

Everything you need to know about the Australian Government's National Rental Affordability Scheme (NRAS)



Overview of NRAS (National Rental Affordability Scheme)

Explanation of the Government's NRAS Policy Goals and Objectives

- The first is to increase the supply of new rental housing directly into the housing market.
- The second goal is to improve affordability for the eligible target groups.
- NRAS will provide an investment platform to facilitate the construction of 50,000 houses nationally.
- The properties in the NRAS scheme purchased by an investor must be brand new and have a rental contract for a minimum of 10 years. Most of the properties range from \$200k to \$450k.
- An investor can sell the property but it must be sold to another investor to continue the term of the contract or another property must be found to substitute for the tenant.
- NRAS provides a tax free incentive of \$9140 (for May 2010) increasing with CPI for every year for 10 years.

Background of NRAS

With rents to grow at approximately from 4% - 7% p.a. over the next two years for most cities, mainly due to lack of building new dwellings, treasurer Wayne Swan launched the NRAS scheme in July 2008.

It is estimated that the upper end in rents will stay flat or fall while the middle and lower ends are expected to grow significantly.

The shortage of houses across Australia in 2008 has been estimated at 85,000 currently and possibly increasing to 213,000 by 2013, because of slow building approvals and land shortages.

The National Rental Affordability Scheme or NRAS was launched for the purpose of providing assistance and funding to increase the supply of affordable rental dwellings, reduce rental costs to low to mid income earners and to encourage investment on a large scale to provide more affordable housing.

NRAS is expected to deliver up to 50,000 affordable rental homes by 2014.

If the investor reduces the rent by 20-25% (may vary according to incentive provider) of the market rent, the government will provide an incentive of \$9,140 per annum (\$6,855 from Federal and \$2,285 from the State governments). This payment increases in line with CPI and in 2010 it is \$9,140.

Eligible tenants are determined on an income basis with the service industries such as police, teachers and nurses targeted as potential tenants.

These are incentives not Tax deductions hence they are TAX FREE which means that on 41.5% MTR (Marginal Tax Rate) before tax = \$13,675 and 31.5% MTR = \$11,679.

Reducing the rentals by 20-25% means that the negative gearing benefits (Tax deductions) increase, hence it is possible to have a negatively geared property that has a positive cash-flow.

Benefits of NRAS for Investors

- Improved Rental Yields - The minimum annual \$9,140 National Rental Incentive for each rental dwelling will improve rental yields over conventional residential investment properties.
- The national Rental Incentive is income tax free, indexed to the rental component of the Consumer Price Index (CPI) and is complemented by existing taxation arrangements including depreciation.

Reduced Risk Profile

- With rents at 20-25% below market value and a large pool of eligible tenants, investors can expect reduced vacancy risk.
- With rents at 20-25% below market value investors can be more selective in their choice of tenant.
- Certainty of contributions from the Australian and State governments for a period of 10 years.

Further Benefits

- Government subsidised properties in researched growth and high demand areas.
- Secured income stream (10 Years)
- Good Tax deductions but "Cash Flow Positive"
- Maintained and managed by "Not for Profit" organisation
- In excess of \$90,000 Tax Credits over 10 Years

- The incentives are paid to the owner at the end of each tax year with \$6,855 as a tax offset which comes in the form of a certificate from the federal government at the end of the financial year and \$2285 cash from the state government around September every year.
- The dwellings are rented at a discount of up to 20-25% below market rent. The properties are managed by a charity or non-profit organisation.
- Market rent is assessed by a register valuation and not a market appraisal. The Valuer completes a full valuation on the 1st, 4th and 7th years and desktop valuation the other years to ensure the property remains at 20-25% below market. You will receive 75-80% of the increase.
- Up to 30% of the land subdivision can be submitted for NRAS where entire blocks of units can be NRAS approved.
- Benefits are indexed annually to CPI.
- The tenants become ineligible if their incomes exceed the limit for 2 consecutive years. They are then given 12 months notice to vacate the premise.
- The government's aim is to target people in the service industry eg. Police Officers, Teachers and Nurses.

Why NRAS is Not the same as Social Housing

- A family can enter as a “social housing tenant” earning up to \$58,292 whereas an “NRAS tenant” can earn up to \$125,960. NRAS is geared to key service industry workers (teachers, Police Officers, Fire Fighters, nurses etc), over 55's and families.
- With NRAS there is control with tenant selection. Advertising for tenants is as in any other normal tenancy arrangement.
- With social housing **there** is no control over the rental rate charged. The government subsidises the rent and sets the amount, whereas with NRAS the rental rate is **set** by the market rent and is valued by an independent valuer.

For more information on whether an NRAS property investment is suitable for you call:

*Graeme Clark
Investment Property Finders
1300 131099 or 08 82329990*

NRAS Property

Property Cost	\$260,000.00	Monthly Tax Position	Monthly	Weekly Cash Flow	Weekly
Land Amount	\$90,000.00	<u>Income</u>	\$894.40	After Tax loss	-\$255.20
Building Amount	\$140,000.00	Rent		NRAS Add Backs:	\$175.77
Fixtures & Fittings	\$30,000.00	<u>Expenses</u>		Depreciation Building @2.5%	\$67.83
Total	<u>\$260,000.00</u>	Interest on loan	\$1,516.67	Depreciation fixture & fittings	\$87.21
Monies Borrowed	<u>\$260,000.00</u>	Property Mgt Fees	\$78.71		
Interest on loan	7.00%	Depreciation Building @2.5%	\$291.67		
Annual Interest	\$18,200.00	Depreciation fixture & fittings	\$375.00		
Inflation Rate	3%	Council Rates, Ins etc.	\$200.00		
Marginal Tax Rate	30%	Total Expense	<u>\$2,462.04</u>		
Rent	\$260.00 p/w	Profit/ Loss	<u>-\$1,567.64</u>		
Discounted Rent (-20%)	\$208.00 p/w	Tax Saving (Negative Gearing)	\$470.29		
NRAS Govt Grant	\$9,140.00	After Tax loss	<u>-\$1,097.35</u>		
				Net Cash Flow	<u>\$75.61</u>

Note: For the benefit of averaging the actual position for this example we have taken the NRAS grant and divided it by 12/52 whereas it is actually paid in one lump sum each year. These figures are provided to show an indication of an approximate cashflow/Tax Position only and should not be taken as being correct for each individual. Before making any decision to purchase an investment property you should consult a Tax Accountant or Tax Agent.