation to setting the DAP as the default payment type?

Means testing for the aged and other pensions. Providing transitional support for providers reliant on RAD inflows to pay RAD outflows. See Appendix for details on how a transition mechanism could operate for both operators and means testing.

19. Do you think the DAP should be set as the default payment type? Why?

Yes. Daily pricing improves transparency, comparability and aligns with the sector's shift toward a rental-style model. With residents paying rent, operators will have more cash / EBITDAR to pay landlords under an REIT model

REITs have been used across other assets classes to attract capital. The also aligns with the Aged Care Royal Commission and Aged Care Task Force's recommendations to remove RADs.

Appendix

Carnegie Submission to Aged Care Task Force – September 2024

Carnegie Catalyst welcomes the Aged Care Bill as a step in the right direction towards implementing the recommendations of the Aged Care Task Force

Carnegie Catalyst welcomes the introduction of the new Aged Care Bill 2024 (the Bill), which is a proactive step in the right direction for aged care and residential aged care accommodation. We are excited to see many of the recommendations of the Aged Care Task Force being implemented or advanced.

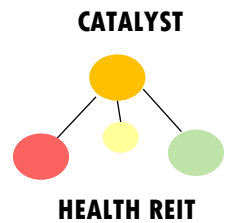
Carnegie Catalyst is a Real Estate Investment Trust (REIT) that is primarily focused on residential aged care. We have fifteen aged care facilities (circa \$500M in value), with plans to continue to invest and grow in this vital sector. Carnegie Catalyst is determined to provide world-leading residential aged care and is a thought-leader in the provision of residential aged care facilities.

Carnegie Catalyst is excited to work with the Government in implementing the new Aged Care legislation and would like to work closely with the Government to provide feedback on how the changes are affecting the aged care sector as they relate to the accommodation components of care and in particular how the accommodation shortfall can be met. We want to be part of a pro-active stakeholder group that can partner with Government and the Department of Health and Aged Care over the next few years to make sure that the legislation is delivering the outcomes sought by the Government and the industry. This will include suggesting any refinements or adjustments so that Australia has world-leading aged care residential facilities. To this end, we would welcome the opportunity to be part of any working group or stakeholder consultation framework that is being put in place to oversee the development of the regulations and implementation of the Bill.

Carnegie Catalyst's view on the Bill

While Carnegie Catalyst broadly endorses the outcomes achieved in the Bill, we see it as an interim step in developing a resilient residential aged care framework for Australia. As a REIT our primary area of interest is in the built environment for residential aged care and the funding and pricing framework associated with accommodation. As such, we are particularly focused on the role that refundable accommodation deposits (RADs) have on the sector. We set out our position on RADs and the transition away from RADs below in this submission.

Carnegie Catalyst endorses a pathway to remove RADs



Carnegie Catalyst agrees with the intention behind the provisions in the Bill that deal with RADs. Carnegie Catalyst echoes the Royal Commission and the final report of the Aged Care Taskforce that it is in the national interest to remove RADs from residential aged care in favour of an entirely rent based model.

Why RADs are outdated

RADs were first introduced in 1997 because funding (debt and equity) was not flowing into the Aged Care sector at that time. However, since then Australia's superannuation sector and credit funds (non-bank lending) have grown significantly. These two "newer" sources of capital, combined with traditional bank debt, would provide readily available sources of capital to the sector under a rent-based model.

Improved operator cashflow via residents paying for their accommodation will make the sector more attractive to lenders, and REIT investors, to ensure the supply of accommodation required over the next decade can be met, without a growing liability for the Government via the current Accommodation Payment Guarantee Scheme.

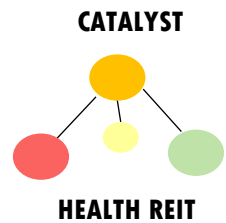
How to remove RADs

Carnegie Catalyst supports The Royal Commission and the Aged Care Taskforce recommendations that the Aged Care Sector should move to the phase out of RADs moving to a full rental model by way of DAPs. The new Aged Care Act starts this process by the introduction of the RAD retention regime.

