

Report on Policy and Interventions to Spur Growth of Rental Housing in India

March 3, 2013

Prepared by:

**The Task Force on Rental Housing
Ministry of Housing & Urban Poverty Alleviation
Government of India**



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PREFACE

NOTE BY JAITHIRTH RAO, CHAIRMAN, TASK FORCE ON RENTAL HOUSING (TFRH)

It gives me great pleasure to present you with a Copy of the Report of the Task Force on Rental Housing.

At the outset, I would like to put in a word of appreciation for Shri Arun Kumar Misra, who took the risk of putting together an eclectic group of people to work on this report. His faith in my personal impartiality despite my known libertarian outlook was very flattering and hopefully not misplaced.

The Task Force held various meetings in a spirit of wholesome give and take, marked by moments of irreverence and good humour. The representatives of the States of Maharashtra and Tamil Nadu were particularly active and made very constructive contributions. You may wish to thank these State governments in this regard.

The Task Force, by and large confined itself to the core subject of Affordable Rental Housing. The overall Policy issues regarding Affordable Housing, either on an ownership or rental basis did impact our discussions.

The overarching themes that emerged were as follows:

1. Affordable Rental Housing, in a manner of speaking addresses the issues of the underprivileged and inclusive growth, in fact in an even more direct manner than Affordable Ownership Housing. This stems from the fact that the genuinely underprivileged do not have sufficient accumulated savings and in most cases cannot qualify for Housing Loans based on their documented income levels. In fact, they usually have NO ALTERNATIVE, but to go in for Rental Housing.
2. Rental Housing in Metropolitan, peri-Metropolitan, Urban, peri-Urban and Suburban India is key to supporting social and economic upward mobility. People who move to cities for jobs, at all socio-economic levels have renting as their preferred, and more often, their only option. Such mobility is both a cause and an effect for economic growth and buoyancy. Typically, home-owners tend to be less mobile, geographically, socially and economically. It is tenants who end up being the most dynamic pools of human capital in the country.
3. Ironically, over the years, a palimpsest of laws, regulations and signals have emerged which not only does not provide a level playing field, but in fact discriminates against rental housing and thus indirectly discriminates against the underprivileged residents of urban India. As an example, Housing Loan payments can be deducted from Income tax, but not rent payments.
4. The first hurdle is the unrealistic Rent Control Laws and Rules that are prevalent in the different States. These laws were originally conceived as anti-landlord in their orientation. They have ended up becoming anti-tenant, by restricting supply and driving tenancy arrangements into the grey market. We have recommended simple contract-based Lease/Rent agreements between willing renters and willing tenants without the State imposing draconian price controls that in effect drives away legitimate renters and pretty much ends up forcing tenants into unrecorded and informal arrangements that are detrimental to their interests. New Legislations in some States, by setting a minimum rent level for there being no Rent Control, have ironically created the perverse incentive for Renters to build and rent out to rich tenants than to poorer ones.

5. The Task Force did debate whether Leases/Rent agreements should be compulsorily registered. Very soon, we came to the conclusion that, this would be disastrous. At the end of the day, the so-called grey market and the unregulated Paying Guest market work. People are able to find places to stay. Imposing control, even by way of compulsory registration would only further shrink availability and the cost would be paid by the underprivileged.
6. However, it is our hope that over time, Registered Leases/Rental Agreements would gradually go up. The absence of Rent Control should make it more attractive. Additionally, for Affordable Rentals (rentals of dwellings less than 60 square metres in area), we propose that, a flat low stamp duty (Rs. 100 or Rs. 500) be levied. This too will help in the grey market gradually moving to regularization. We felt that an ad-valorem stamp duty based on high urban land values will be regressive apropos of Affordable Rental Housing.
7. We debated whether we should recommend a separate Tribunal-based Legal Process for Rent Litigation. While there was some disquiet about whether it was realistic to bypass the Civil Judiciary, at the end of the day, the ENORMOUS delays in the system were found to be overwhelming. So we have recommended a fast-track tribunal system.
8. When the Task Force examined the various issues, we found that while everyone blames Rent Control, there are other significant inhibitors to the Affordable Residential Rental Market. The central issue is that the act of renting homes is seen as a “commercial” activity. As soon as a home is rented, in virtually all cities in the country, property taxes are increased, electricity and utility rates are increased; all of this on the grounds that even the renting out of a tiny apartment to a low income tenant suddenly makes everything “commercial” and therefore subject to harsh rate and tax increases. Service Tax is now required to be levied on Rentals, driving up the cost to the tenants even more.
9. The Task Force felt that if we could move away from the basic construct that Renting out Residences (as distinct from renting out Shops or Offices) is a commercial activity. Given the demands of the *Fisc*, by way of higher property taxes, rates and Service Tax, we felt that REALISTICALLY, at least the Renting of Residences under 60 square metres in India, be treated as non-commercial, by all authorities—Municipalities, Electricity Boards, Other Utilities and the Service Tax Authorities. The Task Force strongly felt that in fact, there would be no significant revenue loss as many of these arrangements are currently conducted in the grey market. In fact, by moving them into a transparent position, revenues at all levels may actually increase.
10. At the risk of being repetitive, we must emphasize how important it is to take away the fiscal demands and odium associated with Residential Rental, merely by the fact of classifying it as Commercial. Provision of Housing to underprivileged persons who, by definition cannot own homes, should be considered a socially worthwhile activity. At a minimum, for small dwellings it should not attract the extra costs that go with the commercial classification.
11. The Task Force discussed the puzzling situation where despite the pressures to remove antiquated Rent Control Laws, the ground situation remains as before. Even in Delhi, the new law, which has been passed and has received presidential assent, is yet to be notified. We concluded that the interests of Commercial Tenants in Shops and Offices, has in fact resulted in the interests of residential tenants being affected negatively. This is one more reason to classify Residential Leases/Rentals, particularly of Dwellings under 60 square metres as non-commercial activities.

12. The Task Force spent a great deal of time discussing the subject of Hostels. We concluded that a healthy increase in decent quality affordable Hostel Accommodation was key to sustaining social and economic mobility, and might even emerge as an important element in reducing urban tensions. Hostels too, seem to suffer from a conceptual albatross. In too many states, for too many purposes Hostels are classified as Hotels and are taxed heavily. They are also subject to many other levies and regulations as if they were all luxury hotels. We felt strongly that an eco-system needs to be created which encourages the Construction and Operation of Hostels and not one which restricts and constrains them.
13. The Task Force evaluated Employer facilitated rental housing schemes which were quite popular at one point in time in India and still widely practiced in other countries, notably China. With the passage of the New Companies Bill that makes it mandatory for profit making companies to spend on activities related to Corporate Social Responsibility (CSR), the Task Force felt that Rental Housing for Employees should be considered as legitimate CSR spend.
14. The Task Force felt that while the bulk of the participation from the Supply side would be continue to remain small individual landlords, with the creation of enabling entities such as Rental Management Companies with "eviction" powers, it may be possible to bring large institutional investors (e.g. Insurance companies) into the rental Housing Market that would increase the stock of quality Rental Housing in a more formal, structured manner.

As far as several general matters in the areas of Investment and some fiscal issues, it was felt that the Rental Task Force did not have any material addition to the existing proposals for giving a fillip to the Affordable Housing Sector, in general---be it owned or rented Housing.

Shri Sushil Kumar, the previous Additional Secretary has been a constant source of ideas and encouragement. Above all, he nudged us in the direction of realism, rather than impracticality. I am personally very grateful to him. I would also like to acknowledge and thank Shri Ajay Maken and Dr. Girija Vyas for their support to the Task Force.

I thank all the members of the Task Force for their inputs, patience and co-operation. Smt. S. R. Rajashekar, held us all together, provided ample research support and consistently showed her commitment to excellence. It was a real pleasure working with her. Ms. Tora Saikia, with her irrepressible energy and unswerving commitment to accuracy and attention to detail was a key resource for the group. My friend Ramesh Krishnamurthy of Indus Momentus helped me and others stay the course.

The full report and the summary recommendations are attached.

We are hopeful that the recommendations of the committee would be put to public scrutiny. Further we hope that there are wide ranging stakeholder consultations leading to the preparation of a detailed action plan. I am sure all the members of the committee including myself would be more than happy to further extend any support in this direction.

EXECUTIVE SUMMARY

The role that urban housing will play in ensuring the health of our expanding cities is going to be crucial. Post liberalisation, India has been witnessing a significant influx of population into the urban areas with the last two decades seeing nearly a 73% increase in the urban population. It is estimated that by 2030, urban population will increase to 590 mn, up from 377 mn in 2011. Out of the 81.35 mn households estimated to be living in the cities in 2012, the housing shortage has been estimated to affect about 18.78 mn.

The Ministry of Housing and Urban Poverty Alleviation (MHUPA) has ongoing programmes in the housing domain such as JNNURM, ISHUP, and RAY; however, most of them are oriented towards Home Ownership. Schemes related only towards home ownership are, however, unlikely to solve the urban housing problem. There is growing recognition that the housing shortage cannot be solved through incentives for Ownership alone and unless tackled creatively, will lead to a higher cost of living with an accompanying lower quality of living in our cities. It is in the backdrop of the above that the Ministry of Housing and Urban Poverty Alleviation, constituted a Task Force on Rental Housing.

The Task Force was mainly constituted to look at means of increasing the stock of Quality Rental Houses to be mainly achieved by focussing on two key enabling areas, namely,

- Creating a legal and regulatory framework that significantly reduces risk perceptions that would enable Private Sector to confidently take up rental housing in a structured manner and on a mass scale and
- Providing incentives by way of finances, tax breaks, etc that would improve the financial attractiveness of the rental housing projects / making tenancy easy in individual house in smaller cities/towns.

At the outset, the Task Force analysed segments that most require some form of Rental Housing as opposed to House Ownership. The Task Force concluded that Rental Housing is particularly apt and even a necessity for a significantly large segment of households and individuals. Rental Housing satisfies the needs of this demand segment in ways which cannot be satisfied through House Ownership. Rental Housing suits the needs of the Migrant population perfectly as they come for short durations of stay on account of employment or education and do not wish to make the long-term financial commitment given the temporary nature of stay. Rental Housing forms the only sustainable option for housing for the LIG/EWS household that have annual income less than Rs. 1 lakh and between Rs. 1 lakh and Rs. 2 lakhs respectively. At such income levels, it becomes impossible for such households to purchase a house without compromising quality of life. Government subsidies are also not a sustainable option. Hostels and Dormitories allow individual students to move across the country to get educated in their field of specialisation by providing rental accommodation that suits them in this transitory period of their lives. Individual migrant workers also would prefer Hostel/Dormitories.

The Task Force also noted that apart from satisfying the demand criteria, Rental Housing provides significant other benefits. Rental Housing facilitates housing options closer to the place of work and hence, has the potential to improve productivity. It significantly improves mobility of the workforce as it provides flexibility to move to a different location should there be adverse conditions at work or better opportunities elsewhere. Home Ownership increases the risk perception as the home is purchased using a significant level of debt and there is a constant

monthly need to make repayments thereby reducing the propensity on the part of the homeowner towards starting a business.

Given the advantages of Rental Housing, the Task Force concluded that focus on Rental Housing is vital ingredient of a successful India growth and development story.

The Task Force looked at both the Demand and Supply side of the Rental Housing segment to understand the industry better and thereby offer specific and implementable solutions.

- The Demand side of Rental Housing consists of three major segments, namely, *Permanent* -households settled in the urban areas but unable to buy a house, *Transient* - households/individuals migrating from other parts for the purpose of employment/education looking for temporary abode and *Captive* – households that live in tenements provided by Corporate.
- The Supply side of Rental Housing consists of the following key participants in Rental Housing, namely, *Individual Landlords* - unorganised individual landlords that provide rental housing to households and individuals, *Institutional Landlords* – large companies that provide organised rental housing to households and individuals, *Hostels/Dormitories* – large and small providers that offer shared stay primarily to individuals and Corporate/Captive Housing – employers that provide housing to staff.

The Task Force noted that at this juncture, while Supply for Rental Housing is available in the urban areas to meet the above Demand, the quality as well as the proportion of Rental Housing can be significantly improved so as to ensure that the quality of living can be improved in our cities. A quick analysis as to reason why Supply is constrained and of low quality is due low rental yields combined with outdated tenant friendly laws that deter landlords from renting out their property. In addition, these low yields with high risk of losing the property and the absence of intermediaries such as Rental Management Companies deter large institutional players from entering the segment.

The Task Force looked at levers that can be used to grow the Rental Housing business. The levers included incentive related levers such as taxation, deductions, incentives and subsidies, regulatory levers such as eviction policies and procedures, grievance redress and finally market related levers such as rent pricing, creation of enabling agencies etc.

The Task Force applied the above mentioned levers to all the Supply segments namely, Individual Landlords, Institutional Landlords, Hostels/Dormitories, Corporate/Captive Housing in order to use different levers to spur growth in the above mentioned segments.

The Task Force confined itself to issues connected with Rental Housing in Urban and Metropolitan India with a special focus on dwellings of 60 square meters or less in size and on hostels that charge less than Rs. 10,000 / month / bed.

The Task Force strongly advocated that, given the propensity and ability of Commercial interest groups to inhibit Rental reforms, there should be bifurcation of Rent Control Laws into Commercial and Residential so that there is greater focus and lesser resistance to Residential Rental reforms.

This Task Force has consciously not recommended ideas like Compulsory registration of Leases which are not practical and which could adversely affect the informal market. The Task Force recommended freeing of the Rent Price from Standard Price regime to one that is contract/market based. In addition it also recommended that the procedures and cost of

registration of the leases be minimal, say Rs. 500. These recommendations would automatically improve registration of the leases in the informal segment space while creating a more transparent market place.

The Task Force laid significant emphasis on Affordable Hostel/Dormitories segment of Rental Housing given their significant ability to facilitate people movement for both education and employment. In order to ensure commercial sustainability of both formal and informal Hostels, the Task Force has recommended sops in terms of higher deduction for maintenance, allowing them to charge utilities at Residential rather than Commercial rates, and depreciation benefits.

The Task Force felt that the Large Institutions segment would be key to increase stock of quality Rental Housing on a large scale. In order to make the Rental Housing segment more attractive, the Task Force has suggested setting of Rental Housing Tribunals for speedy resolution of disputes, simplification of eviction laws and procedures and also recommended the formation enabling entities such as Rental Management Companies with “eviction” powers.

The Task Force reflected on the creation of large captive housing by industry houses which was a norm in the past. Given the large corpus created under CSR spends as per the mandate of the New Companies Bill, the Task Force felt that provision of Captive Rental Housing could be considered as a valid CSR spend.

1 BACKGROUND

The role that urban housing will play in ensuring the health of our expanding cities is going to be crucial. Post liberalisation, India has been witnessing a significant influx of population into the urban areas with the last two decades seeing nearly a 73% increase in the urban population. It is estimated that by 2030, urban population will increase to 590 mn, up from 377 mn in 2011. The number of cities with more than 1 million populations is likely to increase from the current value of 42 to 60¹. Even at current levels of urban population, housing remains one of the key issues facing each city. Out of the 81.35 mn households estimated to be living in the cities in 2012, the housing shortage has been estimated to affect about 18.78 mn². In other words, a minimum of a fifth of our urban households live in substandard living conditions and has to be provided with decent accommodation. This acute shortage is likely to be exacerbated as urban population rises. There is, thus, a dire need to address this issue by looking at all alternatives.

The role that Housing plays in the life of an urban citizen and its impact on the overall society has been well documented. Housing is not just about having a shelter, it also relates to the broader aspect of being part of a community and being included in society. The fact remains that, the area and the type of tenement define and characterise the type of household and very often, set the context in which they participate in society ranging from access to education and jobs to access to amenities etc. Living in slums often makes these households invisible, thereby creating a greater degree of social exclusion. Housing is definitely the first ingredient for a decent life for an urban citizen. A vibrant and healthy city is one that provides such a decent life to all its citizens.

The Ministry of Housing and Urban Poverty Alleviation (MoHUPA) has ongoing programmes in the housing domain such as JNNURM consisting of Basic Services of Urban Poor and Integrated Housing and Slum Development Programme (BSUP & IHSDP), Interest Subsidy Scheme for Housing the Urban Poor (ISHUP), Affordable Housing in Partnership (AHP) and Rajiv Awas Yojana (RAY). However, most of them are oriented towards Home Ownership.

Schemes related only towards home ownership are, however, unlikely to solve the urban housing problem. The growth in urban population means that almost 85% of total tax revenues would shift to urban areas³. However, the cities in themselves would struggle on a per capita income basis and would not be just home to the prosperous. At present, about 75% of the urban households in cities live in the bottom income segment earning an average of less than Rs. 80 a day⁴. At such income levels, it would be impossible to provide housing ownership to a vast majority of urban population. It would neither be affordable to them nor to those who are expected to subsidise them.

There is growing recognition that, the housing shortage cannot be solved through incentives for Ownership alone and unless tackled creatively, will lead to a higher cost of living with an accompanying lower quality of living in our cities. MoHUPA has recognised this as well, and under the preventive strategy of RAY, rental housing has been envisaged to prevent future growth of slums and provide a decent quality of living for urban dwellers.

¹ MGI estimate, April 2010

² Report of the Technical Group (TG-12) on Urban Housing Shortage, 2012-17

³ MGI estimate, April 2010

⁴ MGI estimate, April 2010

It is in the backdrop of the above that the Ministry of Housing and Urban Poverty Alleviation, constituted a Task Force on Rental Housing. The Task Force was broadly entrusted with the task of developing a strategic policy intervention to address impediments in the current regulatory framework for rental housing and to promote rental housing as a viable alternative to address the housing shortage. The Task Force was to look at creative means and methods to solve the issue of housing shortage through Rental Housing so as to enable future cities to be safe, healthy, inclusive and equitable for all its inhabitants.

2 OBJECTIVE OF THE REPORT

2.1 TERMS OF REFERENCE

The Task Force was mainly constituted to look at means of increasing the stock of Quality Rental Houses. The implicit assumption being that one of the key contributing factors for low penetration of Rental Housing is the significant lack of stock of Rental Housing. It is possible then to significantly improve the viability and attractiveness of Rental Housing as an alternate to Home Ownership by focusing on increasing the stock of Rental Housing.

The underlying hypothesis of this study is that the current shortage in quality Rental Housing stock can be significantly improved by focussing on two key enabling areas, namely,

- Creating a legal and regulatory framework that significantly reduces risk perceptions that would enable Private Sector to confidently take up rental housing in a structured manner and on a mass scale and
- Providing incentives by way of finances, tax breaks, etc that would improve the financial attractiveness of the rental housing projects / making tenancy easy in individual house in smaller cities/towns.

The Task Force embarked upon the project of studying the Rental Housing Market in detail and coming up with recommendations that would facilitate the above enabling areas. The following were the Terms of Reference:

- Analyse the causes for non availability of sufficient housing for rental purposes.
- Suggest strategies to increase the rental housing stock through various tax and non tax incentives including project financing and recommend strategy on Corporate/Employer Housing for Employees
- Examine various rental housing models existing across the globe
- Examine the possibilities of convergence with the private sector in the rental housing sector
- Recommend legal issues related reforms and way forward for handholding States/UTs to implement the reforms related to the subject.
- Develop alternative strategies for combination of ownership and management as under

Exhibit 1: Different Combination of Ownership and Management

Owned by	Managed by
Public	Private
Public	Public
Private	Private

3 TASK FORCE AND METHODOLOGY

3.1 TASK FORCE TEAM

The following were the members of the Task Force on Rental Housing (TFRH):

Exhibit 2: Task Force Team

Name	Details
Shri Jaithirth Rao	Chairman, Value Budget Housing Corporation
Members	
Joint Secretary (Housing)	Ministry of Housing and Urban Poverty Alleviation
Joint Secretary (Revenue)	Ministry of Finance
Chairman & Managing Director	Housing and Urban Development (HUDCO) Corporation
Chairman & Managing Director	National Housing Bank
Principal Secretary	Housing & Urban Development, Govt. Of Maharashtra
Secretary (Housing)	Government of Tamil Nadu
Principal Secretary (Housing)	Government of Uttar Pradesh
Principal Secretary (Housing)	Government of West Bengal
Principal Secretary	Housing & Urban Development, Govt. Of Andhra Pradesh
Dr. P S N Rao	Prof./HoD of Housing, School of Planning & Architecture
Shri. S C Deshpande	Chief Town Planner, Rental Housing Division, MMRDA
Dr. M K Ramesh	Professor of Law, National Law School
Shri V. Satyanarayana	President Ranga Reddy District Hostel Association and CEO Aarusha Homes Private limited
Shri Lalit Kumar Jain	President, CREDAI
Shri Navin Raheja	President, National Real Estate Development Council
Shri Jaydeep Narendra Shah	President, Institute of Chartered Accountant of India
Director	JNNURM & Rajiv Awas Yojana, Ministry of Housing and Urban Poverty Alleviation
Director (Housing), Member Convenor	Ministry of Housing and Urban Poverty Alleviation

3.2 TASK FORCE METHODOLOGY

The Task Force worked with smaller subgroups that looked at specific areas of research pertaining to the Rental Housing space. The Task Force met on five different occasions to discuss the findings of the subgroups in the wider audience and also to discuss new ideas and possible next steps.

- The first meeting of the TFRH was held on 24th September 2012, the minutes of the same are in Annexure 4: Minutes of the 1st Meeting of the TFRH held on 24th September 2012
- The second meeting of the TFRH was held on 16th January 2013, the minutes of the same are in Annexure 5: Minutes of the 2nd Meeting of the TFRH held on 16th January 2013
- The third meeting of the TFRH was held on 11th February 2013, the minutes of the same are in Annexure 6: Minutes of the 3rd Meeting of the TFRH held on 11th February 2013
- The fourth meeting of the TFRH was held on 18th March 2013, the minutes of the same are in Annexure 7: Minutes of the 4th Meeting of the TFRH held on 18th March 2013

The meetings were used to discuss the findings of the research carried out by the various Sub Groups. Given that the Task Force consisted of professionals with diverse experience and expertise in specific domains, the meeting also served to get points of views on various dimensions for each of the findings of the Sub Groups.

The TFRH Report on Rental Housing will be a culmination of the recommendations from the research of the sub-groups within TFRH, and subsequent discussions in the various meetings as stated above.

4 SCOPE OF THE REPORT

The Task Force decided that the focus of the report should be in the specific area of Urban Housing with emphasis on the following key areas:

- The emphasis of this Report would be on the **Residential** sector. While the Rent Control Acts apply to premises let for the purposes of Residence as well as Commercial applications of Education, Business, Trade and Storage, we have focused on the need for Residential Housing.
- The emphasis has been on the increasingly acute problem of Residential shortages in **Urban Areas**. With significant influx of the migrants from the Rural to the Urban areas as also the paucity in space in the cities, the Task Force felt that the issue of Residential Rental Housing in urban areas was likely to be more complicated than in Rural and Semi Urban areas. The TFRH also felt that good policies and procedures in Urban Areas to start with, can with maturity, be easily transplanted to Rural and Semi-Urban (Near Urban) areas.
- On the Demand side, the emphasis of the Task Force was on the following key Segments of Rental Housing:
 - **Affordable Segment (Permanent):** This is the segment of the population which has the wherewithal to pay and currently pays a certain quantum of rent that is close to or at market prices. It may also be quite possible that given the paucity, this segment could actually be paying a premium and/or not getting a liveable quality accommodation commensurate to the price they pay as rent. This segment would mainly include families in the Low and Middle Income segments. Given the uncertainty surrounding Rental housing, this segment always looks for stability and usually tries to buy Housing which, in most cases, is beyond their budget and even if possible, typically less liveable (including slums) than the rental houses.
 - **Student Segment (Transient):** This is the growing segment of population that has seen a significant increase in cities, with the mushrooming of Colleges and coaching institutes. This segment of population is typically young and single and transitory in nature and usually spends 6 months to 5 years at a single location. This segment is currently aided by Hostels provided by a few of the educational institutes but a significant number of new education and vocational training institutes do not provide hostels. Thus the demand for student housing is far larger. This segment is not looking at Ownership and is thus, purely dependent on rental accommodation.
 - **Migrant Segment (Transient):** This is a significant segment of population that moves to different cities in search of employment. This segment looks to save as much as possible so as to send savings back to families that are typically living in Rural / Semi Urban Areas. This segment is also not looking at Ownership and is thus, purely dependent on rental accommodation. This segment of population tends to be economically weaker than the Student Segment.

