

Rent Control Laws in India
A Critical Analysis

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Executive Summary

The paper aims to answer two questions:

1. What is the current status of rent control laws in India and what are their main provisions when compared with each other and to the Model Rent Control Law;
2. What have been the experiences with rent deregulation all over the world and what lessons India can glean from these experiences.

The first question has been answered by tabulating the provisions of various state rent control laws in 7 tables. The tables focus on the following aspects:

1. Basic Details (Name of Act, year of enactment and previous acts, if any)
2. Application (Cities, districts, municipalities and types of constructions)
3. Exemptions (On the basis of rent, income of tenant, ownership and date of construction)
4. Rights and Duties of Landlords (Notice of vacancy, temporary and permanent eviction rights)
5. Fair Rent Provisions (Procedure, basis of determination and revision and other charges)
6. Rights of Tenants (Right to receipt, right to deposit rent)
7. Current Developments

These tables (save the last) have also been converted into a dataset, which breaks down the laws in to their various provisions, and would facilitate further research on this subject. The second question has been answered after studying numerous international case studies conducted by various authors. An exhaustive introduction to the conceptual and legal framework of rent controls has also been provided in the beginning of the paper.

The main result that seems to have come out of the paper is that most of the states' Rent Control Acts are poorly written and executed. Despite the circulation of a Model Rent Bill by the central government to all states in 1992, little has been done to reform the archaic Rent Control Acts.

All over the world, several experiments have been done with rent deregulation. Some of them were successful, while others were not. Thus, the theoretical consensus on the harms of rent control hasn't translated into uniform and universal success of deregulation measures. There are other factors too like urban infrastructure, rural-urban migration, regulation of land use and size of land holdings, etc., which go a long way in determining the structure of rental housing markets anywhere in the world.

Thus, instead of vouching for complete deregulation of rents, India needs to reform its rent control laws first and bring them up to respectable standards. Subsequently, the country needs to take a fresh look on its stance on deregulation and take measures based on solid empirical research and evidence, rather than following blindly the path taken by a few countries where deregulation has worked.

Table of Contents

Serial Number	Description	Page Number
1	Introduction: What is rent control?	6
2	How did it originate?	7
3	Historical background of the Delhi Rent Control Act	7
4	The Legal Aspects of Rent Control	8
5	Exemptions	9
6	Arguments against rent control (Economic)	9
7	Arguments against rent control (Social)	12
8	Arguments against rent control (Legal)	12
12	International Experiences	16
13	Where it harmed	17
14	Where it did not	17
15	Lessons for India	19
16	Annexure 1 – Basic Details	21
17	Annexure 2 – Application	25
18	Annexure 3 – Exemptions	32

19	Annexure 4 – Rights and Duties of Landlord	39
20	Annexure 5 – Fair Rent Provisions	46
21	Annexure 6 - Rights of Tenants	86
22	Annexure 7 – Current Developments	90
22	References	93

Introduction: What is rent control?

The practice of imposing a legal maximum (rent ceiling) upon the rent in a particular housing market, below the equilibrium rent is called rent control. If this maximum is above that market's equilibrium rent (different rental housing markets may have different equilibrium rents), then the control is null and void. But if the rent is set at a level below the equilibrium rent, it will necessarily lead to a situation of excess demand or shortage. In a free market, prices (here, rents) would rise automatically filling the gap between the demand and the supply. But rent controls prevent prices from rising up to the equilibrium level and thus, alternative rationing mechanisms such as black and uncontrolled markets evolve.

A raging debate has been going on over the years over the pros and cons of rent control. While the proponents of rent control laws suggest that they prevent landlords from charging exorbitant rents and evicting tenants at will, the opponents suggest that rent control laws, by distorting incentives, lead to deterioration of existing housing stock, increased pullout of apartments from the rental housing market and thus reduced overall supply.

Murphy's law of Economic Policy states that "Economists have the least influence on policy where they know the most and are most agreed; they have the most influence on policy where they know the least and disagree most vehemently".¹ While most economists agree that rent controls are bad², nothing of note has been done towards deregulating rents, especially in India. Also, the sheer diversity of rent control laws existing in various states and countries, coupled with phenomenal economic diversity makes it very difficult to generalize the argument across borders, and thus makes the task of policy makers that much more difficult.

