



BANKS; CREDIT UNIONS & MLI's

FREQUENTLY ASKED QUESTIONS

1. What is NRAS ?

The National Rental Affordability Scheme is a legislative initiative that aims to:-

- a) Increase the supply of new rental dwellings by 50,000 by 2012. With a further 50,000 if demand remains strong.
- b) Improve rental affordability

The National Housing Supply Council [2009 Report] have identified a shortfall of 200,000 dwellings by 2013 and the impact of rental shortage on affordability.

NRAS is primarily an industry intervention tool to assist the market to improve its supply of affordable rental housing. It aims to create a new residential asset class and attract institutional investment.

It provides a tax free incentive, currently \$8,762 per dwelling per year, to investors who purchase NRAS Approved Dwellings.

The Incentive is indexed to the rental component of CPI and is available for 10 years

The Incentive is linked to new dwellings that are rented at a market discount to eligible tenants.

The policy is targeted at working families, particular key workers providing essential services, along with retirees and other households on incomes up to \$98,000

Stock is market standard product and reflects a diversity of product to meet different household requirements.

2. What is the target for the NRAS Market?

NRAS aims to drive investment into new supply of housing to meet the strong and growing demand for new rental housing.

The potential sales market to investors is likely to be around \$14 billion. This figure assumes that around 15,000 dwellings might be built and owned by non-profits housing companies, with the remaining 35,000 in the market

An effective market needs a broad range of buyers and sellers. Some investors will buy assets directly and on Title, others will participate via financial products, including:-

- 'Mom and Dad' investors via bank lending
- Self managed super funds
- Unit Trusts
- Shares

3. What has been put in place to enhance certainty ?

NRAS is a legislated initiative that has a clear regulatory framework. Legislation covers NRAS delivery and also the Tax Incentive through amendments to the Income Tax Assessment Act 1997

NRAS is supported by all political parties.

The Consortium's delivery model includes features that increase certainty, these are the registered Headlease; specially adapted group insurance product and an ATO Private Ruling covering the Non-Entity Joint Venture arrangements.

4. What is the level of Government involvement ?

Unlike public housing, Government does not have a role in the design, construction, tenant selection or management of NRAS Stock.

Government sets standards, regulates compliance and provides the Tax Incentive for market responses.

5. Who are the suppliers and in what locations & property types

NRAS stock is market stock. The same product that an owner-occupier or a non-nras investor would buy.

Sites are sought in areas of housing stress. These tend to be areas with a very strong market and good fundamentals, including strong demand and good infrastructure and services. The Consortium works with Bond University School of Sustainable Development to map population, income and property data to support our site selections.

The Consortium sources property from experienced developers or project builders. Over 90% of sites have a Development Approval in place prior to NRAS submission

The Consortium discusses with Developers the percentage of stock they would normally expect to sell to investors.

In general we would expect to take:-

- Between 15 -25% of dwellings in a house and land site, integrated across the site and across stages
- Around 50 % of an infill site.
- In terms of meeting diverse household size requirements, around 50% of our portfolio are 1 or 2 bed dwellings and 50% are 3 or 4 bed

Whilst we are targeting Growth Areas and urban infill sites close to services, we map out our site selection to avoid concentration risk. This strategy works well from a marketing, tenure mix, management and investor perspective as well as from a lenders risk assessment.

6. Who are the tenants ?

Tenant eligibility income levels are set out below. These incomes represent the mainstream of households incomes in Australia. NRAS is not a social-housing program. The Government often talks about ‘Key Workers’ that keep a community functioning, these include teachers, childcare workers, bus drivers, health workers etc.

The Australian Government has identified around 1.5 million eligible households [NRAS Prospectus 2008]

The Consortium looks at local employment, income and demographic factors in deciding sites and tenant mix. This would include looking to house retail workers near shopping centres, hospitality workers in tourist areas and skilled / unskilled workers in manufacturing areas.

In general, NRAS renters will be market renters who will be able to:-

- reduce their rental stress by accessing a NRAS property *and / or*
- improve their location and access to services *and / or*
- access more appropriate housing type and a new dwelling.

The Consortium accessed its recent tenants from ‘real estate.com.’ and selected 24 suitable households from over 80 applicants.

Income Upper Limits:

Single Adult	\$41,514
2 Adults	\$57,391
Couple + 1 child	\$71,159
Single + 1 Child	\$57,432
Couple + 2 Children	\$84,927
Single + 2 Children	\$71,200
Couple + 3 Children	\$98,695

Households can earn 25% more than the upper limit and retain eligibility. This provides a sense of security and helps build strong neighbourhoods. All figures are indexed.

Here are some examples of upper rent limits for affordability for NRAS Discount Rents

- \$35,000 Income = \$250 market rent is \$187 discount rent
- \$45,000 Income = \$300 market rent is \$225 discount rent
- \$55,000 Income = \$400 market rent is \$300 discount rent
- \$75,000 Income = \$530 market rent is \$397 discount rent
- \$85,000 Income = \$600 market rent is \$450 discount rent

7. Are there different Valuations for NRAS properties?

No, NRAS properties are subject to normal valuations. These are market valuations that apply irrespective of NRAS.

We see little rationale for differentiating the rental property in any way

Whilst the Scheme is for 10 years, owners can sell outside the Scheme at any time and property will find its true market value.

Independent market rental valuations are undertaken in years 1, 4 and 7.

We note that MLI Genworth will take into account the discounted rent and the tax incentive in calculating interest cover for risk assessment purposes.

8. Can Banks Repossess NRAS properties in the normal way?

Yes, Banks may repossess an NRAS property in the same way they would repossess any property that is rented out.