- **PSU/Government Housing (Captive):** This is a significant population of about 17.5 mn⁵ people who are employed by a PSU or a Government department (both Central and State). In the past, a number of these PSUs/Government departments used to provide housing. However, in recent times the trend towards Captive housing has reduced significantly. This segment of population would typically remain with the organisation for a longer duration of time. This segment would be looking at Ownership or low cost rentals after retirement. Being economically better off when compared to other migrants, this segment could also depend on low cost rental housing the exists in the open market, if sufficient management owned housing is not available.
- **Industry Housing (Captive):** Similarly there is a significant population of about 11.5 mn people who are employed in the organised Private sector. Here again, Industrial housing has shrunk to an insignificant level. This type of housing has seen a re-emergence with the advent of SEZs (Special Economic Zone) albeit with limited success. This segment of population would again be looking at Ownership or Low Cost Rentals after retirement.
- On the Supply Side, the emphasis of the Task Force was on the following key participants in Rental Housing:
 - **Individual Landlords:** Individual Landlords are typically the large volume of unorganised landlords that provide flats/houses for rental housing.
 - **Institutional Landlords:** Institutional Landlords are companies that participate in large scale Rental Housing.
 - **Hostels and Dormitory Providers:** Hostels and Dormitory providers are those that provide beds for individual renters rather than for the entire household.
 - **Captive Housing Providers:** Captive Housing Providers are employers that provide housing for their staff.
- The Task Force has focused on each of the above Segments and has given its recommendations on the key areas of Policy, Taxation, Incentives etc that would act as enablers and facilitators in growing each of the Segments of Rental Housing.
- The Task Force recommendations could form a key input in drafting the new Policy for Rental Housing.

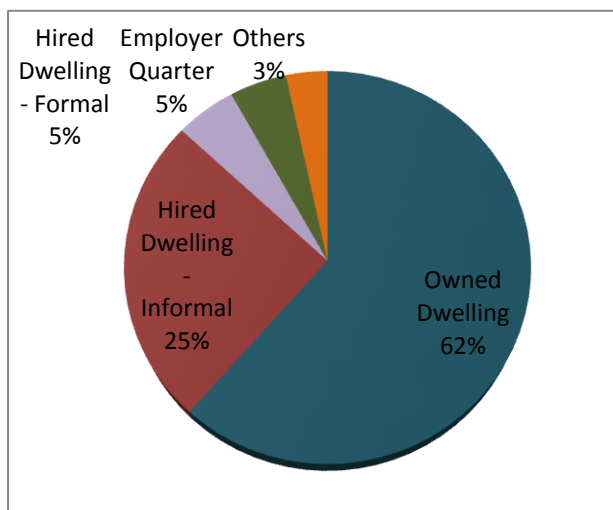
⁵ Economic Survey, 2012-13

5 INTRODUCTION TO RENTAL HOUSING

The Housing policy in India has focused on facilitating Home Ownership rather than Home Rental. The Housing policy initially focused on providing government built houses targeted at Economically Weaker Sections (EWS) or Low Income Group (LIG) families. However the intervention was limited and finally resulted in the houses being sold to Middle/Higher income groups (MIGs, HIGs) as the market value of these houses grew. Over time, the government has moved away from providing houses to enabling home ownership by using sites and services and slum upgrading programs wherein beneficiaries contribute some of their own capital towards building housing on government or regularized slum land. However, such schemes could also potentially prove to be ineffective if houses meant by LIG were to be sold of to MIGs and HIGs.

In the absence of alternatives for Rental Housing as well as the un-affordability of house ownership, the growing cities in India rapidly witnessed the growth of slums. With liberalisation, enabled by the growth of the housing finance industry, government increasingly sought to incentivize the private sector to build LIG housing stock using FSI, tax exemptions and other tools. For slums, the government outlook progressed from the response of demolishing slums without providing rehabilitation to slum dwellers, to the current programmes that

Exhibit 3: Split of Housing⁶



emphasize the need for in situ development using similar private partnership incentives.

In all its attempts towards improving the housing situation across the different income segments, the emphasis of the government has remained on Home Ownership. Even the 2013 budget has incentivised home ownership by proposing a tax deduction on interest paid increasing it from Rs. 1.5 lakh to Rs. 2.5 lakhs for home loans less than Rs. 25 lakh.

On the Rental side, there has been no explicit incentive or deliberate effort to grow the Rental Housing Market on a pan India basis. In fact, successive Rent Control Acts which were primarily intended to

protect tenants from eviction and unfair increases in market rent, have only ended up shrinking all future investment in Rental Housing and in many cases, led to Housing stock being withdrawn from the Rental market. While there have been a few states notably Maharashtra and Rajasthan that have amended the Rent Act and also introduced certain incentives towards Rental Housing, in most other States the Rent Control Act has failed to instil confidence in the Rental Housing industry resulting in low interest in increasing the penetration of the Rental market as a viable alternative.

⁶ NSSO 65th Round, Report on Housing Conditions and Amenities in India, 2008-2009

A net impact of this policy as well as the general propensity towards the safer option of Home Ownership is that, a significant 62% of the urban population lives in Owned Dwelling, followed by 25% Rental Dwelling on an Informal basis. The formal Rental Dwelling segment accounts for only 5% of the overall settlements⁷. According to the 2011 Census, the Owned Dwelling is at 69% while the Rented Dwelling is at 27% in the urban areas.

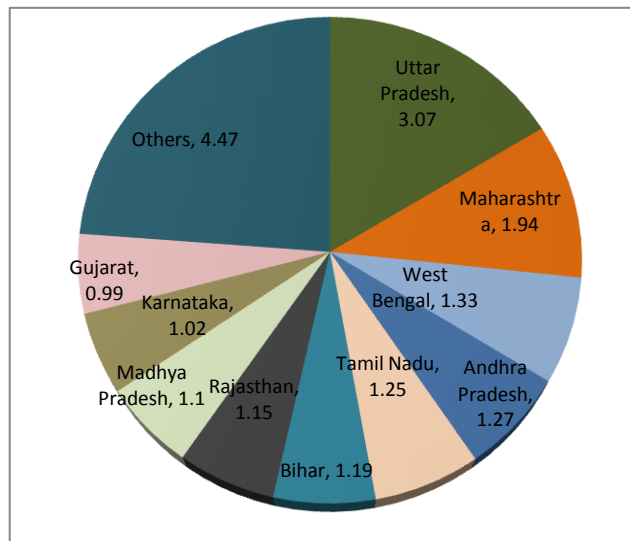
5.1 URBAN HOUSING SCENARIO

Despite the incentives and initiatives on the Home Ownership front, the urban housing segment in India continues to face significant challenges. The 12th Plan Working Group on Financing Urban Infrastructure estimates the urban housing shortage in the country at nearly 29 million units. Technical Group-12 on estimation of housing shortage commissioned by Ministry of HUPA has estimated housing shortage as 18.78 million in 2012. The ten states of Uttar Pradesh, Maharashtra, West Bengal, Andhra Pradesh, Tamil Nadu, Bihar, Rajasthan, Madhya Pradesh, Karnataka and Gujarat constitute about 76% of the urban housing shortage. Around 56% of the shortage is among the Economically Weaker Section households (household average annual income up to Rs. 1 lakh) and approximately 40% of this shortage is among the Lower Income Group households (household average annual income of Rs. 1 lakh to Rs. 2 lakhs).

With the growth in population in the urban areas, the situation for Urban Housing is only likely to get more acute. According to an MGI affordability analysis, the demand for affordable housing is likely to rise from 25 mn households to more than 38 mn households by 2030⁹. This will be on the back of an increase in urban population to 590 mn by 2030 with more than 91 mn being from the middle class segment. This urbanisation will spread to more than 60 cities with population greater than 1 million. Thus, the issue of urban housing is not likely to be restricted to the current set of 10 main states that account for more than 76% of the shortages but will impact the most urban cities.

The Central and State Governments continue to incentivise the housing segment in order to ensure greater ownership. However, given the skew in the population on the basis of socio-economic levels, as also the increase in real estate prices, it is unlikely that a vast majority of the households would be able to afford a liveable accommodation by way of Home Ownership. Ownership has to be supplemented by a strong and structured Rental Housing market, with models that address diverse housing needs for

Exhibit 4: State Wise Urban Housing Shortages⁸



⁷ NSSO 65th Round, Report on Housing Conditions and Amenities in India, 2008-2009

⁸ Report Of The Technical Group on Urban Housing Shortage (Tg-12) (2012-17)

⁹ MGI estimate, April 2010

different segments of the population. This would ensure that Rental Housing is seen as a viable option to the general inclination towards home ownership.

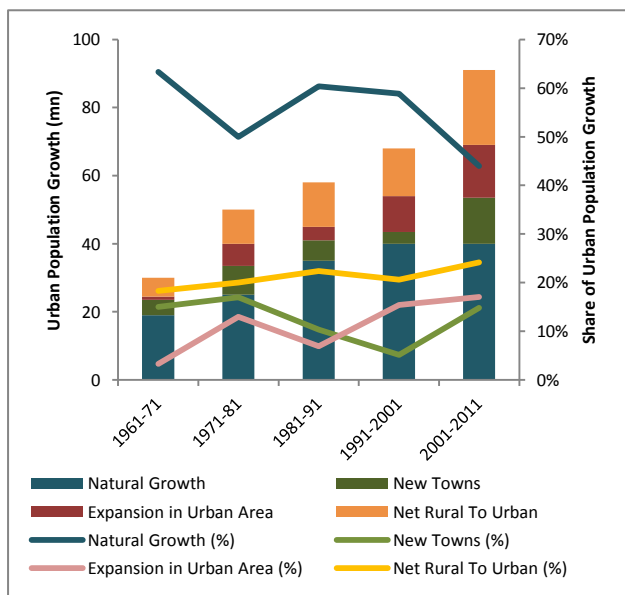
5.2 CASE FOR RENTAL HOUSING

Rental Housing, as opposed to Home Ownership, is desirable for a number of different reasons apart from the affordability standpoint. In this section we briefly describe the different aspects of Rental Housing.

5.2.1 Demographic Mix

Migrants from Rural to Urban areas form the single largest population segment that needs

Exhibit 5: Rural Urban Migration and Demographic Impact



Housing in the cities. While the commonly held perception is that rural to urban migration has increased significantly, an analysis of the Migration pattern in the 2001-2011 decade shows otherwise. The contribution of rural to urban migration to the overall growth in the urban population has increased to 24% up from 21%¹⁰. But what is significant is that share of natural growth has reduced significantly, thereby increasing the overall proportion of migrants population in the cities.

As urban areas get a higher proportion of the migrant population there is a growing need to provide fresh affordable housing to them. A number of the Migrants come for short durations of stay on account of employment or education. They also

typically have their own house in their place of birth/home town and look to rent houses. Migrants may not want to make the long-term financial commitment in the city given the temporary nature of stay, and in addition would desire to send as much of their earnings back. Thus affordable Rental forms a very important housing option for this segment.

5.2.2 Standard of Living:

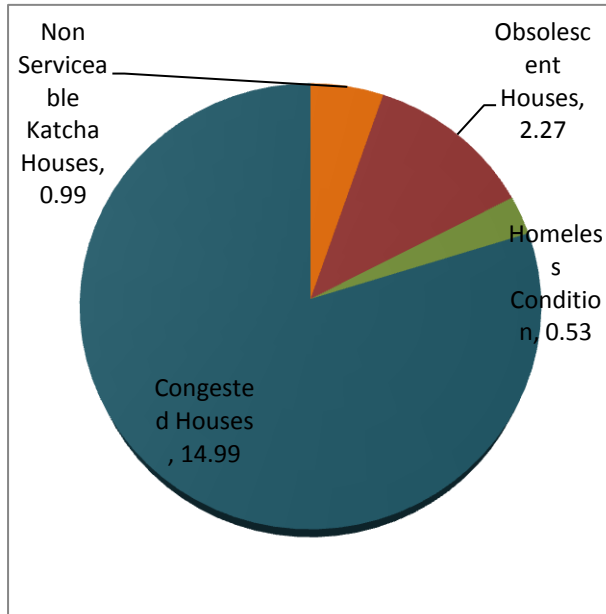
The current Urban Housing shortage estimated at 18.78 million¹¹ has been arrived at considering factors such as obsolescence (mainly age related), congestion factor (mainly size related), homelessness etc. A significant number of people are actually living in substandard houses and yet paying a significant premium for the same. The homeless proportion is very small.

¹⁰ IIHS Analysis, based on Census 2011, NSS 64th Round, Sivaramakrishnan, Kundu, Singh (2005), SRS Vol. 45, 2011

¹¹ Report of the Technical Group (TG-12) on Urban Housing Shortage, 2012-17

What is significant is that the income segment that has the least ability to pay is the most impacted. As can be seen, more than 95% of the Urban Housing shortages impact people from the LIG and EWS segments of population.

Exhibit 6: Urban Housing Shortage



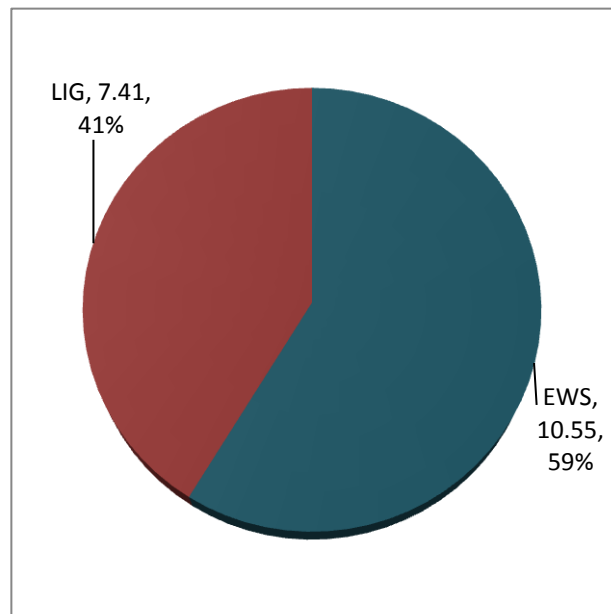
By definition, EWS households have income less than Rs. 1 lakh per year while LIG households have income between Rs. 1 lakh and Rs. 2 lakhs per year. 30% of the monthly income is assumed to be an optimal EMI level to comfortably service a housing loan. At an EMI level of Rs. 2500 (EWS) and Rs. 5000 (LIG) per month, it would be difficult for the LIG segment to own a quality house within the confines of an urban city. The government would have to give significant subsidies in order to make houses at such low prices or find alternative forms of housing solutions such as rent, rent to own, hostels, tenure guarantees in the case of slums, etc.

Rental Housing, on the other hand, can actually provide better value housing at such levels and forms a viable option for these households.

5.2.3 Productivity

Given the uncertainty of Rental Housing as well as an inherent propensity towards Home Ownership, people currently are keener to buy houses than rent even if it means that they live really far from the place of work. This has a significant adverse impact on the productivity of the people. Most cities are actually growing in the periphery. As the graph in exhibit 5 shows, 15% of the growth in the Urban Population is due to expansion of existing Urban Areas. In places like Mumbai the average commute time could well be more than 3 hours per day; other cities may fare just marginally better. This has a significant impact on Productivity. Rental Housing would be relatively cheaper and typically provide options closer to the place of work and hence, has the potential to improve

Exhibit 7: Low Income Impact



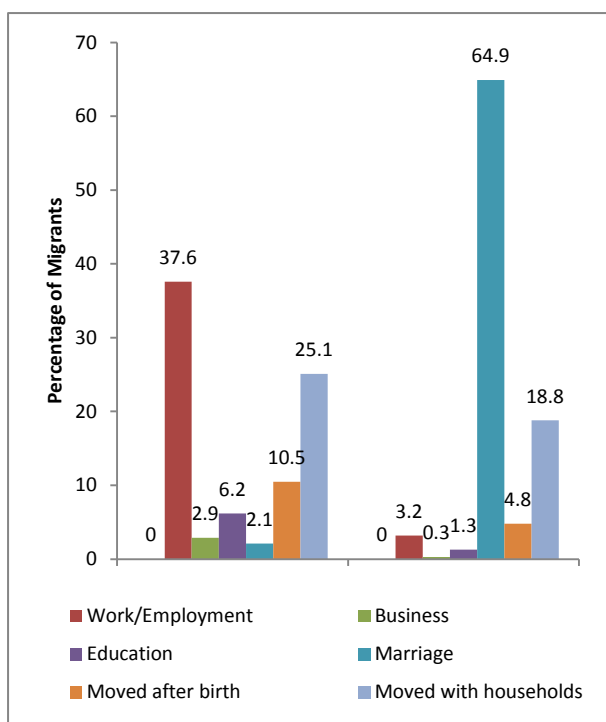
productivity.

5.2.4 Employability

The 2001 Census findings on reasons for Migration indicate that the reasons for migration in case of males and females vary significantly. Whereas Work/Employment (37.6%) followed by Moving with Household (25.1%) were the most important reason for migration among males, marriage (64.9%) followed by Moving with Household (18.9%) were the most important reasons cited by the female migrants to move from the place of last residence¹².

With Work/Employment as the primary objective, most of the male migration happens in the form of single individuals rather than with family. These people would prefer renting a house and being closer to the place of work and also having the flexibility to move back or to a different location should there be adverse conditions at work or better opportunities elsewhere. In addition, renting allows these people to send more of their city earnings back home to family and relatives.

Exhibit 8: Reasons for Migration¹³



When the primary reason cited for migration is “Moving with Household”, migration happens with families, with both the male and the female engaged in employment. For such families, rental housing with a longer tenure would typically be more suitable.

5.2.5 Education

The education sector has seen significant growth in the past couple of decades. The number of engineering colleges has more than doubled from 1500 to 3500 in the last 6 years. Similarly, the number of Management institutes has more than doubled from 1130 to 2500 in 2012¹⁴. This rapid growth trends can be seen in a number of other disciplines as well. Educational institutes have also mushroomed in different parts of the country and typically cater to students from across the country. Most new colleges do not provide hostel facilities and students

have to rely on local rental housing for accommodation.

With a greater degree of literacy, higher standard of living, and with the belief that education facilitates a stable and successful career, students are moving across the country to get educated in their field of specialisation. Such student population is young and rental accommodation suits them in this transitory period of their lives.

¹² Data Highlights, Migration Tables, Census 2001

¹³ Migration Tables D. Census 2001

¹⁴ AICTE, www.dreduction.com

5.2.6 Entrepreneurship

An interesting study done by the Spatial Economics Research Centre has shown negative externality of homeownership on entrepreneurship. The study shows that purchasing a home reduces the likelihood of starting an entrepreneurial activity by 20-25%¹⁵. There are several reasons for this, the main being the impact of leverage (loan) on the individual. Owning a house increases the risk perception as the home is purchased using a significant level of debt and there is a constant monthly need to make repayments. Thus leverage reduces the homeowner's degrees of freedom and may result in lesser propensity on the part of the homeowner towards starting a business.

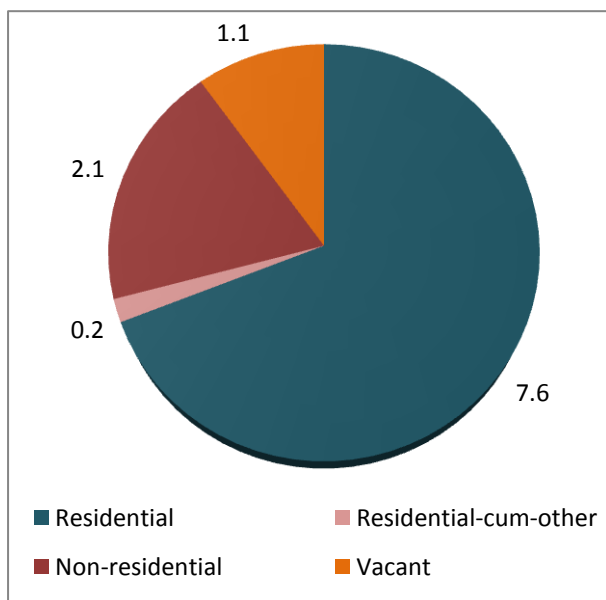
5.2.7 In summary, Rental Housing is an Important Ingredient of Urban Housing

The current Urban Housing shortage especially in the EWS and LIG segments cannot be bridged merely through ownership. It is not only economically infeasible to support from a government standpoint and commercially unviable from a consumer standpoint, it isn't desirable as well.

From a tenant standpoint, a rental house offers low entry and exit costs, greater flexibility that facilitates mobility, better options in providing more conveniently located place of dwelling and better value for money that make it a preferred option over Home Ownership.

All these features make rental housing an important element of a well-functioning housing market that responds to the full spectrum of its citizens' housing needs. It is essential that Housing Ownership be supplemented by Rental Housing; a good mix is vital for a healthy housing market for inclusive development/growth

Exhibit 9: Status of Houses¹⁶



5.3 WHAT STOPS RENTAL HOUSING

The Rental Housing Market in India forms about 30% of all the dwellings in urban India. However, this figure has the potential to be much larger even with current levels of housing stock. Despite shortage in urban dwelling, a significant number of houses in urban India are lying vacant. Based on the 2011 Census, an estimated 11 mn houses are lying vacant. When this figure is compared to the shortage in housing of 18.78 mn houses, it appears that Rental Housing could actually significantly bridge the gap. It is quite possible that a significant portion of vacant properties would be more suitable for the MIG segment. Notwithstanding this fact, the non availability of vacant houses in housing inventory still creates a significant pressure

¹⁵ Homeownership and Entrepreneurship, Spatial Economics Research Centre (SERC), London School of Economics, Philippe Bracke, Christian Hilber, Olmo Silva, April 2012

¹⁶ Census 2011

on Rental Housing in general, which impacts the EWS and LIG segments as well.

Of the states where data from the 2011 Census has been computed, Maharashtra at 13% and Delhi at 11%, top the list of States with high degree of vacancy. It is noteworthy that these two are also the prime destination states for the migrant population. The reason for vacant houses is part of another study that the Ministry is looking to conduct in the near future.

We try to examine why the Rental Housing Market is not attractive for participants.

5.3.1 Low Yield

The rental yields in most cities have not kept pace with the increase in prices of real estate. While rental yields were at levels of 6% or so in Mumbai in 2006, the current yields are at around 1.5%. At current yields there is significant inventory of real estate that is unsold at 40 months, and there is limited participation of the investors in such a market.

Low yields could be one of the reasons (among others) why current landlords are not keen to rent out property.

5.3.2 Landlord Mindset

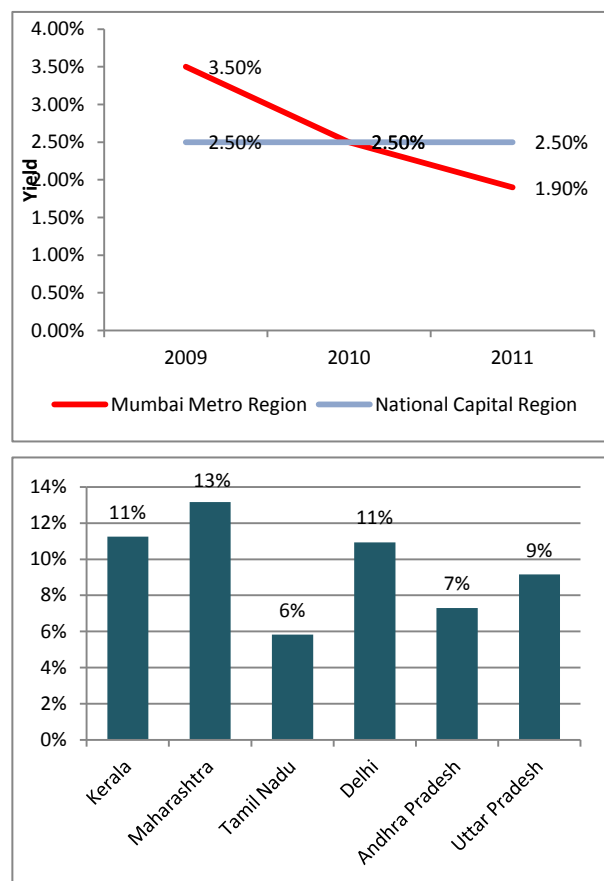
Most landlords see rental income as a bonus with their primary motivation being capital gains from the real estate investment. The houses are rented out till such time as the landlord can get a buyer who can buy the property from them. In such a case, the landlord doesn't mind keeping the house vacant should he perceive a risk in renting the house.

