POLICY SERIES

19

Institutional provisioning of affordable rental housing in urban India:

Past experience and way forward

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Abstract

Low-income households and migrant households in Indian cities are largely dependent on the informal private rental market to satisfy their housing needs, even though such housing in most cases is of poor quality with little security of tenure. The Government of India's Affordable Rental Housing Complexes (ARHCs) scheme is an attempt to provide a formal housing solution for low-income households through the route of institutional rental housing. So far, the scheme has had a muted supply side response. This policy series re-visits four institutional multi-family rental schemes located in Mumbai, Kolkata, Chandigarh and Kota to understand the challenges and issues involved with such projects. Insights on financial viability, rental management, beneficiary selection and livability issues affecting these four projects offer important lessons for the ARHCs scheme. The ARHCs scheme have been off to a slow start; for it to gain traction in the future, the sanctioned projects need to be developed and implemented well. This policy series paper may help identify timely, robust and informed policy actions to revitalise the rental sector by providing a roadmap to ensure sustainable outcomes.

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Institutional provisioning of affordable rental housing in urban India: Past experiences and way forward

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1. Introduction

Amidst increasing urbanisation and rising socioeconomic inequality, providing adequate and affordable housing has become a pressing urban development challenge across Indian cities. A recent study indicates that India's urban housing shortage, based on households living in substandard housing and crowded conditions, increased by 54 per cent from 18.78 million in 2012 (MoHUPA, 2012) to 29 million in 2018 (Roy & Meera, 2020). This shortage almost entirely was on account of low-income households. These households, as defined by the Ministry of Housing and Urban Affairs (MoHUA) for the *Pradhan Mantri Awas Yojana* (Urban) (PMAY-U) mission in 2015, include economically weaker section (EWS) households, i.e., households earning INR 3 lakh or less per annum, and the low-income group (LIG) households, i.e., households earning between INR 3 lakh and INR 6 lakh per annum (MoHUA, 2021a). India's housing policies primarily focus on home ownership to bridge the demand and supply gap, irrespective of the changing demographic needs, beneficiary backgrounds, and preferences. Although the proportion of tenant households as a percentage of urban households has steadily declined from 53 per cent in 1971 to 27 per cent in 2011, a significant number of low-income households lived in formal and informal rental housing in our cities, often in compromised living conditions due to various economic and livelihood constraints (Haque et. al., 2020; Kumar, 2001).

The lack of affordable and secure rental housing severely affects low-income households who usually do not own a house or land in the city. Rental housing in urban India is primarily supplied by private landlords who operate outside the regulatory and judicial framework. About 80 per cent of the rental arrangements in India are informal in nature without any legal contract (NSSO, 2019). For many low-income urban families, informal rental housing is the only affordable and feasible option. But these houses are plagued by a host of issues including lack of tenure security, poor quality housing, market discrimination based on caste, religion, marital status, etc., and limited access to civic infrastructure (Thorat et al., 2015; Datta & Pathania, 2016; Haque et al., 2021; Scheba & Turok, 2020; Manish & Naik, 2021).

The lack of tenure security faced by low-income tenants was noticed with the massive exodus of migrant families from the major cities during the Covid-19 induced lockdown in 2020. In response, the union government initiated the Affordable Rental Housing Complexes (ARHCs) scheme in July 2020 under the ongoing *Pradhan Mantri Awas Yojan*a (Urban) (PMAY-U)

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mission. The ARHCs scheme seeks to provide formal housing solutions by promoting the provision of affordable institutional rental housing for low-income families and single-member migrant households in India's cities. So far, the scheme has had a muted supply side response; for it to gain traction in the future, sanctioned projects under the scheme need to be developed and implemented well. This policy series attempts to provide a roadmap to do so. The second section of this policy series discusses the existing institutional rental housing context in India, including recent government initiatives. The third section revisits four institutional multi-family rental schemes by the government located in Mumbai, Kolkata, Chandigarh and Kota to understand the challenges and issues involved in such projects. Insights on financial viability, rental management, beneficiary selection, and livability issues affecting these four projects offer important lessons for the ARHCs scheme. Some policy recommendations and conclusions are presented in the fourth and fifth sections respectively.

2. Institutional rental housing in India – a background

Institutional rental housing has little presence in India's urban housing landscape. Institutional landlords include government agencies, public sector organisations, and private for-profit, and private not-for-profit organisations. At present, the institutional rental housing sector in India is small and comprises employer provided housing for employees and their families; formally registered hostels, dormitories, and paying guest (PG) units for single-member households provided by government and private sector organisations and a few institutional, multi-family rental housing schemes by government agencies catering to the general public.

Institutional multi-family rental housing primarily include employer provided (government and private) housing for those employed in the formal sector. In 2018, only four per cent of urban households lived in such housing (NSSO, 2019). These houses, to some extent, have eased the pressure on the private rental market and the affordable owner-occupied housing market. However, there are long waiting lists for employer provided rental housing in metropolitan cities. It is important to note that employer provided housing has usually not been an option for low-income households, since such households are usually employed in the informal sector.

Most of the hostels, dormitories and PGs across major Indian cities, available for single-member households, are usually not registered and operate informally. Formally registered (i.e., registered with the mandated state level or local body level authorities and required to function accordingly) hostels, dormitories, and paying guest (PG) units include the recent trend of co-living housing facilitated through digital technology platforms. All of these options are available in the open market for single-member households that primarily belong to middle-income or higher-income brackets. However, existing formally registered establishments are not enough to meet the current demand. Of late, the number of formally registered establishments, particularly co-living housing operators, has been growing in metropolitan cities. New entrants over the last decade include co-living housing operators such as *Stanza Living*, *Zolo Stays*, *Nestaway*, and *Oyo Life*, etc., and low-cost operators such as *Aarusha Homes* and *Tikaana*, among others. These co-living establishments are professionally managed and operated through digital technology platforms. In many cases, such operators have also tied up with existing hostel and PG operators. Low-cost operators such as *Aarusha Homes* and *Tikaana* also cater to blue collar workers belonging to the low-income bracket.

