



# Technical Assistance Consultant's Report

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## India: Promoting Inclusive Urban Development in Indian Cities

Prepared by CDM Smith Inc.  
India

For Ministry of Housing and Urban Poverty Alleviation (MoHUPA)

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**Asian Development Bank**

## NOTE ON RENTAL HOUSING

### A. Background

A study on Rental Housing in India is conducted under Asian Development Bank (ADB) supported Technical Assistance (TA 7148-IND): “Promoting Inclusive Urban Development in Indian Cities”. The Ministry of Housing and Urban Poverty Alleviation (MoHUPA) is the Executing Agency (EA) for this TA. The TA also consolidates findings and recommendations of “Task Force on Rental Housing” set up by the MoHUPA.

Though the TA was originally formulated to address “inclusive approach towards slum development”; after its commencement in July 2011, the focus mutually shifted to address supply side constraints of housing by “developing affordable housing framework for the urban poor”. The TA during its implementation period developed framework to create mass affordable housing stock with private sector participation which comprised three major sub-components i.e. Land, Infrastructure and Housing<sup>1</sup>. The affordable housing framework will act as a guiding document for: (i) MoHUPA to help formulate “Model Affordable Housing Development Framework” (i) at central level, or (ii) state governments to formulate their state specific affordable housing policies. Towards the end of TA (December 2012) it was however felt that, as an extension to affordable housing framework, it is also important to develop sound policies and strategies for rental housing as it represents a real alternative to poor households who cannot yet afford to purchase a suitable house or choose to purchase an affordable house due to their informal and transitory nature of employment and lack of access to formal finance. Considering this, a preliminary study on Rental Housing was conducted in April-May 2013 taking into account three case studies in cities of Hyderabad, Mumbai and Chandigarh. It is proposed that preliminary findings and recommendations presented in this note will be explored further in detail as a part of separate ADB Project Preparatory Technical Assistance (PPTA)<sup>2</sup>. A draft Terms of Reference (ToR) is included in this note to conduct such a PPTA (Attachment-1).

Urban housing shortage is a growing concern among many policy makers in India. As per the recent estimates, a close to 370 million population reside in urban areas whereas it is expected to touch 590 million by the year 2030. With increasing urbanization effects, urban housing shortage is an accentuated reality that is expected to touch 38 million by 2030. Nearly 99 percent of this estimated shortage belongs to urban poor and an inadequate supply of affordable housing is a key reason to the formation of slums and informal settlements that home close to half of the population in many cities. Subsidized ownership housing could be one alternative to address housing shortage however low income households typically with seasonal incomes portfolios and transitory employment patterns cannot afford to buy even such housing in one steady step as they don't have access to formal housing finance and lack worthy credit history. Small monthly rents hence suit their profile and levels of affordability. Furthermore, urbanization has increased migratory patterns from rural areas and small towns to cities and even within cities in search for work, education etc. The pressure of accommodating these migrants have increased double fold while many such migrants

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<sup>1</sup> Land sub-component focused on addressing constraints of current land management practices in India to ensure adequate supply of urban land for sub-urban expansion and availability of land for the urban poor. Infrastructure sub-component focused on concepts of integrated land/housing development with basic services provision and public transport connectivity, and locating urban poor housing along public transport corridors. Housing sub-component focused on encouraging private sector participation in actual housing construction by providing various fiscal incentives. The TA has reasonably analyzed all the three sub-components taking “Rajasthan Affordable Housing Policy-2009” as a practical case study and has formulated guidelines to create ‘functional and enabling’ environment for affordable housing development.

<sup>2</sup> Such pipeline funding for additional PPTA with MoHUPA is currently not included in ADB's total pipeline funding for India and needs to be sanctioned by the ADB after having discussions with Department of Economic Affairs (DEA), Government of India and MoHUPA.

prefer rental housing arrangements over ownership based housing. Though rental markets are fairly developed in India, it has always been a great challenge to obtain formal rental housing for the urban poor, in particular when they first arrive in urban areas so as to gradually link themselves with institutional/formal sources of credit and eventually buy ownership housing.

**Rental Housing Scenario.** After independence for about two decades or so, government policies focused on constructing and handing over finished housing units to urban poor segments. However, this benefitted a lucky few as budget allocated was not adequate to meet the actual demand. A majority of this stock eventually went into the hands of middle/higher income groups as market value of units was increased and poor households sold them to make quick gains. Considering this, the government turned its attention towards being an enabler of housing than a provider through schemes such as “sites and services, slum development and housing finance”. The outcomes of these initiatives were limited and did not contribute much to the total housing demand. Towards 1990s though first generation of reforms were initiated in housing sector by facilitating more housing finance and private sector participation, emphasis on ownership housing remained intact and benefitted mainly construction companies and aspiring middle/higher income homeowners. Thus, national housing policies in India have shown little sign of departure from their primary objective – the conferring of ownership rights. Additionally, there has been little success in reaching out to the poor and addressing overall housing shortfall.

As a result of policy environment that focused on ownership based housing, it can be seen that the formal rental housing accounts for only five percent<sup>3</sup> of the total stock while home ownership is significant at 62 percent followed by 25 percent as rental stock which is available on informal basis. With changing urban scenario and migration patterns, rental housing is in demand not only for families but also for singles (studying, working etc.) men and women. Currently, biggest players in provision of rental housing for all categories are small landlords. They provide housing space as an extension to their house or an additional house/flat offering variety of options in terms of area and amenities and cater to all income segments. Within the given policy environment they face many challenges and risks (low yields, non-eviction of tenants etc.) and hence prefer to operate informally for small tenure periods of less than 11 months to avoid coming under purview of current rent control acts<sup>4</sup>. Today, as high as 80 percent of the rented units are by small landlords that are operating informally. Small landlords operate to earn additional income by way of renting additional space and smaller changes in policy/act (such as better eviction laws, reduced stamp duty or registration charges etc.) may not considerably increase supply of rental housing from this segment. Hostel providers can support rental housing supply that can cater to single men/women. Though government hostels receive some benefits/grants private sector entry in this sector is discouraged as it is treated as a commercial activity and rates for water, electricity and other utilities being higher for commercial use, their margins are reduced.

These individual small landlords and hostel providers will still cater to bridge the housing gap up to some extent; however in current scenario where housing shortages are pretty high, policies require enabling environment and bigger schemes/models to generate mass affordable (own+rent) housing supply. In contrast to Indian rental market, many developed economies during their early stage of development recognized the importance of formal rental housing that was provided by private developers and still comprises up to 30 percent of their housing stock. An enabling environment that encourages both stock creation and private sector participation is required to address housing shortages that facilitate both affordable ownership and rental housing concurrently. With this background, the given note highlights some key issues in current service delivery and provides broad recommendations to create enabling policy environment. The note is a result of three case studies that were undertaken by the TA team and includes a range of different rental housing delivery models and concerns (including private, public and public-private initiatives) whilst catering to urban poor residents and migrants in the formal economy.

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<sup>3</sup> As per NSSO 65th Round (Report on Housing Conditions and Amenities in India, 2008-2009)

<sup>4</sup> Like many other countries, the rental housing market in India is also characterized by rent controls; harsh, tenant-favoring laws; and a restrictive regulatory environment that restrains fluid functioning of the market and, thus, limits vibrant private sector entry in the provision of more rental housing.

## B. Case Studies

### 1. Case Study-1: Rental Housing Scheme by MMRDA (Public-Private)

Mumbai has been a pioneer in experimenting relaxation of floor space index (FSI) and offering transferable development rights (TDRs) to make more space available in its highly congested environment. The same has been attempted again by the Government of Maharashtra (GoM) for creating mass rental housing stock for urban poor families/migrants.

