

# GST & STUDENT HOUSING

ANALYZING TAX IMPLICATIONS  
FOR A HIGH GROWTH INDUSTRY



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# INTRODUCTION

Over 37 million (mn) students are enrolled in higher education institutes across India. Over 24% migrate from their home bases to pursue higher education in bigger, urban centres. In fact, Tier 1 cities make up 50% of total student enrolment in higher education, indicating the skewed preference for educational institutes in larger, urban centres (**C&W-SAPFI Report *Exploring the Student Housing Universe in India-City Insights***)

A major fallout has been the need for private, off-campus accommodation options for these migrating students, who cannot be accommodated in the campus hostel facilities. Figures indicate that there is a shortfall of 3.78 mn student beds in the installed hostel capacity in the top 35 centres (based on unmet student bed demand). In addition, off-campus private dwellings are largely informal in nature, even as professionally managed student accommodation (PMSA) has started gaining major traction. Students and their parents/guardians alike have begun to consider the impact of accommodation quality on the academic experience and overall well-being. This has led to a greater demand for comfortable, hassle-free, and safe accommodation options made available by PMSA operators.

In a world where the impact of COVID will redefine many trends, the need for safe, hygienic and quality PMSA, both on and off-campus, will gain more impetus. Even though the higher education sector will see technology-induced changes, classroom teaching will sustain while pushing the need for quality accommodation.

The operational structure of the PMSA sector functions in such a way that it interacts with multiple sub-sectors while focusing primarily on enhancing the overall education experience of the migrant student population through superior quality accommodation. For instance, while a PMSA's primary objective is to cater to the needs of its student residents, the facility simultaneously generates employment opportunities for various people including property managers,

service staff, domestic helps, cooks, food and beverage vendors, marketing staff, accounts staff, sales team etc.

A welcome aspect of this operational model is that the whole process takes place in an organized format with contracts and agreements.

Like most industries in nascent stages, even as PMSA has emerged in the forefront of alternative real estate asset and investment classes, the stakeholders continue to grapple with certain challenges. For most new industries, a majority of these challenges arise in terms of policy reforms not keeping pace with the speed at which the sector is growing. These aspects usually impact sectoral operations and, more prominently, tax imperatives.

Alongside the emergence of PMSA, India also has moved to the GST regime for indirect taxes. While being beneficial in terms of 'one country one tax' and easing filing regulations, businesses have found it challenging when adapting to and adopting certain aspects. The PMSA sector also seeks some clarifications. Specifically, key challenges include the interpretation of tax liabilities, incentives and a lack of clarity around standardization and norms. The first, in particular, appears to be a core concern for Indian PMSA operators.

Additionally, benefits in terms of a single and lower GST rate could also go a long way in supporting this sector.

In this report we explore GST-related challenges that the PMSA sector faces and recommend some measures which we hope may provide some directional suggestions to the authorities to enable a higher degree of Ease of Doing Business for this sector.



## PMSA SECTOR OVERVIEW: INDIA

The student housing sector is undergoing a makeover in terms of its rapid expansion and diverse offerings. India isn't far behind. With increased capital inflow into this asset class on the back of better yields that it offers in comparison to traditional rental housing models, Indian developers and operators are increasingly waking up to the opportunity in this segment and the demand for cost-competitive, high quality student living solutions. Investors too are getting the opportunity to generate good returns in prominent city locations by upcycling run-down or vacant assets. At the same time, on the demand side, development of modern student housing facilities is addressing the concerns of both parents and their wards.

Gaining momentum over the last half decade, the industry has grown at a tremendous momentum with 25+ big and small startups operating in 26 tier 1 and tier 2 cities offering a cumulative bed capacity of 1.88 lakhs across various formats, amenities and price points, as per Cushman & Wakefield's industry analysis. The evolution has been noticed from the perspective of service delivery as well, with the movement from a mere accommodation provider to building an active community and becoming a mentor and career counsellor throughout the academic journey of the students. This has become the new benchmark in this industry.