¹ A Rent Affair, Paul Krugman, The Unofficial Paul Krugman Web Page, <http://www.pkarchive.org/column/6700.html>

² In a late-seventies poll of 211 economists published in the May 1979 issue of *American Economic Review*, slightly more than 98 percent of U.S. respondents agreed that "a ceiling on rents reduces the quantity and quality of housing available". Rent Control, Walter Block, The Concise Encyclopedia of Economics, <http://www.econlib.org/library/Enc/RentControl.html#box%201>

A 1986 U.N. study estimated that about 42 percent of the world's urban dwellers were renters. It was not known how many of those 150 million households lived under rent control regimes, but preliminary research suggested that the proportion is as high as 30 percent.³ These numbers can reasonably be expected to have increased with the passage of time. Thus, it necessitates to see why rent control laws came into being and why it has been persisting for such a long time. This paper gains motivation from such curiosity and envisage a change to improve its impact.

How did it originate?

Rent controls were introduced in the early 1900s in the United States and some other parts of the world to check uninhibited rent increases and tenant eviction during wartime housing emergencies. After World War II, there was a sudden increase in the demand for rentable housing from soldiers returning home. With industrialization and corresponding urbanization, there was an increase in rural-urban migrations. To prevent rents from rising too much owing to this spurt in demand, Rent Control Acts (RCAs), under various names were introduced in many countries. These were called the first-generation rent controls. Those introduced later were called the second-generation rent controls or soft rent controls, because they provided for some leeway in rent increases and tenant landlord relationship.

The first rent control legislation in India was introduced immediately after the First World War in Bombay in 1918. It was followed by similar legislations for Calcutta and Rangoon in 1920. By the end of the Second World War almost all the major cities and towns in the countries were covered by rent control measures. All these acts, born out of the inflationary aftermath of the First World War, were conceived as purely temporary measures to provide relief to the tenants against the demand of exorbitant rent and indiscriminate eviction by the landlords due to scarcity of houses in the urban areas. As in

³ Malpezzi and Rydell 1986, 6

other parts of the globe, the rent control laws applicable in various states in India are different with respect to various aspects and thus, a holistic analysis, though attempted here, is difficult.

The Delhi Rent Control Act: Historical Background

The first rent control measure in Delhi came after the outbreak of the Second World War in 1939, under the Defense of India Rules. This was restricted to New Delhi and the Notified Area, Civil Station. In 1942, the provisions of the Punjab Urban Rent Restriction Act, 1941 were made applicable to the remaining areas of Delhi. It was soon realized that the provision of the Punjab Act were insufficient for a city like Delhi and thus, it was supplemented by another Order under the Defense of India Rules in 1944. After the war, another comprehensive legislation was passed for all parts of Delhi by the name of The Delhi and Ajmer Marwara Rent Control Act, 1947. In 1952, it was repealed by The Delhi and Ajmer Rent Control Act, which substituted it and ceased the application of rent Acts of other states to certain parts of Delhi.

Another attempt was made in 1958 to plug certain loopholes of the 1952 act. In the same year, the Slum Areas (Improvement and Clearance) Act was passed which sought to protect the interest of the slum dwellers. The next comprehensive enactment on rent control in Delhi was passed in 1958 and came into force on February 9, 1959. This is the current legislation of rent control in Delhi and it extends to the areas included within the New Delhi Municipal Committee and the Delhi Cantonment Board, together with the urban areas of the Municipal Corporation of the Urban Areas in Delhi.

The Legal Aspects of Rent Control

Under the Indian Constitution, housing (provision of) is a state subject. Thus, the enactment and enforcement of rent control laws is the responsibility of the individual states. While this is in accordance with the federal nature of the Indian Republic, it makes a comparative analysis of the rent control laws that much more difficult. The common

thread running through almost all rent control Acts and legislations is that they are intended to serve two **purposes**:

1. To protect the tenant from eviction from the house where he is living except for defined reasons and on defined conditions; and
2. To protect him from having to pay more than a fair/standard rent.

But most acts also confer upon the landlord the **right to evict a tenant** who is guilty of certain specified acts and also when the landlord requires the house for his own personal occupation. There are various grounds under which a landlord can evict a tenant. The most common of these are listed below. There are also some states, where one or more of the provisions given below don't apply. (Refer to Annexure 4, column 5)

1. Breach of condition of tenancy
2. Subletting
3. Default in payment of rent for specified period
4. Requirement of building for own occupation
5. Material deterioration in the condition of the building

The landlord is required to specify the exact provision of the relevant act under which he is seeking the eviction of the tenant, to enable the tenant to take any remedial action provided in the act. The whole idea of a rent control act is to control and regulate eviction of tenants and not to stop it altogether.

