



## NATIONAL COMMISSION OF AUDIT COVER SHEET FOR SUBMISSIONS

*This completed coversheet must be included with submissions.*

CONTACT DETAILS	
Organisation (if applicable)	NRAS Providers Ltd
Title	Mr / Company Secretary
First name	Mike
Surname/Family name	Myers
Postal address	Suite 1 / 118 Vulture Street South Brisbane QLD 4101
Email address	<a href="mailto:ceo@nahc.org.au">ceo@nahc.org.au</a>
Telephone number	07 3169 2500
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<p>Key areas of interest regarding the Commission's Review:</p> <p>Improving housing supply and rental affordability through strengthening the Commonwealth Government's National Rental Affordability Scheme (NRAS).</p> <p>Housing provides important economic and social benefits and the demonstrated market failure in supply has significant consequences for the economy, community and individuals.</p>	
<p>By submitting this submission I:</p> <ul style="list-style-type: none"><li>(a) confirm that I am authorised to lodge this submission on behalf of the organisation specified in the Contact Details above; and</li><li>(b) acknowledge that I have read and the organisation agrees to the <a href="#">Terms and Conditions of the National Commission of Audit website</a></li></ul>	
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## **NRAS Providers Ltd (NPL)**

NPL is an organisation whose members are NRAS Approved Participants operating across Australia and holding responsibility for over 50% of all NRAS delivery. The members are a mixture of NFP organisations, commercial and ASX listed entities, representing the broad interests of companies engaged in the field of providing private affordable housing in Australia, stimulated by the NRAS incentive.

NPL has been formed to provide a co-ordinated policy voice, work with the Government to improve NRAS delivery and to promote quality standards across the NRAS industry to provide community and investor confidence.

Since NRAS was introduced in 2008, there has been a unity of purpose by Governments of all persuasions, industry and the NFP sector in developing NRAS as a world class innovation to promote new supply of affordable housing. While the Scheme experienced early 'teething problems' coinciding with the GFC, it is now deemed to be very successful, not only in terms of affordable housing outcomes, but in providing balanced commercial and social outcomes for all parties involved.

## **Purpose of the NCOA Submission**

It has been recognised by the Australian Government that supply and affordability of housing is a growing problem in Australia. Commonwealth Treasury's National Housing Supply Council predicted that the shortfall of 328,800 dwellings in 2015 will grow to a shortfall of 640,200 by 2030 on current trends. The pressure of this housing shortage is most acute in the rental sector and amongst lower to middle income households. The Housing Supply Council data has been crucial in supporting private investors' confidence in the fundamentals of housing supply and demand.

Industry and Government share a view that private investment is required to generate additional supply, particularly affordable housing supply, at a scale that can close the supply gap. Institutional Investment has been a long term policy goal to provide stability and scale in this space. NRAS has provided the basis for significant engagement with the institutions.

The Australian Housing and Urban Research Institute (AHURI) convened a panel of banks, superannuation funds and capital markets investors last year to definitively collate barriers and opportunities for financing rental housing through institutional investment to improve market efficiency and supply, and to achieve Government policy outcomes in a cost effective way. The final report found that "Significant volumes of public and private finance will be required to meet the projected need for additional rental housing in Australia. This cannot be met from existing suppliers alone."

Further, “[Government] financial incentives and credit support will be essential to achieve increased supply at the affordable end of the market, to overcome investor perceptions of risk and to meet their yield requirements. The impact of government support is demonstrated by the way that NRAS has catalysed increasing specific interest from the finance industry in investment in the supply of affordable rental housing. “

The market has experienced failure in meeting the demand for affordable housing, in the absence of any Government stimulus. For these reasons, NRAS was introduced to mitigate a growing problem by unlocking the investment of private funding into affordable housing. The ten-year refundable tax offset gets magnified many times over in private construction activity, which would not have occurred otherwise. While NRAS has had a number of administrative challenges, it is now a successful program that is underpinning an emergent industry in private market affordable housing investment. Its continuance is crucial to bolster financial institutions’ confidence in providing greater levels of private investment into affordable housing in Australia. It adds to supply, has secured non-government investors, and it has been instrumental in building the capability and size of the non-for-profit housing providers.