2.1 Government's recent initiatives for rental housing – ARHCs and MTA

The MoHUA launched the ARHCs scheme as a sub-vertical of the ongoing PMAY-U for creating affordable rental housing for single-member households and families belonging to the EWS and LIG categories near their workplaces in the urban areas. There are two models (Model 1 and Model 2) of institutional rental housing under the ARHCs scheme. Both models have provisions for single-member rental housing as well as multi-family rental housing. In Model 1, vacant government housing, constructed under union and state government initiatives, is to be re-purposed and operated as rental housing by concessionaries for 25 years. Model 2 is a build-to-rent (BTR) model in which an agency can build housing on its land and rent it out for 25 years. So far, the response to the scheme has been tepid. Under the ARHCs Model 1, a total of 83,534 vacant flats built under various government schemes including Jawaharlal Nehru National Urban Renewal Mission (JnNURM) and Rajiv Awas Yojana (RAY) have been identified by the union government as the potential number of houses that can be re-purposed as rental housing (MoHUA, 2020a). Although the initiative aimed to unlock the potential of vacant government housing in our cities, it is important to note that these housing units have been primarily vacant due to delayed allotment, locational disadvantages, etc. A study by Naik et al. (2021) on a few of these government projects with vacant units found about 38 per cent of the units remained vacant because allottees were not willing to move into these houses for various reasons such as poor construction quality, poor access to basic services, peripheral location and absence of livelihood opportunities. Moreover, about a quarter of these units were unallotted, and the remainder were stalled for reasons including court stay orders, issues with beneficiary lists, or absence of completion certificates (ibid). Requests for proposal (RFP) has been received from government agencies for only 11,547 houses across the states/UTs of Gujarat, Rajasthan, Madhya Pradesh, Haryana, Uttarakhand, Himachal Pradesh, Jammu and Kashmir, and Chandigarh (MoHUA, 2022a; MoHUA, 2022c). This is about 14 per cent of the vacant houses identified as potential ARHCs Model 1 houses. To date, 2195 vacant flats in Chandigarh,[5] 2,467 vacant flats in Gujarat, 480 in Rajasthan, and 336 in Jammu & Kashmir built under JnNURM have been converted into rental units under ARHCs Model 1.

For the ARHCs Model 2 scheme, 13 proposals have been received from the states of Tamil Nadu (6), Chhattisgarh (1), Assam (1), Uttar Pradesh (1), Gujarat (1), Telangana (1) and Andhra Pradesh (2), as of April 2022 (MoHUA, 2021b; MoHUA, 2021c; B.A, P. V., 2021; PIB Delhi, 2021; MoHUA, 2022b). Out of the four applications received from the private sector, only one is from a private real estate firm, while the rest are from industrial firms. Thus, it is likely that most of these projects are employee housing and not rental housing meant for the general public. Further, our analysis based on the available information from various Central Sanctioning and Monitoring Committee (CSMC) meetings indicate most of the units (94 per cent) are dormitory units not meant for families. Build-to-rent (BTR) housing for

5 Built as a part of the Chandigarh Small Flats Scheme

families or multi-family rental housing catering to the general public has generated scant interest under the ARHCs scheme.

Another initiative from the central government is the Model Tenancy Act (MTA), 2021 (MoHUA, 2021d). The Act puts forth a system to effectively regulate the rental housing market, with guidelines to resolve minor disputes that frequently arise between landlords and tenants. The Act targets to bring vacant housing in urban areas into the rental market by creating a formal and binding regulatory environment for both tenants and owners. So far, Andhra Pradesh, Assam, Tamil Nadu and Uttar Pradesh have revised their rental laws based on the MTA (The Hindu, 2022).

Thus, so far, the response to both ARHCs and MTA has been slow and muted. This policy series paper focuses on institutional multi-family rental housing, which is a key mandate of the ARHCs scheme.

3. Key challenges and past experiences in providing institutional rental housing in urban India

Institutional multi-family rental housing is rare in India. Before the ARHCs scheme, two notable institutional rental housing and two rent-to-own schemes had been launched for the general public. Four schemes located – in West Bengal, primarily[6] in the densely populated prime locations of Kolkata and Howrah, and in Mumbai, Kota, and Chandigarh – were conceived by the respective governments. Of these, the Kota and Chandigarh schemes are rent-to-own schemes,[7] while the scheme in Mumbai, which involved private sector participation, was eventually withdrawn. The West Bengal Public Rental Housing Estates (PRHEs) have been operational for more than forty years and have been plagued with myriad issues. Existing literature on these schemes include Sengupta (2006), Sengupta (2007), Sengupta et. al. (2007), ADB (2013), Harish (2016a), Harish (2016b), Nallathiga (2019) and Gupta and Kavita (2020). This existing body of work helped the authors develop an overall understanding about these schemes. Based on this understanding and further primary and secondary research, four important aspects of these schemes pertaining to finances and financial viability, rent setting and rental management, beneficiary selection, and design and livability issues are discussed next.

3.1 Finances and financial viability

Compared to ‘for sale’ housing projects, rental housing projects have a longer investment cycle. Funds are required for the development as well as rental operations of the project and returns are received over a longer time period. Given the high land cost and low rental outputs in Indian cities, the financial viability of rental projects is poor. Besides, being a new asset class, the financial risks associated with institutional multi-family rental housing are high. Based on our analysis and understanding of the four existing schemes, we surmise that for government-

[6] 75 out of the 89 public rental housing estates across West Bengal towns

[7] In ‘rent-to-own’ schemes, the tenant gets ownership of the dwelling unit after a fixed time period, subject to timely payment of rent during the period and a down payment at the time of transfer of ownership.

owned and managed projects, continued government funding is critical irrespective of the scale of the project. Defining the length of the project's operational period is important. For projects involving private participation, substantial government incentives are essential. Further, low rents and inefficiencies in rent collection can become a cause of financial stress for the government agencies involved.

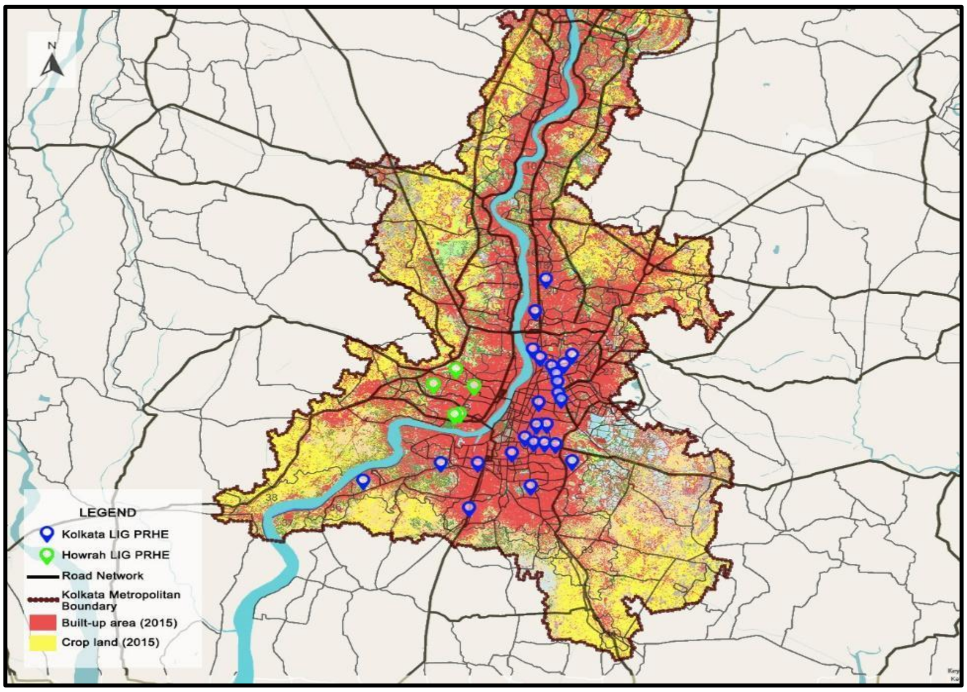
3.1.1 West Bengal Public Rental Housing Estates (PRHEs)

West Bengal PRHEs have been funded by the Government of West Bengal for 50 years. These complexes were built in the 1970s on land owned by the West Bengal Government and the Kolkata Improvement Trust (KIT), a state government parastatal agency. Long-term loans with a payback period of 75 years from the Life Insurance Corporation (LIC) provided the initial funds for the development of these complexes (Sengupta, 2006). Since the 2nd Five-Year Plan, the LIC has provided loans to state governments for developing rental housing for their employees. The scheme, introduced in February 1959, granted loans carrying an interest of five per cent per annum to state governments, and the loans were repayable over a period of 20 years (3rd Five-Year Plan, 1961).

