

NRAS via QAHC

A Summary Explanation of NRAS

(The National Rental Affordability Scheme)

Via QAHC

(The Queensland Affordable Housing Consortium)

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Residential Rental Demand in Australia

- ❑ The Commonwealth Government has identified 1.5 million households nationally in housing stress that are eligible for the National Rental Affordability Scheme (NRAS).
- ❑ 200,000 of those are in Queensland. The bottom portion – approx 10% - of these households will be accommodated through the State Government Social Housing Program.
- ❑ The balance are “Middle Australia” some with household incomes in excess of \$100,000p.a.
- ❑ This program targets those renters and is NOT a Social Housing Program
- ❑ The supply shortfall to this Middle Australia Market is running at around 30,000 - 40,000 dwellings a year.



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Policy Goals of Government

The incentive has two primary policy goals.

- ❑ The first is to increase the supply of new rental housing directly into the housing market.
- ❑ The second is to improve affordability for the eligible target groups.
- ❑ NRAS will provide a investment platform to facilitate the construction of 50,000 houses nationally to be supplied into the Rental Market for “Middle Australia” families and individuals.
- ❑ The Prime Minister has said that if the program is supported by Industry and ‘demand remains strong’ a further 50,000 incentives will be offered post 2012.
- ❑ Current indications are that acceptable levels of support and demand are present



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The NRAS Scheme:

- ❑ NRAS is a Federal and State Government backed incentive scheme designed to encourage Investors to develop additional houses for the rental market.
- ❑ It has the effect of
 - Providing an affordable rent program for low & medium wage earners
 - Providing Higher than usual returns for investors in the residential market
 - Increasing the number of dwellings built to the market due to an increase in demand
- ❑ **It is NOT a social welfare program** – it targets Middle Australian Families
- ❑ It is designed to stimulate both Institutional and Private Investors to invest in rental property
- ❑ It will provide government “tax free incentives” to 50,000 new rental dwellings to be occupied between January 2009 and June 2012.



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NRAS in Summary:

- ❑ Properties that apply for and receive the NRAS Incentive can remain in the scheme for 10 years.
- ❑ There is the provision for
 - On selling the properties & leaving them in the scheme or
 - For replacing them with similar properties in the same area or
 - Exiting the Scheme with suitable notice
- ❑ Investors who wish to exit the scheme can do so by giving appropriate notice to QAHC who will make arrangements to relocate their Tenants
- ❑ There is a penalty for removing properties from the scheme in this case.
- ❑ That penalty is loss of the unpaid incentive for the NRAS year in which the property is removed from the scheme.



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NRAS Provides:

- ❑ A tax free incentive of \$9,140 (May 2010) per dwelling/year for 10 years – escalated annually at the Rental Component of CPI.
- ❑ The incentive is paid to eligible owners at the end of each tax year in two parts
 - 75% (currently \$6,855) as a tax rebate certificate from the Federal Government
 - 25% (Currently \$2,285) cash from the State Government
 - These payments are made in or about June/July
- ❑ New dwellings are required to be rented at a **minimum** discount of **20%** to market rent to eligible households
- ❑ The discount is 25% when managed via QAHC because it is a charitable Institution & ATO regulations require a **minimum 25% discount**.



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- ❑ Market Rent is assessed as the Market Value of Rents charged by similar accommodation in the Local Real Estate Rental Market and needs to be justified.
- ❑ Long term Tenancy Agreements (minimum 1 year but target 3 or 5 years) provide tenant security
- ❑ There is **No Discrimination** through discernible quality of housing.
i.e. NRAS houses will not appear to be any different to other standard rental and owner occupied properties in the Residential estates or Unit Complexes in which the NRAS dwelling is located.
- ❑ NRAS housing is usually distributed randomly through estates generally at a maximum take-up of about 30%
- ❑ But entire In-fill sites may be offered through NRAS in suitable locations with suitable Dwelling styles and mixes

[up to 100 units have been offered in some infill sites]



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- ❑ The **NRAS Incentive** is indexed annually in May each year at the rental component of CPI for all Australian Capital Cities as published by the ABS.
- ❑ **Rents** are indexed annually at the rental component of CPI for the Capital city of the State where the property is located.
- ❑ Australia wide Rental Component Indexation was
 - for 2008 was 8.4% and
 - for 2009 was 5.4%
- ❑ Market Values (Rents) are subject to independent assessment in year 1, and at the end of years 4 and 7. These assessments are arranged by QAHC at the Owners cost
- ❑ Suitable stock can range from studio apartments at less than \$200pw to family housing at more than \$400 pw.
- ❑ Eligible households have Income thresholds that are indexed annually at the National Rate



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- ❑ **Initial Tenant Income Levels** for eligible tenants are assessed against gross income according to the household composition as identified below
(Note: An adult is a person over 18 years of age)