**About the Scheme.** In 2008, under the new Housing Policy, Government of Maharashtra (GoM) launched affordable rental housing scheme with private sector participation and Mumbai Metropolitan Regional Development Authority (MMRADA) was appointed as a Project Implementation Authority (PIA). Currently the scheme under implementation is applicable to entire Mumbai Metropolitan Region (MMR)<sup>5</sup> and promises to develop rental stock of self-contained (with all basic infrastructure) dwelling units comprising 160 sq. ft. carpet area units by extending FSI/TDR benefits to private developers. Private developers will have to develop rental stock on 25 percent of the total plot area and hand it over to MMRDA free of cost. The total FSI is released based on the construction progress of rental units to ensure that rental housing stock is completed much before the housing stock that developer will construct for higher income groups on the remaining 75 percent of the land. A total of three models were formulated as mentioned below and units generated thereby are to allotted based on online lottery system to eligible candidates/families<sup>6</sup>. The scheme did not specify maximum income cap which indicates that it is not designed to cater to EWS/LIG segments exclusively. However, smaller unit size indirectly specifies income brackets and hence rents were also fixed at bare minimum of Rs. 800-1,500 per month. The scheme targeted construction of around 0.1 million houses a year to meet the existing backlog of around two million houses and projected demand of EWS/LIG migrants. MMRDA estimated modest earnings<sup>7</sup> at 80 percent occupancy which were proposed to be utilized towards management of rental stock and rent collection by independent management company.

- Model 1: Higher FSI up to 4.00 with TDR application on Private Land. Of the total 4.00 FSI granted; 3.00 will be used for the rental housing; however TDR will be applicable for the non utilized balance FSI.
- Model 2: Higher FSI up to 4.00 with no TDR application on Private Land. Of the total 4.00 FSI granted, only 1.00 will be utilized for rental housing; however TDR transfer benefits will not be available to the developer.
- Model 3: Higher FSI up to 4.00 on MMRDA (government land). Of the total 4.00 FSI granted, 3.00 will be utilized for rental housing while the remaining 1.00 will be utilized for commercial development.

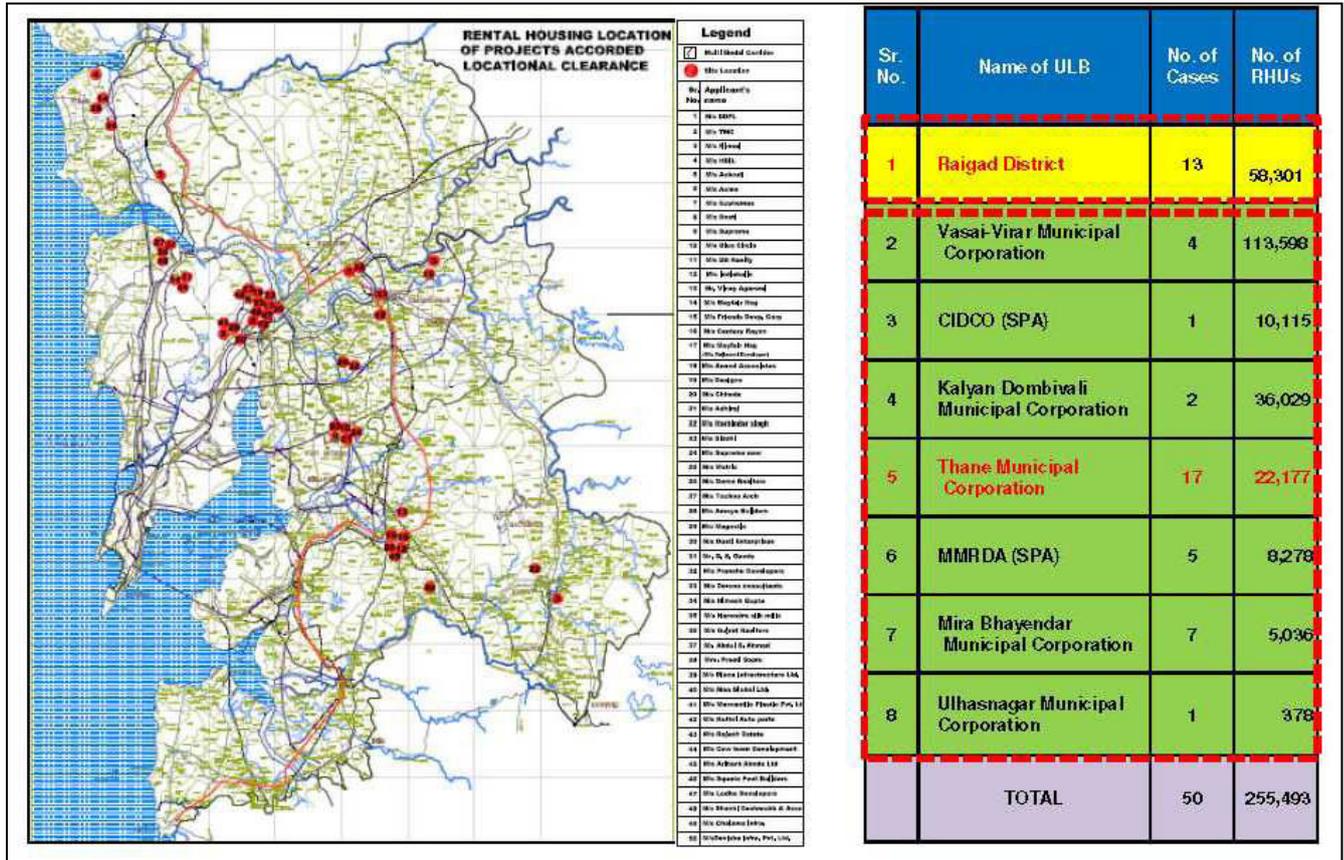
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<sup>5</sup> The FSI scheme is applicable to most of the Mumbai Metropolitan Region (MMR) with the exception of the island city, Navi Mumbai and a few other areas. Zones which lie outside any municipal corporation or council jurisdiction and are marked as "urbanizable" (U1/U2) on the development plan are also included. These zones have an FSI of 0.40 compared to 1.33 for the island city and other MMR areas.

<sup>6</sup> Eligibility Criteria: a) monthly family income up to Rs. 5,000; b) no house in MMR region; c) resident of the state for last 15 years; and d) allotment in the joint name of the spouse if married.

<sup>7</sup> Rent collection for 0.25 million units was estimated at Rs. 4,243 million per year at 80 percent occupancy while annual maintenance cost was estimated at only Rs. 1,470 million. Considering the high densities generated through this scheme, developers are asked to pay additional external infrastructure charge between Rs. 250-1,000 per square meter (sqm). Of this 90 percent will go to the local municipality towards upgrading the external infrastructure while remaining 10 percent will be kept with MMRDA towards rental housing maintenance.

**Chart 1: Location of Sanctioned Rental Housing Proposal in MMR**



**Figure 1: Rental Housing Projects at Thane, Mumbai**



Closely located ground +12 storey buildings

Rental Housing located close to main road



MMRDA received good response for the scheme and currently around 50 projects are being sanctioned. It is estimated that ongoing 30 projects will generate around 65,000 units. Discussions with few developers indicated that they are earning good profits due to additional FSI/TDR benefits however many times profits are dependent on location and price of land. According to them, rental housing project is profitable generally on a larger piece of land (more than 8-10 acres) which is bought at comparatively lower price (or over the period of time developed) with proximity to various amenities and transport, that guarantees appreciation of property prices in the long run.

