Institutionalising

The Rental Housing Market

In India -2019
Institutionalising The Rental Housing Market In India, 2019

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Indian rental housing market – An overview and current scenario

Overview

Rental housing has been a much passed over subject in context of housing in India. Even after 72 years of independence, there is no policy framework to catalyse private sector participation in this vital subgroup of housing despite 21.72 million urban rented households. Historically, the Indian housing policies have been directed towards home ownership which alone cannot solve the housing conundrum. Zero or no policy interventions for rental housing have been a big deterrent for creation of rental housing stock in the country. As per the Census 2011 data, 11.09 million houses remain vacant in urban areas despite the massive housing shortage. This is due to various factors such as low rental yield, poor maintenance of vacant stock, forceful possession, dilapidated state of buildings and lack of incentives. As an extension of these market realities, the prospects of converting urban land into investment and provide a steady source of income to landlords remains nil.

Sizing the rental housing opportunity

India’s real estate sector is expected to touch a market size of USD 1 trillion by 2030 and start contributing 13% of the Gross Domestic Product (GDP) by 20251. The growing Foreign Direct Investment (FDI) in India is bringing in more transparency and accountability with due diligence taking centre stage at many real estate development companies to keep investors lured. As per the International Monetary Fund’s (IMF) last estimates2, India’s residential rental market was worth more than USD 20 billion, of which 68% or USD 13.5 billion is in urban areas. However, the largely unorganised and informal nature of the rental housing market has made it tough to arrive at the actual market size despite holding a massive potential to address a part of the housing shortage in India.

The top 10 states and Union Territories (UTs) with vacant houses contribute to 78% or 8.64 million vacant census houses with a huge potential of being brought under the purview of several rental housing models in the country.
Current rental housing scenario in India

Strong foothold in urban India

As per Census 2011, there are a total of 27.37 million rented households in India, of which 79.4% or 21.72 million are urban rented households. Of these 21.72 million rented households, the households with a size of 3 or 4 family members alone constitute 50% of the total or 10.95 million urban households. Households with 3 to 4 members are typically nuclear families constituting a married couple with one child or a married couple with two children, respectively. The fact that 50% of typical nuclear families in urban households live with a rented roof over their head dispels the myth of home ownership being a priority in an average Indian family’s scheme of things. While households with 1 and 2 members currently constitute only 6% and 12%, respectively, of the total, their share in renting in urban India is expected to go up with changing housing consumption patterns, inter and intra state migration and rising housing unaffordability.

<table>
<thead>
<tr>
<th>Household size (by number of family members)</th>
<th>Number of Urban Rented Households</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1,114,522</td>
<td>6%</td>
</tr>
<tr>
<td>2</td>
<td>2,705,861</td>
<td>12%</td>
</tr>
<tr>
<td>3</td>
<td>4,418,157</td>
<td>20%</td>
</tr>
<tr>
<td>4</td>
<td>6,636,280</td>
<td>30%</td>
</tr>
<tr>
<td>5</td>
<td>3,582,444</td>
<td>16%</td>
</tr>
<tr>
<td>6 to 8</td>
<td>2,913,034</td>
<td>13%</td>
</tr>
<tr>
<td>9+</td>
<td>454,525</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td>21,723,723</td>
<td>100%</td>
</tr>
</tbody>
</table>

Currently, the total urban rented households statistics in India may be much more as compared to the Census 2011 data. However, the fact that Tamil Nadu, Andhra Pradesh, Maharashtra, Karnataka, Gujarat, West Bengal, Uttar Pradesh and the National Capital Territory (NCT) of Delhi command a hefty percentage share in the total rented households in urban India is largely attributed to key urban employment hubs in the cities of Chennai, Hyderabad, Mumbai, Pune, Bengaluru, Ahmedabad, Kolkata and the National Capital Region. Most of the urban population in these cities living in informal rented housing accommodation provides a huge opportunity for private developers, property owners and private housing operators to enter the formal rental housing market in India.

