



Senator Jane Hume
Senator for Victoria
Chair of Economics Legislation Committee
Parliament House
Canberra ACT 2600

5 November 2018

Dear Senator Hume,

Thank you so much, for allowing us to present to the Economics Legislation Committee last Wednesday, 31 October 2018 regarding our concerns about The Treasury Laws Amendment (Making Sure Foreign Investors Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018, currently the subject of a Senate Inquiry.

As we explained, the Bill will result in offshore capital providers to the purpose-built student accommodation (PBSA) sector, such as our client Wee Hur and others, being forced to pay double the current withholding tax rate.

We are most concerned that there was a last-minute change in the meaning of “residential dwelling asset” to include off campus PBSA, which differs greatly from the exposure draft of the bill released earlier this year, which retained the tax concessions for off campus PBSA.

As a senior executive of the Department of the Treasury conceded to the Senate Hearing last week, there was no direct consultation with us regarding this change. I can also confirm there was no consultation with any other major off campus student accommodation provider.

Foreign investors, like our client, have effectively created and dominate this property asset class and the amendment will cause them to pull back their much-needed investment to provide student accommodation in what is currently an A\$8b property sector and an integral part of the A\$32b education export market.

Further to our submission and presentation to the hearing, we believe we did not fully articulate the importance of PBSA as an institutional investment grade asset.

This grading concurs when an asset class exhibits the key characteristics of having significant value (typically c\$100m investment for each PBSA facility) and stature to form part of a diversified investment portfolio. As such, PBSA must be able to compete for funds with the likes of retail, office and industrial property assets. These assets benefit from the concessional tax rate and accordingly PBSA should be on a level playing field with these other asset classes.

As an institutional investment grade asset class PBSA should not be simply categorised as “residential” in a similar and interchangeable manner in that residential is typically held in fragmented ownership by many thousands of individual retail investors.

The Department also appears to be unconcerned about sovereign risk and the uncertainty this will place on investment decisions and seem to be betting on the industry continuing irrespective of making ad-hoc decisions without consultation.

This investment class is now under threat leading to a situation where overseas students would return to the squalor they were living in before PBSA was created. See link to a story citing an example of this problem.

<https://www.sbs.com.au/news/ten-people-in-a-two-bed-unit-international-students-living-in-squalor>



It is worth noting that we are not alone in our concerns about this proposed amendment, with The Property Council of Australia's 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".

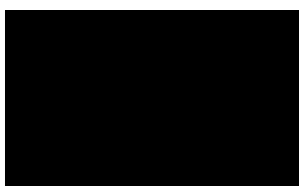
The proposed amendment also points to a retrospective tax as it provides no relief for investors who have committed to the acquisition of development sites prior to September 20, 2018, when the amendment is dated to come into effect.

The proposal will damage an important export earner for Australia, while also inflating rents in the broader residential rental market as students will be competing for a more limited supply of accommodation.

We respectfully request student accommodation be excluded from the definition of residential within the proposed legislation or alternatively it is excluded until such time as the Department of the Treasury enters full and direct consultation with the industry before the government determines a final position.

We trust you will consider retaining the concession tax rate for student accommodation to ensure is continued viability and capacity to supply student accommodation for the growing and vital education sector.

Yours Sincerely,



Trevor Hardie
CEO, I-GEN Funds Management