

Addendum to the National Rental Affordability Scheme (NRAS) Guidelines

Round 2 call for applications - Proposals for large-scale developments

17 March 2008

Sub-section 8.2 of the NRAS Guidelines specifies the assessment criteria applied to applications for allocations of Incentives and Item 5 explains the nature of the financial viability assessment undertaken.

Feedback from potential applicants attempting to put together large NRAS proposals involving institutional investors, indicates that traditional investment methods (buying into a housing trust or direct ownership of assets) are not currently attractive to institutional investors.

Some institutional investors have advised that they would prefer to purchase a financial product which included NRAS Incentive, because the Incentive effectively reduces the risks associated with the investment.

In recognition of this situation, the Australian Government is providing greater flexibility by varying the assessment criterion 5 in circumstance where the applicant has not been able to secure finance in the absence of a guarantee that they will receive an allocation of NRAS Incentives.

The varied criterion provides that proposed financial backing, as distinct from proof of established financial backing, will be sufficient to enable assessment of NRAS applications against the financial viability criterion 5. It applies only to proposals for a minimum of 1,000 dwellings.

In these circumstances, offers to reserve allocations of Incentives will be subject to a special condition requiring successful applicants to confirm finance, including the identity of the investor(s), within 90 days of an NRAS offer of a reserved allocation being made).

Amended criterion 5 is attached.

8.2 Assessment Criteria

5. The Proposal is financially viable

Proposals must detail:

- the cost and financing arrangements, which will need to be outlined in the Application Form
- financial sustainability of the proposal (projected cash flow analysis that estimates the cost of constructing/developing the properties, rent revenue and operating costs – using Attachment A of the Application Form)
- details of planning, development and construction status of the Projects in the Proposal
- The Lead Agency has undertaken due diligence checks within any consortium arrangements
- financial capacity including details of capacity to contribute equity to a project and details of proposal to raise any debt financing required to fund project capital requirements

Note that where the proposal is for 1,000 or more dwellings, unconfirmed financial backing at the time of application may not preclude an applicant from meeting the financial viability criterion. In these circumstances, a special condition of an offer of a reserved allocation of Incentives would require confirmation of finance being obtained within 90 days of the offer being made.