

Roadmap to Rental Housing in India

October 2020



Foreword

Rental housing has always been an integral part of urban housing response across the world. In India, about 31% of the urban population resides in Rental housing, despite this the policy and legal framework for rental housing is underdeveloped, as all Government interventions were traditionally more focussed towards home ownership rather than rental housing.



Large scale migration during COVID -19 crisis brought into sharp focus the dire living condition of millions of migrant labour and their lack of decent housing. Recognising this, Government of India launched Affordable Rental Housing Complexes (ARHCs) scheme aiming to provide access to affordable rental housing to urban migrants/poor. This initiative is much needed first step towards development of vibrant rental housing sector in India.

Government's vision of development of vibrant rental housing market in India, especially catering to poor sections of society, needs combined efforts by various stakeholders including Central & State Government, Private Sector and Local communities. It is important to establish an encouraging policy & regulatory environment conducive for investments in rental housing by private players. Policy interventions in land acquisition, approval processes and taxation are much needed to expedite development of rental housing, which will act as a catalyst by creating a multiplier effect on job creation.

Facilitating faster implementation of projects, private sector investments and community partnerships in rental housing will play an important role in bridging market imperfections. Granting rental housing 'Infrastructure status', demarcating spaces for rental housing during city planning, facilitating low cost funding for rental housing will help attract greater private participation in the sector.

In this context, I am pleased to present the Guesture - Primus Partners Roadmap to establish rental housing sector in India, ensuring sustainable development and a better quality of life for all Indian citizens.

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Foreword



Cities are growing at unprecedented rate across the country, providing incredible opportunities for economic and social growth to Indian citizens. As the economy grows, the market opportunities grow for every strata of the society and with this the migration becomes inevitable. Therefore, millions of people every year migrate into cities leading to further growth. However, such expansion where only few can afford housing is not sustainable. This was clearly evident during the start of Covid pandemic, where the country witnessed large scale reverse migration of urban poor to their villages, due to lack of decent housing.

In order to address the lack of housing for migrant population, Government of India added one more vertical to its flagship scheme Pradhan Mantri Awas Yojana (Urban) : Housing for All, namely Affordable Rental Housing Complex (ARHC) Scheme, This initiative paved the way for development of rental housing in India.

This move brought renewed focus to importance of rental housing in India and need for establishment of supportive policy & regulatory frameworks, Reforms in Urban Planning, ensuring financial viability, augmenting private sector participation, and fast-tracking development of rental housing.

With this background, this publication, a joint effort by Guesture and Primus Partners, highlighting some of the key concerns and providing a roadmap for action for central and state governments, and ULBs to meet the vision of Rental Housing. I would like to thank all the stakeholders involved in preparing this report and providing their valuable insights.

Nilaya Varma

Founder & CEO, Primus Partners



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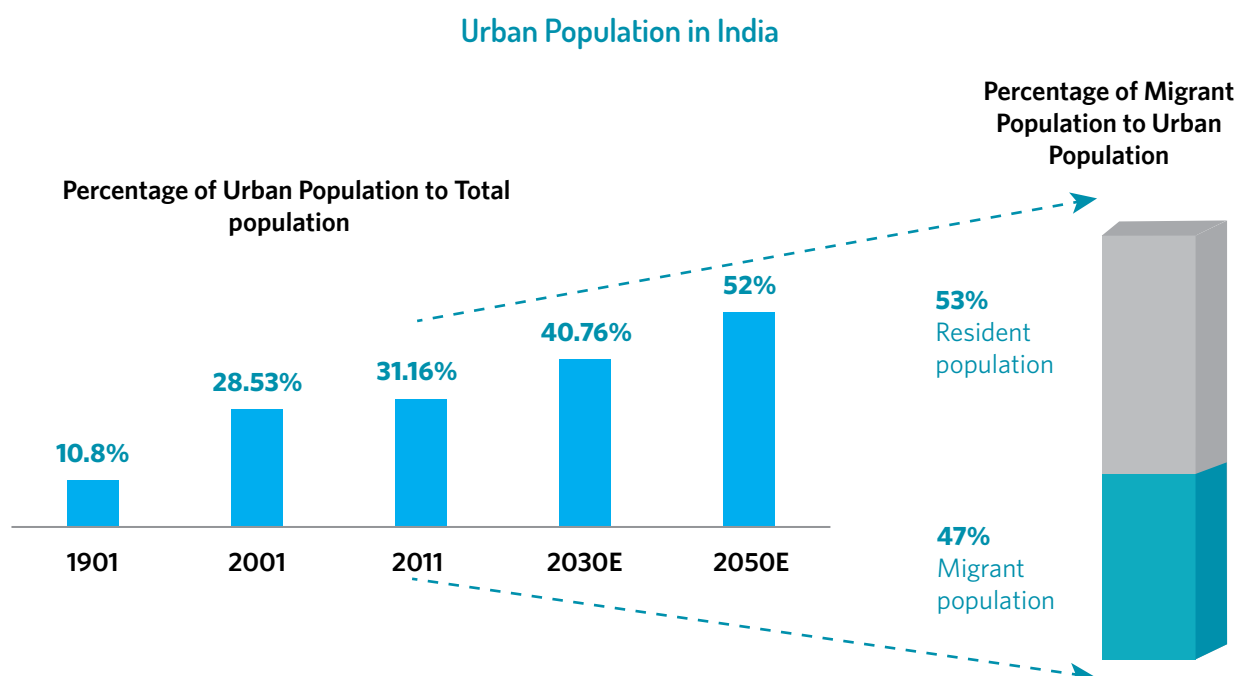
1. Role of Rental Housing in Housing for All

Whenever a labour / worker migrates to cities for better economic prospects or when graduates fresh out of college start their career in a new city or when students move to different cities to pursue higher studies, rental housing is their first mode of residence. Rental housing is their launchpad from where they build careers and then move on to buy their own homes. Therefore, for India to achieve its vision for Housing for All, Rental housing shall play a crucial part.

COVID has brought rental housing in limelight, with India witnessing great reverse migration of labour due to lack of decent Housing. After long time, the importance of Rental Housing was realised driving policy and regulatory interventions to encourage rental housing sector in India. Rental Housing is poised to be the key determinant in ensuring decent, quality housing for all. India is witnessing greater dialogue and demand for organised rental housing due to following reasons:

1.1. Rapid Urbanization

Urbanization is taking place at quite a rapid rate in India. According to 1901 census, Population residing in urban areas in India was 11.4%. This count increased to 28.53% according to 2001 census, and crossing 30% as per 2011 census, standing at 31.16%. This is further expected to rise to about 52% by 2050.



Source : Census and UN Population Reports



Cities provide incredible opportunities for economic and social growth to Indian citizens and as a result millions of people every year migrate into cities. As per Census 2011, 45.36 crore Indians (37 per cent) in India are migrants, now settled in a place different from their previous residence. In Urban Areas, about 47% of the population comprises of Migrant Population. For these citizens, who have migrated in search of better livelihood opportunities, Rental housing is their first choice of residence. Therefore, driving the demand for Rental Housing.

1.2. Housing Unaffordability

Housing affordability poses as one of the leading drivers for rental housing demand. With the rapid Urbanisation, the gap between supply and demand of the housing has been ever widening with increasing prices of real estate sector. It is characterised with massive shortage of housing specifically towards the Economically Weaker Section (EWS) and Lower Income Groups (LIG). Increase in age of first home buyer is a result of sky rocketing home rates, making it unreachable for young professionals

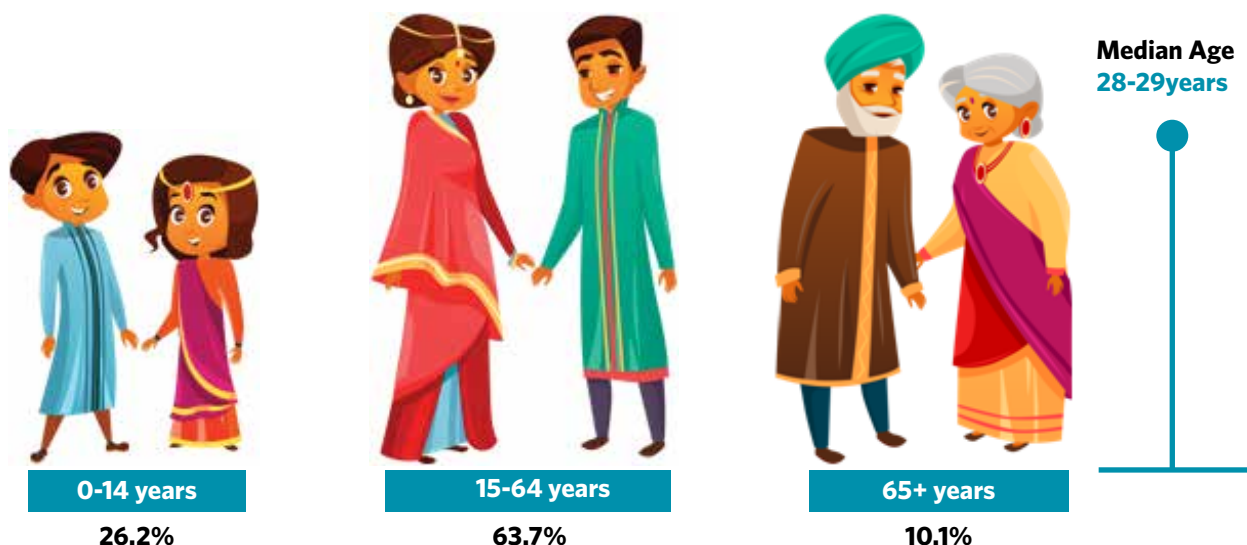
With housing prices consistently rising in many cities, an increasing proportion of housing demand has shifted into the rental market.