States and Union Territories (UT) with the highest percentage share of rented households in India

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Urban Rented Households</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tamil Nadu</td>
<td>3,590,179</td>
<td>16.5%</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>3,004,702</td>
<td>13.8%</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>2,940,731</td>
<td>13.5%</td>
</tr>
<tr>
<td>Karnataka</td>
<td>2,447,718</td>
<td>11.3%</td>
</tr>
<tr>
<td>Gujarat</td>
<td>1,315,157</td>
<td>6.1%</td>
</tr>
<tr>
<td>West Bengal</td>
<td>1,292,263</td>
<td>5.9%</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>1,114,832</td>
<td>5.1%</td>
</tr>
<tr>
<td>NCT of Delhi</td>
<td>929,112</td>
<td>4.3%</td>
</tr>
</tbody>
</table>

Note: A “Household” is a group of persons who commonly live together and would take their meals from a common kitchen unless the wastepaper of each presented any of them from doing so. There may be a household of persons related by blood or a household of unrelated persons or having a mix of both. In this context, a “rented household” constitutes a household living in a rented accommodation.

Source: Knight Frank Research, Census 2011
Looking at the urban Indian households by type of occupancy, the Census 2011 trisects occupancy types into three parts – owned, rented and any others. This does not include any institutional households such as boarding houses, messes, hostels, hotels, rescue homes, etc.

The state and UT level picture of the occupancy types is as below:

Across the 9 states comprising the top 8 urban agglomerations, the ownership, rented and any others occupancy type split by urban households is as below:

Despite a strong foothold in urban India, there is a lot of scope for growth in the share of rented housing in many key states with huge urban agglomerations and key employment hubs.

*Source: Knight Frank Research, Census 2011.*
Formal urban rental housing yet to take off

As per the Census of India, the share of rentals as a share of total housing has reduced from 37% in 1991 to 28% in 2011. This number is estimated to be much higher in India now. As per the National Sample Survey Office (NSSO) in 2012, 71% of the households living in rented accommodations do not have any written contract. While a part of this could be due to the informality of the premises itself, the Rent Control Act enacted by the various state governments has also acted as a deterrent to the formalisation of rental agreements across the country.

3

Table I:

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Leave and License Agreement</th>
<th>Rental Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governed by</td>
<td>Section 52 of Indian Easement Act, 1882</td>
<td>Each state's Rent Control Act</td>
</tr>
<tr>
<td>Transfer of interest</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Tenure</td>
<td>Not exceeding 60 months</td>
<td>No minimum/maximum</td>
</tr>
<tr>
<td>Property rights created</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Heritable rights created</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Eviction, Termination or Cancellation</td>
<td>Easily achievable</td>
<td>Not easily achievable</td>
</tr>
<tr>
<td>Alterations to construction</td>
<td>Not allowed</td>
<td>Only tenurable repairs are permitted*</td>
</tr>
<tr>
<td>Stamp Duty</td>
<td>Applicable, but substantially lesser than a tenancy agreement</td>
<td>Applicable</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research

Note: *key structural changes can only be done with the consent of the landlord

Factors influencing the growing need of rental housing in India

1

Ownership focus of government housing policies –

With the launch of the ‘Housing for All by 2022’ mission in 2015, an initial provision for creation of 20% stock of the upcoming 20 million homes under this scheme was meant exclusively for rental housing. However, the subsequent rollout of this mission, now popularly known as the Pradhan Mantri Awas Yojana (PMAY), focussed and promoted only home ownership and the rental housing cause was lost somewhere in between. As a result, the rental housing demand in the form of transitional housing, need-based rental housing such as student housing, co-living housing, industrial workers housing, government-owned public rental housing or social housing for the Economically Weaker Sections (EWS) and Lower Income Groups (LIG) categories as well as market-driven private rental housing remained unmet. Also, the home ownership approach of government policies does not consider the key role that rental housing can play in easing labour mobility and social mobility.

2

Stagnant residential prices in many cities –

During the past 4 years, the growth in residential capital values in most of the top 8 cities of India has been below retail inflation growth and the gap has sequentially increased since H1 2016. As per Knight Frank India’s research report, India Real Estate – January to June 2019, the weighted average residential prices have stagnated across cities with Mumbai, Pune, Chennai and Kolkata witnessing a price decline of 3%, 4%, 3% and 2%, respectively. Ahmedabad, Bengaluru and the National Capital Region (NCR) noted only 1%, 2% and 3% price uptick while Hyderabad was the only outlier with a 9% price growth. While this muted price growth has helped keep end-users interested in buying homes, one cannot ignore the fact that such miniscule capital value growth hardly positions residential real estate as an investment asset class. Such stagnation in residential price growth is making the people turn away from residential assets as an investment option. In H1 2019, the top 8 Indian cities’ residential price trends are as below:

Disruption in shared rentals market

India’s growing millennial population and expanding gig economy has created a huge demand opportunity for shared rentals. For the millennial population, job mobility and location flexibility is the primary priority and home ownership is secondary. Rather, homes are viewed as transitional commodities that can be upgraded as they move on in life. This unique demand opportunity created by the millennial propensity to spend has bought a lot of private equity investment and a new generation of entrepreneurs to the co-living segment. Many developers, such as the Bengaluru-based Purvankara and Embassy Group, have announced plans to venture into the co-living market. This sub-segment of rental housing has seen a lot of interest from hospitality chains such as Oyo Hotels & Rooms as well as Lemon Tree Hotels, who are testing the waters in the fully managed rentals business for the millennial age group. As young men and women move to new cities, they are trying to circumvent the multiple problems associated with renting an apartment such as broken dominating the unorganised and fragmented landscape, arbitrary rules, cramped housing space and conflicts with landlords. While the co-living market and other short-term rental option businesses are flourishing, the trend of employer-provided housing is also fading away.
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Urban Indian centres need a consistent supply of workforce to fuel their economic enterprise. However, appropriate housing supply is invariably inadequate either in terms of volume, quality or location. This disparity causes house prices to increase disproportionately compared to income levels and unaffordability to set in. As per Knight Frank Research, the house price to income ratio was as high as 11 in the Mumbai Metropolitan Region (MMR) in 2010, which means that a family had to shell out 11 times its annual earnings for an apartment in Mumbai. This ratio remained high at 6 and 5.6 times for NCR and Bengaluru, respectively. Contracting demand due to skyrocketing prices led to a sluggish period of low residential sales until 2017 and developers were forced to reduce prices in the wake of rising unsold inventory. A series of regulatory reforms starting with the Benami Transactions (Prohibition) Amendment Act, 2016 and the demonetisation of higher denomination currency notes in India, as well as the implementation of the Real Estate (Regulation and Development) Act, 2016 (RERA) and the Goods and Services Tax (GST) did have the desired impact of making the real estate market transparent. Though the reduction of prices and ticket sizes, and the focus on affordable housing improved housing affordability across the country, home ownership still largely remains out of reach for many aspiring homebuyers given the income levels of prospective end-users.

Urbanisation is an important and irreversible process characterised by increase in number of large cities. During the decadal period of 2001–2011, the growth rate in urban population was 31.8% as compared to 31.5% in the previous decadal period of 1991–2001. Absolute increase in urban population was nearly 91.0 million taking the total urban population to 377.1 million in 2011. As per the Economic Survey 2018–2019, it is projected to increase to 600 million by 2031. Adding a huge 223 million of new urban residents to the city by 2031 will not be feasible if the rental housing market is not developed. While a part of the housing demand of this new urban population burden will be met by home ownership and a part of it may go towards transitional rental housing, need-based rental housing and public rental housing, there lies a huge opportunity for the market-driven private rental housing to be developed as an important sub segment of rental housing.

Table II:
Affordability matrix for key Indian cities

<table>
<thead>
<tr>
<th>City</th>
<th>House price to income ratio (2010)</th>
<th>House price to income ratio (2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mumbai</td>
<td>11.0</td>
<td>7.2</td>
</tr>
<tr>
<td>NCR</td>
<td>6.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Bengaluru</td>
<td>5.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Pune</td>
<td>4.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Chennai</td>
<td>5.4</td>
<td>4.1</td>
</tr>
<tr>
<td>Hyderabad</td>
<td>5.7</td>
<td>4.9</td>
</tr>
<tr>
<td>Kolkata</td>
<td>5.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>4.3</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research

Graphical representation of India residential pricing

3 Housing unaffordability

4 Urbanisation trends
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Census of India data shows a sharp drop in the share of rental housing from 58% in 1961 to 28% in 2011. While the share of 58% came on a lower base of housing stock as compared to the housing stock in 2011, several factors have obstructed the growth of rental housing market in India and pushed it into informality.