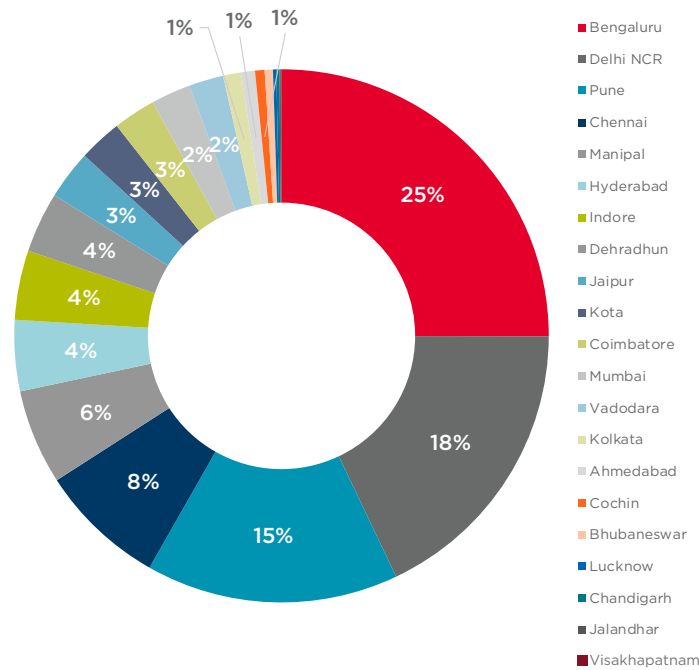
**26** Cities  
with PMSA  
Operations



**\$2.3+ Bn**  
attracted in funding by  
**25+** PMSA  
startups across these cities

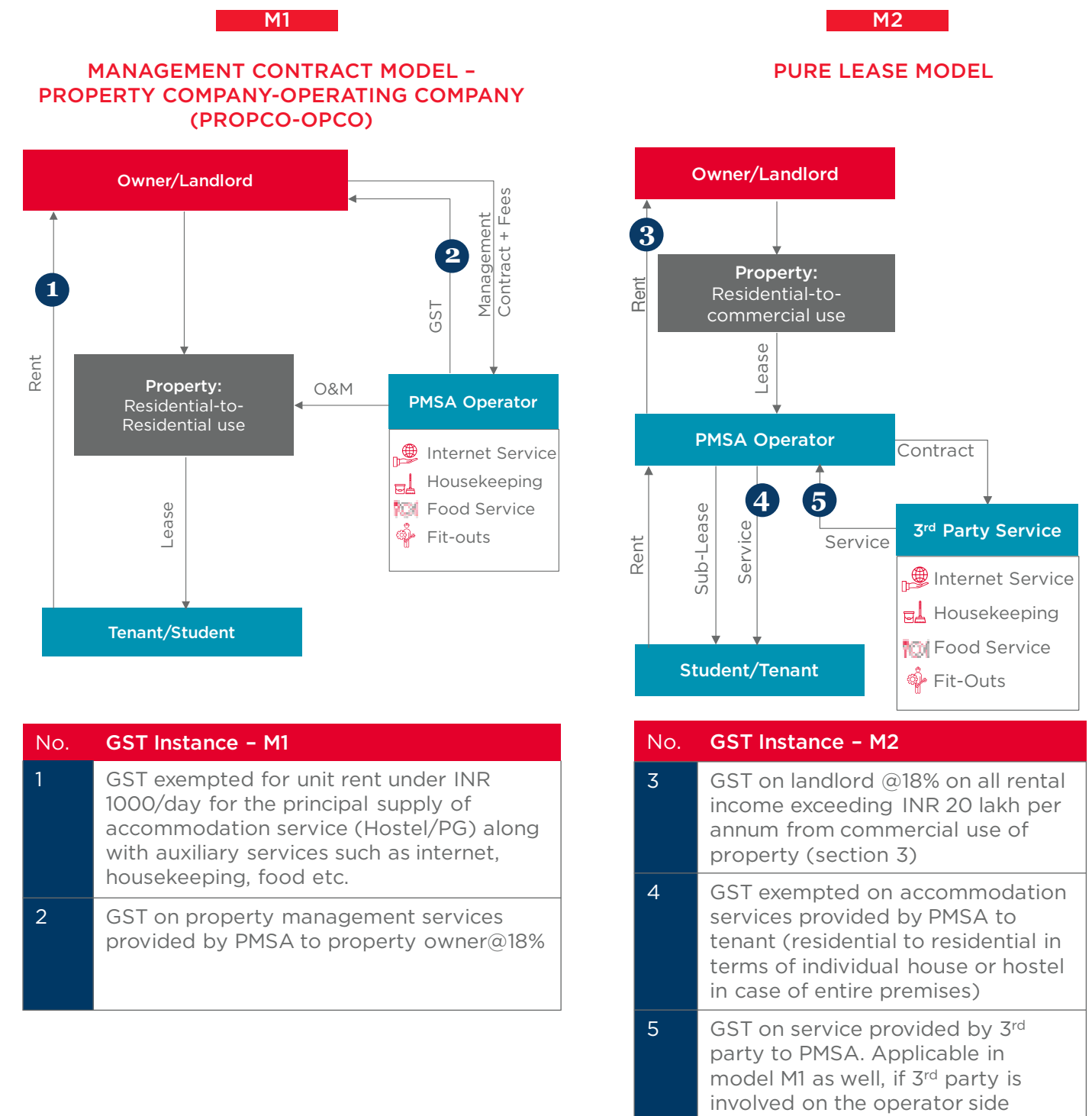
**Bengaluru, Delhi NCR & Pune**  
Top cities in terms of PMSA beds