**Key concerns and issues.** The scheme initiated by the MMRDA is ambitious and promises the creation of mass rental housing stock with private sector participation. Some of the key challenges and issues observed through this case study in provision of formal mass rental housing are summarized below:

- Rental housing units were initially a least priority for the developers and hence no proper attention was given to overall layout and building plans which created poorly ventilated, dark and congested multistoried spaces with long corridors along with small patches of open/semi-open spaces. This was however rectified later by MMRDA’s project team by paying attention to smaller details and participating in design/planning consultations with developers<sup>8</sup>. However MMRDA officials indicated that much more revision is required in scheme (guidelines/specifications) itself to create habitable spaces and developers needs to be sensitized towards this.
- Restricted floor plan and unit area ensures mass creation but does not necessarily meet the needs (type of housing) of many urban poor households. The current plans are suitable for

<sup>8</sup> MMRDA Project Team currently comprising around 4-5 architect-planners incur up to one month’s time per scheme to understand the planning proposed by developers and suggest necessary changes. These also include site visits and sometimes MMRDA officials itself prepare plans and give it to developers. There are few cases where constructed items were demolished to create better spaces and space for parking.

singles but not suitable for a family or family having small household business. MMRDA understand there is need to provide further options in terms of unit area and plans however has not included such elements considering that it will create difficulty during their allotment.

- Higher FSI create much higher densities; higher than those prescribed by standards; especially when unit sizes are kept very low. Currently, rental housing projects have densities more than 10,000 population per hectare and this has been highly criticized by the Ministry of Environment and Forests (MoEF) while giving environmental clearance to these projects. The Ministry has advised MMRDA to either revise unit size to double (320 sq. ft.) or have lower FSI for future projects.
- Higher FSI also require adequate and accessible basic services in place (such as water supply and sewerage). Though the scheme collects additional external development charges from private developers to meet the additional infrastructure requirements accordingly to the service providers (Corporations/municipalities in MMR) it is not always possible to augment/strengthen and provide such infrastructure. This is mainly because projects like these create pockets of high density and sometimes it is difficult to link overall infrastructure in a given area to such schemes having higher infrastructure requirements. MMRDA has indicated resistance to rental housing scheme by urban local bodies in MMR.
- Recently, GoM has proposed some changes in the scheme which undermine the very basis of an affordable rental scheme. It is proposed that two units will be combined to make one single unit of 320 sq. ft. and majority of the stock will be distributed among various government organizations/public sector undertakings for their employees on rental basis<sup>9</sup>. The remaining stock of up to 10-15 percent will be sold by MMRDA (as per eligibility criteria). The GoM has set up special committee to finalize allocation policy and market price of units that will be directly sold in the open market. It is also proposed that some subsidies will be included in fixing market price of units and approximately price may vary from 0.5-1.0 million per unit depending on the location of the project. With these changes in the scheme, MMRDA will now earn substantial money through sale of rental units which will not be utilized towards further creation and management of rental units. It is however proposed to utilize these earnings towards improvement of regional infrastructure in MMR region.
- The GoM has denied the proposal of Rental Management Company due to limitations in the current legal and institutional system and weak law and enforcement (such as laws concerning management of rental stock, revising of rent prices that many a times are intentionally kept low by groups that favour urban poor, eviction of defaulters which are at times supported by local leaders, fear of illegal renting out of units to higher income households etc.). The GoM has also proposed to lower down the FSI from four to three as it is creating higher densities and adding burden to existing infrastructure.

With proposed key changes in the scheme and lowering of FSI that can discourage participation of developers, the rental housing scheme may see its own death in near future. The discussions with government officials clearly indicated lack of political will to continue with the mass rental housing scheme and additional proposals from developers (around 200) have currently given stay. It is likely that with suggested changes the scheme will be converted as an 'Affordable Ownership Housing Scheme' than 'Affordable Rental Housing Scheme'.

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<sup>9</sup> The part of the stock is also proposed to be given to mill workers who had been promised by GoM for house and have been waiting from last two decades.

## 2. Case Study-2: Rental Accommodation by Aarusha Homes (Private)

Hostel providers accommodate much of the transit migrant population and it has been recently estimated that as high as 10 million hostel beds (exclusive of government owned initiatives) in the cities are made available to migrant population by hostel operators (intermediaries) in the private sector. Such facility is made possible by the active participation of close to 0.1 million private hostel operators in the rental housing market, with a capacity of providing 10 to 1,500 beds per operator in different cities of India<sup>10</sup>.

**About the Scheme.** Aarusha Homes is a registered private company<sup>11</sup> that provides rental housing solutions to low and middle income group customers for short term stays through formal hostels and paying guest accommodation. Aarusha Homes calls themselves as 'operators' within the rental housing economy. Aarusha Homes is one of the 6,000 hostel operators in Hyderabad that cater to 0.35 million students and employees at price points ranging between Rs. 2,400 to 4,500 per month. It is one of those few operators who are registered as a private company and manage rental housing formally. Most of their clientele are either students or young workers hailing from different parts of the country. These migrants are single men and women falling within the age group of 17 - 32 years.

The company tested the rental housing sector with several one-off initiatives and in the process was exposed to the unique housing demand of such migrants. These initiatives included constructing and operating a dormitory in Chennai for EWS and LIG migrant population for their client, a contract partnership with Andhra Pradesh Government with the mandate of providing housing/ rental accommodation for rural youth undergoing vocational training in Hyderabad, and a twelve hours shift based accommodation with meals facility for security guards through a corporate contract with a well established Security Services Company. Overtime, Aarusha Homes emerged as an entrepreneur that runs the 'retail model' of rental housing, catering to migrants from low to middle income groups on a first come first serve basis.

The Company does not own any of its rental property stock and properties are acquired from land owners on a lease period of 3-9 years. These properties are located in close proximity to the tenant's place of work or study. The company holds healthy partnership with their landlords and builders who are consulted well in advance to achieve and execute a mutually agreed design and layout plan for such hostels that can ensure both ease of sharing rooms and access to corridors amongst its tenants. A tenant typically enjoys 95-100 sq. ft area that includes the room, kitchen, toilet and other common spaces. Each tenant provides a nominal security deposit of Rs. 1,000 on registration with the majority of the tenants paying Rs. 3,000-6,000 monthly rent. In this price range, the tenant makes avail of services like meals, property maintenance, laundry service and utilities like electricity, internet and hot water supply. The lowest rent is in the range of Rs. 1,400-2,400 and excludes meals.

The company does not face any defaulters. In the coming years, Aarusha Homes plans to scale up their business and outreach to other cities of southern states with the vision to provide 0.1 million beds in the next 6 years. They plan to own and operate a few properties as rental housing units that cater to families of low income groups. The Company also envisages that a small proportion of their property can possibly be developed as hostels for back packers and tourists on short stays.

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<sup>10</sup> Some cities are highly active in rental housing market: Bangalore (0.25 million beds), Chennai (0.25 million beds), Ahmedabad (0.10 million beds), Pune (0.10 million beds) and Kota (70,000 beds). On an aggregate, these rental housing facilities cater to the housing demand of 3.79 percent population of such cities.

<sup>11</sup> The Company was established in 2007 and is operating and managing rental housing properties in the cities of Hyderabad (Andhra Pradesh), Bangalore (Karnataka) and Pune (Maharashtra). Most of their clients are young IT professionals and students who migrate from different States across the country.

