

Important NRAS information from
federal Department of Families,
Housing, Community Services
and Indigenous Affairs
(FaHCSIA)
on National Rental Affordability
Scheme Investment.

About the Scheme

The National Rental Affordability Scheme (NRAS) is a long term commitment by the Australian Government to investors prepared to build affordable rental housing.

NRAS seeks to address the shortage of affordable rental housing by offering tax-free financial incentives to the business sector and not for profit housing organisations to build and rent affordable dwellings.

Through this, NRAS will:

- increase the supply of new affordable rental housing;
- reduce rental costs for low and moderate income households; and
- encourage large scale investment and innovative management of affordable housing.



About the Scheme

The financial incentive, payable either as a grant or refundable tax offset, is paid annually for up to 10 years. To remain eligible to receive the incentive, known as the NRAS Incentive, the investor must rent their property to low and moderate income households at 20 per cent below market rates.

The Australian Government has committed more than \$1 billion to the Scheme over four years, to stimulate construction of up to 50,000 high quality homes and apartments.

NRAS is not a public housing program; it is a tax incentive to induce more private investment in the lower price range of the residential construction market.



A new asset class

NRAS is a new opportunity for government, debt and equity investors, property developers and not for profit housing organisations to work together to increase the supply of affordable private rental housing and create a new ongoing asset class in Australia.

It recognises that governments have a role in creating and encouraging new markets. The Australian Government has made a 10 year financial commitment to NRAS. NRAS has bipartisan support.

The United States Government successfully implemented a similar program in the 1980s, resulting in over 1.5 million homes being built and US\$5 billion in tax credits being paid annually.

NRAS is a new investment program for Australia, and based on the US experience, will take a number of years to fully develop. The Australian Government is committed to working with State and Territory governments, the business sector and not for profit housing organisations to ensure the Scheme's success.



A new asset class

NRAS is well underway with over 11,000 Incentives allocated to investors to build affordable homes across Australia.

The design and quality of NRAS dwellings compare favourably with any private non-NRAS dwelling. Typically, they are indistinguishable from other 'middle-market' dwellings.

Rigorous selection criteria are applied by the Australian Government to the location, design and amenity of NRAS dwellings to ensure quality properties are built to the highest standards and comply with State, Territory and Local Government planning and building codes and requirements.

What do investors get?

NRAS offers a substantial annual tax-free incentive, the NRAS Incentive, for every dwelling built under its auspices.

Investors need to apply for NRAS Incentives, and if offered, must agree to rent approved dwellings at 20 per cent or more below current market rates, to low and moderate income households.

The NRAS Incentive is a funding stream not available to standard residential property investors. Each approved dwelling attracts the NRAS Incentive for 10 years, so long as investors continue to comply with conditions around tenant eligibility and rent discounts.

The annual income-tax free Incentive is currently \$9,140 per dwelling, and is indexed each year to the rental component of the CPI.

What do investors get?

The Incentive comprises:

- an Australian Government contribution of \$6,855 per dwelling per year (as a refundable tax offset or payment); and
- a State or Territory Government contribution of \$2,285 per dwelling per year (in direct or in-kind financial support).

The Incentive provided under the Scheme assists investors and property developers to work up proposals that offer an attractive and competitive rate of return.

The Government is committed to ensuring that the full value of the NRAS Incentive is passed to all investors. Prospective investors are encouraged to talk to the Australian Tax Office before finalising their investment structure or applying for NRAS Incentives, to ensure this policy objective is achieved.

The Australian Government has no legal or equitable claim over an NRAS property.

Benefits of investing in NRAS



NRAS investors can expect to benefit from the annual NRAS Incentive, rental yields and capital gain.

NRAS is intended to be a commercial, profitable investment for participants, while also assisting Australia to increase the supply of affordable housing.

With returns on direct residential property proving higher than returns on office or industrial property over the last 10 years, *residential property has proven a profitable investment.

While house prices have fallen substantially globally, the Australian housing sector has shown resilience, primarily due to strong fundamentals – vacancy rates, high population growth, insufficient housing stock, high employment and sound lending practices.

* Ernst and Young Comparative Analysis 2009. Based on 1998-2008 IBISWorld data.

Benefits of investing in NRAS



Demand for residential property is high with the National Housing Supply Council's *State of Supply Report 2010* estimating a current housing supply deficit of 178,400 homes across Australia.

Partly due to the shortfall in supply, the residential rental market represents a good long-term investment. Independent financial modelling of the NRAS Incentive shows that it can provide market rates of return at levels that are strongly competitive with other asset classes.

The Australian Government commissioned a free financial modelling tool, available to interested investors.

Compared with a conventional residential investment property, in certain markets the NRAS Incentive can provide a better cash return to investors than the receipt of full market rent.

Benefits of investing in NRAS



In addition, investors are able to apply property expenses and non-cash deductions and allowances against a lower assessable rental income, increasing the negative gearing benefit.

NRAS can counterbalance the risk and volatility of equity markets and assist in providing a balanced portfolio. It offers great flexibility, with investors encouraged to develop portfolios with diverse dwelling types across different locations.

With more than 1.5 million households eligible to rent NRAS properties, the vacancy risk is negligible.

How can investors participate in NRAS?

Interested investors need to apply to the Australian Government for an allocation of NRAS Incentives.

Investors at scale may apply for NRAS Incentives for individual projects, or partner with not for profit housing providers and property developers to build properties in different locations. Consortiums and non entity joint ventures are common models for NRAS projects.

