

## NRAS

**Dymphna:** Welcome everybody to iloverealestate.tv. Great to have you guys listening again and once again, I have a fabulous guest speaker to come and talk to you. Now we're talking about something that is a relatively new in property development, I supposed a new thing on the market. It was introduced with the last government, this current government that's in and it's a new incentive for affordable housing. What I'm talking about is in NRAS or in particular the National Rental Affordability Scheme.

So to help me out with what it is, how it works, and how you can take advantage of it, I have an expert in the field. His name is James Thorpe and he is from My NRAS Property. Welcome James.

**James:** Thank you very much. Nice to being here.

**Dymphna:** Very good. So first of all, tell me a little bit about your background.

**James:** My background is real estate based. I was in real estate for about 8 years prior to learning about the National Rental Affordability Scheme.

**Dymphna:** Yes.

**James:** Once I did, I then started our own business in it because I saw so much value in it. And that was fairly, I suppose, a steady job and good quality clients to diversify into this because of, basically the quality of property that's out there and the quality of investment.

**Dymphna:** So National Rental Affordability Scheme, NRAS that it's called. Just explain what it is for all of my listeners.

**James:** Okay. Basically what it is from our point of view, is an investment opportunity. An opportunity to invest in property that's hopefully going to give you some cash flow positive. It was originally the government's answer to the housing shortage, so learning about the 40,000 houses less than what would acquire in terms of supply versus

demand, so government have put a scheme that will allow people to reduce their living cost. Will increase the investment in new property around their country but also, and key for us, provide investors with the opportunity to have a nice, good, passive cash flow positive property in the process.

**Dymphna:** So what the government did is they went around and identified the areas of need where we were under supplied.

**James:** Very much so.

**Dymphna:** And where we needed more affordable housing?

**James:** Yes.

**Dymphna:** And then rather than take on the whole cost themselves as they have done in the past, such as security housing which is a different part of housing obviously, but that kind of field.

**James:** Correct Dymphna.

**Dymphna:** They went out there and today pay investors and you guys are going to come up with the goods.

**James:** Yes.

**Dymphna:** But we'll incentivize you. How does that work?

**James:** Correct. So what the government has done, is that looked at key areas mainly that are going to provide infrastructure where they're going to require tenants for these properties who are generally police officers, nurses, and so on. What they've done is they said, "Okay, we want this to be affordable housing not community housing or social housing," so the government have extra little involvement other than the NRAS payment that they get. They've said what we'll do is we'll allow you to have a property. You rent it back to a tenant 20% below its market value.

**Dymphna:** Right.

**James:** So we're going to have...

**Dymphna:** So what investor's ever going to let you do that.

**James:** Well I'll tell you why because they'll then give just on that as it stands never, give you \$10,000 tax-free each in every year.

**Dymphna:** Okay, so depending on what property you've selected and what the dynamics are in current market rental in that area...

**James:** Yes.

**Dymphna:** You could end up with, after tax and all of the rest of it more than you would have if you just rent it normally.

**James:** Correct, yes.

**Dymphna:** Pretty cool.

**James:** It works out nice, I mean, if you're looking at - and so we'll use around figure of \$300 - you reduce the rent by 20% to \$240, so over a 52-week year, you've got a reduction of \$3,120.

**Dymphna:** Good.

**James:** The government pay you tax-free, just under \$10,000 - it's \$9,991 - each year which is CRI'd up for 10 years for which the scheme runs, so from that point of view, you are positive about \$6,000, just over \$6,500 a year.

**Dymphna:** That's pretty cool, huh?

**James:** Yes, it works. Look it's unbelievably astonishing to me just to see how few people know about it and it hasn't been well rolled out by the government in terms the marketing they've put behind it.

**Dymphna:** Not at all.

**James:** There has been some great investors taking advantage of it and it's certainly becoming more main stream. The US have similar type of system that's been running for about 30 years, so we think it's here to stay but it's just the opportunity for investors to get involved in.

**Dymphna:** Okay, so they came out and identified these areas. Now just talk about the dynamics of how it actually works. You've identified the areas, we've given the opportunity to the investors, now that actually went out via like a quota system, did it?

**James:** Correct, yes, so originally in 2008, there was \$50,000 homes that had NRAS incentives and they've been released in stages about every 12 months. They were released between 6,000 and 8,000. They look at what areas that's going to have increase in population and so forth where there's an infrastructure and those areas are generally the ones that get a higher number of incentives.