Exemptions have been granted to various sections of the Rental Housing Market (henceforth, also referred to as RHM) under many of the Rent Control Acts (henceforth, also referred to as RCAs):

- Properties belonging to the government
- Any tenancy created by a grant from the Government in respect of the premises taken on lease or requisitioned, by the Government

- Newly constructed properties for a period of ten years (in Delhi) from the date of construction. This period may vary from state to state.
- Any premises, residential or other, whose monthly rent exceeds three thousand and five hundred rupees (in Delhi). The amount may vary from state to state.

One bone of contention over the years has been the feature of most Rent Control Acts to grant **exemptions to the properties owned by the government**. While some say that this is a discriminatory practice, their argument is dismissed by the assertion that the government is not expected to raise rents or eject tenants in the pursuit of higher revenues. Thus tenants of government owned properties are in no need of protection.

Arguments against Rent Control

The arguments for rent deregulation and the reasons for its repeal or non-existence are divided into three parts – economic, social and legal.

Economic Arguments

1. Fixation of standard/ fair rent (Worked out on the basis of the value of land and cost of construction when built, as per the provisions of the Rent Control Act) as a percentage of the cost of construction is a **major disincentive for those wanting to invest in rental housing** as it gives a very low rate of return as compared to other assets. This presents a gloomy picture of the future supply in the rental housing markets. The permission to increase rents by some percent after every three or four years, granted by most of the RCAs is also redundant as the rate of increase of market rents is much larger.
2. The low rate of return also leads to **rapid deterioration of existing housing stock**, as landlords have no incentive to invest any funds in the upkeep of their apartments. This is detrimental to the long-term interests of the tenants. E.g. A study by the Rand Corporation of Los Angeles' rent control law found that 63 percent of the benefit to consumers of lowered rents was offset by a loss in available housing due to deterioration and other forms of disinvestments.

3. It's difficult to evict a tenant once the house has been rented, thanks to the provisions of the RCA. Thus, the fear of losing perpetual control of their houses might lead them to **withdraw their vacant premises from the rental market, leading to reduced supply**. E.g. The total number of rental units in Cambridge and Brookline, Massachusetts, fell by 8 percent and 12 percent respectively in the 1980s, following imposition of stringent rent controls.⁴
4. It's difficult to resell a tenanted house from which it's difficult to evict tenants. This **reduces liquidity in the market for ownership housing**.
5. As any other price control, rent controls also **distort incentives and price signals**, leading to inefficient allocation of resources (here, land and building). This is because in presence of rent controls, houses don't always get allocated to those who are willing to pay the highest rent.
6. People invariably find ways around RCAs, leading to **formation of black, uncontrolled rental housing markets**. The rents in these markets are much higher than they would have been in absence of rent controls. This is because of two reasons:
 - a. The excess demand from the controlled markets spills over to the uncontrolled markets bidding up prices there.
 - b. The supply in the uncontrolled markets is also affected, as there is always a fear of coming under regulation, which deters landlords from letting out in the uncontrolled markets.
7. Rent controls also reduce the mobility of the labor and households living in controlled premises. This happens through the so-called "**Old Lady Effect**", which operates through the reluctance of many consumers to part with the rent control subsidy. Let me elaborate it with the help of an example. Suppose there is a family

⁴ The High Cost of Rent Control, 1996. National Multi Housing Council. <http://www.rentalprop.com/rentctrl.htm>

of six (husband with wife and four children), staying in a 5 bedroom luxury apartments having controlled rent. With passage of time, the children start moving out and suppose the husband also dies. Now the old widow is left with a house, only a part of which, she occupies. Ideally she would like to move to a smaller apartment, but the low rent she pays act as a strong disincentive for her to do so. There will be several other cases in the whole market and the result is a large number of unutilized housing spaces, which would be freed once rents are decontrolled and the "Old Lady" moves to a smaller house. Such reduced mobility prevents people from moving to places, which would suit them best in terms of location and infrastructure. And it can have unexpected community costs too like traffic congestion, pollution etc.

8. **Municipal revenues get eroded.** As property tax is directly linked to the rent, it is now calculated on the basis of standard (controlled) rent rather than market rent. A study of rent control in New York City calculated the loss in taxable assessed property values attributable to rent control at approximately \$4 billion in the late 1980s.⁵
9. Implementation of Rent Control laws also involves **substantial administrative costs**. All rental property must be registered, elaborate mechanisms to fix rents must be formulated and a dispute settlement body established.