**FORMAL STUDENT HOUSING  
EXISTING INVENTORY 2020**



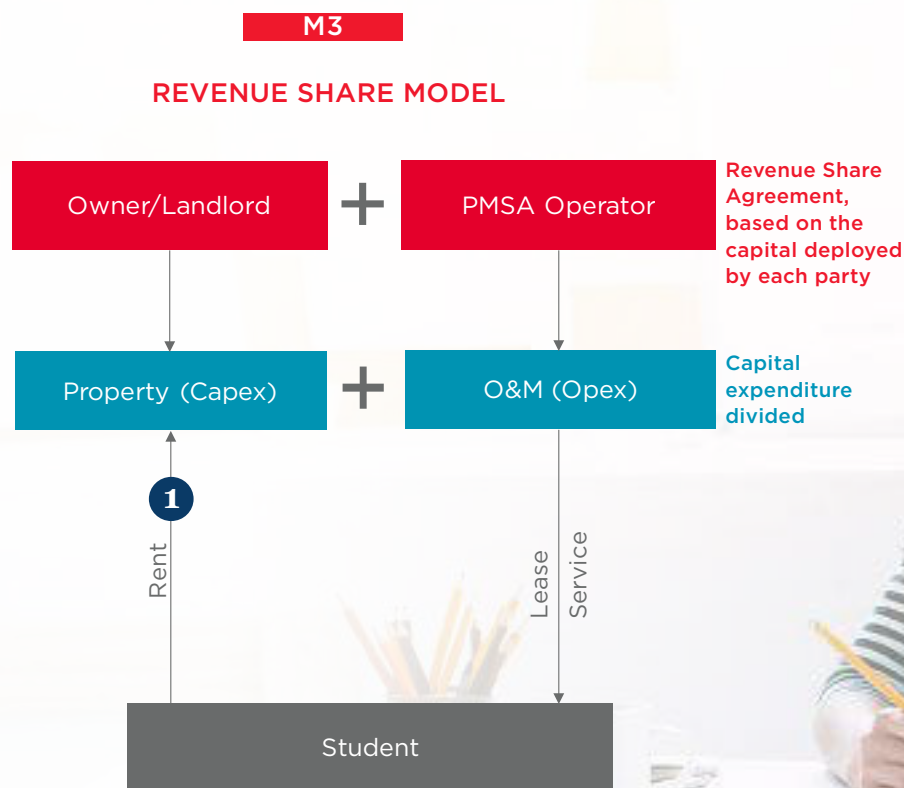
## PMSA MODELS & GST APPLICABILITY

Lease/Sublease agreements and management contract models are the most prevalent business models at the moment. Both are asset light approaches where operators take up properties on lease and sub-lease them to tenants. Add-on services are provided in the former approach while in latter, operators manage operations on the owners' behalf. GST applicability on this type of model is crucial to understand as it affects all stakeholders and, therefore, the industry's growth.