They're done by postcode, a high number of incentives that they have for ones that they tipped not to have as much growth.

**Dymphna:** Okay, so that means that a developer, if they get a quota if you like saying, "Okay, they'll have a quota of 20%."

**James:** Yes.

**Dymphna:** In particular area, what that means is that they've got to produce 20 new homes?

**James:** Yes.

**Dymphna:** That have the NRAS label put on them.

**James:** Yes.

**Dymphna:** Or able to be used for NRAS, but they do have to be new, don't they?

**James:** They do. All of them have to be brand new.

**Dymphna:** Can they be a removal house that's highly renovated or something like that?

**James:** They must be brand new.

**Dymphna:** So then we've got this house. It's going to have the NRAS label on it, so an NRAS-approved tenant can live in that house at a discount.

**James:** Correct, yes.

**Dymphna:** So how do you become an NRAS-approved tenant?

**James:** The number one way is you are means tested. So each tenant before they move into the property, are means tested based on their income; whether they are eligible. For instance, a single tenant can earn just on or just over \$45,000 a year and be eligible for the scheme.

**Dymphna:** Right.

**James:** Works right for the families with 3 children. You can earn just over a \$108,000 and be eligible to be a tenant for the property.

**Dymphna:** Okay, so they apply how?

**James:** They'll basically apply through the property itself or through Ethan Affordable Housing, which is one of the delegates that the government has set aside, who helps to manage the tenancy, so they have like a normal investment.

The property has a rental manager, they can go through them but they can also go through an approved participant of the government a not for profit company, which will help them slot into a different home. So they have two access points as tenants.

**Dymphna:** Okay, so the developers come along and produce this end product they might keep some or...

**James:** Yes.

**Dymphna:** And you're dealing with developers all the time and you have got investors and you basically match the two together and whatever else?

So an investor comes along and they've got an NRAS-approved brand new property, high depreciation, and all of that kind of stuff.

**James:** Yes.

**Dymphna:** They've got the label that a certain quality tenant goes in. The tenant has gone off and qualified themselves to be able to rent this place at a discount. Let's talk about the parameters around what income brackets that they need to be able to be qualified because one of the things when NRAS first came out was it had a little bit of stigma about being social security housing.

**James:** Yes.

**Dymphna:** And it's definitely not that, is it?

**James:** No, you're totally correct. As I said, a tenant can have a household in terms of one person who is renting the property, can have a household income just over \$45,000, so these people are working Australians. They are probably first, second, third year nurses, police officers who are earning, working but not on a massive income, so the saving they are making out of the 20% is big money for them each and every week.

That guy can go right through to the family with three children where they can earn just over a \$108,000 as a total income for household, family household income, and be eligible to rent the property. In saying that as well they can – over the 10 years the scheme runs on the property itself - they can increase their income by 25% and still remain eligible, so if these people upskill and do more overtime and so on, they can still remain eligible.

**Dymphna:** So there's a bit of a leeway in there.

**James:** Correct, yes, there's a 25% increase.

**Dymphna:** Okay, so the tenant goes in, they qualify etc. How do you manage all of this?

**James:** The approved participant manages with a normal rental manager, so an NRAS property cannot be self-managed. Reason being is your rental manager will have reports to do to the approved participant who in conjunction together will report back to government. The government want to make sure that we're not having people of massive incomes in these properties and the investor is getting a free \$10,000, so you can't make yourself that those two bodies will assist you in the management as they would for normal investment property.

**Dymphna:** Do they charge any more for that management?

**James:** It's slightly more with NRAS property because there's extra paperwork, so...

**Dymphna:** Give me a figure.

**James:** The approved participants going to charge you about \$750 a year and your rental manager will be around 10% of the discounted rent, so will be about 8% of the normal current rate.

**Dymphna:** It would have been, not that much difference really.

**James:** Yes correct.

**Dymphna:** Now is there really restriction as to the tenant or to say I had a daughter who is renting and she fitted the income requirements? Could I buy a property that was NRAS approved and put her in it?