Over the past two years, the real estate market, in most of our cities barring a few exceptions like Bangalore, has seen stagnant real estate price levels on the back of a rapid increase in prices prior to that period. The macroeconomic conditions of high inflation, high interest rates, low liquidity in real estate and relatively low yields has made real estate investment a less preferred asset class as people invest in more liquid commodities such as gold.

5.3.3 Rent Control Acts

All states in India are governed by a Rent Control Act. The Act was first introduced in Bombay but was adopted by all the states

Exhibit 10: Rental Yields¹⁷



¹⁷<http://www.hindustantimes.com/News-Feed/BusinessRealEstate/Property-rental-yields-decline/Article1-737108.aspx>, August 2011 and www.numbeo.com database of user contributed data, indicative numbers not verified, 2013

later. The primary aim of the Act was:

1. To protect the tenant from eviction from the house where he is living except for defined reasons and on defined conditions; and
2. To protect him from having to pay more than a fair/standard rent.

With skew towards tenant protection, the Acts did give Landlords the right to evict a tenant who is guilty of certain specified acts and also in case of certain situations when the landlord requires the house for his own personal occupation including:

1. Breach of condition of tenancy
2. Subletting
3. Default in payment of rent for specified period
4. Requirement of building for own occupation
5. Material deterioration in the condition of the building

However the implementation of Rent Control Acts has been skewed in favour of the tenants. Given that the number of tenants far outnumbered the landlords, politically it has been difficult to change the Acts.

Such a skewed approach has created distortions in the Rental market:

1. Fixed Rents with limited options to increase Rentals made it economically unattractive and thereby created an active informal market
2. Low historical Rent Rates created no incentives for the Landlord to maintain the houses thereby impacting the quality and longevity of the housing stock
3. Tenant friendly clauses and cases where landlords lost possession of their property due to procedural and legal difficulties in evicting a tenant, have increased the risk perception associated with Rental Housing while increasing the informal market as well as creating a significant number of vacant flats.

Exhibit 11: Shadow Markets: Impact of Rent Control on Prices¹⁸

It is useful to analyze Rent Control in terms of the concept of "shadow markets." This concept was developed by Denton Marks in a paper in the Journal of Urban Economics. Standard supply-and-demand theory predicts that any price controls, including rent controls, will produce an excess of demand over supply--an economic "shortage." A ceiling on rents will reduce the quality and quantity of housing."

Yet rent control, rarely works in a straightforward fashion. It is virtually impossible for a government to control and regulate the entire supply of a commodity. Once a shortage appears, alternative markets and black markets will arise. The government can react in a variety of ways. Often, it will criminalize these markets and prosecute suppliers in draconian fashion. More often than not, however, governments may tolerate these markets as a way of relieving shortages. In many instances, governments will deliberately leave a portion of the market untouched by regulation in order to serve as a safety valve for excess demand. This unregulated portion of a regulated market becomes the "shadow market."

So "What happens to prices in this shadow market?"

Using standard supply-and-demand theory, it was predicted that prices in the unregulated portion of the market will be forced higher than their normal market value. This is because the limited supply in the shadow market must absorb the shortage, the excess of demand over supply, in the regulated part of the market. Because prices are pushed too low in the regulated sector, they are forced above what would otherwise be the market price in the unregulated sector. The result is that average prices in both sectors are likely to end up about as high as their free-market level. They could end up higher because of mal-distributions and diseconomies in the regulated sector of the market.

¹⁸ How Rent Control Drives Out Affordable Housing, William Tucker, Cato Policy Analysis 274, May 1997

The Rent Acts gave way to a Model Rent Control Law by the central government in 1992. This was to be adopted by different States but at this juncture, apart from Maharashtra and Rajasthan nothing of note has been done with regard to reforming the existing laws. Sixteen States have drawn up their own laws; as it was a mandatory reform conditionality under JNNURM. Some of the key points in the different Rent Control Acts include:

- **Rent Control Exemption:** Some states have exempted most tenements from the purview of the Rent Control Act. The exemption is based on the quantum of monthly rent. For example, Rajasthan exempts all houses with rents above a particular limit ranging from Rs. 2000 to Rs. 7000 depending on the location of the house, Delhi exempts all houses with rents above Rs. 3500 and West Bengal exempts all houses with rents above a particular limit ranging from Rs. 3000 to Rs. 6500 depending on the location of the house¹⁹. However, in most states, there is no such provision and Rent Control is uniformly applicable across rent levels and across locations. The Model Law stipulates that all states should have a mandatory provision to exempt all houses having rents above a particular limit ranging from Rs.1500 to Rs. 3500 per month from the Rent Control.
- **Rent Price Control:** The quantum of rents that can be charged varies from State to State in terms of the method of calculation of the Standard Rent. Rajasthan is the notable exception where the Rent Price is completely based on the contract between the Tenant and the Landlord. For most of the other States, the Rent Price is based on a Standard/Fair Rent Price linked either to the Market Value of the property or determined by a Rent Controller/Court.
- **Rent Price Increase:** The quantum of increase in Rents for existing contracts also varies from State to State. Most States don't allow for increase in rentals if the rents are based on Standard Rent except in the case of alterations / improvements and even in those circumstances there is an upper limit to amount that can be charged.
- **Eviction Rules:** The eviction procedure is usually long and tiresome and uses the normal legal system. In most cases, there a lock in period after eviction, during which the landlord cannot re-let the house.

Key observations from existing Rent Control Acts:

- Rent Control is only necessary for those houses that are targeted at the EWS/LIG segment. There is no need for Rent Control to be applied across the spectrum of Rental Housing.
- Even for houses under the purview of Rent Control, the mechanism for Price Fixing has to be market determined, that is, an outcome of Demand-Supply rather than stipulated by a Controller.
- Allowed rent increases are arbitrary and are not benchmarked against the market or macroeconomic conditions
- Similar to registration, repossession is still a long drawn process involving tedious and time consuming judicial process.
- Since the Rent Control is not applicable for tenures less than 1 year, a significant number of Leave & License Agreements are drafted to be less than 1 year resulting in more Stamp Duty cost, more administrative load etc.

¹⁹ Rent Control Laws in India A Critical Analysis, National Institute of Urban Affairs, 2006

The Rent Control Acts address both the Residential and Commercial sections. However the pulls and pushes in case of Commercial Rentals are quite different compared to the Residential segment. In addition, the need for affordable Residential housing is far more acute than Commercial Space which has seen far more options with the opening up of the economy. Since the policy interventions and incentives in case of Residential Rentals are quite different from the Commercial ones, as well as the issues involved in implementing the policy, it is quite possible that the clubbing of acts for Residential and Commercial Rentals might impact Residential Rental Housing and cause delay. For example, despite the Delhi Rent Control Act being passed in 1995, with a provision in favour of landlords to evict traders paying paltry sums as rent, the same could not be notified despite receiving presidential assent as the government was pressured by the powerful traders lobby. This would have an adverse impact on Delhi Rental Housing as well.

The Ministry of Housing and Urban Poverty Alleviation has recognised this distinction and proposed a Model Residential Tenancy Act, 2011 as part of the Rajiv Awas Yojana (RAY). The Task Force also believes that it may be easier to carry out provisions of Model Rent Control if we can distinguish between Rental for Residential Housing and Rental for Commercial Activities. This Act specifically targets the Residential Rentals and has suggested specific steps to improve Residential Housing specifically focused on the Urban Areas.

The balance of the Report will use the above recommendation as the base and look at further policy interventions and incentives for different types of Rental players.

6 LEVERS IMPACTING RENTAL HOUSING

We have seen from the previous sections that the Indian Rental Housing Market has become an important component in overall growth and development, especially of India's cities. It has a significant impact on the quality of life as well as the general well being of its citizens. We have also seen that until recently, the Rental Market in India did not get the required attention from the Government. On the contrary, the current Laws and policies have actually been detrimental to the Rental Market growth.

In order to spur Rental Market growth, the Task Force looked at various levers that can act as enablers and provide the required stimulus. Each of the players in the Rental Housing space namely Individual Landlords, Institutional Landlords, Captive Housing Providers and Hostel and Dormitory Providers have specific characteristics and each require different interventions that would ensure their greater participation in the Rental Housing Market.

The Task Force looked at the following key levers that could spur the growth of various types of Rental Housing, a brief description of each follows:



6.1 RENT PRICE

Ability to charge a fair rent price would significantly improve the attractiveness of the Rental Market. Although most Rent Control Acts have suggested implementation of Fair / Standard Rent Pricing Model through a Rent Controller, the mechanics are difficult to implement and oversee. An alternative to Standard Rent is to allow the Landlord and Tenant to arrive at a mutually acceptable price usually dictated by the market as suggested by the National Urban Housing and Habitat Policy : 2007 and Supreme Court judgement.

The National Urban Housing & Habitat Policy, 2007, approved by the Union Cabinet, provides that "A Model Rent Act will be prepared by the Government of India to promote rental housing on the principles that rent of a housing unit should be fixed by mutual agreement between the landlord and the tenant for a stipulated lease period prior to which, the tenant will not be allowed to be evicted and after the expiry of the said lease period, the tenant will not be permitted to continue in the said housing unit".

Furthermore, the Honourable Supreme Court of India has in a recent case (Mohammad Ahmad & Anr. vs. Atma Ram Chauhan & Ors) held that "One half of the disputes between landlord and

tenant would not reach courts, if tenant agrees to pay the present prevalent market rate of rent of the tenanted premises to the landlord. In that case landlord would also be satisfied that he is getting adequate, just and proper return on the property. But the trend in the litigation between landlord and tenant shows otherwise; tenant is happy in paying the meagre amount of rent fixed years ago and landlord continues to find out various grounds under the Rent Acts, to evict him somehow or the other.”

The Supreme Court thus, has also stressed the need to have a rent price that is adequate as determined by the market. Further, through this judgement, the Supreme Court of India also laid down certain illustrative guidelines in respect to other costs related to the tenanted premise. The guidelines suggest that tenants should bear costs such maintenance costs, electricity costs, property taxes; minor repairs while the tenant and landlord should work out the share of spend in case of major repairs. If the above conditions are met, the tenant will enjoy immunity from being evicted from the premises for a period of 5 years.

6.2 EVICTION POLICIES AND PROCEDURE

Eviction Policies play a very key role in ensuring formal participation of the different players in the Rental Housing space. Eviction requires a fine balance in order to ensure that it safeguards the interests of both the Landlord and the Tenant in the event of adverse behaviour by either of the parties. Apart from the Policy, there is a need for an efficient and effective procedural mechanism that would ensure ease of access and quick verdicts.

6.3 TAXATION, OTHER CHARGES, DEDUCTIONS IN RENTAL

There are different types of Taxes that are levied on Rental Housing.

6.3.1 Service Tax

Service Tax is levied by the Central Government and is paid by the Landlord and is not applicable until the Rental Income is more than Rs. 10 lakh p.a. For any income above this level a 12.36% Service Tax is applicable on the rent subject to certain deductions.

There was no service tax on residential houses including buildings used for hostels until Finance Act 2012. The Finance Act 2012 introduced new service tax regime covering residential houses and hostels as discussed below.

6.3.2 Property Tax

Property tax is levied by the Local Bodies and is paid by the Landlord. It is calculated as per municipal valuation of that area. It is given in the property Ready Reckoner published by the local authorities. Property Tax can be deducted for Service Tax calculations.

6.3.3 Stamp Duty

Stamp Duty is imposed by the State Government for each contract and is usually shared between the Landlord and the Tenant and is paid for each Lease Agreement. For example, the Stamp Duty in Maharashtra is Rs. 100 per 100 sq. meters.

6.3.4 Income Tax

Income Tax on Rental Income is levied by the Central Government and is paid by the Landlord. Rent income is taxable under house property subject to the following deductions:

- Any interest paid for acquisition of property
- A flat 30% of Gross Rent for Maintenance and other Charges
- Property Tax

For the Tenant, rents provide a tax shield. If a person is salaried, House Rent Allowance is exempt from tax under Section 10(13A) of the Income Tax Act, and calculated as the minimum of:

- The actual amount of HRA received.
- 50% of the salary for individuals residing in metro cities (Delhi, Mumbai, Chennai or Kolkata) and 40% otherwise.
- Rent paid in excess of 10% of salary (basic salary + dearness allowance)

6.3.5 Utility and Services Charges

Residential Rental Housing falls into the category of Commercial activity. As a result of this, for all Rental Housing business, the rates for usage of Utilities such as Water and Electricity are calculated as applicable for Commercial Organisations. The commercial rates for Water can be 3 to 10 times the rates for domestic usage depending on the State and category of the Commercial Property. Similarly, the commercial rates for Electricity can be at least 30% dearer than the rates applicable for domestic usage depending on the State/City and nature of the connection.

6.4 INCENTIVES, SUBSIDIES AND MANDATES

The larger institutional players as well as captive housing providers who have hitherto been absent from the Rental Housing space would need to be enticed/persuaded through incentives, subsidies and mandates. Some of the key steps that could be taken are:

1. Infrastructure Status for Rental Housing: Rental Housing, as discussed above, can significantly improve labour productivity through efficient and flexible labour movements and convenient housing locations close to workplace. Rental housing should therefore, specifically be, accorded Infrastructure Status. This would ensure that the sector becomes entitled to various Government incentives, subsidies and tax benefits. It also opens the sector up for institutional funding.
2. Rental Housing as an option for Corporate Social Responsibility (CSR) for the Captive Housing: The Government of India has mandated that Corporates having turnover greater than Rs. 1000 crores or profits more than Rs. 5 crores need to invest 2% of their Net Profit into CSR activities. The Government could consider investment in provision of Rental Housing as a CSR activity.

6.5 ENABLING AGENCIES

The enabling agencies could take several forms:

6.5.1 Rental Management Company (RMC):

Enabling Agencies could be in the form of Rental Management Companies that ensure quality Rental Housing to the Tenants while also safeguarding the interests of the Landlords and facilitating the operations and maintenance of the assets.

The role of a Rental Management Company would be to liaise between the Owners or Asset Company or Local Bodies and the actual tenant/lessee, thereby providing a facilitation service and a buffer to the Owners/Asset Company. Duties of RMC generally include:

- Full and proper screening or testing of an applicant's credit, criminal history, rental history and ability to pay
- Lease contracting or accepting rent using legal documents approved for the area in which the property is located
- Mitigation and remediation for any maintenance issues, generally within a budget, with prior or conveyed consent via a Limited Power of Attorney legally agreed to by the property owner.

In addition, the RMC would provide services such as managing the accounts and finances of the real estate properties, and participating in or initiating litigation with tenants, contractors and insurance agencies. The RMC would play an important role in ensuring that the commercial and legal interests of the Owners/Asset Company/Local Bodies are protected.

6.5.2 Rent to Own Options

Rent to Own options come in various forms and shapes. Broadly, in a Rent to Own scheme, a tenant buys a lease option

wherein prior to moving in, the tenant agrees on a potential purchase date and purchase price for the home. The Tenant can then buy the house at any point during the rental period up until the lease option expires. The lease option period can be any length of time that tenant and the seller agree to, ranging from several months to several years. Till such time that the tenant purchases the house, the tenant pays rent to the Owner, usually slightly higher than the prevailing market rents. In a rapidly appreciating real estate market, the seller of a lease-option property would also add a clause to the contract allowing for the price of the home to increase with the market.

The Seller benefits from a higher rent price, a steady cash flow that allows him to pay the mortgage charges, property taxes etc., clarity on the price that he gets at the end of the deal, better care for this property as the lease owners would care more for their property.

Buyers benefit because they currently don't have the down payment for purchasing the house but are confident that they can make the payment in the near future. By signing a contract now, the buyer locks in a purchase price, and has a clear idea on the cash outflow that they have to plan for. The buyer also does not have to worry about coming up with the money for property taxes, private mortgage insurance or homeowners insurance, and the seller will usually

Exhibit 12: Case Example: Rental Management Company, SATO, Finland ²⁰

SATO is one of Finland's leading corporate investors in housing. It owns a total of about 23,500 rentable homes in Finland's largest centres of urban growth and St. Petersburg. Their investment assets have a fair value of roughly 2.1 billion Euros.

SATO's investment in housing business includes both privately financed and state-subsidised housing property, of which the latter is affected by restrictions set by housing legislation both at the company level and for individual properties and enjoys state subsidy and interest subsidised credit. This segmentation enhances the transparency of operations and reporting related to the state-subsidised housing stock.

SATO actively buys and sells properties and develops property for Rental purposes. Its yield is around 6.2% on the fair value of its properties. Using a combination of Rental Income and Income from Asset Disposal, SATO has been able to give a healthy 12% return to its Shareholders.

SATO's biggest shareholders are Finnish pension insurers and other insurance companies.

²⁰ www.sato.fi

continue to pay for and complete any maintenance and repairs on the home. Finally, if the buyer decides to walk away from the deal, the only consequence is the loss of that portion of the rent

Exhibit 13: Case Example: Rent to Own Scheme, UK Shared Ownership Schemes²¹

Shared ownership schemes are provided through housing associations. Housing associations are also known as Registered Social Landlords or Private Registered Providers of Social Housing. Tenants buy a share of their home (between 25% and 75% of the home's value) and pay rent on the remaining share. The Tenant takes out a mortgage to pay for his share of the home's purchase price and the Property is leased out to him.

The only tenants eligible to buy a home through shared ownership are:

- Tenants with households earning £60,000 a year or less
- Tenants that are first-time buyers or those who used to own a home, but can't afford to buy one now
- Tenants that rent a council or housing association property

Over time, the Tenant has the right to buy more shares at any time through a method called staircasing. The price of the new share will depend on how much the home is worth at the time of the transaction. The housing association gets the property valued and provides the share price to the Tenant. The Tenant bears the valuer's fee.

Tenant who own 100% of the home, can sell the property. When the Tenant puts it for sale, the housing association has the right to buy the property back first. This is known as 'first refusal' and the housing association has this right for 21 years after the home is fully owned by the Tenant.

During the course of the period when the Tenant has part ownership, the housing association has the right to find a buyer for it.

rental housing segment apart from the possible Foreign Direct Investment (FDI) and External Commercial Borrowings (ECB) sources in order to further the interests of this sector.

6.6.1 Public Private Partnership (PPP):

PPP has been used in real estate on several occasions both in the commercial businesses as well as in case of residential. The Slum Rehabilitation Projects in Mumbai and Ahmedabad have been implemented with varying degrees of success albeit for creating housing for Home Ownership through Developers. For Rental Housing however, the partners may not be developers given the difference in their commercial objectives, that is, house sale revenues with short term impact on balance sheet vs. rental annuities with long term impact on balance sheet.

paid that was above market rate. If the buyer ends up purchasing the property, the seller will credit part of the rent back to the buyer, often more than the portion of rent that was above market rate.

In many countries, Housing Associations or Housing Funds facilitate the Rent to Own processes and act as intermediaries between the Owners/Asset Company/Local Bodies and the Rent to Own Tenants.

6.5.3 Rental Tribunal (RT):

Rent Tribunals can ensure smooth and quick processing in the event of disputes. The Rent Tribunal and The Rent Appellate Tribunal would act as the Regulatory body and the Judicial body respectively.

6.6 FINANCIAL AND IMPLEMENTATION ASSISTANCE

The Rental Housing industry will need significant investment. Given the infrastructure like characteristics, both Private and Public entities need to invest in this sphere to satisfy the demand fully. Pension & Insurance funds also needs to be invested into

²¹ www.sato.fi

6.6.2 Foreign Direct Investment (FDI)

FDI in real estate is allowed subject to a minimum of 50,000 sq. m of construction or 10 hectare of serviced land is required. In addition, a minimum investment of \$5million in a single project is required. FDI in the current form may not be amenable for Rental Housing given that rental housing is usually smaller and annuity driven.

6.6.3 Rental Real Estate Investment Trust (R-REIT):

Real Estate Investment Trust (REIT) is any corporation, trust or association that acts as an investment agent specializing in real estate and real estate mortgages. REITs can be publicly or privately held. Public REITs may be listed on public stock exchanges. REITs invest in and own properties with revenues from rentals and asset sale. For an investor, REIT offers an alternative to buying property if an investor wants to add real estate as part of his portfolio.

REIT has certain advantages over buying property for the investor:

- Risk Mitigation through Diversification: REITs offer diversification and thereby create lesser risk as they own many types of commercial real estate, ranging from office and apartment buildings to warehouses, hospitals, shopping centres, hotels and even timberlands. Even REITs focused on Residential Houses, still offer diversification due to the ownership of houses across markets.
- No Asset Management: Unlike the case of owning a property which would involve effort for upkeep as well as effort to ensure utilisation, REITs ensure management of the property as well as the income flows from the property.
- Liquidity: REITs offer much greater liquidity than the real estate property.

REITs can increase the participation of the investors in Housing. There could also be a category of REIT focused only on Rental Housing that could get some additional benefits with respect to taxation. For example, Finland gives additional benefits to those REITs that specifically get income from Residential Rental Housing as shown in Exhibit 15: REIT Schemes

Exhibit 14: Case Example: PPP Model of MMRDA Rental Housing²²

Affordable rental housing scheme that aimed to build 5 lakh 160 square foot (sq ft) homes in 5 years without any capital or land contribution from MMRDA.

Scheme was based on relaxing Floor Space Index (FSI) restrictions for private builders in order to cross-subsidize the construction of low income rental units. The builders were given an FSI of 4 if they used 1 FSI to build rental homes on one-fourth of their plot

MMRDA proposed to rent the units they receive at between Rs. 800-1,500 per month. Eligible applicant households required to have monthly income over Rs. 5,000.

The Scheme received a good response initially with 215 applications to build over 9 lakh rental units. At this juncture, around 39 builders are creating 90,000 units.

MMRDA has also suggested a Rental Management Association under different models

- Surplus model: Management companies will bid competitively to maintain rental homes. The company that offers the highest share of their revenue to MMRDA will win.
- Lease model: Rental management companies lease the properties from MMRDA for 99 years for a lease premium.
- License model: In this model, rental management companies pay a license fee to manage the rental housing for 9-10 years.

In all cases, allotment, determination of rents and eviction is undertaken by MMRDA.

Recent developments in the scheme such as increase in size of the tenements indicate an approach towards a mix of Rental Housing and Outright Sale for such projects.

²² Quarterly Research Note, No. 15, Affordable Rental Housing, IDFC, March 2012

6.6.4 External Commercial Borrowings (ECBs):

An external commercial borrowing (ECB) is an instrument used in India to facilitate the access to foreign money by Indian corporations and PSUs (public sector undertakings). ECBs include commercial Bank Loans, Buyers' credit, Suppliers' credit, Securitised instruments such as Floating Rate Notes and Fixed Rate Bonds etc., Credit from Official Export Credit Agencies and Commercial Borrowings from the Private Sector window of Multilateral Financial Institutions such as International Finance Corporation (IFC), Asian Development Bank (ADB), etc.

While ECBs cannot be used for investment in stock market or speculation in real estate, the government has proposed that ECBs be allowed for low cost affordable housing projects up to a value of USD 1 billion

per year up, to the Financial Year 2014-15. A low cost affordable housing project for the purpose of ECB would be a project in which at least 60% of the permissible FSI would be for units having maximum carpet area up to 60 square meters. Slum rehabilitation projects that are deemed eligible as per the parameters set by the Central Sanctioning and Monitoring Committee of the Affordable Housing in Partnership Scheme (AHP) constituted under the Chairmanship of Secretary, Housing & Urban Poverty Alleviation (HUPA) will also be eligible under the low cost affordable housing scheme.

While the above ECB is allowed for Housing Projects for Ownership, a similar scheme could be extended to Rental Housing.

6.6.5 Securitisation

Securitisation is a technique used to sell financial assets on the seller's balance sheet to outside investors. The assets are typically the rights to receive cash flows, for example loans, credit card debts, mortgages and in the case of Rental Housing, rents. The assets to be sold generate future cash-flows that are used to provide returns to investors who buy the assets.

Rent Securitisation as a concept is still being discussed and debated as it has complexities such as treatment of unpaid rents, vacancies, rent amount itself, charges and taxation etc. In addition, since Rent Securitisation would require payment history and historical record of the issuer, it will take time to mature. However it is another way to make the Rental Housing more liquid thereby allowing greater financial participation.