## PMSA MODELS & GST APPLICABILITY

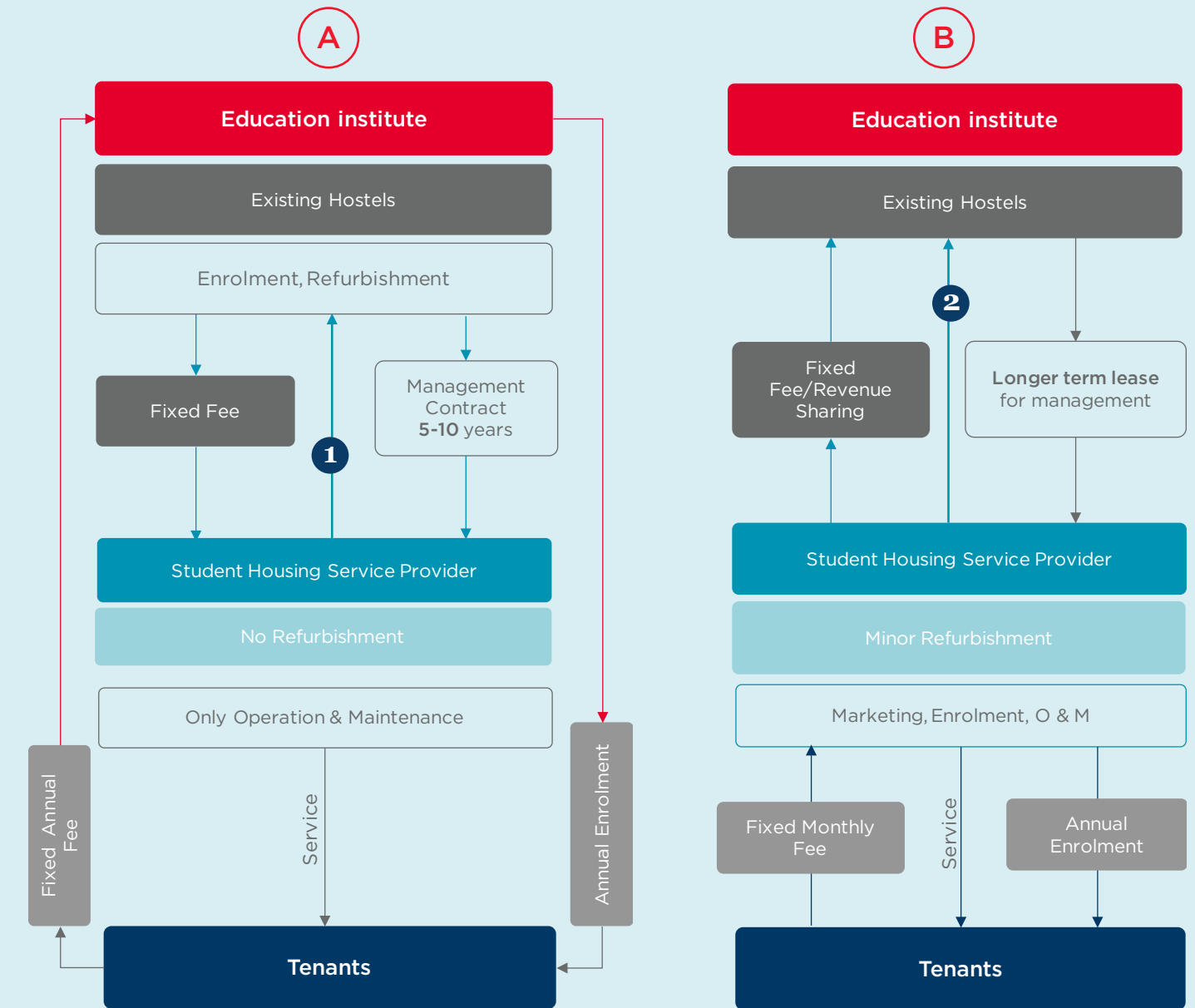
The third kind of model is the revenue share model, where owner and operator enter into an agreement for combined capital expenditure on fitouts, daily operations and maintenance and subsequent revenue sharing proportional to their respective capital deployment