**James:** You can, so there's no restriction on the tenants. You can have a daughter, son, whatever it might be as long they fit into that income bracket, then they're welcome to rent the property, so we had a lot of students that are that in them, there's a lot of, as I say, government

type worker that are in these. If you got a son or a daughter or friend, then it is any investment property you can slot them into it as long as they're in the income bracket.

**Dymphna:** Okay, that sounds pretty good. So who determines the rent? What's the market rental?

**James:** Market rental is determined in years 1, 4 and 7 of the scheme. People or the estate agent will come out and give you an appraisal on the market rent of the property and then you reduced that by 20%. So in years 1, 4 and 7 of the scheme, they come out, determine market rental rates, then you reduce it by a minimum of 20% and in the other years 2 and 3, 5 and 6, it goes up with the CPI

**Dymphna:** Okay, so you said that real estate agent comes out and assesses it. Is there any qualifications as to who they can be? Is there an average out of three? Is there an approved body of real estate agents who can say?

**James:** There is an approved body, so the approved participant from the government will pick about 3 or 4 real estate agents or in any one area that are able because they need to be trained on how to manage NRAS properties, so anyone of those.

If you're not happy with it then you can get second one done, so you're not locked into one valuation necessarily but it's generally done by one. If you're not happy then you can get a second one done.

**Dymphna:** Okay, the rent goes up every year, it's assessed initially and then you have to rent it at 20% less than the market value.

**James:** Yes.

**Dymphna:** It goes up every year until year 4 by CPI, whatever that is and let's say a rental market review at that point in time.

**James:** Correct, yes.



**Dymphna:** Highly unlikely that the rent is going to go down but if they did, then that's what would happen.

The rent is adjusted at that point and then you go one from there. What if you decide I don't want to live in the house, or I want to sell the house, or I want to take it out of the NRAS scheme? Can I do that?

**James:** Yes, you can. So for instance, if you wanted to sell the property, say in years 1, or 4, whatever it might be, you can sell it as a normal property on the open market as normal. There's no exit fees or charges on that. You can also sell it with the NRA scheme attached if you like to. You can also, if you decide that you just want to have just a normal investment property, you can do that as well. You need to provide it in writing. Something to bear in mind, obviously we need to honor whatever agreement is in place with the tenant at that point, so with that in mind...

**Dymphna:** Is it typically a 12 months lease that they signed up?

**James:** Generally yes. Some of them try to go for a little bit longer, but 12 months is generally minimum.

**Dymphna:** So you've got flexibility. You're not locked into it. Generally speaking though it has been my experience that an NRAS property, if you selling it on the open market, after it's being rented for a few years or whatever, if you sell it to an investor, it has a higher price tag typically because it is perceived to have extra value.

What's your take on that?

**James:** It can do. There is not a lot of investors that are actually selling them once they're into it. There's not a lot of people that are saying that they want to take it out but it can do. Certainly a property that's attracting more income to us as investors is more attractive. As soon it will start, we have 50,000 that have been issued. There's about 13,000 left. Once they're sold, if the government don't, then re-issue more

properties, I think the values of the properties will go up or the value of the NRAS property would go up.

**Dymphna:** Just like any kind of shortages of supply.

**James:** Correct.

**Dymphna:** Is there a percentage maximum if you got a new estate going in, as an example, where NRAS properties can be approved, is there a capping at to the percentage of the estate?

**James:** There's no capping in terms of the estates or building or whatever it might be. Generally, we have them around 15%, it's the general amount, so if you've got in the estate that has 100 homes, you're going to have probably 15 that are going to be NRAS. Some of them are completed NRAS but not very many are, not every estate are. Some of them have slightly more but as a rule of thumb, you're looking about 15% normally.

**Dymphna:** Okay, now when NRAS first came out, there was a little bit of problem getting to banks to get their heads around it, and to be able to get the funding and things like that.

**James:** Yes.

**Dymphna:** How were you finding that these days?

**James:** The shift in the last 12 months has been huge. It has been real positive for the scheme. When it first came out, the banks were basically having to be educated on it and they would just turn their back and say they don't want to know about it. Now that they're starting to learn about it over time, all four major banks are on board, so from that point of view, it's been a real good shift from the last 12 months for us.

**Dymphna:** Okay, so it's pretty easy to get them financed. Normal financing rates, normal LDRs?

**James:** Yes.

**Dymphna:** 80% and that kind of stuff?

**James:** Correct.

**Dymphna:** Price point, what kind of price ranges did you see in the properties, whether they start, and when do you get for that, where is that finished?

