
A NATIONAL AFFORDABLE RENTAL INCENTIVE

**Outline of a Proposal by the Australian Council of Social Service,
Australian Council of Trade Unions, Community Housing Federation
of Australia, Housing Industry Association Ltd and National Shelter**

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Purpose

The National Affordable Rental Incentive (NARI) is a financial incentive package to attract private investment into affordable rental housing for lower-income households, especially from large investors. The NARI scheme would be established as part of the new National Affordable Housing Agreement proposed in our group's recent *Call for Action*.

Value and number

The scheme involves providing developers, investors or landlords with a financial incentive (NARI) of a specified annual value per dwelling that is sufficient to attract investment in designated types of housing. Each NARI would be made available annually for at least ten years in relation to any particular dwelling. The number of NARIs being provided each year could rise by up to 10,000 per year until a plateau of, say, 100,000 dwellings is reached.

Eligibility

At least in the early years of the scheme, NARIs might be available solely or mainly for newly-constructed dwellings that are managed by an appropriate non-profit housing organisation. They would be subject to national conditions about rent levels, household income, length of tenure and some other matters. For example, 80% of dwellings might have to be let to lower-income households at no more than 80% of market rent.

Sources

An agreed share of the value of each NARI would be provided by the Commonwealth Government to the States in the form of a cash grant or tax credits. They would be allocated between States on the basis of their populations. The States would then be responsible for contributing the remaining share and allocating the NARIs to particular providers, subject to such additional conditions as they may consider appropriate and are consistent with the national criteria. Their contribution could be provided as a grant, tax benefit, guarantee or in some other form. Where appropriate, they could seek contributions from local councils.

Other assistance

Particular dwellings could attract both a NARI and a grant from the Capital Grants Program, especially if the rent discount is to be greater than is required by the NARI scheme and/or to be provided for a longer period. This would be especially important for non-profit organisations wishing to keep stock as permanently affordable housing or to focus on households with special needs that increase the cost of their housing or management.

Impacts

The scheme would increase investors' overall rate of return as well as the proportion which comes from regular rental income rather than capital gains. Details of these impacts on investors and of impacts on rent levels for tenants are illustrated overleaf. As well as benefiting households in the dwellings in question, the scheme would also reduce upward pressure on general house prices. This, in turn, would improve renters' ability to save for home purchase and service their subsequent mortgage.

The group's Call for Action and other material are available at www.housingsummit.org.au

Illustrative Impacts of a NARI Scheme

Introduction

This note illustrates key impacts of a scheme which would provide an annual NARI for a period of ten years for each eligible dwelling. 80% of the dwellings would have to be let for at least 20% below market rent so that, for example, if market rent is \$200 per week the rent discount would be \$40 per week.

Other assumptions for the purpose of calculating the impacts are summarised in the footnote. The choice of assumptions is reasonably conservative but inevitably affects the results, which should be interpreted as illustrative approximations. Further details will be made available in due course.

Rates of Return for Investors

The table below illustrates approximate rates of return which different levels of NARI could provide for different types of institutional investor on a nominal, post-tax basis.

TYPE OF INVESTOR	ANNUAL VALUE OF NARI		
	\$5,000	\$7,500	\$10,000
Superannuation fund	7-8%	8-9%	9-10%
Other corporate investor	6-7%	9-10%	12-13%

The scheme would also be available to charitable housing organisations, for which the comparable rates of return could be approximately 6%, 8% and 10%. This would assist them, where desirable, to reduce rents by a greater amount, or for a longer period, than the NARI scheme or to finance other affordable housing.

Rent Reductions for Tenants

The table below illustrates the scale of rent reductions that could be achieved as a proportion of household income. The figures relate to households with incomes that are lower than about three-quarters ("very low-income") or two-thirds ("low-income") of all households.

	MARKET RENT (pw)	NARI RENT CUT (pw)	RENT LEVELS (as % of income)	
			Pre-NARI	Post-NARI
VERY LOW-INCOME HOUSEHOLDS				
Sole parent, one child	\$200	\$40	36%	26%
	\$250	\$50	49%	36%
Couple, two children	\$300	\$60	35%	27%
	\$350	\$70	43%	33%
LOW-INCOME HOUSEHOLDS				
Sole parent, one child	\$250	\$50	33%	24%
	\$300	\$60	41%	31%
Couple, two children	\$350	\$70	30%	23%
	\$400	\$80	35%	27%

These outcomes can be compared with the widely-used benchmark of 30% of household income, above which housing costs are considered likely to be unaffordable. At present, hundreds of thousands of lower-income households are paying rents above that benchmark, with many of them paying rent exceeding 50% of their income.

Where the NARI discount is insufficient to achieve reasonable levels of affordability, the Capital Grants Program and other elements of the proposed National Affordable Housing Agreement would be available to provide complementary assistance.

CORE ASSUMPTIONS: Purchase price of dwelling: \$350,000. Initial market rent per annum: 4.25% of purchase price. Rent discount: 20% from market rate for 80% of dwellings (25% discount for all dwellings in the case of charitable organisations). Real capital growth per annum: 2%. Real rent growth per annum: 3%. Initial outgoings per annum: 3% of purchase price. Real growth in outgoings per annum: 0%. CPI inflation per annum: 3%. Level of borrowing: 80% of purchase price (nil for superannuation funds). Interest rate on borrowings: 8%. Income tax rates (plus 2.5% depreciation allowance where applicable): 15% for superannuation funds (10% on capital gains) and 30% for other corporate investors.