Exhibit 15: REIT Schemes²³

Finland

- Be a Public Listed Company for Rental Housing.
 - Have a minimum equity of 5M€ distributed over 5 separate investors.
 - Minimum holding period: 5 years.
 - **At least 80% of its assets have to be invested in residential real-estate.**
 - **At least 80% of the REIT's gross revenues must come from residential rental income.**
 - At least 90% of the REIT's taxable income, excluding unrealised capital gains, to be distributed to shareholders through dividends.
 - Corporation is income-tax-exempt, but the shareholders will have to pay individual income tax on the dividends.
 - Largest individual shareholder may own less than 10% of company shares
-

²³ www.sato.fi

6.6.6 Priority Sector Lending

The RBI can mandate that certain areas / fields called priority sectors be given loans that reduced interest rates in order to promote these fields. At this juncture, Agriculture, Micro and Small Enterprises, Education and Housing (Ownership) enjoy the benefits of Priority Sector Lending. Affordable Rental Housing could also be considered for as a priority sector.

The above mentioned levers impact different Types of Rental Players differently and in the following sections we will examine which levers can be used in order to facilitate the growth of Rental Housing by that particular Rental Player.

7 APPLYING LEVERS TO PROMOTE RENTAL HOUSING

7.1 INDIVIDUAL LANDLORDS

7.1.1 Background

The phenomenon of Individual Landlords forming the most ubiquitous set of landlords and providing the bulk of the Private Rental Housing is seen across the world. They indeed form the most important providers of Rental Housing as they are able to provide a variety of types of Rental Housing catering to all segments of the population across income levels, for different tenures, with and without services etc. In addition, they also provide Rental Housing with a variety of business models from pure Rentals to Paying Guests to Deposit based Rentals etc.

Unlike the normal notion of Landlord being much richer and from a higher income segment than the Tenant, the Individual Landlord actually has an income profile which is very similar to the Tenant.

Most of them operate at an individual household level. In the more recently developed cities of Bangalore/Hyderabad, they are typically Landlords who extend their houses to provide the balance of the house for Rental. In Mumbai, it will typically be an additional flat or rent out a room as a paying guest.

Most Individual Landlords are actually “invisible” people. They operate quietly and informally so as

to ensure that they don’t catch the attention of the authorities. As discussed earlier, more than 80% of rental dwellings in urban areas are informal and not registered. Given that Individual Landlords are normal people with limited ability to influence or control, the Rent Control Act being in favour of Tenants, actually dissuades these Individual Landlords from participating in the Rental Housing Market, formally and sometimes not at all. The Individual Landlord faces the same challenges of low yields, inability to control rent prices, the hassle and cost of registering and risk perception of losing the house to tenants and has no additional power to overcome any of these.

Exhibit 16: Individual Landlords Play Key Role²⁴

Across the globe, it is the small landlord who has generally taken over.

- In the United Kingdom, “the landlords of most dwellings had less than 10 lettings altogether”.
- In France, 2 million landlords own 4.2 million dwellings.
- In Canada, it has been noted that: “the small investor has always been important in the supply of rental housing.”
- In the consolidated periphery of Santiago, seven out of ten landlords have only one tenant,
- In Mexico City three-quarters of the landlords have only tenant
- In Caracas two-thirds of the landlords have only one tenant.
- Even in the central areas of these cities, most landlords operate on a small-scale.
- In Asia, the vast majority of landlords also seem to operate on a small scale.
- In Bangalore, “most landlords were found to be operating at the individual or household level”
- In Delhi, it seems that the average landlord has only 2.5 tenants and few landlords are ‘professional’ operators.
- In Pakistan, most landlords operate on a small scale⁸⁸ and, in Karachi, “large scale landlordism of build structures is almost non-existent”.
- In Indonesia and Turkey as well, most landlords are former self-help consolidators.
- A similar pattern of small-scale ownership seems to hold for most African cities.”

²⁴ Rental Housing: An Essential Option for the Urban Poor In Developing Countries, UNHABITAT, 2003

Despite the above limitations, in markets where the Demand is far more than the Supply, the Individual Landlord also benefits from these disincentives due to distortion in the Demand Supply gap which further promotes informal arrangements. Individual Landlords actually benefit from these situations (Refer Exhibit 11: Shadow Markets: Impact of Rent Control on Prices) and are able to charge a premium.

7.1.2 Influencing Levers

The Levers that would chiefly impact this segment of Landlords would be:

7.1.2.1 Rent Price

The ability to charge Rent Price on a contractual basis rather than based on a Standard Rent would significantly benefit this segment. Given the nature of the Individual Landlords, the ability to legally change prices of the rentals in line with market levels would reduce the apprehension with respect to being in the radar. This would allow reluctant fringe Individual Landlords to participate in the market.

For those cases where the Individual Landlord gets a Rent Price that is better than the Market levels due to the Shadow Market created by rent restrictions, the contractual nature of the arrangement would actually ensure that Contracts are executed in a transparent manner thereby reducing the premium that they may enjoy at this juncture.

The overall transaction cost could be reduced if the Rent Price is based on a Contractual basis as the Landlord could be willing to sign longer tenure leases.

7.1.2.2 Eviction Policies and Procedures

While a segment of Individual Landlords thrive in a shadow market situation, there is a significant segment of Individual Landlords that are uncomfortable with giving houses for rental. The main impediment is the ability to evict the tenant. This could be one of the reasons

Exhibit 17: Role of Institutional Landlords in Rental Housing²⁵

While Rental housing seems like a good investment, the experience in other countries indicates that the large operator has generally forsaken the once vibrant business of renting.

However, there are some exceptions mainly found in Western Europe.

In Denmark, Finland, Germany and Switzerland, some companies continue to put money into rental housing and, in France, banks, insurance companies, pension funds and real estate companies rent out one eighth of the total housing stock.

In Denmark, pension funds and life insurance companies have been the main investors in private renting over the past decade or so because of their privileged tax positions. Their involvement has reduced because of the generally unattractive investment returns in rental housing. Recent changes in the tax laws, moreover, have weakened those tax privileges

In most countries, the Government plays the key role of being the enabler for rental housing²⁶:

- In Singapore, Public Rental Scheme managed by the Housing Development Board (HDB) and the Town Councils provide heavily subsidised and limited number of rental flats to the poor and needy families
- Australia launched its National Rental Affordability Scheme which provides financial annual incentives to large investors towards purchase of new affordable housing units that must be rented at a minimum of 20% below the market rent for ten years.

²⁵ Rental Housing: An Essential Option for the Urban Poor In Developing Countries, UNHABITAT, 2003

²⁶ Study on Rental Housing in India conducted under Asian Development Bank (ADB) supported Technical Assistance (TA 7148-IND): "Promoting Inclusive Urban Development in Indian Cities" with MoHUPA as the Executing Agency, 2013

why a large number of houses are vacant. Such Individual Landlords would prefer to safeguard their capital investment and wait for the capital appreciation rather than risk losing the house or get involved in legal tangles.

Fair eviction clauses can improve the supply of houses and thereby reduce impact of Shadow markets.

7.1.2.3 Taxation, Other Charges, Deductions in Rental

- Service Tax is not applicable to the segment
- A reduction in Property Tax and Stamp Duty can reduce the Shadow Market and would increase participation of Individual Landlords in a formal way.
- Income tax as applicable is subject to 30% of deduction for Maintenance charges. There could be provision to boost yields through increase in the standard deductions.

7.1.2.4 Enabling Agencies

Rent Tribunals that would allow for speedy resolution of disputes without the need to go to courts could also assist in greater participation of Individual Landlords in a more formal fashion. It would also facilitate the participation of the reluctant Individual Landlords.

In addition, the Individual Landlord would significantly benefit from reduction in transactional cost and hassles with respect to registration of the Agreements. A simpler process would again facilitate the process of registration and thereby more Individual Landlords would be willing to participate in a formal way.

7.2 INSTITUTIONAL LANDLORDS

7.2.1 Background

Institutional Landlords are large companies typically requiring an investment option in a long term risk free asset with decent cash flows and with the upside of capital appreciation in the long term. Given the large corpus that Insurance companies as well as Pension Funds manage, and given the annuity nature of Rental Housing the expectation is to have significant investment in this segment by such investors. Given the longer Tenure, annuity based business as well greater duration of balance sheet impact; most developers do not fall in the category of Institutional Landlords.

Rental Housing in India, however, has failed to find favour amongst both Insurance companies and Pension Funds. For example of the Rs. 200,000 crores that Life Insurance Corporation of India was to invest in different asset classes, a miniscule Rs 1,000 crores in (0.5%) was to be invested in real estate and property and that too under the three themes of office space, housing scheme for policy holders or as a pure investment to be exited at a later date without the rental elements²⁷.

This trend has been seen across different countries as seen in Exhibit 17 though some countries do have some investments made by Pension Funds and Life Insurance companies.

In a country like India, given the paucity of supply, participation of Insurance and Pension companies with their large corpus can significantly change the landscape of Rental Housing.

²⁷http://articles.economictimes.indiatimes.com/2010-08-06/news/27600772_1_lic-plans-crore-investment-total-equity-investments

7.2.2 Influencing Levers

The Levers that would chiefly impact this segment of Landlords would be:

7.2.2.1 Rent Price:

One of the key reasons why Institutional Landlords have not invested in this sector is the low yields that Rental Housing enjoys. This is especially stark in India given the high interest rates and high property prices that prevail in the market. Unlike the case of Individual Landlords who essentially operate in the informal segment and thereby do not get constrained by Rent Control Acts, Large Institutional players would be part of the 5% formal segment of House Renting. Hence they would have to strictly abide by the rules and regulations of the Rent Control Act.

In terms of returns, unlike Individual Landlords, who consider this just an additional steady income from their existing real estate, Institutional Landlords would be comparing the returns from Rental Housing with the returns from different Asset Classes that they invest in and would not be interested in this segment if the returns are low.

Finally, Institutional Landlords would deal in large volumes of houses and hence, would have a greater degree of exposure to price risk and thereby the returns.

A Contract based price rather than a Standard Rent would reduce the risk perception with respect to Price.

7.2.2.2 Eviction Policies and Procedures

The other reason why Institutional Landlords have not invested could be due to the Tenant friendly laws with respect to eviction. Here again, since it would go through the formal channels, eviction can become difficult and expensive in the event of litigations. Unlike equities, their chosen investment vehicle where the transaction cost is limited and liquidity is high, the Rental Housing can actually prove to have a far greater transaction cost thereby yet again impacting yields.

More importantly, without enforceable eviction rules, Institutional Landlords would never participate in this market due to the perceived risk of loss of underlying asset.

7.2.2.3 Taxation, Other Charges, Deductions in Rental

Taxation would play a key role in determining the profitability of the Rental Housing foray in case of Institutional Landlords.

- Institutional landlords will invest in larger Rental Housing properties to ensure project viability. Since the income from this segment would be greater than Rs. 10 lakhs given the volume, Service Tax would be applicable and hence the rents would be more expensive by 12.36%.
- Property Tax would have the same impact as in the case of Individual Landlords. A low Property Tax would reduce the transaction cost thereby improving yield
- Income Tax from Rental Housing investments is also subject to normal tax rates. Here again a greater amount of deduction would improve the effective yield.
- Since large scale Rental Housing would be deemed a Commercial activity, commercial rates applicable for utilities such as Power and Water which as we have seen before, cost significantly more than the Residential rates. This would have an adverse impact on the yield.

7.2.2.4 Incentives, Subsidies and Mandates

While incentives and subsidies were not as relevant for the Individual Landlord, they will play a key role in the case of Institutional Landlords. Given the low yields, any subsidies and incentives that would improve the yield can significantly improve the chances of participation of this segment.

Giving Rental Housing infrastructure status would improve the yields that Institutional Landlords may enjoy and thereby might see more participation from this segment.

7.2.2.5 Enabling Agencies

The participation of Institutional Landlords would require significant support from different Enabling Agencies.

- Rent Management Company would be a crucial enabler for this segment. This is because the primary purpose of Large Institutional Landlords in participating in the Rental Housing market is investment; they would not want to manage the rental business in terms of ensuring high occupation, rent collection, maintenance etc. A Rental Management company would play the key role of being the bridge between the Institutional Landlord and the Tenant.
- Rent Tribunals would ensure that the Institutional Landlords would be able to evict tenants with limited legal hassles and in a more transparent and speedy manner thereby reducing the significant risk perception of losing the underlying asset.

7.2.2.6 Financial and Implementation Assistance

While Institutional Landlords would have access to funds, assistance in implementation as well as other financial benefits/instruments would facilitate their participation.

- Institutional Landlords could partner with the Government (for land/subsidies/tax sops) and Developers (project implementation) in a PPP arrangement.
- In time, with the emergence of successful business models for Rental Housing, and with more specific FDI norms targeted at promoting Rental Housing, FDI can also be tapped as a source to funding for projects specifically earmarked for rental housing.
- A number of Insurance and Pension Funds from more developed markets would be interested in participating in this market. Given the lower interest rates that they enjoy in their respective markets this investment could prove to be attractive.
- Real Estate Investment Trusts (REITS), on the other hand, can create an entire different set of Institutional Investors apart from Insurance Agencies and Pension Funds. REITs would also allow participation of a large set of small investors into the Rental Housing segment.
- Using ECBs Institutional Landlords would be able to increase the financial leverage and thereby improve their yields through a better return on equity.
- Institutional Landlords could themselves also become REITs using securitisation of their Rent Incomes.
- With Priority Sector Lending status for Rental Housing, Institutional Landlords would be able to get cheaper loans.
- Certain tax holidays can also be provided to improve the yields.

7.3 HOSTEL AND DORMITORY PROVIDERS

7.3.1 Background

The Hostel segment forms an important segment in the Rental Housing space as it caters to a specific segment of the population looking for temporary / short stay accommodation typically in a shared format. With the growth of the Education sector across the country and with the increase in mobility of the student population and the additional growth in the migrant working class segment that is looking for employment, there is significant demand for short term Rental accommodation. Given that most of the customers are single, Hostel accommodation is typically quantified in terms of number of beds.

Exhibit 18: Case Example: Role of Dormitories in Boston's Expensive Real Estate Sector²⁸

The Boston Redevelopment Authority survey, in 2000, showed an increase in dormitory beds in Boston's colleges and universities that dramatically outpaced the increase in student enrolment.

The survey found that, since 1990, total student enrolment increased from 4,480 or 3.4%, to approximately 131,000 to 135,480. Over that same period, the total number of dormitory beds available grew to 28,479, a 59% increase over 1990.

The addition of these 10,511 dormitory beds was equivalent of freeing up approximately 2,600 apartment units so they can be rented by families and non students.

As in the case of Rental Homes, the current Hostels market mostly comprises small operators who operate in the informal segment, thereby being "invisible" as in the case of Individual Landlords. Hostel rooms cater to different segments of population from workers to students. Most hostels, whether in the villages or cities, are run by low income and middle income households. Hostels provide a service to lakhs of single boys and girls. Hostels typically provide lodging, food and a secure place for these singles who are either students or employees (both in formal and informal sectors).

The market being informal is unregulated and while some of the Hostel and Dormitory Providers are conscientious about cleanliness, food safety, security of inmates, there still remains a risk that due to few imprudent Hostel and Dormitory Providers the whole sector could be negatively impacted.

Similar to Individual Landlords, the informal segment also enjoys the benefits of Shadow Markets. In this context, entry of larger players with more accountability and better minimum standards facilities and better security would significantly improve liveability. In addition, as in the case of Boston Redevelopment Authority (Refer Exhibit 18: Case Example: Role of Dormitories in Boston's Expensive Real Estate Sector), with the advent of dedicated better quality hostels it is likely that apartment units meant for families/households would get freed up.

Hostels generally take 2 to 4 months to achieve break even occupancy. Majority of hostels in urban areas achieve an average occupancy of close to 70% on annual basis considering holidays for students, competition and vagaries of economy and social environment. Hostel business, in general (with few exceptions of few locations and higher income segment), is a low margin business unlike lodges or star hotels. It is learnt that a majority of the smaller hostels at this

²⁸ Dormitory bed increase welcome in Boston's hot housing market, Policy Research, Boston Redevelopment Authority, 2000

junction make an average margin of about Rs 15,000 per month. This margin is an income for the entire family which runs the hostel.

Unlike the case of Rental Housing, Hostels run a different set of risk factors namely:

- Increasing rental costs of hostel buildings in terms of rents and security deposits
- Increasing food costs
- Seasonality due to non-occupancy during start up phase and during holidays and agitations (tenures are much shorter than Rental Housing)
- Taxation and regulatory framework (such as service tax, commercial property tax, trade license fees, commercial water and power bills)

On the other hand, the risk associated with Eviction is considerably lesser in case of hostels since the occupants come with the mindset of temporary stay.

Hostels can be an option for providing alternative, affordable, safe and secure housing solutions for achieving slum free city.

7.3.2 Influencing Levers

7.3.2.1 Rent Price

The Hostel Market is competitive in the informal segment as the prices that it can command is unregulated and a function of demand and supply. Given the informal nature of the arrangement, at this juncture, this segment is not impacted by the Rent Control. However with the establishment of larger formal players, flexibility around rent prices would become more relevant.

7.3.2.2 Eviction Policies and Procedures

The Hostel Market attracts customers (mostly single people) who come with a mindset of a short stay and subsequently would like to move out. Here the risk perception with respect to inability to evict customers is much lower than in the case of normal Rental Housing.

7.3.2.3 Taxation, Other Charges, Deductions in Rental

The Hostel business is treated as a commercial business and all taxation and charges are imposed at commercial rates. Likewise renting property to (hostel/rental housing) providers who supply long term hostel/residential accommodation is also considered as “commercial”. Taxation and costs significantly increase the burden and reduce the margins thereby reducing the attractiveness of Hostels.

- Service tax is applicable to the landlord if the income level is higher than Rs. 10 lakhs per year.
- Similarly Property Tax is as applicable for commercial rather than residential which is typically significantly higher and varies from state to state.
- Water and Electricity charges for hostels are also levied at commercial rates
- VAT is applicable on food supplied in hostels.

7.3.2.4 Incentives, Subsidies and Mandates

While incentives and subsidies were not very relevant for the informal small Hostel and Dormitory Providers, they will play a key role in the case of large Hostel and Dormitory Providers with scale. Given the low margins in the business, any subsidies and incentives that

would improve the margins can significantly improve the chances of participation of this segment.

Large scale hostels and dormitories would significantly benefit if they are conferred upon the status of Infrastructure and thereby enjoy the sops and concessions of such investments. This would reduce the breakeven period and improve operating margins thereby making it more attractive.

7.3.2.5 Financial Assistance and Implementation

Hostel and Dormitory Providers would require to access to funds through various means and financial instruments, and would require assistance in implementation.

- Hostel and Dormitory Providers could partner with the Government (for land/subsidies/tax sops) and Developers (project implementation) in a PPP arrangement.

Exhibit 19: Case Example: Rent to Own Scheme, Greater Minnesota Housing Fund²⁹

When the Greater Minnesota Housing Fund was created in 1996, its primary funders, The McKnight Foundation and Blandin Foundation, challenged it to promote the creation of affordable housing for working families in cooperation with employers throughout Greater Minnesota. GMHF has delivered on this goal by creating local and regional housing programs in cooperation with employers.

For Example:

Grand Portage Rental Housing Project - Grand Portage, Minn. for Multifamily Rental Housing

Employer Role: Cash Contribution and Infrastructure;

Owner and Developer of Housing for Employees

The Grand Portage Tribal Council employs over 280 people on the reservation. Many employees are either living off the reservation in dilapidated trailers or in the casino lodge because they are unable to find decent and affordable permanent housing. In response to the housing shortage, the Tribal Council built six duplexes and an eight-unit apartment building to house its employees. The Council also provided a cash contribution of over \$419,000 to the project, provided the infrastructure to the site, and owns and operates the units. GMHF provided a \$195,000 deferred loan to the project.

provided here is for their captive audience of employees, staff, etc.

○ Allowing FDI in Rental Housing can significantly increase the number of Hostel and Dormitory Providers players in the market.

○ Using ECBs the Hostel and Dormitory Providers would be able to increase the financial leverage and thereby improve their yields through a better return on equity and also expand faster.

○ With a Priority Sector Lending status for Rental Housing, the Hostel and Dormitory Providers would be able to get cheaper loans and certain tax holidays that would improve the yields.

7.4 CAPTIVE HOUSING PROVIDERS

7.4.1 Background

Captive Housing Providers are those organisations that provide accommodation to their staff. These providers could be Companies, Government Organisations, PSUs, and Hospitals etc. The accommodation

Exhibit 20: Case Example: Rent to Own Scheme, India Examples

²⁹ www.gmhf.com

Captive Housing at one point in time created Company Towns like Tatanagar created by Tata, or Dalmiapuram by Dalmia Cements or Jamnagar by Reliance. Most companies developed these localities so as to ensure that they could attract and retain talent. Over time, however, such projects have significantly reduced. In urban areas, one cannot find any such Employer Assisted Housing (EAH) where the need for such housing is vital.

A study by Harvard shows that there is a growing spatial mismatch between where job growth occurs and where people can afford to live. Such a mismatch creates costs for employers as the local labour pool contracts and employee turnover rises³⁰. Employers have a stake in extending housing affordability and creating housing opportunity while increasing the competitiveness of their businesses and the areas in which they are located.

Employers are motivated for a variety of reasons to undertake EAH programs. They include:

- Employee-turnover problems leading to reduced productivity, high training costs and low employee morale;
- Worker inefficiencies related to long commutes to work.

There is no doubt that every industrial or commercial activity would need to be supported by residential infrastructure either within or near the business activity. Globally accepted ball park ratio of Industrial area to Residential area are 1:3 for Heavy Industry, 1:5 for Small and medium scale Industry and 1:9 for Information Technology³¹.

A number of the EAH schemes are Demand centric and assist in the buying of houses. However there are Supply Side Schemes wherein the Employer invests in Housing and provides Rental accommodation to its employees. In addition, there is also a possibility of Shared Ownership Schemes (Refer Exhibit 13: Case Example: Rent to Own Scheme, UK Shared Ownership Schemes

Rent to Own Schemes are also being tried in India:

HUDCO Scheme:

HUDCO has conceived this Rent-to-Own Scheme. The scheme would enable the employees to own a house over time, through the support of their institutions.

Under the programme, an agency builds the houses or purchases the houses en block and gives them on “Rent-cum-Ownership” basis to its employees.

The House Rent Allowance (HRA) along with certain additional amount will be deducted from the salary that would be used by the agency to repay the Equated Monthly Instalment (EMI) requirement to HUDCO.

The Ownership of the residential unit initially allotted on rent, is transferred by the Public agency to the employee after the entire loan is paid or at the time of retirement, adjusting the balance outstanding in retirement benefits.

Chandigarh Housing Board:

The Chandigarh Small Flats Scheme 2006 is a Rent-to-Own was launched under the control of Chandigarh Housing Board as the executing agency.

The scheme covers the construction of 25,728 dwelling units in G+3 storey building typology benefiting 23,841 families that were residing in 18 identified slums/unplanned habitations in the city. The government offered 370 acres land free of cost.

Prior to allotment of flats that is done on a random basis, beneficiaries were shifted to transit shelters. The monthly license fee for those residing in the Transit Shelter is Rs. 600 per month and Rs 800 per month when they occupy the flats.

License fee for the flat is expected to be revised by 20% as compounded after every 5 years.

By the twentieth year, the occupant gets the option of lawful ownership through purchase provided the licensees hold a continuous occupation for the entire term.

³⁰ Employer-Assisted Housing: Competitiveness Through Partnership, Joint Center for Housing Studies of Harvard University Harvard University

³¹ Asks Centre to review SEZ failure, Times of India, 9th January, 2013

) that can be looked at. Shared Ownership, also called Rent-to-Buy or Rent-to-Own are schemes that allow tenants to pay an upfront amount towards deposit and then pay rents up to a time when they become eligible to own the property. This scheme is particularly useful as a number of employees find it difficult to purchase a house close to where they work with the option of buying the houses post retirement. The scheme is beneficial from the Employer standpoint as well, as it creates a cash-flow back to the Employer, increases stickiness of the Employee and ensures that the property is well maintained as the tenant believes that he would own it at some point in the future.

EAH has a number of forms and shapes and has several models wherein different partners come together to create a Housing stock. The different partners could include the Employer, a Housing Trust, and the Local Municipality where each might play a facilitating role and create a Rent-To-Own structure suitable for a specific case.

