

Policy Lab 1:

Policy & Legal Framework for Enabling Rental Housing

Overview of Rental Housing market in India : scale, nature, failures and new initiatives

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- **Further Policy Action required to realize India's RH Goals**

Evolution and Approaches to Housing in India

1st to 3rd Five year Plan(1947-1965)

Overall Economic Approach

Planned Industrial Development
Command and Control Economy

Urbanization(1961):

7.9 Million (17.9%)

Approach to Housing

Consumption Good
Price Sensitive

Focus of Housing Policy

Government providing housing stock
Employer provided housing

Expenditure on Housing:

Public Expenditure: **9750 M**
Private Expenditure: **30250 M**
Share of Housing in total plan outlay: **1.6%**

Housing Institutions: National Building Organisation (1954)

State Housing Boards: Tamil Nadu(1961), Karnataka(1962), Andhra Pradesh(1960), Uttar Pradesh(1965), Gujarat(1961), Karnataka(1962)

3rd plan to 7th Five year Plan (1965-1990)

Overall Economic Approach

Pro poor welfare policies
Statist Economy

Urbanization(1991):

39.9 Million (25.7%)

Approach to Housing

Consumption Good
Price Sensitive

Focus of Housing Policy

Upgradation of slums and self-help housing

Expenditure on Housing:

Public Expenditure: **58220 M**
Private Expenditure: **528150 M**
Share of Housing in total plan outlay: **1.2%**

Housing Institutions: HUDCO (1970), HDFC (1977)

State Housing Boards: Maharashtra(1977), Kerala(1971),Haryana(1971), Rajasthan(1970), Odisha(1968),Bihar(1972),West Bengal(1973)

8th Plan Onwards (1991-2019)

Overall Economic Approach

Economic Liberalisation
Increased role of private sector

Urbanization(2011):

78.8 Million (31.8%)

Approach to Housing

Capital Good
Credit Centric

Focus of Housing Policy

Increased role of private sector, Households and cooperative society. Government act as regulator.
Reform in tenancy law

Expenditure on Housing:

Public Expenditure:
Private Expenditure:
Share of Housing in total plan outlay:

Housing Institutions: National Housing Bank (1988)

Evolution and Approaches to Rental Housing in India

1st to 3rd Five year Plan(1947-1965)

Overall Economic Approach

Planned Industrial Development
Command and Control Economy

Urbanization(1961):

14.8 Million (17.9%)

Major initiative in Rental housing

Rent control Act
Provision of subsidised rental housing for
government and industrial workers

Major Rental schemes and policies

LIC loan to States for rental housing for
employees
Subsidised loans for industrial housing at
subsidised rate

Rental Housing (1961):

7.9 Million (53 %)

Vacant Housing (1961):

3rd plan to 7th Five year Plan (1965-1990)

Overall Economic Approach

Pro poor welfare policies
Statist Economy

Urbanization(1991):

39.9 Million (17.9%)

Major initiative in Rental housing

Rent control Act
Provision of subsidised rental housing for
industrial workers and EWS

Major Rental schemes and policies

Enactment of ULCRA (1976)

Rental Housing (1991):

13.6 Million (34 %)

Vacant Houses (1991):

4.4 Million (8.5%)

8th Plan Onwards (1991-2019)

Overall Economic Approach

Economic Liberalisation
Increased role of private sector

Urbanization(2011):

78.8 Million (31.8%)

Major initiative in Rental housing

Repeal/Modify Rent Control Act

Major Rental schemes and policies

Modification of Rent control legislation
Repeal of ULCRA
RAY and JNUNRM

Rental Housing (2011):

21. Million (28 %)

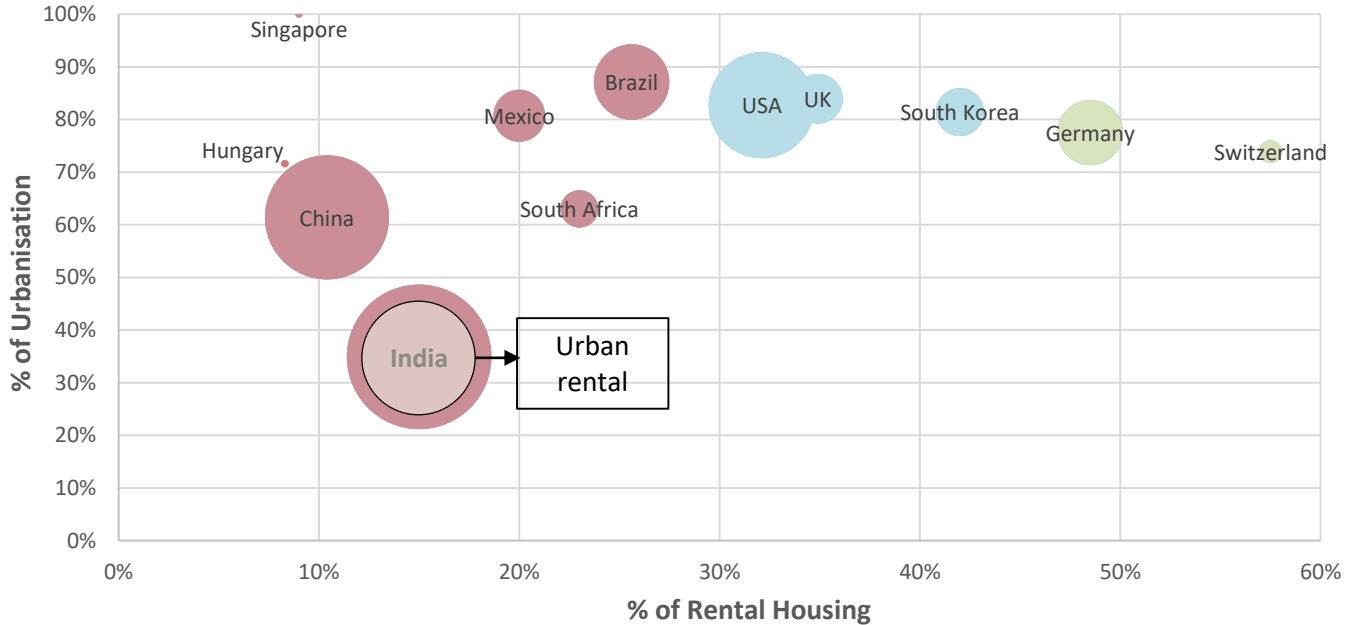
Vacant Houses (2011):