1.3. Demographic Dividend

India has one of the youngest populations in an aging world. The median age in India is expected to be just 28-29, compared to 37 in China and the US, 45 in Western Europe, and 49 in Japan.

These millennials or Generation “Y” prefer renting to owning. For the millennials, Owning a house is not relevant anymore. They need greater flexibility and agility & prefer plug and play model. The new generation prefers spending on experiences rather than material things and avoids long-term financial commitment. As a result of this, there is a huge demand for rental housing in urban India.

Percentage Population by age group and median age, India





1.4. Economic & Job Uncertainty

Covid, the largest public health crisis faced by the world, is causing devastation globally across all countries affecting physical, emotional and financial health of countries. It is causing economic meltdown leading to great uncertainties in the market.

During these testing times, individuals wouldn't look for investing in homes hence, the demand for rental housing is expected to go higher, especially in the metros.

1.5. Change in Lifestyle Preferences

There has been shift in consumer behaviour and lifestyle preferences leading to greater rental demand. Greater numbers of Millennials opt to delay major life decisions, such as getting married, they often opt to rent with at least one roommate, instead of owning a home.

Further, many workers provide greater importance to proximity to workplace / lesser commute time to owning a home, driving the rental demand in urban areas.

1.6. Informal / Unorganised to Formal Rental Housing

About 71% of the urban households living in rental houses had no written contract implying the widely prevalent informal nature of the residential rental housing (NSSO 2012).

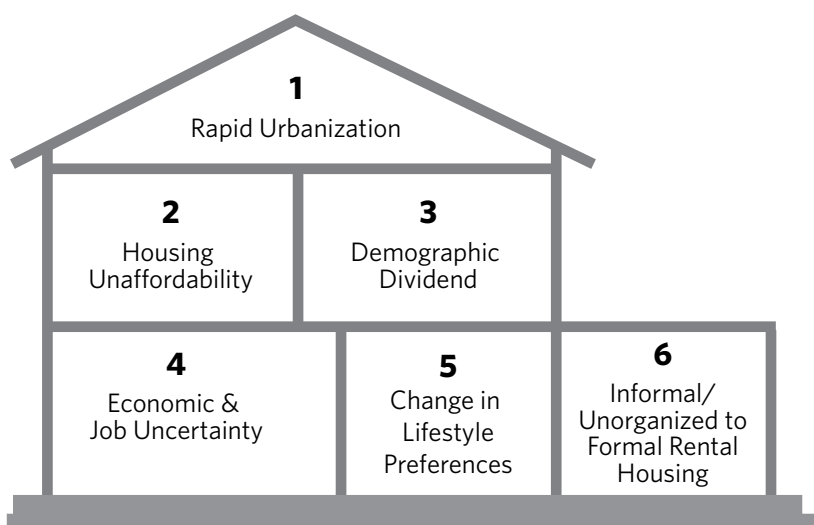
Due to lack of conducive environment, a large number of Informal / Unorganised rental housing has mushroomed which lack in quality and basic hygiene. It is essential that we provide the youth of our country a safe (especially for young women) , healthy, hygienic living conditions, which will make a tremendous positive impact on their lives, by enabling their overall wellbeing and by providing an ideal environment for our youth to excel in their endeavours. Therefore, it is important to encourage formal rental housing ensuring quality and healthy living environment.

Therefore, the demand and need for organised and quality Rental Housing has been increasing in India. There is a need for Rental Housing market with different models to address diverse housing needs for various segments of the population including social rental housing, need-based rental housing and market based rental housing. There lies a huge opportunity for development of rental housing.

Rental housing is a time-tested proven response for housing challenges of countries world over. Internationally, rental housing is seeing an increasing trend.

This report aims at providing roadmap for different stakeholders including Central Government, State Governments, Local Authorities, Rent Regulators to ensure successful development of Rental Housing Sector in India

Need for Rental Housing in India



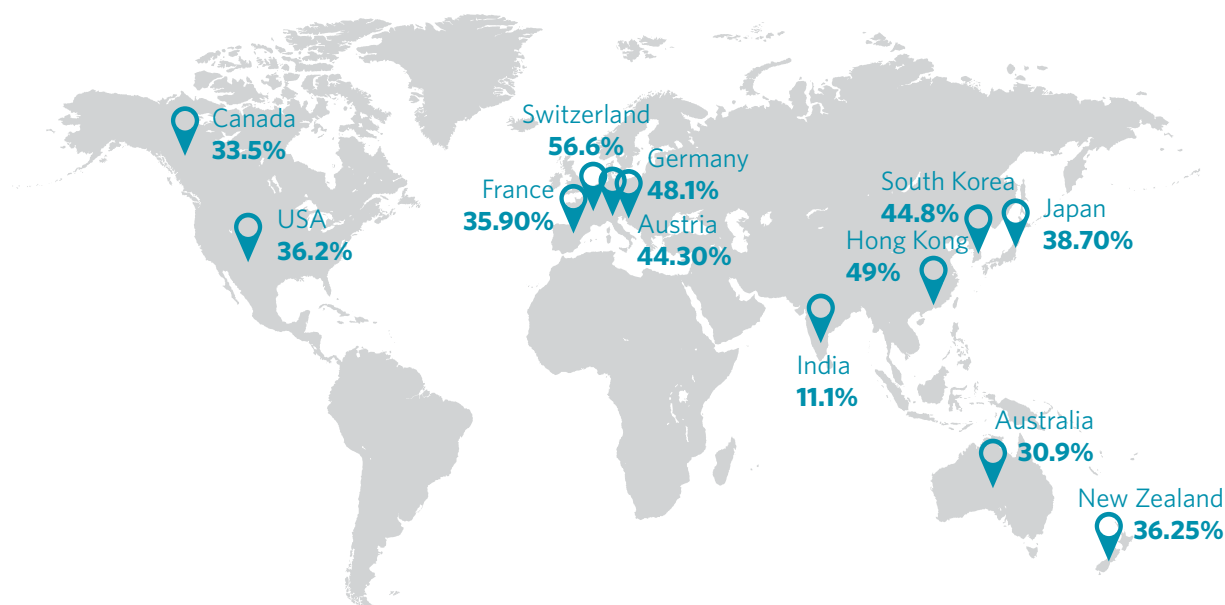
2. International Rental Housing Overview

Over the years, rental housing has seen an increasing trend world over, due to rising housing costs and demographic changes. In Switzerland, 56.6% of population lives in rental housing, Hong Kong 49%, Germany has 48.1% of population living in rental housing, South Korea 44.8%, Austria 44.3% and so on.

Rental housing is an integral part of the housing response in urbanizing countries and is also integral to the stages of a migrant's upward mobility.

It is further expected that Covid-19 will further boost the need for rental housing. Due to economic fallout of the pandemic and rise of job insecurity, people will think hard before investing large amount of money to buy a house especially in cities where house prices are skyrocketing.