The introduction of a RAD retention of up to 10% (2% pa to a maximum of 5 years) under the new Aged Care Act is a good start towards moving towards a rent-based system and the ultimate removal of RADs. Under this regime a resident that "pays" for their accommodation via RADs will now actually pay for a portion of their accommodation cost in cash terms. This cash payment may result in more residents choosing a DAP (full cash payment) as opposed to a RAD (which under the new Act will be part capital and cash).

While Carnegie Catalyst appreciates that the Bill may assist with the transition away from RADs, we believe that the Bill's provisions do not do enough to make this transition meaningful. Carnegie Catalyst would have preferred the RAD retention to be 4% as opposed to 2%. A 4% retention would further improve operator's cashflow and may have a greater impact towards converting residents from RADs to DAPs.

In our view, the best structure for the transition from RADs is presented in **Annexure A** to this submission. Essentially, we think the current provisions in the Bill will not provide the required stimulus for the construction of new residential aged care facilities



and that more user paid funding (for those that can afford to pay) must be accessible to aged care providers to generate new stock.

Carnegie Catalyst also endorses the Bill for the indexation of DAPs. DAPs are easy to understand and are aligned with the costs of providing the service to residents. A transparent daily fee regime provides certainty for both residents living off retirement nest eggs and aged care operators. In **Annexure B** to this submission, we set out our views on the best structure for DAPs. While this is not currently in the Bill it is something to work towards in future considerations of how best to cater for aged-care residents.

Ongoing discussions

Once again, we would like to emphasise our desire to be involved in the continuing dialogue about residential aged care as the regulations are developed and the Bill is implemented.

Annexure A – Proposed transitional model to move away from RADs

1. Increase the cash cost for those that choose a RAD (as per Aged Care Bill and Recommendation #13 from the Aged Care Task Force) from a 2% retention to a 4% retention
2. From 1 July 2027, all newly DA approved facilities would not be allowed to take RADs
3. From 1 July 2028, an operator’s RADs liability to be capped to its balance at 30 June 2027. By way of example, if at 30 June 2027 an operator’s RAD liability was \$15m, then from 1 July 2028 the RAD balance for that operator can never increase above \$15m
4. From 1 July 2029, all facilities to be no longer allowed to offer RADs to incoming aged care residents. Consideration should be given to an extension of this timeframe for regional and remote facilities.
5. From 1 July 2026, introduce a government guarantee over commercial mortgage loans (Loan Guarantee) taken out by operators over their properties.
 - The aggregate of the Loan Guarantee and the current Accommodation Payment Guarantee Scheme to be capped to the level of the 30 June 2027 RAD liability for each operator to prevent an ever-increasing government guarantee.
 - The provision of the Loan Guarantee could be linked to operator accreditation and performance metrics
 - The Accommodation Payment Guarantee Scheme and Loan Guarantee will cease apply from 30 June 2033. Consideration should be given to an extension of this timeframe for regional and remote facilities.
 - Loan guarantee to be retained in regional Australia indefinitely
 - A guarantee over the loans is superior to guaranteeing RADs as operator cashflow will be improved as all residents will be paying for their accommodation.

Annexure B – Ultimate DAP structure

1. A loading to the accommodation supplement for regional, rural and remote Australia
2. The DAP to be indexed at a fixed amount (say 2.5% to 3%) annually for all residents
3. A transparent “matrix approach” to calculate the daily fee that is easily explainable to residents and their families, and correlates to the quality and associated cost of the provision of the accommodation. Components in the matrix to include:
 - a. Type of room – shared, single, single with ensuite
 - b. Size of room
 - c. Age of facility / time since last significant renovation
 - d. Location:
 - i. with inner city (were underlying alternate use land value is higher) being able to charge more; and
 - ii. with remote, rural and regional to receive additional supplement (per (1) above)
4. A proxy “room value” to be established for each resident as a function of the daily fee (say $DAP \times 365 / 8.5\%$). This proxy “room value” to be used as a substitute for the family home in testing for the aged pension and other government payments, such that residents are no worse off from a means testing perspective.