No. GST Instance - M3

1 GST exempted as residential property used for residential purposes (hostel/PG)

## INSTITUTE AFFILIATED STUDENT HOUSING



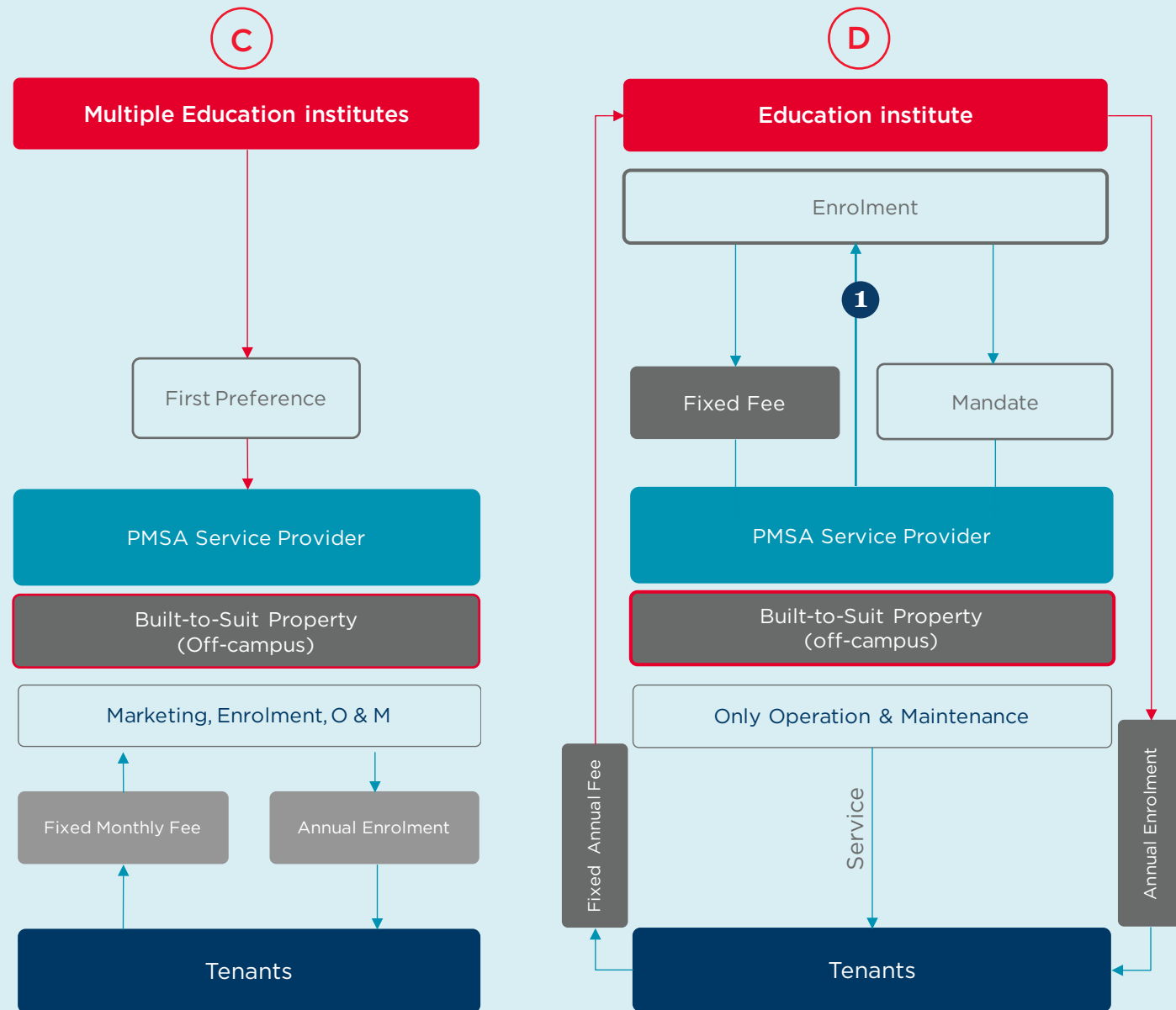
- A.** To only focus on undertaking operations and maintenance services, where the property is owned by the university and operated by a third party operator. Enrolment, fees collection is handled by the institute itself.
- B.** Entire hostel operations are handed over to the student housing service provider on revenue sharing or fixed rental model between institute and the operator.

However, universities and colleges generally focus on capital expenditure related to the academic curriculum and they are constrained to invest in student accommodation. Thus, it is difficult to get an adequate supply of student accommodation from the university in such a situation.

*Both types of affiliations are captive in nature where a student housing provider is tied up with a single institute and opportunities are limited to that institute's enrolment.*

No.	GST Instance
A-1	GST on property management service provided by PMSA to educational institute
B-2	GST exempted on property leased for residential purposes

## INSTITUTE AFFILIATED STUDENT HOUSING



- C.** Operators can tie-up with institutes where institutes direct their student towards external student housing providers. The operator is given preference for marketing and enrolment drive during admission.
- D.** Operators can also engage with institutes on a mandate basis where the institutes assure minimum number of students and the operators handle the rest of the process.