11.1 Million (10.5%)

State of Urban Rental Housing in India

- 1 Scale
- 2 Scale & Characteristics
- 3 Scale & Geographies
- 4 Geographies & Characteristics

Global comparison of the urbanisation level, share of rental housing and the size of the rental market



- **India:** largest underserved market as it has the largest size of rental housing market (196.8 Mil; Urban: 160 Mil) but a relatively smaller proportion of rental housing (15%)
- **Germany and Switzerland:** Most evolved rental housing markets

State of Urban Rental Housing in India

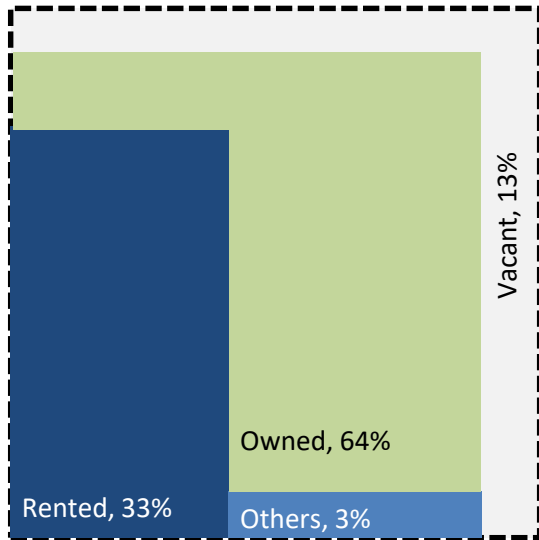
1 Scale

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4 Geographies & Characteristics

- Rental households comprise a significant proportion of the residents among all the housing units
- Indicative representation of the tenurial status of the total dwelling units in India (Census 2011 and NSSO 199)



- Higher prevalence of RH among higher consumption categories
- Ambiguity of tenurial status reduces among higher consumption categories



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State of Urban Rental Housing in India

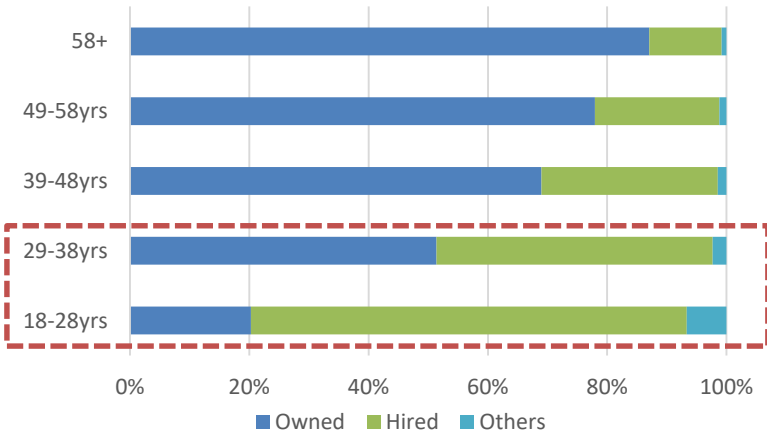
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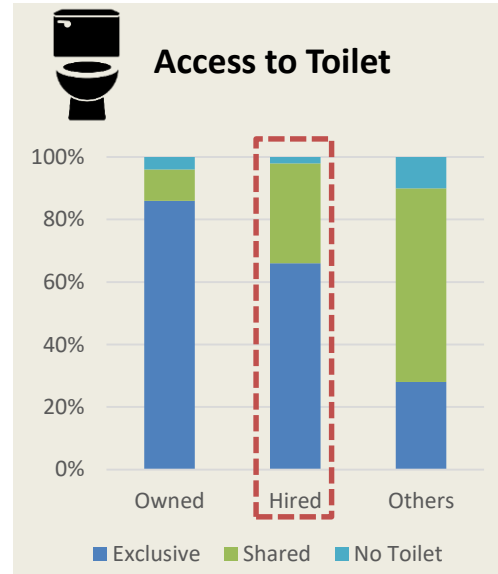
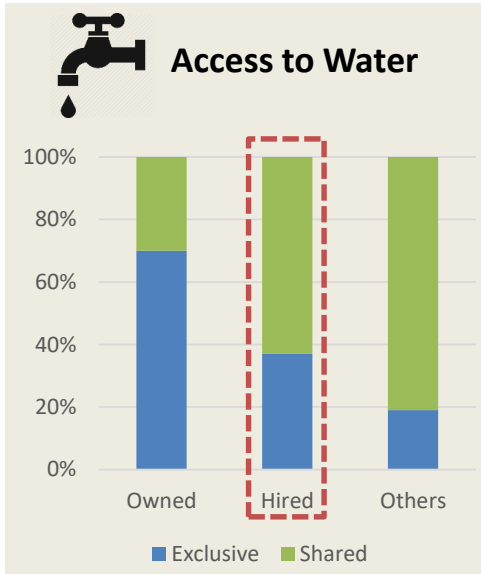
- Young workers constitute more than half of the total rental HHs



