

India, with a rental market distorted by Rent Control Acts

Owning a home in India is the ultimate proof that you have made it and the only real way to live successfully and comfortably. It signifies financial success and a move up the social ladder. It means for the most that you are free from the shackles of rental housing – forced relocations because of temperamental landlords and sub-par housing. An investment in your house is an investment in your future. You are generating wealth not just for you, but also for your children.



The Indian dream of home ownership transcends income levels and rural/urban divides. Speaking to residents of low-income areas in the western city of Ahmedabad, one resident confided that the shift from tenant to home owner made her feel safe and confident – emotions she didn't feel as a tenant. "Now that I own my home, I'm not scared anymore. I don't have to keep moving here and there. Everyone knows that I own my home, they know who I am. I am prouder now. People respect me now."

Yet, based on Knight Frank Prime International Residential Index, in a country where it can take up to 308 years of income to buy a 100-square meter house in a prime urban location, owning a house is out of reach for a growing number of households.

With exorbitant property prices and nascent mortgage market penetration, mortgage-to-GDP hovers around 7 per cent, one might imagine that rental housing would provide an affordable and accessible alternative to costly owner-occupied housing. Yet, in India the growth of the rental housing market has been largely hindered by obsolete rent control laws that discourage landlords from entering the rental market, thereby reducing the stock of potential affordable, rental housing.

The origins of rent control laws in India can be traced to 1918 Bombay. The end of World War I was marked by high inflation. Early Rent Control Acts were intended to be a purely temporary measure to ensure that tenants would not be exploited by landlords due to the scarcity of houses in urban areas. Most Rent Control Acts capped rents at substan-



PHOTO: KARAN VAID



Residents in Savda Gevra, a resettlement colony 30 km west of New Delhi, to where some 30,000 people moved in 2006. Residents were allocated plots of land in an area that was cut off from infrastructure, transport systems, and jobs. Most of these households were living in "jhuggis" (makeshift or kutchra housing) which were torn down by the Government. Residents were given an option of paying Rs 7,000, or €100, for a 10-year plot and an allotment letter for a plot in Savda Gevra. The remaining residents who could not afford the Rs 7,000 were forced to relocate to other slums in Delhi, many of them living as tenants in slums or on the streets of Delhi.

tially below market rate, which heavily distorted the rental market. The Bombay Rent Act of 1948, for example, defined the standard rent for a private premise as the rent at which the premises was let on September 1, 1940.

While rental acts have been amended, they

have generally restricted increases in rent well below market property prices and given tenants the right to sub-lease the property to heirs of the original tenants. Thus, they have created rigid rental controls that are easily transferable between generations.

A recent article in the Bloomberg Businessweek described the result of the Bombay Rent Act and rent control; 78-year old Mea Kadwani, a long-time resident of Mukund Mansion in Mumbai “paid less than US\$20 a month for decades, and US\$23 a month recently, for a 2,600-square-foot (240 m²) space in the upscale Nepean Sea Road neighbourhood, where rents typically top US\$2,000 a month”.

Few landlords have entered the rental market in India, as the Rent Control Acts have so heavily favoured tenants through restrictions on price increases, allowances for tenants to sub-lease apartments to their heirs, and limited landlord eviction rights. In fact, Rent Control Acts have led to several adverse situations like languishing investment in rental housing, withdrawing of existing housing stock from the rental market, and stagnating municipal property tax revenue.

With rental income capped at antiquated prices and landlords unwillingly engaged in long-term leases with tenants, landlords lack the funds and motivation to renovate their rental stock, causing most rental housing to look worn out and dilapidated.

The threat of never being able to recover rental property scares many potential landlords into simply holding onto their properties and then selling them at the peak of the market. Others simply refuse

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“I think India hasn't been able to reform their rental laws because tenants are quite powerful. Now, in many cases tenants are actually wealthier than the landlords. Tenants have grown in power and been able to influence political parties making this law in effect something that is too political to touch.”

/ Janaki Kibe

to rent to Indians, who may potentially squat on rental housing. Many of my Indian friends have had difficulty renting apartments in mid-to-upper income neighbourhoods in Delhi and Bombay as their landlords feared they might never leave the property. In fact, some landlords will exclusively only rent to foreigners, who they feel are less at risk of “squatting” on a property. With property rises sky-high and a shortage of decent rental properties, it is extremely difficult to find an affordable house in an urban area as an Indian.

The result of a poor rental legal framework is a combination of a shortage of new affordable, rental housing, a small, dilapidated stock of existing rental housing, and few housing options for those who are unable to afford to buy a property.

As education increases and Indians become increasing mobile, the demand for urban, affordable housing continues to grow. Yet, without concrete reforms to encourage the production and maintenance of rental housing, India's younger generation faces being, quite literally, homeless.

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NOTICES

USA

Focus on rental housing affordability



More than one-third of U.S. households rent their homes, the most since 1997. Between 2004 and 2011, USA gained 5.4 million net-new renter households. Today, 15 million households live in multifamily apartment properties and demand for rental housing is expected to rise for years to come, driven by a range of factors. Among them; younger people waiting longer to buy homes, former homeowners who couldn't sustain homeownership and household formations.

Source: FreddieMac

CZECH REPUBLIC

Start of social housing program



Czech Television reports that the first families enrolled in a social housing program in the town of Ostrava have received keys to their new apartments from the town. As long as they follow the rules and send their children to school, the town will assist them. According to a city spokesman, the program will be financed by hundreds of millions of Czech crowns from the European Union.

Source: www.romea.cz

HONG KONG

Checks on public housing tenants



The HK government steps up efforts to identify tenants in public rental housing whose monthly income and assets exceed the permissible limits. An additional 30 estate staff will be making 5,000 more checks of tenants' finances, and there will be a two-week special operation targeting blocks in six districts. The monthly income limit for four-people households increased, April 1, from \$20,710 (~€2,000) to \$22,140 (€2,200).

Source: RTHKnews