

31st March 2012

NRAS Scheme

Investors,

I have written before of the opportunity of NRAS projects and gave a brief overview of the scheme about 18 months ago.

As a recap on what the scheme is.

NRAS

National Rent Assistance Scheme introduced by the Rudd government to boost housing and attract workers to areas they cannot afford to buy or rent in otherwise.

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

The Scheme seeks to address the shortage of affordable rental housing by offering financial incentives to the business sector and community organisations to build and rent dwellings to low and moderate income households at 20 per cent below-market rates for 10 years. NRAS aims to:

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

The Australian Government has committed \$1 billion to the Scheme over four years to stimulate construction of up to 50,000 high quality homes and apartments, providing affordable private rental properties for Australians and their families. (per NRAS web site)

It was designed for the business sector and community organisations to be involved in but there are opportunities for individual investors. In a nut shell, you purchase a new house and land package or off the plan apartment in designated areas and approved dwellings, you pay for it. It is then managed for 10 years for you, at a property management fee of about 10%, you rent the property at between 75% to 80% of the market rent in return for which the federal and state governments will pay you about \$9k per annum indexed at each year end for those 10 years as long as you are meeting the criteria.

To date there have only been about 8,000 properties built so the scheme is a long way behind and the Federal government has extended the date to 2018.

There was a very slow take up of this, partly due to ability to get funding from lenders, they have been very slow in approving lending and partly due to the nature of the developments first built, often in outer suburbs where investors are generally reluctant to invest due to perceived lower capital growth expectations.

However more lenders are coming on board, properties are being NRAS approved in areas where investors should consider and the numbers can make sense especially if you are already a home

owner and use finance wisely to reduce your own mortgage or other non deductible debt. Imagine if you had set up your finance facilities correctly (come and talk to me on how to do this) and that you can finance the rent shortfall each month, the effect of another \$10k pa from the NRAS tax incentives going to pay down your own mortgage each year will have a dramatic effect on the life of the mortgage. It could reduce a \$300k loan by 15 years or by half. This is without additional debt recycling techniques.

The numbers themselves can make sense to a pure investor also as it could return a positive after tax cash flow. It could also suit a SMSF who has the ability to invest in residential property.

As an indication, on one inner city apartment complex I recently visited, the comparison to a NRAS property to an identical non NRAS apartment shows:

Investor cash returns	Year 1 comparison		
	Non-NRAS	NRAS	Variance
Rental income	\$25,480	\$20,384	(\$5,096)
Less			
Property outgoings	(\$5,150)	(\$5,150)	\$0
Management fee	(\$3,083)	(\$3,338)	(\$255)
Interest charges and set up costs	(\$31,590)	(\$31,590)	\$0
Total property related costs	(\$39,823)	(\$40,078)	(\$255)
Net Cash position (before tax)	(\$14,343)	(\$19,694)	(\$5,351)
Tax depreciation	(\$13,699)	(\$13,699)	\$0
Net taxable position (i.e. negative gearing)	(\$28,042)	(\$33,393)	(\$5,351)
Tax offset/refund	\$10,796	\$12,856	\$2,060
Net Cash position after tax	(\$3,547)	(\$6,838)	(\$3,291)
NRAS Incentive	\$0	\$9,962	\$9,962
Net cash position after tax	(\$3,547)	\$3,125	\$6,671
Net weekly cash position	(\$68)	\$60	
Invested Equity	\$73,782	\$73,782	
Cash yield on investment	-4.81%	4.23%	
Tax effected cash yield	-7.82%	6.89%	

These numbers are from a presentation given but do show the potential differences between the two types of ownership. This is based on a 2 bedroom apartment \$520k purchase price at an 80% lend, \$100k income.

My own numbers based on a house and land package, \$374k price shows a cash surplus after tax of \$13 per week compared to a similar non NRAS property of \$108 per week cash shortfall after tax on 100% finance.

One of the selling points made for NRAS is that as the rental is lower than market (75% to 80% depending on the consortium involved) tenant demand is much higher. Tenants need to qualify based on income with an income ranging from \$44k pa for a single up to \$131k pa for a couple with 3 children so it is not welfare housing. It is only for brand new housing so depreciation benefits are available for investors.

Each year I am approached by various marketing companies to push properties to my client base. I am generally reluctant to do this unless there is a clear benefit to the investor. With the greater spread of NRAS properties becoming available and more lenders are approving the NRAS projects for lending, I do have access to property developments. My proposition is still the same, if a client uses my services for finance and purchases a property through a referral through me and I am paid a commission by the developer or selling agent, I rebate that commission back to the client. Depending on the development and the property, this can range from 1% to 5% back to you as an additional bonus.

An example of properties and areas – Travancore 2 bedroom apartments (city edge Melbourne) from \$520k, Maroochydore apartments from \$339k, Northern Brisbane townhouses from \$330k, Townsville 3 bed house \$421k, are all examples. There are areas like Melton, Greenvale or Doreen as well, sometimes apartments in Glenroy.

I am not here to sell property, I am here to assist you achieve your long term financial goals. If you are interested in finding out more, give me a call.

Our Service to You

We provide a specialised service for investors wanting to create long term wealth for themselves and their families. We are finance strategists, credit advisers and mortgage brokers, helping you achieve your goals. Give us a call when you think it's time to consider your options.

As well as providing a service to investors, we will assist you in purchasing as an owner-occupier, or upgrading to a new property, or simply looking at better pricing or structuring options for your current loans and banking or assisting seniors looking at possible reverse mortgage options.

Our business is built on referrals provided by clients, so please don't keep us a secret, feel free to forward this e-mail to family and friends interested in their own financial future. Give us a call and book an appointment to see if it makes sense for you.

If you have any questions about any of these topics, give me a call.

Helping People through Finance