57%

Those under 38 years residing in rental housing

- Higher reliance on shared services among rented households



State of Urban Rental Housing in India

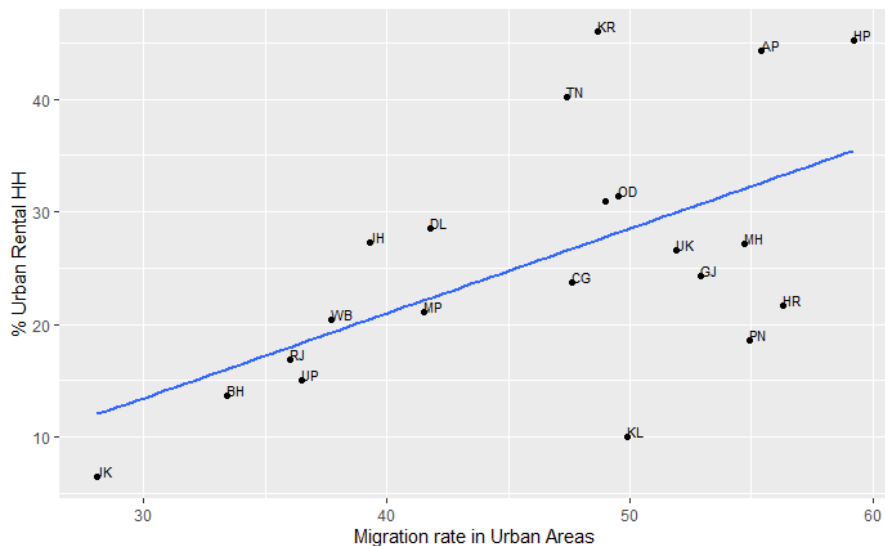
1 Scale

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Urban Rental housing and In-migration rate in Urban areas



Share of main industrial workers in urban areas



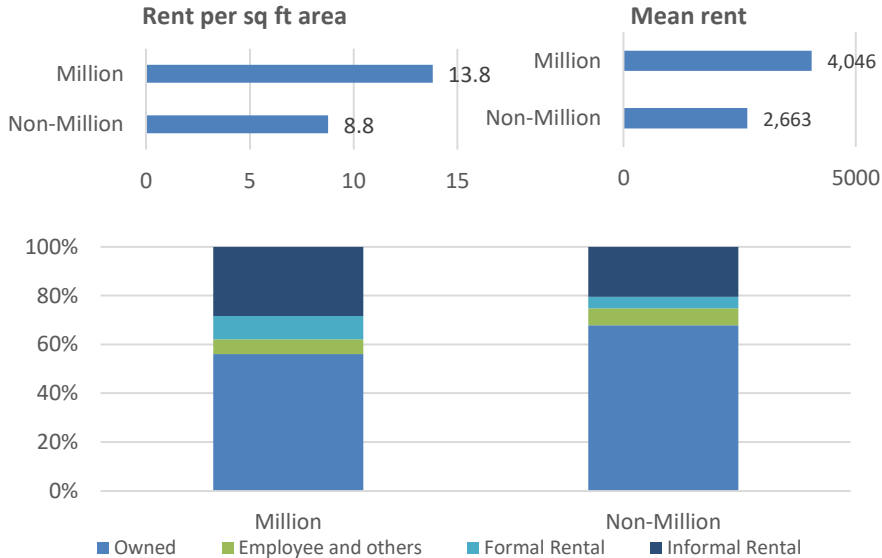
Strong correlation can be observed between share of urban rental households, urban migration and urban industries

State of Urban Rental Housing in India

- 1 Scale
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Million and non-million cities

Significant difference between rents viz. city size



Within larger cities

Case of Bengaluru city

Illustration 2: Proportion of Rental Housing across Wards in Bengaluru City

More rental housing on the peripheries of the city due to peripheral location of the economic activities