There are about 20,000[8] rental units located in the prime locations of Kolkata and Howrah (Figure 1) in West Bengal, and house government employees as well as general public tenants (Housing Department, 2014). Rents charged are nominal. Hence, rents collected are an insignificant portion of the expenditure incurred on the maintenance and management of these complexes. As a result, these estates have been a drain on the finances of the West Bengal government.

[8] Including LIG, MIG, HIG and integrated or mixed housing estates. LIG housing estates were the highest in number.

Figure 1. West Bengal LIG PRHEs in Kolkata and Howrah



Source: *Mapped by the authors, on base map shared by Dr. Mehebub Sahana, The University of Manchester.*

The Times of India (Chakraborty, 2007) reported that KIT annually spent about INR4 crore on the maintenance and management of the rental units, while it collected a cumulative annual rent of INR30 lakh. Unlike the ARHCs scheme with a defined rental timeline of 25 years, or a rent-to-own timeline of twenty years and five years for the Chandigarh and Kota schemes respectively, the rental time period was not defined for West Bengal PRHEs. Eventually, to stop the drain on its finances, the Government of West Bengal decided to sell off the rental units to the tenants, including those who were in unauthorised occupation of the units at highly subsidised rates. However, the attempt to sell these units remained unsuccessful. Most existing tenants did not want to purchase the flats even at much discounted prices due to the dilapidated condition of the flats (Chakraborty, 2007). The KIT was able to sell only 80 flats located in the prime area of *Jorasanko* in Kolkata at a price of INR70 per sq. ft against the existing market rate of around INR1000 per sq. ft (ibid). Most residents across the rental dwelling units that KIT manages across Kolkata have been demanding that they be relocated to new flats being built by KIT instead of being offered their existing rented flats (ibid). Interaction with KIT officials indicated that, overall, only about 10-15 per cent of PRHE flats were sold. The idea of selling these units has been shelved and these complexes continue to be a drain on the state finances of West Bengal. Thus, an important lesson to draw from the West Bengal experience is that for government agency managed projects under the ARHCs Model 1, the financials of each project should be re-assessed after 25 years and the future course of action should be decided accordingly.

3.1.2 Chandigarh Small Flats Scheme (SFS)

Chandigarh SFS is a rent-to-own scheme of 25,728 flats for slum dwellers, funded by the JnNURM mission. The total project cost was INR12,377 million (Teotia, 2015). So far, about 17,700 flats have been completed and allotted to beneficiaries (Gupta and Kavita, 2020). The Chandigarh Housing Board (CHB), a union government parastatal, oversees the development and management of the project. Rent was fixed at INR800 per month, based on a socio-economic survey and slated to rise by 20 per cent every five years for a period of 20 years. After 20 years, the beneficiaries are to get ownership after the payment of a lump sum amount. The quantum of lump sum payment is yet to be decided. A few vacant units have been re-purposed as ARHCs model 1 units by the CHB. For those SFS units converted to ARHCs Model 1 units in 2020, rent has been set at INR3000 per month. Of the collected rent under the two schemes, 95 per cent has to be transferred to the Consolidated Fund of India by the CHB, and the remaining five per cent retained by it as administrative charges (Chandigarh Administration, 2020; MoHUA, 2021c)

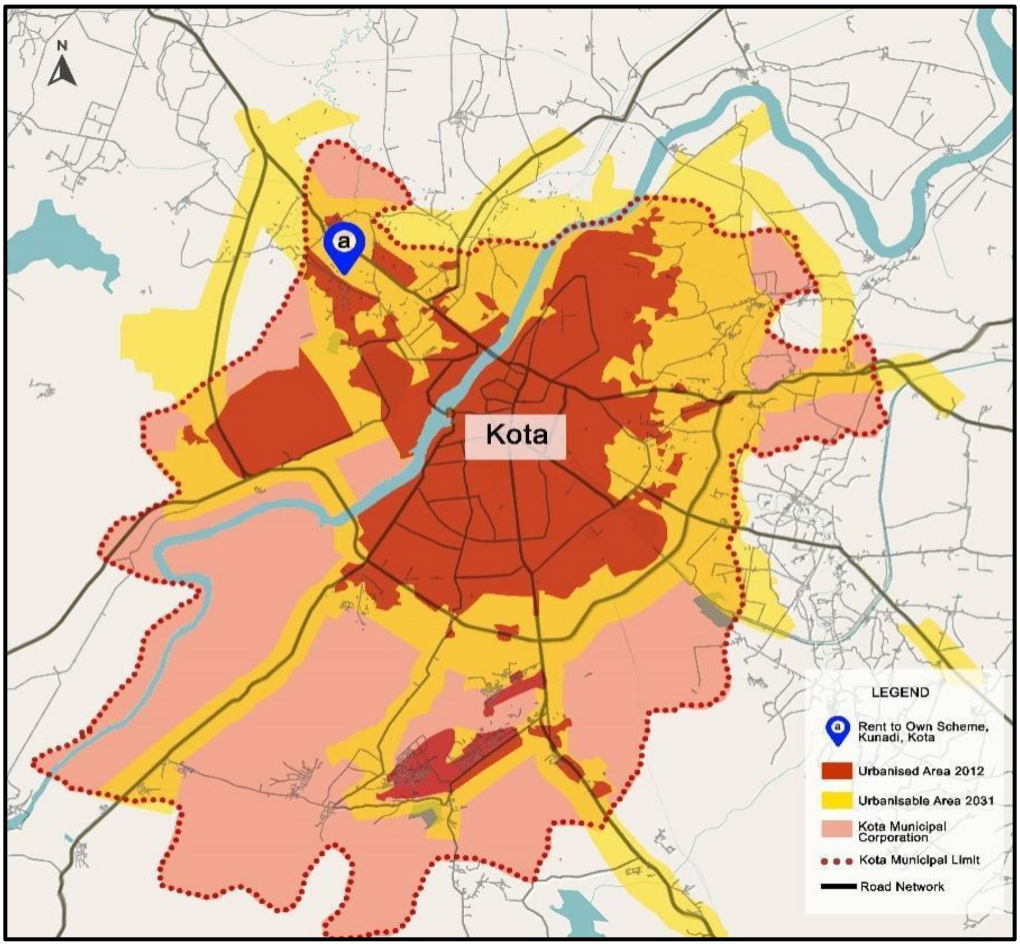
Of late, rent collection has become a cause of financial concern. A substantial rental outstanding of INR20 crore was reported as of February 2021 on account of the SFS and ARHCs Model 1 flats (The Tribune, 2021). These complexes are located in the city outskirts, with fewer livelihood opportunities compared to in-city slums. This resulted in added expenditure for beneficiaries on daily transportation. Besides, women in these households could not find suitable work nearby and many of these women expressed difficulty in travelling to the city, leaving children alone in the outskirts. While services like electricity and water used to be free in the previous slum accommodation, it is chargeable in these rental complexes. Besides, the consumption of water and electricity has increased in the new high-rise accommodation. Many of these households used open spaces or public toilets for daily sanitary needs. With the provision of individual toilets, the consumption of water increased. The need for heating and cooling is also relatively high in the new apartments compared to their previous residences. The residents of rental housing allotted post-2018 struggled more with the Covid pandemic in 2019. These households found it difficult to establish connections and networks for work during the lockdown and, hence, had no income. However, there were additional expenses on account of rent and other services. These reasons as well as an attitude of dependency on the government could be the major reasons behind rising outstanding rental collection, according to a CHB official.