7.4.2 Influencing Levers

7.4.2.1 Incentives, Subsidies and Mandates

The Employee Housing could be incentivised and subsidies offered on Land. In addition for project sizes above a certain level or in certain areas, the government could mandate such housing schemes and provide incentives.

The Employee Rental Housing scheme could be considered as an admissible CSR expenditure.

7.4.2.2 Enabling Agencies

Rent-To-Own schemes could be facilitated by the presence of Housing Associations and/or Housing Funds as in the case given above.

8 RECOMMENDATIONS

The sections above focused on the levers that can be used to promote Rental Housing amongst the various players namely Individual Landlords, Institutional Landlords, Hostel and Dormitory Providers and Captive Housing Providers each of whom would impact one or more of the various types of customers namely the EWS/LIG household segment, the transient Student and Migrant Worker segment and the Captive Employee segment.

Based on the analysis of the various Levers, the following are the key recommendations that we believe would benefit different players and the different segments of renters.

1. There has to be a bifurcation between the Rent Control Laws for applicable Commercial properties and Residential properties. The Commercial interest group which inhibits Rental reforms for commercial spaces may not operate for Residential Rentals. Towards this, a separate law referred here as the Residential Rental Housing Act should be created that specifically focuses on the housing segment. The Model Residential Tenancy Act 2011 provides a good starting point for the same. By doing this, it should make it easier for Government to implement reforms as long as the focus is limited to Residential.
2. The focus of the Rental Housing Act should be on creating Affordable Rental housing. Hence all regulations under Residential Rental Housing Act as well as benefits from a Residential Rental Housing Policy should have greater emphasis on those properties where the area is less than 60 sq. metres (653 sq. ft.) of carpet area. The area could be indexed depending on the city size and subject to a maximum of 60 sq. meters in the smallest size city and progressively reduced for big cities. For Hostels, the definition should be restricted to all Hostel and Dormitories where the monthly Rental (including accommodation, food and all other charges) is less than Rs. 10,000 per month per bed at current prices, as suitably modified from time to time. This is to prevent luxury hotels from reclassifying their Hotels as Hostels.
3. Standard Prices that are regulated by a Rent Controller/Court should be replaced by a Rent Price based on a contractual agreement between the Renter and the Landlord. The Rent Price would reflect the prevailing market rates.
4. Increase in the Rent Price in case of continuation of the contract should also be determined on the basis of contractual agreement. No increase should be permitted within the tenure unless a specific clause allowing such increase is present or in the case of improvements to the property.
5. The registration of Lease Agreements should be simplified so as to reduce the transaction cost and increase transaction ease, so that the informal segment of Rental Housing is reduced. Given that most of our essential and important things such as UID card, Tax payments can be done online or through banks, a similar simplified mechanism within the ambit of the existing laws such as Transfer of Property Law 1882, Indian Contract Act, 1872 etc. needs to be conceived. The measures could include operating a separate window at the sub-registrars' office for registration of rental agreements, expediting the time taken for such registrations and fixing the stamp duty at the minimum amount prescribed in each of the states for registrations.

6. Eviction Laws and Procedures should be simplified. In the event of disputes with respect to rent price, rent price increase and evictions a special fast track Rental Housing Tribunal should be formed so as to ensure speedy resolution. The purpose of the Tribunal is to remove the Rental related dispute cases from the Small Causes Court which is currently bogged down in endless delays.
7. Trade license fees for hostels and paying guest accommodation are very high in some cities and there is a need for rationalising these rates similar to those in Bangalore city. The Bangalore Municipal Corporation levies Rs 3,000 per annum as trade licensee fee for paying guest accommodation and Rs 1,000 per annum for student or sports hostel.
8. Affordable Rental Housing (defined above as flats less than 60 sq. mt) including Affordable Hostels and Dormitories (total charges less than Rs. 10000 per month per bed at current prices) and Captive Employee Housing should get cost benefits so as to improve Yields/Margins in the following different ways:
 - a. Rental Housing should be categorised as Residential thereby ensuring that all Taxation and other charges, including utilities such as Water and Power Supply, be calculated at Residential rates.
 - b. In order to facilitate Rental registrations, Stamp Duty should be minimised to a nominal amount of Rs. 100 or so as in the case of Rajasthan.
 - c. Service Tax should be exempt for such properties
 - d. For Institutional Landlords creating mass Rental Housing, income Tax should be exempt for such properties. As Building of mass rental housing either for employees or for others, be considered as one of the clauses of the Corporate Social Responsibility Policy, thereby allowing a deduction of more than 100% of the capital expenditure incurred by the Corporates.
 - e. Property Tax should be exempted for say the next ten years period for such properties
 - f. Section 24 (a) of the Income-tax Act, 1961 provides a deduction of 30% of the annual value from the rental income of the house property of the owner. In order to promote rental housing such deduction should be increased to 50% of annual value.
 - g. The Companies Act 1956 stipulates depreciation at 25.88% for hotels & boarding business whereas the rate applicable to other businesses is 18.1%. A separate category of depreciation should be created for affordable Hostels & Dormitories/ Affordable Rental Housing with a rate lower than hotels.
9. For large projects specifically earmarked for Rental Housing, as a subset of Affordable Housing, infrastructure status could be conferred thereby allowing for tax holidays, lower financing costs, depreciation benefits etc.
10. REITs focused on Rental Housing and with more than 75% of their income accruing from Rental Income should be enabled so that new players enter this market. REITs would also allow smaller investors to participate in the Rental Housing market. SEBI's draft law on REIT could be amended in this regard.

11. Employers wanting to offer Rental Housing / Rent-To-Own facilities to their employees, could be given specific grants / financial assistance by way of lower interest rates on funds borrowed for Rental Housing projects.
12. Rental Management Companies (RMC) should be given tax benefits so that they are able to provide the important bridge between the Landlords and the Tenant and facilitate smooth transaction between the two parties. RMC could significantly reduce the risk perception and facilitate the entry of Institutional Landlords. In addition, for such RMC companies, provision of “eviction” powers should also be explored.
13. In order to increase the interest and investment in the segment of Affordable Rental Housing, fund flows from FDI and ECBs could be facilitated. FDI norms should be relaxed for Rental Housing schemes as it is unlikely that a single project would be able to absorb the minimum capital infusion required as per current FDI norms. Similarly ECBs which are currently allowed for Housing Projects should be extended to Rental Housing Projects as well.

9 ANNEXURE

9.1 ANNEXURE 1: LIST OF ABBREVIATIONS

No.	Abbreviation	Description
1.	TFRH	Task Force on Rental Housing
2.	MHUPA	The Ministry of Housing and Urban Poverty Alleviation
3.	JnNURM	Jawaharlal Nehru National Urban Renewal Mission
4.	RAY	Rajiv Awas Yojana
5.	BSUP	Basic Services of Urban Poor
6.	IHSDP	Integrated Housing and Slum Development Programme
7.	ISHUP	Interest Subsidy Scheme for Housing the Urban Poor
8.	AHP	Affordable Housing in Partnership
9.	EWS	Economically Weaker Section
10.	LIG	Low Income Group
11.	MIG	Middle Income Group
12.	HIG	Higher Income Group
13.	SEZ	Special Economic Zone
14.	PSU	Public Sector Undertaking
15.	UID	Unique Identification Number
16.	RMC	Rental Management Company
17.	FDI	Foreign Direct Investment
18.	ECB	External Commercial Borrowing
19.	REIT	Real Estate Investment Trust
20.	EAH	Employer Assisted Housing
21.	PPP	Public Private Partnership
22.	HRA	House Rent Allowance
23.	IFC	International Finance Corporation
24.	ADB	Asian Development Bank
25.	EMI	Equated Monthly Instalment
26.	NSS	National Sample Survey

9.2 ANNEXURE 2: LIST OF REFERENCES

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- *Report of the Technical Group (TG-12) on Urban Housing Shortage, 2012-17*
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- *NSSO 65th Round, Report on Housing Conditions and Amenities in India, 2008-2009*
- *IIHS Analysis, based on Census 2011, NSS 64th Round, Sivaramakrishnan, Kundu, Singh (2005), SRS Vol. 45, 2011*
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- *<http://www.hindustantimes.com/News-Feed/BusinessRealEstate/Property-rental-yields-decline/Article1-737108.aspx>, August 2011 and*
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- *Quarterly Research Note, No. 15, Affordable Rental Housing, IDFC, March 2012*
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- *Technical Assistance (TA 7148-IND): "Promoting Inclusive Urban Development in Indian Cities" with MoHUPA as the Executing Agency, 2013*
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- *Dormitory bed increase welcome in Boston's hot housing market, Policy Research, Boston Redevelopment Authority, 2000*
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9.3 ANNEXURE 3: RENT CONTROL ACTS IN DIFFERENT STATES

Sr. No.	9.3.1.1 State	Name of Act	Previous Acts (if any)
1	Andhra Pradesh	The Andhra Pradesh Buildings (Lease, Rent and Eviction) Control Act, 1960 (Act No. 15 of 1960)	Madras Buildings (Lease and Rent Control) Act, 1949 and Hyderabad Houses (Rent Eviction and Lease) Control Act, 1954, integrated into one Act in 1960.
2	Andaman and Nicobar Islands	Andaman & Nicobar Islands Rent Control Legislation notified on 19.10.1965 is applicable in Port Blair Municipal Area.	
3	Arunachal Pradesh	The State Government is yet to enact a Rent Control Act in the state.	
4	Assam	The Assam Urban Areas Rent Control Act, 1972 (Assam Act No. 17 of 1972)	Assam Urban Areas Rent Control Act, 1966 (No. 2 of 1967)
5	Bihar	The Bihar Building (Lease, Rent and Eviction) Control Act, 1982 (Bihar Act No. 4 of 1983)	The Bihar Building (Lease, Rent and Eviction) Control Act, 1977
6	Chhattisgarh	No new Act enacted. Following the parent state Act.	
7	Dadra and Nagar Haveli	No State Rent Law in force.	
8	Delhi	The Delhi Rent Control Act, 1958 (59 of 1958)	Delhi and Ajmer-Merwara Rent Control Act, 1947 ; Delhi and Ajmer Rent Control Act, 1952
9	Goa and Daman & Diu	The Goa, Daman and Diu Buildings (Lease, Rent and Eviction) Control Act, 1968 (Act No. 15 of 1968)	Decree No. 43525, dated 7 th March 1961 and Legislative Diploma No. 1409, dated 14 th February 1952 and the corresponding provisions of any other law.
10	Gujarat	The Bombay Rents, Hotel and Lodging House Rates Control Act, 1947 (Bombay, Act No. 57 of 1947)	Bombay Rent Restriction Act, 1939 and the Bombay Rents, Hotel Rates and Lodging House Rates (Control) Act, 1944
11	Haryana	The Haryana Urban (Control of Rent and Eviction) Act, 1973 (Haryana Act No.11 of 1973)	East Punjab Urban Rent Restriction Act, 1949
12	Himachal Pradesh	The Himachal Pradesh Urban Rent Control Act, 1971 (Act No. 23 of 1971)	The East Punjab Urban Rent Restriction Act, 1949
13	Jammu and Kashmir	The Jammu and Kashmir Houses and Shops Rent Control, 1966 (No. 34 of 1966)	The Jammu and Kashmir Houses and Shops Rent Control Ordinance, 1966 and the Jammu and Kashmir Houses and Shops Rent Control

			(Amendment) Ordinance, 1966
14	Jharkhand	No new Act enacted. Following the parent state Act.	
15	Karnataka	The Karnataka Rent Act, 1999 (Karnataka Act No. 34 of 2001)	Karnataka Rent Control Act, 1961
16	Kerala	The Kerala Buildings (Lease and Rent Control) Act, 1965 (Act 2 of 1965)	The Kerala Buildings (Lease and Rent Control) Act, 1959
17	Lakshadweep	Housing problem is not acute and inter island migration is very limited. Thus, having a Rent Control Legislation is not considered necessary.	
18	Madhya Pradesh	The Madhya Pradesh Accommodation Control Act, 1961 (No. 41 of 1961)	The Madhya Pradesh Accommodation Control Act, 1955
19	Maharashtra	The Maharashtra Rent Control Act, 1999 (Maharashtra Act 18 of 2000)	The Bombay Rents, Hotel and Lodging House Rates Control Act, 1947, The Central Provinces and Berar Regulation of Letting of Accommodation Act, 1946 and The Hyderabad Houses (Rent, Eviction and Leases) Control Act, 1954
20	Manipur	In the process of preparing a bill on Rent Control on the lines of suggestions made by the Central Government.	
21	Meghalaya	The Meghalaya Urban Areas Rent Control Act, 1972	The Assam Urban Areas Rent Control Act and The Meghalaya Urban Areas Rent Control Act
22	Mizoram	The Mizoram Urban Areas Rent Control Act, 1974 (The Mizoram Act No.9 of 1974)	Assam Urban Areas Rent Control Act, 1966
23	Model Law	The Model Rent Control Law, 1992	None
24	Nagaland	No information available.	
25	Orissa	The Orissa House-Rent Control Act, 1967 (Orissa Act 4 of 1968)	Orissa House-Rent Control Act, 1958 (No. 31 of 1958)
26	Pondicherry	The Pondicherry Buildings (Lease and Rent Control) Act No. 5 of 1969	N.A
27	Punjab and Chandigarh	The East Punjab Rent Restriction Act, 1949 (East Punjab Act No. 3 of 1949) and The East Punjab Rent Restriction (Extension To Chandigarh) Act, 1974 (Act No.54 of 1974)	Punjab Act No.6 of 1947 and East Punjab Act No.21 of 1948.
28	Rajasthan	The Rajasthan Rent Control Act, 2001 (Act No.1 of 2003)	The Rajasthan Premises (Control of Rent and Eviction) Act, 1950
29	Sikkim	Gangtok Rent Control And Eviction (Act 1 of 1956)	N.A
30	Tamil Nadu	The Tamil Nadu Buildings (Lease and Rent Control Act), 1960 (Tamil Nadu	The Madras Buildings (Lease and

		Act I of 1980)	Rent Control) Act, 1949
31	Tripura	The Tripura Buildings (Lease and Rent Control) Act, 1975 (No.5 of 1975)	The Tamil Nadu Buildings (Lease and Rent Control Act), 1960
32	Uttar Pradesh	The Uttar Pradesh Urban Buildings (Regulation of Letting, Rent and Eviction) Act, 1972 (U.P. Act No. 13 of 1972)	The United Provinces (Temporary) Control of Rent and Eviction Act, 1947
33	Uttaranchal	No new Act enacted. Following the parent state Act.	
34	West Bengal	The West Bengal Premises Tenancy Act, 1997 (West Bengal Act No.37 of 1997)	The West Bengal Premises Tenancy Act, 1956

9.4 ANNEXURE 4: MINUTES OF THE 1ST MEETING OF THE TFRH HELD ON 24TH SEPTEMBER 2012

Venue: Conference Room No: 120, 1st Floor, NBO Building, G-Wing, Nirman Bhawan, New Delhi

Date and Time: 24th September, 2012, 11:00 hrs

1. Shri Susheel Kumar, Joint Secretary, Housing, Ministry of Housing and Urban Poverty Alleviation (MoHUPA) and Member of the Task Force on Rental Housing (TFRH) welcomed Chairman of the Task Force and other members present in the 1st meeting of TFRH followed by a round of introduction. In the introductory remarks JS (H) has informed that the member convenor of this committee cum Director, (Housing), MoHUPA is not present in the meeting. He stated that Ministry is very keen to address the issues of rental housing. He further stated that to achieve the objectives of the Task Force on Rental Housing, support and cooperation from all the members, partners and stakeholders is utmost important therefore lots of coordination and discussion is required to find out practical solutions on rental housing. He also informed that Ministry has already circulated the notification on constitution the TFRH along with the Terms of Reference (ToR). He requested the Chairman of the TFRH to initiate the discussion.
2. **Shri Jaithirth Rao, Chairman of TFRH** in his opening remarks congratulated and thanked Ministry for setting up the Task Force on Rental Housing and convening the meeting. He suggested that to promote rental housing in a big way there is a need to co-opt representatives from the insurance industry and IRDA. Further he suggested to prepare a note on the mechanism and methodologies adopted for successful persuasion of reforms with the States under JNNURM. He also complimented that the Terms of Reference (ToR) of the task force is quite comprehensive and remarkable which cover all the aspects of rental housing. He cited the examples of both successful and unsuccessful models on rental housing initiated in U.K. and U.S. He briefed about the role of the task force and stated that this task force has to look at both public and private sector involvement and find out ways to encourage private investment through incentivising in rental housing. Further he opined that poor cannot afford to pay both the EMI and rent therefore not qualify for housing loan required for ownership housing, however they can afford rental accommodations. He also suggested that rental housing should be brought as a part of infrastructure development.
3. **Shri Arun Kumar Misra, Secretary (HUPA)** in his remarks welcomed the Chairmen of the Task Force and members. He stated that during the last two years various policies has been deliberated on housing, urban poor, slum free cities which also includes rental housing. He informed that rental housing has come up as one of the very important sector for policy intervention and hence schemes and policies to promote rental housing are extremely important for this Ministry. Further he quoted the figures of 2001 Census 2001 and 2011 on rental housing which shows that 27% -29% of the people in urban areas are living in rental housing. He also stated that some surveys conducted in cities also show that considerable percentage of people in slum (25%) areas are dependent on rental housing and per square feet rent paid by slum dwellers (EWS) is actually higher than to normal rental houses. He also informed that it has been statistically (Urban Housing Shortage Report-MoHUPA) proven that during the last one decade housing shortage has reduced. However, out of the total 110 million housing stocks, 11 million (10%) are either vacant or not available (lock and key) for housing. As per an

assessment in Maharashtra State the total housing shortage is 1.96 million, where as 2.1 million houses are vacant (census figures), which needs to be addressed by the State. He also stated that the reason behind so many vacant houses needs to be analysed (since 10% of the total housing stock is unavailable for housing) and to recommend required steps to address this. He also stated that though Ministry has pushed the rent control reforms its implementation has been unsatisfactory, therefore this task force has to recommend possibilities for successful implementation of this reform. He opined that constituting the Task Force on Rental Housing is the first step towards a systematic deliberation on rental housing. He opined that for short studies funding may be made available by this Ministry. He also opined that if required more members could be included in the task force. S (HUPA) also reiterated and stated that under the dynamic leadership and guidance of Shri Jaithirth Rao, as Chairman of this task force would come out with pertinent recommendations on rental housing.

4. **Shri Jaithirth Rao, Chairman, TFRH** stated that he is grateful that Ministry has taken the initiative of constituting the Task Force. He stated that ownership housing alone cannot cater to the housing shortage therefore rental housing has a key role to play. As a vibrant sector of the urban economy, every city must encourage rental housing. He emphasised that within a quick time frame this committee would come out with actionable solutions on rental housing. Further he opined that due to lack of access to housing loan from Nationalised Banks to EWS and inability to pay down payments along with rent, often poor are left out from formal housing. He shared the experiences of different countries in the fields of rental housing and stated that these experiences shall also be kept in mind while making recommendations. He stated that Delhi Rent Control (Amendment) Bill has still not become a Law which is a cause of concern. He states that Rent Control Acts were passed for requisitioning properties for defence purpose during the 2nd World War time and it was supposed to be a short term measure but it is still in forced thereby affecting creation of rental housing stocks. He further reiterated that for long term investments the cynicism of insurance companies has to be addressed by including them as a part of this Task Force. Further he opined that the Task Force on Rental Housing has to submit its final report by mid of 15th January 2013 and it would be circulated to the members through emails for their comments. He invited the views from the members which were as described below:
5. **Shri Deepak Goradia, CREDAI** congratulated and thanked the Ministry for its initiative to form the Task Force. He cited the example from Mumbai where people live in “*Jhopar Pattis*” and are paying Rs.5000-Rs.12000/ as rent. He opined that CREDAI would be happy to contribute to the Task Force and find out strategies to promote rental housing. He suggested that city size/class wise (Tier 1, 2 & 3) recommendations should be different. He opined that example of Mumbai Metropolitan Region Development Authority (MMRDA) on rental housing is relevant for class 1 cities, where incremental FSI is given as an incentive to the private developer.
6. **Chairman, TFRH** raised his concern and stated that keeping in mind the present situation related to various Public Private Partnership (PPP) options the recommendations of the task force have to be carefully finalised ensuring complete transparency and lack of favouritism in proposed solutions.
7. **Brig (Retd.) R.R Singh, NAREDCO** informed about the study conducted by NAREDCO and highlighted the recommendations on rental housing. He stated that at least 50% of the total housing demand has to be fulfilled through rental housing and hence needs to

be promoted. Out of the total rental housing stocks at least 30% should be reserved for high & middle income groups (HIG/MIG) and rest 70% should be reserved for the lower income groups and economically weaker section (LIG/EWS). He also opined that the price of the rental housing should be minimum, not exceeding 30% of the total household income. He also stated that if required, vouchers could be issued by the government using UIDs and bank transfers to maintain transparency. Private developers should be encouraged to participate in rental housing by incentivising and by giving additional FSI. He stated that acquiring land is quite a challenging task for developers to create rental housing and government departments like Housing Boards have huge land holding therefore these departments should be actively involved in promoting rental housing for their employees as well for private sector. Further he also highlighted the requirement for tax incentives to promote rental housing. He also cited that as a part of normal practise people deposit money in banks to earn secure interest hence this should be channelized for investment in rental housing by incentivising with proper security and good return. He informed that if required NAREDCO may organise conference on rental housing.

8. **Chairman, TFRH** opined that the suggestion regarding government land being given to the developers may not be a good idea. He also suggested that states should be given incentives towards implementing reforms through linking it with incentives. He also added that rental housing options improve the mobility of people.
9. **Shri. Gautam Chatterjee**, Principal Secretary, Govt. of Maharashtra briefed about private sector participation in rental housing during 30's and 40's, when both the public and private sectors were participated in developing housing stocks in a big way. However due to the adverse impact of Rent Control Act's private sector had stopped participating. On the other hand public sector had withdrawn due to management issues of the rental properties. He opined that these two key issues need to be addressed through formulating statutory framework and regulatory measures. The first one would push States to implement the rent control reform and the regulatory measures would address the land related issues through provision of earmarking land for rental housing. He also stated that affordable rental housing could be created through Joint Ventures of public and private sector, involving section 25 companies etc. to manage the rental properties.
10. **Chairman** of TFRH agreed with the suggestions and opined that socially and economically rental housing encourages the mobility of people and contribute towards cities economic growth therefore in the interest of the vibrant growth of cities land should be earmarked for rental housing.
11. **Shri V. Satyanarayana**, President, Ranga Reddy District Hostel Association, Hyderabad presented the latest census figures on rental housing which shows that in few cities like Bangalore, Madurai, Chennai, Hyderabad, Ranchi, Kanpur etc more that 30%- 60% people live in rental housing. He suggested that one or two Municipal Commissioners along with representatives from HDFC, SEBI should be part of the Task Force. He also informed that the budget preparation and 12th plan is under way hence concurrent actions may be initiated to fasten activities of the task force. He also shared the innovative experience of operating the hostel association with the support of informal sector workers in various cities.
12. **Chairman** of the TFRH agreed to the suggestion and informed that tentatively by 30th November 2012 the interim report (especially containing the fiscal incentives) and by

January 2013 the final report of the task force should be submitted. He also suggested that the experiences of the Ranga Reddy District Hostel Association should be circulated to all the members of the Task Force for reference. Further he also shared the experience of Korea where as part of industrial policy, every company constructs hostels and sponsors accommodation to their workers, which not only increases the productivity of workers but also reduces the travel time.