❑ Household type	Initial income limit \$	Upper income limit \$
One adult	42,386	52,983
2 adults	58,596	73,246
3 adults	74,808	93,510
4 adults	91,048	113,773
Sole parent with 1 child	58,638	73,298
Sole parent with 2 children	72,695	90,869
Sole parent with 3 children	86,752	108,440
Couple with 1 child	72,653	90,817
Couple with 2 children	86,710	108,388
Couple with 3 children	100,768	125,960



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- ❑ Tenants become ineligible if their gross income exceeds the income limit for their household by 25% - The Upper Income Limit
- ❑ In that case the tenant is given 12 months to vacate the NRAS dwelling
- ❑ The housing Manager then has adequate time to arrange a new tenant
- ❑ Normal tenancy pre-checks are required and income levels do not guarantee eligibility
- ❑ Groups particularly targeted are the community “essential” persons such as policeman, fireman, teacher and nurses
- ❑ Tenants are sourced initially from each State Government’s Rental Tenant List - In Queensland this is called the “Combined Wait List”. These are tenants that have indicated Rental Stress. **They are NOT the Social Housing Tenants**
- ❑ Where there are not enough suitable tenants on the list the Property is advertised on (for instance) Realestate.com to source tenants
- ❑ These potential tenants are then assessed for income eligibility and if suitable are then placed on the States Rental List and they will be offered the property as a tenant.



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The Queensland Affordable Housing Consortium (QAHC)

- ❑ QAHC is a subsidiary of the Queensland Community Housing Coalition (QCHC) – the Industry Body for Not For Profit Housing Providers in Qld.
- ❑ QAHC is a Charitable Company specifically established to maximise the provision of NRAS funded properties to the Rental Market in Australia.
- ❑ QAHC operates throughout Australia. It is one of the most successful applicants in Australia for NRAS Housing.
- ❑ QAHC already has approvals for over 900 dwellings and currently has applications lodged for a further 3,000 dwellings in NRAS Round 3.
- ❑ The Consortium aims to provide at least 5,000 new dwellings in Queensland and around 10,000 through inter-state partnerships in other Australian States
- ❑ QAHC charges a Consortium Management Fee of \$12.65 per dwelling per week (as at May 2010). This fee is indexed annually (May 1) at the same rate as the NRAS endorsement is indexed.
- ❑ As a Charitable Company QAHC must discount Market Rent by 25.01%



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QAHC Provides

- ❑ A 10 year Head-lease to Investor owners of properties.
 - The Head-lease gives management control to QAHC and security for both the investor and Property Manager.
 - The Head Lease has been confirmed by the ATO as a “Non Entity Joint Venture” and this in turn confirms that the Tax Effective incentive payments will flow through to the investor as non taxable income

- ❑ An accredited Housing Manager for the NRAS endorsed properties or arrangements to accredit the Manager of Multi unit developments – particularly where not all units are NRAS Endorsed

- ❑ Housing Managers receive an tenancy management fee of 10% of the market rent. Their Fee is all inclusive – i.e. No extra charges.

- ❑ Where properties change ownership mid year the NRAS benefit is pro rated to the ownership period of each owner.

- ❑ QAHC provides ownership schedules to the NRAS administrators annually to ensure that Endorsements are paid to the correct Owner/Investors



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QAHC provides a Secure Income Stream achieved via a mixture of

- ❑ Management Policies,
- ❑ Self Insurance by QAHC and
- ❑ Insurance Policies that cover
 - Building replacement & Owners Contents
 - Public liability
 - Repairs for tenant damage
 - Tenant Arrears & Tenant Abandonment &
- ❑ New Tenants are sourced via Immediate Access to the State Tenant lists – an extensive potential tenant Data Base
- ❑ In the case of a “Normal Vacancy” where the outgoing tenant has met all termination obligations under the lease, the Property Manager is required to pay the rent for up to two weeks if they have not arranged a new tenant after the first 3 days of vacancy.
- ❑ Whilst not a guaranteed rent, the QAHC ‘Secured Income Stream’ provides a high degree of income-certainty for investors.



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Applications for NRAS Endorsement via QAHC

