



10 November 2025

Mr Nigel Ray PSM and Associate Professor Nicole Sutton  
Residential Aged Care Accommodation Pricing Review  
Department of Health, Disability and Ageing  
Canberra ACT 2600

Via email: [accompricingreview@health.gov.au](mailto:accompricingreview@health.gov.au)

### **Submission to the Residential Aged Care Accommodation Pricing Review**

Dear Mr Ray and Associate Professor Sutton

Thank you for this opportunity to make this submission to the Residential Aged Care Accommodation Pricing Review.

#### **Hall & Prior Health & Aged Care**

Established in 1992 by Michael Hall and Graeme Prior, the Hall & Prior Health & Aged Care Group has grown from a single family-owned nursing home to a leading Australian aged care provider with 36 aged care homes and several home care services. Hall & Prior delivers aged care services in New South Wales, Western Australia and the ACT, and is driven by a commitment to deliver quality aged care that is accessible to everyone, no matter their background or circumstances. We believe that this commitment and dedication makes a true difference to the lives of our care recipients and their families and that our success is based on a clear understanding of this commitment and a genuine belief in what we do.

Our philosophy is that our residents and care recipients are entitled to the highest standards of professional care, privacy and dignity and we are proud to promote individuality, diversity, and inclusivity in our approach. We employ over 3,000 professional and specialist staff dedicated to planning and caring for our residents and the people we care for. Our homes provide leading care, safety and comfort, quality facilities and ensure choice in regard to accommodation and services, which is important to all individuals. We remain committed to the delivery of best practice and accessible care options.

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Hall & Prior is grateful to Professor David Cullen, Adjunct Professor at Macquarie University's Centre for the Health Economy, for his assistance in the development of this submission. Prior to his retirement from the Australian Public Service, Professor Cullen served in a number of important public roles in the care economy including as:

- Chief Economist at the National Disability Insurance Agency (2016-2022).
- Principal Advisor to Royal Commission into Aged Care Quality & Safety (2018-2021).
- Chief Economist at the Australian Department of Health (2012-2016)
- Principal Advisor, Aged Care Policy at the Department of Health (2001-2012).

Professor Cullen is a member of the Board of several Hall & Prior aged care providers.

### Demand

The Department of Health Disability and Ageing estimates that the number of people needing residential aged care will more than double over the next twenty years from 198,302 in June 2024 to 409,677 in June 2044 – even when the increased uptake of home care is taken into account. Noting that the average occupancy rate of aged care homes has been below 90% for the last few years this means that the number of operational residential aged care places will also need to more than double from 223,691 in June 2024 to about 455,200 in June 2044 to cater for demand and to ensure hospitals are not overwhelmed by older people requiring non-acute services.

As well as needing to build 231,500 new residential aged care places in the next twenty years, the sector will also need to rebuild about 48,100 residential aged care places (assuming a 40-year life of asset) and significantly refurbish about 68,200 residential aged care places (assuming a 20-year gap between refurbishments).

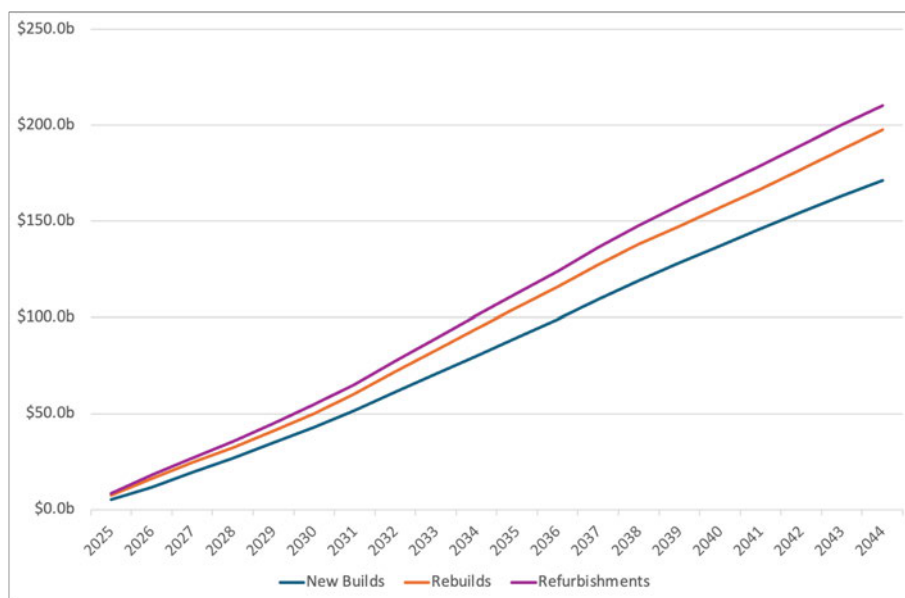
Based on conservative estimates (see Appendix C) of:

- \$739,215 in 2025-26 prices for each new residential aged care place, including land and building costs; and
- \$549,710 for each rebuilt residential aged care place (assuming no additional land costs); and
- \$183,000 for each refurbished residential aged care place (assuming no additional land costs and building costs of one-third of a full rebuild cost);

capital investment of about \$210.1 billion (in 2025-26 prices) will needed over the next twenty years (see Exhibit 1).

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*Exhibit 1: Cumulative Capital Investment Requirement, Residential Aged Care. 2024 to 2044*



Further detail on the projected demand for residential aged care over the next twenty years is provided in Appendix A.

### Supply

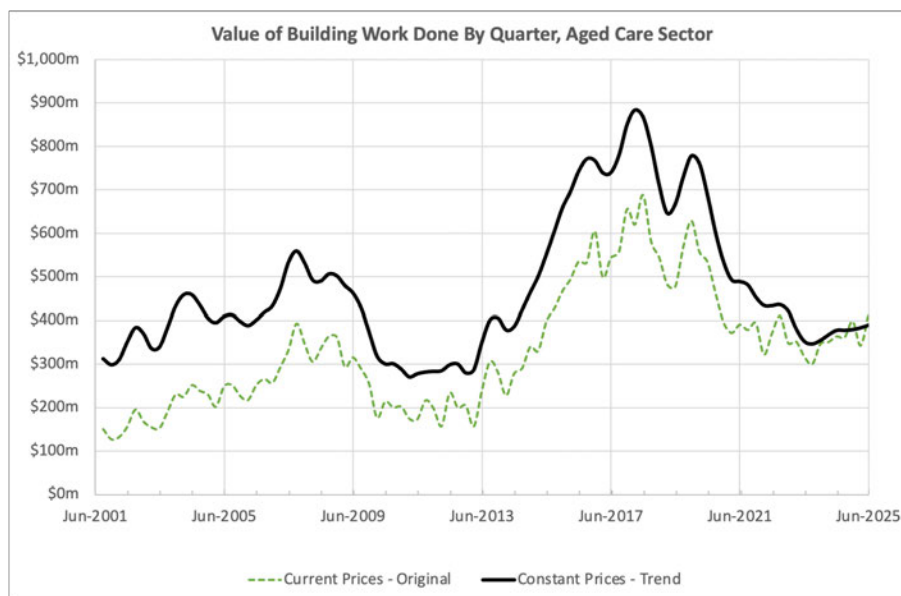
The Australian Bureau of Statistics's Quarterly Survey of Building Activity shows that over the last twenty years, residential aged care providers have spent some \$39.3 billion (in June 2025 prices) building activity in aged care – less than a fifth as much as will be required over the next twenty years. In the last five years, only \$8.5 billion (in June 2025 prices) has been spent on building activity in aged care – compared to the \$44.8 billion that will be required over the next five year.

As Exhibit 2 shows, the current level of building activity in aged care is significantly below the average level of activity over both the last decade and the last twenty years. Moreover, the quality of aged care homes has increased considerably over the last twenty years, including the move to single rooms and ensuites, and so the observed reduction in expenditure reveals a much larger reduction in the number of places being built (despite the increasing need for care). Over the twenty years between June 2004 and June 2024 the Producer Price Index for non-residential construction increased by 88%. Over the same time, the average cost of building an aged care bed is estimated to have increased by 214%. That is, the cost per residential aged care place increased by 67% more than the cost of construction. The

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significant observed real decrease in expenditure on aged care construction therefore represents an even greater decline in the number of residential aged care places being built.

*Exhibit 2: Building Activity in Aged Care – Work Done Per Quarter – FY02Q1 to FY25Q4 – June 2025 prices*



Another worrying sign is that the number of aged care homes planning rebuilding work (0.3% in 2023-24) and upgrading work (2.3% in 2023-24) continues to be well below the replacement rate that would be expected for an asset class with an average life of forty years. It also needs to be noted that aged care homes may have indicated their intention to undertake rebuilding or upgrading work in a number of years and so the yearly totals cannot be summed to estimate total replenishment rates.

Further detail on the current level of building activity in the residential aged care sector is provided in Appendix B.

### **The Level of the Accommodation Supplement Needs to be Increased**

About 19% of aged care residents are fully supported residents and do not contribute towards the cost of their accommodation. The Commonwealth pays an Accommodation Supplement directly to the residential care provider on behalf of these residents. Another 19% of residents are partially supported residents. These residents pay a means tested contribution towards the cost of their accommodation and the Commonwealth pays a partial Accommodation Supplement to cover the remainder of the costs.

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For both supported and partially supported residents (low-means residents), the maximum revenue that an aged care provider can receive in return for the accommodation services that they provide is capped at the maximum rate of the Accommodation Supplement that applies to the aged care home in which the resident lives. These maximum levels are currently increased twice a year in line with movements in the Consumer Price Index.

Note, however, that an aged care provider is only eligible to receive the maximum rate of \$70.94 from the combined Accommodation Supplement and Accommodation Contribution if the aged care home in which the low-means resident lives meets two conditions:

- The home must have been significantly refurbished or newly built on or after 20 April 2012; and
- 40% or more of the permanent residents in the home in the relevant payment period must be low-means residents (including supported residents and assisted/concessional residents).

For low-means residents who live in aged care homes that do not meet these criteria, the maximum amount that a residential aged care provider can receive in respect of the accommodation services that they provide to a low-means resident, through the combined Accommodation Supplement and Accommodation Contribution, is capped at a lower level (and can be as low as \$29.15 per day).

The principal reason why investors are no longer willing to invest in constructing new residential aged care homes is that the return on investment offered for low-means residents is not sufficient to justify the investment. The divergence between the level of the accommodation supplement (which is indexed by CPI each six months) and the amount required to service new capital investment is driven by three factors:

- Construction costs are growing much faster than the CPI – in the five years to September 2025, the CPI rose by 23.6% whereas the producer price index for non-residential building activity rose by 33.1%.
- Land costs are growing much faster than the CPI – In the eight years between 2015 and 2023, the average cost of unimproved land grew by 68% - that is 41.1% in real terms (on top of CPI).
- Building standards are increasing in response to consumer demand. As noted above, in the last twenty years the cost of construction per residential aged care place increased by 67% more than the producer price index for non-residential building.

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Based on a conservative estimate of a total cost (land and buildings) of \$739,215 for each new aged care bed, with a 7.94% nominal pre-tax weighted average cost of capital and 2.5% depreciation, a provider needs to generate revenue of \$57,135 per annum per aged care bed to justify investment. However, the maximum that a provider can charge for accommodating a low-means resident is currently capped at \$70.94 per occupied bed day – \$23,320 per bed (assuming 90% occupancy). That is, the maximum rate of the Accommodation Supplement – which caps the level of accommodation income that a provider can receive for providing accommodation services to a low-means resident – is currently less than half the amount necessary to attract the required level of investment.

In the past, providers would cross subsidise capital costs between supported and non-support residents and the Australian Government could effectively force providers to do this by imposing conditions on the bed licences granted to providers. These conditions would often require a provider to have at least a minimum number of supported residents, with the required minimum varying by region depending on its socio-economic status of the region. However, the Government can no longer impose these conditions as it no longer grants bed licences to providers. Instead, funding is provided directly to residents.

About a third (at least) of the new building work required in residential aged care will not occur if the level of the accommodation supplement is not increased significantly. That would equate to a shortfall of about 50,000 beds by 2035, which would place significant pressure on public hospitals. It would also increase costs of the Australian Government, noting that the average cost of hospital stay per day is between 5 and 10 times that of a residential aged care stay, and that the Australian Government is responsible for about half the cost of public hospitals.

Further details of the capital crisis facing aged care are provided in Appendix C.

### **Recommendation 1: Increase the Maximum Rate of the Accommodation Supplement**

**The maximum rate of the Accommodation Supplement should be increased to at least \$156.97 per day to ensure that sufficient aged care beds are built to cater for the needs of low-means residents.**

### **Recommendation 2: Apply the Principles of Competitive Neutrality to Aged Care Pricing**

**In line with the Royal Commission into Aged Care Quality and Safety's recommendation (Recommendation 115) that aged care prices should take into account the principles of competitive neutrality, the maximum rate of the Accommodation Supplement should be set a different levels depending on the tax-status of the aged care provider to ensure competitive neutrality in government funded service provision.**

### Geographic Variation in Costs

Appendix D provides detailed information on how construction costs and land cost vary significantly by region, which impacts on the required level of revenue needed to meet accommodation costs.

For example, the required maximum rate of the Accommodation Supplement varies between \$136.49 per day in Shepperton, Victoria, where building costs are 1.0% below the benchmark and land costs are 83.3% below the benchmark, to \$274.73 per day in Outback Northern Territory, where building costs are 115.1% above the benchmark and land costs are 86.5% below the benchmark.

In the capital cities, the required maximum rate of the Accommodation Supplement varies between \$258.88 per day in Sydney – City and Inner South, where building costs are at the benchmark and land costs are 455.3% above the benchmark, to \$138.04 per day in Melbourne North West, where building costs are 2.0% below the benchmark and land costs are 71.1% below the benchmark.

Given the extent of these variations there would be considerable merit in adopting the same approach as has been adopted by the National Disability Insurance Scheme – namely, setting the maximum rate of the Accommodation Supplement at different levels in different regions.

#### **Recommendation 3: Recognise that Building and Land costs vary by Region**

**The maximum rate of the Accommodation Supplement should be set at different levels in different regions based on land costs and building costs in the various regions.**

### Maintaining the Real Value of the Accommodation Supplement

The pricing and payment arrangements for accommodation services in residential aged care should provide certainty on the payment amount and the period for which this is specified, such that a provider could raise finance for the development and/or redevelopment of appropriate dwelling stock.

A balance needs to be struck between undertaking a comprehensive review of building and land costs each year and providing certainty about future income streams to providers and investors.