Given the protracted rental timeline of 20 years, substantial longstanding delays in rent collection leading to delays in receipt of the five per cent administrative charge by the CHB and can be expected to lead to financial stress for the CHB.

3.1.3 Kota Rent-To-Own Scheme

This scheme was launched under the *Rajiv Awas Yojana* at a location on the outskirts of Kota city (Figure 2). The Kota Urban Improvement Trust (UIT), a state government parastatal, oversaw the development and management of the project comprising 1528 flats (MoHUA, 2015). Interaction with a Kota UIT official revealed that about 1470 units have been completed and handed over since July 2019. About 50 per cent of the cost of construction was to be borne by the union government and the remainder was to be funded by the state government (30 per cent) and the Kota Municipal Corporation (20 per cent) (Bhan et al. 2014). Rent was set at INR525 per month with a five per cent yearly escalation; an additional INR100 was to be paid as maintenance charges by the tenants. From our interaction, it emerged that a tenant could purchase the apartment unit from Kota UIT after a period of five years on payment of 10 per cent of the cost of construction of the project, which amounted to INR35000. The project involved an approximate subsidy of INR0.35 million per dwelling unit inclusive of the cost of land. The interaction also revealed the existence of outstanding rental payments. But unlike the Chandigarh case, the beneficiaries usually pay up after receiving notification from the officials. This could be due to the foreseeable timeframe to ownership set in the case of Kota's rent-to-own scheme, and relatively affordable rent.

Figure 2. Kota Rent-to-Own Scheme



Source: Prepared by the authors using base map from Google Earth and Google Maps, ULB boundary from the UIT's Official website (Available at: https://urban.rajasthan.gov.in/content/raj/udh/uit-kota/en/town-planning/master-development--plan-.html , accessed on December 9, 2021)

3.1.4 Mumbai Rental Housing Scheme (RHS)

Mumbai RHS was launched in 2008 by MMRDA in the suburbs of Mumbai by seeking the participation of private developers. It was conceptualised as a public rental housing scheme developed under the build and transfer mode. It did not involve any government funding. The private participant was to have built the rental units on their own land and transfer it to the MMRDA[9] in exchange for incentives provided for the development of the 'for sale' component and the Transferable Developmental Rights (TDR) granted. MMRDA would be the owner and manager of the rental housing units. The ARHCs Model 2 has certain similarities with the Mumbai RHS wherein additional floor space index (FSI) is used as an instrument for incentivising the private sector to construct rental housing on their land. However, the additional floor area ratio (FAR) in the case of ARHCs is much less than for Mumbai RHS.

9 MMRDA is a state government parastatal responsible for planning and urban development of the Mumbai Metropolitan Region.

Unlike the Mumbai RHS, the ownership of the rental units in the case of ARHCs Model 2 remains with the organisation/agency developing it.

Mumbai RHS was successful in getting the private sector interested, based on the various incentives provided that made the scheme financially attractive to private developers (Harish 2016a). Although the scheme was discontinued later, examining the models and processes followed is useful for understanding what worked initially in generating private participation.

According to the MMRDA website, 44 projects were given location clearances, which were expected to create 40,441 rental housing units (MMRDA, 2022). Most of these projects were in the municipal regions of MMR, while a few were located in areas designated as urbanisable by MMRDA but were not municipal areas (ibid). Areas designated as urbanisable but outside the purview of any municipal authority were far-flung areas with lower population densities, involving a longer commute time and hence, had lower demand for housing, particularly from the target beneficiaries for whom the rental housing was being built. Visits to the project sites revealed that even the projects in the municipal areas of Thane, Mira Bhayandar, and Panvel were located far from Mumbai's employment hubs and involved long commute times from the city's employment centres.

There were three models through which participation from private developers was sought. One model was based on land owned by MMRDA and two of the models were based on private developer land. One of the private developer land models involved a grant of Transferable Development Rights (TDR) in lieu of the rental units built. The other involved grant of additional FSI for 'for sale' units at the same location. Almost all the 200 applications received, including for the 51 approved projects, were for the FSI model.

Employing the FSI model, the project was to be constructed with an FSI of four on private developer land. This was higher than the FSI allowed under the existing Development Control Regulations (DCRs) for these areas. Out of the FSI of four, FSI of one was to be utilised for rental housing and transferred to MMRDA. The remaining FSI of three was for the private developer and could be used for developing 'for sale' housing. This model did not cover the Municipal Corporation of Greater Mumbai (MCGM) areas but the outlying areas of MMR. Although MMRDA calculations indicated that this model might prove to be unprofitable in some pockets (Deshpande, 2011), especially where house prices were low, almost all the applications received by MMRDA were for the FSI model. The high interest levels in this model could have been because of the high expected demand and higher expected prices envisaged for the 'for sale' housing units by the private developer.

Based on the high initial interest levels from private developers in this model, the DCRs by the ULBs were revised to accommodate the higher FSI (ibid), and construction by a few developers progressed at a brisk pace. However, later the FSI of four was found to be unfit for the respective project locations and revised to three (The Economic Times, 2015). Further, management of the rental units by MMRDA was found to be financially unviable, and the rental scheme was discontinued and re-branded as 'Affordable Housing Scheme' (Harish 2016a).

3.2 Rental management agency functions and issues

The rental housing complexes in West Bengal, Mumbai, Chandigarh and Kota indicate the myriad functions a rental management agency needs to perform for the management of a low-income affordable rental housing complex. There were issues in mobilising adequate funds and manpower for effective management and maintenance, tenants' lack of willingness to pay for maintenance, and the need for more effective communication between landlords and tenants.

3.2.1 West Bengal PRHEs

The public rental housing estates in Kolkata and Howrah are owned and managed by state government agencies and have been caught in a vicious cycle of poor maintenance and insufficient finances. Sengupta (2006) reported that local political interference adversely affected rent collection. The rent collected was grossly inadequate to meet operational expenses both because of low rents and inefficiencies in rent collection (ibid). KIT annually spent about INR4 crore in maintenance and management on its rental dwelling units, while it collected a paltry sum of INR30 lakh as rent annually (Chakraborty, 2007). Both the Estate Department, Government of West Bengal, as well as KIT are state government agencies. Thus, there was limited autonomy. Eventually, to address the challenge of deteriorating finances, the government decided to sell the units to existing tenants. Providing institutional landlords with sufficient autonomy in rental management including rent setting could have been explored for the PRHEs.