**James:** That started anywhere from sort of low \$200's right through.

**Dymphna:** What do you get that?

**James:** For that, depending on when you're looking, you might get a property, in a town that say, 90 minutes from any CBD. You can have a house and land package depending where you're looking. You might get some people going for student accommodation because there are such good yields on them with those.

**Dymphna:** So student accommodation unit as an example would qualify?

**James:** Correct.

**Dymphna:** So just try to find a building with say, 21 bedders in there would qualify?

**James:** Correct, yes.

**Dymphna:** Okay.

**James:** So from that point of view, it's quite a range in the products in terms of the properties themselves. The reason the price points are between sort of \$230 to \$450 is that's what we call a 'sweet spot'. Once you get to, say a price point of \$600 or \$700 the reduction in the rent becomes too high for the 20% and it doesn't turn cash flow positive, so...

**Dymphna:** So it's the lower end in the market.

**James:** It is indeed, yes.

**Dymphna:** And then everything from 1, 2, 3, or 4 bedders?

**James:** Correct. 1, 2, 3, or 4 bedders, obviously the closer you guys are to capital cities; the more likely you are to get an apartment.

**Dymphna:** Yes.

**James:** You go out a little bit, you probably going to get a town house. You get further out again, you get house and land, so it's like any normal market place.

**Dymphna:** Okay, so I mean from my listeners, they're going to be people from different backgrounds.

**James:** Yes.

**Dymphna:** And you get some of them that will be interested in becoming an NRAS tenant?

**James:** Yes.

**Dymphna:** The process of doing out of any opportunity that you rented 20% less.

**James:** Yes.

**Dymphna:** How do they find out about what the targeted areas are and where the NRAS properties are?

**James:** They can probably jump on to our website, we've got a link to the government website that shows you which areas have had how many NRAS incentives.

**Dymphna:** So what's the website?

**James:** It's [www.mynrasproperty.com](http://www.mynrasproperty.com)

**Dymphna:** Right.

**James:** From there, you see our ebook which will give you some good information and a link to the government websites, which will give tenants who want to have the opportunity to learn where NRAS properties are manually are located.

**Dymphna:** Okay, so that's the potential tenants.

**James:** Yes.

**Dymphna:** On top of that and obviously, they have to qualify for the income requirement.

**James:** Yes.

**Dymphna:** The next listener of mine is going to be the builder-developer because there are a lot of property investors and portfolio of different ilks and a lot of them are out there doing manufactured growth and some of them are building spec houses and some of the building blocks of units and some of them are building quite larger complexes.

So from their perspective, how do they get a quota? How does that work? What can you do to help them?

**James:** Again, they probably go to the same spot the tenants would. They can learn the areas that the incentives are in. They can then also on that same side, say who the approved participant in that area is, so there will be someone who has afforded opportunity to be overlook the scheme in that area. That would be the person to talk to if you're looking to have NRAS attached to a project you're doing.

**Dymphna:** Okay. Or to target a project specifically...

**James:** Correct.

**Dymphna:** For the NRAS, so it is still quotas out there.

**James:** There is, yes. As I said, there are 50,000 originally done by the end about 12.

**Dymphna:** Yes.

**James:** So they need to get their skates on as a developer but there is still the opportunity for it, yes.

**Dymphna:** So you know, for the developer, do they need to take into account things like disability access and those sort of things or is that not such a big thing?

**James:** Look, it's certainly would be, yes, I think from that point of view.

**Dymphna:** It's designed.

**James:** Yes, it's certainly would be I mean, they're a good market for these sort of properties as well. People who are doing a couple of days work here and there, so certainly I would think that would be a good option for any developer who is looking to have NRAS attached just to have that in place.

**Dymphna:** And it doesn't cost anything to have an NRAS attached.

**James:** Will cost you if you get the attachment done to the property, yes. So different approved participants will charge different amounts.

**Dymphna:** What would you generally say it was about?

**James:** It can range anywhere \$1,000 to \$2,000; some will charge as much as \$10,000.

**Dymphna:** Goodness me.

**James:** Yes.

**Dymphna:** Okay, alright, but it's still worthwhile to have that and have it attached?

**James:** Yes.

**Dymphna:** Something really, market to those end users?

**James:** Yes.

**Dymphna:** Or end investors. And of course, the other category is the investor who just wants to own an investment property potentially positively cash flowed, good growth area, brand new property, potentially CBD areas, and good yield.