The impact of RCA on a city depends upon the relative proportion of the controlled and the uncontrolled markets in the rental housing market. The controlled market is the one in on which all the provisions of the RCA apply, whereas the uncontrolled market is the one consisting of all areas exempted from the provisions of the RCA like government property, slum dwellings etc. If a large proportion of the market were uncontrolled then the impact of the RCA would be obviously minimal. But if a large proportion is controlled, then RCA could have devastating effects. Demand will necessarily exceed supply in the controlled

⁵ The High Cost of Rent Control, 1996. National Multi Housing Council. <http://www.rentalprop.com/rentctrl.htm>

market. Those unable to find homes will invariably move to the uncontrolled sector, bidding up rents. And already, due to government regulation and fear of coming under rent provisions, the supply in the uncontrolled segment is low. Thus, rent controls will actually cause a majority of the people seeking rental accommodation to pay higher rents than they would have paid in absence of rent controls.

Social Arguments

The social impacts of Rent Control Acts are more explicit and often, very bizarre. In absence of any fresh supply of rental housing, the existing tenants sit tight and the new entrants are the worst affected. The only possible way for them to get an apartment is through the death of an existing tenant (assuming no inheritance rights). This can lead to pathetic situations as the following case of Paris under RCA shows:

“Young couples must live with in laws, and the wife’s major activity consists in watching out for deaths. Tottering old people out to sun themselves in public gardens will be shadowed back to their flat by an eager young wife who will strike a bargain with the Janitor, the concierge, so as to be first warned when the demise occurs and to be first at the death. Other apartment chasers have an understanding with the undertakers”⁶ In absence of the price rationing system, as in the case of rent controls, landlords often adapt discriminatory and crude preferential measures in rationing out the scarce supply of rentable housing among the many buyers.

Legal Arguments

1. **The Flawed Nature of Rent Control Acts:** The structure of various rent control acts renders them contradictory to other laws of the land in some situations:
 - a) The law relating to the landlord’s rights to evict the tenant can be found in the **Transfer of Property Act, 1882**. While a landlord can immediately start an action for eviction of a tenant on expiry of the notice of eviction under Section 106 of the

⁶ Bertrand De Jouvenal, “No Vacancies”, published in Block Walter and Edgar Olsen, (ed.) Rent Control : Myths and Realities, Vancouver: The Fraser Institute, 1981

Transfer of Property Act, 1882, he cannot start such an action where the rent control act applies, unless he can prove the existence of one of the grounds of eviction under the Rent Act.

- b) Some provisions of these acts have been repeatedly denounced by the courts as unreasonable. E.g. The Supreme Court, while delivering its judgment on December 19, 1997 on appeals filed by several property owners in Mumbai, said that the existing provisions of the Act that related to the determining and fixing of the "standard rent" were "no longer reasonable".⁷ (Refer to Annexure 5, row 20, column 4)
- c) The various acts relating to the control of accommodation in urban areas including the Rent Control Acts are examples of legislation interfering with the right to hold and dispose of property under Article 19(1)(f) of the Constitution of India. But such acts exist because they are considered to be necessary in public interest in times of shortage of houses.

2. **Ineffectiveness of the Provisions:** The provisions have not been very effective due to the following reasons:

- a) Significantly large urban groups have been excluded from the purview of RCAs. E.g. The Delhi Rent Control Act (including all amendments) grants exemption to the following tenancies (for full list, refer to Annexure 3, row 4):
 - Properties belonging to the government
 - Any tenancy created by a grant from the Government in respect of the premises taken on lease or requisitioned, by the Government
 - Newly constructed properties for a period of ten years from the date of construction.
 - Any premises, residential or other, whose monthly rent exceeds three thousand and five hundred rupees.

⁷ R. Padmanabhan, A Rent Act Under Review, Frontline, Apr 11-24, 1998, <http://www.hinduonnet.com/fline/fl1508/15081080.htm>

Besides the above, exemptions are granted to religious and ethnic institutions also. E.g. in Bihar, the properties owned by Digambar and Shwetambar Jain Trusts are exempted from all provisions of the Bihar Building (Lease, Rent and Eviction) Control Act, 1982. (Refer to Annexure 3, row 3, column 4). Although properties in the informal markets (slum settlements) are not 'exempted' from the provision of the act, for all practical purposes they are considered to be outside the purview of the act. The argument behind this is that for the people (usually lower income group) living in these areas the opportunity cost of going to court is very high and legal illiteracy is rampant.

- b) Under most of the RCAs there is nothing illegal about charging a rent higher than the standard rent. Standard rents are fixed by the Rent Controller, only if the tenant or the landlord approaches him for this purpose. Even if there are no provisions in the RCA for increasing rents over time, the tenants often agree to an increase in rents to maintain good relations with the landlord. (Refer to Annexure 5, column 3)
- c) Another way in which this act is made ineffective is through the prevalent system of lump sum payments at the beginning of the tenancy period. Such payments are illegal, e.g. under Section 5 of the Delhi RCA, which permits only one month's advance. But in the RHM of Delhi, an advance of 6 months' rent is quite common.⁸
- d) Often the renting of the house is done under the Transfer of Property Act 1882 and a "Leave and License Contract" is drawn with the tenant. The period of the lease ranges from 11 months to 33 months and is renewed at the expiry of the contract period. This contract however has no validity under the Delhi RCA or other RCAs.