#### **Recommendation 4: Maintain the Real Value of the Accommodation Supplement**

**(1) A comprehensive independent review of the maximum rate of the Accommodation supplement should be undertaken every five years.**

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**(2) Between these comprehensive reviews, the maximum rate of the Accommodation Supplement should be indexed in accordance with movements in the CPI on 20 March and 20 September each year.**

**(3) These indexation arrangements should be included in the Aged Care Rules to provide greater certainty to providers and investors**

### When should the Maximum Rate of the Accommodation Supplement apply?

Currently the Maximum Rate of the Accommodation Supplement payable in an aged care home, and so the maximum accommodation income available to an aged care provider in respect of a low-means resident depends on:

- The building standards that applied when the aged care home was built; and
- Whether or not at least 40% of the residents of the aged care home are low-means residents.

It is clearly appropriate to base the level of the Accommodation Supplement on building standards, given that building standards are one of the drivers of building costs. However, there are deficiencies in the current arrangements, namely that the requirement is not concerned with the actual standard of the building but rather with building standards that applied when the building was built. So, for example, an aged care home that was built before 20 April 2012, even if it meets all current building standards, cannot qualify for the highest level of the Accommodation Supplement. A home built after 2012, however, even if it has building standard worse than the above aged care home is eligible for a higher level of the Accommodation Supplement.

From a general equity perspective, it would be better if the maximum rate of the Accommodation Supplement that applied to an aged care home was determined by the standard of the accommodation that it offers and not by its date of construction.

The 40% threshold test is deeply problematic for a number of reasons:

- Currently only 38% of residents are low-means residents and so most aged care homes cannot meet the 40% requirement, despite their best efforts.
- Indeed, given the 38% is a national average and there are some regions in which the shares of residents who are low-means is much lower, the current policy discriminates against low-means residents who live in relatively affluent areas. These residents will face considerable difficulty in gaining access to an aged care home in their community.

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- As discussed above, given that residential aged care places are now owned by the resident rather than by the provider, providers can no longer use their market power to force wealthier residents to cross subsidise the accommodation costs of residents with lower means through higher than necessary refundable accommodation deposits. Instead, if the Commonwealth wishes to ensure access for low-means residents it must pay the true cost of those resident's accommodation rather than apply a additional quasi means test on wealthier residents through forced cross-subsidisation.

If the Government does want to maintain a quota system then it should set regional benchmark percentages based on the proportion of people in a region who are low means rather than the current national percentage.

### Recommendation 5: Differential Rates of the Accommodation Supplement

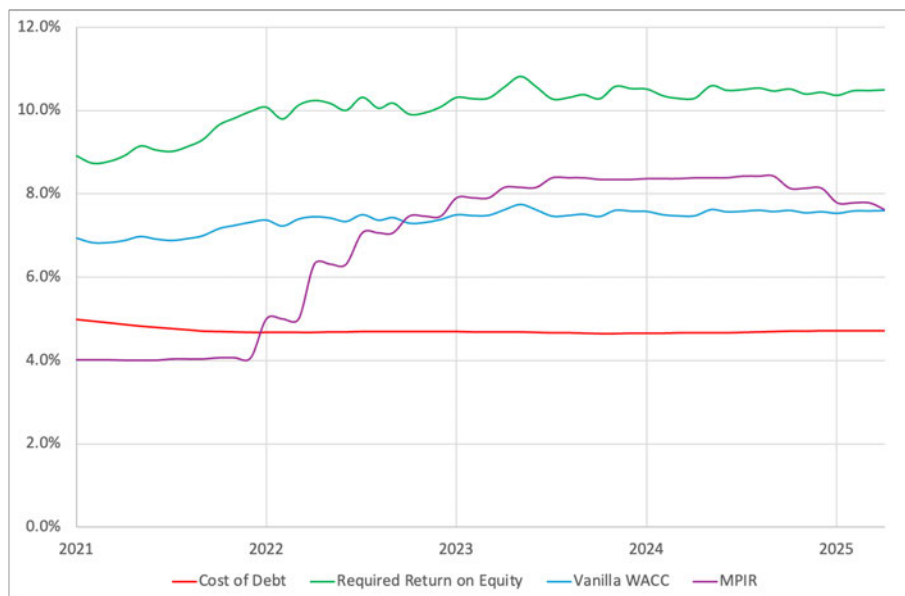
- (1) **The maximum rate of the Accommodation Supplement payable in respect to the residents of an aged care home should depend on the building standards of that aged care home and not on the age of the aged care home.**
- (2) **To ensure equity of access for all low-means residents, the maximum rate of the Accommodation Supplement payable in respect of the residents of an aged care home should not depend on the number of low means resident living in the aged care home.**

### **Equivalence between Refundable Accommodation Deposits and Daily Accommodation Payments**

Currently, the Maximum Permissible Interest Rate (MPIR) is used to convert between Refundable Accommodation Deposits and Daily Accommodation Payments for non-low-means residents, and between Refundable Accommodation Contributions and Daily Accommodation Contributions for low-means residents. The MPIR is equal to 4% more than the monthly average yield of 90-day bank bills. It is currently 7.61%. The chart in Exhibit 2 compares the MPIR to the weighted average cost of capital that providers have faced for the period between 2022 and 2025.

Although there is currently a good level of agreement between the MPIR and the WACC this has not always been the case. This strong evidence that the MPIR does not reflect the capital costs of providers and should not be used as the conversion factor between Refundable Accommodation Deposits and Daily Accommodation Payments. The WACC has set out in this submission is a better conversion factor.

Exhibit 3: Maximum Permissible Interest Rate and WACC, 2021 to 2025



It has been argued that no two providers have same WACC. However, this is an argument as much against the use of an average WACC in the calculation of the required level of the Accommodation Supplement and it makes sense to use the same conversion factor for calculation the Accommodation Supplement and converting between Refundable Accommodation Deposits and Daily Accommodation Payments.

We would also point out that the claim that providers face different capital costs is different to the claim that they have different WACCs. Building and Land Costs may vary between providers but the cost of capital tends to be determined by the market at a sector level.

**Recommendation 6: Converting between Refundable Accommodation Deposits and Daily Accommodation Payments.**

**The conversion factor between Refundable Accommodation Deposits and Daily Accommodation Payments for non-low-means residents, and between Refundable Accommodation Contributions and Daily Accommodation Contributions for low-means residents, should be based on the weighted average cost of capital for an average provider rather than on the Maximum Permissible Interest Rate,**

**Alternative Capital Financing Approaches**

The Commonwealth has a number of alternative mechanism available to it to support the construction of aged care homes, including capital grants and the provision of Low Interest Loans. Indeed, these approaches may be more efficient when seeking to secure access for

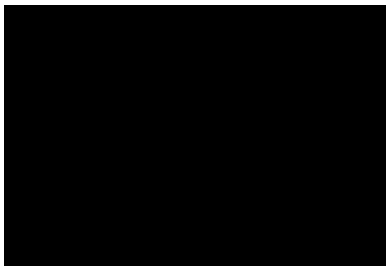
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disadvantaged groups. We would suggest that a deficiency the current arrangements is that the Commonwealth sometimes ends up paying twice for the accommodation services provided in these cases, as providers can also claim the Accommodation Supplement in respect of residents in these aged care homes.

It might be preferable for the Commonwealth to come to an arrangement with providers whereby the level of the Commonwealth's Accommodation Supplement was reduced when the Commonwealth had provided alternative capital support.

Thank you for your consideration of this matter. I look forward the roundtable consultation with you both on 13 November 2025 from 1:00 PM to 3:00 PM (AEST).

Yours sincerely



**Chief Executive Officer**

## Appendix A - Demand for Residential Aged Care

In 2023-24, older people (those aged 65 or older) made up 17.3% of the Australian population. This proportion will increase significantly over the next fifty years as will the absolute number of older people. Over the next 25 years, the proportion of the Australian population that is aged 70 or older will increase from 12.3% to 16.4%. at the same time, the proportion that is aged 80 or older will almost double from 4.4% to 8.1% (see Exhibit 1).<sup>1</sup>

*Exhibit 4: Share of the Australian Population Aged 65+, 67+, 70+ and 80+*

In absolute terms, the number of people aged 80 or older will increase from 1,192,000 in 2024 to 2,648,000 in 2044 – a growth rate of 4.1% per annum. The growth rate of the 80+ population is especially important in understanding how future demand for aged will grow

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<sup>1</sup> Historical population data is taken from: ABS. (2024). *Historical Population Statistics*, 2021. Population projections from 2025 to 2036 are taken from: Centre for Population. (2025). *Budget 2025-26: National Population Projections, 2024-25 to 2035-36*. Population projections for 2037 and later were developed by applying the growth rates in the medium series of the ABS population projections to the 2036 projections by the Centre for Population. See: Australia (2023). *Population Projections, Australia, 2022 (base) - 2071*.

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given that 79% of people currently receiving residential aged care and 66% of home care package recipients are aged 80 or older.<sup>1</sup>

In rough terms, one in every two older Australians currently receive some form of long-term care that is subsidised by Australian taxpayers. During 2023-24, more than one and a half million older people received support from services that will be governed by the *Aged Care Act 2024* from 1 November 2025:

- 835,000 older people received support from lock funded services funded under the Commonwealth Home Support Program (CHSP).
- 334,900 older people received support through a home care package.
- 254,100 older people received support on a permanent basis in an aged care home.
- 82,500 older people received support on a respite basis in an aged care home.
- 27,000 older people received support through flexible aged care services.

In addition:

- 133,500 older people received informal care from people on the Carer Payment.
- 37,600 older people received support through the National Disability Insurance Scheme (NDIS).
- 32,500 older people received support through the Veterans Home Care Program
- 8,200 older people received support through the Veterans Community Nursing program.

A small number of older people received support through the Disability Support for Older People Program (this program is not open to new members).

Fifty years ago, in 1975, some 65,900 places were available for intensive aged care services for older Australians (the equivalent of home care packages, residential care and flexible care today). At the turn of the twenty-first century, that number had grown to 156,200. By the end

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<sup>1</sup> Data on the usage of aged care is drawn from:

- The annual Aged Care Data Snapshots released by the Department of Health, Disability and Ageing (and its predecessors) – see <https://www.gen-agedcaredata.gov.au/resources/access-data/2018/january/aged-care-data-snapshot>.
- The annual Confidential Unit Record Files (CURFs) for people using aged care released by the Australian Institute of Health and Welfare – see <https://www.gen-agedcaredata.gov.au/resources/access-data/2025/april/gen-data-people-using-aged-care>.

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of 2023-24, some 511,500 places were available for intensive aged care services across Australia. That represents an average annual growth rate of 5.3%. At the same time the population aged 70 or older had only grown, on average, by 3.0% per annum. There were 92.3 intensive care places for every 1,000 people aged 70 or older at the end of 1999-2000 (see Exhibit 1) and there are 153.2 intensive care places for every 1,000 people aged 70 or older at the end of 2023-24. Of these places, 53.9% were located in the community on 30 June 2024, compared to 9.0% on 30 June 2000.

### *Exhibit 5: Operational Intensive Aged Care Places per 1000 People Aged 70 or Older, 1963 to 2024*

Projections by the Australian Department of Health, Disability and Ageing indicate that the number of people receiving aged care services under the new system is expected to grow from 1,328,958 in June 2024 to 2,229,436 in June 20244, with 81.6% of those people receiving their care in community settings.<sup>1</sup>

The Department of Health Disability and Ageing further estimates that the number of people needing residential aged care will more than double over the next twenty years from 198,302 in June 2024 to 409,677 in June 2044 – even when the increased uptake of home care is taken into account. Noting that the average occupancy rate of aged care homes has been below 90% for the last few years this means that the number of operational residential aged care places

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<sup>1</sup> Department of Health, Disability and Ageing. (2025). *Financial Report on the Australian Aged Care Sector 2023-24*. See: <https://www.gen-agedcaredata.gov.au/resources/publications/2022/november/financial-report-on-the-australian-aged-care-sector>.

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will also need to more than double from 223,691 in June 2024 to about 455,200 in June 2044 to cater for demand and to ensure hospitals are not overwhelmed by older people requiring non-acute services.

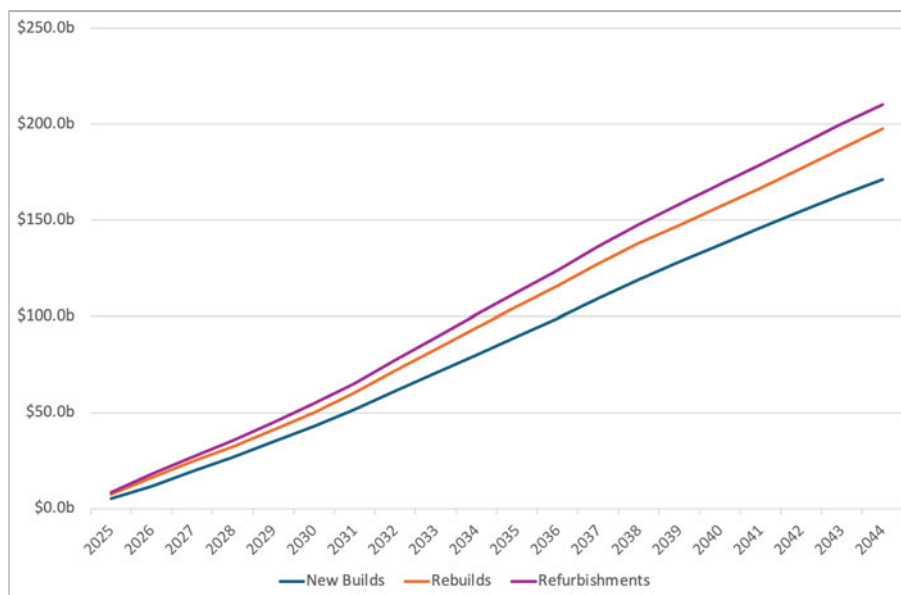
As well as needing to build 231,500 new residential aged care places in the next twenty years, the sector will also need to rebuild about 48,100 residential aged care places (assuming a 40-year life of asset) and significantly refurbish about 68,200 residential aged care places (assuming a 20-year gap between refurbishments).

Based on conservative estimates (See Appendix C) of:

- \$739,215 in 2025-26 prices for each new residential aged care place, including land and building costs; and
- \$549,710 for each rebuilt residential aged care place (assuming no additional land costs); and
- \$183,000 for each refurbished residential aged care place (assuming no additional land costs and one third of the full construction costs of a rebuild);

capital investment of about \$210.1 billion (in 2025-26 prices) will needed over the next twenty years (see Exhibit 1).

