Investors sell early: Fewer tenants to benefit from NRAS rental subsidy

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Private owners of subsidised rental homes are selling them to realise capital gains even before the 10-year national rental affordability scheme expires, meaning tenants are not able to get the full benefit of the program.

As many as 100 owners of properties managed by National Affordable Housing Consortium, the largest not-for-profit NRAS body, have already sold their homes out of the scheme and more were likely to follow, said Mike Myers, the consortium's managing director.

"We've got nearly 100 of these incentives where people have sold out of the scheme," Mr Myers told *The Australian Financial Review*.

Affordable, but for how long? Owners of NRAS homes are already starting to sell them out of the rental scheme. **Su-Lin Tan**

The consortium alone manages the subsidy payments for owners of 3520 homes, meaning its portfolio - concentrated in Queensland - accounts for 10 per cent of all NRAS dwellings.

"That means there may be 400 over the country that may go out of the scheme and that 400 tenants will no longer receive affordable housing," he said.

As a consequence, the now-discontinued NRAS scheme may benefit even fewer low-income tenants than expected. If owners of the nearly 37,000 homes built under the program that started in 2008 sell early, the budgeted subsidy for ten years over each of those properties won't go to tenants and will be returned to government coffers.

"The integrity of the NRAS program to deliver 38,000 units for a full 10 years is being undermined," he said.

Individual owners of homes built under the now-discontinued scheme will get no extension of the subsidy that allows them to rent out at 20 per cent below market rates after the stated ten-year period, making it likely many investors will sell their properties, or put up the rent to at-market rates at that time.

But many are already starting to sell, whether to realise capital gains already made, or to pre-empt the moves to sell by other investors, often within the same development, Mr Myers said.

"It's very likely a lot of them will say 'We don't want to be selling at the same time as other NRAS investors, so we'll get out two years early'," he said.

"We're definitely seeing this trend across the organisation. They've invested in the scheme for 7 or 8 years and can now see capital gains, irrespective of the declines of the last 12 months. They're very ready to sell."

The affordable rental subsidy the opposition Labor Party announced at its national conference earlier this month aims to create new dwellings that would be owned by institutional investors and does not offer a way to extend the subsidy for existing dwellings or to stem the growing problem of individual investors selling early.

One option to reduce the impact of early sales was for the unrealised subsidies for properties already sold to be aggregated and put to work on other properties - either to extend the life of a subsidy on an existing tenanted property or to even fund the construction of a new home, Mr Myers said.

"You can extend the current NRAS coming up to its 10 years. Let's make that go a bit longer. The investor wants to stay in the scheme. The tenant is needing it. Let's make it 13 years or 15 years by using the tail incentives, or package up two or three tail-end incentives to build a new property," he said.

"Otherwise all this goes back into consolidated revenue and the community loses."

A spokesman for Social Services minister Paul Fletcher said subsidies could already be transferred between properties and there were no plans to extend the subsidies beyond 10 years.

Mr Myers said that while there was a market for incentives that still had five or more years to run, the system needed to be changed to allow shorter incentive periods, particularly those of three years or less, to be packed up into meaningful periods.