To this end, it has taken some time for NRAS to be fully understood, and to become a routine consideration in feasibility assessment and business planning for property developments. But these important milestones have been reached, by and large, in the retail investment sector. Institutional investors have also examined NRAS seriously and several key tax rulings in 2013 have paved the way to make NRAS investment in affordable rental housing a feasible and even attractive proposition.

Housing industry performance, housing supply and affordability are national policy issues. It is crucial that the Commonwealth continues its support of NRAS, not only for the completion of the 50,000 new dwellings, but as a rolling program into the future because:

- We know that overseas schemes when made permanent have stimulated the construction of millions of private dwellings and robust institutional investment for over 25 years. A mechanism like this is the necessary link between a pool of assets underpinned by affordable demand and the private sector who could supply it. That’s why it’s appropriate for Government to play this role.
- The States are not in a financial position alone to address systematic market failure in supply of affordable housing, but certainly must contribute to land release and programs like NRAS to play a part in the solution. Stimulating a private market response requires industry confidence in a national, Commonwealth mechanism.
- Ageing of the population will place as much pressure on the States as it does on the Commonwealth, and without NRAS there will be fewer revenue options available.
- Equally, if the Commonwealth steps away from Commonwealth-State payments for affordable housing, it is clear that States will wind down their provision of social housing and aim to place on the Commonwealth all of the pressure posed by

deteriorating housing affordability. Commonwealth Rent Assistance outlays will mushroom and there will be considerable pressure to increase the level of income security payments.

- Helping rental housing evolve from cottage industry dominated by small retail investors (chasing capital gains and making substantial recurrent losses at taxpayers' expense) to a new asset class appropriate for a diverse investor base, retail (mum and dad) investors, banks and a substantial participation of the super funds is exactly what's needed in the face of Australia's demonstrated decline in the rate of home ownership. NRAS was designed as the mechanism to bridge this gap, and institutional investors who have been waiting for the program to amass several years' track record are now starting to participate (Macquarie, Westpac).
- Institutional engagement in rental housing would enlarge the pool of funds available for residential development in Australia, stimulate a substantial increase in residential development activity that addresses Australia's undersupply of housing, and increase the proportion of funds invested domestically within Australia, thus further stimulating economic activity. Among larger superannuation funds, for instance, prudential oversight, risk management and general governance arrangements would drive further quality improvements in tenancy and property management standards and efficiency.

## **National Rental Affordability Scheme (NRAS)**

The AHURI report found that “Many interconnected factors contribute to the need for reliable new sources of investment in the supply of rental housing. These include: strong demand for rental housing, which is forecast as continuing to increase at least in line with population and household growth; wider social and economic changes that are delaying the take-up of home ownership among younger households and contributing to a concomitant increase in those renting long term; adverse changes to the availability and terms of traditional mortgage-backed debt finance for residential development associated with the Global Financial Crisis (GFC); a cumulative housing supply shortfall arising from the failure of dwelling completions to keep pace with projected household growth; and persistent housing affordability problems amongst private renters.”

The Australian Government introduced NRAS in 2008, in order to address growing concerns about rental housing supply and affordability. The Scheme is a joint initiative between the Commonwealth Government and the States / Territories, where the Commonwealth Government provides 75% of the incentive funding in a form of refundable tax offsets and the States / Territories provide 25% as a non-assessable-non-exempt cash payment or in-kind contribution.