Proportion of rental housing (%)
 <40%
 40%–60%
 60%–80%
 >80%

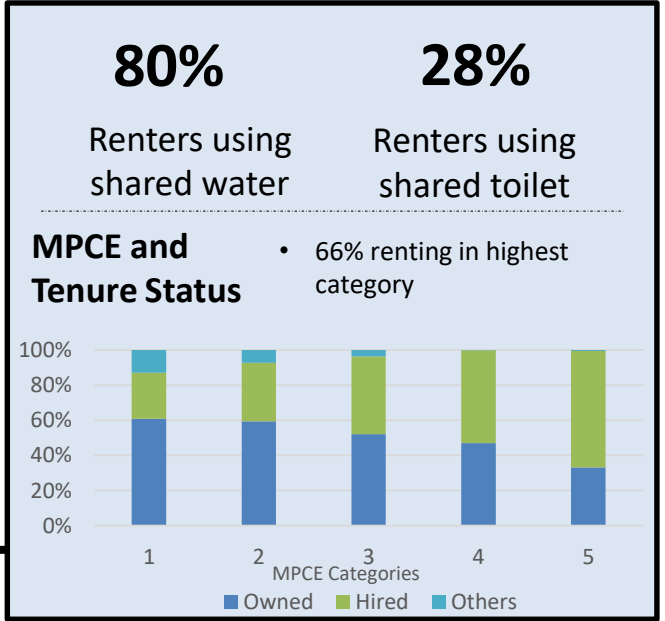
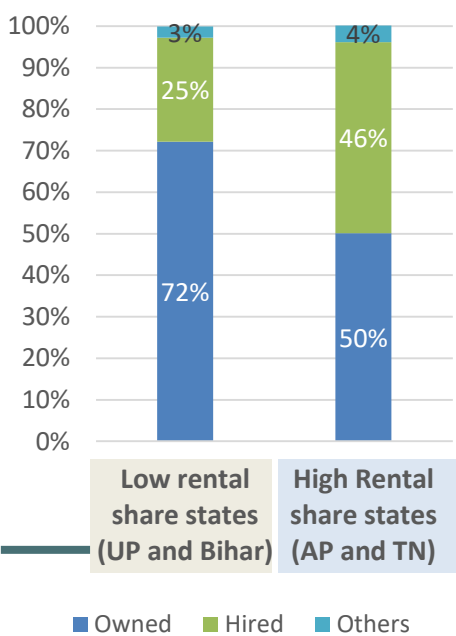
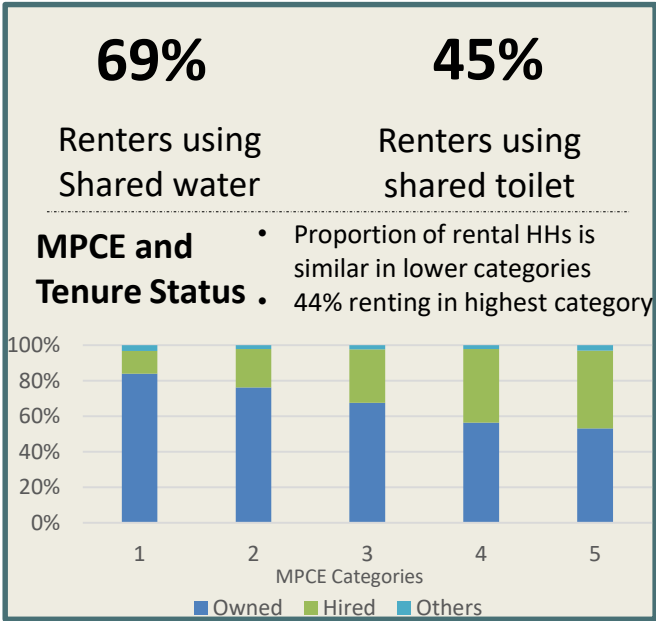
Source: Census 2011; Map: author.

Harish, S. (2016). Public Social Rental Housing in India: Opportunities and Challenges. *Economic and Political Weekly*, LI(5), 49-56.

State of Urban Rental Housing in India

- 1 Scale
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- 4 Geographies & Characteristics

Comparing two sets of contrasting states with low rental housing and high rental housing