**Exhibit 6: Cumulative Capital Investment Requirement, Residential Aged Care. 2024 to 2044**



## Appendix B – Current Level of Building Activity

This Appendix examines recent trends in the level of building activity in the residential aged care sector. The analysis draws on three data sources:

- The Australian Bureau of Statistics' (ABS's) Quarterly Building Activity Survey.
- The ABS's Monthly Building Approvals Survey.
- The Australian Government's Annual Survey of Aged Care Homes.

The three data collections are not strictly compatible. The ABS data includes all buildings used in the provision of aged care, aged care support or services supporting aged care facilities, excluding residential buildings, whereas the Australian Government's survey data is restricted to residential aged care services operating under the *Aged Care Act 1997*. However, the trends in the three data sources are in strong agreement about the significant issues that are currently facing the aged care sector.

### Notes on Methodology

Except where otherwise stated all expenditure figures are constant prices trend estimates expressed in June 2025 prices. Constant price data are calculated by deflating expenditure by the relevant ABS Producer Price Indices (PPIs) using June 2025 as the base quarter. The Non-Residential Building Construction, Australia PPI is used for capital expenditure on non-residential building, including aged care building. The Building Construction, Australia PPI is used for capital expenditure on residential building.<sup>4</sup>

Trend estimates are derived using asymmetric Henderson-Musgrave moving average filters. A 7-period filter is used for quarterly data, and a 13-term filter is used for monthly data.<sup>5</sup>

The expenditure estimates in this chapter do not include the cost of land or fit out costs.

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<sup>4</sup> Australian Bureau of Statistics. (2025). *Producer Price Indexes, Australia, March 2025*. Accessed November 2025 at: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/producer-price-indexes-australia/latest-release>.

<sup>5</sup> European Commission, Eurostat, (2018). *Handbook on Seasonal Adjustment*, pp. 312-4. Accessed November 2025 at: [https://op.europa.eu/publication/manifestation\\_identifier/PUB\\_KSGQ18001ENN](https://op.europa.eu/publication/manifestation_identifier/PUB_KSGQ18001ENN).

### Key Findings

Over the last twenty years, some \$28.9 billion (\$39.3 billion in June 2025 prices) has been spent on building activity in aged care, with almost two-thirds of that building activity (\$23.4 billion in June 2025 prices) undertaken in the last decade. However, in the last five years, only \$7.4 billion (\$8.5 billion in June 2025 prices) has been spent on building activity in aged care, whereas \$14.9 billion in June 2025 prices was spent in the immediately previous five years. That is, the level of building activity in aged care over the last five years was less slightly more than half the level of activity in the previous five years (57.0%), despite the ever-increasing demand for residential aged care due to population ageing.

There is also evidence in the ABS's Building Activity Statistics that the current decline in building activity in aged care can be expected to continue under current settings. The value (when completed) of aged care building activity that commenced in the June Quarter of FY25 (\$295.8 million in trend terms) is lower than in recent years and was about half the average level of quarterly commencements over the last ten years (53.2%).

The current value of unfinished work already underway is also well below the long-term average, again indicating that the current slump in building activity can be expected to continue.

Note, the quality of aged care homes has increased considerably over the last twenty years, including the move to single rooms and ensuites, and so the observed reduction in expenditure reveals a much larger reduction in the number of places being built (despite the increasing need for care). Over the twenty years between June 2004 and June 2024 the Producer Price Index for non-residential construction increased by 88%. Over the same time, the average cost of building an aged care bed is estimated to have increased by 214%.<sup>6</sup> That is, the cost per residential aged care place increased by 67% more than the cost of construction.

The significant observed real decrease in expenditure on aged care construction therefore represents an even greater decline in the number of residential aged care places being built.

The ABS's Building Approvals Survey provides another leading indicator of future building activity in aged care. It provides further evidence that there has been as significant decline in building activity in the aged care sector in recent years and that that decline can be expected to continue at least in the short term. The average value of buildings approved in aged care

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<sup>6</sup> Author's estimate based on construction costs reported in: Rawlinsons. (2025). *Rawlinsons Construction Cost Guide 2025 - Edition 33*. Perth: Rawlhouse Publishing, and its earlier editions.

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each month in the twelve months to September 2025 was only \$132.2 million compared to a monthly average of \$187.5 million over the last ten years and of \$165.6 million over the last twenty years (in June 2025 prices).

The Australian Government's Annual Survey of Aged Care Homes, which is undertaken by the Department of Health, Disability and Ageing also indicates that the current level of building activity in aged care is significantly below the average level of activity over both the last decade and the last twenty years. It also reports that the number of aged care homes planning new building or rebuilding work is now below the replacement rate that would be expected for an asset class with an average life of forty years.

These results are particularly concerning given that the target population for residential aged care has grown by about 3.0% per annum over the last twenty years. New building work is required to meet this increased demand and the increase in demand is, in absolute terms, increasing each quarter. The quality of aged care homes has also increased significantly over the last twenty years, which has increased the cost of construction above the cost increases driven by economic conditions. Rebuilding and upgrading work is also required to bring older aged care home up to the new standards and to maintain them at those standards. If we take only the increase in demand into account, then the average increase in demand each quarter is currently twice what it was twenty years ago. This implies that the current level of building activity is less than half what is needed to meet future demand, even assuming all existing buildings have already been brought up to standard.

### Detailed Findings – ABS Building Activity Survey

The ABS Quarterly Building Activity Survey collects information on building activity in Australia on projects with approved work valued at more than \$10,000, including: new building construction, alterations and additions to existing buildings, non-structural renovation and refurbishment and installation of integral building fixtures.<sup>7</sup>

#### Work Done Per Quarter

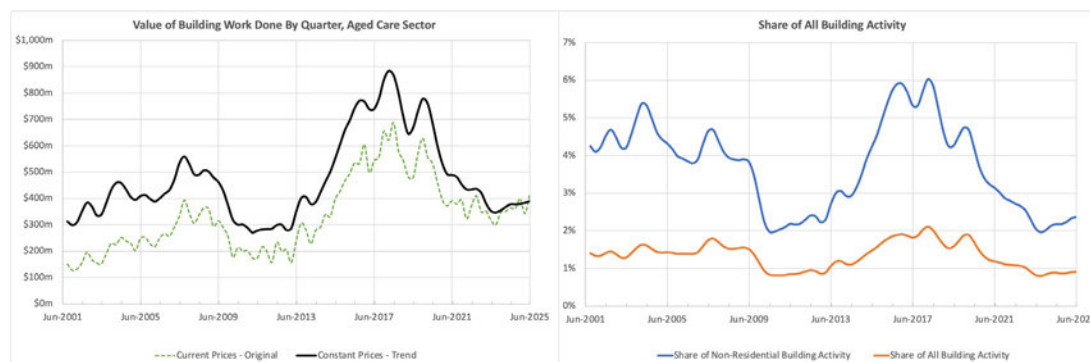
The left-hand panel of Exhibit 1 below illustrates the significant decline in the amount of building work being undertaken in the aged care sector over the last five years – from a peak of \$884.2 million in the March Quarter of FY18 to a low of \$346.3 million in the September

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<sup>7</sup> Australian Bureau of Statistics. (2025). *Building Activity, Australia, June 2025*. Accessed November 2025 at: <https://www.abs.gov.au/statistics/industry/building-and-construction/building-activity-australia/latest-release>.

Quarter of FY23 with a small increase to \$389.5 million in the June Quarter of FY25 (trend estimates in June 2025 prices).

*Exhibit 7: Building Activity in Aged Care – Work Done Per Quarter – FY02Q1 to FY25Q4 – June 2025 prices*



This decline cannot, however, be seen simply as a reaction to a ‘spurt’ in expenditure between 2016 and 2019. The current level of building activity is lower than the long-term average over a number of metrics, noting that (in June 2025 prices):

- Over the last twenty years, the average value of work done per quarter was \$490.9 million. The June Quarter of FY25 figure was 79.3% of this 20-year average.
- Over the last ten years, the average value of work done per quarter was \$584.1 million. The June Quarter of FY25 figure was 66.7% of this 10-year average.
- Over the last five years, the average value of work done per quarter was \$424.0 million. The June Quarter of FY25 figure was 91.9% of this 5-year average.

As the right-hand panel of Exhibit 1 shows, there has also been a significant decline in the share of building activity that is accounted for by the aged care sector, which is an indication that the current decline in spending on aged care building activity is driven more by aged care specific factors than by more general economic effects. In the June Quarter of FY25, aged care only accounted for 2.4% of all non-residential building activity, compared to 6.0% in the June Quarter FY08 and 3.9% on average over the last ten years. Similarly, aged care only accounted for 0.9% of all building activity in the June Quarter FY25, compared to 2.1% in the March Quarter FY08 and 1.4% on average over the last ten years.

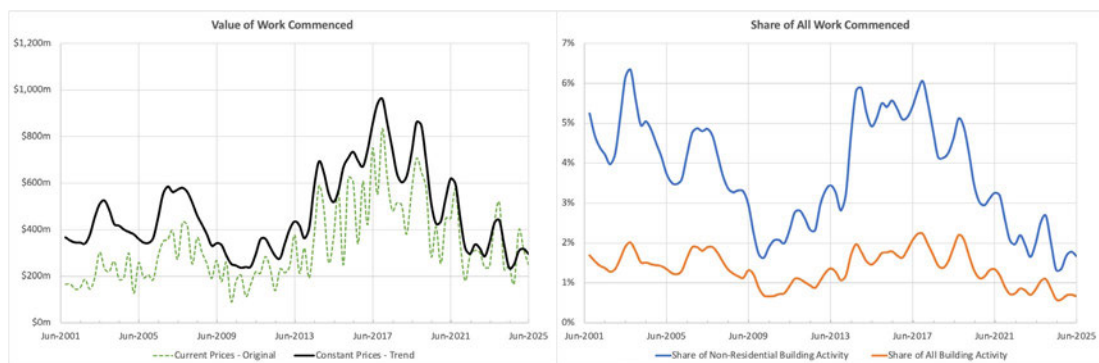
#### Work Commenced per Quarter

There is also evidence in the ABS’s Building Activity Statistics that the current decline in building activity in aged care can be expected to continue under current settings. As the left-hand panel of Exhibit 2 illustrates, the value (when completed) of aged care building activity

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that commenced in the June Quarter of FY25 (\$295.8 million in June 2025 prices) is lower than in recent years. Indeed, the current level of commencement is only about half the average historical level, noting that the average value of building work commenced per quarter over the last ten years was \$556.3 million. That is, the trend estimate for aged care commencements in the June Quarter of FY25 was only 53.2% of the average level of commencements over the last ten years.

**Exhibit 8: Building Activity in Aged Care – Work Commenced – FY02Q1 to FY25Q3 – June 2025 prices**

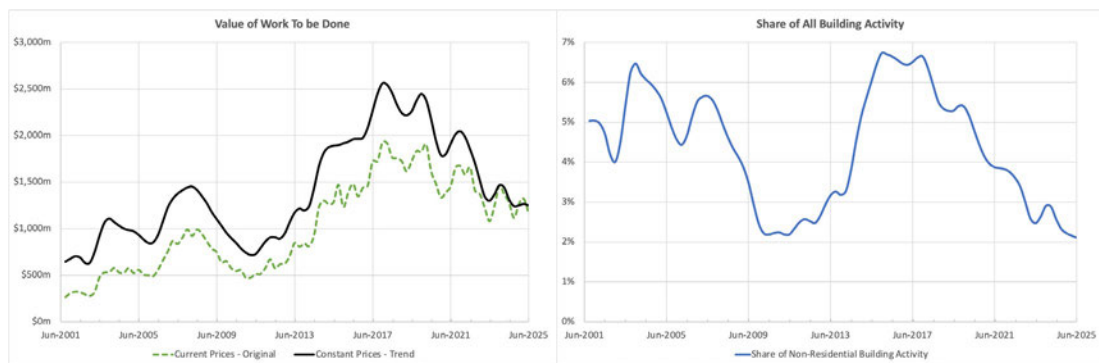


The right-hand panel of Exhibit 2, shows that the aged care sector's share of building commencements is also declining (both as a share of all non-residential building activity and as a share of all building activity) – which is an indication that the decline in aged care building commencements is driven by aged care specific factors.

### Work to be Done at the End of the Quarter

Not only is the current value of commencements below the long-term average, the value of unfinished work already underway is also below the long-term average (see Exhibit 3)

**Exhibit 9: Building Activity in Aged Care – Work To be Done – FY02Q1 to FY25Q3 – June 2025 prices**



The value of work to be done on aged care buildings already under construction at the end of the June Quarter of 2025 was \$1.2 billion, compared to an average of \$1.9 billion at the end of each quarter over the last ten years. Similarly, the total value of work that was under construction at the end of the June Quarter of FY25 was \$2.8 billion, compared to an average of \$3.9 billion at the end of each quarter over the last ten years.

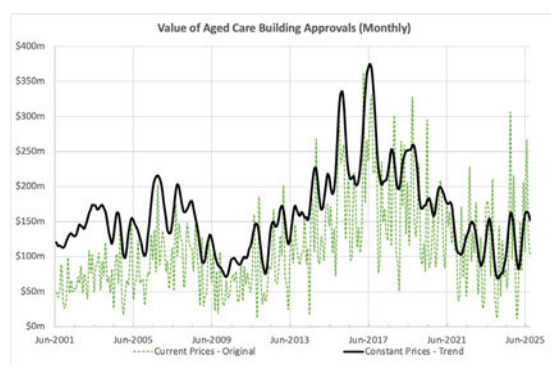
### Detailed Findings – ABS Building Approvals Survey

The ABS’s Monthly Building Approvals Survey is based on administrative data collections of local government and other approving authorities. Approvals include construction of new buildings, alterations and additions to existing buildings, non-structural renovation and refurbishment, installation of integral building fixtures and full demolitions of existing aged care homes.<sup>8</sup>

The Building Approvals Statistics provide further evidence that there has been as significant decline in building activity in the aged care sector in recent years. As the left-hand panel of Exhibit 4 shows, the average value of buildings approved in aged care each month in the twelve months to September 2025 was \$132.2 million compared to a monthly average of \$187.5 million over the last ten years and \$165.6 million over the last twenty years (trend estimates in June 2025 prices).

As a share of all non-residential building approvals, approvals in the aged care sector are also significantly below historical average levels (see the right-hand panel of Exhibit 4).