**Figure 2: Typical Hostel Projects, Aarusha Home**



**Key concerns and issues.** Some key challenges and issues of the aforementioned retail rental housing model for short term migrants in the formal market are observed through this case study and can be summarized below:

- Rental Housing delivery based on Aarusha Homes initiative is (i) value demanding; (ii) requires huge capital investment; and (iii) faces stiff competition from the informal landlords. The major risks involved include price escalations in food and other services and non occupancy during start up phase/holidays. The total capital cost of furnishings (excluding the

cost of land and building) is estimated at around Rs. 14,000 per bed<sup>12</sup> which is almost double than what Company gets from the tenant as rent per bed.

- The company gives an upfront security to the landowners that ranges city wise from 3 to 10 months of total rent value (for land/building). The rents and subsequently security deposit costs are revised and escalated every year by 10-20 percent in response to 12.36 percent service tax that is levied on landowners<sup>13,14</sup>. Such transferring of tax burden directly from landowner to the operator within the given regulatory environment is acutely felt whilst managing and running the business. The levy of service tax is one of the biggest concerns for operators in the formal rental housing business. Realizing this, Aarusha Homes has made a request to the Ministry of Finance, Gol for exempting service tax on buildings used for hostels and/or rental housing that is being delivered by such intermediaries with rent above 0.1 million per year.
- Private hostel operators (like Aarusha) lack institutional and financial support that discourages them and other willing formal players who are eager to enter the business. Aarusha Homes does not get financing facility from financial institutions (like the Small Industries Development Bank of India-SIDBI) since financial institutions fail to recognize it as a business venture in the absence of owning any property.
- Private hostel operators (like Aarusha) are forever burdened by various taxes and charges given the inflexible regulatory environment. Formal sector hostels and such properties have earned the status of non-residential category and are charged at commercial rates for property tax, water and electricity, apart from the levy of service tax. The property tax levied on the hostels relates to 30 percent of their total expenses and are equal to 4-6 percent of rent per bed/tenant. Furthermore, deduction of income tax at source and very high trade license fee add to the existing burden of managing the rented properties.
- Providers in the formal rental market are on shaky grounds given the stiff competition from informal landlords and financially secured business groups. Consequentially, very few players find it necessary to operate as formal intermediaries given the risk of irregular occupancy, high lease rents and escalating fixed costs. The biggest disadvantage of operating in formal economy is that the operators like Aarusha Homes has to be pay taxes and bills (water and electricity) on commercial tariff basis that the informal sector providers do not comply. Besides, self occupied houses enjoy a rebate of thirty percent on property tax which is not the case for rented houses and hostels. Since the market is highly competitive, the formal sector operators cannot translate such costs to customers else their offer becomes redundant or less attractive to many. Consequentially, such intermediaries in formal space do not get to enjoy a good profit margin that over time discourages overall formal supply of rental housing.

Reservation of land, financial assistance, possible partnerships with willing investors and better regulatory environment may encourage private sector entry as formal hostel operators.

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<sup>12</sup> Includes security deposit to the landowner and other infrastructure cost like beds, fans, TV, cupboards etc

<sup>13</sup> Service tax is paid by the landowner. However landowner recovers the same from Hostel Operator by appropriately increasing rents/security deposits.

<sup>14</sup> One of the landowners who partnered with Aarusha Homes purchased his land for Rs 20 million and parts with nearly Rs 50,000 per month as property tax as the said land is categorized as property for commercial use.

### 3. Case Study-3: Rent-to-Own Housing by Chandigarh Housing Board (Public)

This scheme is one of the first schemes in India which is based on the rent-to-own concept. It is formulated to achieve slum free city of Chandigarh and accommodates slum households of various income ranges.

**About the Scheme.** The Chandigarh Small Flats Scheme 2006 was launched by the Chandigarh Administration in November 2006 under the control of Chandigarh Housing Board (CHB) as the executing agency. This Rent-to-Own initiative, which was initiated as standalone Slum Rehabilitation Project, was later included under JnNURM's Basic Services to Urban Poor (BSUP) as JNNURM provided substantial grants towards its implementation. The scheme covers the construction of 25,728 dwelling units in G+3 storey building typology benefiting 23,841 families (approximately 0.1 million population<sup>15</sup>) that were residing in 18 identified slums/unplanned habitations in the city. The government offered land free of cost (370 acres) at eight different locations that were 1-10 km away from beneficiary's existing location of residence. These sites are linked with new public transport routes that are made operational to facilitate mobility for work from new locations. In near future, most of these scheme sites will get connected by the proposed metro train alignment that will make these sites highly accessible with prime land values. The total project cost was estimated at around 10,215 million with cost of two typical units of size of 270 sq. ft. and 370 sq. ft. at 0.2 and 0.4 million respectively<sup>16</sup>.

The CHB employed a strenuous and just approach during the pre-launch period that helped in a seamless implementation of this scheme. The Board studied previous slum rehabilitation schemes in Chandigarh and other such initiatives like the Slum Rehabilitation Scheme in Mumbai. As a fair deal, initially all the slum residents were observed to be eligible for allotment without any restriction on income levels or period of stay at the current site. Furthermore, a socio-economic profiling and surveys with bio-metric details (digital photograph, thumb and finger prints) of each household of the notified colonies were accomplished way before disclosing the scheme<sup>17</sup>. All biometric details of beneficiaries along with documents matching the above criteria were shared and scrutinized by a Screening Committee for final approvals. These procedures helped the scheme to capture authentic details of each worthy beneficiary without any possibility of double ownership and manipulation. The scheme encourages joint ownership of the head of the family and spouse during allotment processes. Single person ownership is considered only where the beneficiary is either single or runs the household singlehandedly.

The application and allotment process employed in this scheme are straightforward, citizen-friendly and time saving. Beneficiaries fill a simple application form that entails basic identity details and self declaration sans affidavits or certificates. Moreover, CHB developed a special purpose software application, namely Srishti (Slum Rehabilitation for Improvement, Security and Hygiene of the Inhabitants) which is used extensively in allotment camps organised at various sites. Biometric details including digital photograph of the family, thumb and finger prints of the head of the family and spouse are recaptured and verified electronically at the time of receiving application from eligible residents through this software. Allotment letters and possession slips bearing photographs

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<sup>15</sup> Majority of these beneficiaries are migrants from various states and are engaged as daily wagers, construction workers, industry labourers having an average monthly income of rs 3000- Rs 5000.

<sup>16</sup> The total project cost was revised from Rs. 5,649 million in 2006 to Rs. 10,215 million in 2012 to cover inflation and cost of constructing an additional room under the revised scheme. Considering the requirement of additional room, total unit area was slightly increased. However all units irrespective of their area will be charged with same rent.

<sup>17</sup> However, after the completion of biometric surveys there were certain mandatory criteria that beneficiaries are required to fulfill to be eligible to apply for this scheme. These include: (i) Inclusion of the beneficiaries in voter list of 2006 and in the year of the allotment; (ii) Their name shows on the bio-metric socio economic survey that was conducted by the Chandigarh Administration in March 2006, and (iii) Beneficiaries who do not own or have ever been allotted any residential site on free-hold or lease-hold basis in the Union Territory of Chandigarh, Panchkula or Mohali by respective Government/Administration or its Agency either in their own name or in the name of any other dependent family member.

of the joint allottees with their sanctioned flat number and documentation related to utility services (water and electricity connection) are issued on the spot. Srishti sped the turnaround time for application and allotment immensely by speeding the entire process to just a few hours. Through such efficient application CHB managed to shift over 700 families from a slum site (Madrasi Colony) to Sector 56 within a matter of few days, a process that generally takes 6 months to 2 years in normal circumstances. This software also helped to put to rest any possible claims and counter claims as regards to the eligibility criteria. This process was further facilitated through the organised coordination and presence of other line departments and offices (Engineering Department, Estate Office, Municipal Corporation, a scheduled commercial bank, Notary Public) at the allotment camps. These arrangements are the biggest strength of this scheme.