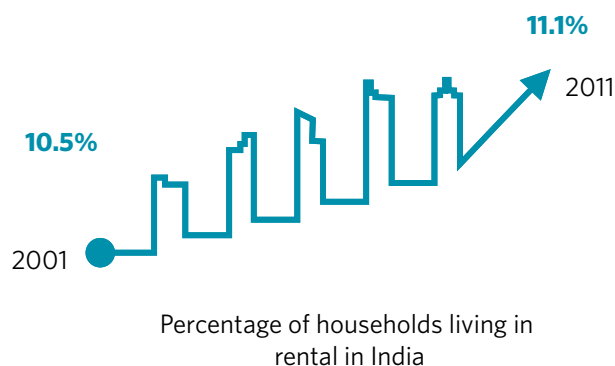
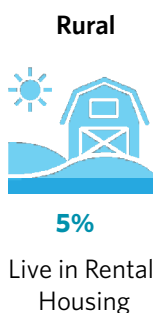
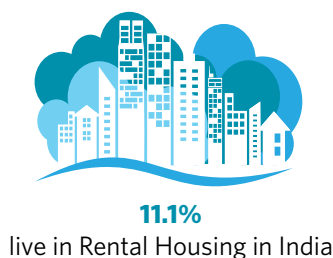
Population living in Rental Housing



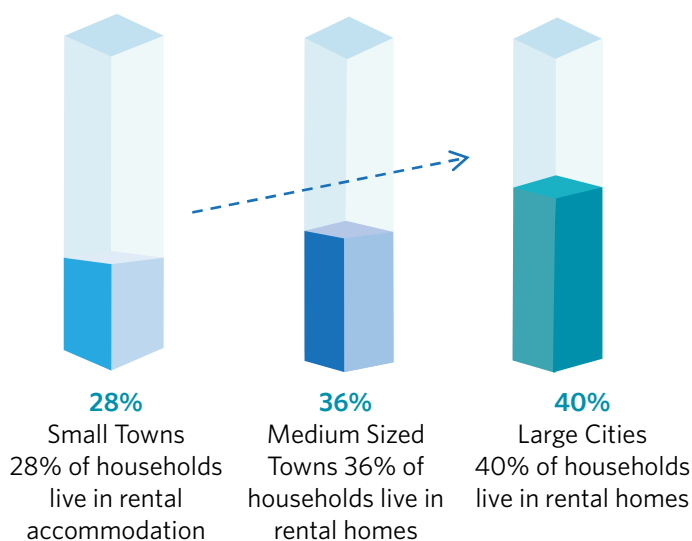
3. Indian Rental Housing Scenario

In India as a proportion of all housing, rental housing comprises around 11.1% of the total housing). Rentals are more prevalent in urban areas than in rural, where according to the 2011 Census, the share of households living in rented accommodations was 5% in rural areas, but 31% in urban areas

Rental Housing in India



Share of rental housing also increases with city-size



71% of households living in rented accommodations did so in informal sector, with no written contract

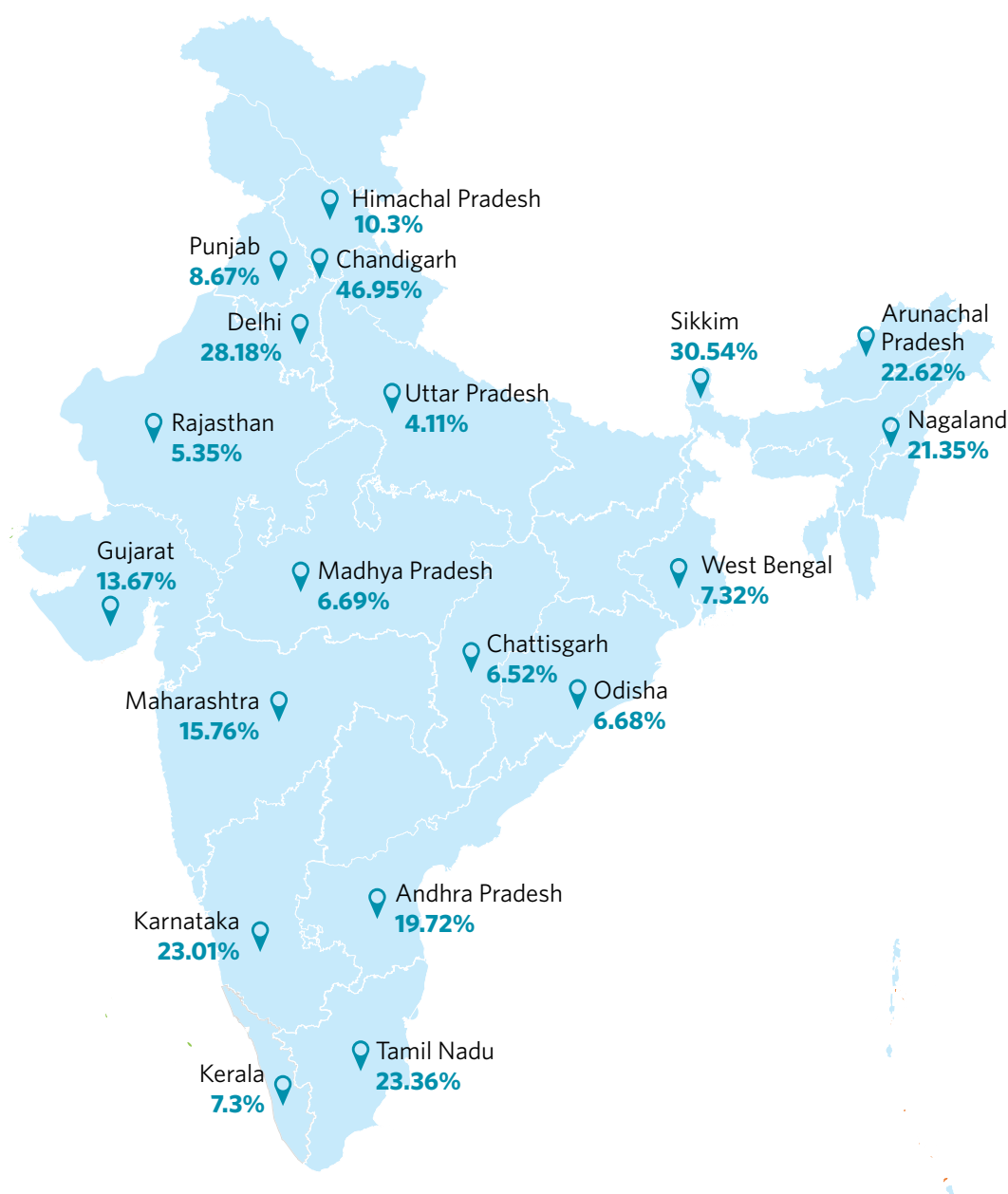


The percentage of households living in rental has also witnessed a sharp increase, from 10.5% of households living in rental housing in India in 2001 to 11.1% of households living in rental housing in India in 2011. Out of the rise of 7.1 million in the number of households living in rented houses in India, between 2001 and 2011, almost 90% of the increase was contributed by the urban sector.

Further, share of rental Housing also increases with city-size—from 28% in small towns, 36% in medium-sized towns, to 40% in large cities.

In spite of growth and demand of rental housing in India, it has been observed that 82% and 71% of the households living in hired houses had no written contract in rural and urban sectors, respectively, implying the widely prevalent informal nature of the residential rental housing (NSSO 2012). Currently, Rental Housing is largely unorganized industry. Therefore, it is important that policies that appropriately support the rental housing sector becomes important and necessary.

Rental Housing Landscape in India



The graph provides state wise distribution of rental housing. It has been observed that the share of rental housing in the southern parts of the country is distinctly higher than in the northern parts, except for Himachal Pradesh, Uttaranchal and the extreme North-east.

It is important for India to focus on rental housing on an urgent basis as it would not only provide people with greater mobility, but would also offer them better educational and economic opportunities, to improve their economic situation and contribute to the economy..

COVID Impact on Rental Housing

Rental housing has always been an integral part of urban housing response across the world. In India, about 31% of the urban population resides in Rental housing. The COVID has impacted Rental Housing Sector to certain extent. The Job cuts, salary cuts and shutting down of firms due to the lockdown has left many migrant labour and middle-income earners in the lurch.

The urban poor migrants consisting of workers in manufacturing industries, domestic/ commercial establishments, health sector, service providers, hospitality industry, construction, and workers from such other sectors resulted in reverse migration to their villages / hometowns. Due to this large migration of labors from cities towards villages, Government of India also realized the importance of Rental Housing spaces for Urban Poor. Ministry of Housing and Urban Affairs, Govt of India have launched Affordable Rental Housing Complexes (ARHCs) scheme aiming to provide access to affordable rental housing to urban migrants/poor. This initiative is a step towards Self-reliant India "AatmaNirbhar Bharat" towards the development of vibrant rental housing sector in India.