⁸ Payment of rent in advance is different from the deposit of rent in the jargon of RCAs. A tenant is entitled to deposit rent with the rent controller if he faces difficulty in payment of rent to the rightful landlord. But he is not liable to pay more than one month's rent in advance (in most states).

- e) Often landlords make the non-issuance of rent receipt a prerequisite for renting out apartments. Thus, in the event of a conflict the case of the tenant is weakened by a great extent.
- f) The eviction procedure is usually very long and tiresome. And there is a lock in period after eviction, during which the landlord cannot relet the house. Thus, if a landlord wants to relet the house at a higher rent, he'll avoid going to court, and revert to the following illegal methods:
- Pay reverse '*pugree*'⁹ to the tenant to induce him to vacate the apartment. This is an illegal practice, just as '*pugree*' is.
 - Use of force to evict the tenant. This job is taken up by organized gangs who charge heavy fees. Sometimes, even the help of the local police is taken in this regard.

3. Poorly written Acts: The following observations from the Annexures clearly highlight the fact that most of the states' Rent Control Acts are poorly written and thus their implementation is bound to be problematic.

- In many states tenants are not even entitled to get a receipt from the landlord on payment of rent (refer to Annexure 6, column 3). The right to receipt on payment of rent is an essential right of any tenant and also, the foundation of the tenants' right to seek justice in court of law.
- In several states, the landlord is entitled to make alterations or improvements to the premises without the written consent of the tenant. These improvements, in turn, entitle him to increase the standard rent (refer to Annexure 5, column 5). This means that the landlord, despite the unwillingness of the tenant, can make structural alterations to the premises and claim an increase in rent.

⁹ An Indian term used to describe an interest free security deposit given to landlords which is refundable at the expiry of the lease term to the outgoing tenant by the successive tenant

- A clear position on inheritance rights is essential for any legislation governing property rights. But strangely, Karnataka is the only state in India, which has provisions for inheritance of tenancy in its RCA.
 - Too much in the acts is ambiguous and is left to the interpretation of the user. Phrases like '*basis of*' and '*bona fide*' are used very often.
 - Despite having adapted 'second generation rent controls', only a handful of the states actually allow for periodic, unconditional increase in the standard rent. (Refer to Annexure 5, column 5).
 - Only the state of Maharashtra has provisions for mass letting¹⁰ in its Rent Control Act. The rest of the states seem to assume that a tenanted premises is inhabited by only one tenant or his immediate family. This assumption is definitely not true, especially in a country like India.
 - And in some states, the evictions clauses are so stringent that a tenant cannot be evicted even if he causes substantial physical damage to the building. (Refer to Annexure 4, column 5)

International Experiences and what India can learn from them

Rent controls were introduced primarily after World War II as a temporary measure to prevent landlords from charging exorbitant rents in a situation of inflationary pressures owing to the war. The problem was compounded by the excess demand generated by the soldiers returning home at the end of the war. Despite their temporary nature, rent controls stayed, for reasons more political than economic in nature.

¹⁰ The practice of a single landlord letting out a premises to many tenants at once (usually in case of large buildings with many rooms and shared facilities)

The rent control provisions introduced during this time period came to be known as “first-generation rent controls”. These controls were rigid and were more in the nature of rent freezes. They didn’t allow for periodic revisions in rents and thus led to widespread shortages and emergence of parallel markets. Rent controls introduced during later stages (particularly after the 1970s) were called “second-generation rent controls”. They were much more flexible in the sense that they allowed for periodic revision of rent, often indexed to inflation rates. Leeway was also provided in landlord tenant relationships. But even second-generation rent controls retained the primary nature of price controls i.e. they interfered with the functioning of a free market and distorted incentives and information, although to a much lesser extent than first-generation rent controls.