*In these types of engagements, student housing providers operate independently with mandates from multiple institutes to accommodate their students.*

No.	GST Instance
C	No GST, as there is no contract between institute and operator
D-1	GST exempted on mandate contract between institute and operator to provide residential services

## GST APPLICABILITY

As per schedule II of the CGST Act, 2017, renting of immovable property is treated as a taxable service under GST. However, only a specific type of renting of immovable property is included under taxable services. These include:

- Any lease, tenancy, easement, licence to occupy land.
- Lease or letting out of the building including a commercial, industrial or residential complex for business or commercial purposes, either wholly or partly.

Since the above mentioned activities are taken as 'taxable services', they are subject to GST.

There is a GST component on other allied services offered along with stay such as, daily meals, internet, housekeeping and laundry etc. These are directly passed on to tenants as they are the final consumers, and accounted for in their overall room fee.

Service Type	GST
1 Any food/drink served at cafeteria/canteen/mess operating on contract basis in office, industrial unit, or by any institution or by any other person on non occasional contractual basis.	5% with no Input Tax Credit (ITC)
2 Telecommunication and Internet Service	18% with ITC
3 Housekeeping	5% without ITC
4 Laundry	18% with ITC

The table defines defines GST applicability on various types of usage of residential property

Property Type	Purpose of lease	GST	Pre-condition
1 Residential	Residential dwelling used as residence	No GST	Exempted under section 12 of notification 12/2017.
2a Residential	Residential (In the form of Hostel/PG)	No GST	If unit rent is less than INR 1000/day from tenant(s).
2b		18% GST	If unit rent exceeds INR 1000/day from tenant(s).
3 Residential	Residential dwelling(s) used for business (shop, clinic, hotel, Guest House etc.)	18% GST*	*If rental earning > INR 20 lpa, GST on entire rental earning of property owner.

\*GST registration is mandatory for any income receipt above INR 20 lakh. And GST is applicable on respective goods and services as per respective rates.

**Concept of composite supply**

Supply of 2 or more good/services which are naturally bundled and supplied with each other in ordinary course of business, one of which is principal supply. The GST rate of the principal good/service is then applicable on such composite supply.

For example: Hotel tariff is INR 3000/day which includes many services such as telecommunication, TV connection, laundry, consumables. On this, the GST of principal goods/services i.e. accommodation service is applicable.



## GST APPLICABILITY ISSUE

### Issue 1: Business case: Residential to Residential or Residential to Commercial

- No GST on residential property leased for residential purposes, but it specifies applicability only on contract between owner and tenant who is the end user of the property. This leaves room for interpretation for contracts signed between owner and intermediators.
- The issue is pertinent for the aggregator model or any asset light operation, where property is leased for short term from individual home owners or long term from developers on Built-to-Suit basis.
- On the basis of the above, operators are interpreting their contracts for business fit under Clause 1 of the above table and GST exempt. Now it depends on the interpretation of the revenue officer to consider this as a residential property leased for business purposes and charge GST or not.
- This leaves many operators in an ambiguous situation where some operators are factoring in the GST @ 18% while dealing with property owners, just to avoid the scrutiny later but at the cost of their margins.

### Issue 2: Interpretation of 'Unit' as Room or Bed

- When we consider property use as residential and utilised for hostel/PG, it attracts GST on unit rent crossing INR 1000/day.
- Here the term 'Unit' needs to be defined explicitly as whether it refers to room as a whole or individual bed being rented out.
- As of now operators are interpreting it as bed and factoring the cost in such a way that it does not cross the INR 1000/day threshold.
- The threshold needs to be defined unambiguously to enable better taxation clarity for operators.

*The applicability of Clauses 1 and 2a/2b is ambiguous and needs to be clarified for the PMSA industry, specifically as below:*

*A. Should a student housing facility be considered under Clause 1 (exemption under Section 12) or along the lines of Hotels/Guesthouses (which are exempted subject to conditions)?*

*B. What would the definition of a 'unit' be in the case of a PMSA facility?*

## AN ILLUSTRATION OF TAX SAVINGS LEADING TO BETTER UTILISATION OF RESOURCES

One way in which policymakers can assess the impacts of differing rates of tax imposition is through the use of qualitative assessments and evaluation.