**Figure 3: Rent-to-Own Housing, Chandigarh**



Prior to allotment of flats that is done on a random basis, beneficiaries were shifted to transit shelters. Allotment is initiated through a processing fee of Rs. 900 as a onetime payment. Afterwards, allotment is ensured through monthly license fee based accommodation. The monthly license fee for those residing in the Transit Shelter is Rs. 600 per month and Rs 800 per month when they occupy the flats. At the time of allotment, three months license fee is deposited wherein two months fee is kept as deposit. Metered water and electricity charges are payable to the utility agencies while water supply was provided free of cost in transit camps. License fee for the flat is expected to be revised by twenty percent as compounded after every 5 years. This will account to Rs. 960 per month from the sixth year, Rs. 1,152 from eleventh year and Rs. 1,382 from sixteenth year onwards. By the twentieth year, the occupant gets the option of lawful ownership through purchase provided the licensees hold a continuous occupation for the entire term.

A part of the allotment is already completed the remaining is in process. In present scenario, five sites out of eight are completed with construction of blocks that equates to 12,736 flats. The construction on the remaining three sites (i.e. Maloya-I & II and Maulijagran- I) will include the modified layout of two room flats. Around 1,629 families have occupied regular flats and 329 families are staying in the transit shelters waiting for their turn. Nearly 8,448 flats spread over 122.28 acres at the site of Dhanas are ready for allotment. After the allotment, beneficiaries are responsible for maintaining their individual units while maintenance of common areas and resources (like water tanks, STPs and circulation area, open spaces etc) along with overall maintenance of the blocks is shouldered by the CHB for first five years and thereafter by the Municipal Corporation. Rent collection is currently managed by the CHB where an officer visits each colony from 1<sup>st</sup> to 10<sup>th</sup> date of every month. The officer verifies Bio-metric identification details at the time of rent collection and hence only the allottees are allowed to pay. A manual receipt is generated and the details of payment are updated electronically immediately on receipt of rent.

Land that is left vacant once the slum dwellers shift to transit camps is secured for further city development or returned to the legitimate landowners. For example, land released in Kumhar Colony slum site was handed over to Punjab University- its legitimate owner. In other case, land from Madrasi Colony slum site is diverted to the use of IT park and construction of houses for general public.

**Key concerns and issues.** The Small Flat Scheme of Chandigarh for slum dwellers was implemented seamlessly because of support of local leaders and political willingness of Chandigarh Housing Board along with innovative practices during the time of application and allotment. More importantly, the scheme ensures that it selects genuine people and holds no scope for any other dweller to sneak into the system. This level of trust was achieved through systematic planning including a robust screening of beneficiaries through socio economic profiling and biometric identification. However, some level of convincing was required for the beneficiaries to pay and participate in such scheme. The scheme is good start as rent-to-own model in India however may require further detailing. Some of the key concerns notes were:

- The layout of the completed scheme is reasonably spacious and the blocks are interspersed with green spaces. The common space areas allow a high level of circulation that is often used by most residents as an extension to their houses. Some dwellers have used their own sensibilities and finances in dividing the one room accommodation in two semi closed spaces attaching features like lofts and drawers. However, they view it as an added cost of living in such space. Even though the scheme layouts offer more open/semi-open space; the size of the unit is often the bone of contention in such schemes and the beneficiary looks for the maximum space negotiation especially if their household size is beyond the average of five persons. It is also well researched that one size does not fits all. Considering this, and after consulting with the beneficiaries, a mix of different size unit plans and appropriate rent structure can be thought of.

- Similarly, such typology can also offer option for buying bigger flats after twenty years to those families who have gentrified and improved in their financial position and capabilities within the stay of twenty years.
- It is mentioned in the scheme that “the Competent Authority shall, as soon as is practicable, prepare a separate scheme, creating the option for those licensees who have been in continuous and lawful occupation of the flats for twenty years to purchase the flats at the prices reflecting real value of the property”. This clause is vague in terms of Ownership Transfer price and adjustment of license fee paid over twenty years period. Real value of the property includes the cost of land and appreciates substantially over a period of time with full occupation and development of surrounding area. Currently, the allottees are not sure as to how much amount they have to pay after 20 years for full ownership rights and how the monthly license fee paid by them over 20 years will be adjusted towards the final transfer price.

## C. International Practices and Models in Rental Housing

While India is still struggling to formulate policies towards formal affordable rental housing; many countries worldwide are already addressing their housing shortage through formal and informal rental housing successfully. This section will elucidate and highlight in detail some such case studies that have successfully catered to affordable rental housing in other countries. These international case studies are chosen to reflect as good practices, strategies or models for rental housing made possible through successful partnerships and institutional linkages. One can also glean through such case studies to seek possibilities of applying such models to the Indian context.

**Asia-Pacific Rim:** Some examples can be sought in the Asia-Pacific rim where rental housing is encouraged at both local and central level. These include countries like Singapore, Hong Kong, South Korea, China and Australia. Hong Kong executes its Public Rental Housing Scheme through its Housing Authority, also known as the Housing Society. In Singapore and Hong Kong, direct provision of subsidized public rental housing coupled with subsidized housing mortgage assistance to low-income households during the early phase of housing interventions, which later moved on to ownership public housing supplemented by private sector housing for higher-income households has been very successful to address the housing needs of low-income households. The transition from direct provision of subsidized public rental housing to credit-and-subsidy-supported, market-based provision of affordable public housing followed in China is a variant of this model. In China, before 1979, the rule of thumb was that a family should not spend more than three percent of its income for housing. The rents charged by the government for housing were, therefore, so low that they were not even enough to pay for housing maintenance. After economic and housing reforms were launched in 1979, market-based housing was introduced and various credits and other subsidies were extended to households to access housing. For households who could not afford market housing, housing subsidies are provided by the government to avail of rental housing.

- In Singapore, rental housing units are managed by the Housing Development Board (HDB) and the Town Councils. HDB works closely with other government agencies, family service centres, voluntary welfare organisations and community development councils to tackle homelessness in the long term. The HDB is observed as a statutory board within the Ministry of National Housing with the mandate of providing low cost public housing primarily for low income groups through its Public Rental Scheme. This scheme provides heavily subsidised and limited number of rental flats to the poor and needy families. The eligibility, allocation and determination of rents are supervised by the HDB. Monthly rents for both first time and second time applicants are determined by factors like monthly gross income and household type of the applicant and ranges from lowest of \$26- \$33 per month (for one room) to the highest of \$205- \$275 per month category for 2 room set. Successful applicants are required to pay a deposit of one month's rent at the time of execution of tenancy agreement. To meet the needs of housing shortage for the less privileged residents, HDB decreased the waiting time for rental flats from 21 months to 7.5 months. Such accommodations have become a viable solution for low income groups.
- Likewise, **Australia** launched its National Rental Affordability Scheme (NRAS) in 2008 that is observed as a robust strategy and policy level intervention by the Central Government towards the construction of 50,000 affordable and high quality rental dwellings across the country. The scheme provides financial annual incentives for ten years to large scale investors towards the purchase of new affordable housing dwelling units that must be rented at a minimum of 20 percent below the market rent for ten years. The Department of Families, Housing, Community Services and Indigenous Affairs in consultation with the Australian Taxation Office implements and manages this Scheme. State and Local governments also support this scheme and provides planning incentives at the NRAS approved dwelling sites.

