THE AGE

BUSINESS COMPANIES COMMERCIAL REAL ESTATE

Student accommodation sector braces for tax hit

By Trevor Hardie
27 October 2018

The property industry should be aware that the federal government is proposing tax changes that will jeopardise the international education sector – Australia's third largest export earner worth more than $30 billion.

The Treasury Laws Amendment (Making Sure Foreign Investors Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018 will be the subject of a Senate Inquiry to commence next month.

If passed, the bill will result in offshore capital providers to the education sector facing a 100 per cent rise in their withholding tax rate, as the meaning of the words "residential dwelling asset" will include tertiary off-campus student accommodation.

The University Terraces, a new student accommodation complex at UNSW.

This last-minute change differs from the exposure draft of the bill released this year, which featured a tax exemption for assets comprising "commercial residential premises", including student accommodation.

Intergen Property Group and many other leaders in the property industry have made submissions to the Senate Inquiry that if the bill is passed it will severely hurt the international student sector as almost all of the investment in the PBSA sector is coming from overseas, yet the government wants to change the rules mid-stream and penalise them for investing in Australia.

Foreign investors have effectively created this property asset class, with more than 30,000 beds predominantly for international students supplied or being developed by them to date, supporting substantial local jobs in the design, construction and hospitality industries.

The Property Council of Australia has also made a submission to the Senate stating the higher tax rate would have "unintended consequences for the tertiary education sector, which relies on international capital to provide purpose-built student accommodation".

The proposed increase in the tax rate also did not provide any relief for investors who have committed to developments and entered into contracts to acquire sites prior to September 20, 2018, when the amendments are dated to come into effect.

Not only will the proposed tax changes damage an important export earner for Australia, they will also inflate the rents in the broader rental market as students will be competing for a more limited supply of accommodation.

The sudden changes to the proposed laws will also affect Australia's reputation with foreign investors who are seeking stability in the rules when they commit capital offshore.

According to the Department of Education and Training, there were 626,988 international students in Australia during July 2018, up 11 per cent on last year.

With the pull-back in the residential property market, it is deeply concerning that the federal government would be considering hurting one sector still experiencing strong growth for developers.

Trevor Hardie is a director of Intergen Property Group.