Labor's housing policy NRAS 2.0

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It is no secret that Labor's policies are bad news for housing.

Abolishing negative gearing, and increasing the capital gains tax rate by 50 per cent, will take a sledge hammer to the housing market.

That is bad news for every Australian who owns, or wants to own, a home.

It is also bad news for renters: if the after tax return to investors is lower, they will have less incentive to purchase homes and make them available for rent.

But just before Christmas, Bill Shorten announced another policy — which further compounds the disastrous housing policy mess Labor is promising.

Bill Shorten called it 'Labor's ten year plan for affordable housing.'

In fact it is a repeat of the failed 'National Rental Affordability Scheme' Labor rolled out when last in power.

Bill's scheme would see investors given a subsidy of $8500 per year for fifteen years — if they agree to build new properties and rent them at 20 per cent below market rent.

This idea has a host of problems.

Problem number one: Mr Shorten's media release says this will save the average family which rents one of these properties $92 a week in rent.

That’s $4,784 a year — when the Government is paying the investor a subsidy of $8,500, or nearly twice as much.

Where is the sense in spending a dollar of public money to generate 56 cents in rent relief for low income tenants?

Problem number two: this scheme will cost vastly more than Labor’s claim of $102 million over the forward estimates and $6.6 billion over the decade to 2028-29.

Labor says this scheme will deliver 250,000 houses — so at $8500 a house over fifteen years it will cost taxpayers $31.9 billion. That’s a massive hit to the budget.

Problem number three: Labor tried this when they were last in government and it was a disaster.

Labor’s ‘National Rental Affordability Scheme’ (NRAS) promised to deliver 50,000 homes around the country, for an annual indexed incentive to the investor — which started at $6,000 a year, but which currently stands at $8,400 a year.

As the Australian National Audit Office pointed out in a recent performance audit (number eight of 2015-16), “from the commencement of NRAS in 2008 the delivery of eligible dwellings has been slower than anticipated”.

This was not for want of trying, with five application rounds called between 2008 and 2013.

But in an admission of defeat the Gillard Government in the 2012 budget revised the target down to 35,000 dwellings by 2014-15.

NRAS was ultimately capped at 38,000 dwellings — and according to the ANAO even at this lower limit the estimated whole of life scheme costs are $3.5 billion.

If 38,000 dwellings will cost taxpayers $3.5 billion, 250,000 dwellings (at a significantly higher average subsidy) will cost many multiples of Labor’s claimed $6.6 billion.

Perhaps the biggest problem with NRAS 2.0 is the risk of repeating the design flaws in Labor's original NRAS.

For one thing, NRAS operates for a fixed period. After the period ends, properties roll out of the scheme — the owner is no longer obliged to rent them at a discount to the market rate.

In other words, the scheme uses taxpayer funds to pay expensive subsidies to private investors — but fails to secure a permanent addition to the stock of affordable housing.

Another flaw is that when Labor legislated to set up NRAS, there were no protections for, or even mention of, investors in the legal framework.

As a result, mum and dad investors have been ripped off by dodgy operators. Our Liberal National Government has been working to fix this, with major changes to regulations coming into effect just before Christmas.

A third design flaw is that the cash incentive under NRAS is the same for a one-bedroom unit or a four-bedroom house.

This has encouraged the building of one-bedroom units — and done much less to encourage the construction of bigger houses for families. In fact over 5,000 of the units built under NRAS are specialist student accommodation.

And another design flaw is that the incentive paid to investors is the same all across Australia — so it does relatively little to stimulate new housing in higher cost areas.

Why would an investor take a $8400 subsidy a year on a $500,000 apartment if the same subsidy can be applied to a $200,000 apartment?

Labor has a track record of promising grand schemes which are badly designed, which fail to meet their objectives and which splash large amounts of taxpayers' money up against the wall.

They did it with the NBN, they did it with pink batts, they did it with NRAS, and now they want to do it again with NRAS 2.0.

This is a deeply flawed piece of public policy — and worse of all is that it is quite unnecessary.

The real solution to Labor's housing mess is perfectly obvious: abandon its ill-judged policies to abolish negative gearing and to increase capital gains tax by 50 per cent.

Together with the $1.5 billion a year the Commonwealth Government spends today under the National Housing and Homelessness Agreement and over $4.5 billion a year on Commonwealth rental assistance, that's the best way to stimulate more housing stock and more options for renters.

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