This vision of Government to develop vibrant rental housing market in India, especially catering to poor sections of society, needs combined efforts by various stakeholders including Central & State Government, Private Sector and Local communities. It is important to establish an encouraging policy & regulatory environment conducive for investments in rental housing by private players.





4. Affordable Rental Housing Complexes (ARHCs) Scheme

The reverse migration of workers and labours caused due to COVID-19 pandemic, paved the way to realize the concept of **Affordable Rental Housing Complexes (ARHCs)**. This shall make provision of pukka, hygienic and all basic amenities rental housing option closer to workplace for workers and labours.

Government of India aims to promote economic activities through the vision of “AatmaNirbhar Bharat”. In line with the vision of Self-reliant India, Ministry of Housing and Urban Affairs (MoHUA) after consultation with concerned Central Ministries/Departments, States/UTs and other stakeholders from Private/ Public Sector has launched ARHCs scheme for urban migrants/ poor as a sub-scheme under PMAY (U). This will promote Private/ Public Entities to Construct, Operate and Maintain rental housing complexes for urban migrants/ poor.

Key Highlights of ARHCs is as follows:

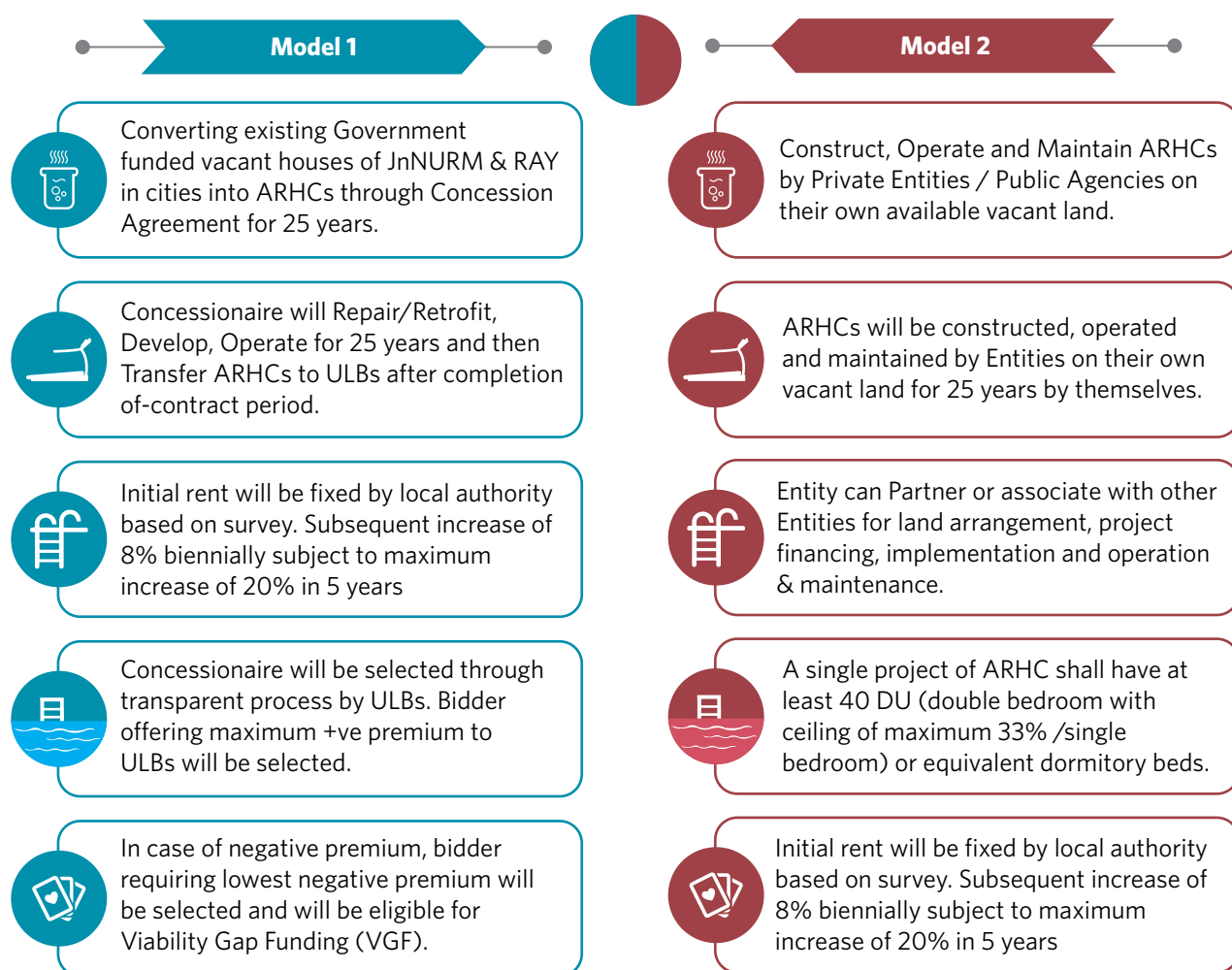
What is ARHC?	Who are the Beneficiaries?	Size of DU	Rent to Decide
ARHCs mean a listed project with a mix of at least 40 Dwelling Units (DUs) and Dormitories along with basic civic infrastructure facilities such as water, sanitation, sewerage/ septage, road, electricity along with necessary social/commercial infrastructure for urban migrant/poor of EWS/ LIG categories.	Beneficiaries belong to EWS/LIG categories who are urban migrants/poor . Street vendors, rickshaw pullers, industrial workers along with migrants working with market/ trade associations, educational/health institutions, hospitality sector long term tourists/visitors, students or any other category.	DUs will comprise of single bedroom upto 30 sqm/double bedroom upto 60 sqm with living area, kitchen, toilet and bathroom and Dormitory Bed of upto 10 sqm carpet areas each	Initial rent of ARHCs will be fixed by Local Authority/ Entities based on local survey of surrounding area, wherein project is situated and shall be operated for a minimum period of 25 years .

Implementation of ARHC:

- ARHCs will be implemented in all **Statutory Towns as per Census 2011 and Towns notified subsequently**, Notified Planning Areas and areas of Development/ Special Area Development/ Industrial Development Authorities.
- Projects under **ARHCs will be applicable for consideration and funding till PMAY (U) Mission period** i.e. March 2022.
- Projects approved during the Mission period will continue for another 18 months to enable fund release and completion of projects.



ARHC scheme shall be implemented with 2 models. Brief description of these 2 models is as follows:



Model 1 - Converting existing Government funded vacant houses into ARHCs through Concession Agreement

1. The existing unoccupied houses of **JNNURM and RAY scheme shall be converted** into ARHC.
2. A Concessionaire will **be selected through transparent process by ULBs** who shall **Repair / Retrofit, Develop, Operate and Transfer (RDOT)** these ARHCs to ULBs after completion of contract period.
3. Initial affordable **rent of ARHCs will be fixed by the local authority** based on a local survey prior to the issuance of Request for Proposal (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.
4. Selection of Concessionaire will be made on the basis of **bidder offering maximum positive premium to ULBs**. In case of **negative premium**, bidder requiring lowest negative premium will be selected and will be eligible **for Viability Gap Funding (VGF)**.



Model-2: Construct, Operate and Maintain ARHCs by Private Entities (Industries, Industrial Estates, Institutions, and Associations)/ Public Agencies on their own available vacant land.

1. ARHCs will be constructed, operated and maintained by Entities on their own vacant land for 25 years by themselves.
2. A single project of **ARHC shall have at least 40 DU** (double bedroom/ single bedroom) or equivalent dormitory beds (1 single bedroom unit of up to 30 sqm carpet area is considered equivalent to 3 Dormitory beds). There will be **complete flexibility to Private/Public Entities to have any mix of single/double bedroom and dormitories** (4/6 units). However, to ensure that such complexes are used for urban migrant/poor of EWS/LIG category and not misused for any other purposes, **a ceiling of maximum 1/3 dwelling units (33%) in double bedroom** form in any project of ARHCs has been provisioned.
3. Initial, affordable rent of **ARHCs will be fixed by Entity as per local survey**. Subsequently, Entity can **increase rent biennially at 8%**, subject to maximum increase of 20% in aggregate, over a period of 5 years, effective from the date of signing contract. Same mechanism shall be followed over the entire concession period i.e. 25 years.
4. Entity may use ARHCs to **provide accommodation to their own workers/ labours** as well as serve the requirement of neighbouring Entities. 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.
5. In order to safeguard the interest of stakeholders and avoid conflict/complication, **ARHCs will be kept outside the purview of existing State Rental Laws** by States/UTs. **ARHCs shall be governed by Model Tenancy Act (MTA)** or modification of their existing laws in the line of MTA for speedy resolution

Following incentives are proposed by Government of India to encourage Public/Private Entities to operationalise ARHCs

1. Exemption on GST on profits derived from ARHC
2. Exemption on Income tax on profits derived from ARHC
3. Project Finance at Lower Interest rate under Affordable Housing Fund (AHF)
4. Single Window Approval System within 30 days
5. Municipal Services to be levied at par with residential projects.
6. Necessary trunk infrastructure facilities to be provided by respective ULBs at no cost to entity.