13. **JS (H)** opined that there is lack of evidence that would prove that hostel is a huge and vibrant sector within the rental housing hence it is suggested that Ranga Reddy District Hostel Association should bring out database across cities. He also stressed that there is a need to focus more towards providing facilities to the informal sector workers. The definition of formal and informal sector workers has to be clearly articulated through the perspective of employee and employer relationship. He stated that informal sector intermediaries managing the formal sector is also an interesting aspect of the Hostel Association and if feasible, this could be replicated in other parts of the country. Further he opined that the objective of the Task Force is to recommend ways to replicate this business model to cater to the rental housing seekers not rent seekers. He informed that out of the total 18.7 million housing shortage, 7 million is for rental housing (as per the Housing Shortage Report).
14. **Chairmen, TFRH** has suggested to increase the footprint of the Association and to find out the segregated details on the beneficiaries of hostel association and to circulate the report to the task force members. He also recommended to take up the case study of Hyderabad for a short study. He stated that expenses on urban living especially accommodation are a large component of the outflow therefore it is important to understand how the informal sector workers manage.
15. **Shri T. Karthikeyan, Secretary, ICAI** suggested that city wise information on the existing situation of rental housing has to be analysed especially for tier-1 and tier 2 cities. Based on the socio-economic vulnerability and urgency of the rental housing needs amongst various age groups, solutions should be worked out e.g. retired personal (above 60), young people prior to marriage (above 25), settled family etc. He also raised issues related to impact of multiple taxes (sales tax/Income tax/municipal tax etc.) on rental housing and ways to reduce the tax burden especially for lower income groups (LIG). He informed that ICAI can give first hand information of 108 cities related to the subject.
16. **Shri S.K. Chadha**, AGM, National Housing Board (NHB) raised issues related to various types of land ownership like lease, possession right, ownership right etc and its impact on rental housing. He suggested that the rental housing should be inclusive to all section of the society to promote balanced growth.
17. **Dr. M.K.Ramesh**, Professor, National Law University (NLU) raised his concerns regarding ways to anchor simplification of laws related to rental housing. He suggested private sector participation in promoting rental housing should be incentivised and for this a checklist may be prepared on how the private sector can participate in the rental housing projects.
18. **Chairman**, TFRH stated that the present legal framework is not favourable for rental housing which needs to be addressed by the task force.
19. **Shri. V .P Baligar**, CMD, HUDCO sought clarification on Model Rent Control Act drafted by Ministry of Housing and Urban Poverty Alleviation. He also suggested that task force may explore the possibility of issuing statutory guidelines for smooth growth of rental

housing. He opined that paying guest accommodation should be encouraged for working women/men and may be maintained by NGO's and private parties. He also raised concerns regarding industrial workers who opt for informal housing due to lack of provision made by the employers. He also states that public sector participation on rental housing shall be increased by involving Housing Boards. He suggested constituting sub groups of the TFRH to work out theme wise recommendations. This proposal has been welcomed by the Chairmen and other members of the Task Force and following are the four sub-groups formed under the TFRH:

- a. Sub group on **legal aspects**: To review various State Laws and other relevant documents related to legal aspects on Rental Housing and to suggest measures to promote rental housing. This sub-group will work under the Chairpersonship of Dr.Ramesh, Professor, NLU. It was also suggested that Mrs. Kiran Wadhwa, Ex Economist, HUDCO may be co-opted in the subcommittee to provide required support.
 - b. Sub group on **fiscal aspects**: To study various fiscal aspects on rental housing such as various taxes imposed and its impact on growth of rental housing, suggest measures to incentivise the rental housing and ways to attract private investment. This sub group will work under the Chairpersonship of Shri Jaideep N Saha, President ICAI and will include Shri V.Satyanarayan, CEO, Ranga Reddy Dist. Hostel Association and representatives from CREDAI.
 - c. Sub-group for **tier 2 & tier 3 cities**: Since tier 2 and tier 3 cities have different characteristics compared to tier 1 cities including nature of rental housing, it was suggested to collect and analyse relevant data from these cities which will provide better understanding on the ground realities and support in recommend practical solutions for the growth of rental housing. This group will work under the Chairpersonship of Shri Deepak Goradia, CREDAI.
 - d. Sub group on **private sector involvement** in rental housing: The experience of Ranga Reddy District Hostel Association, Hyderabad has its own experience of running private hostels for formal and informal sector workers in the form of rental accommodation. It's a unique intervention in the country and has to be analysed in-depth to understand its feasibility in other parts of the country and suggest ways to scale up particularly targeting the informal sector workers. This group will work under the Chairpersonship of Shri V. Satyanarayana, President, Ranga Reddy District Hostel Association.
20. To this **Principal Secretary, Maharashtra** has also opined that in every industrial development 30-35% land reservation for rental housing must be made mandatory. He also stated that individual owners should be encouraged to build Rental Housing.
21. **JS (H)** stated that the role of private builders is limited in tier 2 and tier 3 cities hence the task force has to suggest measures to encourage the private individuals to participate in creation of rental housing stock. It has also been suggested to create a common google group for the Task Force for smooth communication and functioning of the TFRH.
22. The Chairman of the TFRH thanked all the participants for their contribution in the meeting.

List of Attendees

	Name & Designation	Organisation
1.	Shri Arun Kumar Misra	Secretary, Ministry of Housing & Urban Poverty Alleviation, Govt. of India
2.	Shri Jaithirth Rao, Chairman of the TFRH	Chairman, Value and Budget Housing Corporation Pvt. Ltd. (VBHC)
3.	Shri Susheel Kumar, Member	Joint Secretary (H), Ministry of Housing & Urban Poverty Alleviation, Govt. of India
4.	Shri Gautam Chatterjee, Member	Principal Secretary, Government of Maharashtra
5.	Shri V.P.Baligar, Member	Chief Managing Director, Housing and Urban Development Corporation Limited (HUDCO)
6.	Smti. Alka Selot Asthana, Member	Director (RAY), Ministry of Housing & Urban Poverty Alleviation, Govt. of India
7.	Dr. M.K.Ramesh, Member	Professor National Law University (NLU), Bangalore
8.	Shri S.K. Chadha, Member	AGM, National Housing Bank (NHB)
9.	Shri V. Satyanarayana, Member	President, Ranga Reddy District Hostel Association, Hyderabad
10.	Shri T. Kartikeyan, Member	Secretary, The Institute of Chartered Accountants of India (ICAI)
11.	Shri Jaideep N Shah, Member	President, The Institute of Chartered Accountants of India (ICAI)
12.	Shri Deepak Goradia, Member	Confederation of Real Estate Developers Associations of India (CREDAI)
13.	Shri Ramchandra Sahu	Research Officer, Confederation of Real Estate Developers Associations of India (CREDAI)
14.	Brig (Retd.) R.R Singh	National Real Estate Development Council (NAREDCO)
15.	Shri Jogy P. Thomas	Dy. CEO, ATS
16.	Shri S.S. Meena	Under Secretary, Housing, Ministry of Housing & Urban Poverty Alleviation, Govt. of India
17.	Shri Sarat Barkakati	Civil Engineer, Support to National Policies for urban poverty reduction (SNPUPR)
18.	Ms. Tora Saikia, Urban Planner	Support to National Policies for urban poverty reduction (SNPUPR)
19.	Shri Nagendra Goel, Legal Counsel	Support to National Policies for urban poverty reduction (SNPUPR)

9.5 ANNEXURE 5: MINUTES OF THE 2ND MEETING OF THE TFRH HELD ON 16TH JANUARY 2013

Venue: Conference Room No: 120, 1st Floor, NBO Building, G-Wing, Nirman Bhawan, New Delhi

Date and Time: 16th January, 2013, 11:00 hrs

1. **Shri Jaitirth Rao, Chairman of TFRH** started the meeting by extending a welcome to all the members and participants of the 2nd meeting of TFRH and **brief introduction** by the participants followed.
2. The **Chairman** asked about the status of induction of Insurance and IIRDA in the TFRH committee. Since it had not materialised as yet, it was decided that the Chairman himself would invite them to be observers as organised investment was a key player in rental housing.
3. **Shri Susheel Kumar**, Joint Secretary, Housing raised a few issues for consideration of the Chairman as:- specifying further time extension for the committee since the given 4 months time had already expired, deliberation on Real Estate Investment Trust being discussed in MoHUPA as a concept and desirable mechanism for rental housing, starting drafting of the report in parallel and setting up of sub-groups which could regularly meet.
4. The **Chairman** said that TFRH report should be submitted by end of February and only one more meeting could be required with regular meetings of the sub-groups. He said that if needed someone suitable for the Investment trust might be inducted in the sub-groups and agreed that drafting of the report should be started.
5. A presentation was made by **Dr M. K. Ramesh**, Professor, National Law School of India about study of JNNURM effort, Rent Control Act and various legislative efforts. A copy of the presentation is attached in Annexure-II (Sub-Group on Legal Aspects: Towards an Enabling Legal Environment for Affordable Rental Housing). The salient features as deliberated upon in the presentation were:-
 - a. Need to Amend Rent Control Laws (which is biased in favour of tenants) -to ensure the interests of landlords and tenants; to improve housing situations in urban areas; to lessen distortions in the market and to have beneficial impact on urban finances; to expand on the scope for repossession for the landlord; to overcome the difficulties of long and unending judicial process; to make the tenancy right non-inheritable;
 - b. Consequences of the Existing System: Low and negative return from investment in rental housing and decline in supply of rental housing; ineffective implementation of laws, emergence of grey market in rental housing; exclusion of lower income groups from rental housing market; contentious relationship between landlord and tenant. Resulting in to social tension; sub-standard housing units; expansion of slums etc.
 - c. Model Rent Control Legislation 1992 allowed exemption of govt. property, religious & charitable trusts; new constructions for 15 years; property with high rental value etc. standard rent; sharing of maintenance charges; penalties; eviction on stipulated grounds; provision for contractual and semi-contractual tenancy; limiting inheritance rights etc. Reforms initiated only in few States viz. Karnataka, Rajasthan, West Bengal and Maharashtra.
 - d. Some of the suggestions made were - evolving a rental housing policy, reform in the rent control legislations of States as a legitimate expectation and logical

extension of the analysis of the legal ordering, attempted thus far but tinkering with rent control laws thus, alone will not do.

- e. Rental housing policy, law and practice as a social welfare measure (as asserted under the JNNURM) should remain anchored to the Directive Principle of State policy under art.39 (b) & (c) of the Constitution.
 - f. Need for involvement of private players & provisions of incentives for seeking and securing investments in this sector. This has to be worked out by the agencies of the State acting as facilitators, managers, regulators and justice dispensers to ensure equity.
6. The **Chairman** enquired if TFRH committee could simply take forward what JNNURM had suggested and Model Rent Control Act reform should be looked at. Maharashtra had amended the act in a way that it helped the rich and there was no rent control above rentals of Rs 3000 or Rs 5000 per month. Consequently nobody would construct affordable rental houses for the poor and even now in Mumbai, Pune and Nagpur rental houses are available only at higher end in rental market.
 7. **JS, Housing** referred to the Census report that out of 110 million housing stock in the Country about 10% were lying vacant which was a loss of available resources to have all the citizens. So the committee needed to recommend mechanism which facilitated creation of rental houses in the market for rich as well as the poor. The Model Rent Control Act was suggested to States for bringing reform to their Rent Control Act in force. Some states had made reforms but without maintaining spirit of the Model Act. He insisted that an all-pervasive Rental Act which balances the interests of landlords and tenants based on agreement/contract as advised by Supreme Court was desirable in States as a tool for development of rental housing and the TFRH should revise the Model Rent Control Act with that vision. Also, the task force should recommend some incentive mechanism under JNNURM which would not be available if a State did not bring in reform as per the Revised Model Rent Control Act.
 8. **Shri V. P. Baligar**, CMD, HUDCO said that he fully supported the suggestions of JS, Housing. He stressed on having a two-pronged strategy for that:
 - a. To have provision of penal action for non-compliance to the obligation of JNNURM reforms and of having additional incentives for rental housing under JNNURM. State agencies that take up rental housing as PPP projects might also be given an additional subsidy.
 - b. To promote 'Rent to own' scheme or 'Hire to purchase' scheme. He expressed that some incentives could be given by Central Govt under such scheme and HUDCO itself was willing to support with debt instruments. He explained the concept of the scheme as deducting some additional amount along with House Rent Allowance (HRA) from salary of employees so that he/she becomes the owner of the house at the time of retirement. He added that the concept already proposed by Maharashtra Govt. could be suggested by Govt. of India to other States for the benefit of Govt. employees and some incentives might be given to attract such projects.
 9. The **Chairman** appreciated the 'Rent to own' scheme and added that it should be available not only for the Govt. employees but for employees of Industries too. **JS, Housing** referred to a discussion in the last meeting about inviting various Industries to create rental housing stock for their employees. He said that 'Rent to own' concept might also be suggested to them.

10. **Shri K. Phanindra Reddy**, Secretary, Tamil Nadu said that holding back JNNURM fund release for non-compliance would not be fair. The **Chairman** in response stated that the entire fund might not be held back but some penalty like holding a certain percentage of funds should act as deterrence. **Shri Reddy** also stressed the need to assess the reasons why people keep the houses vacant when renting out could fetch them money. He said that there should be some sample survey to find out reasons. The Secretary (Housing) Tamil Nadu was requested to undertake such a study by the Chairman.
11. **Smt. Kalpana Awasthi**, Commissioner, NCR, Ghaziabad said that the planners should always focus on the poor since the rich were capable of taking care of themselves. She said that land should be considered as a scarce resource and penal action should be taken against landlords keeping land vacant. She also stated that along-with Rent control act, there should be an Urban ceiling act to stop people buying dozens of properties and keeping them vacant. She made suggestions like- decentralized city-wise planning, use of Govt. land for erection of temporary structures for slum-dwellers till alternative arrangements are made for them. She also suggested developing philanthropic partnering and innovative funding models, available in countries like U.S.A.
12. The **Chairman** concluded that though there were other social issues in addition to the Rent Control Act, as hurdle for rental housing however, the initiation to make reform in States through the Model Rent Control Act under JNNURM should be considered as a benchmark. He opined that a better Rent Control Act or a better legislation was always essential for tenancy.
13. **Dr. P. S. N. Rao**, Professor, SPA mentioned that vacant land tax and ascertaining the gap of actual vacant space and taxed space in municipalities at the time of property survey could be important deterrent for developing rental housing.
14. **Shri T. Karthikeyan**, representative of the Institute of Chartered Accountant of India stated that apprehension of rental house owners about non-vacation of the tenants after lease period and possible long, cumbersome legal process was the main deterrent. So, he suggested that Rent control act, Transfer of property act and any other relevant act should be seen in conjunction.
15. **The Chairman** concluded that the task force should concentrate on recommendations relating to rental housing only.
16. **Shri S. C. Deshpande**, Joint Director, MMRDA suggested that for any new development plan, master plan for Tier-I,II & III cities certain percentage of land should be allocated for rental housing. He said that speculation and affordability of rent were the factors playing in the market. He further elaborated that in Mumbai, development of rental housing was there for many years with 12% margin, but due to locking of land, land value increased rapidly and returns on such rental house started decreasing. He said that the appreciation of a property kept locked was more than the rental income and so houses were kept vacant. He suggested that **land price should be linked to the Ready-reckoner** rates and if speculative price of land could be arrested and incentives were provided, returns on rental housing would increase and the stock of rental houses would also increase in the market.
17. The **Chairman** wondered if enacting legislation to link the rent to **Ready-reckoner rates** was easier to administer and practical for the State Governments.
18. **Smt. Uma Adusumilli**, Chief, Rental Housing Division, MMRDA stated that there had been many initiatives to make reform to the Rent Control Act in Maharashtra but due to

litigation in the Court and imposition of ban on further reform, the agenda had not been carried forward.

19. **JS, Housing** made a suggestion that residential properties should be separated from commercial ones. He said that the powerful lobbies acting against the reform were mostly concerned with commercial rental properties and separating residential from commercial would help in avoiding legal hurdles. It was hailed as a good idea by all the members and the Chairman.
20. **Shri R. V. Verma**, CMD, NHB had the following suggestions: The States should focus on Rental policy as part of their housing policies with well-defined roles for different stakeholders by studying the constitution of the market.
 - a. Mass scale rental housing stock should be created with professional rental housing stock managers in market who would be given authority/responsibility to intermediate between landlord and tenant.
 - b. Promote corporate housing by providing fiscal incentives such that the land locked by corporate might be unlocked for the benefit of their staff. For employee's housing, a focused rental housing policy at State level with fiscal incentives and banks active participation might help. Some fiscal incentives for the landlords on rental income might also be considered by Ministry of Finance, Govt. of India.
21. A presentation titled 'Presentation of Subgroup for Tier I, II & III Cities' was made by **Shri S. C. Despande** on behalf of CREDAI. A copy of the presentation is attached in Annexure-III (Presentation by the Sub Group for Tier I, II & III Cities). The following salient points were brought out in the presentation and deliberations:
 - a. Rental Housing is informal and not more than 28% in India as against global standard of 60 % to 70% in Tier-I Cities.
 - b. Salient features of the proposed scheme for Rental Housing (RH):- No Land acquisition required; generation of RH stock on Private land; Government need not incur capital cost, plot owners will incur. Once rental stock is available in the market through private sector participation there will be spin-off effect like additional housing stock and automatic stabilization of pricing, reduction of Slums and improvement of overall quality of life in urban areas. The developer will provide physical and social infrastructure, achieve inclusive growth and increase labour mobility.
 - c. Essential conditions are that Model Rent Control Act should come into effect immediately and landlord tenant relationship should be well defined.
 - d. FSI Incentives for Rental Housing was proposed under the scheme for Tire I, II & III to promote Rental Housing. It was also proposed that incentive shall be given over and above the basic FSI to generate Rental Housing stock. The RH stock generation should be maintained by the Developer/ Housing Association (HA) as done abroad.
 - e. Other incentives proposed were : Tenant Incentive viz. Notional Stamp duty of Rs. 100 for rental agreement, property tax concession by ULBs up to 50%.
 - f. Incentive for Developer viz. soft construction loan, subsidy on construction materials, RH to be considered as infrastructure project
 - g. Incentive for Housing Association (HA)- Rental income tax free, power of eviction of defaulter to be given to HA/managers of property.

- h. Presentation also included the proposed Rental Housing Model for Tier I City-Case Study Mumbai wherein the State has carried out demand and gap analysis of housing in the Mumbai Metropolitan Region (MMR).
 - i. Rental Housing Scheme – Objective to make available a self-contained dwelling unit of 160 sq.ft. (14.86 sqmt) carpet area on lease and license basis in the MMR within the financial reach of Economically Weaker Section (EWS) and Low Income Group (LIG) i.e at an affordable rent of Rs. 800 to 1500 per month and thus achieve inclusive growth in the region.
 - ii. Eligibility Criteria- should have employment, self employment or business within MMR and minimum family income of the allottee should be Rs. 5000/- per month. The allottee and his family member should not own any house in MMR. The allottee should be continuously residing in the State of Maharashtra for at least 15 years before the date of application for rental housing. *(as per modification in respect of rental housing DCR for MMR dated 04/06/09)*
 - iii. The allotment should be made in the joint name of spouse if married.
 - iv. Three models of rental housing were also presented.

Shri Despande elaborated on the models as:

- i. The model rental housing projects as projected in the presentation for different tier cities would be developed in private land with no incentives on capital cost from Govt. The only incentive shown in the presentation was in respect of FSI. Once greater rental housing stock was created; there would be no speculative price but stabilized pricing in the market. Today, meagre income from rental properties and lucrative capital appreciation with speculative options helped in organized locking-up of the rentable houses.
- j. It was not economically sensible for a developer to buy the land, develop the infrastructure, and construct housing in 5 years project completion time, with 2 years elapsed in getting permission from Ministry of Environment and Forest (MoEF) and other departments for rental purposes. Therefore greater incentives must be given for developers of such properties.
- k. The TFRH should recommend Institutional framework for rental housing management.
- l. A self-sustaining model for rental housing was exhibited in which Govt. incentives only through quick approval and additional FSI for various cities were suggested. Out of the total FSI, some percentage of rental housing stock under affordable housing segment (for example, 15000 sqm for rental and 25000 sqm for the developers to decide out of 40000 sqm built-up area with 4 FSI) would be created which would be managed by private companies under Section 25 with minimum tenor of 3 years. Such projects would be developed in the same plot or separate plots with well-thought out planning of co-existence of different set of people with different economic status. The created rental housing stock might be owned by the developer or a housing institution. Another model of brown-field development scheme and 4 (four) management models of such rental housing project were also presented. The same is enclosed as part of the presentation.

22. It was agreed that all the States should be recommended to have Ready-reckoner rate for rental as done by Small Industries Development Corporations (**SIDCO**) and the percentage of increase should be decided by individual States.
23. **Shri V. Satyanarayana**, CEO, Aarusha Homes Private Limited suggested that there should be only a notional stamp duty on rental agreements.
24. **The Chairman** proposed that recommendation on property tax should not be main but additional suggestion since practicality should be seen while making the recommendations. He proposed that extra suggestions might be put in Appendix while the main report should not have more than 25-30 pages with some additional pages for annexure.
25. **The Chairman** requested **Prof. Ramesh** to see if Housing Association or Companies under Section 25 could be given eviction power (Bail out power) after having proper safeguards and redressal mechanism.
26. **Shri Baligar**, HUDCO suggested that electrical/water tariff on rental housing should be calculated as residential not commercial, as an incentive wherever commercial rates are being charged, which was agreed to by all the members.
27. **Smti Adusumilli**, MMRDA raised some issues experienced in operating a rental housing scheme in Mumbai by MMRDA in last two and half years in rural areas and municipalities and during review of the scheme by the State Govt. She said that about 54 schemes were already approved which would create 1 lakh rental tenements. She highlighted some issues like un-livability of 160 sq m carpet area and the planning concerns due to enormously high density of 1500 tenements per hectare caused by FSI of 4 as allowed in the scheme. Lastly, she mentioned that the Govt was worried about managing the rental housing stock and was thinking for having them managed by corporate or public sector renting.
28. **The JS, Housing** summed up by saying that it was a proven fact that FSI worked as the biggest incentive for development of Rental housing. But it should be selective in the location where infrastructure was available and where it was possible to sustain the density. **The Chairman** brought out the experience of Vora project in Mumbai with respect to restructuring and rejuvenation of an old community through consensus building process.
29. **Shri V. Satyanarayana**, CEO, Aarusha Homes Private Limited and President, Ranga Reddy District Hostel Association made his presentation. ***A copy of the presentation on Draft suggestions on Promotion of Rental Housing is attached in Annexure-IV (Sub group on Private Sector Involvement in Rental Housing).*** Task assigned to this sub group was to carry out an in-depth analysis of the Ranga Reddy District Hostel Association (RRDHA) to understand the feasibility of its reliability in other parts of the country and suggest ways to scale up the same particularly targeting the informal sector workers. The salient features of the presentation were:
 - a. 27.55% of urban population lived in rented homes and 21.7 million households (HHs) out of this 2.4 million HHs live in “no exclusive room” and 25.4 million live in “one room” dwellings.
 - b. Situation of Rental Housing in Million plus cities was explained as under:
 - i. 4 cities – more than 50% of population (viz. Bangalore at 60%) reside in rental accommodation
 - ii. 6 cities – more than 40% of population reside in RH.

- iii.
 - 7 million new rental housing required (GOI estimate) which is expected to increase with migration especially of the young population and increasing real estate costs making them unaffordable.
- c. Forms of Rental Housing:- Rooms, houses, hostels or paying guest accommodation, transit accommodation for Customers, students, single workers – migrants, families who can't afford or prefer own house, transit stage persons.
- d. Suppliers of Rental Housing:- Mostly Individual house owners, Government providing quarters to its employees (limited numbers), Hostel operators in informal sector (large numbers), Emerging Private rental housing companies.
- e. Case study of Hyderabad:- 15-20% of 3.5 lakh hostels beds are utilized by informal sector workers; 2-3% by self employed; negligible utilization by street vendors, domestic or construction workers.
- f. Rental cost:- Rs. 500 to Rs.2500 per month with or without food. Increasing cost of hostel rent is pushing workers out to live in shared rooms in gaothans (old and new) and slums which are less expensive.
- g. Construction workers mostly reside near the site of construction of self.
- h. International Experience was also shared from Europe and South Africa.