3.2.2 Mumbai Rental Housing Scheme (RHS)

In the initial period of the Mumbai RHS project, it was envisaged that the rental housing units would be managed and maintained by the MMRDA once the dwelling units were handed over to the MMRDA. MMRDA initiated talks with a UK-based non-profit agency, which would help MMRDA identify models through which it could manage the rental units. Four potential models – facility management model, arm's length management organisation model, management by a housing association, and management and development by a housing association model – were explored (Deshpande, 2011). However, financial estimates drawn up by the MMRDA indicated that the maintenance of the rental units would be financially unviable for the MMRDA, especially in case there were vacant units (Harish, 2016a). The lack of institutional capacity within the MMRDA was a key factor leading to the eventual termination of the rental housing scheme in 2013 (ibid).

After the scheme was discontinued, the completed RHS buildings in Thane and Mira Bhayandar have been under the purview and management of the urban local bodies. Visits to these complexes and interaction with the residents revealed that these complexes at present house slum households requiring transit housing due to the redevelopment of slums, households affected by infrastructure projects, and households rehabilitated from dilapidated buildings. The water supply, general upkeep, and maintenance of these complexes were poor. Residents alleged apathy on the part of the respective local bodies, and a general reluctance to pay the maintenance charges to the agency responsible – ULB or Resident Welfare Association

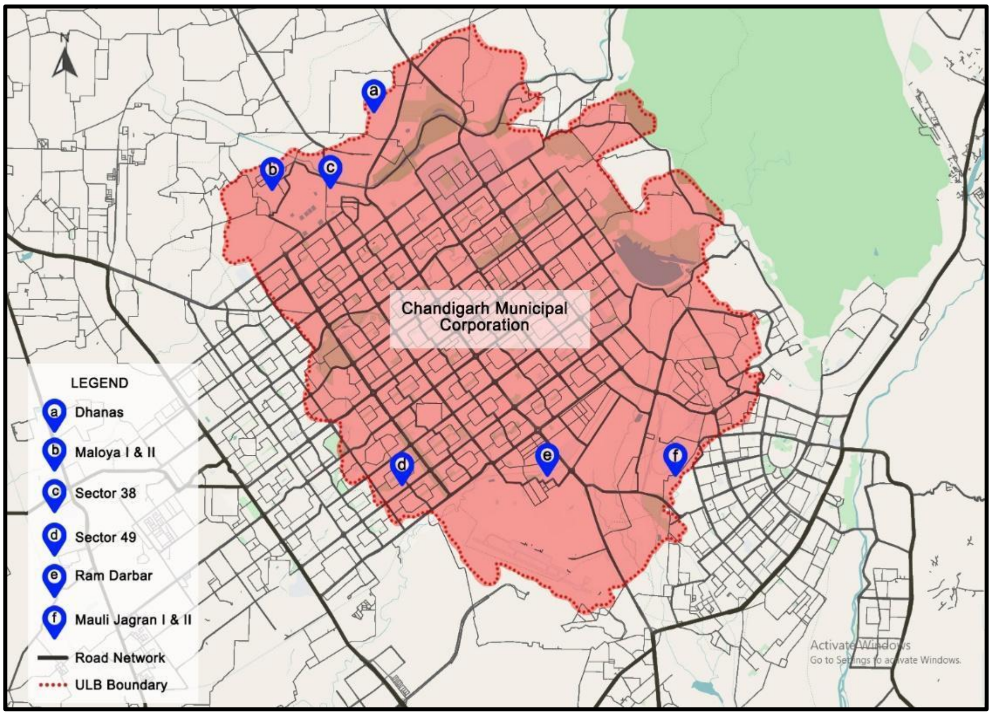
(RWA). There is clearly a need for enhancing financial and human resource capacity at the respective ULB level for better management of these RHS complexes.

3.2.3 Chandigarh Small Flats Scheme

Rental management and maintenance of the scheme have been the responsibility of the CHB, and the maintenance of parks and open areas was the responsibility of the Chandigarh Municipal Corporation (CMC). Issues of faulty drainage, seepage, dampness in walls and roofs, irregular solid waste collection, littering, and misuse of public facilities provided were common across the complexes (ADB, 2013; Gupta and Kavita, 2020; field visit by author in 2021). According to the beneficiaries, the CHB and the CMC were apathetic to the issues faced, while officials are of the opinion that the problems were due to the acclimatisation issues faced and improper usage of facilities by residents (Gupta and Kavita, 2020; field visit by author in 2021). Efforts were made by the CHB to sensitise the beneficiaries to the issues associated with living in these rental complexes. Nevertheless, the existing issues indicate that more effective communication between beneficiaries and CHB could have helped beneficiaries acclimatise to their new homes and surroundings better.

Further, there were instances of non-compliance with the scheme guidelines by the beneficiaries such as the sub-letting of units as well as the operation of shops within the complex (Gupta and Kavita, 2020; field visit by author in 2021). This indicated there was scope for generating better awareness about scheme guidelines and more effective monitoring by the CHB.

Figure 3. Location of Chandigarh SFS



Source: Prepared by the authors using base map from Google Earth and Google Maps, ULB boundary based on the Chandigarh Master Plan 2031 (Available at: https://chandigarh.gov.in/chandigarh-master-plan-2031 , accessed on December 9, 2021).

In an interaction with a CHB official, it was also revealed that beneficiaries were reluctant to pay for any maintenance and upkeep of common areas inside and outside the buildings. Interaction with the beneficiaries revealed that this was because it was an additional 'uncalled' expenditure they had to incur after relocation and was not mentioned in the scheme document. Further, since the complexes were located on the fringes of the city (Figure 3), beneficiaries' disposable incomes had declined due to the loss of earlier sources of livelihood and higher expenditure on travel to their workplaces. There were also instances of non-payment of rent (licence fee) (Gupta and Kavita, 2021). Thus, there is a need to gauge the ability to pay rent and maintenance charges by beneficiaries by considering the effect of relocation on beneficiary incomes and livelihoods by the CHB and other agencies involved.

3.2.4 Kota Rent-To-Own Scheme

Kota Urban Improvement Trust (UIT) was the rental management agency for the Kota rent-to-own project. Interaction with a UIT official revealed there was reticence to pay a monthly maintenance charge of INR100 by the tenant beneficiaries. So far, the maintenance of these units has been undertaken by Kota UIT. Five years after allotment, once the ownership of the units was passed on to the beneficiaries, Kota UIT was not to be involved in maintenance. At present, efforts are underway by the Kota UIT to enable the formation of the RWA in the scheme so that the upkeep and maintenance of the complex can be taken over by the residents. However, after the transfer of ownership to the tenants, payment of maintenance charges by them to the RWA will be critical to ensure the maintenance of the complex. Hence, the Kota UIT needs to sensitise tenants to the importance of their financial contribution to the maintenance of the complex. Another important activity by the UIT that came to light was addressing complaints by tenants regarding illegal occupation and anti-social activities in unallotted vacant units. Addressing such complaints has been the responsibility of the Enforcement Wing of the UIT.