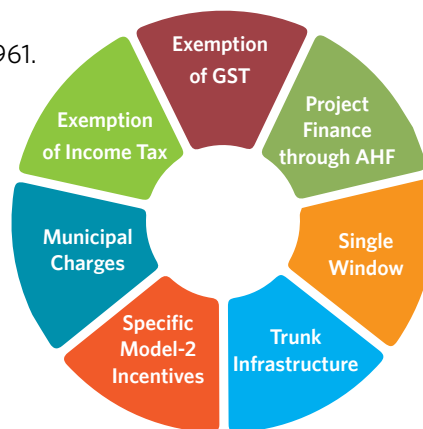


7. Technology Innovation Grant for projects with innovative Construction Technology.
8. 50% additional FAR at free of cost for construction of ARHC
9. "Use Permission" changes for houses on vacant land, if needed.

Exemption of GST on any profits and gains derived from operation of ARHCs, at par with rental services of residential premises.

Exemption of Income Tax on any profits and gains derived from operation of ARHCs on similar lines as that of 'Affordable Housing' under section 80-IBA of Income Tax Act 1961.

Municipal services such as water supply, electricity, house/property tax, sewerage / septage charge etc. for **operation of ARHCs will be levied at par with residential projects.**



Project finance/loan at lower interest rate through concessional window under Affordable Housing Fund (AHF) by HFCs and Priority Sector Lending (PSL)

States/UTs/ULBs/Parastatals shall follow **single window system for approval of design/ drawings and other statutory approvals within 30 days**, after which proposed project will be considered as deemed approved for construction.

Only for MODEL 2:

1. **Technology Innovation Grant** for innovative technology projects
2. **50% additional FAR free of cost**
3. **"Use Permission"** changes for houses on vacant land.

Necessary **trunk Infrastructure facilities like road, sanitation, water, sewerage /septage, etc.** up to project site will be **provided by States/IJTs without any additional cost to Concessionaire.**





5. Focus Categories of Rental Housing

Rental Housing is an integral part of urban cities' response to housing. In order to promote and develop effective rental housing, it is important for policy makers to first understand the different kinds of rental housing and formulate implementation strategies around it.

Rental Housing can be broadly classified into three categories on basis of demographic and economic profile.

5.1. Social Rental Housing

Social Rental Housing is subsidized rental housing for urban poor. This category of Rental housing is either owned & managed by Government, Local authority, Charitable / Not for Profit Organisations or heavily subsidized by Government. The rent towards this type of housing is typically below market rate and it is primarily focussed on Urban Poor.

In India, there are various examples of Social Rental Housing Projects undertaken by state governments / local authorities. However, these projects have not been scaled as key focus was on projects and schemes encouraging home ownership rather than Rental Housing. With introduction of Affordable Rental Housing Complex (ARHC) Scheme, India should see a shift towards development of Social Rental Housing.

5.2. Need Based Rental Housing

Need Based Rental Housing caters to specific group of people who are in need of temporary accommodation. These groups include Students, Single Women, Working Professionals, Government Housing, Migrant Labor etc.

Need based Rental Housing in India has been in existence for long. While most of these requirements has been catered by individual homeowners, there are several examples of institutional rental accommodation including:

- **Students PG / Hostels:** These include Student hostel / accommodation around Educational Institutes serving non-local student population.
- **Working Professionals Accommodation:** Companies facilitate rental accommodation for their employees who relocate for work. This segment typically stays for 3 months to 3-4 years.
- **Government Quarters:** Government provides Quarters, for its employees especially those who are frequently transferred for work including Army, Police, IAS officers etc.
- **Working Women:** Many States have developed Working Women Hostel providing safe and secure accommodation for women to move to cities for employment.



5.3. Market Based Rental Housing

This category of Rental Housing is to cater to citizens from Middle- and Higher-Income Groups. In India, this group is mainly served by individual homeowners. The rents are as per market rates.

Social Rental Housing

Subsidized rental housing for urban poor: The rent towards this type of housing is typically below market rate and it is primarily focused on Urban Poor

Need Based Rental Housing

Need Based Rental Housing caters to specific group of people who are in need of temporary accommodation. These groups include Students, Single Women, Working Professionals, Government Housing, Migrant Labor etc

Market Based Rental Housing

Rental Housing to cater to citizens from Middle- and Higher-Income Groups





6. Roadmap for Development of Rental Housing

While Affordable Rental Housing Complex (ARHC) scheme is a timely and much-needed intervention to encourage Rental Housing in India, it is primarily focused on developing Social Rental Housing Stock in India. There is a need to develop Need based rental housing as well as Market Based Rental Housing Sector in India.

This section lay downs implementation roadmap for different stakeholders including Central Government, State Governments, Local Authorities, Rent Regulators to ensure successful development of Rental Housing Sector in India

6.1. Legal & Regulatory Recommendations

6.1.1. State Rental Regulation Acts

First and Foremost, it is important to establish strong legal and regulatory framework to reform rental housing sector in India.

Most states in India have their own State Rent Control Act. However, as the name suggests these acts were enacted to prevent exploitation of tenants by controlling rents and eviction of tenants by the landlord. These Acts were largely in favour of tenants and discouraged landlords to rent out premises, due to fear of tenants continuing to occupy the rented premises even after termination of the rental agreement. These Act also discouraged development of formal and institutional Rental Housing.

With this in mind, Government of India released draft Model Tenancy Act 2019 with an objective to “balance the interests of landowner and tenant and to create an accountable and transparent environment for renting the premises in disciplined and efficient manner to promote inclusive and sustainable ecosystem”.

While the Model Tenancy Act 2019 is a great step towards establishing a strong legal framework to bring harmony to landlord-tenant relationships, there are several areas which need amendment / clarity. Ministry of Housing and Urban Affairs (MoHUA) is working on these changes and it is important that the revised Model Tenancy Act is issued at earliest.

Some of the key features of Model Tenancy Act 2019 that shall encourage formal rental housing are as follows:

- All tenancy agreements executed after commencement of the Model Tenancy Act, to be informed to the Rent Authority.
- Establishment of Rent Authorities, Rent Court and Rent Tribunal that shall expedite dispute resolution.



- Fixation of Rents, Lease Duration etc to be driven by market forces.
- Online Platform to maintain a record of all tenancy agreements thereby bringing about greater transparency and effectiveness with no physical visits.

At State level, all the states should accordingly expedite the enactment of the state tenancy laws and implementation of the provisions of the Act.

Case Study: Tamil Nadu Regulation of Rights and Responsibilities of Landlords and Tenants Act 2017

Tamil Nadu has enacted The Tamil Nadu Regulation of Rights and Responsibilities of Landlords and Tenants Act 2017 and repealed its antiquated Tamil Nadu Buildings (Lease and Rent Control) Act, 1960.

The new legislation aims to regulate the tenancy of buildings as per the terms and conditions of the tenancy agreement executed by the landlords and the tenants and also to safeguard the interest of the land lords and the tenants in case of disputes. As per the provisions of this law, all tenancy agreements should be written agreements and shall be compulsorily register with the Rent Authority. Accordingly, the state has established online portal wherein all transactions are done through the tenancy registration portal with minimum interface of the Rent Authority. The tenancy registration portal eases the process of registration of the tenancy agreement with much convenience to the general public

This act is a progressive step towards addressing bottlenecks of erstwhile rent control legislations and encouraging development of balanced rental housing markets, protecting interests of both the landlords and the tenants.

6.1.2. State Rental Housing Policy

State Governments need to formulate their Rental Housing Policy which lays down the strategy and roadmap to develop rental housing sector in the State. The Rental Housing policy should cater to all age groups & all income groups of the society. It should have strategies for all three categories of Rental housing:

- **Social Rental Housing:** Catering to the EWS sections of the society - Needs fiscal, non-fiscal incentives & policy support
- **Need Based Rental Housing:** Catering to the LIG sections of the society - Needs non fiscal, limited fiscal incentives & policy support
- **Market Based Rental Housing:** Catering to the MIG & HIG sections of the society -No fiscal incentives required, only non-fiscal & policy support

The policy needs to encourage continuous creation and increase in supply of Rental Housing facilities by the Government and Private Sector leading to the availability of good quality, affordable Rental Housing facilities in all the three categories.