A mix of housing typologies like houses, apartments, flats and villas etc are promoted under this scheme.

- **South Korea** government policy encourages rental housing development through legislative measures and organisational support. Nearing 62 percent of the total affordable housing supply constitutes of long term rental housing in the nation. The government oversees the development and management of rental housing through its agency- Korea Land & Housing Corporation (KLHC). In 2008, KLHC supplied 80,000 rental housing units for the urban poor. For making these rental accommodations affordable for the urban poor, KLHC sets rental rates that are discounted by 5 to 40 percent to the prevailing market prices. At the end of the respective rental period, rental units are sold at lower than prevailing market prices. The agency strongly promotes private sector partnership. Furthermore, the legal instruments encourage rental housing as an option amongst home seekers and provide a formidable development of private sector rental business. These include (i) the Tenant Protection Law that reinforces tenant's rights to adequate living accommodation, (ii) Apartment Management Law that facilitates effective management of multifamily housing complexes and (iii) Rental Housing Construction Promotion Law that promotes private sector led large scale rental housing units including incentives to potential investors. The country also has a well established Industrial Policy that mandates every Company towards obligatory function in constructing hostels and sponsor accommodation to their workers so as to increase productivity and reduce travel time for their workers.
- **The People's Republic of China** under its Ministry of Construction encouraged social rental housing for urban poor through its Lian Zu Fang Programme which literally means low rent housing. Though launched in 1998, it was finally executed in 2006 due to lack of funds and administrative difficulties. Affordable Rental units (Jing Ji Shi Yong Fang) developed under this scheme were built on free government land and private developers were attracted towards partnership through incentives like exemption fees. These units are controlled and managed by the local governments through their local housing bureaus.

**South Africa:** This region showcases an active synergy between enablers within Rental Housing including stock generation, development and management of rental units. These enabling agencies are active at all levels – the centre, provincial and local. At the Centre, a Community Residential Unit Programme (CRU) and a Social Housing scheme for LIG and MIG residents was launched within the framework of the National Rental Housing Strategy. The CRU is the successor of the National Hostel Redevelopment Programme that provides funds for development and refurbishment of public housing stock. At the provincial level, Provincial Steering Committees are established with the special objective of overseeing and coordinating all activities related to rental housing requirements. Likewise, Municipalities at the local government level appoint Housing Associations (e.g. Own Haven Housing Association at Knysna Local Municipality) that are allocated land parcels for delivering rental housing units. City of Johannesburg is a noteworthy exemplar of collaborative effort wherein the Johannesburg Social Housing Company is established as a municipal entity for the provision of rental housing. Additionally, the Madulamoho Housing Association in the city is formed to act as managers and rent collectors of the overall rental stock.

**Europe:** Some countries have well understood the interplay of city planning norms and reservations towards the promotion and generation of rental stock. These countries introduced obligatory regulations and incentives that can promote low rent housing especially in partnership with the private sector. Netherland initiated the government regulated development of cheaper rental homes more commonly known as Sociale Huurwoningen. The non-profit private housing foundations or associations were appointed as the managers of such rental stock.

- **France** exerts an obligatory reservation of at least 20 percent of low rent housing in suburban regions through its Habitation à Loyer Modéré (HLM) Programme which literally means housing at moderate rents. This programme was made possible by a Deposits and Consignment Fund that was created within government's financial organisation and is controlled by the Parliament. The programme constitutes both land acquisition activities and a bouquet of incentives for the private developers towards the creation of low rent apartments. The HLM units constructed in 1960s and 70s were formed with the need for urbanisation and planned communities as a priority of growth in suburban areas of the country. These planned communities i.e. Priority Urbanisation Zones (ZUP) with high rise estates welcomed residents from low income background and accommodated immigrants. In 2012, nearly sixteen percent of all housing in France fell under the HLM category that housed an estimated of nearly 10 million people.
- **The United Kingdom** has provisions for affordable rental and ownership based housing for the low income groups. The programme First Steps in an intermediate housing programme from the Mayor of London office that is established exclusively for low income Londoners to buy or rent housing properties at modest prices. Similarly, UK has the Shared Ownership Scheme for Council and Housing Association Tenants that is managed by the Housing Associations across the country. The applicant- a first time buyer or someone who had a home previously but can't afford to purchase now, can buy a share of their prospective home that equates to either 25 percent or 75 percent of their home value. The remaining share is paid by rent.
- **Finland** encourages development and provision of rental housing stock through an active participation of its real estate companies and corporate investors. The country has a refined Rental Real Estate Investment Trust Scheme (REIT) that helps in routing corporate investors for financing state subsidised housing stock. The SATO Corporation is one such leading corporate investor in Finland that owns nearly 23,500 rentable homes especially around main urban areas and centers. Its vision is to attain homes for 50,000 satisfied residents by 2020.

**North America:** The United States of America established various National, State, County and Local Housing Trust Funds for the development of affordable housing including rental units. The National Housing Trust Fund made possible by the Housing and Economic Recovery Act, is governed by the Housing and Urban Development Department for building, preserving and operating over 1.5 million units for low cost rental housing over next 10 years. However the Trust fund is currently suspended and new ways of generating revenues are being explored. The Florida Housing Assistance Loan Trust Fund which is funded through a document tax a County Housing Fund made possible the construction of 15000 units of affordable rental housing in the Dade County. Likewise, the Dade County Florida Homeless Trust Fund was established to fund transitional housing, emergency beds, shelters and permanent units for homeless people. This trust is funded by a mix of sources including- 1 percent restaurant tax of food and beverages, allocations from the Housing and Urban Development department and other external private and public contributions. Boston through its local government housing trust fund (Massachusetts Housing Trust Fund) encourages rental housing. The city through its Linkage Program made possible the development of affordable housing units including construction of rental, cooperative and homeownership units. Linkage Program draws its funds from Neighborhood Housing Trust and through city's linkage fee which is levied on commercial construction projects of more than 100,000 feet for zoning relief. This fund is also supporting development of abandoned properties or conversion of non residential properties for residential usage that must remain affordable for 50 years for ownership housing and rental housing. Additionally, Boston city is an exemplar of making use of dormitories in real estate market towards rental accommodation. Similarly, Minnesota promotes Captive Housing under its Grand Portage Rental Housing Project which is developed in collaboration with the employers to promote multifamily rental housing units.

## D. Summary of Conclusions and Key Recommendations

The three case studies that cover key models in provision of formal rental housing in India (Public, Public-Private and Private) indicate that there are still some constraints in these models towards successful implementation, wider acceptability and scalability to address overall housing shortage for the urban poor. Formulating workable models for provision of rental housing will require enabling legal, fiscal and institutional environment and Government has a large role to play in facilitating such synergies. This note has identified four key areas which will required to be studied in further detail to facilitate market based mass rental housing.

- **Land/Unit Reservation.** In the changing real estate scenario, land can be singled out as most important component while developing any affordable rental housing project. Like India, availability of land for affordable housing in locations accessible to work places of the urban poor is a challenge in many countries. Hence developing an adequate supply of rental housing will require mandatory inclusionary approach (serviced land/unit reservations) which is to be padded by carefully thought incentives for private sector investment. Recent reforms in housing sector have facilitated some land/unit reservations however these are required to be taken up with overall land management, development of urban fringe areas and infrastructure simultaneously. Green field development is required to be planned carefully with adequate reservations for affordable housing; either ownership or rental.