3.3 Beneficiary selection

For government-subsidised housing schemes, eligible beneficiaries are selected based on applications received from the general public or the location of their previous homes in case of resettlement schemes. Among eligible applicants, selection usually happens on a first come first serve basis or through lottery. Eligibility usually depends on household income, length of residence in a specific city or state, and the possession of adequate documentation that attest to their fulfilling these criteria. Past rental schemes indicate that setting the appropriate eligibility criteria and selection process are critical for the eventual success of any scheme.

3.3.1 West Bengal PRHEs

According to Sengupta (2006), beneficiary selection in the case of the Kolkata PRHEs did not follow the income guidelines and was plagued by political interference and latitude. Income ceilings for ascertaining eligibility were revised once since 1966 in 2000 but were not binding (ibid). The allocation process lacked transparency and was more a matter of luck than an outcome of the assessment of the need for subsidised housing for the beneficiary household (ibid). To increase transparency in beneficiary selection, the process of selection was to be computerised and information on applications, allocations made and waitlisted applicants was to be made available online (Commerce and Industries Department, 2012). Since the rents were significantly lower than market rents, there was a long waiting list of applicants at any given point in time (Department of Housing, 2014.). Moreover, in the survey conducted by Sengupta (2006), it was found that the average household size of beneficiary families was lower than the average size of a Kolkata household and many beneficiary households owned property elsewhere. Given that about 31 per cent of Kolkata's citizens or 3 lakh households live in slums (Census, 2011), the public rental housing estates, housing only about 20,000 households,[10] have hardly made any dent in terms of providing access to housing for the city's population in greatest need of housing assistance. Thus, these complexes have benefited only a handful of citizens.

3.3.2 Mumbai RHS

Initially in the case of Mumbai RHS, the eligible beneficiary household had to be continuously residing in Maharashtra for the previous 15 years, have a minimum household income of INR5000 per month, and not own a house in the MMR (Deshpande 2011). So, a household earning less than INR 5000 per month was excluded from this scheme. Since the scheme was initially conceptualised in 2008 as a slum prevention programme (Harish 2016b), the intent was to provide slum households with formal housing on rent. This might have been a challenging proposition given the high proportion of slum households in the city. The RHS was also located far from employment centres and the slum households would have had to leave behind their social networks. Slum resettlement schemes in the outskirts of cities have seldom worked in India. Besides, many slum households would be owners of the houses they live in and have *pattas.* In such cases, becoming beneficiaries of the RHS scheme might mean giving up the ownership of their existing houses in exchange for becoming tenants. In effect, this would mean that they lose ownership, which they would have strong reservations against. Thus, voluntary participation of slum households in the scheme seemed unlikely.

Moreover, the selection of beneficiaries was based, as is the norm for the selection of allottees of housing schemes across Indian cities, on a lucky draw (Deshpande, 2011). Thus, it might be that the most vulnerable and needy did not get selected.

3.3.3 Chandigarh Small Flats Scheme

The beneficiary selection process for the Chandigarh SFS was intended to be fair and efficient. The scheme was designed to relocate slum dwellers across the city to formal housing. The eligibility of the beneficiaries was ascertained based on socio-economic profiling, cross-checking with voter lists and biometric surveys conducted in 2006. A software application developed specifically for this scheme helped speed up the application and allotment process (ADB, 2013). It also helped in avoiding any false claims (ibid). However, a significant number of slum dwellers were found ineligible according to the scheme guidelines (Ami and Kaur,

[10] 13,335 units of Estate Directorate, Housing Department, West Bengal Government, and 7000 units of KIT

2014), either because their names were not present in the 2006 voter list (Sagar, 2021), or they lived in the slums after 2006. Fresh biometric surveys have been conducted recently to widen the coverage of the scheme (Pundir, 2021).

3.3.4 Kota Rent-To-Own Scheme

Interaction with the Kota UIT official revealed that the scheme targeted households earning less than INR2 lakh per annum and living as tenants in Kota slums, as well as below poverty households in Kota. About 70 per cent of the dwelling units were earmarked for the first group and 30 per cent for the below poverty line households. Applications were sought and the selection of eligible beneficiaries was based on a lottery. Thus, the housing complex has a mixed beneficiary profile. Interestingly, multiple advertisements by beneficiaries were found on web portals seeking to sell or sublet these units (99acres, 2021). Interaction with these revealed that they were among the better off beneficiaries seeking to sell or sublet their units due to the distant project location and the small size of the dwelling units. Thus, earmarking a larger share of the housing units for below poverty line households would have benefited those in greater need of the subsidy provided.

3.4 Size, design and livability in the rental complexes

Livability was poor in the Mumbai, Chandigarh and Kota rental projects due to the small size of the dwelling unit, loss of access to communal areas as extended living space compared to slums, and distance from employment centres and the core city. West Bengal PRHEs LIG units were also small but were located in prime locations of Kolkata and Howrah.

Table 1 Size and Rooms of Existing Rental Schemes

Rental Scheme	Size of Flat (sq ft)	Rooms
Mumbai RHS	160[11]	Living room with kitchenette, bathroom
Chandigarh Rent to Own	270 [12]	Living room, kitchen, toilet, bathroom, balcony
Kota Rent to Own	273 [13]	Living room, kitchen, bedroom, toilet, bathroom, balcony
West Bengal PRH (Kolkata and Howrah)	283[14]	Living room with kitchenette, bedroom, bathroom, balcony

Source: Secondary research by the authors.

Although the size of the houses in the four schemes was comparable to the average size of a slum house, which is 277 sq. ft (NSSO, 2019), interaction with the residing tenants in the case of Mumbai, Chandigarh and Kota indicated that the residents found the size of the flat to be too small for their needs, especially when children grow up and their family size increases.

11 Deshpande 2011
12 ADB 2013
13 Interaction with Kota UIT official
14 Sengupta 2006

This was so because access to and utility of space outside the dwelling unit was severely limited in these rental complexes compared to the slums where these households lived earlier. When living in slums, a few households reared livestock in the land abutting their dwelling unit, used to wash their clothes outside their houses and could sit outside and chat with their neighbours. These activities were not possible in the rental complexes. In the case of Chandigarh SFS, since it was only one room, many families divided the room into two separate rooms. Instances of poor drainage and damp walls indicate there may have been deficiencies in the quality of construction. In the case of Mumbai RHS, high density norms were followed to utilise FSI four; this led to insufficient distance between two multi-story buildings, which adversely affected the amount of natural light received and ventilation in the apartments (Figure 4).

Figure 4. Mumbai RHS in Dosti Vihar, Vartak Nagar, Thane

Source: Authors own.