6.1.3. **Constitute the State Rent Regulator / Authority (as envisaged in the Model Tenancy Act 2019)**


For any sector to grow and thrive in a sustained manner, there is a need for strong and balanced Regulators who drive the development of the sector. Regulators are important to the proper functioning of economy and society. Regulators are important to protect the legitimate interests of businesses and the society. They underpin markets, protect the rights and safety of citizens and ensure quality delivery of goods and services.

Hence it is important for states to establish State Rent Regulators / Authority at earliest, which regulate the rental housing sector in an efficient and transparent manner. The regulators should ensure speedy dispute resolution of grievances balancing the interests of landowners and tenants.

The regulators should ensure shift from the existing informal market to a formal vibrant rental housing market, setting of minimum standards, balancing rights and responsibilities of owners & tenants, creating a grievance resolution mechanism, developing a strategy to ensure that vacant/locked properties are put to use for Rental Housing & recommending fiscal / non-fiscal incentives.

Rental Housing

Legal & Regulatory Recommendations



REAL ESTATE

1. State Rental Regulation Acts

States need to repeal Rent Control Acts and enact Rent Regulation Act to “balance the interests of landowner and tenant and to create an accountable and transparent environment for renting the premises in disciplined and efficient manner to promote inclusive and sustainable ecosystem”.

2. State Rental Housing Policy

State Governments need to formulate their Rental Housing Policy which lays down the strategy and roadmap to develop rental housing sector in the State.

3. Constitute the State Rent Regulator / Authority (as envisaged in the Model Tenancy Act 2019)

It is important for states to establish State Rent Regulators / Authority at earliest, which regulate the rental housing sector in an efficient and transparent manner

6.2. **Fiscal Recommendations**

Gross Rental yields in India are among the lowest in the world at 1% - 4%. Global property guide rates Indian rental yields in very poor to poor category. Historically, the investors have relied on property price appreciation for financial returns whereas rental income has been for operation and maintenance expenses.

In order to encourage institutional rental housing players, there is a need to undertake measures to improve financial viability of rental housing projects in India.



6.2.1. Ensuring Financial Viability of Rental Housing

In the Affordable Rental Housing Complex (ARHC) Scheme, Government has attempted to provide some incentives including:

- 50% additional Floor Area Ratio (FAR) / Floor Space Index (FSI), free of cost
- Trunk infrastructure facilities (e.g. roads and services, water, sewerage / septage, drainage, STP etc) up to project site
- Municipal service charges such as water supply, electricity, house / property tax, sewerage / septage etc. levied at par with the residential properties



Important to ensure Financial Viability of Rental Housing

Some of the incentives could include

FSI / FAR free of cost for rental housing

Exempt property tax for predefined period (for 5 to 10 years)

JV with private partners for Rental Housing on Government Land

Municipal service charges such as water supply, electricity, house / property tax, sewerage / septage etc. levied at par with the residential properties

Exempt Rental Housing properties from stamp duty

Trunk Infrastructure Facilities

Similar incentives need to be provided for all rental housing and depending on the location, Government may provide greater incentives to make the projects financially viable especially in areas with very high land costs.

Some of the incentives which may be considered by Local authorities depending on area are:

- Waiver of Development Charges for institutional rental housing
- Exempt property tax for predefined period (for 5 to 10 years)
- JV with private partners for Rental Housing on Government Land
- Additional FSI / FAR free of cost for rental housing
- Municipal service charges such as water supply, electricity, house / property tax, sewerage / septage etc. levied at par with the residential properties
- Exempt Rental Housing properties from stamp duty for registration of land / building, Lease Deeds, registration charge etc.

6.2.2. Income Tax Reforms

In order to encourage greater demand and participation of institutional players, the following tax reforms should be considered

a. Enhancement in HRA Tax Exemption

The income tax section 10-13 A provides for HRA exemption of tax. The deduction available is the least of the following amounts:



- a. Actual HRA received.
- b. 50% of [basic salary + DA] for those living in metro cities (40% for non-metros); or
- c. Actual rent paid less 10% of basic salary + DA

This limit of 50% needs to be enhanced in order to encourage greater rental housing. The rental income should be made fully tax deductible.

This shall encourage demand for rental housing.

b. Accelerated Depreciation

The rental housing in India are allowed depreciation at same percentage as Residential buildings (5%). There is a need to consider increased depreciation rate as in Commercial buildings. This will also spur development of rental housing in India.

c. Loss from rental income to be allowed to be carried on

Loss from Rental House should be fully allowed to be adjusted against other heads of income. In case of unadjusted loss, it shall be fully allowed to be carried forward to subsequent years.

6.2.3. GST Reforms

- Rental income from residential properties used for residential purposes is exempted under the GST regime. While this is necessary for individual landowners / lessors, but for Residential rental management companies which work on large scale applicability of the same needs to be considered.
- There is a need to define rental housing developers, operators & aggregators under the GST and bring them under the GST at the lowest slab rates.

6.2.4. Infrastructure Status to Rental Housing

Recently, Government of India has provided infrastructure status to Affordable Rental Housing Complexes under Pradhan Mantri Awas Yojana (Urban). The same needs to be provided to all rental housing projects

Institutional Rental Housing development are large scale urban infrastructure development projects. It involves purchasing of land, construction of built – to – rent complexes, and creation of physical and social infrastructure. Hence, housing development has dramatic similarities to the infrastructure sector. Accordingly, Government of India provided Infrastructure state to Affordable Rental Housing under PMAY(U). The same needs to be extended to all Rental Housing Projects.

Granting infrastructure status to rental housing sector, shall open certain additional funding avenues in addition to direct tax benefits available to the infrastructure sector. This shall be highly beneficial to rental housing sector thereby spurring growth of sector and economy.





6.2.5. Financing: Availability of multiple sources of credit at competitive rates

Need to encourage multiple sources of credit for Rental Management Companies at competitive rates.

- Formulate Residential Rental Real Estate Investment Trust (RREITs).
- Banks and Housing Finance Institutions (HFIs) may promote innovative financial instruments to finance Rental Housing Schemes.

6.3. Infrastructure Planning & Development

6.3.1. Ensuring Land availability for Rental Housing

In Large cities, where there is huge requirement of rental housing, land is a precious commodity and accounts for bulk of real estate cost. Limited availability and high prices of land make it unviable for institutional rental players to undertake rental housing projects.

Government needs to ensure adequate availability of land by identification of dedicated zones for development of rental housing in the city's master plans and should develop them within a planned schedule.

Urban Planning bodies should earmark / reserve certain percentage of newly to-be-built flats / land within large housing projects for Social Rental Housing.

Further, several Government owned entities such as railways own number of land parcels in centrally located areas of cities. Government can leverage these land parcels for development of rental housing in private partnership, thereby generating revenue for both public and private sector.

Government should ensure optimum use of their land parcels. This shall also ensure prevention of encroachment of these lands by slums and squatter settlements.

6.3.2. Rental Housing in Amenities zone

Several Municipal Bodies have allowed development of student hostels, industrial worker housing etc. (Need Based Rental Housing) in Amenities zone.

In the short term, the same maybe considered by other Municipal bodies to increase the rental accommodation supply for the city.

6.3.3. City wise Strategy for Rental Housing

The Urban Local Bodies to take a pro-active lead role in drafting and implementing the State urban rental housing policy i.e. assessment of the present situation to analyse and prepare strategies (short, mid and long term) with support of State Government and other stakeholders.