For illustrative purposes, this section proposes a qualitative framework to examine the spillover effects, both risks and vulnerabilities, that could be faced by a reduction in GST rates for PMSA.

The two rates considered in the framework below are 5% and 18%.

There are some advantages to such a qualitative framework since it is guided by the objective of identifying and evaluating the implications that potentially harm or benefit student housing and the government.

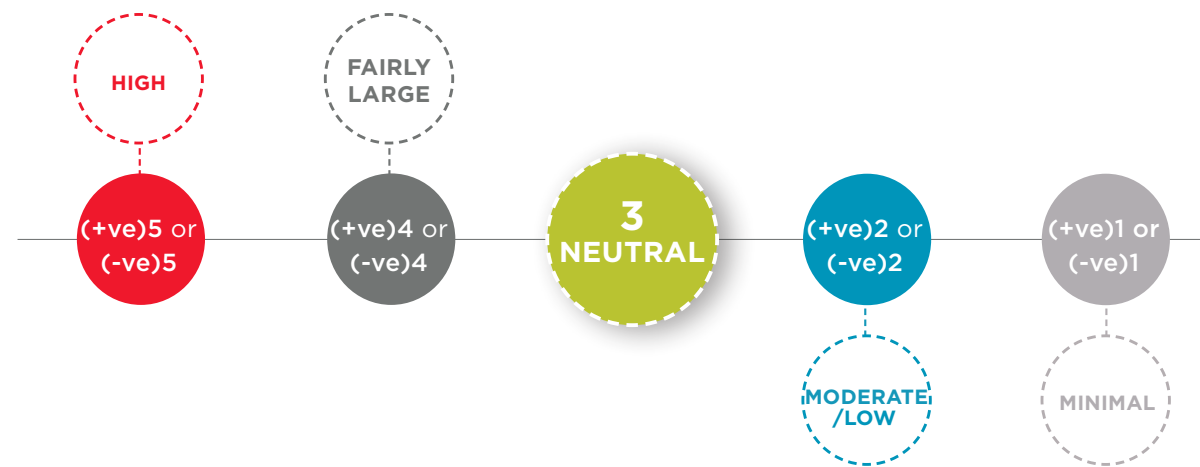
The strength of this spillover analysis is that it creates a strong case for a more inclusive approach towards estimating the potential impacts of a tax reduction. Its advantage lies in the fact that it does not remain exclusive to specific estimates regarding the change in tax imposition.

The spillover assessment is conducted through the grid AA1 containing (1) reduction in GST rates to 5% for PMSA (2) 18% GST rates for PMSA. Both the rates are important for the spillover assessment to provide comparative insights. The ratings in the grid have been assigned based on personal interviews with key decision-makers active in the sector including operators, advisory specialists, and policymakers.



## SPILL OVER EFFECT OF GST RATE REDUCTION

- The informants separately answered a series of questions about the various impacts of the two GST rates for PMSA housing. An online questionnaire was also created for both grids that indicated the areas and issues which should be considered for the allocation of scores on a 1-5 scale. Informants were given the liberty to cross-reference a range of data sources to answer the questions where required.
- A score of (+ve) 5 or (-ve) 5 indicates a high positive or negative spillover, respectively. Rating levels are colour-coded accordingly. It should be noted that the positive and negative scores do not affect the magnitude of the spillover.**



**#NOTE:** \* The total spillover effect is calculated without considering the positive and negative signs assigned to the numbers.

\*\*The scores of 3 will not be considered while calculating the total of spillover effect

Spillover effect of the GST rates on the student housing sector	Effects of GST Rates on the Student Housing Sector					
	5%			18%		
FINANCIAL BURDEN ON STUDENTS	(+ve)5			(-ve)5		
ENHANCED FUNDS FOR NECESSARY & AUXILIARY SERVICES	(+ve)4			(-ve)2		
REDUCED COMPLIANCE COSTS	3			(-ve)1		
STUDENTS EXPORTS	(+ve)2			(-ve)2		
BOOST IN REAL ESTATE	(+ve)4			(-ve)4		
BOOST IN INVESTMENTS	(+ve)4			3		
REVENUE IMPLICATION FOR GOVERNMENT	(-ve)1			(+ve)2		
IMPACT ON UNORGANISED SECTOR	(-ve)2			3		
TAX CREDITS	(+ve)4			(+ve)2		
INCENTIVIZE INFORMAL BUSINESSES TO JOIN FORMAL SEGMENT	(+ve)4			(-ve)5		
<b>Total</b>	<b>30</b>			<b>23</b>		
	27+ve	3(1)	3-ve	4+ve	3(2)	19-ve