4. Thinking ahead on institutional affordable rental housing in India

To develop and operate institutional affordable rental housing schemes in Indian cities, this policy series paper puts forth suggestions on four areas that need urgent policy attention. *First,* given the limited fiscal capacity of the union and state governments, private participation is important for the development of this sector. Improving financial feasibility and attractiveness is key to generating the private sector's interest and participation. *Second*, existing multifamily affordable rental housing complexes highlight effective rental management to be a critical challenge and bottleneck for smooth operations. *Third*, it is important to ensure that the targeted beneficiaries benefit from government incentives for institutional rental housing projects. *Fourth*, the houses developed should be liveable and offer a good standard of living amenable to a healthy and productive life. The Technology Innovation Grant (TIG) provided for ARHCs projects for using innovative construction technologies should be utilised to fulfil this objective.

4.1 Encouraging private sector participation

Private interest for investing in rental housing for families is low due to low rental yields, which is usually between two to three per cent in net terms (Sharma, 2021; Knight Frank, 2018). Among real estate asset groups, rental housing for families is the least attractive financially. The net rental yield earned by landlords in the case of commercial (office, retail, warehousing) real estate properties is in the range of 7-8 per cent (The Mint, 2021), while gross rental yields are between 8 and 13 per cent (Knight Frank, 2015). Total returns from co-living projects and low-cost hostels are between 12 to 20 per cent (Srivastava, 2017; Knight Frank, 2018). Profit margins of 'for sale' housing projects can be as high as 30 per cent (Business Standard, 2020). On the other hand, rental yields are poor, and hence the profit margins are unclear for developing a rental project due to the lack of precedent.

Government schemes and policies such as the Mumbai RHS and ARHCs scheme have included incentives in the form of additional developmental rights such as extra FSI and TDR, exemption from GST and income tax on profit from rental income, and access to concessional construction finance. However, so far, the number of responses to the ARHCs scheme indicate that these incentives have failed to interest the private sector.

For understanding the underlying reasons in greater depth, we borrow from the hypothetical example put forth in the Operational Guidelines by the MoHUA (2020c) for ARHCs Model 2. This example incorporates the incentives and puts forth a hypothetical viable financial model for the development and operation of an institutional build-to-rent (BTR) housing project over a time period of 25 years. The project consists of dormitories for individuals and flats for families. We discuss the limitations associated with two critical assumptions pertaining to land cost and internal rate of return (IRR). First, the opportunity cost of one hectare of land is assumed to be INR12.7 crore. This is much lower than the cost of land proxied by the prevailing circle rates across Indian metropolitan cities (Table 2). The assumed land cost suggests the project is in far flung areas of a big city or in a small city. There may be captive demand in the case of an employer provided housing at such locations, but sufficient demand for institutional rental housing from the general public will be a challenge at such locations. Although demand for the latter will be high at prime locations within metropolitan cities, the opportunity cost of such land might be too high to justify the development of such housing and having the land tied up for 25 years.

Table 2. Circle rates for 1 hectare of residential land in select Indian metro cities

City	INR (million)
Delhi	233-7740
Gurgaon	125-418
Surat	35-560
Chennai	64-757
Coimbatore	18-483
Chandigarh	588-654

Source: Government web portals for respective cities.

Second, in the hypothetical model, an IRR of 15 per cent is assumed for the project. But this is on the lower side. The IRR of 'for sale' housing projects has been reported to be as high as 36 per cent (Sundarajan, 2018), while the SBI Venture managed SWAMIH Fund that extends credit for completion of stalled housing projects has a project IRR requirement of between 15 per cent and 12 per cent (Ghosh, 2020). Since multi-family rental housing is a new class of investment with hitherto unknown risks, to make a project attractive and feasible for the institutional landlord, an IRR higher than 15 per cent may be required. In light of these limitations, additional incentives would be required to increase private participation.

Additional ways of increasing the financial attractiveness of BTR projects for the private sector are: (i) providing land owned by the government and government agencies on nominal rent on a fixed-term lease and (ii) augmenting rental income for landlords through tools such as rental vouchers. Land owned by the government and government agencies at prime locations can be leased for a fixed period of 25 years or less. Rental housing can be developed and operated on a build-operate-transfer (BOT) basis by the concessionaire. To increase viability for the private participant, a portion of the land can be transferred to the private sector participant at the end of the lease period. In addition to this provision, the private sector operator can be compensated for charging affordable rents through rental assistance instruments such as rental vouchers. Like the *'Housing Choice Voucher'* programme by the federal government in the USA, rental vouchers can be used to bridge the gap between affordable rent for a low-income household and the existing fair market rent. Implementing such a programme involving institutional landlords should be easier than implementing it for household landlords. Incorporating a demand-side subsidy in the form of a housing voucher programme as part of the ARHCs scheme can be explored for metropolitan cities. However, this will significantly increase the overall subsidy component of ARHCs.

In addition to the re-purposing of vacant government-owned housing under ARHCs Model 1, another model for the creation of affordable institutional rental housing could be the re-purposing of unsold housing stock with private developers. There was an unsold stock of 7 lakh houses across Indian cities (RBI, 2021). Around half of these belongs to the affordable category (Financial Express, 2020). It would be worth exploring whether some of the affordable unsold stock could be re-purposed as affordable multi-family rental housing. A few private developers have already converted their unsold stock into co-living units for students and young professionals by tying up with co-living operators in Indian metropolitan cities (FICCI & JLL, 2019; TOI, 2019). It is important to point out that the expected returns for landlords in the co-living segment is higher as compared to multi-family rental housing. So multi-family rental housing will need to be supported by incentives. In addition to the incentives provided under the ARHCs scheme, housing vouchers will improve the financial feasibility and attractiveness of re-purposing unsold housing stock into rental housing for families.

Lastly, effective implementation of the key provisions of the MTA by the state government will be a critical factor for private sector participation. Institutional landlords need to be supported by an effective and transparent regulatory ecosystem and efficient dispute resolution mechanism through the setting up of empowered district-level rent tribunals, as envisaged in the MTA 2021.

4.2 Establishing rental management agencies and their functions

Efficient management of institutional rental housing is key to its functioning. All rental schemes have been plagued by issues in rental management. In West Bengal, the management of PRHEs has been a financial burden on the state government, and the inability to implement a rental management mechanism by the MMRDA was one of the key reasons for the cancellation of the rental housing scheme in Mumbai. So far, Kota UIT has been managing the rent-to-own scheme complex, but interactions with officials revealed the availability of personnel for managing the complex was an issue. Since the ownership of the units is to be soon transferred to the occupants, it has not been felt necessary to develop rental management capabilities either within the UIT or through an external agency. Efforts are currently underway by the Kota UIT to enable the formation of an RWA. The management of the Chandigarh Small Flats Scheme by the Chandigarh Housing Board has been plagued with issues of poor communication with tenants, laxity in the monitoring of illegal commercial activities by tenants, and issues related to the overall maintenance of the complexes.

According to the ARHCs guidelines, the management of the rental complexes is the responsibility of the concessionaire in ARHCs Model 1 and the institution/s who are the owners of the rental housing created under ARHCs Model 2. One of the ARHCs documents lists maintenance activities (MoHUA, 2020b). But the documents do not include a similar description of the list of activities associated with the overall management of a rental housing complex or any guidelines on managing a complex.