**Exhibit 10: Monthly Building Approvals in Aged Care – July 2001 to September 2005 – June 2025 prices**

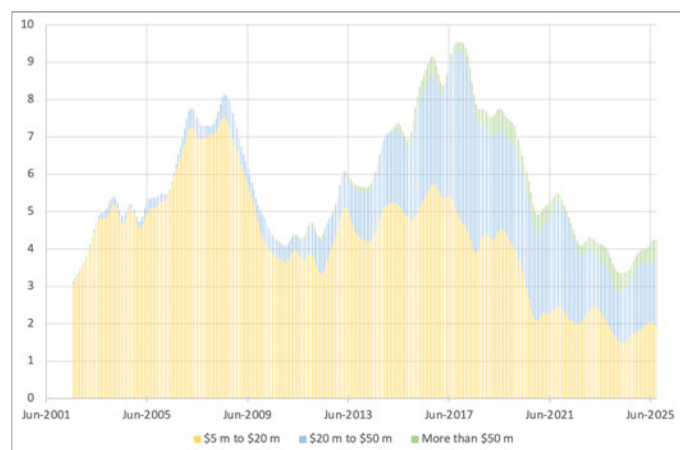


<sup>8</sup> Australian Bureau of Statistics. (2025). *Building Approvals, Australia, September 2025*. Accessed November 2025 at: <https://www.abs.gov.au/statistics/industry/building-and-construction/building-approvals-australia/latest-release>.

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Exhibit 5 shows that fewer aged care home developments are currently being granted building approval each month than at any time in the last twenty years. (Note the prices in this chart are in current rather than constant prices.)

**Exhibit 11: Number of New Aged Care Homes Granted Building Approval Per Month – July 2001 to Sept. 2005**



### Detailed Findings – Survey of Aged Care Homes

The Australian Government’s Annual Survey of Aged Care Homes is undertaken by the Department of Health, Disability and Ageing (and its predecessors) and collects information on accommodation payments and planned and actual building activity during the previous financial year for each operating residential aged care service.<sup>9</sup>

<sup>9</sup> Data for the 2023-24 Survey of Aged Care Homes are from: Australian Department of Health, Disability and Ageing. (2025). *Financial Report on the Australian Aged Care Sector, 2023-24*. Accessed November 2025 at: <https://www.health.gov.au/sites/default/files/2025-07/financial-report-on-the-australian-aged-care-sector-2023-24.pdf>.

Data for the 2020-21 to 2022-23 Surveys of Aged Care Homes can be found in earlier editions of the Department’s *Financial Report of the Australian Aged Care Sector*. Data for the 2011-12 to 2019-20 Surveys of Aged Care Homes can be found in the Aged Care Financing Authority’s *Reports on the Funding and Financing of the Aged Care Sector*. Data for the 1997-98 to 2023-24 Surveys of Aged Care Homes can be found in the Department’s *Reports on the Operations of the Aged Care Act 1997*.

Survey Response Unit Record Data for the 2018-19 to 2023-24 Surveys of Aged Care Homes was also obtained through Freedom of Information requests to the Australian Department of Health, Disability and Ageing. See:

Australia. Department of Health, Disability and Ageing. (2025). *FOI 25-0471 LD - release of documents - Aged Care Home Survey*. Accessed November 2025 at: <https://www.health.gov.au/resources/foi-disclosure-log/foi-25-0471-ld-aged-care-home-survey>.

Australia. Department of Health, Disability and Ageing. (2025). *FOI 26-1877 LD - release of documents - Aged Care Home Survey*. Accessed November 2025 at: <https://www.health.gov.au/resources/foi-disclosure-log/foi-26-1877-survey-of-aged-care-homes-data>.

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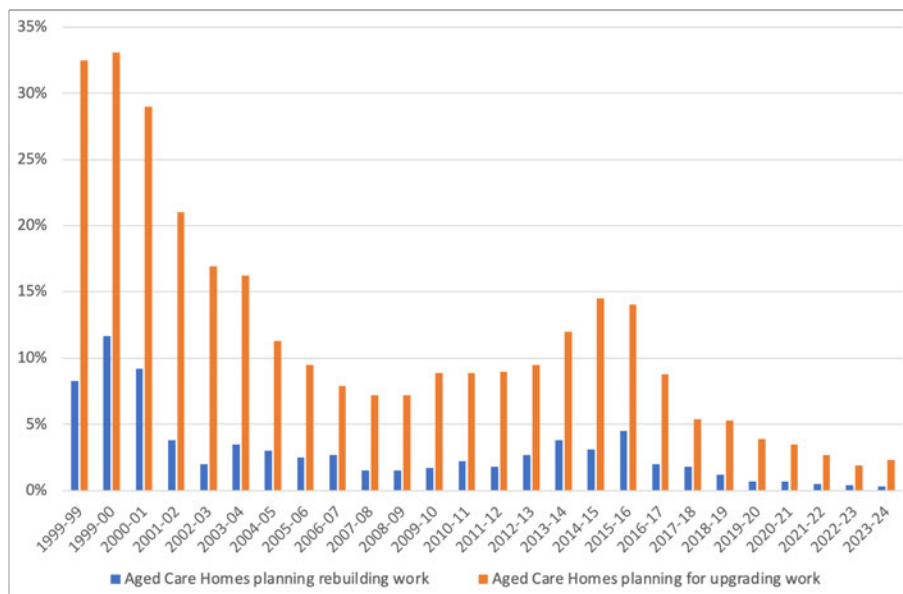
### Level of Building Activity

As Exhibit 6 shows, the current level of building activity reported in the Australian Government's annual survey of aged care homes (\$1.7 billion in 2023-24 for work completed during the year) is significantly below the average level of activity over both the last decade and the last twenty years.

*Exhibit 12: Aged Care Building Work Completed – FY98 to FY24 – June 2024 prices*

Another worrying sign is that, as Exhibit 7 shows, the number of aged care homes planning rebuilding work (0.3% in 2023-24) and upgrading work (2.3% in 2023-24) continues to be well below the replacement rate that would be expected for an asset class with an average life of forty years. It also needs to be noted that aged care homes may have indicated their intention to undertake rebuilding or upgrading work in a number of years and so the yearly totals cannot be summed to estimate total replenishment rates.

Exhibit 13: Aged Care Homes Which are Planning Building Work – 2002-03 to 2023-24



Share of Building Activity

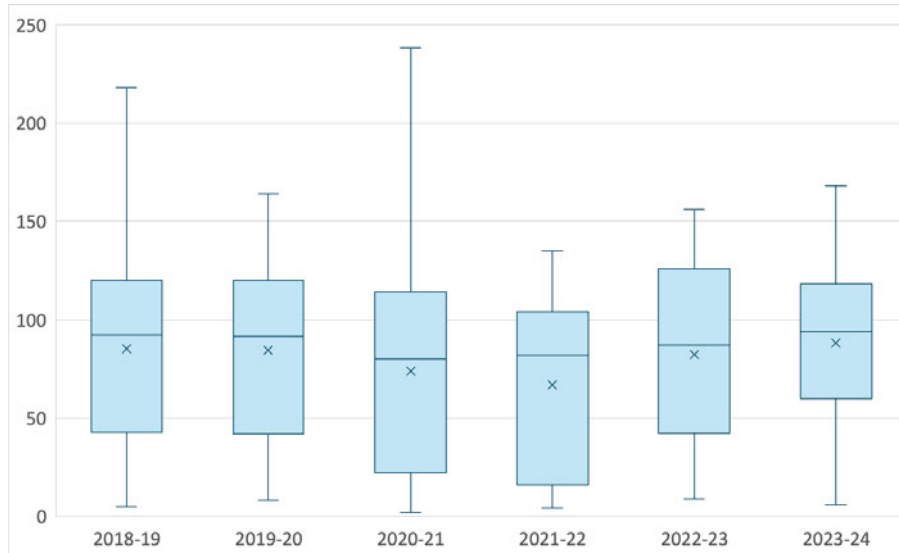
Currently the for-profit sector operated about 40% of all residential aged care. However, over the last five years, it has been responsible for 53% of expenditure on the construction of new aged care homes.

Size of New Aged Care Homes

Exhibit 8 illustrates the distribution of sizes of the aged care homes that were built between 2018-19 and 2023-24. The average size of new aged care homes has remained reasonably constant at about 80 beds over that period, with the median size being 90 beds. One fifth of new aged care homes built over the six year period had 30 or fewer beds and one fifth had 120 or more beds.

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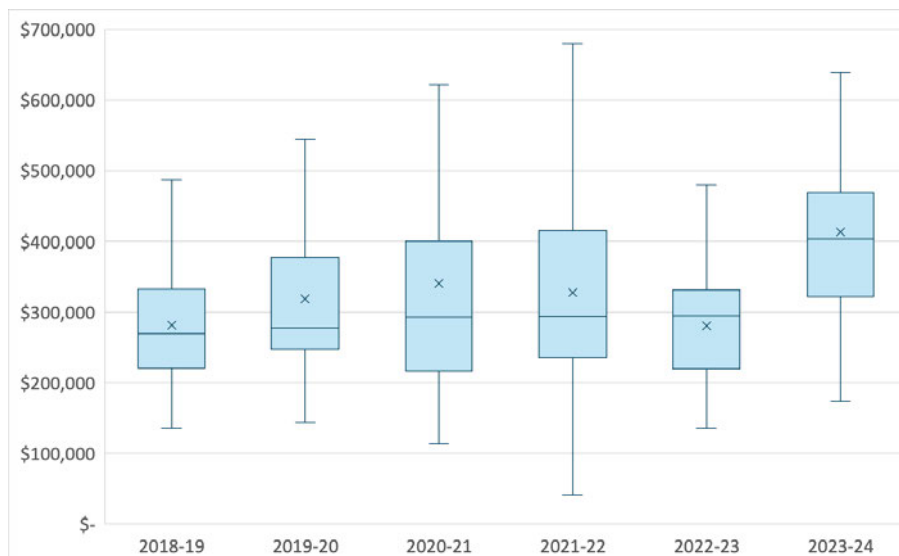
*Exhibit 14: Size of New Aged Care Homes– 2018-19 to 2023-24*



### Construction Cost per Bed

Exhibit 7 shows that the average construction cost (without land, fit-out or furnishing costs) per residential aged care bed has increased by about 47% over the last six years – from \$281,400 in 2018-19 to \$413,000 in 2023-24. Half of aged care homes built in 2023-24 had an average construction cost per bed between \$322,300 and \$469,000.

*Exhibit 15: Average Construction Cost Per Bed – 2018-19 to 2023-24*



## Appendix C – Ensuring Access for Low-Means Residents

The *Aged Care Act 2024* recognises that some residents cannot afford to pay for the full cost of the accommodation services that they receive from their residential aged care provider. These residents are known as low-means residents.<sup>10</sup> Low-means residents cannot be asked to pay an Accommodation Payment. Instead, they can be asked to pay a means-tested Accommodation Contribution towards the cost of their accommodation. In some cases, the Commonwealth also pays a means-tested Accommodation Supplement to the residential aged care provider in respect of these residents.

The total amount that a provider can receive for the accommodation services that they provide to low-means residents is capped at the maximum rate of the Accommodation Supplement, which is currently \$70.94 per day (\$298 of the *Aged Care Act 2024*).<sup>11</sup> As noted above, the provider receives this amount through a combination of a means-tested Accommodation Supplement paid by the Commonwealth in respect of the resident and a means-tested Accommodation Contribution paid by the resident.

Note, however, that an aged care provider is only eligible to receive the maximum rate of \$70.94 from the combined Accommodation Supplement and Accommodation Contribution if the aged care home in which the low-means resident lives meets two conditions:

- The home must have been significantly refurbished or newly built on or after 20 April 2012; and
- 40% or more of the permanent residents in the home in the relevant payment period must be low-means residents (including supported residents and assisted/concessional residents).

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<sup>10</sup> As at 1 November 2025, low-means residents, who are single, are residents who have either:

- Annual assessable income not greater than \$34,762 and assessable assets not greater than \$219,555.20; or
- Annual assessable income not greater than \$86,406.32 and assessable assets not greater than \$63,000; or
- Annual assessable income more than \$34,762 (IT1) and assessable assets more than \$63,000 (AT1) such that:

$$\frac{50\% \times (\text{Income} - \text{IT1}) + 17.5\% \times (\text{Assets} - \text{AT1})}{364} < \$70.94$$

<sup>11</sup> Australia. Department of Health, Disability and Ageing. (2025). *Aged Care Subsidies and Supplements (Rates of payments effective at 1 October 2025)*. Accessed November 2025 at: [https://www.health.gov.au/sites/default/files/2025-09/schedule-of-subsidies-and-supplements-for-aged-care\\_0\\_0.pdf](https://www.health.gov.au/sites/default/files/2025-09/schedule-of-subsidies-and-supplements-for-aged-care_0_0.pdf).

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For low-means residents who live in aged care homes that do not meet these criteria, the maximum amount that a residential aged care provider can receive in respect of the accommodation services that they provide to a low-means resident, through the combined Accommodation Supplement and Accommodation Contribution, is capped at a lower level (and can be as low as \$29.15 per day).

If low-means residents are to be able to continue to access the care that they need then the various maximum rates of the Accommodation Supplement need to be set at levels that will allow residential aged care providers to make a rate of return on capital sufficient to justify the construction of the new aged care homes that future generations of older people will need. This appendix proposes a pricing model and a set of evidence-based assumptions for determining the appropriate maximum rates of the Accommodation Supplement.

For simplicity, the proposed pricing model assumes that all residents in the aged care home are low-means residents and that the aged care provider receives revenue equal to maximum rate of the Accommodation Supplement for each resident (made up of a means-tested Accommodation Supplement and means-tested Accommodation Contribution) and that neither residents nor the Commonwealth make any other contribution to the capital costs associated with their stay in the aged care home.

These assumptions are appropriate as, in an efficient market without supply constraints, any premium paid by non-supported residents (those not eligible for the means-tested Accommodation Supplement) in respect of their accommodation would necessarily be associated with higher costs associated with the additional quality that they are choosing to purchase and therefore can be ignored in the calculation of the maximum rate of the Accommodation Supplement. On 1 November 2025, all residential care places ceased to exist. Places are now allocated to residents rather than to providers (§92 of the *Aged Care Act 2024*). Under the previous arrangements, providers had some control over the supply of places and so could use that market power to cross-subsidise care and capital costs between residents. Under the new arrangements, where residents have greater choice and control, providers will be less able to pass the costs of some residents onto other residents.

The logic of the proposed pricing model is the same as that which has been agreed by the Australian Government and the governments of the various states and territories to set the price limits for supported disability accommodation in the National Disability Insurance Scheme.<sup>12</sup>

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<sup>12</sup> Australia. National Disability Insurance Agency. *National Disability Insurance Scheme Specialist Disability Accommodation Pricing Review: Final Report*. Accessed November 2025 at: <https://www.ndis.gov.au/media/6060>.