As is obvious from the above description, merits and demerits of second-generation rent controls are very different from those of the first. It has to be admitted that, on numerous occasions, criticism rightly due to first-generation rent controls has been leveled against second-generation rent controls. It is a little known fact that second-generation rent controls are not just price ceilings. They are complicated devices “intended” to prevent rents from rising to prohibitive levels and to balance the interests of the landlord and the tenants. On the other hand it is also true that many countries are still stuck on first-generation controls, trying to repackage them as second-generation ones without changing their basic nature. E.g. Despite a long and illustrious history of rent control reform, most states in India still implement archaic rent freezes with revision only on certain occasions. (Refer to Annexure 5, column 5)

Almost 60 countries all over the world have rent control laws in place. Many of these are developing countries like India and the Philippines. Due to high population growth rates and low per capita incomes, the relative demand for ownership housing in these countries is low. Rental housing is thus an important a part of the lives of many people and hence, is an important national issue and subject of intense debates.

A simple overview of the major case studies of cities across the world presents a very hazy picture of the effects of rent control on the housing dynamics of urban areas. While there

are instances of rent controls being severely detrimental to the interests of both landlords and tenants, there are also cases where cities under rent controls have not faced any such problems. Some examples from all over the world supporting both sides of the story are presented here.

Where it harmed

There are numerous cases all over the world where imposition of rent controls has led to various problems. Examples to illustrate this point have been mentioned throughout the paper. Some more notable incidences are mentioned below. A study done in 1997 (Glaeser and Luttmer) found out that if there had been a free market in housing, twenty one percent of tenants in **New York City** have either more or less number of rooms than they would have stayed in. The same study also found out that the benefits to the tenants in the controlled sector (in the form of lower rents) are far outweighed by the increased prices for the tenants in the uncontrolled sector.

Further, a study done by Malpezzi (1998) on the housing market in **Cairo** revealed that rent payments in the controlled sector were accompanied by huge side payments, which substantially reduce any subsidies that the tenants would have received from a ceiling on rents. Munch and Svarver (2002) also found that rent control severely affected tenancy duration by as much as six years.

There is also evidence to support the assertion that rent controls may lead to homelessness through an increase of rents in the uncontrolled sector and decreasing the vacancy rate in the controlled sector. Grimes and Chressanthis (1997) using US census data for the 1990s proved this point. After imposition of rent controls the city's shelter population increased by 0.03% and the street population increase by 0.008%.

Where it did not

The simplistic models taught in basic school textbooks suggest that governments worldwide should "remove all rent controls immediately". But in some situations the use of such simplistic models can lead to wayward predictions. E.g. In **Cairo**, research demonstrated that high vacancy rates¹¹ and high rates of new constructions could be found in a market, which is very tightly controlled.¹² Even in Philippines, a study done by the Philippine Institute of Development Studies on the effects of rent controls in **Manila** showed that net benefits of rent control are positive. There are numerous other examples in **Egypt, Canada and Mexico** where rental-housing markets have flourished under moderate to strict rent control regimes.

Many arguments against rent controls, though theoretically solid, lack empirical support. As an illustration, there is no empirical evidence anywhere that rent controls slow down the construction rate of housing. The claim that rent controls lead to abandonment too has been contentious. E.g. **Manhattan's** rent controlled areas have seen no abandonment at all despite being under strict rent controls. A survey of 125 residential cities in **New Jersey** that had a population base of 10,000 or higher revealed that rent controls had no impact on the supply of new housing and only marginally reduced housing quality.¹³

¹¹ The percentage of all rental housing units in a particular area not rented or unoccupied at a given time
http://dictionary.laborlawtalk.com/vacancy_rate

¹² Malpezzi and Rydell 1986, 6

¹³ Future of Rent Control Deregulation in India: Lessons from all over the World, Ram Ranjan, 2006

As housing markets are characterized by asymmetric information, there is an adverse selection¹⁴ problem when there is inflation. Landlords might thus not rent out their apartments at all or might let out to short term tenants only, in order to adjust their rents for inflation in the future. Thus, even in absence of rent controls, landlords may not always raise housing supply in response to shortages or increase in demand. This was exactly what happened in **Toronto** in 1998. Relaxation of rent control laws did not lead to an increase in housing supply even as its population increased significantly in the next few years.

Early and Olsen (1998) used micro data to try to prove a negative relationship between rent control and homelessness. Their argument was that while rent control increases prices by reducing supply in the controller sector, they also make it less likely for the poor to be evicted during times of financial stress. Using data from 44 urban areas in the **United States**, they found that rent controls actually lead to a reduction in homelessness.

But these examples, in no way suggest that rent controls, per se, are beneficial to rental housing markets. It is only in association with other important urban phenomenon that rent controls gain the potential to help or harm a rental housing market and interests of all its participants.

Lessons for India

The above analysis clearly shows us that rent controls, in practice, need not necessarily lead to the various urban problems, which have been mentioned earlier in this paper. This is because in any rental housing market, there are several other factors in operation, which have a major influence on supply, demand and prevalent rents. 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

¹⁴ Market process in which bad results occur due to information asymmetries between buyers and sellers: the "bad" products or customers are more likely to be selected. Source: http://www.google.co.in/url?sa=X&start=12&oi=define&q=http://en.wikipedia.org/wiki/Adverse_selection

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?

