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

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Presented by:
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• State of Urban Rental Housing in India
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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)

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<thead>
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<th>Overall Economic Approach</th>
<th>Planned Industrial Development</th>
<th>Command and Control Economy</th>
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**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)

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

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<th>Pro poor welfare policies</th>
<th>Statist Economy</th>
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**Urbanization (1991):**
78.8 Million (31.8%)

**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)


**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)

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Source: [https://niti.gov.in/planningcommission.gov.in/docs/index_oldpc.php](https://niti.gov.in/planningcommission.gov.in/docs/index_oldpc.php)
# Evolution and Approaches to Rental Housing in India

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<th>Overall Economic Approach</th>
<th>Major initiative in Rental housing</th>
<th>Major Rental schemes and policies</th>
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<td><strong>1st to 3rd Five year Plan</strong></td>
<td>Planned Industrial Development</td>
<td>Rent control Act</td>
<td>LIC loan to States for rental housing for employees</td>
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<td>Command and Control Economy</td>
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<td>Subsidised loans for industrial housing at subsidised rate</td>
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<td>7.9 Million (53 %)</td>
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<tr>
<td><strong>Urbanization (1991):</strong></td>
<td>39.9 Million (17.9%)</td>
<td>Provision of subsidised rental housing for industrial workers and EWS</td>
<td>Repeal/Modify Rent Control Act</td>
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<td><strong>Vacant Houses (1991):</strong></td>
<td>4.4 Million (8.5%)</td>
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<td>21. Million (28 %)</td>
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<tr>
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<td>11.1 Million (10.5%)</td>
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Source: [https://niti.gov.in/planningcommission.gov.in/docs/index_oldpc.php](https://niti.gov.in/planningcommission.gov.in/docs/index_oldpc.php)
State of Urban Rental Housing in India

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

1. **Scale**
   - 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%)

2. **Scale & Characteristics**
   - Germany and Switzerland: Most evolved rental housing markets

3. **Scale & Geographies**

4. **Geographies & Characteristics**

Source: https://tradingeconomics.com/country-list/home-ownership-rate?continent=g20
State of Urban Rental Housing in India

1. Scale
- 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 2019)

2. Scale & Characteristics
- Higher prevalence of RH among higher consumption categories
- Ambiguity of tenurial status reduces among higher consumption categories

3. Scale & Geographies

4. Geographies & Characteristics

- Source: NSS 2019 and Census 2011
State of Urban Rental Housing in India

1. Scale

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

2. Scale & Characteristics

3. Scale & Geographies

- Higher reliance on shared services among rented households

4. Geographies & Characteristics

Access to Water

Access to Toilet

Those under 38 years residing in rental housing

Source: NSS 2019
State of Urban Rental Housing in India

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

Source: Census 2011
State of Urban Rental Housing in India

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

**Million and non-million cities**

**Significant difference between rents viz. city size**

<table>
<thead>
<tr>
<th>Rent per sq ft area</th>
<th>Million</th>
<th>Non-Million</th>
<th>Mean rent</th>
<th>Million</th>
<th>Non-Million</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>13.8</td>
<td>8.8</td>
<td>4,046</td>
<td>2,663</td>
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**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


Source: NSS 2019
State of Urban Rental Housing in India

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

69% Renters using Shared water
45% Renters using shared toilet

MPCE and Tenure Status:
• Proportion of rental HHs is similar in lower categories
• 44% renting in highest category

80% Renters using shared water
28% Renters using shared toilet

MPCE and Tenure Status:
• 66% renting in highest category

Source: NSS 2019
State of Urban Rental Housing in India

- **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.

Source: NSS 2019
State of Urban Rental Housing in India

1. Scale

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

2. Scale & Characteristics

55 districts constitute 50% of total urban migration

3. Scale & Geographies

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

4. Geographies & Characteristics

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

Source: Census 2011
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

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

Unorganised, fragmented and informal rental market

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

Haphazard urban planning and volatile sub-city markets

Source: Various Reports incl RCI Knight Frank 2020, ADB 2013, IMF 2017
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

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

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

Tedeous 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

Source: Various Reports incl ADB 2013, BSUP evaluations SNPUPR GoI
Rental Housing Underlying Concerns

Higher cost of rental in lower segments

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

 Poor services due to tenure and underinvestment by city and landlords

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

Higher density of people living in lower quantiles

Source: NSS 2019
Rental Housing Underlying Concerns – Lockdown and COVID-19

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

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

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 interactions 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.

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Source: ET
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/enhancements (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 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.

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.

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

Source: http://arhc.mohua.gov.in/
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**

- Private/Public Entity with Vacant Land
- Listing of Projects as ARHCs by States/UTs
- Incentives/Benefits to Entities

Expression of Interest (EoI) to be issued by MoHUA, Entities would submit their application with necessary documents on ARHC web portal.

Entities to be shortlisted by States/UTs/ULBs, based on eligibility criteria defined in EoI document.

Shortlisted Entities shall submit DPR to the ULBs for further processing and then Construct, Operate and Maintain ARHCs on their own available vacant land themselves for 25 years.

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

- Using Conventional Technology
- Using Innovative Technology
- Technology Innovation Grant by MoHUA
- Rent for 25 Years

- 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.

Source: http://arhc.mohua.gov.in/
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?
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.