State of Urban Rental Housing in India

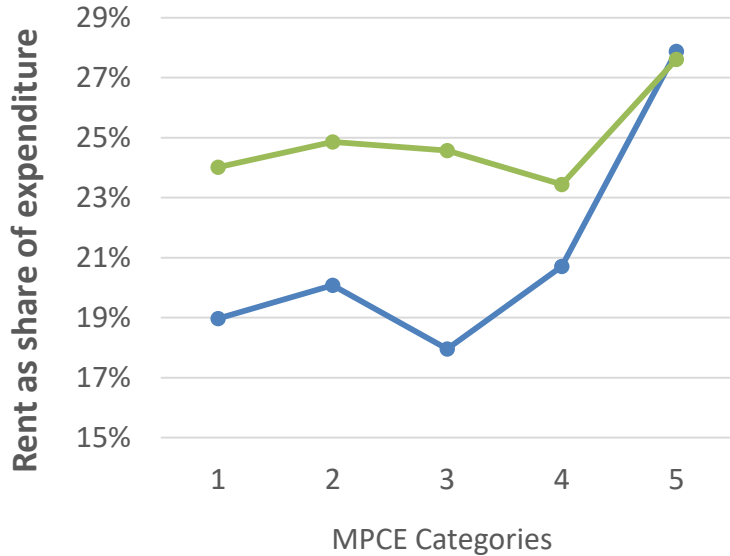
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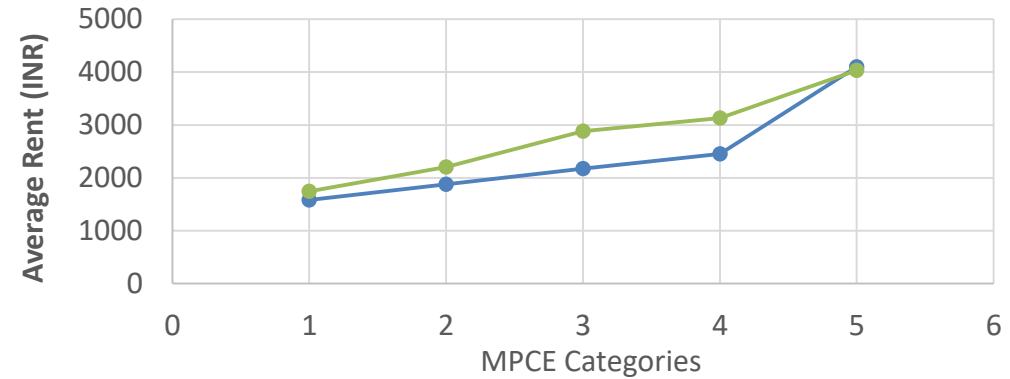
3 Scale & Geographies

4 Geographies & Characteristics

Comparing two sets of contrasting states with low rental housing and high rental housing



- **Rent as a share of expenditure:** Reduction in the difference in rent burden across the low and the high rental housing states as we move up the consumption category
- **Average rent:** Lower for low rental housing states



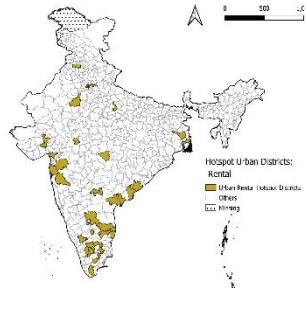
● Low RH States ● High RH States

● Low RH States ● High RH States

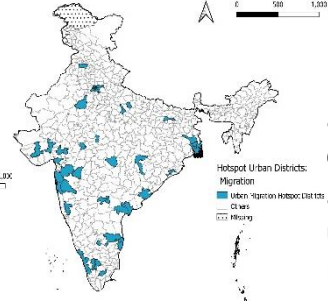
State of Urban Rental Housing in India

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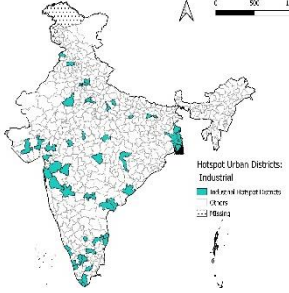
Mapping the urban rental housing hotspots against migration and industry hotspots



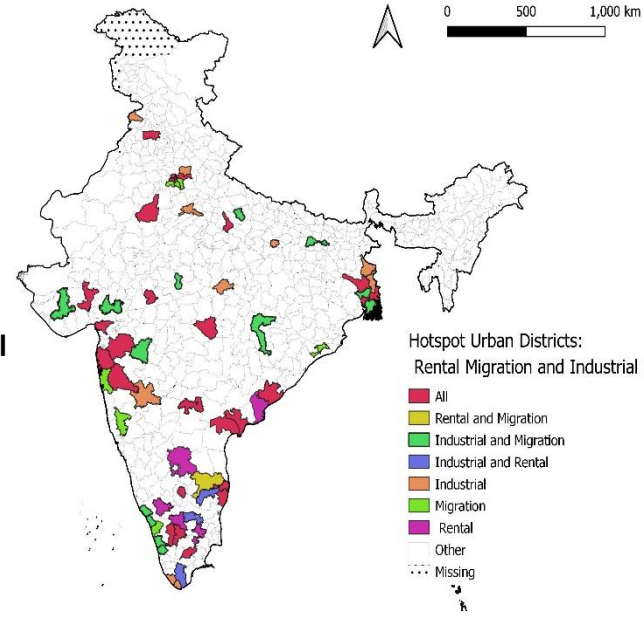
42 districts constitute 50% of total urban rental housing in India



55 districts constitute 50% of total urban Migration



61 districts constitute 50% of total urban non-HH industry workers



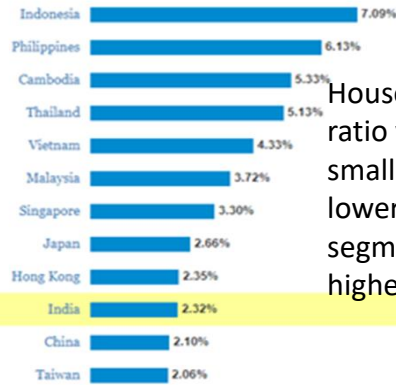
Overlap Ratios*:

1. Overlap Ratio for rental housing and urban migration = $33/64 = 51\%$
2. Overlap Ratio for rental housing and industry workers = $36/67 = 53\%$

*Overlap ratio = Number of districts which are hotspot on both the categories/Number of districts which are hotspot on either of the categories

Rental Housing Underlying Concerns

Low rental housing gross yield, 2018



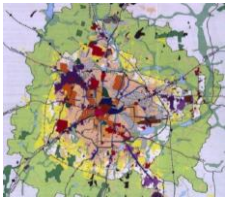
House price to rent ratio very high – smaller units at lower rental segments have higher yields

1



“Low private investment in Rental housing”

Haphazard urban planning and volatile sub-city markets



Financial disincentives for Rental Housing

Tax incentives for home buying

- Tax deductions for credit
- No Capital gains for reinvestment in property

Tax disincentives

- No Tax deductions on rental income
- Full corporate tax payable

Parameter	Leave and License Agreement	Rental Agreement
Governed by	Section 52 of Indian Easement Act, 1882	Each state's Rent Control Act
Transfer of interest	No	Yes
Tenure	Not exceeding 60 months	No minimum/maximum
Property rights created	No	Yes
Heritable rights created	No	Yes
Eviction, Termination or Cancellation	Easily achievable	Not easily achievable
Alterations to construction	Not allowed	Only tenantable repairs are permitted*
Stamp Duty	Applicable, but substantially lesser than a tenancy agreement	Applicable

Source: Knight Frank Research
Note: *Any structural changes can only be done with the consent of the landlord

Unorganised, fragmented and informal rental market

Preference for no contracts or short L&L Agreements over longer Rental agreements limiting investments from larger players

Rental Housing Underlying Concerns

Ownership focused policies

- Early Rental Housing programmes mainly for government staff
- Policy and institutional focus on subsidising ownership housing
- Other than a few states, no national programme focusing on social rental housing

2



**“Low, very limited
Public investment in
rental housing stock”**

Limited land and funding of maintenance

- Competing demands on municipal land limit social uses
- While funds for capital expenditures have been available, operational revenues for maintenance remain low



Collection/enforcement of rental payments

- Collection of rentals and enforcement has been a constraint and no successful models in this area as yet
- Housing subsidies have been supply side incentives and no “voucher” or DBT in social housing segment in India, yet

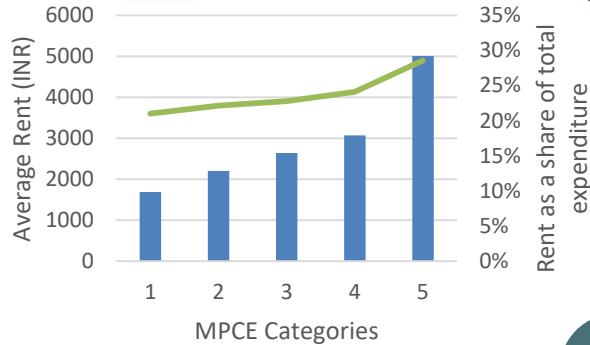
Tedious identification and subsidy processes

- Identification of “beneficiaries” has proved difficult even in public institution supplied ownership housing (BSUP, RAY etc)
- Direct subsidy for housing among the largest subsidies and have complex processes for availing, allocation and audit

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Rental Housing Underlying Concerns

Higher cost of rental in lower segments

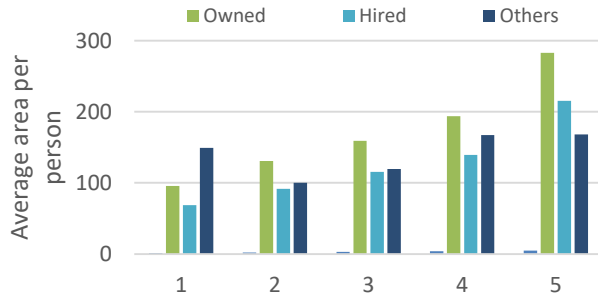


3



“Poor quality, congestion and higher cost of rental housing stock esp. in lower income segments”

Higher density of people living in lower quantiles

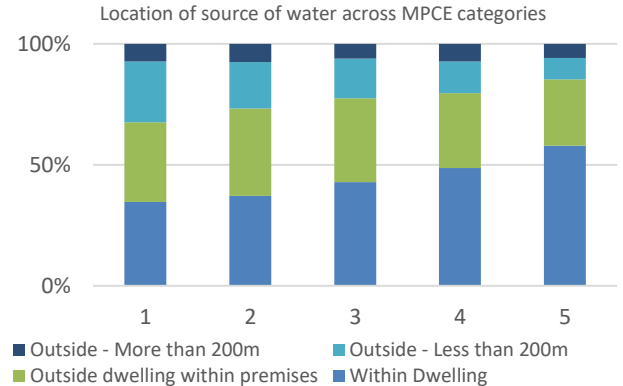


4



“Poor quality and higher cost of services for renters esp. in lower income segments”