Currently many buyers hold land for speculative use that result in high land prices. Vacant land/house tax system could be important incitement for curbing land/house prices, making more land available for development and subsequently developing affordable/rental housing. Vacant land/house tax, higher than the property tax for self occupied house may be introduced. This will also compensate the urban local bodies in off-setting their loss of revenue for reducing property tax on rental houses (as proposed in fiscal environment in subsequent sections). Additionally, government has already introduced Tax Deduction at Source (TDS) at the rate of one percent w.e.f 1 April 2013 on the transfer value of the immovable property (except agricultural land) where it exceeds Rs. 5 million. This will check tax evasion on property transactions and indirectly discourage speculative buying. Unprecedented rise in property value is a major cause for depressed rental market and if kept under check; affordable housing can emerge as sustainable business proposition. Computerized property records linked to PAN and Aadhar Card with bio-metric details will also help track the speculative holdings. The Small Flat Scheme at Chandigarh is in the process of linking bio-metric details of scheme beneficiaries with Aadhar Card details to prevent such beneficiaries from again availing benefit under similar schemes elsewhere in India. Such initiatives are a flicker of hope in this direction.

Given the lack of service land at well connected locations and lower prices for the development of affordable rental housing projects, government is formulating schemes that can make use of land owned by private developers. Recent state housing policies (including MMRDA scheme) incentivize private developers with additional FSI and TDR to use private land for affordable rental housing projects. However such approaches are creating pockets of high density areas which are not in conjunction with prescribed standard planning norms, overall land development, infrastructure and transport services. The role of government in guiding the development of land for residential use through land consolidation/pooling and provision of trunk infrastructure and services toward orderly urban expansion is hence essential and should be at the forefront while planning for affordable rental housing. Land (re)adjustments and planned development of trunk infrastructure, including public transit,

and financial incentives for affordable housing have proved to be successful parameters in the housing policies implemented in developed countries.

- **Rental Housing Delivery Models**. Affordable housing schemes have seen some success when they are limited to slum redevelopment wherein the target population is known, land is made available by the government, and subsidies/grants are accessible through centrally/state funded programmes. However, to address overall housing needs of the general poor the approach appears ad-hoc and focus is more on stock creation (supply side) than meeting the needs of the urban poor (demand side). MMRDA scheme or similar affordable housing schemes being developed under some state policies (such as Rajasthan Affordable Housing Policy) are typical examples of such an approach. These schemes proposes ambitious targets of affordable housing for the urban poor segments for stock creation but without having system in place for its successful implementation, allotment and management (that include different typology of units to suit varied household size, income and needs of the people; proper registry and scrutiny of beneficiaries, allotment-wait list- eviction policies, adequate institutional arrangements and sound business model for management of stock etc.). Stock creation models by extending various incentives could be simpler however; Indian models are still in nascent stage with regards to stock allotment and management.

Applicability and scalability of CHB model in other cities (for the general urban poor population) with suitable modifications is needed to develop different rental housing models that suits different types of cities. Learning's can be taken from some of the rental housing models in other countries that mainly include provision of the land free of cost for social housing, incentives to private developers to create stock and establishment of housing association/management agency that deal with stock allotment and management. Private sector participation in affordable rental housing provision can be facilitated by providing various incentives to private developers while pegging on certain minimum area that is suitable for the urban poor (say less than 400 sq. ft.)

Apart from rental housing that is targeted for families, rental housing for students or single migrant workers is also a growing phenomenon in metropolitan and some Class-I cities that requires special attention. Rental Housing delivery models must also address needs of the formal private hostel providers with due consideration.

**Legal Environment**. Private landowners have apprehensions with the existing Rent Control Acts (RCA) as eviction of tenants is difficult due to long and cumbersome legal processes and rents being unfairly low that do not allow reasonable financial returns. The purpose of RCA (which came in to being to manage the world war time housing emergencies) is to ensure affordable accommodation by protecting tenants against unjust eviction and unreasonable rent but not to stop eviction altogether. However existing RCA is considered as main deterrent for active private sector participation in formal rental housing market. Simplification of long and tiresome eviction procedures for a fast tract resolution of tenancy disputes could be one of the most important aspect while addressing changes in current legal environment. Currently, RCA is applicable to both residential and commercial properties. Prioritizing reforms to Rent Control Acts only for residential properties in the first phase could also be one option to accelerate private sector investment as the powerful lobbies acting against these reforms are mostly concerned with commercial rental properties.

Completely scrapping the RCA may not be justifiable<sup>18</sup> in view of the acute housing shortage in the affordable segment and steep rise in the property prices despite a considerable addition to the housing stock during the last decade. Owning a house is becoming more difficult not only for the EWS and LIG but also for the MIG. Such a situation gives discriminatory privileges to the landlords. In the unregulated rental housing segment, tenancy period is restricted to less than a year and hefty rent increases are forced every 11 months along with security deposit of 3 to 10 months' rent. The rate of rent increase has been much higher as compared to increase in average income level during the last decade.

RCAs serve the purpose of balancing the constitutional right to hold and dispose of property and human right for housing. Limiting application of rent controls to only one segment diverts the supply to unregulated segments; therefore, the regulation should cover all segments of rental housing. To safeguard the interests of tenants, minimum tenure without rent increase and issuing receipt for rent paid should also be made compulsory.

- **Fiscal Environment**. To create supportive monetary and fiscal environment for affordable rental housing it is important to look at host of such incentives provided to overall housing sector as they directly or indirectly influence rental housing market. The focus of the fiscal and monetary incentives has largely been to promote ownership. These incentives have led to creation of large quantity of ownership housing stock in the last decade. However, about 10 percent of the housing stock (11million) remains unutilized (vacant) as per MoHUPA - Urban Housing Shortage Report. The steep increase in real estate prices coupled with slow reforms in rent control regulations has reduced the availability of rental housing stock for EWS/LIG segment. Rents have also soared up in line with the real estate prices thereby making it difficult for EWS/LIG segment to even take a house on rent. With the speculative steep increase in real-estate prices, the gains from appreciation in property value are much higher than the rental income as a proportion of value of the property being very low. The owners wait for the value of the property to appreciate instead of renting it out. Exemption from capital gains tax coupled with tax exemption for repayment of loan has fuelled investment in house property for tax free super profits. This has indirectly discouraged rental housing. To promote rental housing, the existing incentives for the housing sector need to be modified and additional innovative incentives need to be provided for large scale private sector participation in rental housing specially for the EWS/LIG segment. Owners of the residential house property would then like to rent out their residential property and additional rental housing stock can be created:
  - a) **Capital Gain Tax exemption for longer holding period**: Capital Gain Tax exemption is available under section 54 of Income Tax Act, 1961, if a person sells one residential house property after holding it for a period of three years and purchases another residential house property by investing the Capital Gain amount. Likewise, Capital Gain tax is exempted under Section 54F if a non-residential property or any other capital asset is sold and the entire sale consideration is invested in acquiring another residential property.