Rental Housing Plans	To create & approve Rental Housing plans, fix capacity for each area / property based on the NBC rules
Land use zones	To treat Rental Housing as a residential activity for zoning purposes & to allow Rental Housing in all Land Use zones
FSI / FAR	Provide 100% extra FSI free of cost for Rental Housing projects
Car Parking	To specify the Car Parking requirements for Rental Housing projects and give specific exemptions for this category
Civic Amenity	To categorize Social Rental Housing as one of the Civic Amenity (CA) and allow such projects on CA lands
Land Allocation	Allocate land for social and need based rental housing projects at concessional prices and for Market linked rental housing at market prices
Trunk Infrastructure	Provide Trunk Infrastructure for all Rental Housing projects
Target Groups	To identify target groups and total requirements for social/need based rental housing with the support of State Government
Prioritize Social Rental Housing	To prioritize interventions/strategies to construct, maintain, manage and operate rental housing stock addressing Social/Need based rental Housing
PPP	Develop innovative Public Private Partnership (PPP) projects for creation of rental housing stock based on the local dynamics
Budgetary Provision	Make separate budgetary provision for rental housing projects/schemes
Innovative Models	Create innovative models on rental housing to supplement/compliment Central/State policies/programmes
Residential Treatment	Revenue authorities to treat Rental Housing as a residential activity for calculation of property taxes & to charge Residential taxes (Owner occupied)

The key responsibilities of Urban Local Bodies under Rental housing shall be as follows:

6.3.4. Leverage existing infrastructure of Rental Accommodation for efficient utilisation

Many Government Departments in the state have their rental accommodation / Quarters / hostels. For example: Women and Child Development Department have Working Women Hostels, Social





Welfare developments have youth hostels, Tribal Development Department have Hostels for Tribal youth and so on. It is important to assess this infrastructure to ensure efficient and quality utilisation.

It is important to assess these properties for utilization of full FSI, quality of infrastructure etc., formulate redevelopment schemes/ improvement schemes , for full commercial exploitation of such properties & to formulate Operating partnership models, handover the management of properties to Rental Management companies for professional management

6.3.5. Rental Housing at Industrial Parks / Layouts

State Industrial Development Boards / Corporations should ensure reservation of land for Rental Housing & other social infrastructure required for industrial workers in all future industrial layout schemes.

They should identify lands in the existing industrial layout schemes and develop Rental Housing properties along with allied social infrastructure. These projects could be developed through innovative Public Private Partnership (PPP) models for creation of rental housing properties for industrial workers.

6.3.6. Development of Social Rental Housing by Housing Boards

While state Housing Boards / Development Authorities / Urban Local bodies are responsible for development of affordable housing, they should also be encouraged to create social rental housing and need based rental housing.



6.4. Industry Recognition and Standards

It is important for the state to recognise key stakeholders and define quality standards for growth of the industry.

6.4.1. Residential Rental Management companies

While Model Tenancy Act aims to regulate the entire rental housing sector including individual and institutional players, there is a need to define clearly separate roles and responsibilities for institutional rental management companies, their performance standards and minimum service quality.

Institutional Rental Management companies are private sector companies that develop, operate, maintain and manage large-scale rental housing projects. There is a need to identify this upcoming sector and govern them for greater growth and sustainability.

The objective of the Regulation for Rental Management Companies shall be:

- Ensure that all Rental Housing Projects are well governed and properly managed.
- Protect and ensure accountable use of government assets managed by the rental housing sector.



- build confidence in the public and private sector to invest in and grow rental housing; and
- ensure quality and continuous improvement in service delivery and outcomes for tenants.

6.4.2. Quality Rating of Rental Housing

There is also a need to establish performance standards for institutional rental housing. On basis of their performance, the rental projects may be graded from 1 to 5 star on various parameters like safety, hygiene, product, amenities, service standards and so on.

Minimum Standards shall ensure that there is trust, accountability and quality service delivery leading to growth of the sector.

Case Study: Australian Government

Australian Government (Housing Registrar, Victoria State Government) has defined following minimum quality standards for rental housing. The Performance Standards aim to assist rental housing agencies to achieve quality outcomes for tenants by establishing good governance and business practices.

It is mandatory that registered rental housing agencies comply with all standards and the measures that always apply to them.

The seven Performance Standards are:

> Tenant and housing services

The registered agency is fair, transparent and responsive in delivering housing assistance to tenants, residents and other clients.

> Housing assets

The registered agency manages its assets in a manner that ensures suitable properties are available now and into the future.

> Community engagement

The registered agency works in partnership with relevant organisations to promote community housing and to contribute to socially inclusive communities.

> Governance

The registered agency is well-governed to support the aims and intended outcomes of its business.

> Probity

The registered agency maintains high standards of probity relating to the business of the provider.

> Management

The registered agency manages its resources to achieve the intended outcomes of its business in a cost-effective manner.

> Financial Viability

The registered agency is financially viable at all times





6.5. Inclusive Development of Rental Housing

6.5.1. Encourage Employers to offer Accommodation to its employees

Companies are also important stakeholders and have vested interest in ensuring their employees have safe, quality homes, preferably closer to the workplace. This has two-fold benefit: firstly, it ensures increased productivity and reduced absenteeism among employees and secondly, it is easier to attract and retain quality employees.

However, most companies do not facilitate accommodation, this is in particular prevalent in a metropolitan region where there is a larger labour market. Without employer support, low wage workers are unable to find decent housing in large cities, thereby resorting to slum like settlement or travelling long distance for housing.

Some Organisations still provide employee accommodation to some extent including Universities, Government Organisations, Hospitals etc. However, there is a need to explore if this practice can be further encouraged.

It is proposed that government and private sector collaborate to identify mechanism through which employers can be encouraged to offer accommodation to its employees.

6.5.2. Student Housing by Educational Institutions

Education Institutions should also take responsibility for ensuring accommodation / hostel facility for their outstation students. Educational Institutions may have inhouse hostel or undertake tie-ups with outside rental housing accommodations ensuring quality and decent housing for all.

Similarly, Educational Institutional should ensure staff housing & take responsibility for

6.5.3. NGOs / Not for Profit Entities / Cooperative societies

Government should look at encouraging NGOs / Not for Profits / Cooperative Societies to create Rental Housing societies, federations to actively promote Rental Housing.

These organisations should develop active tenant associations and provide information to tenants.

6.6. Technology & Innovation led Development

6.6.1. Establish Real Time Online portal for Social Rental Housing Stock

In a step towards furthering transparency in Social Rental Housing Sector and greater trust, the respective government regulators should ensure a state/nationwide portal listing all the social rental housing stock (subsidized by government) across the geography.

The portal should have details of all Social Rental Housing Stock along with following details:

- Rental Housing stock with location, specification (Dormitory, 1 BHK, 2BHK etc),
- Booking status
- Amenities



- Rental Pricing
- Images / Photographs of rental housing stock
- Eligibility criteria for tenants etc.

This portal should also be an online marketplace wherein the transactions can be conducted in a transparent manner including disclosure of tenant details (with KYC), type of tenant (own use / institutional purpose etc.) and un-booked apartments.



This portal can be accessed by migrant labours from their hometown and can book before migration. This portal can be accessed from CSCs / Kiosks and so on.

In long run, this portal shall also assist in estimating demand for rental housing, total supply geography wise. This shall assist governments in planning future rental housing stock.

6.6.2. Encourage other emerging Rental Industry Startups

Rental Housing sector in India is witnessing emergence of several new business models ranging from co-living, rental housing aggregators, rental property management services and so on.

Co-living: Co-living spaces offer fully and furnished shared living spaces, on a rental basis with multiple choices, managed services and reduced costs. An asset light model – co-living is characterized by flexibility, user convenience and community living concept. Co-living is proving to be viable solution for renting accommodation in a densely populated urban centres and around major educational hubs. It provides a plug and play option wherein users can immediately move-in and start living.

Rental Housing Aggregators: Aggregator companies leverage technology to provide a platform to homeowners to list their homes and helping users rent them.

Rental Property Management Services: These companies provide hassle free management of houses for landlords including Identification of tenants, contracting, regular follow up for rents, upkeep and maintenance of property, etc.

Such emerging business models should be encouraged. Regulations for these players also need to be developed to ensure structured growth of the Industry.

6.7. Capacity Building



Capacity building is one of the most important factors for successful implementation of any initiative. It is important to develop capacities across all stakeholder groups for effective implementation of rental housing strategy.

6.7.1. Build capacity of various stakeholders in planning, implementation and management of Rental Housing schemes

Government should undertake extensive capacity building programs to sensitize and bring awareness, across different stakeholder groups on importance of Rental Housing in India. This includes stakeholder groups across Government (Central & State), Urban Local Bodies, Regulators, Housing Boards, Industries Departments, various Ministries /Departments, Private Sector / Corporate / Businesses, NGO / Not for Profits, Financial institutions and so on.

There is a need to also encourage skill development centres to create programs to build capacity in this new sun rise service industry.



7. Summary of Recommendations

Rental housing sector has tremendous potential and with concerted efforts, it can grow exponentially reducing India's Housing troubles. This section summarizes various recommendations and action items as per implementation agency.

