National Rental Affordability Scheme - NRAS

About the NRAS 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.

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 a rate that is at least 20 per cent below prevailing market rates.

The Australian Government is committed to stimulating the construction of 50,000 high quality homes and apartments. Up to 35,000 new dwellings will be supported in the years up to 2014-15, with a further 15,000 dwellings to be supported beyond 2014-15.

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.

NRAS is well underway with over 22,000 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, all of which must also 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 a rate that is at least 20 per cent below prevailing 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 relating to tenant eligibility and rent discounts.

The annual income-tax free Incentive is currently $10,350 per dwelling (2013/14), and is indexed each year to the rental component of the CPI. The Incentive comprises:

- an Australian Government contribution of $7,763 per dwelling per year (as a refundable tax offset or payment); and
- a State or Territory Government contribution of $2,587 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 higher returns on direct residential property than returns on office or industrial property over the last 10 years residential property can be a profitable investment.

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

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.

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.

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.

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 which is generally a Property Manager at a Real Estate Agents office. This person provides services including selection of tenants and periodic assessment of their ongoing eligibility to rent an NRAS property, as well as property maintenance. The property managers have generally been identified by the NRAS consortium that has developed the property. The advantage of this is they are educated on all elements of NRAS relating to tenancy & complying with regulations.

A tenancy 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 tenancy managers.

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

NRAS tenants (As of July 2013)

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 $109,264 per annum, is eligible to rent an NRAS dwelling. With the income increase allowance of 25 per cent, this family could earn up to $136,580 for two years before they become ineligible to remain in an NRAS property.

Household composition	Initial household income limit ($)	Existing tenant income limit ($)*
One adult	45,956	57,445
Two adults	63,535	79,419
Three adults	81,114	101,393
Four adults	98,693	123,366
Sole parent with one child	63,579	79,474
Sole parent with two children	78,822	98,528
Sole parent with three children	94,065	117,581
Couple with one child	78,778	98,473
Couple with two children	94,021	117,526
Couple with three children	109,264	136,580

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.
- 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*.

Frequently Asked Questions:

Where can I find out more on the NRAS scheme?

The Department of Families, Housing, Community Services & Indigenous Affairs (FaHCSIA) display detailed information in regards to how NRAS functions in consultation with the Australian Taxation Office.

http://www.dss.gov.au/sites/default/files/documents/05_2013/nras_fact_sheet_may2013.pdf

Who can rent an NRAS dwelling?

Income levels for eligible NRAS tenants accommodate a range of low & moderate incomes.

One of the original aims of the scheme was to assist service people within our community to afford housing closer to the locations where they service communities. This included Police, Nursing, Teachers, Fire Fighters, Ambulance Officers and other similar service roles. Another inclusion is Australia's largest employment sector primarily very closely identifies with the NRAS income levels being the "Retail Sector". This was simply a more affordable option for the Government.

Interestingly it is said that the initial single adult income was bench marked against a Division 2 Nurse working 0.6 or 3 days per week. There are more Division 2 Nurses in Australia than any other medical role & more working part time than full time.

To allow for income increases above CPI, increases of up to 25% above the initial income limits for 2 years after entering the NRAS dwelling are allowed before becoming ineligible for discounted rent.

Who is responsible for checking the income of the tenant?

The tenancy manager is responsible for ensuring that tenants meet the Scheme's eligibility criteria on an ongoing basis.

How does the tenancy manager check tenant's incomes?

Tenancy managers should take responsible steps to accurately determine the household income of NRAS tenants. Documents that may assist in determining the household income are:

- Copies of Payslips
- Notices of assessment for Annual Income Tax Returns
- Letters from Employers
- Statements from Superannuation Funds
- Statements from Centrelink
- Statements of rents paid

How tenants are selected for NRAS dwellings?

Tenancy managers accept applications from new tenants & often will have substantial waiting lists for NRAS properties.

Assessment and selection of the tenant is at the discretion of the property owner & tenancy manager as long as eligibility requirements are met. Tenancy decisions will always be made in the usual policies and processes as per any standard tenancy once eligibility is met.

What are the requirements of an NRAS approved dwelling?

NRAS dwellings must meet certain criteria:

- The dwelling must be either brand new – that is, it must not have been previously lived in as a residence, or, if it was previously uninhabitable and has been made habitable for the purposes of NRAS, it must not have been lived in as a residence since it was made fit for living in.
- The dwelling must be rented at a rate that is at least 20 per cent below the market value rent.
- Where a dwelling has not been lived in as a residence before but has been converted to create additional residences, then a part of the dwelling or building that is capable of being lived in as a separate residence must not have been lived in as a separate residence before the first day of the incentive period.
- A rental dwelling under the Scheme is a dwelling for which rent is payable and includes (but is not limited to):
    - a part of a dwelling or building that is capable of being lived in as a separate residence
    - a unit that is a dwelling but does not include a caravan, houseboat or other kind of mobile dwelling
- The tenants of NRAS dwellings must meet the income requirements prescribed by the Regulations.
- The dwelling must obtain an NRAS certification before being sold to a Property Investor.

How is market value rent determined for an NRAS dwelling?

In years one, four and seven of the dwelling's incentive period, NRAS approved participants are required to seek a written valuation from an independent registered valuer to determine the market rent for the dwelling.

When a new lease is entered into for a dwelling, or at 12 monthly intervals for existing leases, approved participants may review the rent charged for thee dwelling based on information about the location, type and amenity of the approved dwelling and supported by publicly available data about comparative rental rates, and may then increase the rent, as long as the increase does not exceed the movement of the NRAS market index, which is determined by the Rents component of the Housing Group of the Consumer Price Index.

However, the rent charged must at all times remain at least 20 per cent below market value rent, as determined by the most recent written valuation obtained from an independent registered valuer. This is generally provided as part of the initial purchase by the property investor.

How is the NRAS incentive calculated each year?

It is calculated using the rents component of the Housing Group of the CPI for the year, December quarter to December quarter as at 1 March of the immediately preceding NRAS year, using the summary table weighted rate of eight capital cities housing component, as published in the Australian Bureau of Statistics publication Cat.no. 6401-0 – CPI, Australia, CPI: Group, Sub-group and Expenditure Class, rounded to the nearest single decimal point.

In real terms the annual increases have been virtually middle ground between CPI & the annual rental increases IE 2013 CPI was 2.5% & rental increases had averaged at 4.7% meaning the NRAS increase was a figure of 3.6% for the year.

The NRAS scheme has a safe guard for property investors as the annual rental figure is secured by valuations in Year 1 (generally before purchase), and again in Years 4 & 7. This provides an underpinning of the NRAS scheme so that investors are encouraged to see that all consideration has been balanced between the tenant with affordable rent and the property investor with the NRAS incentives & annual rental increases throughout the 10 years of the program.

When and how are the incentives paid?

If the conditions of the allocation of an incentive for a dwelling have been met, the NRAS approved participant is issued with a tax offset certificate or payment (for charitable institutions) in July each year. The State/Territory component of the incentive is generally paid in September each year, and NRAS participants should contact the relevant State/Territory government for payment details.

When is tax payable?

If private individual investors receive the Australian Government component of the incentive in cash from an approved participant, this may be assessed as taxable income.