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The basic assumption of the proposed pricing model is that an aged care provider can only justify investment in the construction of an aged care home that services people who are low-means residents if the after-tax net present value over the Investment Period of the income stream generated in respect of such a resident (which consists of the combined revenue from the Accommodation Supplements received in respect of the resident and the Accommodation Contributions paid by the resident) is equal to or greater than the after-tax net present value over the Investment Period of any capital related costs that the provider incurs in respect of that residents of the aged care home.

The proposed pricing model is based on an efficient provider and takes account of:

- **Consumption Costs** – the cost of any capital consumed during the period of the investment.
- **Opportunity Costs of Capital** – a reasonable return to the investor for the investment they make in the purchase / construction of the aged care home.
- **Ownership Costs** – including maintenance and management costs.
- **Land Price Inflation** – that is, the model accounts for any capital gain made by the investor because the value of the land on which the aged care home is located increases in real terms.
- **Vacancy Rates** – the average number of people expected to live in the aged care home over the period of the investment.
- **Taxation Costs** – including personal and company tax, GST where applicable, and any state or territory government taxes such as stamp duties.

**Note all prices are expressed in year 0 prices – the year of investment which is assumed to be one year before the first year of revenue.**

The structure of the Appendix is as follows:

- Section 1 sets out the structure of the proposed pricing model.
- Section 2 sets out as set of conservative set of assumptions for the proposed pricing model.
- Section 3 sets out the results of the modelling and examines the extent to which capital costs are influenced by the tax structure of the aged care provider and explores the extent to which the maximum rate of the Accommodation Supplement should also vary between for-profit and not-for-profit providers.

### Structure of the Model

#### Revenue Equals Expenditure

As discussed above, the basic assumption of the model is that the maximum rate of the Accommodation Supplement should be set at a level that ensures that the after-tax net present value over the Investment Period of the revenue stream generated in respect of such a resident (which consists of the combined revenue from the Accommodation Supplements received in respect of the resident and the Accommodation Contributions paid by the resident) is equal to or greater than the after-tax net present value over the Investment Period of any capital related costs/revenues that the provider incurs in respect of the resident.

#### Weighted Average Cost of Capital

The net present value calculation that underlies the calculation of the appropriate level of the maximum rate of the Accommodation Supplement uses as its discount rate the Weighted Average Cost of Capital for an efficient residential aged care provider, as this represents the opportunity cost of the capital supplied by the provider. The Nominal After Tax Weighted Average Cost of Capital (**NATWACC**) is computed as straightforward weighted average of the costs of debt and equity capital, weighted by the relative proportions of each and by tax effects:

$$NATWACC = r_e * \frac{E}{V} * \frac{[1 - Tax.Rate]}{[1 - Tax.Rate * \{1 - Gamma\}]} + r_d * \frac{D}{V} * [1 - Tax.Rate]$$

and the Real After-Tax Weighted Average Cost of Capital (**RATWACC**) is given by:

$$RATWACC = \frac{1 + NATWACC}{[1 + CPI]} - 1$$

where:

- $r_e$  represents the return on investment that investors would expect to receive in order to commit equity capital to a firm.
- $r_d$  represents the return on investment that investors would expect to receive in order to lend debt capital to a firm.
- $\frac{E}{V}$  represents the relative proportion of equity finance.
- $\frac{D}{V}$  represents the relative proportion of debt finance. Note,  $\frac{E}{V} + \frac{D}{V} = 1$ .
- **Tax. Rate** is the rate of tax payable by the provider.
- **Gamma** is a parameter between 0 and 1 that represents the extent to which imputation credits on tax paid by the company can be used elsewhere.

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- *CPI* is the annual increase in the Consumer Price Index.

The model uses a Capital Asset Pricing Model to estimate the required return on equity:

$$r_e = r_f + \beta * MRP$$

where:

- $r_f$  represents the nominal risk-free rate of return. This is the return that is available to investors on an investment that is completely free of risk.
- $\beta$  represents the equity beta, which indicates the extent to which the particular investment has more or less risk than average.
- *MRP* represents the nominal market risk premium, which is the amount of extra return (over and above the nominal return on a risk-free asset) that investors would require for investing in the asset.

### After-Tax Net Present Value of the Revenue Stream

The total value of the accommodation revenue that the provider will receive from (and in respect of) all residents in the aged care home over the Investment Period, in net present value terms, is equal to:

$$\text{Number.of.Beds} * [1 - \text{Vacancy.Rate}] * \text{Max.Accommodation.Supplement}_0 * [1 - \text{Tax.Rate}] * \sum_{i=1}^{IP} \frac{[1 + \text{CPI}]^i}{[1 + \text{NATWACC}]^i}$$

where:

- *Number.of.Beds* is the number of bedrooms in the aged care home.
- *Vacancy.Rate* is the expected vacancy rate for the aged care home. This variable accounts for the fact that the provider only receives income from the Accommodation Supplement on a given day in respect of the number of residents actually residing in the aged care home on that day.
- *Max.Accommodation.Supplement*<sub>0</sub> is the maximum annual rate of the Accommodation Supplement payable in respect of residents in the aged care home, assuming that the resident is in the aged care home for the full year (expressed in year 0 dollars). Note, it is assumed that the value of the Accommodation Supplement is indexed in line with the movement of the CPI each year.
- *IP* is the length of the Investment Period (in years).

In order to make the after-tax net present value of the income stream generated from Accommodation Supplements and Accommodation Contributions equal to the net present

value of the provider's cash flow from operations over the period of the investment, *NPV. Capital. Cash. Flow*, then the maximum rate of the Accommodation Supplement needs to be equal to:

$$\frac{\left[\frac{1 + NATWACC}{1 + CPI} - 1\right] * NPV. Capital. Cash. Flow}{[1 - Tax. Rate] * Number. of. Beds * [1 - Vacancy. Rate] * \left[1 - \left(\frac{1 + CPI}{1 + NATWACC}\right)^{IP}\right]}$$

### After-Tax Net Present Value of the Capital Cash Flow

The After-Tax Net Present Value of the Capital Cash Flow Generated by the Aged Care Home, *NPV. Capital. Cash. Flow*, is equal to:

$$NPV. Residual. Value - Aquisition. Cost - NPV. Ownership. Cost - NPV. Tax. Cost$$

where:

- *NPV. Residual. Value* is the net present value of the resale value of the aged care home and land at the end of the investment period, discounted by the NATWACC, taking into account any exit costs.
- *Acquisition. Cost* is the initial efficient cost of purchasing the aged care home. This cost occurs at the start of year 1 and so its value is not discounted.
- *NPV. Ownership. Cost* is the net present value of ownership costs incurred in respect of the aged care home over the investment period, discounted by the NATWACC.
- *NPV. Tax. Cost* is the net present value of tax costs incurred in respect of the cash flow from the aged care home over the investment period, discounted by the NATWACC.

### Net Present Value of the Residual Value of the Aged Care Home

The *NPV. Residual. Value* variable represents the net present value of the resale value of the aged care home and land (after fees) at the end of the investment period, discounted by the NATWACC. Because the resale occurs at the end of the investment period and there are no other cash flow transactions relating to the residual value over the investment period, we have that:

$$NPV. Residual. Value = \frac{Residual. Value_{year=IP}}{[1 + NATWACC]^{IP}}$$

where:

- *Residual. Value<sub>year=IP</sub>* is the residual value of the land and building at the end of the Investment Period

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$$Residual.Value_{year=IP} = [Residual.Land.Value_{year=IP} + Residual.Build.Value_{year=IP}] [1 - Fees]$$

- **Residual.Land.Value<sub>year=IP</sub>** is the value of the land at the end of the Investment Period

$$Residual.Land.Value_{year=IP} = Land.Value_{year=0} * [1 + CPI]^{IP} * [1 + Real.Land.Inflation]^{IP}$$

- **Residual.Build.Value<sub>year=IP</sub>** is the estimated value of the building at the end of the Investment Period

$$Residual.Build.Value_{year=IP} = Build.Value_{year=0} * [1 + CPI]^{IP} * \frac{Useful.Life - IP}{Useful.Life}$$

- **Fees** are the fees on the sale of the property as a share of the sale price.
- **Real.Land.Inflation** represents the average annual rate by which average land prices increase above the rate of inflation.
- **Useful.Life** is the useful life of the aged care building.

### Acquisition Cost

The **Acquisition.Cost** parameter represents the initial efficient cost of purchasing the aged care home and is the sum of two components **Build.Cost** and **Land.Cost**, where:

- **Build.Cost** includes design, construction and fit out costs (including GST where applicable).
- **Land.Cost** includes any statutory or tax costs that are applicable.

### Net Present Value of Ownership Costs

The **NPV.Ownership.Cost** variable represents the net present value of ownership costs incurred in respect of the aged care home over the investment period, discounted by the NATWACC.

The ownership cost in year 'I' of the investment period **Ownership.Cost<sub>year=i</sub>** is given by:

$$[Maintenance.Cost_0 + Property.Management.Cost_0 + Vacancy.Management.Cost_0] * [1 + CPI]^i$$

where:

- **Maintenance.Cost<sub>0</sub>** is the annual maintenance cost for the aged care home expressed in year 0 prices.
- **Property.Management.Cost<sub>0</sub>** is the annual property management cost for the aged care home expressed in year 0 prices.
- **Vacancy.Management.Cost<sub>0</sub>** is the annual vacancy management cost for the aged care home expressed in year 0 prices. Note, this is not the cost of the vacancy in terms of

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lost revenue but rather the cost of finding a new resident to fill a vacancy including, for example, advertisement costs.

### Net Present Value of Tax Costs Incurred

The *NPV.Tax.Cost* variable represents the net present value of tax costs incurred in respect of the cash flow from the aged care home over the investment period, discounted by the NATWACC.

In general, the Tax Cost (Benefit) in year 'i' of the investment period ( $Tax.Cost_{year=i}$ ) is given by:

$$\left[ Ownership.Cost_i - \frac{Build.Value_0}{Tax.Life} \right] * Tax.Rate$$

and in final year of the investment (year = IP), the Tax Cost (Benefit) is given by:

$$\left[ Ownership.Cost_{IP} - \frac{Build.Value_0}{Tax.Life} + Residual.Value_{IP} - \left\{ Acquisition.Cost - \frac{Build.Value_0 * IP}{Tax.Life} \right\} \right] * Tax.Rate$$

Where:

- **Ownership.Cost<sub>i</sub>** is the cost of ownership in year "i" (see above).
- **Residual.Value<sub>IP</sub>** is the residual value of the property (building and land) at the end of the investment period.
- **Acquisition.Cost** is as defined above
- **Build.Value<sub>0</sub>** is the initial cost of the building.
- **Tax.Life** is the life of the building for depreciation purposes.

Note, the last two terms in the brackets in final year equation equate to the capital gain on the building and land over the investment period, with the last term in the brackets in final year equation equating to the amount of value already written off for depreciation in earlier year tax costs over the life of the investment.

### Assumptions

#### Weighted Average Cost of Capital

Exhibit 10 below sets out the proposed parameters for the Capital Asset Pricing Model. Further information can be found in the work by Frontier Economics that was commissioned

by the Royal Commission into Aged Care Quality and Safety.<sup>13</sup> Bond yield data is drawn from Reserve Bank Statistics as at 30 October 2025.<sup>14</sup>

*Exhibit 16: 2025-26 Financing Assumptions*

Parameter	Code	Taxed Entity	Untaxed Entity	Average Entity	Source / Rationale
<b>Cost of Equity</b>					
Long Run nominal risk-free rate of return	LR_RFR		5.00%		30-year-average 10-year gov. bond yield
Long Run Market Risk Premium	LR_MRP		6.50%		See discussion in Frontier Economics (2020)
Elasticity of Market Risk Premium	ELAS		50.00%		See discussion in Frontier Economics (2020)
Current nominal risk-free rate of return	RFR		4.28%		60-day average 10-year gov. bond yield
Imputed Market Risk Premium	MRP		6.86%		$LR\_MRP + (LR\_RFR - RFR) \times ELAS$
Equity Beta	BETA		0.90		See discussion below.
Required return on equity	ROE		10.83%		$LR\_RFR + BETA \times MRP$
<b>Cost of Debt</b>					
Required return on debt	ROD		4.71%		10-year trailing average yield on 10-year BBB-rate corporate bonds.
<b>Other Assumptions</b>					
Gearing Ratio - Debt/(Equity+Debt)	GEAR		45%		See discussion in Frontier Economics (2020).
Annual Increase in the CPI	CPI		2.5%		See discussion in Frontier Economics (2020).
Corporate Tax Rate	TAX	30%	0%	15%	See discussion below
The value of imputation tax credits	GAMMA	0.2	0.00	0.2	See discussion in Frontier Economics (2020).
<b>Weighted Average Cost of Capital</b>					
WACC - Real pre-tax	RPTWACC	6.13%	4.68%	5.30%	$\frac{(1 + NPTWACC)}{(1 + CPI)} - 1$
WACC - Real after-tax	RATWACC	3.56%	4.68%	4.14%	$\frac{(1 + NATWACC)}{(1 + CPI)} - 1$
WACC - Nominal pre-tax	NPTWACC	8.78%	7.29%	7.94%	$\frac{ROE \times (1 - GEAR)}{(1 - TAX \times (1 - GAMMA))} + ROD \times GEAR$
WACC - Nominal after-tax	NATWACC	6.15%	7.29%	6.75%	$NPTWACC \times (1 - TAX)$

### Equity Beta

In 2020, Frontier Economics advised the Royal Commission that the mean equity beta for aged care providers in the Australia, Canada, Europe, the UK, and the USA was 0.8; and that the mean equity beta for real estate investment trusts in Australia, the UK, and the USA was 0.85.

<sup>13</sup> Frontier Economics. (2020). *The required return for aged care service providers*. Paper commissioned by the Royal Commission into Aged Care Quality and Safety. Accessed November 2025 at: <https://www.frontier-economics.com.au/aged-care-royal-commission-the-required-return-for-aged-care-service-providers>.

<sup>14</sup> Reserve Bank of Australia. (2025). *Statistical Tables, F2 and F3*. Accessed November 2025 at: <https://www.rba.gov.au/statistics/tables/>.