**James:** Yes, again their best spot is jumping on to the website and...

**Dymphna:** This is your website?

**James:** Yes. They can see the properties that are for sale. They can get a video on NRAS explained. They can also get the ebook. Still have a good list. What they can also do once they get on to the property part of the website is put in some personal information around what they expect to be paying in terms of deposit. What are they earning each year?

And when they click on refine search, each and every property spits out information based on the information you provide to the computer, so that will tell you what the rental rate is going to be? The returns you can expect based on what you've told on your search. The website is for investors.

**Dymphna:** A bit of financial information.

**James:** Yes.

**Dymphna:** So you're taking into account with depreciation and all the other deductions.

**James:** Correct.

**Dymphna:** Okay, so what else would you like to tell my listeners about NRAS and your company in particular?

**James:** Our company in particular is probably slightly different to some other that you will see out there. There are some slightly different NRAS models and some of the dealers are bit gung ho with them. Like in investment, my background in real estate tells me that you need to do your due diligence. You need to learn about the area that you are purchasing in. This is not something where we close our eyes, point and hope that we hit the target. You need to, like any other investment property, learn what properties are selling for? What are they renting for? What's the rental demand in that area? What sort of

growth can I expect, so these are the key things that you'll do with any investment. I wouldn't advise that your best strategy is to jump straight in without gaining the knowledge they would have on any normal investment property.

Learn what things are selling for. All those key things we do as investors when we're looking at a deal still needs to be done.

**Dymphna:** Yes.

**James:** So from that point of view, educate yourself, spend the time. It's like anything in life if you do a little bit of work. You will reap the benefit.

**Dymphna:** Okay, for all my listeners out there. This is your opportunity to have a look at a totally different type of investment house and investment yield structure, if you like and the way to talk to James and to the other consultants at [mynrasproperty.com.au](http://mynrasproperty.com.au) or [mynrasproperty.com](http://mynrasproperty.com)

Whether you're the tenant, whether you're the end investor, or whether you're the developer in between – you may or may not want to keep them all. Yes, opportunities within that NRAS process. How long do you think this is going to be around for?

**James:** Well certainly in all of this probably about a year, year and a half left in the stock that's available.

**Dymphna:** Yes.

**James:** It's as I said, it's been running in the US, a similar type of system for nearly 30 years now.

**Dymphna:** Yes.

**James:** Our feeling and what we're hearing from government is that they will probably issue more. There are no guarantees on that, but we feel they will probably issue another 50,000 down the track, so to have the scheme.



**Dymphna:** Which government department is in control of it?

**James:** It's the Department of Sustainability Environment Population Communities.

**Dymphna:** Okay, and your feeling is we might get a few more?

**James:** We hope so.

**Dymphna:** Well how new is this industry, when did it really come into play?

**James:** It started. It actually started in 2008, but it started off trying to be sold as big thousand dollar lots to not for profit companies but it didn't work. In about 2009 and 10, they started to sell to investors and since 2011 and this part of 2012, it's been very popular.

**Dymphna:** Yes, it's a good mark for a small investor and of course Superannuation Funds can invest in?

**James:** They can yes. Trusts or Superannuations can also do it, yes.

**Dymphna:** So obviously the tax advantage of Superannuation isn't quite as strong as it is outside Super.

**James:** Yes.

**Dymphna:** Because you only pay 15 cents in the dollar inside Super but it still can be done.

**James:** Correct.

**Dymphna:** And then of course, outside Super, well is this tax rate based basically, isn't it?

**James:** Exactly right, yes.

**Dymphna:** So you could be making one and a half times the \$10,000 effectively?

**James:** You could be, yes.

**Dymphna:** That's very good. Okay James, well thank you so much for coming on and talking to my listeners here and, you're the expert in the field, so we will get anyone who is interested in this to try with high-growth area with a great cash flow. NRAS is certainly up there in the option department.

**James:** We'd love to check them. Thank you very much for the opportunity.

**Dymphna:** Thanks James. We'll talk to you again soon guys. I'll be back again next week with totally different topic to talk to you about, so until then. Bye for now.