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But at the same time it has to be admitted that any form of price control is undesirable. Ideally, as most economists agree, all rent controls should be abolished. But we are constrained in our action towards complete deregulation by the other variables, which operate in any urban housing scenario. Thus, the idea of immediate countrywide banishment of rent controls must be dropped. The questions that need to be answered first are that will the pressing problems that exist in urban areas of this country go away with rent control deregulation? Are there other factors that need to be addressed simultaneously for rent control deregulation to really have the desired effects? From *Rent Control Laws in India - A Critical Analysis*, National Institute of Urban Affairs, December 2006 □ NIUA WP 06-04)

Section 54 may be amended to increase the qualifying period for complete exemption from capital gains tax from three to 15-20 years to curb speculative holding for short periods and keeping them vacant. Slab system for Tax Exemption can be introduced to link it to number of years of holding ownership of the property. Amount of exemption for a period of holding for less than 15-20 years may be reduced to say 30 percent after 5 years holding, 50 percent after 8 years holding<sup>19</sup>. This benefit available to individuals and Hindu Undivided Family (HUF) may also be extended to corporate sector to promote large investment in affordable rental housing. This incentive of Capital gains exemption will compensate the low returns from rental income. Capital gain tax exemption after a longer period of holding will arrest the speculative property price rise. Section 54F may be amended so that one can invest not in more than one property for rental housing.

- b) Accelerated Depreciation on Building Cost or Tax Holiday for Rental Income: Large corporate employers can be encouraged to construct rental housing stock and utilize them as rental estates for their employees/industrial workers. Incentive for deduction for expenditure may be allowed as for affordable housing projects under Section 35AD (5) (ad). Either accelerated depreciation for construction cost may be allowed or tax holiday for a long period of 10 to 15 years may be allowed for lower rent for EWS/LIG segment similar to tax holiday under Section 80 IB (10).
- c) Property Tax: The Urban Local Bodies generally charge a higher rate of property tax on rented houses, which discourages rental housing. Since property tax is a major source of revenue for the ULBs complete exemption from property tax may not be feasible, but nevertheless it should be at par with the self occupied houses. Property tax holiday may be considered for new stock creation for EWS/LIG segment for a limited period of 5 to 7 years.
- d) Stamp Duty on Rent Agreements: Ad valorem stamp duty for registering rent agreements can be reduced to a token amount of Rs. 100/- to promote registration of rent agreements and reduce litigation.
- e) Service Tax Exemption for Agencies Managing Rental Housing Stock: Agencies not owning the housing stock but hiring large housing property for rental housing service to EWS/LIG segment may be exempted from paying Service tax to ensure affordable rents for the end users.
- f) Withdrawal of Tax benefit for repayment of Loan Principal Amount under Section 80 C of Income Tax Act: To divert excessive flow of credit from MIG and HIG ownership segments to EWS/LIG and to cool off the ownership segment, tax concessions for repayment on home loan principal amount may be withdrawn. The tax benefits being extended to MIG and HIG categories for repayment of loan and interest and capital gains are very high.

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<sup>19</sup>

In France, before the recent change, Capital Gain Tax rate applied to any capital gains made on property would reduce by 10% annually after the fifth year of ownership until it was effectively a zero rate applied in year 15.



Asian Development Bank

## TA 7148-IND: Promoting Inclusive Urban Development in Indian Cities

### TERMS OF REFERENCE FOR CONSULTANTS Preparation of Sound Policies and Strategies for Rental Housing

**Background:** In India, national housing policies have shown little sign of departure from their primary objective – the conferring of ownership rights. But there has been little success in reaching out to the poor and addressing overall housing shortfall. In contrast, during their early stage of development, many developed economies recognized the importance of rental housing that was provided by private developers and still comprises up to 30 percent of their housing stock.

With increased migration from rural areas to cities and within cities seeking employment, education, etc. in urban India today also, rental housing is preferred among many households over ownership housing. Rental housing is also a real alternative for households who cannot yet afford to purchase a suitable house. A majority of urban poor households in India are migrants and usually earn their livelihood from informal sector activities. Being transitory and with irregular incomes, they also prefer rental accommodation over ownership housing as ownership housing involves considerably high initial costs<sup>1</sup> and cumbersome credential requirements. The current rents in formal rental housing markets are often beyond affordable limits of the urban poor. Therefore, urban poor households opt for informal rental units in slums, unorganized settlements or where housing units are undergoing deterioration over a period of time. Though rental markets are very strongly developed in India<sup>2</sup>, for the urban poor, it has always been a great challenge to obtain formal rental housing, in particular when they first arrive in urban areas so as to gradually link themselves with institutional/formal sources of credit to perhaps buy ownership housing later. Additionally, like many other countries, the rental market in India is also characterized by rent controls; harsh, tenant-favoring laws; and a restrictive regulatory environment that restrains fluid functioning of the market and, thus, limits vibrant private sector entry in the provision of more rental housing. Considering this, there is urgent requirement of creating an enabling policy environment for the creation of more rental stock in the market (with private sector participation) for the urban poor.

#### Scope of Work:

Policy, Legal and Institutional Review: Undertake review of existing situations of rental housing and housing policies/acts including those for the provision of rental housing to understand its limitations and scope for further strengthening to foster the growth of rental housing. Also, review existing institutional linkages for financing, developing and management of rental housing stock and possibilities of more vibrant private sector participation in the provision of rental housing.

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<sup>1</sup> Ownership housing involves significant down payment, monthly installments, if loan is taken out, and maintenance cost compared with rental deposits and monthly rents for rental housing.

<sup>2</sup> As per Census 2001, 29 percent of the low-income group in urban areas is staying in rental accommodation, most of which are presumably informal rental housing.

**Client Profile and Typology of Existing Delivery Models:** Identify demand for rental housing from various groups (singles, families etc.) and study existing models currently in place that cater to the demand of each of these groups. Engage with various stakeholders (government, governmental organizations, non-governmental organizations, financiers, developers, architects, management firms, etc.) through case studies in selected cities to understand the issues faced by them in delivering rental housing in current policy environment. Engage with various stakeholders again through case studies in selected cities to understand issues faced by existing and prospective renters in securing rental housing in the current policy/product environment. Assess existing models in terms of urban planning and land use control/regulation contexts, design (location and connectivity to basic urban infrastructure and services, civic amenities, unit plans, communities developed through these projects, etc.), operation and maintenance, rentals charged, legal/contractual arrangements between the landlord and tenants, etc.

**Worldwide Scenario and Applicability of Suitable Models:** Study social, institutional, financial, management, urban planning, land use control/regulation, and unit and project/community design aspects of rental housing schemes in various countries to examine applicability of suitable models in India, either directly or with appropriate modifications. Select best suitable cases from two countries and conduct International Exposure Visit of MoHUPA/other government officials to get firsthand experience.

**Rental Housing Policy, Models and Financing Options:** Based on the above review, recommend measures to strengthen current (rental) housing policy/acts to create enabling environment for more vibrant rental housing development,<sup>3</sup> formulate rental housing models, operation and institutional management mechanisms that deal with various private parties interested in rental housing development, discuss inclusive and incremental approach to developing rental housing and building cohesive communities, and suggest financing options to develop and manage stock developed.

**Team:**

The proposed PPTA will be implemented over 12 months and will require following experts.

| <b>Position</b>  | <b>Positions</b> | <b>Proposed Man months</b> |
|--|------------------|----------------------------|
| Urban Poverty and Housing Expert – Team Leader         | 01               | 12                         |
| Housing Finance Expert                                 | 01               | 08                         |
| Municipal Finance Expert / Economist                   | 01               | 06                         |
| Institutional Development and Capacity Building Expert | 01               | 06                         |
| Legal Expert   | 01               | 06                         |
| Urban Planning/Housing Experts (12 months each)        | 06               | 72                         |
| Knowledge Management Expert (12 months each)           | 02               | 24                         |
| Social/Community Development Experts (06 months each)  | 02               | 12                         |
| Municipal Engineers (08 months each)                   | 02               | 16                         |
| <b>Total</b>   | <b>17</b>        | <b>162</b>                 |

<sup>3</sup> Including “grandfathering” of existing rental housing units that are subject to existing rent controls.