These questions gain extra importance with respect to India when we consider the other factors working behind the demand and supply in rental housing markets. Some of these factors are rural to urban migrations, population growth, urban infrastructure bottlenecks, land availability, its distribution between public and private uses, mass transportation shortages etc.

What is really needed is a step-by-step approach. And the ideal first step would be to reform our existent rent control laws. A simple overview of the tables annexed with the paper will give us the idea that gross inconsistencies, absence of several essential provisions and presence of various unnecessary ones plague the Acts. Despite the circulation of a Model Rent Control Law among all the states by the central government in 1992, nothing of note has been done with regard to reforming the existent laws. Essential rights like the right to receipt on payment of rent are not provided for in all the acts. Provision like these should be standardized across all states. And in many states, no increase in rent is allowed except when improvements or alterations are made to the premises by the landlord with the consent of the tenants. This is just euphemism for a rent freeze as no tenant would be eager to allow the landlord to charge a higher rent than what is being charged at present. The right to deposit rent too, has been left untouched or partially defined in many of the states. And there is no provision for inheritance of tenancy in any of the states save Karnataka. Most of the states give no exemptions to new constructions, which would encourage fresh supply in the rental housing markets. Even if they do, the time period of the exemption is just too short to act as a real incentive for

builders to invest in rental housing. The concept of vacancy decontrol¹⁵, which worked wonders in some countries, especially in the US, hasn't been given much thought either.

These are just some examples from a plethora of discrepancies present in our rent control acts. Working towards an improvement in the state of these laws can prove to be a stepping-stone towards the desired end of complete deregulation. Thus, instead of incessant rhetoric about complete and immediate deregulation, what is needed is a methodical approach towards reforming the existent rent control laws. And instead of relying completely upon examples of other countries where deregulation has worked, empirical research and quantification of the relationships needs to be done between the various factors working behind the scenes in the rental housing market in India, and the impact deregulation is likely to have on these factors.

¹⁵ The practice of perpetually exempting a premises from any type of rent or accommodation control on vacancy. Vacancy may be defined differently under different acts.

ANNEXURE 1 – BASIC DETAILS

Serial Number	State	Name of Act	Previous Acts (if any)
1	Andhra Pradesh	The Andhra Pradesh Buildings (Lease, Rent and Eviction) Control Act, 1960 (Act No. 15 of 1960)	Madras Buildings (Lease and Rent Control) Act, 1949 and Hyderabad Houses (Rent Eviction and Lease) Control Act, 1954, integrated into one Act in 1960.
2	Andaman and Nicobar Islands	Andaman & Nicobar Islands Rent Control Legislation notified on 19.10.1965 is applicable in Port Blair Municipal Area. No other information, as the aforesaid legislation is not available.	
3	Arunanchal Pradesh	The State Government is yet to enact a Rent Control Act in the state.	
4	Assam	The Assam Urban Areas Rent Control Act, 1972 (Assam Act No. 17 of 1972)	Assam Urban Areas Rent Control Act, 1966 (No. 2 of 1967)
5	Bihar	The Bihar Building (Lease, Rent and Eviction) Control Act, 1982 (Bihar Act No. 4 of 1983)	The Bihar Building (Lease, Rent and Eviction) Control Act, 1977
6	Chattisgarh	No new Act enacted. Following the parent state Act.	
7	Dadra and Nagar Haveli	No State Rent Law in force.	

8	Delhi	The Delhi Rent Control Act, 1958 (59 of 1958)	Delhi and Ajmer-Merwara Rent Control Act, 1947 ; Delhi and Ajmer Rent Control Act, 1952
9	Goa and Daman & Diu	The Goa, Daman and Diu Buildings (Lease, Rent and Eviction) Control Act, 1968 (Act No. 15 of 1968)	Decree No. 43525, dated 7 th March 1961 and Legislative Diploma No. 1409, dated 14 th February 1952 and the corresponding provisions of any other law.
10	Gujarat	The Bombay Rents, Hotel and Lodging House Rates Control Act, 1947 (Bom, Act No. 57 of 1947)	Bombay Rent Restriction Act, 1939 and the Bombay Rents, Hotel Rates and Lodging House Rates (Control) Act, 1944
11	Haryana	The Haryana Urban (Control of Rent and Eviction) Act, 1973 (Haryana Act No.11 of 1973)	East Punjab Urban Rent Restriction Act, 1949
12	Himachal Pradesh	The Himachal Pradesh Urban Rent Control Act, 1971 (Act No. 23 of 1971)	The East Punjab Urban Rent Restriction Act, 1949
13	Jammu and Kashmir	The Jammu and Kashmir Houses and Shops Rent Control, 1966 (No. 34 of 1966)	The Jammu and Kashmir Houses and Shops Rent Control Ordinance, 1966 and the Jammu and Kashmir Houses and Shops Rent Control (Amendment) Ordinance, 1966