Some of the suggestions presented were:

1. Make Market work for all, formalizing market – large Informal sector
2. Peeling off costs that are within Govt. control
3. Income Tax exemptions (for 30 years for ownership housing)
 - Individual loans – interest on loans up to Rs 1,50,000 per year is exempt – facilitated ownership market
 - Section 35AD for developers which allows deduction of capital expenditure on slum redevelopment notified by Centre/State
 - Section 80 HHBA for World Bank projects
 - Industries such as IT/Health Care were in part created by income tax exemptions
 - Income Tax Exemptions for Rental Housing operators.
 - Less TDS on rental income (moves informal system from cash based to formal) – currently it is at 10% - forcing majority of landlords to opt out of tax net)
 - Service Tax Exemption (Supplying Low Cost Houses under AHP below 60 sq m are exempted)
 - Formal rental providers are classified as “commercial” (attracting service tax) need for change of definition to “residential”.
4. Financing- Funding Rental Housing in Central Programmes (social housing or direct subsidies to providers of low income housing)
5. Bank Lending (including HUDCO/NHB) to individuals and institutions
6. Credit guarantees for financing rental housing providers (individuals in slums/non slums and institutions)
7. Real Estate Mutual Funds (REMFs)
 - Allowing Foreign Direct Investment (FDI) in Rental Housing
 - Reduction of stamp duty on rental agreements
8. Remove VAT/sales tax on Hire Purchase or Rent to Own or Lease Models
9. Property Tax on Rental Housing Providers “commercial” – to be “residential”
water/electricity rates commercial – to be residential

10. Direct subsidies to poor (with Cash Transfer Scheme)
11. Employee Housing - including in SEZs (enforcing existing rules) etc.
30. **The Chairman** stated that the statistics of the presentation testified that generally poor people, who could not afford to own a house, only went for rental housing and the focus had always been on ownership.
31. **Shri Satyanarayana** stated that from international experiences in European countries, the supply side policy interventions are more and effective. He said that the country-wise documentation made by him had already been sent to the Google group for FRH. (Enclosed as **Annexure-V** for Rental Housing Policy in European Countries: Similarities and Dissimilarities).
32. **Smt. Uma Adusumilli** suggested that the subsidy should not be given to the house owner but to the tenant. She also mentioned that the affordability gap in rent should be directly paid to the housing association. **JS, Housing** suggested that all these points should be studied before recommending anything on this.
33. **Shri R. V. Verma, Chairman, NHB** suggested that income from rental housing projects might be exempted as an incentive., He clarified that any type of construction be it ownership or rental projects were allowed under ECB as per the recently notified ECB guideline.
34. **The Chairman** asked Shri Satyanarayana to prepare and send something on the PG accommodations/hostels as a case study which could be pushed in the present scenario where there was lot of mobility of the young generation. He stated that even the need of rental housing for senior employees who live without their family in studio apartments could be studied.
35. It was deliberated and appreciated that management of rental properties was the key issue and needed a thorough study including the issue of bailing out authority to be given to Housing Association/Companies and managing of these properties.
36. **As next step it was concluded by the Chairman** that he would get a consultant to work with Director, Housing to prepare the draft report and circulate to the members. The draft report would be completed by **last week of February, 2013**. Next meeting on **11/02/13(Monday)** would be the final meeting.

The meeting ended with a Vote of Thanks to the Chair and the members.

List of Attendees

	Name & Designation	Organisation
1	Shri Jaitirth Rao	Chairman, TFRH
2	Shri Susheel Kumar, Joint Secretary	Ministry of Housing & Urban Poverty Alleviation, Govt. of India (MoHUPA)
3	Shri V. P. Baligar, CMD	HUDCO
4	Shri R. V. Verma, CMD	NHB
5	Smti S. R. Rajashekar, Director, Housing, (H) and Member Convenor, TFRH	MoHUPA
6	Smti Kalpana Awasthi,	NCR, Ghaziabad

	Commissioner	
7	Shri K. Phanindra Reddy, Secretary	Hg & UD, Govt of Tamil Nadu
8	Smti Uma Adusumilli, Chief	Rental Housing Division, MMRDA, Mumbai
9	Shri S. C. Deshpande, Joint Director	Town Planning, MMRDA
10	Shri S. S. Meena, Under Secretary (H)	Ministry of Housing & Urban Poverty Alleviation, Govt. of India
11	Dr. P. S. N. Rao, Professor	School of Planning & Architecture
12	Dr M. K. Ramesh, Professor	National Law School of India
13	Shri T. Karthikeyan	Institute of Chartered Accountant of India
14	Brig. (Retd.) R.R. Singh, DG	National Real Estate Development Council (NAREDCO)
15	Shri Subhashish Ghoshal, General Manager	Confederation of Real Estate Developers Associations of India (CREDAI)
16	Shri R. C. Sahu, Research Officer	CREDAI
17	Shri V. Satyanarayana	CEO, Aarusha Homes Private Limited President, Ranga Reddy District Hostel Association
18	Ms. Tora Saikia,	Urban Planner, SNPUPR
19	Shri Sarat Barkakati,	Civil Engineer, SNPUPR

9.6 ANNEXURE 6: MINUTES OF THE 3RD MEETING OF THE TFRH HELD ON 11TH FEBRUARY 2013

Venue: Conference Room No: 120, 1st Floor, NBO Building, G-Wing, Nirman Bhawan, New Delhi

Date and Time: 11th February, 2013, 11:00 hrs

1. **Shri Jaitirth Rao, Chairman of the Task Force on Rental Housing (TFRH)** started the meeting by extending a welcome to all the members of the task force and reviewed recommendations of the 2nd meeting held during the month of January 2013. He suggested that since the time frame given to the TFRH had already expired, end of April should be fixed as target for submitting the final TFRH report. He appreciated the suggestion of **Smt. S. R. Rajashekar, Director, Housing** that an Interim report instead of Final report would be submitted first and that would be put up in the Ministries web site for inviting public views. He agreed that a National Conference on Rental Housing could be organised to have consultation with stakeholders and finally based on those consultations, public views on the Interim Report and deliberation on them, a final TFRH report would be prepared.
2. **The Chairman** introduced Shri Ramesh Krishnamurthy, Consultant as a Special invitee for the 3rd TFRH and informed that Shri Krishnamurthy had been entrusted to the task of writing TFRH Report as already discussed with JS (H). The Chairman termed rental housing as more inclusive and overarching than ownership housing since a very small percentage of the total population could afford to make down payment and qualify for loans from HFIs but could afford to pay monthly rents. He said that even to facilitate social mobility of an aspiring young population in India, rental housing should be encouraged. He stressed on the need of understanding the present eco-system and recommending ways to encourage RH as a vibrant sector of growth. He mentioned that two important facts of rental housing should be acknowledged- first, a vibrant rental market already exists in the grey market wherein collection of service tax is negligible and second, it is difficult to evict tenants.
3. The Chairman opined that TFRH should not interfere where it was already working on its own which provided rental housing to some limited people. On the issue of vacant houses as discussed in the last meeting, Director (H) informed about the proposed study under the Support National Programmed for Urban Poverty Reduction (SNPUPR) project under DFID. The Chairman opined that since the time frame of the proposed study was beyond duration of TFRH, the methodology of the proposed study could be enclosed as an Annexure in the interim report which could be further updated in the final report.
4. **Shri R.R. Singh, NAREDCO** stated that the State Rent Control Act (RCA) in its present form was a disincentive for rental housing and need immediate reform. **The Chairman** stated that unless the judicial process in the civil court was streamlined and fast tracked, even reform could not make much impact. He remarked that providing bailing out power to the Rental Housing Management Company supported by insurance companies as discussed in the 2nd meeting is a must. He opined that involving credible companies might be a viable solution to address the issues and challenges of managing rental properties in a professional manner.
5. **The Chairman** reiterated the suggestion given by JS (H) during the 2nd meeting of TFRH of treating rental residential and rental commercial properties separately to avoid resistance from powerful lobbies acting against bringing reforms in the Rental Act. He

mentioned that it would make it possible to bring down the rate of electricity, water, property tax and service tax charges for rental residential properties and consequently would make RH attractive and would increase its supply. He also recommended for separate legislations for residential and commercial properties to minimise the disincentives of rental housing.

6. **Prof. P.S.N.Rao, SPA, Delhi** informed about the study done by Shri Vinod Tiwary wherein it was stated that a large number of people were not aware about the provisions in the RC Legislation and that's why evicting the tenants was a challenging task.
7. Based on discussions in the last meetings of TFRH, **Director (H)**, MoHUPA made a summary of the issues for deliberation as below. **The Chairman** appreciated the same and requested members to discuss point by point on them:
 - a. For the EWS/LIG
 - i. Higher FSI
 - ii. Development of State Rental Housing Policies.
 - iii. Rental law reforms – preparation of ready reckoners for revision of rent.
 - iv. Industrial and Employee housing schemes.
 - v. Hire purchase schemes or rent to own schemes.
 - vi. PPP modules.
 - vii. Encourage growth of hostels.
 - viii. Philanthropic models.
 - ix. Earmarking of land for rental housing.
 - x. Imposing of vacant land/building tax.
 - xi. Normal water and electricity tariff on rental houses.
 - xii. Greater funding under Central/ States schemes.
 - xiii. Direct cash subsidy (affordability gap funding) to the BPL/EWS families.
 - xiv. Tax incentives and other subsidies for the builders/ managers.
 - b. For the MIG/HIG
 - i. Notional stamp duty on rental agreements.
 - ii. Rental law reforms.
 - iii. Higher FSI.
 - iv. Hire purchase schemes or rent to own schemes.
 - v. Greater tax incentives
 - vi. Encourage corporate management of rental housing estates.
 - vii. Rental reforms – study the reasons for vacancy in the buildings.
 - viii. Encouraging REIT / REMF.
 - ix. Greater financing by the banks/FIs to rental housing providers – at concessional rates of interest.
 - x. Taxation benefits for the builders/ managers/ tenants / landlords.
 - xi. Encourage FDI and investment of Pension and Insurance funds.
 - xii. Institutional framework for rental housing stock management.
8. **Shri K.Phanindra Reddy, Secretary, Housing and Urban Development (H&UD), Govt, of Tamil Nadu** stated that giving higher Floor Space Index (FSI) was not a viable option since Indian cities did not have adequate infrastructure facilities such as sewerage, drainage, water supply to accommodate extra FSI. He also pointed out that since it was an overall housing issue, separate provision of FSI for rental housing should not be required.

9. **The Chairman** concluded that since it's a broader policy issue not within the ambit of this task force and since it was not possible to separate FSIs for ownership and rental housing, a paragraph on Floor Space Index (FSI) without any recommendation in the report would suffice.
10. **Shri K. Phanindra Reddy**, Secretary Housing & UD, Govt. of Tamil Nadu suggested to distinguishing between property tax from ownership housing and rental housing can make a difference as a policy suggestion.
11. **The Chairman** suggested that all the residential properties having less than 60 sq. mts. (as per the suggestions given in the Affordable Housing Task Force) should be exempted from the Income Tax (IT) which has already been accepted by Ministry of Finance (MoF). He also recommended that this task force should find out ways to reduce property taxes on rental housing. He also opined that the moment some property is rented the property tax, electricity bill etc goes up which is a big disincentive for rental housing hence this task force could strongly recommend addressing the same. On the other hand wealth tax imposed to the properties kept empty which is already applicable.
12. Develop State Rental Housing Policies: Not applicable.
13. **Brig. (Retd.) R.R. Singh**, DG, NAREDCO stated that keeping residential houses empty is a negative connotation and hence suggested to impose tax or penalties on keeping vacant houses as part of recommendation of the task force.
14. **The Chairman** opined that States who are not willing to bring reform to the Rent Control Act should have a Ready-reckoner (inflation indexing of the rental properties) rate for rental properties which could be used by the Urban Local Bodies (ULBs).
15. **The Chairman** suggested adding a page on **industrial and employee housing scheme**. He also shared that he had a discussion with the Chairman, Maruti on the industrial unrest by the temporary workers and expressed his view that one of the reason of grievances could be that they had to reside on substandard rental and temporary housing. He stated that since Govt. had fund constraint to finance the construction of houses for all the sections, it should involve both public and private companies and should incentivise them. He said that Govt. should focus on models like Delhi-Mumbai corridor in a big way, wherein Life Insurance Companies (LICs) and other financing organisations should participate and organisation's like CREDAI or corporate groups or private sector should participate in building houses. The Chairman suggested that one page on the TFRH Reports should be on this subject mentioning various ways of incentivise.
16. **Brig. (Retd.) R.R. Singh**, DG, NAREDCO suggested that rental housing for employees and EWS households in the neighbourhood of the industrial areas should be a part of the Corporate Social Responsibility (CSR) Guidelines. **The Chairman** appreciated the idea and suggested that Ministry should find out who was responsible for drafting CSR Guidelines and a letter should be immediately sent to them with the suggestion. He further said that it's an appropriate time to introduce this suggestion since drafting of CSR is ongoing.
17. **Shri K. Phanindra Reddy**, Secretary, Tamil Nadu suggested that State Housing Boards (SHB) should be encouraged to take up rental housing instead of taking up individual houses with the support of private sector. He also suggested that PSUs and CPSUs should be investors to promote employees rental housing. However it's difficult to find out private land to implement the same.

18. **Mrs. Alka Selot Asthana**, Director (RAY) stated that all the Special Economic Zones (SEZs) which had come up in the sub urban areas were also facing the same challenges though there were rules to provide housing for the employees. She also informed that under Labour policies and CSR Policies there already were provisions of providing housing, however it did not get materialized due to implementation concerns. She suggested to have practical recommendations in TFRH report on how to implement those policies.
19. **Smt. Uma Adusumilli**, Chief, Rental Housing Division, MMRDA, Govt. of Maharashtra informed that presently Govt. of Maharashtra focused on incentivizing the public sector instead of going for general public.
20. **The Chairman** reiterated that task force should very strongly recommend on the same and one page should be dedicated to describe on how to involve the State Housing Boards (SHB) and the advantage thereof.
21. **The Chairman** raised concern about ways to involve SHBs and incentivize in creating rental housing stock. He also added that there are lots of educational institutions coming up on Delhi-Jaipur, Delhi-Mumbai corridors without having any housing facilities and that the TFRH report should recommend practical suggestions to address the same.
22. Regarding the suggestion on **Stamp duty** on Rental Housing, the Chairman suggested to add a few details on the same and that Shri Ramesh, Consultant should find out the details. He further suggested that the sub group working on **Fiscal aspects under the Chairpersonship of Shri Jaideep N. Saha, President ICAI** should make specific recommendations on rent to own schemes and should find out the performance of the foreign countries in this sector.
23. **On Public Private Partnership (PPP) model in rental housing, the Chairman** suggested incorporating Maharashtra model and requested **Smt. Uma**, Chief, Rental Housing Division, MMRDA to give a brief on the PPP model on rental housing being implemented in the State.
24. **The Chairman** also directed **Shri V. Satyanarayan, CEO, Ranga Reddy Dist. Hostel Association (RRDHA)** to give 3-4 page notes on the experience of running a Hostel Association. Further he added that since there were many individuals with frequent mobility in the country for a better opportunity and growth, hostels for employees was a need in the country. He gave the example of hostels in Korea for the industrial employees who were provided accommodation adjacent to their work place which resulted in increased productivity of the staff. **Shri Satyanarayan** opined that increase in Service Tax on Hostel Association and Hotels were same which led to increase in the cost of accommodation. He stressed on the need of addressing the issue by the task force. He also suggested that there should be separate Acts for Hotels and Hostels. **The Chairman** wanted the task force to suggest abolishing the cost of electricity, water, property tax, service tax on hostels and rental housing to boost the housing supply in the country. He also added that the report of the task force should add brief on the consequences of all such taxes on rental housing.
25. Regarding the **Philanthropic models**, the Chairman quoted the case studies from Britain and French where the philanthropic Act exists. He also suggested that big corporate like TATA, Birla, Godrej etc should be encouraged to take up philanthropic activities like building and maintaining daily shelters, charging a nominal fee as rent.

26. **The Director (H)** informed about the Scheme for Urban Homeless (SUH) drafted under the National Urban Livelihood Mission (NULM) and suggested that the task force can encourage the same and extend its support to make it successful.
27. **The Chairman** suggested to drop the idea regarding **earmarking of land for rental housing** since it's a part of larger Urban Planning issue and not within the ambit of this task force. He also stated that it's not a practical solution.
28. The representative from Tamil Nadu suggested that as part of **general recommendations** the PSU/CPSU employees may be encouraged to create employee rental housing.
29. **The Chairman** recommended adding in the introduction of the report about the present approach of encouraging and funding the ownership housing more than rental housing. He mentioned that IT deduction and ST deduction was available for ownership housing whereas it was disincentive in case of rental housing. He suggested that **imposing vacant land and building tax** should be applicable for ownership housing not for rental housing.
30. On recommendation of **direct cash subsidy** (affordability gap funding) to the BPL/EWS families, it was decided that it should be **dropped**.
31. **On the tax incentives and other subsidies to the managers** it was decided that 4- 5 pages would be dedicated in the report. 3-4 companies like LIC, Bajaj Alliance etc. should be introduced as managers of 10,000 flats, who would be responsible to collect fees, maintain & take care of the rental properties and repossession of the property which was difficult for an individual. **The Chairman** suggested that under the Act, some powers could be given to the management companies. He further said that rental receivables for next 10 years should be introduced to securitize the venture to raise more money for promoting rental housing.
32. **Shri P. S. N. Rao**, Professor, SPA stated that RCA is a State subject and it's pro-tenant and owners were apprehensive about evicting tenants under the existing provision of the RCA. **The Chairman** requested Prof. Rao to give some general inputs on the subject and to share the draft with the representative of Tamil Nadu prior to finalization. He suggested amending the existing legislation and to build a chapter where companies could manage the rental properties. It was also suggested to carry out some research on Consumer Affairs Act and the provision of the same.
33. **Suggestions in Rental Housing for the MIG/HIG section were as follows:**
 - a. **Notional Stamp Duty** on residential rental housing agreements should be recommended @Rs.100 Stamp paper.
 - b. **Encouraging REIT/REMF-** Shri Ramesh, Consultant would make a brief on the same. **Director (H)** informed about the availability of a FICCI papers on the same which she could share with Shri Ramesh. **The Chairman** also requested Director (H) to coordinate with Reserve Bank of India on the same.
 - c. **On Greater financing by Banks/Financial Institutions to rental housing providers**, the Chairman suggested that it should be **dropped**.
 - d. **On Taxation benefits for the builders/managers/tenants/landlords-** **The Director (H)** informed that MoHUPA had already proposed to consider Affordable Housing as part of infrastructure and is under consideration of Ministry of Finance (MoF). She said that there was no need to segregate rental housing from the proposed status of infrastructure projects. **The Chairman** also

suggested studying the HRA provisions to see the tax benefits for ownership housing and rental housing.

- e. **On Encouraging FDI and investment of Pension and Insurance funds-** The Chairman requested Shri Ramesh to get into details of the same and formulate recommendations wherein Shri V. Satyanarayan and Director (H) would also provide their inputs. **The Director (H)** informed that MoHUPA was already working on the FDI in housing sector which would be shared with Shri Ramesh and Shri Satyanarayana for finalizing.

34. As next step it was concluded by the Chairman that the **next meeting of the task force would be organized during 1st week of March 2013** prior to the interim report and the interim report would be finalized by the end of **March 2013**.

He said that as suggested by Director (H), views from public would be invited on the draft recommendations of the interim report through MoHUPA's website. It was also decided to **organise a National Consultation on Rental Housing during April 2013**.

Regarding city specific recommendations and classifying recommendations further discussions need to be held. **The Director (H)** informed that a separate committee had already been set up to suggest specific reforms to the Model Rent Control laws and hence it might not be required to have another committee under TFRH to study the same. **The Chairman** agreed to the suggestion and also suggested that a note on proposed study on the vacant houses being undertaken by MoHUPA should to be incorporated as part of Annexure to the report.

The meeting ended with a Vote of Thanks to the Chair and the members.

List of Attendees

Name & Designation	Organisation
1. Shri Jaitirth Rao	Chairman, Task Force on Rental Housing (TFRH)
2. Shri M.L.Meena	Joint Secretary, Revenue, Ministry of Finance (MoF)
3. Mrs. K. Phanindra Reddy	Housing & UD, Govt. of Tamil Nadu
4. Mrs. Alka Selot Asthana	Director, Rajiv Awas Yojana (RAY), Ministry of Housing and Urban Poverty Alleviation, Govt. of India (GoI)
5. Smti Uma Adusumilli, Chief	Rental Housing Division, MMRDA, Govt. of Maharashtra
6. Brig. (Retd.) R.R. Singh, DG	National Real Estate Development Council (NAREDCO)
7. Dr. P. S. N. Rao, Professor	Professor, School of Planning & Architecture
8. Shri S. S. Meena, Under Secretary (H)	Ministry of Housing & Urban Poverty Alleviation, Govt of India
9. Shri Subhashish Ghoshal, General Manager	Confederation of Real Estate Developers Associations of India (CREDAI)

10. Shri R. C. Sahu, Research Officer	CREDAI
11. Shri K. Bhoopal Reddy	Person in charge, NIUM, Govt, of Andhra Pradesh
12. Shri V. Satyanarayan	CEO, Aarusha Homes Private Limited President, Ranga Reddy District Hostel Association
13. Mrs. S.R.Rajashekar	Member Convener of the TFRH, Director (H), Ministry of Housing & Urban Poverty Alleviation, Govt. of India (MoHUPA)
14. Shri S.S. Meena	Under Secretary, Housing, MoHUPA
15. Shri Ramesh Krishnamurthy	
16. Ms. Tora Saikia,	Urban Planner, SNPUPR
17. Shri Sarat Barkakati	Civil Engineer, SNPUPR

9.7 ANNEXURE 7: MINUTES OF THE 4TH MEETING OF THE TFRH HELD ON 18TH MARCH 2013

Venue: Conference Room, No. 120, 1st Floor, NBO Building, G-Wing, Nirman Bhawan, New Delhi.

Date and Time: 18th March, 2013, 11:00 hrs

1. **Shri Jaitirth Rao, Chairman of the Task Force on Rental Housing (TFRH)** welcomed all the members of the task force. He requested **Smt. S.R. Rajashekar, Director (H)** to chapter wise deliberate on the draft report of the Task Force. He opined that further formal discussion with the Task Force members may not be required & requested the members to send inputs through email to facilitate finalisation of recommendations. He also suggested uploading the draft report in the websites of Ministry of Housing and Urban Poverty Alleviation (MoHUPA) and National Information Centre (NIC) to invite public comments.
2. **Director (H)** appreciated the structure of the draft report and suggested to call it Interim report instead of final report since it was to be approved by Secretary (HUPA) and Hon'ble Minister (HUPA) and later on the report might be uploaded in the Ministry's web site for public comments.
3. **Chairman, TFRH** agreed to the suggestion on organising a National Conference on Rental Housing for wider public consultation with the respective stakeholders & based on the same the Interim Report would be finalised.
4. **Shri Susheel Kumar, Addl. Secretary (H)** suggested to verify the definitions and data quoted in the draft report and also to specify the data source. He emphasised about the need for more clarity in the draft report. He also suggested detailing out one or two models on rental housing such as rent to own scheme viz. HUDCO model as informed by CMD, HUDCO. He also reiterated that prior to inviting public comments on the Task Force report the concurrence of HM (HUPA) and Secretary (HUPA) was a must. Further he sought clarification about the coverage of the report as envisaged in the Terms of Reference (ToR) of the task force.
5. **Director (H)** stated that once the recommendations were finalised she would personally devote time to finalise the Draft Interim Report on Rental Housing. She informed that all the points envisaged in the ToR had been covered.
6. **Chairman, TFRH** suggested that existing informal markets and grey markets has to be mentioned in the initial segment of the report.
7. **AS (H)** opined that both the demand & supply side perspectives had to be taken care of while formulating recommendations of the task force. Further he shared observation in the report and sought clarification on the statement that mostly single persons were migrates in the informal sector. He also suggested referring to the people who migrate with their families.
8. **Shri Ramesh, consultant** clarified that both the supply and demand side issues were covered in the later part of the report & if required it could be brought in the first part. Further he informed that the numbers quoted in the report regarding migration were

from Census of India and he would again verify the same and make separate reference about the construction workers.