At the same time, the National Disability Insurance Agency undertook a review of the pricing arrangements for supported disability accommodation and determined that an equity beta of 0.94 would be more appropriate for that market.<sup>15</sup>

Systemic risk is higher for residential aged care providers now than when Frontier Economics undertook its analysis for a number of reasons. First, as discussed above, providers no longer control the supply of aged care – places are allocated to individuals and not to providers. This significantly increase vacancy risk for providers. Second, the Commonwealth is significantly increasing the provision of support at home, which also significantly increases vacancy risk for providers. Finally, the aged care regulatory arrangements are now much more complex than they were at the time of the Royal Commission. Moreover, the new arrangements have not yet been fully bedded down which increases systemic risk in the short and medium term. As an example of the volatility that is inherent in the new funding arrangements and the reliance of providers on the decision of the Commonwealth, it is noticeable that the share price for one of Australia’s largest aged care providers, Regis Healthcare Limited (ASX:REG), fell from \$9.22 on 19 September 2025 to \$6.02 on 30 September 2025 following the Commonwealth’s announcement of the latest changes to the Australian National Aged Care Classification.<sup>16</sup>

For these reasons an equity beta of 0.9 is proposed for the pricing model.

### Corporate Tax Rate

The assumptions about the Corporate Tax rate and the utilisation of imputation tax credits for for-profit providers are taken from Frontier Economics (2020). The assumption about the taxation rate for an ‘average’ aged care home is based on the observation that the for-profit sector has accounted for about half of all new building and rebuilding activity in the residential aged care sector over the last five years.<sup>17</sup>

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<sup>15</sup> Australia. National Disability Insurance Agency. *National Disability Insurance Scheme Specialist Disability Accommodation Pricing Review: Final Report*, pp. 26-27. Accessed November 2025 at: <https://www.ndis.gov.au/media/6060>.

<sup>16</sup> Accessed November 2025 at: <https://www.listcorp.com/asx/reg/regis-healthcare-limited#price>.

<sup>17</sup> Based on an analysis of the unit record results of the Annual Survey of Aged Care that is undertaken by the Department of Health, Disability and Ageing. The data were obtained from the Department through a series of Freedom of Information requests

Australia. Department of Health, Disability and Ageing. (2025). *FOI 25-0471 LD - release of documents - Aged Care Home Survey*. Accessed November 2025 at: <https://www.health.gov.au/resources/foi-disclosure-log/foi-25-0471-ld-aged-care-home-survey>.

Australia. Department of Health, Disability and Ageing. (2025). *FOI 26-1877 LD - release of documents - Aged Care Home Survey*. Accessed November 2025 at: <https://www.health.gov.au/resources/foi-disclosure-log/foi-26-1877-survey-of-aged-care-homes-data>.

Building and Land Costs

In total, the pricing model assumes a total acquisition/construction cost per bed of \$739,215 in 2025-26:

- A build cost of \$549,710 per bed; and
- A land cost of \$189,504 per bed.

Exhibit 11 set out the building cost estimates that are used in this Chapter. They are derived from industry cost data for an average aged care home. Basic construction costs for the building and car park are taken from *Rawlinsons Construction Cost Guide 2025* – the high and low estimates for each capital city are averaged to give a national figure with the weighting based on the size of the 80+ population (further details are given in Appendix A).<sup>18</sup> Data on fit out, furnishing and fees and charges are taken from Caulfield Krivanek Architecture’s *Aged Care Cost Indicator 2025*.<sup>19</sup> Prices are adjusted for building cost inflation from 2024-25 to 2025-26.<sup>20</sup>

*Exhibit 17: 2025-26 Building Cost Assumptions*

Parameter	Prices	Number	Area per unit	Cost per Sqm	Costs
Building Shell	2024-25	90	102sqm	\$3,325	\$30,527,974
Commercial Kitchen	2024-25	1			\$341,000
Commercial Laundry	2024-25	1			\$352,000
Assisted Bathroom	2024-25	1			\$40,000
Public Access Toilet	2024-25	1			\$48,000
<b>Indicative Total Building Cost (excl. GST)</b>	2024-25				<b>\$31,308,974</b>
External Works and Surfaces	2024-25	20%			\$6,261,795
Car Parking	2024-25				\$194,480
Landscaping	2024-25				\$220,000
<b>Indicative Total Construction Cost (excl. GST)</b>	2024-25				<b>\$38,085,248</b>
Contingency	2024-25	5%			\$1,904,262
Consultants Fee	2024-25	12%			\$5,712,787
Authority Charges	2024-25	1%			\$380,852
Loose Furniture & Equipment	2024-25				\$990,000

<sup>18</sup> Rawlinsons. (2025). *Rawlinsons Construction Cost Guide 2025 - Edition 33*. Perth: Rawlhouse Publishing.

<sup>19</sup> Caulfield Krivanek Architecture. (2025). *Aged Care Cost Indicator 2025*. Accessed November 2025 at: <https://caulfieldkrivanek.com/wp-content/uploads/2025/07/Aged-Care-Cost-Indicator-2025.pdf>.

<sup>20</sup> Rawlinsons. (2025). *Construction Market Insight, October 2025*. Accessed November 2025 at: [https://cdn.prod.website-files.com/6187e83da043f1b74dbad924/68e5bf58c6574acb087c7f7a\\_Rawlinsons%20Market%20Insight%20-%20October%202025.pdf](https://cdn.prod.website-files.com/6187e83da043f1b74dbad924/68e5bf58c6574acb087c7f7a_Rawlinsons%20Market%20Insight%20-%20October%202025.pdf).

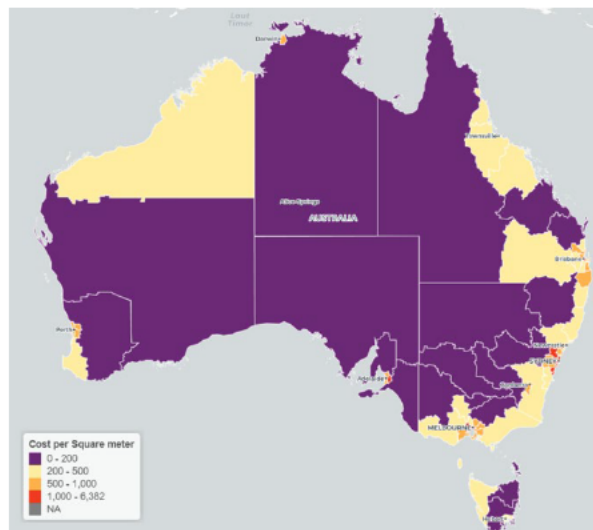
## Compassionate people, dedicated to care

Parameter	Prices	Number	Area per unit	Cost per Sqm	Costs
Indicative Project Cost (excl. GST)	2024-25				\$47,073,150
Indexation to 2025-26 prices		5.1%			
Indicative Project Cost (excl. GST)	2025-26				\$49,473,881

This equates to an average per bed construction and fit out cost of \$549,710 per bed.

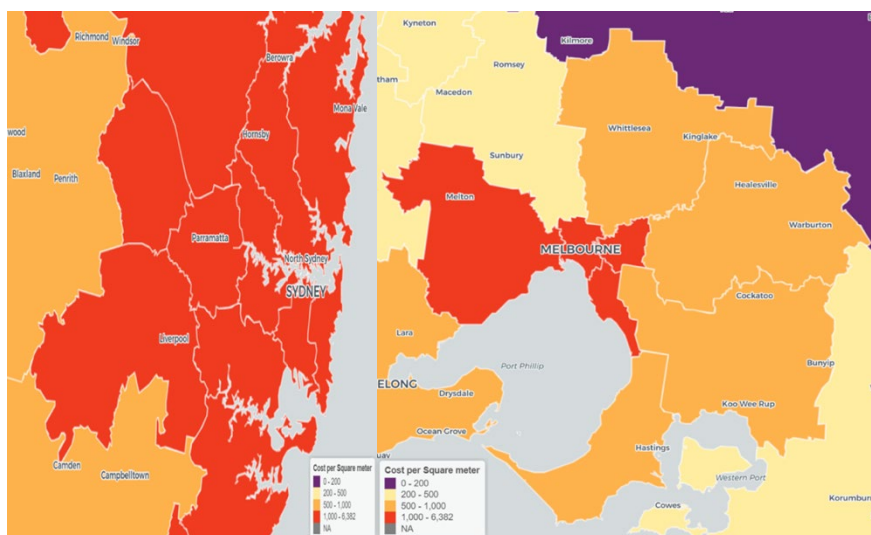
The average cost of land in capital cities in Australia was \$1,116 per square metre in 2024.<sup>21</sup> As Exhibit 12, which is based on 2022-23 data, illustrates, the cost of land varies considerably across Australia and within cities.<sup>22</sup> However, given the majority of aged care homes are built in metropolitan areas the average cost of land in capital cities is used in this Chapter.

*Exhibit 18: Variation in the Cost of Land, Australia, Greater Sydney, and Greater Melbourne, 2022-23*



<sup>21</sup> Urban Development Institute of Australia. (2025). *State of the Land 2025*. Accessed November 2025 at: <https://udia.com.au/wp-content/uploads/2025/03/State-Of-The-Land-Report-2025-Final-Report.pdf>.

<sup>22</sup> Australia. National Disability Insurance Agency. (2023). *National Disability Insurance Scheme Specialist Disability Accommodation Pricing Review: Final Report*. Accessed November 2025 at: <https://www.ndis.gov.au/media/6060>.



Land prices are adjusted to 2025-26 prices using the Consumer Price Index (3.2%). In line with the analysis undertaken by the National Disability Insurance Agency for the *Specialist Disability Accommodation Pricing Review*, the proposed pricing model assumes that land prices grow each year at 2.5% on top of inflation.<sup>23</sup>

The area of land requires per bed is not necessarily equal to the building area in Exhibit 11. For single story buildings it will be considerable larger to allow for open spaces and parking. In the model in this chapter, we assume that the land requirement per bed is 50% higher than the construction area per bed. There are also purchase costs associated with land, including stamp duty and conveyancing costs. The model used in the current Chapter assumes that these costs add 5% to the cost of the land based on estimates developed by Ernst and Young.<sup>24</sup> This equates to a land cost of \$189,504 per bed (including fees).

### Other Parameters

An Investment Period of 20 years (years 1 to 20) is assumed in the modelling in this Chapter. For tax purposes, the useful life of the building is assumed to be 40 years with a Capital Works Deduction annual rate of 2.5%. However, most aged care homes undergo a substantial

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<sup>23</sup> Australia. National Disability Insurance Agency. (2023). *National Disability Insurance Scheme Specialist Disability Accommodation Pricing Review: Final Report*, pp. 31-32. Accessed November 2025 at: <https://www.ndis.gov.au/media/6060>.

<sup>24</sup> Ernst and Young. (2023). *NDIA SDA Pricing Review 2022 23: Technical Report - Land Costs*. Accessed November 2025 at: <https://dataresearch.ndis.gov.au/media/3660/download?attachment>.

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refurbishment after about 20 years and so an Investment Period assumption of 20 years aligns better with the capital investment decisions that the aged care provider needs to make.

In line with the analysis undertaken by the National Disability Insurance Agency for the *Specialist Disability Accommodation Pricing Review*, the proposed pricing model assumes that fees on the sale of the aged care home would equal 3% of the sale price.<sup>25</sup>

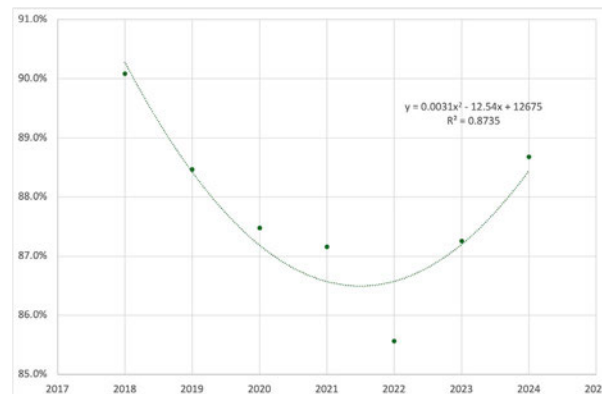
### *Maintenance and Management Costs*

These costs are assumed to be \$4,300 per residential aged care place in 2023-24, based on the expenditure on accommodation costs excluding interest and depreciation that was reported by aged care providers.<sup>26</sup> The model inflates this cost and assumes that the cost will be \$4,600 per bed in 2025-26 (year 0).

### Vacancy Rate

As Exhibit 13 illustrates, vacancy rates have been above 10% in the residential aged care sector for the last decade or so. Although occupancy rates have risen since the very low levels attained during the COVID pandemic there is little reason to believe that they will increase beyond 90%. This is especially true given the recent changes to aged care legislation which mean that aged care place are now allocated to residents rather than providers, which will allow greater competition for residents between providers.

**Exhibit 19: Occupancy Rates, Residential Aged Care, 2017-18 to 2023-24**



<sup>25</sup> Ernst and Young. (2023). *NDIA SDA Pricing Review 2022 23: Technical Report - Exit Costs*. Accessed November 2025 at: <https://dataresearch.ndis.gov.au/media/3663/download?attachment>.

<sup>26</sup> Australia. Australian Department of Health, Disability and Ageing. (2025). *Financial Report on the Australian Aged Care Sector, 2023-24*. Accessed November 2025 at: <https://www.health.gov.au/sites/default/files/2025-07/financial-report-on-the-australian-aged-care-sector-2023-24.pdf>.

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The proposed pricing model therefore assumes a vacancy rate of 10%.

### The Maximum Level of the Accommodation Supplement

#### Immediate Increase in the Maximum Rate

Exhibit 14 sets out the results of the pricing model for three ‘typical’ aged care provider – a provider subject to corporate income tax, a provider not subject to corporate income tax, and a notional ‘average’ provider representing the average result across all providers (for-profit and not-for-profit).

*Exhibit 20: Proposed Maximum Level of Accommodation Supplement (2025-26 prices), Various Scenarios*

	Taxed Provider	Untaxed Provider	‘Average’ Provider
<b>Financing Assumptions</b>			
Corporate Tax Rate	30%	0%	15%
The value of imputation tax credits	0.2	0.2	0.2
WACC – Nominal After Tax	6.15%	7.29%	6.75%
WACC – Real After TAX	3.56%	4.68%	4.14%
<b>Acquisition Costs</b>			
Building Cost per Bed	\$549,710	\$549,710	\$549,710
Land Cost per Bed	\$180,481	\$180,481	\$180,481
Acquisition Cost for Land (5%)	\$9,024	\$9,024	\$9,024
<b>Cost of Ownership</b>			
Annual Management and Maintenance	\$4,600	\$4,600	\$4,600
Vacancy Rate	10%	10%	10%
<b>Other Key Assumptions</b>			
Annual increase in CPI	2.5%	2.5%	2.5%
Annual Increase in Price of Land (above CPI)	2.5%	2.5%	2.5%
Useful life of Asset / Investment Period	40 / 20 years	40 / 20 years	40 / 20 years
Days in Year	365.25	365.25	365.25
Fees on sale of property	3.0%	3.0%	3.0%
<b>Results</b>			
Annual Required Income Per Bed (before tax)	\$67,321	\$49,990	\$57,135
Maximum Rate of Accommodation Supplement	\$184.31	\$136.86	\$156.43

The analysis clearly shows that the current maximum rate of Accommodation Supplement (\$70.94) is insufficient to allow either for-profit or not-for-profit providers to be able to afford to build aged care beds to support low-means residents. This explains the current capital crisis and decline in building activity, which means that supply to no longer matching demand (especially for low means residents).