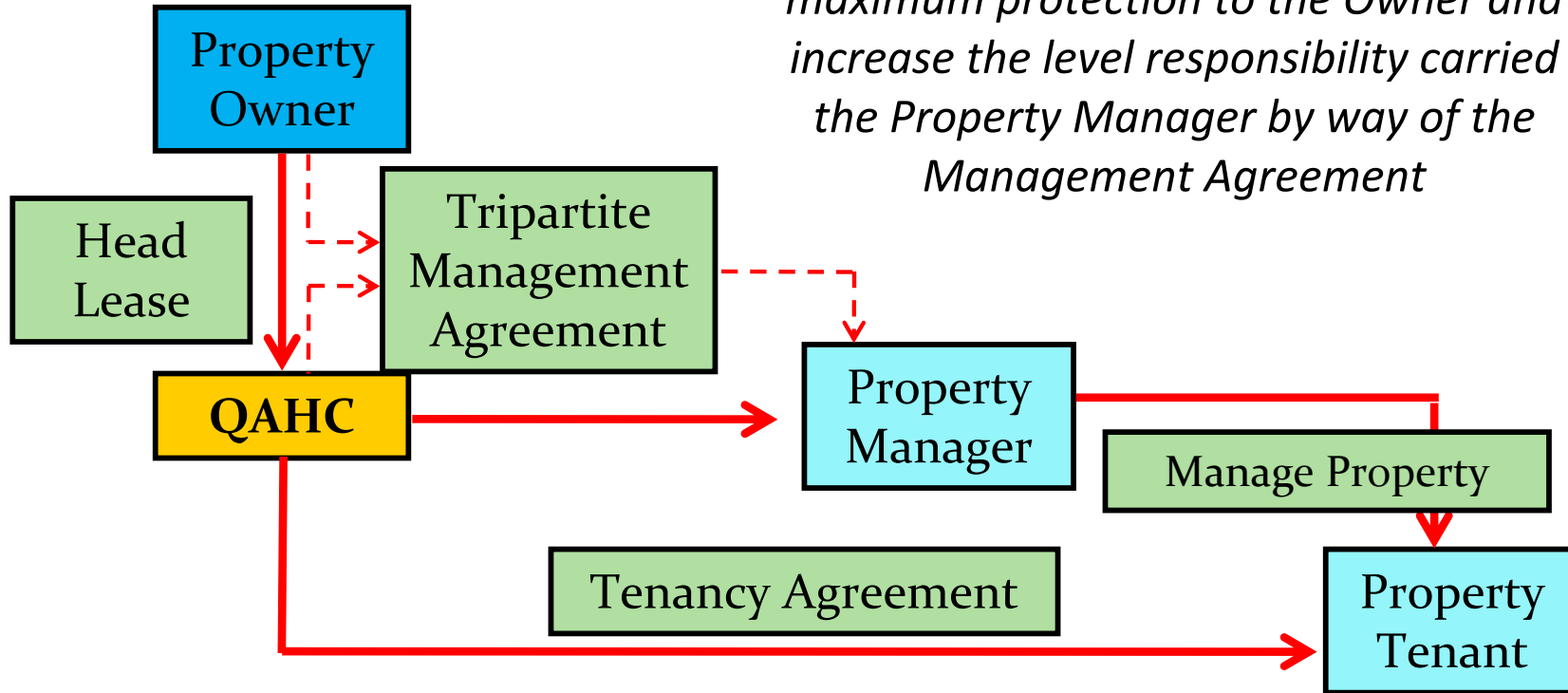
- ❑ QAHC is an Approved Applicant for NRAS.
- ❑ Developers or Builders can apply for the NRAS Incentive via the QAHC for a fee of \$125 per property
- ❑ QAHC groups property parcels together to create total parcels large enough for application to The Federal Government – currently a minimum of 1,000.
- ❑ QAHC will manage the preparation of the application using information provided by the Property Owners
- ❑ NRAS requires a comprehensive application providing full disclosure on matters such as
 - Property Type & Location and Building Inclusions & finishes
 - Management of both the Building process and the 10 year management process
 - Financial capacity of all participants
 - Access to facilities such as schools, retail shopping, transport etc.
- ❑ QAHC also manages the process of letting, appointment of the Property Manager, sourcing of tenants and reporting to NRAS for the 10 year period.



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Typical Property Management Structure

This structure is designed to give maximum protection to the Owner and increase the level responsibility carried the Property Manager by way of the Management Agreement



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A Typical NRAS Enhanced Property Investment Yield

4 Bedroom House and Land	\$400,000	
Market Rental Per Week	\$400	
NRAS Discount 25%	(\$100)	
Reduced Rent per Week to You	<u>\$300</u>	A
Tax Free Rental Annual Subsidy to You	\$9,140	
Rent Subsidy per Week – Before Tax	\$176	
Factored up at 40% Marginal Tax rate	\$15,230	
Rent Subsidy per Week – Before Tax	<u>\$292</u>	B
Effective Gross Rent per Week – Before Tax	\$592	A + B
Gain – After Tax Benefit	<u>\$192</u>	

(Before allowing for interest, expenses, cash flow factors and depreciation etc.)



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Disclaimer

- There is no relationship implied or real between Federal or State Governments and Investors
- This information as provided is not endorsed by the Australian and/or Queensland State Governments
- This information reflects the current understanding of NRAS requirements.
- This summary has been provided based on the information available at the time of preparation.
- The details should be confirmed by buyers prior to entering into unconditional contracts where the returns anticipated are subject to the relevant properties receiving NRAS Incentives.