## CONCLUSION

- Through this analysis, we can see that a combination of factors leads to a high positive spillover if GST rates are reduced to 5% from the existing 18%. Moreover, we also see a high negative spillover on various parameters in a scenario where GST rates are left at 18%.
- A reduction in fee on the basis of shift in the GST rate to 5% would result in considerable savings for lower income students and lead to higher penetration of organized student accommodation. Expense on accommodation is not provided any tax rebate and moving to a lower GST rate of 5% would help parents save on costs. After passing on benefits to students, PMSA operators can use the remaining funds to improve their quality of services.
- PMSA operators can also claim input tax credit at the time of service delivery if GST rate is reduced to 5% thereby reducing their overall tax burden considerably. Moreover, compliance costs would come down and disruption in overall operational structures would be curbed. A low, uniform GST would also help foreign students from countries such as Nepal, Bangladesh etc to get access to quality housing through a formal, operational structure.
- Finally, a uniform 5% GST rate would improve regulatory quality and boost the real estate investment environment.



## PMSA GROWTH PROSPECTS

- The new National Education Policy aims to achieve 50% Gross Enrollment Ratio (GER) in higher education by 2035. This translates into an addition of millions of students from the current level of 26% and by extension, a higher proportion of migrant students.
- The increased student numbers will need educational institutes to ramp up basic infrastructure such as student accommodation, which Higher Education Institutes (HEIs) might find challenging.
- The private sector has the ability to ramp up the complementary accommodation infrastructure so that institutes can focus on imparting education.
- In the long run, Built-to-Suit solutions provide higher return for both landlords and operators. This has been witnessed globally as well.
- The PMSA industry needs government support in terms of lower GST rates and higher earning thresholds in order to provide an investment boost. This might also help in effective utilisation of projects with unsold inventory and their conversion into purpose-built rental accommodation can be explored more effectively.



## WAY FORWARD

An advance ruling by Karnataka GST on the issue of GST exemption to the PMSA sector in regards of a specific instance was unfortunately adverse in its findings. The ruling has equated services provided by PMSA akin to hotel-like operations and hence upheld that the residential-to-residential use does not apply in this case. We propose that PMSA is designated as a separate sub-sector and recommend that the GST Council may effect a change that allows for the said exemption to apply to this sector.

The Model Tenancy Act (MTA) which seeks to regulate the lessor-lessee relationship needs to **recognise the PMSA sector and explicitly define such evolving models centred around co-living and student accommodation**. Additionally, the exclusions and exemptions around regulating the lessee and sub-lessee relationship, contractual arrangement and rental limits for such new rental models need to be either kept out of the ambit of the MTA or allowed to be determined by market dynamics.

We feel strongly that a clear sectoral categorisation of PMSA in the MTA, may pave the way for even more long-term benefits for the operator ecosystem should the government and the GST Council consider changes in the GST structure. It is recommended that the next logical step would be to undertake a comprehensive study to be conducted under the aegis of the GST Council with participation of an industry forum like SAPFI and other stakeholders to analyse the GST rate, GST structure applicability and exemptions.

The Government may after detailed deliberations also consider lowering the overall tax instance on operators engaged in professionally managed student accommodation services to reap positive spillover effect from enhanced investment and activity in this asset class.





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### About SAPFI

The Shared Accommodation Providers Forum of India (SAPFI) is the leading voice of India's shared accommodation industry. The forum is a strong advocate for the country's student housing and co-living industries and works with all levels of government and other stakeholders to empower businesses through policy and regulatory support and targeted advocacy. Its core mission is to articulate the needs, concerns and interests of its members for the creation of a conducive policy and legislative ecosystem that fosters innovation, transparency, economic growth, and social development for and through the growth of India's rental housing industry. Ultimately, SAPFI aims to empower organizations and businesses engaged in the shared accommodation industry and promote the value of quality shared accommodation solutions to support and enhance India's rental housing experience.

Please visit <http://www.sapfi.org/> for more information.

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