#### Recommendation 1: Increase the Maximum Rate of the Accommodation Supplement

**The maximum rate of the Accommodation Supplement should be increased to at least \$156.97 per day to ensure that sufficient aged care beds are built to cater for the needs of low-means residents.**

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By comparison, the median capital city price paid by the National Disability Insurance Scheme for a one-bedroom high physical support apartment is currently \$243.23 per day and for a bedroom in a three-bedroom high physical support house is currently \$158.52 per day.<sup>27</sup>

### Ensuring Competitive Neutrality

The analysis also clearly shows that the costs of constructing aged care beds is different for for-profit and not-for-profit providers. In this regard, it is important to recall that the Royal Commission into Aged Care Quality and Safety found that:

*[Australia's] aged care system fails to meet the needs of our older, often very vulnerable, citizens. It does not deliver uniformly safe and quality care for older people. It is unkind and uncaring towards them. In too many instances, it simply neglects them.*<sup>28</sup>

It also found that a principal cause of this neglect was that the system had historically been (deliberately) underfunded by successive Australian Governments. Indeed, it found that:

*At no point has the level of funding for aged care in Australia been determined by the actual cost of delivering aged care services to a specified quality standard. The amount spent on aged care services in Australia reflects the available funding envelope rather than the cost of delivering high quality care. This has had serious consequences for older people and the aged care sector.*<sup>29</sup>

To address this issue the Royal Commission recommended (Recommendation 115) that a new Pricing Authority should be established with the objective of (emphasis added):

*Ensuring the availability and continuity of high quality and safe aged care services for people in need of them.*

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<sup>27</sup> Australia. National Disability Insurance Agency. (2025). *National Disability Insurance Scheme Pricing Arrangements for Specialist Disability Accommodation 2025-26*. Accessed November 2025 at: <https://www.ndis.gov.au/media/7736>.

<sup>28</sup> Royal Commission into Aged Care Quality and Safety. (2019). *Interim Report: Neglect*, p. 1. Accessed November 2025 at: <https://www.royalcommission.gov.au/aged-care/interim-report>.

<sup>29</sup> Royal Commission into Aged Care Quality and Safety. (2021). *Final Report: Care Dignity and Respect*, Vol. 2, p. 195. Accessed November 2025 at: <https://www.royalcommission.gov.au/aged-care/final-report>.

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*Ensuring the efficient and effective use of public funding and private user contributions in the provision of high quality and safe aged care services, **taking into account the principles of competitive neutrality.***

*Promoting efficient investment in the means of supply of high quality and safe aged care services in the long-term interests of people in need of them.*

*Promoting the development and retention of a highly motivated and appropriately skilled and numerous workforce.<sup>30</sup>*

This recommendation has been accepted by the Government and so the pricing arrangement for the Accommodation Supplement should take into account the principles of competitive neutrality.

Australia is also an adherent to the OECD's 2021 Recommendation of the Council on Competitive Neutrality. That recommendation urges nations to commit to ensure Competitive Neutrality to the maximum extent practicable and unless overriding Public Policy Objectives require otherwise. This commitment includes a recognition that nations should:

*... avoid offering undue advantages that distort competition and selectively benefit some enterprises over others. Such advantages would for example include loans, loan guarantees and state investment in capital, at conditions not in line with market principles, as well as **favourable tax treatment**, grants and goods or services provided by governments at favourable prices. Where achieving an overriding Public Policy Objective requires an exception, this should be transparent to all, proportionate and periodically reviewed.<sup>31</sup>*

It is well established that exposing firms to greater competition and increased openness sharpens incentives to reduce costs and innovate.<sup>32</sup> Competitive neutrality is a key measure to ensure open market competition by removing distortions that inhibit the flow of resources to their most efficient use. Attacks on competitive neutrality are part of the distortions which increase deadweight losses for various taxes, including labour taxes. The competitive

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<sup>30</sup> Royal Commission into Aged Care Quality and Safety. (2021). *Final Report: Care Dignity and Respect*, Vol. 1, p. 288. Accessed November 2025 at: <https://www.royalcommission.gov.au/aged-care/final-report>.

<sup>31</sup> OECD. (2021). *Recommendation of the Council on Competitive Neutrality*. Accessed November 2025 at: <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0462>.

<sup>32</sup> See, for example: Productivity Commission. (2005). *Review of National Competition Policy Reforms*. Accessed November 2025 at: <https://www.pc.gov.au/inquiries-and-research/national-competition-policy>.

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neutrality principle is that sellers of goods and services should compete on a level playing field: that is, one provider should not receive an advantage over another due to government regulation, subsidies or tax concessions. Competitive neutrality removes artificial advantages and allows businesses to compete on a basis that offers the best cost and quality combinations to customers. This is likely to result in more effective competition and more efficient outcomes. In turn, it will lead to greater consumer surpluses, as these are also attenuated by market distortion.

Residential aged care services have been delivered in a mixed market of for-profit and not-for profit providers for over 75 years. Taxpayers have benefited from a virtuous circle of competition between these sectors. Not-for-profits have driven quality improvements and services for the less fortunate (through their commitment to optimising consumer surpluses as well as producer surpluses). For profits have driven efficiency gains as they have found more efficient ways to deliver the quality improvements pioneered by the not-for-profit sector. They have also provided the sector with much greater access to commercial capital to support expansion and innovation. This virtuous circle can continue, but only if government is willing to fully implement the recommendations of the Royal Commission and recognise all legitimate and unavoidable cost variations associated with this care.

### **Recommendation 2: Apply the Principles of Competitive Neutrality to Aged Care Pricing**

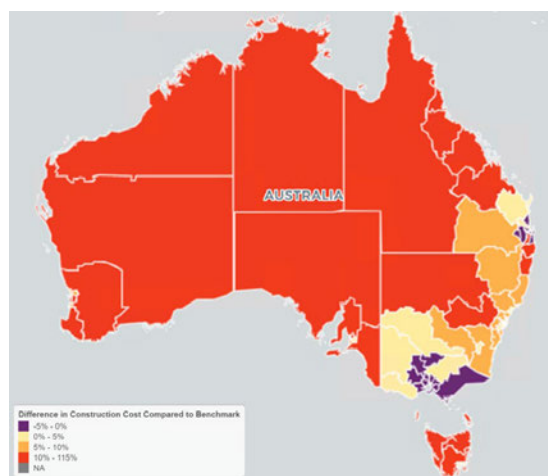
**In line with the Royal Commission into Aged Care Quality and Safety's recommendation (Recommendation 115) that aged care prices should take into account the principles of competitive neutrality, the maximum rate of the Accommodation Supplement should be set a different levels depending on the tax-status of the aged care provider to ensure competitive neutrality in government funded service provision.**

## APPENDIX D – Geographic Variation in Costs

This Appendix examines the extent to which capital costs vary by region and explores the extent to which the maximum rate of the Accommodation Supplement should also vary by region.

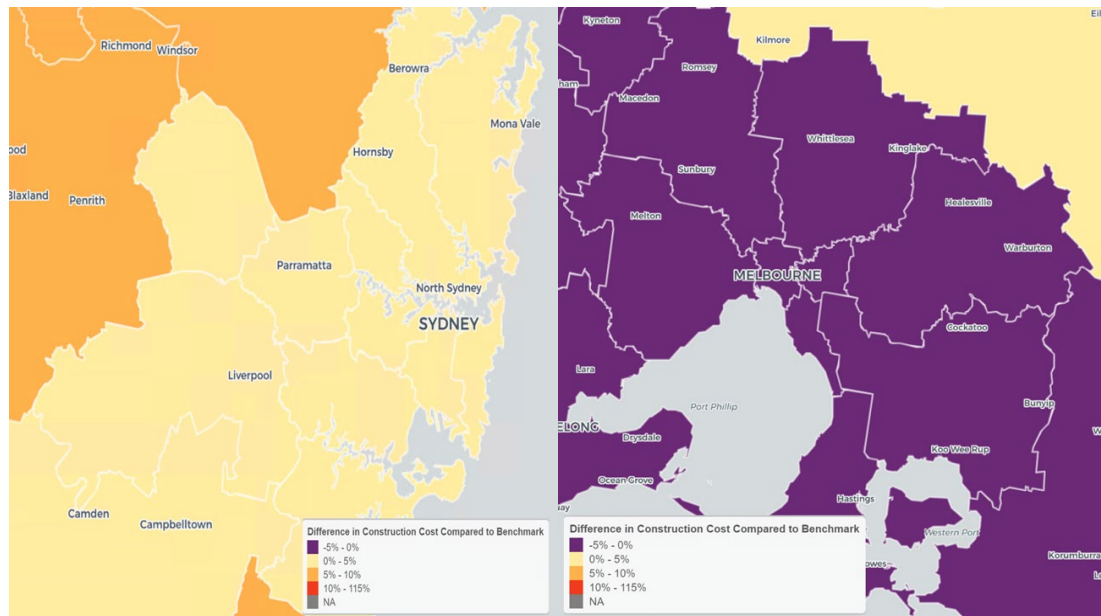
Exhibit 15 below illustrates how building costs, including material prices, labour costs and shipping costs to regional and remote areas, vary across Australia. The relativities are drawn from historical construction costs in a database maintained by MBMpl and were developed by the Technical Advisors to the National Disability Insurance Scheme’s 2023 Review of the Pricing Arrangements for Specialist Disability Accommodation.<sup>33</sup>

*Exhibit 21: Variation in Construction Costs, Australia*



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<sup>33</sup> Ernst and Young. (2023). *NDIA SDA Pricing Review 2022 23: Technical Report – Geographic Variation In Construction Costs*. Accessed November 2025 at: <https://dataresearch.ndis.gov.au/media/3661/download?attachment>.  
Australia. National Disability Insurance Agency. (2023). *National Disability Insurance Scheme Specialist Disability Accommodation Pricing Review: Final Report*, pp. 37-38. Accessed November 2025 at: <https://www.ndis.gov.au/media/6060>.



Another factor, not represented in these maps, which increases building costs in some regions is the design and engineering requirements for aged care homes that are prone to cyclone level winds. The cost premium relates to additional works including window protection, increased specification to various construction elements, increase in structural requirements and additional roof framing.

This is estimated to add 15% to building costs. The SA 4 Regions that are affected by cyclones are: Cairns, Townsville, Mackay Isaac Whitsunday, Central Queensland, Queensland Outback, Darwin, Western Australia Outback [North], Western Australia Outback [South], and Northern Territory Outback.

As Exhibit 12, which is based on 2022-23 data, illustrates, the cost of land also varies considerably across Australia and within cities.<sup>34</sup>

<sup>34</sup> Australia. National Disability Insurance Agency. (2023). *National Disability Insurance Scheme Specialist Disability Accommodation Pricing Review: Final Report*. Accessed November 2025 at: <https://www.ndis.gov.au/media/6060>.

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**Exhibit 22: Variation in the Cost of Land, Australia, Greater Sydney, and Greater Melbourne, 2022-23**

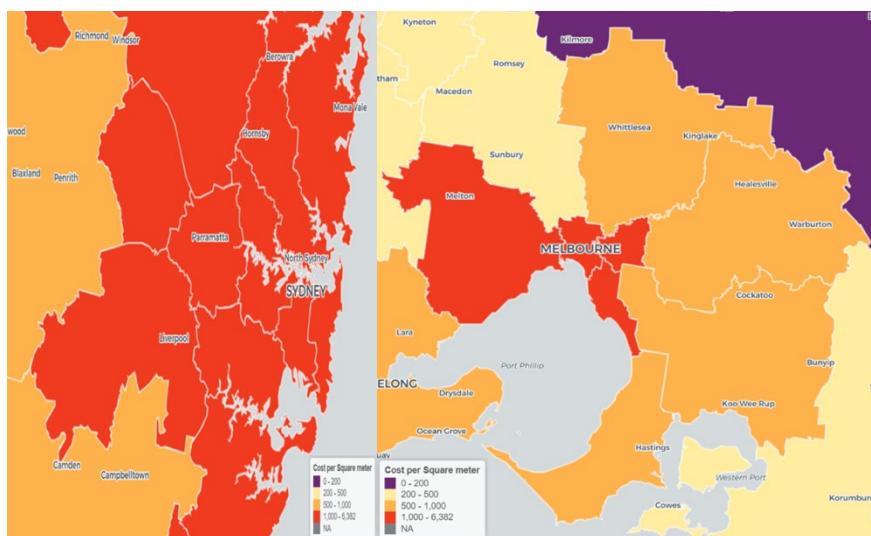
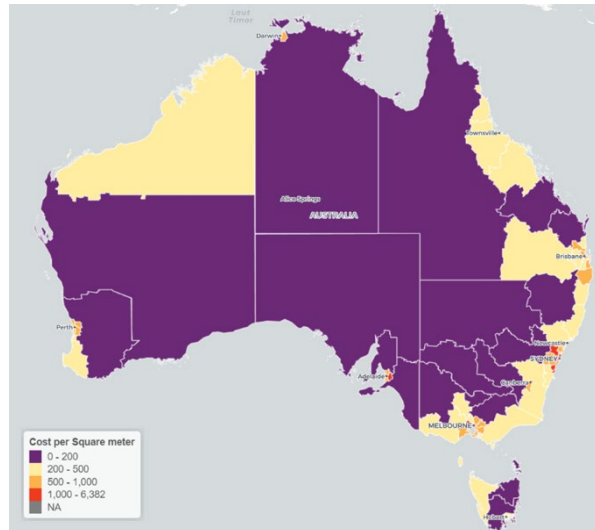


Exhibit 16 illustrates how land and building costs vary across the 88 SA4 regions of Australia and how this variation impacts on the necessary level of the maximum rate of the Accommodation Supplement – if residential aged care places are to be built for low-means residents.<sup>35</sup> (Note, calculations in this table are based on the ‘average’ provider WACC).

