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Student accommodation wins reprieve on foreign investor tax hike

The $8 billion student accommodation industry has been given a boost this week after the federal government quietly shelved plans to tax foreign investment in the sector at double the usual rate.

The good news was buried in the detail of the government's mid-year economic and fiscal outlook released this week where it spelt out the application of a withholding rate to foreign investors in managed investment trusts.

The concessional rate of 15 per cent for foreign investors has been doubled for investment into the residential and agricultural sectors.

Unilodge Buranda Brisbane, a student accommodation site Intergen is developing for investor Wee Hur.

Under a previous draft of the MIT legislation, student accommodation was to be included under the increased 30 per cent rate.

That prospect sparked concern from the property industry that the tax hike would dramatically dampen investment into the burgeoning student accommodation, where foreign investors have played a strong part. However, the MYEFO papers this week make clear that student accommodation will be instead be considered as "commercial residential" real estate and not subject to the increased tax.

The subtle but important shift was quickly embraced by student accommodation players including Intergen Property Group, which is developing a series of student digs projects backed by a $700 million investment mandate by Singapore's Wee Hur.

"We are very pleased the government listened and understood the argument we put to them that student accommodation should be treated as an institutional asset class, like retail, industrial or office," Intergen chief executive Trevor Hardie said.

"They saw the light."

Wee Hur's Australian-focused Purpose-built Student Accommodation fund is aiming for a portfolio of 5000 beds across a series of projects, with a portfolio value of more than $1 billion.

Until this week, the MIT provisions would have meant that two of the five projects it is overseeing in Adelaide, Brisbane, Sydney and Melbourne would see their tax rate stay at the current 15 per cent because they had already started construction.

But the remaining three would no longer have been classed as "commercial residential" assets under proposed tax changes and would have been subjected to the 30 per cent rate.

"When that came out, foreign capital just sat on their hands. Now they're all ready to go again," Mr Hardie said.

"We're going to now push ahead with our second fund for student accommodation.".

A second Wee Hur fund, also overseen by Intergen and focused on Sydney and Melbourne, could eventually hold as many as 4000 beds.

"This change will provide greater investment certainty for the university student accommodation sector," federal Treasurer Josh Frydenberg told *The Australian Financial Review*.

Property Council of Australia chief executive Ken Morrison described the student accommodation decision as sensible but urged the government to extend the concessional rate to build-to-rent developments as well.

Figures released this week show the proportion of commencing overseas students to all commencing students for all Australian universities rose from 26.7 per cent in 2016 to 28.9 per cent in 2017.

The total number of international students rose to 168,985, according to a Australian Population Research Institute report.

Those enrolments underpin demand for student beds, with players such as Scape Australia bringing institutional investment into the sector along with South Africa's Redefine Properties and others.