



Submission on the ATO review of benchmark market values for Table 5—long term accommodation March 2017

Thank you for this opportunity to comment on the ATO benchmark market values. The National Affordable Housing Providers Ltd (NAHP) is the national peak body representing National Rental Affordable Scheme (NRAS) participants, with a broader interest in the affordable housing arena. A significant number of our members are charities who adhere to ATO conditions on the consideration of supply of accommodation to access GST-free tax concessions.

Our members have extensive experience with market valuations for long term accommodation in the affordable housing market. NRAS regulations require market valuations be undertaken routinely by NRAS providers and accurate market valuations are essential in order for our members to comply with NRAS rent setting requirements. Given this experience, we believe we are in a unique position to provide valuable expertise in the review of the current methodology for establishing the long term accommodation benchmarks

General comments

- The value in establishing appropriate benchmarks for market rents in various Australian jurisdictions is to make compliance with ATO conditions for GST-free consideration of supply simple, efficient and cost-effective. To be useful, the benchmark methodology needs to be flexible enough to reflect market fluctuations across jurisdictions as well as across different housing markets within jurisdictions. This includes instance where demand for housing rises rapidly (such as mining communities in the past), significantly pushes up rental rates.
- The benchmarks play a significant role in the rent-setting policies of charitable housing providers. Where rents are income based (rather than discounted market rents), the benchmarks are used to ensure that as rents rise to reflect increased tenant earnings or income, the rent does not exceed 74.9% of the benchmark market value. While NRAS regulations allow

participants to charge rents up to 80% of market rents, charitable NRAS providers usually charge rents at 74.9% (or less) to access the GST-free tax concession. Some charitable NRAS providers have a more complex rent-setting policy: rents are no more than 25% of gross income, must also be below the 80% NRAS approved market valuation AND no more than 74.9% of the ATO benchmark to secure GST-free supply. These examples highlight the importance of having appropriate and accurate benchmark market values to enable providers to set fair and reasonable rents using a simple market value methodology.

- The existing outdated benchmark market values present not only a current compliance dilemma for charitable housing providers, but also an ongoing concern if the benchmarks are inadequate or deficient in reflecting accurate market values. The situation is best explained with an example using a market rent valuations (MRV) undertaken by a licensed valuer compared to the ATO benchmark.

Using information from a Queensland charitable housing provider, rents are charge at 74.9% of the MRV on the properties they own. This MRV conducted by a qualified licensed valuer is done periodically during the 10 years of the NRAS incentive, i.e. years 1, 5 and 8. For the interim years (2, 3, 4, 6, 7, 9 and 10) rents are adjusted in accordance with the NRAS Index. This index is published in May every year and is based on the CPI of the preceding December quarter. This method of calculating market value rents is used by all NRAS providers nationwide and like the CPI, the NRAS Index varies by jurisdiction.

The table below illustrates the difference between actual market rent values and the outdated Brisbane ATO benchmarks in this example:

Dwelling size	MRV by valuer or Index (weekly)	Brisbane ATO MRV by benchmark (weekly)	74.9% valuer /index MRV (weekly)	74.9% ATO benchmark (weekly)	Difference (weekly)
1 bedroom	\$430	\$300	\$322	\$225	-\$98
2 bedroom	\$500	\$387	\$374	\$294	-\$80

Clearly, if the charitable housing provider was to rely on the ATO benchmark market values, they would be well over the allowable benchmark for their jurisdiction. However, if they were to adjust their rents to align with the ATO benchmarks, they would be charging rents at a rate so low –nearly 50% of actual documented market rent -- as to be unviable.

- NAHP is aware that charitable housing providers can use an alternative method of assessing market value rents rather than using the benchmark market values as long as it adheres to the ATO’s market value guidelines ¹. Several NAHP members use a different methodology that is based on the ‘same supply’ test using local real estate data. This will be discussed later in this submission as a possible source of data to be used in revising the ATO benchmarks.

However, all of our members use licensed valuers to conduct periodic market valuation on their NRAS properties as required under the NRAS regulations. Because the ATO benchmark market values often do not accurately reflect the market rents in a particular location—and the rents charged by the charitable housing providers -- NAHP members use the market values identified in these valuations to determine the 74.9% threshold.