<sup>35</sup> SA4 regions are the largest sub-State regions in the Main Structure of the Australian Statistical Geography Standard (ASGS). In regional areas, SA4s tend to have populations between 100,000 -and 300,000. In metropolitan areas, SA4s tend to have larger populations (300,000 - 500,000).

Exhibit 23: Variation in Build and Land Costs, SA4 Regions

	Build Cost Multiplier	Cyclone Multiplier	Adjusted Build Cost	Land Multiplier	Adjusted Land Cost	Adjusted Total Cost	Max. Daily Acc. Supp.	Relative Price
Baseline Costs			\$549,710		\$180,481	\$739,215	\$156.43	
<b>New South Wales</b>								
Sydney - Baulkham Hills and Hawkesbury	5.0%	0.0%	\$577,196	7.6%	\$194,152	\$781,055	\$164.12	4.9%
Sydney - Blacktown	0.0%	0.0%	\$549,710	11.1%	\$200,497	\$760,232	\$158.92	1.6%
Sydney - City and Inner South	0.0%	0.0%	\$549,710	455.3%	\$1,002,134	\$1,601,950	\$258.88	65.5%
Sydney - Eastern Suburbs	0.0%	0.0%	\$549,710	442.1%	\$978,457	\$1,577,090	\$255.92	63.6%
Sydney - Inner South West	0.0%	0.0%	\$549,710	65.6%	\$298,921	\$863,578	\$171.20	9.4%
Sydney - Inner West	0.0%	0.0%	\$549,710	228.4%	\$592,670	\$1,172,013	\$207.82	32.9%
Sydney - North Sydney and Hornsby	1.0%	0.0%	\$555,207	124.4%	\$405,063	\$980,523	\$185.63	18.7%
Sydney - Northern Beaches	1.0%	0.0%	\$555,207	150.6%	\$452,274	\$1,030,094	\$191.51	22.4%
Sydney - Outer South West	2.0%	0.0%	\$560,704	-36.9%	\$113,957	\$680,359	\$150.53	-3.8%
Sydney - Outer West and Blue Mountains	6.0%	0.0%	\$582,693	-45.3%	\$98,721	\$686,349	\$153.42	-1.9%
Sydney - Parramatta	0.0%	0.0%	\$549,710	54.1%	\$278,045	\$841,657	\$168.59	7.8%
Sydney - Ryde	0.0%	0.0%	\$549,710	92.9%	\$348,137	\$915,253	\$177.33	13.4%
Sydney - South West	0.0%	0.0%	\$549,710	0.0%	\$180,481	\$739,215	\$156.43	0.0%
Sydney - Sutherland	0.0%	0.0%	\$549,710	69.3%	\$305,561	\$870,549	\$172.02	10.0%
Capital Region	9.0%	0.0%	\$599,184	-69.1%	\$55,855	\$657,832	\$151.67	-3.0%
Central Coast	7.0%	0.0%	\$588,190	-22.0%	\$140,847	\$736,079	\$159.87	2.2%
Central West	18.0%	0.0%	\$648,658	-82.7%	\$31,238	\$681,457	\$159.38	1.9%
Coffs Harbour - Grafton	11.0%	0.0%	\$610,178	-74.8%	\$45,395	\$657,843	\$152.76	-2.3%
Far West and Orana	32.0%	0.0%	\$725,617	-91.9%	\$14,542	\$740,886	\$174.06	11.3%
Hunter Valley exc Newcastle	5.0%	0.0%	\$577,196	-69.0%	\$55,863	\$635,851	\$146.88	-6.1%
Illawarra	5.0%	0.0%	\$577,196	7.5%	\$193,975	\$780,869	\$164.10	4.9%
Mid North Coast	8.0%	0.0%	\$593,687	-73.3%	\$48,142	\$644,236	\$149.51	-4.4%
Murray	4.0%	0.0%	\$571,698	-85.2%	\$26,661	\$599,692	\$142.04	-9.2%
New England and North West	7.0%	0.0%	\$588,190	-88.1%	\$21,452	\$610,714	\$144.98	-7.3%
Newcastle and Lake Macquarie	4.0%	0.0%	\$571,698	-14.9%	\$153,645	\$733,026	\$157.87	0.9%
Richmond - Tweed	12.0%	0.0%	\$615,675	-53.4%	\$84,192	\$704,077	\$158.79	1.5%
Riverina	9.0%	0.0%	\$599,184	-86.8%	\$23,808	\$624,182	\$147.67	-5.6%
Southern Highlands and Shoalhaven	8.0%	0.0%	\$593,687	-64.4%	\$64,270	\$661,170	\$151.52	-3.1%
<b>Victoria</b>								
Melbourne - Inner	-2.0%	0.0%	\$538,716	182.6%	\$510,004	\$1,074,220	\$195.12	24.7%
Melbourne - Inner East	-2.0%	0.0%	\$538,716	78.5%	\$322,236	\$877,064	\$171.71	9.8%

Australian Bureau of Statistics. (2021). *Australian Statistical Geography Standard (ASGS) Edition 3*. Accessed November 2025 at: <https://www.abs.gov.au/statistics/standards/australian-statistical-geography-standard-asgs-edition-3/jul2021-jun2026>.

## Compassionate people, dedicated to care

	Build Cost Multiplier	Cyclone Multiplier	Adjusted Build Cost	Land Multiplier	Adjusted Land Cost	Adjusted Total Cost	Max. Daily Acc. Supp.	Relative Price
Melbourne - Inner South	-2.0%	0.0%	\$538,716	69.6%	\$306,163	\$860,187	\$169.70	8.5%
Melbourne - North East	-2.0%	0.0%	\$538,716	-45.7%	\$98,064	\$641,683	\$143.76	-8.1%
Melbourne - North West	-2.0%	0.0%	\$538,716	-71.1%	\$52,189	\$593,514	\$138.04	-11.8%
Melbourne - Outer East	-2.0%	0.0%	\$538,716	-52.9%	\$84,981	\$627,946	\$142.13	-9.1%
Melbourne - South East	-2.0%	0.0%	\$538,716	-32.6%	\$121,670	\$666,469	\$146.70	-6.2%
Melbourne - West	-2.0%	0.0%	\$538,716	-9.4%	\$163,553	\$710,447	\$151.92	-2.9%
Ballarat	-2.0%	0.0%	\$538,716	-71.3%	\$51,858	\$593,166	\$138.00	-11.8%
Bendigo	-2.0%	0.0%	\$538,716	-69.5%	\$55,018	\$596,484	\$138.39	-11.5%
Geelong	-2.0%	0.0%	\$538,716	-32.2%	\$122,403	\$667,239	\$146.79	-6.2%
Hume	2.0%	0.0%	\$560,704	-87.2%	\$23,177	\$585,040	\$139.21	-11.0%
Latrobe - Gippsland	-1.0%	0.0%	\$544,213	-82.1%	\$32,277	\$578,103	\$136.75	-12.6%
Mornington Peninsula	-2.0%	0.0%	\$538,716	-44.0%	\$100,983	\$644,748	\$144.12	-7.9%
North West Victoria	4.0%	0.0%	\$571,698	-90.6%	\$16,950	\$589,496	\$140.83	-10.0%
Shepparton	-1.0%	0.0%	\$544,213	-83.3%	\$30,210	\$575,934	\$136.49	-12.7%
Warrnambool and South West	1.0%	0.0%	\$555,207	-78.7%	\$38,529	\$595,663	\$139.93	-10.5%
<b>Queensland</b>								
Brisbane - East	-3.0%	0.0%	\$533,219	-31.2%	\$124,135	\$663,560	\$145.81	-6.8%
Brisbane - North	-3.0%	0.0%	\$533,219	0.4%	\$181,188	\$723,467	\$152.92	-2.2%
Brisbane - South	-3.0%	0.0%	\$533,219	13.4%	\$204,576	\$748,024	\$155.84	-0.4%
Brisbane - West	-3.0%	0.0%	\$533,219	2.1%	\$184,358	\$726,794	\$153.32	-2.0%
Brisbane Inner City	-3.0%	0.0%	\$533,219	100.6%	\$361,973	\$913,291	\$175.47	12.2%
Cairns	5.0%	15.0%	\$663,775	-78.6%	\$38,697	\$704,407	\$163.60	4.6%
Darling Downs - Maranoa	15.0%	0.0%	\$632,167	-94.8%	\$9,304	\$641,936	\$153.05	-2.2%
Central Queensland	7.0%	15.0%	\$676,418	-82.5%	\$31,674	\$709,676	\$165.48	5.8%
Gold Coast	-3.0%	0.0%	\$533,219	-37.8%	\$112,217	\$651,047	\$144.32	-7.7%
Ipswich	-3.0%	0.0%	\$533,219	-68.5%	\$56,876	\$592,939	\$137.42	-12.1%
Logan - Beaudesert	12.0%	0.0%	\$615,675	-68.6%	\$56,644	\$675,151	\$155.36	-0.7%
Mackay - Isaac - Whitsunday	12.0%	15.0%	\$708,026	-75.1%	\$45,014	\$755,291	\$174.03	11.3%
Moreton Bay - North	1.0%	0.0%	\$555,207	-54.6%	\$81,960	\$641,265	\$145.34	-7.1%
Moreton Bay - South	-1.0%	0.0%	\$544,213	-50.8%	\$88,713	\$637,362	\$143.79	-8.1%
Sunshine Coast	-2.0%	0.0%	\$538,716	-63.0%	\$66,843	\$608,901	\$139.86	-10.6%
Toowoomba	-1.0%	0.0%	\$544,213	-77.4%	\$40,732	\$586,981	\$137.81	-11.9%
Townsville	9.0%	0.0%	\$599,184	-77.7%	\$40,207	\$641,401	\$149.72	-4.3%
Wide Bay	3.0%	0.0%	\$566,201	-85.5%	\$26,153	\$593,662	\$140.78	-10.0%
Queensland - Outback	65.0%	15.0%	\$1,043,075	-89.4%	\$19,084	\$1,063,113	\$243.78	55.8%
<b>Western Australia</b>								
Perth - Inner	7.0%	0.0%	\$588,190	101.1%	\$362,904	\$969,239	\$187.56	19.9%
Perth - North East	7.0%	0.0%	\$588,190	-52.9%	\$85,077	\$677,521	\$152.92	-2.2%
Perth - North West	7.0%	0.0%	\$588,190	-21.8%	\$141,130	\$736,377	\$159.90	2.2%

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	Build Cost Multiplier	Cyclone Multiplier	Adjusted Build Cost	Land Multiplier	Adjusted Land Cost	Adjusted Total Cost	Max. Daily Acc. Supp.	Relative Price
Perth - South East	27.0%	0.0%	\$698,132	-45.8%	\$97,816	\$800,838	\$178.45	14.1%
Perth - South West	14.0%	0.0%	\$626,669	-33.0%	\$121,012	\$753,732	\$165.78	6.0%
Bunbury	33.0%	0.0%	\$731,114	-73.5%	\$47,899	\$781,409	\$179.42	14.7%
Mandurah	7.0%	0.0%	\$588,190	-70.0%	\$54,213	\$645,113	\$149.07	-4.7%
Wheat Belt	26.0%	0.0%	\$692,635	-89.2%	\$19,577	\$713,191	\$167.50	7.1%
Western Australia - Outback (North)	65.0%	15.0%	\$1,043,075	-71.3%	\$51,754	\$1,097,416	\$247.86	58.4%
Western Australia - Outback (South)	65.0%	15.0%	\$1,043,075	-91.1%	\$16,072	\$1,059,951	\$243.41	55.6%
<b>South Australia</b>								
Adelaide - Central and Hills	2.0%	0.0%	\$560,704	-6.5%	\$168,735	\$737,876	\$157.36	0.6%
Adelaide - North	16.0%	0.0%	\$637,664	-54.4%	\$82,350	\$724,131	\$163.35	4.4%
Adelaide - South	8.0%	0.0%	\$593,687	-28.8%	\$128,544	\$728,658	\$159.53	2.0%
Adelaide - West	12.0%	0.0%	\$615,675	-6.8%	\$168,261	\$792,349	\$169.28	8.2%
Barossa - Yorke - Mid North	31.0%	0.0%	\$720,120	-88.9%	\$20,111	\$741,236	\$173.56	10.9%
South East South Australia	17.0%	0.0%	\$643,161	-87.9%	\$21,889	\$666,144	\$157.01	0.4%
South Australia - Outback	54.0%	0.0%	\$846,553	-91.4%	\$15,542	\$862,872	\$200.53	28.2%
<b>Tasmania</b>								
Hobart	4.0%	0.0%	\$571,698	-61.9%	\$68,756	\$643,892	\$147.29	-5.8%
Launceston and North East	10.0%	0.0%	\$604,681	-86.5%	\$24,428	\$630,331	\$148.95	-4.8%
South East Tasmania	20.0%	0.0%	\$659,652	-93.5%	\$11,653	\$671,888	\$159.33	1.9%
West and North West Tasmania	18%	0.0%	\$648,658	-80.9%	\$34,491	\$684,873	\$159.78	2.1%
<b>Australian Capital Territory</b>								
ACT - Australian Capital Territory	0.0%	0.0%	\$549,710	-26.4%	\$132,825	\$689,177	\$150.49	-3.8%
<b>Northern Territory</b>								
Darwin	29.0%	15.0%	\$815,495	-48.3%	\$93,263	\$913,421	\$203.45	30.1%
Northern Territory - Outback	87.0%	15.0%	\$1,182,151	-86.5%	\$24,289	\$1,207,655	\$274.73	75.6%

The required maximum rate of the Accommodation Supplement is below the average maximum rate derived above in 43 out of 88 SA 4 regions and is higher in 44 regions.

The required maximum rate of the Accommodation Supplement varies between \$136.49 per day in Shepperton, Victoria, where building costs are 1.0% below the benchmark and land costs are 83.3% below the benchmark, to \$274.73 per day in Outback Northern Territory, where building costs are 115.1% above the benchmark and land costs are 86.5% below the benchmark.

In the capital cities, the required maximum rate of the Accommodation Supplement varies between \$258.88 per day in Sydney – City and Inner South, where building costs are at the benchmark and land costs are 455.3% above the benchmark, to \$138.04 per day in Melbourne

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North West, where building costs are 2.0% below the benchmark and land costs are 71.1% below the benchmark.

Given the extent of these variations there would be considerable merit in adopting the same approach as has been adopted by the National Disability Insurance Scheme – namely, setting the maximum rate of the Accommodation Supplement at different levels in in different regions.

### **Recommendation 3: Recognise that Building and Land costs vary by Region**

**The maximum rate of the Accommodation Supplement should be set a different levels in different regions based on land costs and building costs in the various regions.**