NRAS was originally introduced to provide 50,000 incentives, for newly built affordable housing dwellings across Australia. Though it's now oversubscribed and even spawning

an efficient secondary market, there is no commitment to continuing it beyond the initial 50,000 dwellings which has hampered investor interest. To date 38,459 incentives have been reserved nationally. Of these, over 16,000 have already been “allocated” – tenanted by low and middle income households. This equates to a market value of approximately \$6.1 billion.

The Shovel-Ready round from May 2013 and Round 5 which closed on 6th August will represent a further 11,000 plus allocations for delivery up to the end of June 2016. It was estimated that five times as many incentives were sought by the private and non-profit sector applicants, demonstrating the success and crucial need for the Scheme. Each incentive represents a private construction start that responds to this government catalyst.

## **NRAS Outcomes to Date**

NRAS can be evaluated on a range of measures, especially given the variety of aims of the program as conceived in 2008. NRAS has succeeded in:

### **Business Outcomes**

- Boosting **supply** of affordable housing.
- **Value for Money** - Attracting more **private investment** dollars into construction of affordable housing and supply chain jobs. Providing a multiplier effect on investment. By providing Government financial input, it stimulates a much larger financial input from the private sector in terms of construction, creation of jobs and supporting services. NRAS has been very successful in having Government, the private sector and the NFPs work very closely to achieve commercially viable as well as affordable outcomes.
- Attracting some of the **largest developers** like Lendlease, Australand, AV Jennings, Stocklands and Mirvac to provide housing under the Scheme.
- **Investment** - Retail and Trust investment dollars into the affordable housing market.
- **Innovation and Design** – Providing dwellings that match the needs of current and future households in particular areas. Innovating flexible solutions to housing need both during the ten-year affordable period and after in the private market (i.e. dual-key)
- **Finance** – NRAS has had a proven success in the market for financial institutions to take notice. There are currently two debt finance products available to NFPs and institutional investors – by Westpac and Macquarie Bank, which demonstrates a clear tipping point to broader institutional participation. Every dollar that private investors commit is one that Government does not have to appropriate. To interrupt

the Scheme now would have long-lasting repercussions for private sector affordable housing investment of any kind.

- **Institutional Investment** – Work has been underway to fine tune NRAS as the basis for a low risk, cash yielding investment for institutions on an equity finance basis. Such an investment will provide structure to streamline investment and delivery and provide scale. Investors would need to invest at least \$500 million per annum in aggregate to create liquidity and establish a sustainable market. The full AHURI Investigative Panel Report ‘Financing and Institutional Arrangements for the Provision of Affordable Housing in Australia’ published in March 2013 can be found at <http://www.ahuri.edu.au/publications/search.asp>

### **Social Policy Outcomes**

- Providing affordable housing in **areas of need**, close to jobs and services and strong rental demand. NRAS promotes economic pathways for people on lower wages to access **employment opportunities**.
- Over 16,000 households across Australia are enjoying **reduced rents**, potentially easing some of the pressures on social housing. Rent savings are estimated at \$74.9 million per year, representing 12% of median household income for occupying households.
- By offering longer leases, NRAS provides **stability** to families and cost of living relief. Families that might be vulnerable to short term lets can incur large transitional costs including relocation, new school uniforms and equipment etc. NRAS provides the stability of home ownership with socially accountable landlords in a rental setting.

### **NFP Viability and Growth**

- NRAS provides **growth** opportunities for the not-for-profit housing organisations.
- It promotes **consolidation** and **sophistication** of the community housing sector.
- An integrated multi-provider housing system, promoting **collaborative** approach and offering **pathways** between a social housing system and the private rental market.

### **Reform**

NPL have engaged Bond University’s Institute of Sustainable Development and Architecture to undertake NRAS Economic and Taxation Benefit Research. The research will quantify the multiplier benefits of each dollar spent by the Government in NRAS incentives in the form of taxation revenue back to the Government. This report will be available to be presented to the NCOA in January 2014.

## **Efficiency**

NPL recognises that there is room for improvement in terms of efficiency of the delivery of NRAS dwellings, both from Government and Providers perspective.