Poor services due to tenure and underinvestment by city and landlords



Poor maintenance after investment



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Rental Housing Underlying Concerns – Lockdown and COVID-19

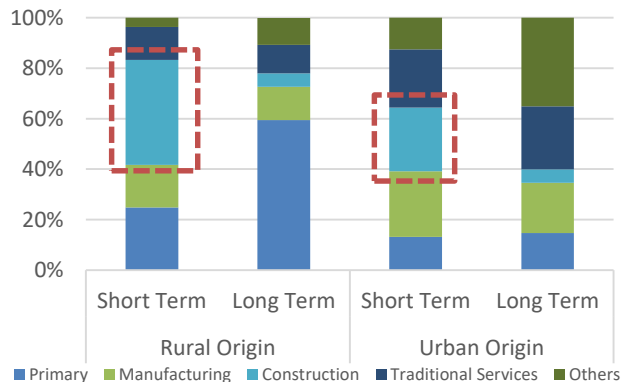
Blue collar and white collar migrants

40% urban workforce comprising of blue collar migrant workers (approx. 48 Mil)

Source: Census 2011

Migrants form a significant share of construction workers

Occupational Structure of Short and Long term male migrants



Source: NSS 2008

5



**“The Migrant exodus”
from larger cities –
workers with
short/volatile work
tenures**



Source:
HT and
Scroll.in



Lockdown induced distress among students and migrants

Covid-19 fallout: Coaching hub Kota witnessing large-scale student distress

Synopsis

Students spoke to ET said they were feeling lonely, stressed and anxious due to no coaching, uncertain exam dates, restricted interaction with other students and coaching institutes, and limited availability of food. Most are facing financial constraints as they did not account for the extra time they will need to spend in Kota.



NEW DELHI: India's entrance coaching hub of Kota in Rajasthan is witnessing large-scale student distress, as thousands of them are stuck there with no classes because of the **lockdown**.

Source: ET

42% Migrants without rations

33% Migrants stuck in destination cities, without access to food, water or money

80% Self-employed, casual, and regular wage workers were unable to pay the next month's rent

Sources: Jan Sahas Survey, 2020; Centre for Sustainable Employment, 2020

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National Housing Mission: New initiatives

Pradhan Mantri Awas Yojana (PMAY) – Urban

"In-situ"
Slum
Redevelopment (ISSR)

Credit
Linked
Subsidy
Scheme
(CLSS)

Affordable
Housing in
Partnership
(AHP)

Beneficiary-
led
individual
house
construction/enhance-
ments (BLC)

Affordable
Rental
Housing
Complexes
(ARHCs)

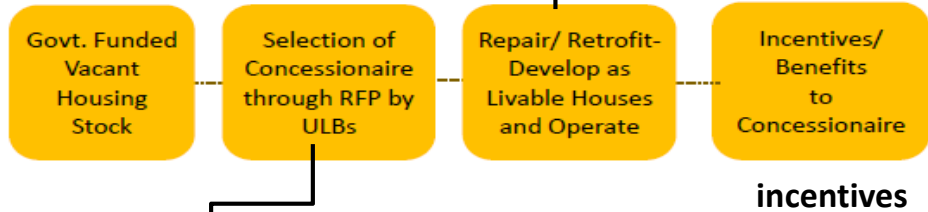
On the anvil at the National level which will trigger State level actions :

New Urban Rental Housing Policy
Revised Model Tenancy Act

ARHC Model 1 (Public Vacant Housing)

Concessionaire will Repair/ **Retrofit** the houses/building and fill up civic infrastructure gaps to make it livable. Thereafter, these will be **Developed** as ARHCs and **Operated** for the concession period and **Transferred** to ULBs after 25 years.

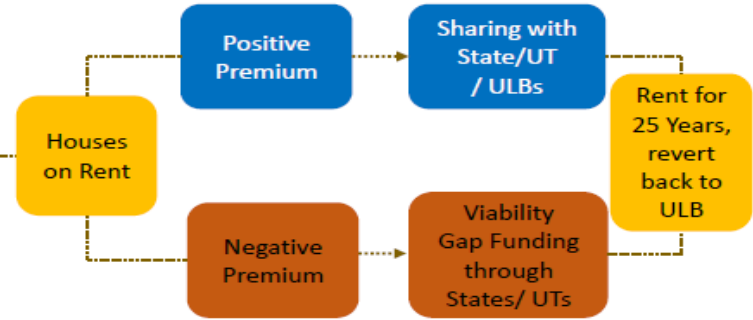
Model-1



Model RFP will be prepared and circulated by MoHUA to State/UTs. States/UTs may customize and publish the RFP as per their requirements for selection of Concessionaire

Concessionaire selected through bidding process, with rent and period of concession as fixed parameters and bidding on **Highest Positive Premium to ULBs** or **Lowest Negative Premium** through **Viability Gap Funding (VGF)** – a grant to support ARHCs, (**Central Assistance released to States/ UTs for JnNURM/ RAY projects**), one time or in deferred installments with a view to make the projects commercially viable.