Clause 18 of the Headlease provides for the normal right of the Bank to take possession action in accordance with the relevant property law Act.

To terminate the Headlease the Bank provides the minimum required under Residential Tenancies Legislation or 2 months if a minimum is not stated.

9. Can owners sell an NRAS dwelling at any time ?

Yes, an owner can withdraw from the Scheme at any time. They can sell the dwelling to any buyer or move into the dwelling if they wish.

If they sell during an NRAS year their maximum loss is that years NRAS Incentive or part thereof. [\$8762].

The owner must give 6 months notice to the Consortium to terminate the Headlease.

If the owner wishes to sell to another NRAS investor, we will assist with that process.

10. Will MLI provide mortgage insurance on an NRAS Dwelling

Yes. Genworth, Australia's largest MLI have confirmed they will provide eligible 'mom and dad' investors buying an NRAS property with MLI. They will include the tax incentive alongside the discounted rent in their calculation of interest cover risk

11. What are the management arrangements ?

The Consortium takes responsibility for the Dwelling under a 10 year Headlease and this includes all compliance arrangements with the Commonwealth and States.

A Property Management Agreement is signed by the owner, the Consortium and the approved property manager.

In most cases, the approved property manager will be an experienced, preferably State Regulated, non-profit provider. In some cases the Consortium will utilise a registered Real Estate agent. However all managers must meet national standards.

Failure to meet the Consortium's standards or performance requirements will lead to the assignment of the management to a new provider by the Consortium.

Body corporate and the sale of management rights can be accommodated under the Consortiums delivery model as long as standards are met.

Owners meet the normal expenses of a rental owner and access the same entitlements, including depreciation allowance and business cost tax relief.

Owners can choose to be more hands on if they wish, however the model is largely designed as a managed investment.

12. What are the benefits of the Headlease Model ?

The Consortium assessed different delivery options and selected the Headlease model because:-

- Headlease's have a good track record –
 - Defence Housing Australia uses long term leasing
 - Over 5,700 dwellings a year are leased from private owners in NSW under the community housing leasing program which started in 1983
 - Nearly 2,000 dwelling a year are leased from private owners in Queensland under the Community Rent Scheme which started in 1991
 - They provide clarity around roles and responsibilities
- To provide the NRAS Tax Incentive to owners it is necessary to establish Non-Entity Joint Venture arrangements. Rather than establish a separate NEJV contract, that could be daunting to owners, we incorporated the NEJV into our Headlease and received an ATO Private Ruling on that basis.
- It is clearly linked to an individual asset and provides transparency under NRAS Regulations and effective tracking for compliance purposes

- The Consortium intends to provide 15,000 NRAS dwellings, some owned individually some owned by institutions. The Headlease provides a nationally consistent tool that we can use to establish delivery and performance benchmarks for this asset class.
- Delivers a stable letting arrangement for tenants to settle in and contribute to stronger neighbourhoods and reduced property turn-over or vacancies.

13. What is the ATO's position on the Consortiums investors receiving their Tax-Free Incentive ?

Both Fahesia and the ATO have confirmed that investors under the Consortiums model will receive their tax free incentive. I have attached letters to this effect and the Consortium will be receiving a further tax ruling to this effect.

14. What is the secured income stream & insurance product ?

The Consortium operates a group insurance scheme that is part of our delivery for all NRAS Dwellings. This ensures strong risk mitigation. The package includes

- Property Insurance
- Public Liability
- Owners contents
- Landlord / Tenant

Landlord / Tenant cover includes a form of protection for cash flow payments under certain circumstances

The Consortium pays the excess on all landlord tenant claims.

The Consortium and Property Manager also must have Professional Indemnity Insurance as well as Public Liability Insurance

The Secured Income Stream is attached.

Note that tenant risk profiling demonstrates:-

- Mostly employed tenants
- Longer term leases increases tenant care and reduce costs and, most importantly create more settled neighbourhoods
- A discounted rent along with market standard property, will always be more desirable to tenants and therefore tenants will be reluctant to lose it, even where markets soften

15. How do we avoid devaluing the investment ?

- Start well, by picking the right properties in the right areas and ensure they meet three tests:-
 - They meet government criteria

- They have good investment fundamentals
- They are attractive to tenants
- Establish good risk management arrangements, including group insurance
- Provide predictability for all parties through the 10 year registered Headlease. It is important to note that the 10 year Headlease has a positive ATO ruling to enable the passing through of the NRAS Tax Incentives to the owner
- Provide a full Owners Pack so investors are fully informed about NRAS arrangements
- Ensure effective and efficient property management, including meeting national standards
- Focus on building integrated neighbourhoods as well as longer term settled tenancies [5 year and three year]
- Create balanced incomes and household mix in NRAS sites
- Operate in desirable areas with good infrastructure

16. What are the exit strategies at, or close to, year 10 ?

Owners have the following options:-

- Sell the dwelling on the open market
- Use it as your family home
- Retain the dwelling as a normal market rental dwelling at market rent. Either under the continued management of the Consortium or through an agent
- Institutional owners can work with the Consortium to plan for sales to tenants [Rent to Buy]

It is important to note that the Consortiums selection [and staging] of dwellings aims to minimise the prospect of concentration of sales at one point in time.

Conclusion

It is very important for all of us in the NRAS market to understand any specific concerns or issues the Banks or mortgage insurers have.

The Consortium, its partners and other NRAS providers have all indicated a willingness to understand any issues and work to fix them.

We look forward to ongoing engagement with you to progress this attractive [tax incentive based] delivery arrangement.

Mike Myers

QAHC CEO