The creation of autonomous agencies with public funding along the lines of the housing associations of the Netherlands, France, Italy, and the United Kingdom could be another option. Agencies similar to housing associations had been envisaged in the Mumbai RHS case (Deshpande, 2011). The housing associations in the Netherlands are not-for-profit organisations under the purview of the Ministry of Housing and are often engaged with the local government in the creation, operation, and management of social housing including setting the allocation rules determining the eligibility of beneficiaries (Elsinga and Wassenberg, 2006). Today, there are private digital platforms in developed countries that offer end-to-end services to local governments and tenants to efficiently run social housing. They act as a middle agent by giving access, providing advocacy, providing maintenance services, and ensuring safety (MRI Software, 2022).

Rental management includes tenant search, negotiating rents and other terms on behalf of the landlords, drawing up rental contracts, collection of rents, day-to-day maintenance of the rental units and the overall building, budgeting, management of the books of accounts, maintenance of rental records, and providing the landlord with timely reports. In addition, the management of affordable rental housing projects under the ARHCs scheme or any other public rental housing scheme will also include ensuring compliance with the scheme guidelines in terms of tenants' selection and rent setting. Since many low-income tenants might be living in an apartment complex for the first time, they would require help from the rental management agency to acclimatise to a new way of living, as the Chandigarh SFS experience suggests. Another key function of the agency will be to help institutional landlords manage evictions. A rental management agency has to be able to implement a fair eviction process, in case the need arises. As the Kolkata PRHEs experience suggests, evictions are a contentious issue and a political one (Sengupta & Tipple, 2007). Interactions with a Kota UIT official too revealed that evictions are difficult to undertake and are likely to be a political issue.

For small-scale, limited period rental projects such as the Kota rent-to-own and Chandigarh SFS scheme, in-house management of the rental units may suffice, as is being done by Kota UIT and CHB. However, for public sector and private sector landlords whose primary line of business is not the operation of affordable rental housing but something else, building in-house capability to manage long-term rental projects such as ARHCs might not be the most optimal modus operandi, as the Kolkata PRHEs and Mumbai RHS experience indicate. In such cases, the management of affordable rental projects needs to be outsourced.

The draft National Urban Rental Housing Policy (2015) defines a property manager as "a person or company who is employed by the owner to manage the residential rental premises and who represents the owner in his dealings with the tenant" (MoHUPA, 2015). It also mentions the need to promote residential rental management companies for the management of large rental housing projects but does not discuss a further course of action.

Specialised rental management agencies such as *Housewise*, *Nobroker*, and *DigiOwner*, etc., cater to non-resident Indian absentee landlords. Services provided by the agencies include tenant search, contract management between the landlord and tenant, rent collection, and repair and maintenance. At present, there are no specialised rental management agencies for large-scale affordable rental housing projects in Indian cities because large-scale rental housing projects do not exist in India. However, such agencies will be critical for the operation of institutional rental housing. State governments could facilitate the engagement of city governments with civil society organisations, for-profit rental management companies, for-profit facility management companies and ARHCs landlords for the creation of 'social rental housing management organisations'. Functions of district-level rent tribunals to be set up as per the MTA could be extended as the district-level regulator for these organisations.

4.3 Focusing on beneficiary selection and contract management

For government-subsidised housing schemes, the selection of a beneficiary usually happens on a first come first serve basis or lottery once their eligibility to participate in the scheme is ascertained. Eligibility usually depends on household income, length of residence in a specific city or state or in a specific slum in the case of slum resettlement schemes, biometric verification, and possession of adequate documentation attesting to the fulfilment of these criteria. Eligibility guidelines based on city income levels should be an important criterion in the case of rental housing, as income levels vary significantly across city classes. National or even state-level income criteria might end up defeating the purpose of the scheme. Defining a city-appropriate income criterion is as important as setting rent and should be done based on demand assessment surveys by ULBs.

Many government welfare schemes including the PMAY-U allow self-declaration of income. While self-declaration lessens the administrative load on the system and reduces the paperwork required of household, it runs the risk of under-declaration of income resulting in higher-income group households taking advantage of the scheme, and the needy households being left out. 'On field assessment' techniques, similar to those followed by affordable housing finance companies (AFHCs), can be adopted to supplement the self-declaration process for institutional rental housing schemes. Correct assessment of the income of potential beneficiary tenants, backed by their willingness to pay, should be considered for setting the rent.

For beneficiary selection, preference should be given to beneficiaries who stay or work in the locality of the project. Along with seeking applications from potential tenants, identification of eligible tenant beneficiaries through a demand assessment survey is important. Such surveys conducted at regular intervals could also help to ensure that the rental project continues to benefit intended households.

In many developed countries such as Germany and the Netherlands, rental contracts for social rental housing do not mention the duration of the contract, thus translating into permanent tenancies. This is also, de facto, true for Kolkata's PRHEs. In a developing country setting, permanent tenancies only serve to exacerbate market inefficiencies as Mumbai's rent-controlled houses bear testimony. Thus, rental contracts for houses under ARHCs and similar schemes should be of fixed tenure.

4.4 Design and social infrastructure

Compared to the West Bengal PRHEs, Mumbai RHS, Chandigarh SFS, and Kota rent-to-own scheme (Table 1), the model rental units put forth in the operational guidelines by the MoHUA (GoI) (2020) for ARHCs Model 2 are larger in size (322 sq ft to 644 sq ft). Maintenance of social infrastructures such as parks and community centres will also be an important factor affecting livability in these complexes.

Adequate attention must be paid to thermal comfort, ventilation, and availability of natural light in the ARHCs units. The adoption of design and construction norms propagated by the

Bureau of Energy Efficiency, Ministry of Power, 2018, is important in this regard. Further, the adoption of passive design principles, which stress the use of available natural resources for natural heating or cooling, ventilation, and lighting, can be explored. Any additional expenditure required for enabling the adoption of better building designs and lay outs may be covered under the Technology Innovation Grant[15] (TIG), on a case-by-case basis.

5. Conclusions

So far, the ARHCs scheme has failed to generate much interest. For the scheme to gain traction in the future, the few sanctioned projects need to be developed well and implemented effectively. Ensuring the continued financial viability of these projects will be critical in defining the course of institutional multi-family rental housing in India. Effective rental management practices by specialised agencies will be critical; the government should actively encourage such agencies. The houses should be so designed as to offer a better quality of life for tenants. Last but not the least, robust beneficiary selection practices should ensure the intended low-income families, for whom the scheme is meant, benefit from the scheme. Although the PMAY-U mission will officially come to a close in December 2024, the operational as well as under-construction ARHCs will require to be closely monitored after 2024 to ensure their smooth functioning, based on a deeper understanding of what is working and what can work.

[15] INR1 lakh per double bedroom unit, INR60,000 per single bedroom unit, and INR10,000 per dormitory bed. So far, TIG covers the use of 24 alternate construction methods listed by BMTPC. Recently, TIG has been granted to the ARHC projects in Nizampet, Kakinada, and Vizianagaram for using monolithic concrete construction.

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