9. **Chairman, TFRH** stated that in the construction sector theoretically it is the responsibility of the contractors to provide housing to the labour force engaged by them and it is supported by laws, however proper implementation of the same was not witnessed.
10. **Smt. Alka Selot Asthana, Dir (RAY)** informed and stated that recently Ministry of HUPA has commented on the Cabinet note on IT Park proposed at Bangalore to incorporate rental housing as an integral part.
11. **AS (H)** also informed about the new technology for developed by Tata Steel which is easier to shift & relocate and may be suggested in the task force report especially for the construction of transit accommodation for the construction workers.
12. **Shri V.P. Baligar, CMD, HUDCO** suggested to link the labour cess in developing housing projects. He also suggested making an assessment on amount of fund collected and unutilised under the “Labour Cess Component” and also find out who had the authorisation to utilise the same. He added that in the recommendations it must be clearly articulated on percentage of fund which should be allocated for rental housing & by various State/ Centre/Private/PSU etc. Both the suggestions were appreciated and were accepted by the task force members.
13. **Director (H)** briefed on the first chapter of the report “**Introduction to Rental Housing**” which broadly contains i.e. urban housing scenario, case for rental housing, demography, standard of living, productivity, education, sector wise growth statistics, rental housing as an important ingredient of urban housing and what stops rental housing etc. She also stated that all examples quoted in the report are **Mumbai centric** and suggested to diversify the focus of the same.
14. **AS (H)** informed that this Task Force on Rental Housing advocates the “Draft Model Residential Tenancy Act, 2011” which had already been circulated to States and was to be based on mutual agreement between the landlord and tenant. He sought suggestions from Prof. Ramesh, NLU on the “Draft Act, 2011” if there was any basis on which changes might be added and finalised. He also stated that if any change or modifications is to be incorporated in the Draft Act, 2011 it had to be recommended as part of this Task Force Report. Further he recommended adding Supreme Court Ruling on the subject as part of annexure of the Task Force Report. He opined that if further refined version of the Draft Model Residential Tenancy Act, 2011 is suggested to the States to adopt then they would definitely come forward. He added that Ministry was willing to consult with the States on non agreeable parts of the Model Act and would decide future course of action towards the same. He stated that even if the states agreed to adopt the Model Act partially some progress would be achieved.
15. **The Chairman** emphasised the need to treat residential housing (tenancy) as separate from commercial properties. He reiterated on the same and stated that the task force

should recommend to grade the residential rents especially for the rent i.e. Rs.3,000/month has to be exempted from Service Tax bracket or at least have lesser Service Tax slabs. He also stated that States might choose to grade residential properties partially at the initial stage so that some investments can flow into this segment.

16. **Smt.Uma Adusumilli, Chief, Planning Division, MMRDA, Mumbai** stated that the grade should be based on size of the city and city wise indexes should be proposed on the same.
17. **Prof. Ramesh, NLU** sought clarification whether the task force can recommend linkage of Rent Control Acts (RCAs) with JNNURM & RAY.
18. **Chairman** opined and stated that politically reforms envisaged under Rent Control Act (RCA) are very sensitive issues and task force had already deliberated on the same. He opined that reform in RCA is a State subject hence has to be decided by the appropriated authority.
19. **Director (RAY)** informed that Rent Control reform is an optional reform under the Rajiv Awas Yojana (RAY) and may be linked with incentives.
20. **Chairman** recommended referring the same in the task force report.
21. **AS (H)** sought clarification about tackling the issues related to the unorganised sector workers which had also been mentioned under RAY.
22. **Chairman, TFRH** opined that if the formal sectors like Life Insurance Corporations (LIC) and financial institutions come forward into the informal sector then automatically changes would follow & rather than obstructing the present eco-system allowing the informal sector as is would be ideal. He also informed that all the people migrated from North-East India to mega cities like Bangalore, Hyderabad and Pune for education or for job were part of the informal sector who used to make cash payment wherein no service tax was payable which made it affordable.
23. **Shri V. Satyanarayan, CEO, Ranga Reddy District Hostel Association** informed that in July 2012 the Paying Guests (PG) services was covered under Service Taxes bracket wherein the limit was decided as anything above Rs.10 lakh/annum revenue would have to pay the service tax.
24. **Shri Ramesh** informed that in the task force report it was recommended to reduce the transaction cost of the residential rental unit's viz. stamp duty, property tax, water tax and electricity charges etc. which would automatically bring the informal sector (rental housing) operators to formal sector. This would also positively influence in reducing the vacancy rate of buildings as well as integrate small investors in the formal sector.
25. **Chairman, TFRH** stated that since residential rental housing units were in the negative list of service tax and hence resulted in low yield. To overcome this he recommended incentivise the investors through exempting them from Service Tax who were willing to

invest in residential dwelling units either for ownership or for rental housing and are less than 60 sq meters of carpet area. He also recommended linking incentives through waiving of income tax with the recommended carpet area i.e. 60 sq mts. Further he suggested that this Task Force should prepare a detailed list of taxes levied by the Central and State governments.

26. **AS (H)** informed that the carpet area of 60 sq mts was already accepted by the Ministry of Finance (MoF). He also stated that improving the rental yield is must and hence it should be positively incentivised.
27. The members of the task force also suggested that some ceiling on the tax exemption limit should be mentioned clearly in the recommendations i.e. rent more than Rs.1.5 lakh/annum.
28. **AS (H)** opined that the proposed benefits recommended for affordable housing would definitely increase the supply of ownership housing. He added that to encourage rental housing the income from the rental properties lesser than 60 sq mts of carpet area should not be taxed.
29. **The representative from Uttar Pradesh** stated that looking at the present scenario of rental housing wherein the yield is meagre compared to investment hence task force should recommend exemption of rental housing from Income Tax at least up to Rs.2 lakh/annum.
30. **Shri V.P Baligar, CMD, HUDCO** raised concerns and stated that supply of affordable housing from individual builders would be limited since the size of one or two bedroom houses were larger than 60 sq mts. Hence to increase the supply of rental housing the builders should be given tax incentive up to an income limit of Rs.10 to Rs. 12 lakh/annum.
31. **Brig. R.R. Singh, DG, NAREDCO** stated that at present the IT deduction for housing is 30% and this should be increased to 50% for affordable housing. He also opined that instead of putting any figure on number of houses to be constructed. The standard deduction must be hired to 50% for taxation purposes.
32. **The Chairman, TFRH** reiterated that as part of recommendation of the Task Force 50% tax deduction should be given for the houses less than 60 sq mt of carpet area for both the ownership and rental.
33. **Dir (H)** raised concerns and stated that as affordable housing would be considered as part of infrastructure project would it be appropriate to demand special infrastructure status for rental housing. She also informed that all the affordable housing projects would be treated as part of infrastructure projects wherein as an incentive income tax exemption would be allowed to the developers for next 10 years.
34. **AS (H)** opined that gradually all the affordable housing projects would be categorised as infrastructure projects hence it's not necessary to demand for special infrastructure

status to rental housing. He also opined that 50% tax incentive should be continued even if the DTC is adopted.

35. **Chairman, TFRH** agreed to the proposal and recommended that to drop the proposal demanding special infrastructure status to rental housing.
36. **CMD, HUDCO** elaborated the concept of “Rent to Own” scheme and cited example of Maharashtra State where the Police Housing Corporation and their interventions regarding construction of houses for the constables. He also informed that they had proposed to utilise the deducted money from their HRA with an additional 10% deduction from the present salary of the beneficiary which would be considered as monthly EMI & during the time of retirement the beneficiary can become the owner of the house. He also informed that the State had also proposed to utilise the same model for the drivers and conductors of transport corporations. He emphasised the need to build houses for these segments since after retirement these segment of population is unable to afford decent housing, especially in mega cities. He added that recently on the same lines Karnataka Road Transport Corporation had submitted a proposal to HUDCO.
37. **Smt. Uma Adhusumuli, MMRDA** reiterated and stated that government departments & PSUs should be continuously engaged in the building housing for the employees/staffs.
38. **Prof. M.K. Ramesh, NLU** suggested that rather than making rental housing as a standalone process it should be linked with several other government sponsored schemes and policies such as JNNURM/RAY. He also suggested making mandatory obligation for the industrial associations to construct rental housing stocks especially for their labours. He added that housing should be treated as part of Corporate Social Responsibility (CSR) in general and rental housing in particular.
39. **Shri V.P Baligar, CMD, HUDCO** stated that JNNURM/RAY directly addresses the issue of Below Poverty Line (BPL) & other poor population whereas constables, conductors etc. were not from the BPL category, hence might not be appropriate to link the same. Further he stated that this committee does not have mandate to directly deal with the Rent Control Act and with its limited scope task force had to address the supply side issues related to rental housing.
40. **Chairman, TFRH** opined that the scope of this task force was limited and only implementable recommendations should be given. He informed that as the Draft Model Residential Tenancy Act, 2011 had been circulated to the States; task force might review and suggest modifications on the same as appropriate. He added that Ministry of HUPA might send a request to Ministry of Corporate Affairs to include houses less than 60 sq mt of carpet area as part of their list of CSR activities. He also added that the mandate of this task force was to suggest measures to increase the supply of rental housing and in this regard CSR have a limited role to play. He also stated that once Ministry of Corporate Affairs agrees to incorporate affordable housing as part of Companies Act, it would automatically become mandatory part of CSR & would facilitate increasing the supply of housing. Further he sought clarification from Dir (H) about the status of Shelters for Urban Homeless (SUH) Scheme.

41. **Dir (H)** informed that the SUH scheme was merged under the National Urban Livelihood Mission (NULM) and the presently the process of obtaining Expenditure Finance Committee (EFC) and cabinet clearance.

42. Following are the chapter wise recommendations/suggestions from the members of the TFRH:

- a. **Section 5.4.1 of the report:** The Task Force believes that it may be easier to carry out provisions of Model Rent Control if we can distinguish between Rental for Residential Housing and Rental for Commercial Activities. Towards this, the Ministry of Housing and Poverty Alleviation has proposed a Model Residential Tenancy Act, 2011 as part of the Rajiv Awas Yojana (RAY). This Act specifically targets the Residential Rentals and has suggested specific steps to improve Residential Housing specifically focused on the Urban Areas'.
 - **Suggested to amend the language of the recommendations which should be crisp and clear. TFRH emphatically recommended that each State should pass the “Draft Model Residential Tenancy Act, 2011” and also to notify/gazette the same at the earliest. In view of the urgent need of the Act the task force recommended the Ministry to put a timeframe i.e. by 2013 for taking approval from the Cabinet on the Draft Act.**
- b. Section 6.1 FAIR/STANDARD RENTAL PRICE LEVELS: “The Fair Price should be such that it is reasonably profitable to Landlord at the same time it is not predatory and unpredictable for the Tenant”.
 - **Fair rent was not part of the Draft Model Residential Tenancy Act, 2011 hence suggested to remove the same.**
- c. Section 6.3.4 Income Tax:
 - **Recommended to separate the Income Tax and Property Tax and requested the ICAI members to give their inputs in the same.**
- d. Section 6.3.5 Value Added Tax (VAT):
 - **Suggested to remove the same.**
- e. Section 6.3.6 Utility and Services Charges: “Residential Rental Housing falls in the category of Commercial activity. As a result of this, commercial rates for utilities and services such as electricity; water etc is applicable”.
 - **Recommended to clearly articulate the same.**
- f. Section 6.5 Enabling Agencies: Residential Rental Registry (RRR): “It could be in the form of Governmental Agencies or other authorised agencies that can ensure smooth registry of the Rental Agreements”
 - **Director (H) informed that RRR was part of the proposed Model Act, 2011 wherein it’s a State subject and Municipal Authorities had to designate an official who would be having the responsibility to look after & do the needful on the same.**

- **Chairman, TFRH opined that as both the RRR and Rental Tribunal (RT) are recommended in the Draft Model Act, 2011 hence task force recommended not to elaborate this aspect in the draft report of this task force.**
 - **The members of the task force were of the view that the “Housing Associations” was already in vogue: could be one of the recommendations of the task force.**
- g. Section 6.7 FINANCIAL AND IMPLEMENTATION ASSISTANCE: “The Rental Housing industry would need significant investments. Given the infrastructure like characteristics, both Private Public Partnership (PPP) and Foreign Direct Investment (FDI) can be used in order to further the interests of this sector”.
- **There are many options available through which investments/financing could be possible hence only focusing on Public Private Partnership (PPP) and Foreign Direct Investment (FDI) would not suffer.**
 - **Task Force also recommended to include Real Estate Investment Trusts (REIT)/Real Estate Mutual Fund (REMI), External Commercial Borrowings (ECB) and Urban Housing Fund in the report.**
 - **This Maharashtra model of slum rehabilitation was shared by the representative of the State and Chairman suggested that the TFRH had no view on the implementation models adopted by the state or any other models as might be appropriate. He stated that to encourage the innovations by various states task force recommended inclusion of MMRDA model of rental housing in the report. Further he stated that depending on the experience of Maharashtra and Rajasthan other states might adopt various models as appropriate. He also opined that the task force should not obstruct any good practices.**
- h. Chapter 7: SMALL LANDLORDS
- **Recommended to replace the word from “small landlords” to “landlords”.**
- i. Section 7.3.1- “The Task Force recognises the informal nature of the arrangement in case of rental housing unit Landlords but also feels that given the role played by them, it is very important that nothing in the policies should create any additional burden or policing of this segment in an attempt to get it to the mainstream. This could prove counterproductive. A better way is encouraging participation of this formal segment by offering incentives/conveniences”.
- **Chairman, TFRH recommended to examine whether these recommendation were aligned with the spirit of the Model Act, 2011 or not and if not then to modify the same accordingly.**
- j. Section 7.3.2 “Interventions such as a fairer Rent Control Act that addresses the dual issues of Rent Pricing and Eviction could automatically be beneficial to this segment and would actually increase the supply of houses into the market. It should be noted that the informal segment has the requisite checks and balances for eviction without a governmental intervention”.

- **Chapter wise inference should be mentioned and recommendations should be there at the conclusion & in the executive summary both.**
- k. Section 7.3.3 “This segment is not primarily looking at yields in relation to other financial instrument. The Rental income is an additional stream of income for the Landlords. Hence while one can look at a case for reducing Stamp Duty, it may not have a significant impact on this Segment”
 - **Suggested to remove the same.**
- l. Section 7.3.4 “However, other enabling levers that significantly reduce the procedural hassles would go in a big way in promoting Rentals in this segment. For example, a simple way of registering the house for Rentals one time and then all Leave and License Agreements being done on for example a Rs.100 Stamp papers or better still through online payments just as other statutory payments”
 - **Suggested to reduce the text of this section and clearly articulate the recommendations. Chairman opined that Rajasthan had already implemented the same hence it should be highlighted in the report.**
 - **Recommended to mention the limitation of registration charges of properties and for the first time it should be 1% and not exceeding Rs. 1,000/-.**
- m. Section 7.3.5 “Similarly for disputes resolution, setting up of a separate Tribunal as recommended in the Model Residential Tenancy Act, 2011 would significantly reduce the risk perception associated with Renting out houses. The Tribunal could be coupled with the Registration as in the case of the Maharashtra Rent Control that does not consider the right of the Landlord unless the Leave and License Agreement is registered”.
 - **Chairmen, TFRH suggested to invite comments from Insurance Regulation Development Authority (IRDA).**
- n. **Chapter 8 INSTITUTIONAL LANDLORDS:**
- o. Section 8.4.1 “The Task Force recognises the formal nature of the arrangement in case of Institutional Landlords and the requirement for the formal part to be strengthened to ensure participation of these landlords” &
- p. Section 8.4.2 “Interventions such as a fairer Rent Control Act that addresses the dual issues of Rent Pricing and Eviction through structural interventions such as Rent Tribunal and Rent Appellate Tribunal provide the necessary comfort for this segment of Landlords”.
 - **To be removed as reiteration with chapter 1.**
- q. Section 8.4.3 “This segment is highly sensitive to yields and hence it is important that various incentives and subsidies be offered to this segment to ensure attractive returns. This could be in the form of Tax credit on Interest, Subsidised land earmarked for Rental Housing etc”.

- **Suggested to specify recommendations and instead of word subsidies and land earmarked for rental housing should modify the role of government as facilitation which would ensure land availability through bulk allotment for the affordable rental housing segment.**
 - **In the introduction it should be clearly mentioned that anything below 60 sq mts of carpet area had to be considered as affordable housing whether for ownership or rental housing and there should not be any discrimination.**
 - **FDI issues were deliberated in the meeting and concluded that FDI being a larger policy matter, it was not clear whether it could be appropriate to suggest for a sub set like rental housing or not hence task force had no specific recommendation relating to this matter.**
- r. Section 8.4.4 “On the Tax aspect, Service Tax can be waived off for all Rental income less than Rs. 15000 per month. The Rental Housing project directly invested by the Institutional Landlord could be given infrastructure status thereby giving them Income tax relief. The Institutional Landlord could be given Tax Credits against the interest paid for loans in setting up this Project. Like in the previous case of Small Landlords, the Stamp Duty can be minimal say Rs. 100 per Agreement”
- s. Section 8.4.5 “On the Charges aspect, the Rental Housing business can be given Residential Status rather than Commercial Status thereby ensuring that the cost of the Electricity, Water etc are at lower rates”& Section 8.4.6 “However, other enabling levers that significantly reduce the procedural hassles would go in a big way in promoting Rentals in this segment. For example, a simple way of registering the house for Rentals one time at the RRR registry and then all Leave and License Agreements being done on for example a Rs.100 Stamp papers or better still through online payments just as other statutory payments”-
- **Both 8.4.4 & 8.4.5 were already discussed and agreed.**
- t. Section 8.4.7 “The Rental Management Company would play a key role in ensuring smooth participation of the Institutional Landlords by creating a intermediary that can handle the complexities of the business of renting large number of houses including collection, upkeep, eviction, etc”
- **Task Force recommended including bay-leaf power & tribunal in the Draft Model Residential Tenancy Act, 2011.**
- u. Section 8.4.8 “Similarly for disputes resolution, setting up of a separate Appellate Tribunal as recommended in the Model Residential Tenancy Act, 2011 would significant reduce the risk perception associated with Renting out houses. The Tribunal could be coupled with the Registration as in the case of the Maharashtra Rent Control that does not consider the right of the Landlord unless the Leave and License Agreement is registered. The Rental Management Companies could be given special benches for grievances given their complexity and the impact on the large volume”.
- **Already discussed and as part of the Model Act, 2011 to add clause that tribunal to be given bay leaf powers.**

- **The Task force suggested including more case studies on rental housing from abroad.**
- v. **Chapter 10 CAPTIVE HOUSING PROVIDERS**
- w. 2.1.1. Section 10.2 INFLUENCING LEVERS
- **CMD, HUDCO suggested to include Rent to Own Schemes and need for increase the extent of staff housing e.g. HUDCO staff quarters.**
 - **He also recommended that PSUs should increase the transit accommodations for its staff including long term lease accommodations.**
 - **Chairman opined that rent to own scheme should be specifically for non-mobile staff. He also stated that for other industries the same incentives should be given under CSR rules e.g. 15% of the IT deduction.**
- x. **Chapter 9 HOSTEL PROVIDERS**
- **Chairman, TFRH stated that in the recommendations at sl. no. 9.3.1 of the draft report to add that given the vast student and migrated population who are looking for short stays, it is essential to promote large Hostel Providers so as to ensure good living standards and also to release existing housing stock for families/households/individuals.**
 - **Task force stated that presently the hostels and PGs were treated as commercial units hence recommended to treat these as residential unit's especially with respect to water and electricity charges & other tariffs.**
 - **It also recommended minimising the trade license fees should be linked with the price of hostel accommodations.**
 - **Looking at the demographic composition of the country and large level of migrations, task force recommended to specify "Hostels/Dormitories" which requires positive incentive & not to treat them as 5 star hotels rather to treat them as residential units.**
- y. Section 9.3.2- For the larger Hostels (more than 200 beds) registration of the Hostels should be mandatory for the Hostel to avail the benefits as suggested above. There should be norms to ensure minimum standards with respect to Space, Food, Security and Sanitation
- **Recommended to removed the suggestion as it was not practical.**
- z. Section 9.3.3- "Registered Hostels that are specifically for Students and Migrants and offering services at below a particular per bed cost (say Rs. 3000 per month) and more than 200 beds in facility could be considered as Residential and thereby utility costs such as Electricity/Water could be charged at Residential levels. Similarly Property Tax could also be then calculated according to Residential rates"
- **Chairman opined that it's not necessary since by definition Hostels/Dormitories are considered as affordable.**
- aa. Section 9.3.4 "From a tax perspective, hostels specifically targeting low income segments with monthly rentals less than Rs. 3000 per bed and more than 200

beds in a facility could be exempted from Service Tax on the lodging and VAT on the food served within the Hostel”

- **Chairman, TFRH directed Shri V. Satyanarayan to suggest methodology to distinguish and define hostels from hotels. He also opined that currently the hostel charges in urban area were range from @Rs. 2,500-6,000 and to avoid misuse of this recommendation charges or fees had to be capped for maximum limit of the Hostels/Dormitories i.e. @ Rs. 10,000/month. Further he also recommended that this might be revisited and suitably amended as appropriate and should be linked with the price index. He directed Ramesh to clearly explain the logic behind this recommendation. He also informed about the Karnataka model on Trade Licensing and opined that it's one of the best practices in the country and recommended to refer the same in the task force report which the other states might follow if appropriate.**

bb. Section 9.3.5 FDI in Hostel segment could be allowed subject to a minimum size of at least 1000 beds in a single facility with a minimum investment of Rs. 5 mn.

- **Chairman, TFRH stated that since FDI is a broader policy issue which is not within the ambit of this task force hence recommended to remove the same.**

43. In the concluding remarks Chairman, TFRH stated that as decided in the previous meeting the Action Plan for implementation of the recommendations should be included in the final report especially the timeline for the Draft Model Residential Tenant Act, 2011 i.e. by Dec. 2013. He also proposed for a discussion with S (HUPA) & HM (HUPA) on the draft recommendations of the task force prior to inviting public comments. He reiterated that the most important recommendations of the task force were passing of the Model Residential tenancy Act, 2011, correction of the fiscal anomalies by Central & State Govt. such as Property Tax (PT), Income Taxes (IT), Service Tax, Stamp duty etc. to increase supply of affordable rental housing. The committee also recommended providing fiscal incentives from Central government regarding IT and service tax. Additionally for Hostels it was recommended as an institution it should be treated not at par with 4/5 star hostels. Chairman also suggested detailed working on REIT should be included as part of the annexure in the report.

44. Dir (H) informed that simultaneously Ministry was working with FICCI on REIT and as recommended would be included in the annexure.

45. Chairman, TFRH also recommended that States should be given non financial incentives for passing the Draft Act, 2011 through awards etc.

46. Director (H) suggested that the Draft should be divided into two parts e.g. Part 1 and part 2 and the deadline for submitting the report should be 30th April 2013.

47. Chairman, TFRH informed that next step would be the discussion with HM (HUPA) at the earliest.

The meeting ended with a Vote of Thanks to the Chair and the members.

List of participants

Name & Designation	Organization
1. Shri Jaitirth Rao	Chairman, Task Force on Rental Housing (TFRH)
2. Shri Susheel Kumar,	Additional Secretary (Housing), Ministry of Housing and Urban Poverty Alleviation, Govt. of India (GoI)
3. Shri V.P. Baligar	CMD, HUDCO
4. Shri Lalit Kumar	General Manager, National Housing Bank
5. Mrs. Alka Selot Asthana	Director, Rajiv Awas Yojana (RAY), Ministry of Housing and Urban Poverty Alleviation, Govt. of India (GoI)
6. Shri S.C. Mishra	Director, Housing Department, Govt, of UP
7. Mrs. P. Joseph Rajaratnam	Chief Engineer Tamil Nadu Housing Board
8. Smti Uma Adusumilli, Chief	Rental Housing Division, MMRDA, Govt. of Maharashtra
9. Brig. (Retd.) R.R. Singh, DG	National Real Estate Development Council (NAREDCO)
10. Dr. P. S. N. Rao, Professor	Professor, School of Planning & Architecture
11. Dr. M.K. Ramesh	Professor, National Law University, Bangalore
12. Shri Subhashish Ghoshal, General Manager	Confederation of Real Estate Developers Associations of India (CREDAI)
13. Shri R. C. Sahu, Research Officer	CREDAI
14. Shri V. Satyanarayan	CEO, Aarusha Homes Private Limited President, Ranga Reddy District Hostel Association
15. Shri G.L. Gokarna Sastry	SE, MEPMA, Hyderabad
16. Shri Vishu Venugopalan	CMD Smith, ADB TA
17. Ms. Ruchi Khurana	CMD Smith, ADB TA
18. Mrs. S.R.Rajashekar	Member Convener of the TFRH, Director (H), Ministry of Housing & Urban Poverty Alleviation, Govt. of India (MoHUPA)
19. Shri S.S. Meena	Under Secretary, Housing, MoHUPA
20. Ms. Tora Saikia,	Urban Planner, SNPUPR
21. Shri Nagendra Goel	Legal Counsel, SNPUPR
22. Shri Ramesh Krishnamurthy	