14	Jharkhand	No new Act enacted. Following the parent state Act.	
15	Karnataka	The Karnataka Rent Act, 1999 (Karnataka Act No. 34 of 2001)	Karnataka Rent Control Act, 1961
16	Kerala	The Kerala Buildings (Lease and Rent Control) Act, 1965 (Act 2 of 1965)	The Kerala Buildings (Lease and Rent Control) Act, 1959
17	Lakshadweep	Housing problem is not acute and inter island migration is very limited. Thus, having a Rent Control Legislation is not considered necessary.	
18	Madhya Pradesh	The Madhya Pradesh Accommodation Control Act, 1961 (No. 41 of 1961)	The Madhya Pradesh Accommodation Control Act, 1955
19	Maharashtra	The Maharashtra Rent Control Act, 1999 (Maharashtra Act 18 of 2000)	The Bombay Rents, Hotel and Lodging House Rates Control Act, 1947, The Central Provinces and Berar Regulation of Letting of Accommodation Act, 1946 and The Hyderabad Houses (Rent, Eviction and Leases) Control Act, 1954
20	Manipur	In the process of preparing a bill on Rent Control on the lines of suggestions made by the Central Government.	

21	Meghalaya	The Meghalaya Urban Areas Rent Control Act, 1972	The Assam Urban Areas Rent Control Act and The Meghalaya Urban Areas Rent Control Act
22	Mizoram	The Mizoram Urban Areas Rent Control Act, 1974 (The Mizoram Act No.9 of 1974)	Assam Urban Areas Rent Control Act, 1966
23	Model Law	The Model Rent Control Law, 1992	None
24	Nagaland	No information available.	
25	Orissa	The Orissa House-Rent Control Act, 1967 (Orissa Act 4 of 1968)	Orissa House-Rent Control Act, 1958 (No. 31 of 1958)
26	Pondicherry	The Pondicherry Buildings (Lease and Rent Control) Act No. 5 of 1969	N.A
27	Punjab and Chandigarh	The East Punjab Rent Restriction Act, 1949 (East Punjab Act No. 3 of 1949) and The East Punjab Rent Restriction (Extension To Chandigarh) Act, 1974 (Act No.54 of 1974)	Punjab Act No.6 of 1947 and East Punjab Act No.21 of 1948.
28	Rajasthan	The Rajasthan Rent Control Act, 2001 (Act No.1 of 2003)	The Rajasthan Premises (Control of Rent and Eviction) Act, 1950
29	Sikkim	Gangtok Rent Control And Eviction (Act 1 of 1956)	N.A
30	Tamil Nadu	The Tamil Nadu Buildings (Lease and Rent Control Act), 1960 (Tamil Nadu Act I of 1980)	The Madras Buildings (Lease and Rent Control) Act, 1949

31	Tripura	The Tripura Buildings (Lease and Rent Control) Act, 1975 (No.5 of 1975)	The Tamil Nadu Buildings (Lease and Rent Control Act), 1960
32	Uttar Pradesh	The Uttar Pradesh Urban Buildings (Regulation of Letting, Rent and Eviction) Act, 1972 (U.P. Act No. 13 of 1972)	The United Provinces (Temporary) Control of Rent and Eviction Act, 1947
33	Uttaranchal	No new Act enacted. Following the parent state Act.	
34	West Bengal	The West Bengal Premises Tenancy Act, 1997 (West Bengal Act No.37 of 1997)	The West Bengal Premises Tenancy Act, 1956

ANNEXURE 2 – APPLICATION

Serial Number	State	Cities, Districts and Municipalities	Types of Constructions
1	Andhra Pradesh	Except sub-section (2) of Section 3, applies to Hyderabad and Secunderabad, Vishakhapatnam and Vijaywada and all Municipal Corporations and Municipalities, sub-section (2) of Section 3 will only apply in these areas if there is a notification by the State Government.	Residential, Non-residential includes gardens, grounds, garages and outhouses, if any and also any furniture and fittings supplied by the landlord. Rooms in hotels and boarding houses are not included
2	Bihar	The whole of the State of Bihar	Same as above