- 'Use it or Lose it' Principle – can be applied to all reserved allocations. This means allocations will need to be used up as prescribed in terms of location, dwelling type and date of delivery into the Scheme.
- This is workable if Government approval times are standardised so that applicants can plan their pipeline. There needs to be greater certainty around when incentives will become available (through new tranches or re-allocated incentives), to improve efficiency of the process as well as underpin investor confidence.
- Greater transparency in the transfer process to allow participants to achieve timely outcomes.
- Compliance and reporting regime must be streamlined. The current reporting is arguably excessive to compliance needs, and there is overlap between what each level of Government requires approved participants to produce. The Government should review this and reduce red tape.

## **Risk Management**

There needs to be a better alignment of Government assessment and market delivery. The key reform is to apply a commercial risk assessment framework to the monitoring and the management of the program. This will reduce red tape, provide greater understanding of the property development process and thereby increase certainty in NRAS delivery.

## **The Future:**

### **The Positives**

#### **Promotion of the Successes of NRAS**

There are many examples of success and improvements in delivery, for example; combining government equity, government land, NRAS and NFP borrowed funds to create mixed tenure developments providing a mix of market-for-sale product, discount to market rentals (NRAS) and social housing with income-based rents. In order to replicate these project successes, they need promoting across Government, Industry and the community.

## **Beyond 50,000 NRAS Incentives**

The announcement of further funding, beyond the first 50,000 NRAS incentives, is also required to build market engagement and to drive further investment in NRAS. Investors are waiting to see whether NRAS becomes a permanent part of the housing assistance landscape, or a one-off program that will expire when available incentives are all allocated.

NRAS needs more time and certainty for a greater influx of institutional investment to flow and a rolling program of NRAS through regular rounds and an increase in the number of incentives funded will have positive effect on future private funding flowing into affordable housing. Regularity of rounds would be likely to result in shorter delays within Government on decisions about incentives and would underpin investor confidence. Affordable NRAS dwelling would consist of a revolving stock of newer properties, which could reduce the potential for negative connotations as has happened with social housing stock.

## **Explore Bundling of NRAS with Rent-to-Buy and other Innovative Schemes**

Rent-to-buy schemes offer a commercial solution to expiry of the annual incentive after the relevant 10 year period. These types of schemes should be examined along with opportunities for NRAS to be tied in with other housing programmes such as Shared Equity Home Ownership. There are a range of options that could be promoted to help renters of NRAS dwellings become home owners after the 10 year period, noting that this option will not be available to all.

## **The Challenges - Confidence in NRAS**

Banks in particular, but many investors too, are naturally risk averse and wary of making investments (debt or equity) in an environment where policy settings can change and the tax-free status of incentives is not necessarily guaranteed. The other key concern for large investors in particular is the fact there is no pipeline of continued capital funding (or NRAS Incentives).

It has taken significant investment in bank policy, credit assessment, development feasibilities and management to win the confidence of all relevant players. Now is the time to build on this platform and adopt improved administration and risk management reforms. To avoid loss of confidence the Government will need to confirm its support of NRAS not only for the initial 50,000 incentives, but as a continuous rolling program.



## Conclusions

These are the main points following from this submission:

1. It is appropriate and necessary for the Commonwealth Government to act in the housing space
2. It is Good Value for Money that a Government incentive like NRAS unlocks significant private funding and
3. NRAS has now gained a significant confidence in the industry and to interrupt it now would have long-lasting repercussions in the private investment sector, harming any future initiatives.

## REFERENCES

AHURI (March 2013) *Financing Rental Housing through Institutional Investment: Outcomes from an Investigative Panel*

AHURI (2012) *Financing and institutional arrangements for the provision of affordable rental housing in Australia (Investigative Panel)* <http://www.ahuri.edu.au/publications/projects/p71016>, accessed 25 November 2013.