- There may be an issue around the comparability of the ATO market value guidelines and NRAS market valuations. It is unclear whether the ATO market value guidelines align with what the valuers undertake for an NRAS compliant market valuation. For example, there are some NRAS specific exclusions, primarily around amenities, that valuers must abide by when making their appraisal. These may conflict with the ‘same supply’ rule in the ATO market value guidelines. Further, market rents are adjusted by the NRAS Index (a CPI adjustment) in the years between the formal market rent valuations and those adjusted market rent figures are used to calculate the 74.9% GST-free threshold . NAHP maintains that this methodology should be acceptable for ATO tax concession compliance, not only in the absence of updated benchmark market values but as an ongoing assessment procedure.
- As an alternative to using the ATO benchmarks, market valuations are a costly exercise, with price depending on the type of valuation (onsite or desktop), scope of the valuation (property valuation or rental valuation), location of the properties, and the number of valuations to be conducted. Some housing providers with large portfolios are able to secure bulk pricing. Providers whose portfolios have a large proportion of their dwellings in multi-unit structures (e.g. 70 affordable housing units in a single building or

¹ ATO, Charities Consultative Committee , Non-commercial activities of charities, cost of supply and market value tests, page 5

complex) benefit most from a reduced bulk price due to the relative ease of valuating identical dwellings in one location.

A survey of NAHP members found valuation costs vary considerably, from a low of \$60/property (where the bulk of valuations were in multi-unit buildings) to \$220/property. Market rental valuations are a significant annual expense, especially when a housing provider is managing a portfolio with several thousand properties. Using the ATO benchmark market values would be a more efficient and cost-effective mechanism for assuring ATO compliance but only if the providers are assured the figures are accurate and appropriate to their particular rental market.

Response to review questions

Several of the questions are specific to information currently in Table 5 or query what additional and/or alternative information we would like to see in the Table. Since our responses overlap, we have grouped them by relevancy.

1. What information would you like to see in Table 5?
2. Do you require the current break-down of figures into one, two, three and four bedroom housing?
3. Does Table 5 need to provide separate figures for houses and units?
4. Do you require more specific figures for the Capital cities such as a geographical breakdown of inner city, outer suburbs?

The difficulty of the current Table is that it attempts to be a 'one size fits all' to simplify compliance and make the Table a useful tool for appropriate rent setting. But in doing so, it does not accurately reflect the numerous variations in market rents across a jurisdiction.

What would be beneficial is an understanding of what is included in the market value in the Table. For example, what amenities are included in the market valuation (utilities, air conditioning, etc), is it furnished or unfurnished? This is not to suggest that the figures should be separated into, say, furnished versus unfurnished, but rather an explanation of what the market value represents in terms of dwelling features. This would better inform charitable housing providers decision on whether to use the benchmarks or use an alternative method for calculating the 74.9% threshold.

The breakdown by number of bedrooms should remain as most property data sources uses these categories, and market rent variations are premised on the number of bedrooms. The experience of NAHP members is that there is little difference in rents between a house and unit based on the number of bedrooms, i.e. rent on a 2 bedroom house is comparable to a 2 bedroom unit.

It is more likely that the location of the house or unit will be a far more influential factor in the market rent valuation.

The ability to secure specific figures for capital cities in a timely and consistent manner may preclude consideration of this option. NAHP is aware that NSW Department of Family and Community Services provides a rent report based on lodgement of rental bonds that breaks down rental information by inner, middle and outer ring; Greater Sydney; and the rest of NSW ². This could help inform any ATO revisions to the current methodology for Table 5 (see below). However, it does not appear that all States and Territories prepare reports with this level of detail, which would make it difficult to obtain similar data consistently across the country.

5. To assist in planning, when should Table 5 be updated and should the figures be provided for a calendar year or financial year?

Overall, NAHP members felt the priority was that whatever date was established, they needed to be assured that ATO would consistently update the figures at that time. Charitable housing providers require that certainty to align their operational and compliance systems to these updates. As for financial versus calendar, there was a preference for the financial year to better align with other compliance deadlines and assessments.

6. We are interested in knowing about any other sources providing comparable data that you may be aware of

Not knowing the basis for the current methodology for setting the benchmarks does not allow us to comment on the veracity of that data nor ways that it could be improved.

NAHP members recommended some data sources that they use to determine market rent values for their properties. As noted in this submission, the NSW Government publishes rent and house sales data through the Department of Family and Community services. The information is based on private rental bonds lodged which is broken down by inner, middle, and outer ring Sydney; greater Sydney, and the remainder of NSW. One NAHP member who operates in several jurisdictions noted that the NSW data is more precise and indicative of current market rents than the ATO benchmarks. As well, it is easily accessible and an efficient way to assess market value rents.

By contrast, this provider uses Real Estate Institute data in other jurisdictions which is a more labour intensive exercise. Most, if not all of the State branches

² Rent and Sales Report, Department of Family and Community Services, NSW Government, <http://www.housing.nsw.gov.au/about-us/reports-plans-and-papers/rent-and-sales-reports/back-issues/issue-117>

of the REIA provide detailed rental information, often breaking it down by suburbs. Other NAHP members reported that they used the relevant REI data for their jurisdictions. From a national perspective, this source of data would provide data sourced through similar methodology from every jurisdiction. While the NSW data is superior, it is not replicated in other states and territories.