Because NRAS aims to encourage large-scale investment in affordable housing, NRAS Incentives cannot be applied for by small-scale, individual investors.

Instead, individuals who are interested in purchasing just one or two NRAS properties as an investment can become involved by approaching entities who are applying or already have a larger allocation of NRAS Incentives.

How can investors participate in NRAS?

Entities operating as investment vehicles for small-scale investors might be superannuation funds, property trusts or consortiums with many individual investors taking part.

NRAS applicants include institutional investors, individual investors, private developers and not for profit housing providers that build, own and manage NRAS dwellings.

Many investors will need finance to help purchase an NRA property.

The Australian Government is working with, and keeping the finance sector up-to-date about NRAS to ensure all loan applications involving NRAS properties can be assessed on the particular project proposal, loan conditions, surety and the ability of the applicant to service the loan.

The Government encourages investors to work with their lending institutions to provide detailed information about the structure of their NRAS proposals.

Partnering with not for profit housing providers

The not for profit housing sector has grown rapidly over the past five years – increasing by 30 per cent between 2003 and 2008 – and many larger not for profit housing providers are seeking to enter into commercial relationships with private investors to build NRAS homes.

The Community Housing Federation of Australia (CHFA) can link private investors with not for profit housing providers and other organisations seeking partners for NRAS projects.

The Australian Government is working with the not for profit sector, investors, tenant groups, developers and the business community to develop ways to strengthen the not for profit housing sector through regulation. The regulation will support the growth and sustainability of not for profit housing developers and tenant managers in Australia, and reduce compliance costs of investors working across state and territory borders.



Property and tenant management

As with any private investment property, there are a range of property and tenant management services that need to be performed for all NRAS properties.

NRAS investors must appoint a tenancy and/or property manager to provide services including selection of tenants and periodic assessment of their ongoing eligibility to rent an NRAS property, as well as property maintenance.

A tenant manager can be contracted on a fee-for-service basis by an investor, or be part of the consortium which applies for NRAS Incentives.

Standard State and Territory residential tenancy laws apply to NRAS properties just as they do for any private residential investment. This includes laws applying to registration and licensing requirements for tenant managers.

NRAS tenants and landlords are regulated under State and Territory tenancy laws – exactly the same rules regarding evictions, maintenance obligations and responsibilities of tenants apply to NRAS tenants as apply to other tenants in the private market.

NRAS tenants

NRAS tenants tend to be key workers, such as childcare workers, nurses, police officers, fire-fighters and paramedics. Approximately 1.5 million households are currently eligible to rent NRAS properties.

Investors can pick any tenants for NRAS properties*, as long as these tenants do not exceed a certain income threshold.

Income levels for eligible NRAS tenants are generous and allow for tenant salary increases of 25 per cent above the entry income limit.

For example, a couple with three children, earning a gross income of \$100,768 per annum, is eligible to rent an NRAS dwelling. With the income increase allowance of 25 per cent, this family could earn up to \$125,960 for two years before they become ineligible to remain in an NRAS property.

•The only exception to this is Queensland, where tenants must be chosen from a list centrally compiled by the Queensland Government.

NRAS tenants



Household Type	Entry income level (\$)	Upper income level to maintain eligibility (\$)
Single person	42,386	52,983
Two adults	58,596	73,246
Sole parent with 1 child	58,638	73,298
Sole parent with 2 children	72,695	90,869
Couple with 1 child	72,653	90,817
Couple with 2 children	86,710	108,388
Couple with 3 children	100,768	125,960

Applying for NRAS



Application rounds, with different minimum dwelling levels, are advertised in national newspapers, industry publications.

Applications for NRAS are submitted in the form of a proposal which may include one or more projects. For each project applicants need to provide detailed responses to each criterion and documentation to support their claims so the proposal can be fully assessed.

Applicants will need to nominate a location and provide details about the dwellings, expected tenants, tenancy and property management arrangements, expected rent structure and project status. It is not essential for the proposal to provide specific location details, as long as the applicant includes the postcode area for each NRAS dwelling.

Applying for NRAS

Where relevant, proposals should also include building plans, development approvals, finance offers, Memoranda of Understanding or agreements, and any other evidence of the viability and ownership structure of participants.

Applications are assessed by both the Australian Government (delegates in the Department of Families, Housing, Community Services and Indigenous Affairs – FaHCSIA) and the relevant State or Territory housing representative as quickly as possible after lodgement.

For complete and correct applications, FaHCSIA is endeavouring to make decisions within eight weeks.

Key facts about NRAS

- NRAS dwellings are private property. No Government holds caveats or claims over NRAS properties.
- NRAS homes can be bundled with non-NRAS properties: they may be only a minority of a new multi-storey development, with other properties sold off-the-plan to homebuyers and individual investors.
- NRAS dwellings can be sold without penalty during the 10 year holding period:
 - a dwelling can be sold to another investor who undertakes to comply with NRAS obligations; or
 - an equivalent dwelling can be offered as a substitute dwelling for the remaining part of the 10-year period.
- At the end of the NRAS 10 year period, properties revert to full control of the investor, who has no ongoing obligations to the Australian Government.



Key facts about NRAS

- Where dwellings are approved under NRAS, investors should be aware that this does not mean that the Australian Government endorses, guarantees or secures the investment in any way.
- The Australian Government has made a 10 year commitment to NRAS. The Scheme is managed and regulated under the legislative framework provided through the *National Rental Affordability Scheme Act 2008*.

Key facts about NRAS



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