

NATIONAL RENTAL AFFORDABILITY SCHEME (NRAS)

Many of you may have heard a little bit about the National Rental Affordability Scheme, but what exactly is it?

The scheme was launched on Thursday 24 July 2008 and even though it has yet to go through Legislation, the Government is accepting applications by those interested in being part of the scheme.

So how does the Government want it to work?

Simply put, if you have a home that has never been lived in before, and are willing to rent it 20% below the market rent, then the Federal and State Governments will give you \$8,000 each year for ten years.

What impact does that have on my weekly holding cost?

A property rented at \$300 per week receives approximately \$15,600 per year. However that same property in the scheme rented at \$240 per week will receive \$20,480 per year. That means you would be around \$93 better off each week. And remember this is every year for ten years.

But does that mean the rent will not go up over the ten year period?

No, the 'Market Rent' is established by an independent company and will increase as the market demands, this also applies to the \$8,000 government contributions which will be indexed.

Won't the tenants be people who don't work or otherwise?

Although the tenants are means tested, if they are receiving the full amount of rental assistance by the government and paying more than 30% of their gross household income in rent for one year, they will be eligible for the scheme. Many people fit into these categories, in fact families with a household income of \$80,000, who claim the family tax benefit and have three children are eligible. It is the aim of the government to allow these people to save on their rent assisting them to save a deposit for their own property. As the investor you still have the final say on which tenant takes occupation of the properties as per usual.

Can I submit my off-the-plan property?

The Government has aimed this scheme at the everyday investor, however they have made it almost impossible for them to take advantage of the scheme. Each application must have a property portfolio of at least 20 properties. The government would ideally like 100 properties in each application. So for example, a developer with 20-100+ properties would be fine to submit an application, or alternatively a Trust could be established whereby the properties are purchased and investors can invest in the trust.

If a developer lodges the application can I get the government grants when I purchase the property?

Possibly. Although the Government would like a 10 year commitment from investors, they are able to sell dwellings during the 10-year holding period without penalty, when the dwelling is sold to another investor and they undertake to

comply with the existing obligations under the Scheme, or an equivalent dwelling is offered as a substitute dwelling for the remaining part of the 10-year period. The substitute dwelling must be of an equivalent type and in a similar location as the dwelling that was sold. Dwellings must be substituted within thirteen weeks of the date of sale of the original dwelling. Even if you were to buy an existing property approved for the scheme you still have to have at least 20 properties in the portfolio.

What if I establish a trust to purchase the properties?

This is the ideal way to be part of the scheme. In fact the Government is specifically targeting banks, superannuation funds (excluding self-managed superannuation funds), credit unions, property trusts listed on the ASX and unlisted property trusts to be involved in the scheme. The trust would work as any other. Funds would be raised to purchase the properties throughout Australia and Investors could purchase units (shares) in the trust, which is great for those just starting out, or people unable to raise funds to purchase a property themselves.

So is Prowealth establishing a trust?

At the moment no. As we don't hold an AFSL (Australian Financial Services License), we are prohibited by ASIC's to raise funds in excess of \$2 million dollars, or put together a trust with more than 20 investors. As you can imagine the cost of 20 properties would easily exceed the \$2 million dollar cap. We have however been liaising with the facilitator of this project and relaying our concerns and objections we feel are prohibiting this project from meeting its full potential. We will continue to research this project in the hope we will be able to offer it to our clients.

In Summary

The only way to be part of the scheme is if you are a mid to large developer willing to hold a massive portfolio for a 10 year period, or if you purchase shares through an approved institution. There is nothing stopping Prowealth from obtaining an AFSL however the regulations are very tough and the license takes many years of study to satisfy, so in any case we couldn't be registered in time to take advantage of this scheme. I guess the good news is that superannuation funds (excluding SMSF) now have incentives to encourage taking on property in their portfolio which is definitely a step in the right direction.

The government is in desperate need for housing through out Australia, and this scheme is doing little to assist those holding the properties take advantage. In most cases you won't be in the scheme, but do you really care? The Government is spending \$623 million to attract 100,000 more homes in Australia over the next 4 years. It is blatantly obvious with rents going up, less developers building and an increase in immigration, that the Government feels we are only just starting to feel the housing crisis. You don't need to be in this scheme to reap the rewards property will offer you over the coming years, just so long as you are in the property market.