75,000 Govt. funded existing houses to be converted as ARHCs, initially

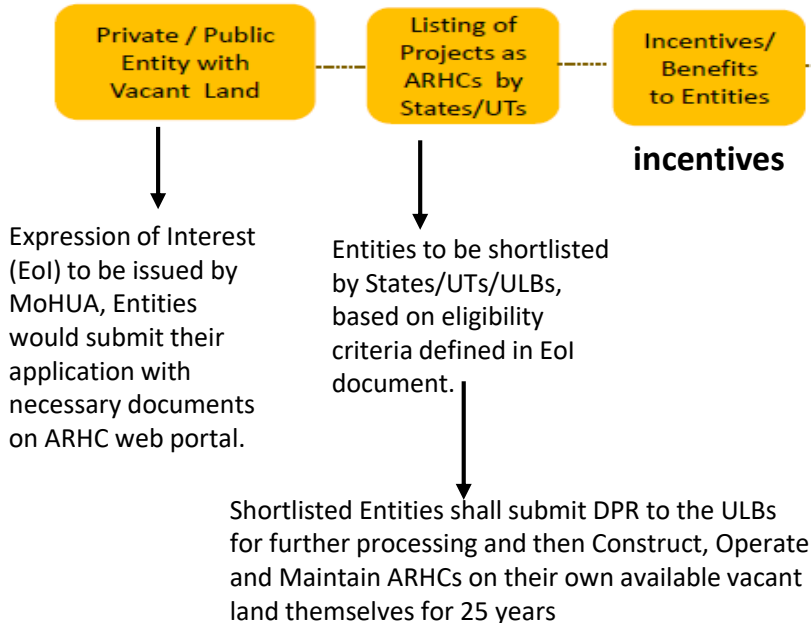


Initial affordable rent of ARHCs will be fixed by the local authority based on a local survey, prior to the issuance of RFP by ULBs. Subsequently, rent will be enhanced biennially by 8%, subject to maximum increase of 20% in aggregate, over a period of 5 years, effective from the date of signing the contract. Same mechanism shall be followed over the entire concession period i.e. 25 years.

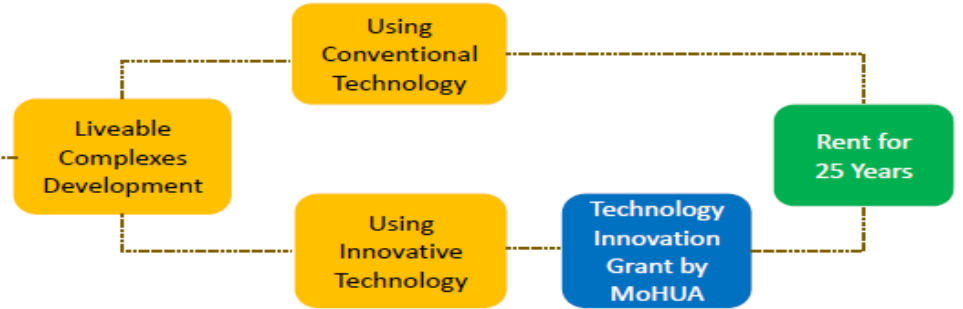
ARHC Model 2 (Greenfield Investments)

ARHCs will be a mix of **Dwelling Unit (DU)** (upto 30 sqm carpet area) & **Dormitory of 4/6 beds** (upto 10 sqm carpet area per bed) including all common facilities, the ratio of which may vary as required

Model-2



40,000 DUs & 1,80,000 Dormitory Beds to be constructed in initial phase



- Initially affordable rent of ARHCs will be fixed by Entity as per local survey. Subsequently, Entity can increase rent biennially at 8%, maximum increase of 20% in aggregate, over a period of 5 years, from the date of signing contract. Same mechanism shall be followed over the entire concession period.
- Entity can partner/ associate with other Entities for land arrangement, project financing, project management etc. to develop the ARHCs.
- For sustained occupancy and continued revenue, Entity may tie up with other Entities/Organizations or get migrant labour/ urban poor through Aggregators. Rent may be remitted by such agencies deducting directly from the salary/ fee/ any kind of remuneration etc. of tenants.**

Further Policy Action required to realise India's RH Goals

- Clearly articulating the “role of rental housing” in India’s housing policy
- Careful consideration of “rebalancing owner-rental compact” in light of low growth of the housing market
- Incentivising institutions and HHs to register and create robust data bases, how?
- Incentivising private vacant housing use for rental for young in co-living
- Making rental housing markets work better – will improve options for the low income migrants
 - Legal interventions for more certainty in transactions
 - Financial (tax/subsidy) incentives to individuals to provide rental housing
 - Financial (tax/subsidy) incentives to firms to meet rental housing institutional gaps
- New Public/Private institutions for social rental housing?

THANK YOU

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www.cprindia.org

The Scaling City Institutions for India (SCI-FI) programme aims to better understand 'governance scale' in Indian cities in tandem with 'sector specific socio-economic scales'. Through research, the programme aims to inform stakeholders, including the three tiers of the government, to develop better informed policies and programmes enabling improved governance and service delivery. It has two key thematic focus in areas of Land, Housing and Planning, and Water and Sanitation. The SCI-FI programme is nested at the Centre for Policy Research (CPR) since 2013.