7.1. State Government

S. No	Recommendation	Timelines
1.	Enactment of Rental Regulation Act in place of existing Rent Control Act.	Mid Term
2.	Formulate a Rental Housing Policy for the state to cater to all age groups & all income groups of the society. Rental Housing Policy to have 3 categories <ul style="list-style-type: none"> • Social Rental Housing (SRH) – Catering to the EWS sections of the society - Needs fiscal, non-fiscal incentives & policy support • Need Based Rental Housing (NBRH) – Catering to the LIG sections of the society - Needs non fiscal, limited fiscal incentives & policy support • Market Based Rental Housing (MBRH) – Catering to the MIG & HIG sections of the society -No fiscal incentives required, only non-fiscal & policy support 	Short Term
3.	Constitute the State Rent Regulator / Authority (as envisaged in the Model Tenancy Act 2019)	Mid Term
4.	Encourage continuous creation & increase in supply of Rental Housing facilities by the Private Sector, using government/private lands, leading to the availability of good quality, affordable Rental Housing facilities in all the three categories	Short Term
5.	Undertake appropriate reforms to make Social Rental Housing viable & Earmark/reserve certain percentage of newly to be built flats / land within large housing projects for Social Rental Housing	Short Term
6.	Define / promote / formulate policies to create Residential Rental Management Companies (RRMC), which operate/manage rental housing facilities professionally	Short Term
7.	Enable a gradual shift from the existing informal market to a formal vibrant rental housing market by – regulating the unorganised sector, setting of minimum standards, balancing rights/responsibilities of owners & tenants, creating a grievance resolution mechanism, developing a strategy to ensure that vacant/locked properties are put to use for Rental Housing & legislating fiscal / non-fiscal incentives	Short Term
8.	Build capacity of various stakeholders in planning, implementation and management of Rental Housing schemes	Short Term





9.	Create an online portal- database on rental housing properties, facilitate mandatory online registration & enquiry on availability / price/ location etc.,	Mid Term
10.	Ensure convergence of various housing and livelihood generation schemes	Short – Mid Term
11.	Provide Incentives to Corporates, Industries, Businesses & Educational Institutions to be responsible for the housing of the migrant workforce / students and encourage employers to offer Rental Housing / Rent-to-Own facilities to their employees	Short – Mid Term

7.2. Urban Local Bodies / Development Authorities

S. No	Recommendation	Timelines
1.	The Urban Local Bodies to take a pro-active lead role in drafting and implementing the State urban rental housing policy i.e. assessment of the present situation to analyse and prepare strategies (short, mid and long term) with support of State Government and other stakeholders	Short Term
2.	Create registration policy for rental housing property operators & approve Rental Housing plans, fix capacity for each property based on the NBC rules	Short Term
3.	Consider Rental Housing as a residential activity for zoning purposes & to allow Rental Housing in all Land Use zones	Short Term
4.	Provide 100% extra FSI free of cost for Rental Housing projects	Short Term
5.	To specify the Car Parking requirements for Rental Housing projects and give specific exemptions for this category	Short Term
6.	To categorize Social Rental Housing as one of the Civic Amenity and allow such projects on Civic Amenity lands	Short Term
7.	Allocate land for social and need based rental housing projects at concessional prices and for Market linked rental housing at market prices	Short- Mid Term
8.	Provide Trunk Infrastructure for all Rental Housing projects	Mid Term
9.	To identify target groups and total requirements for social/need based rental housing with the support of State Government	Short Term
10.	To prioritise interventions/strategies to construct, maintain, manage and operate rental housing stock addressing Social/Need based rental Housing	Short Term
11.	To implement Central and State schemes/programmes, pertaining to Rental Housing at the local body level	Short Term
12.	To develop innovative Public Private Partnership (PPP) projects for creation of rental housing stock based on the local dynamics	Short Term
13.	Make a separate budgetary provision for rental housing projects/schemes	Mid – Term
14.	Create innovative models on rental housing to supplement/compliment Central/State policies/programmes	Mid Term
15.	Revenue authorities to treat Rental Housing as a residential activity for calculation of property taxes & to charge Residential taxes (Owner occupied)	Short Term
16.	To exempt property tax for Social Rental Housing properties for a predefined period	Short Term



7.3. State Housing Departments / Boards

S. No	Recommendation	Timelines
1.	To create Social Rental Housing / Need based rental housing properties	Short Term
2.	To develop innovative Public Private Partnership (PPP) projects for creation of rental housing properties in all categories	Short Term

7.4. Industries Department / Development Boards

S. No	Recommendation	Timelines
1.	To provide land for Rental Housing & other social infrastructure required for industrial workers in all future industrial layout schemes	Mid - Long Term
2.	To identify lands in the existing industrial layout schemes and develop Rental Housing properties along with allied social infrastructure	Short Term - Mid Term
3.	To develop innovative Public Private Partnership (PPP) projects for creation of rental housing properties for industrial workers	Short Term

7.5. Government Departments

S. No	Recommendation	Timelines
1.	To identify various excess lands and develop the same as Rental Housing properties under a PPP framework or through Housing Board	Mid - Long Term
2.	Departments like - Women and Child Development, Social Welfare development, who have hostel infrastructure, to assess their properties for utilization of full FSI, quality of infrastructure etc., formulate redevelopment schemes/ improvement schemes, for full commercial exploitation of such properties & to formulate Operating partnership models, handover the management of properties to Rental Management companies for professional management	Short Term - Mid Term

7.6. Stamps & Registration Department

S. No	Recommendation	Timelines
1.	To exempt Rental Housing properties from stamp duty for registration of land / building, Lease Deeds, registration charge etc.,	Short Term

7.7. Utilities

S. No	Recommendation	Timelines
1.	To provide Water, Drainage & Electricity connections at concessional charges and to exempt Social Rental Housing properties from all charges	Short Term
2.	To bill power and water based on residential tariff for all Rental Housing properties	Short Term





7.8. Private Sector / Corporates / Businesses

S. No	Recommendation	Timelines
1.	To promote staff housing & take responsibility/ accountability for their housing, especially the young migrant work force	Short Term
2.	To undertake Social Rental Housing as a CSR initiative	Short Term

7.9. Educational Institutions

S. No	Recommendation	Timelines
1.	To take responsibility /accountability for hostel facility for their outstation students	Short Term
2.	To promote staff housing & take responsibility/ accountability for their housing, especially the young migrant work force	Short Term

7.10. NGOs / Not for Profit Entities / Cooperative societies

S. No	Recommendation	Timelines
1.	To encourage them to create Rental Housing societies, federations to actively promote Rental Housing	Mid Term
2.	To encourage development of active tenant associations and provide information to tenants	Mid Term

7.11. Financial Institutions

S. No	Recommendation	Timelines
1.	To promote innovative financial instruments to finance Social Rental Housing	Short Term
2.	To provide long term finance for creation of Rental Housing properties	Short Term
3.	To create innovative financial products to channelize savings into ownership of Rental Housing properties	Short Term

7.12. Rating Agencies

S. No	Recommendation	Timelines
1.	To create a Rating matrix to rate Rental Housing facilities	Short Term
2.	To encourage rating companies to rate Rental Housing facilities like hotels	Short Term



7.13. Ministry of Finance, Government of India

S. No	Recommendation	Timelines
1.	To accord infrastructure status to rental housing developers	Short Term
2.	To define rental housing developers, operators & aggregators under the GST and bring them under the GST Net at the lowest slab rates.	Short Term
3.	Formulate Residential Real Estate Investment Trust (RREITs).	Mid Term
4.	Banks and Housing Finance Institutions (HFIs) may promote innovative financial instruments to finance Rental Housing Schemes.	Short - Mid Term
5.	Facilitate income tax concessions for institutional owners that create Rental Housing.	Short Term
6.	Encouraging building of rental housing either for own employees or for other socially vulnerable section of the society under Corporate Social Responsibility (CSR), by allowing 100% deduction of the capital expenditure incurred.	Short - Mid Term
7.	Create a separate category of depreciation for Hostels and Dormitories.	Short Term

7.14. Ministry of Housing and Urban Affairs

S. No	Recommendation	Timelines
1.	Monitor Implementation of all the above-mentioned recommendations with respective authorities	Short - Long Term
2.	Develop economically viable rental housing models (such as Rent-to Own Scheme, Shared Ownership Scheme, PPP Model, Rental Voucher Scheme, Rental Allowance Scheme etc.)	Short Term
3.	Extend fiscal and non-fiscal concessions for rental housing including that for PPP in rental housing.	Mid Term
4.	Recognise and award best/innovative practices adopted by the States/private sector/implementing agencies for their contributions on rental housing sector and disseminate related success stories.	Short - Mid Term





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