Low rental yields in residential asset class

Rental yield is defined as annual rent as a ratio of the property price after deducting all expenses. Low rental yields have kept landlords away from investing in the property. While there have been few signs of the residential real estate sector’s recovery, gross rental yields have been hovering in the range of 3–4.5%. Given below is a comparison of rental yields across few property buckets for similar-sized 2 BHK homes in major locations near employment hubs in key cities.

<table>
<thead>
<tr>
<th>City</th>
<th>Property I</th>
<th>Net rental yield (after deducting all overheads and other expenditures)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BENGALURU</td>
<td>Whitefield – Property I</td>
<td>3.33%</td>
</tr>
<tr>
<td></td>
<td>Whitefield – Property II</td>
<td>3.17%</td>
</tr>
<tr>
<td></td>
<td>Whitefield – Property III</td>
<td>2.86%</td>
</tr>
<tr>
<td></td>
<td>Whitefield – Property IV</td>
<td>3.07%</td>
</tr>
<tr>
<td></td>
<td>Sarjapur Road – Property I</td>
<td>2.39%</td>
</tr>
<tr>
<td>MUMBAI</td>
<td>Worli – Property I</td>
<td>2.81%</td>
</tr>
<tr>
<td></td>
<td>Worli – Property II</td>
<td>2.36%</td>
</tr>
<tr>
<td></td>
<td>Worli – Property III</td>
<td>1.77%</td>
</tr>
<tr>
<td></td>
<td>Bandra Kurla Complex – Property I</td>
<td>2.46%</td>
</tr>
<tr>
<td>NATIONAL CAPITAL REGION</td>
<td>Gurugram – Property I</td>
<td>1.74%</td>
</tr>
<tr>
<td></td>
<td>Gurugram – Property II</td>
<td>2.52%</td>
</tr>
<tr>
<td></td>
<td>Gurugram – Property III</td>
<td>2.90%</td>
</tr>
<tr>
<td></td>
<td>Noida</td>
<td>3.19%</td>
</tr>
<tr>
<td>AHMEDABAD</td>
<td>Bopal – Property I</td>
<td>2.68%</td>
</tr>
<tr>
<td></td>
<td>Bopal – Property II</td>
<td>3.75%</td>
</tr>
<tr>
<td></td>
<td>Motera</td>
<td>2.76%</td>
</tr>
<tr>
<td>CHENNAI</td>
<td>Velachery – Property I</td>
<td>2.37%</td>
</tr>
<tr>
<td></td>
<td>Velachery – Property II</td>
<td>2.47%</td>
</tr>
<tr>
<td></td>
<td>Paramur</td>
<td>2.95%</td>
</tr>
<tr>
<td>HYDERABAD</td>
<td>HITEC City – Property I</td>
<td>2.82%</td>
</tr>
<tr>
<td></td>
<td>HITEC City – Property II</td>
<td>3.35%</td>
</tr>
<tr>
<td></td>
<td>Gachibowli</td>
<td>4.21%</td>
</tr>
<tr>
<td>KOLKATA</td>
<td>Salt Lake City – Property I</td>
<td>2.95%</td>
</tr>
<tr>
<td></td>
<td>Salt Lake City – Property II</td>
<td>2.45%</td>
</tr>
<tr>
<td></td>
<td>New Town</td>
<td>2.64%</td>
</tr>
<tr>
<td>PUNE</td>
<td>Viman Nagar – Property I</td>
<td>2.93%</td>
</tr>
<tr>
<td></td>
<td>Viman Nagar – Property II</td>
<td>3.19%</td>
</tr>
<tr>
<td></td>
<td>Hinjewadi</td>
<td>3.21%</td>
</tr>
</tbody>
</table>

Source: Knight Frank Research
Note: Average apartment size is 93–120 square metres (1,000–1,300 square feet)
After deducting all the annual expenses from annual rent, such as property taxes, maintenance charges, agent fee and non-occupancy costs, the net rental yield is currently hovering in the range of 2-3% across most Indian cities, which is one of the lowest across the world. And they have remained static over the past few years. With better interest rates and returns available in bank fixed deposits, public provident funds and other instruments such as stocks and mutual funds, the lucrateness of residential real estate as an investment class has lost its sheen. This low rental yield scenario has made end-users cautious of buying properties for investments. Coupled with no capital value appreciation for residential properties, investor participation in housing stock in India is restricted.

No regulatory backbone to formalise rental housing

The Central Government, through interventions by the Ministry of Housing and Urban Affairs (MoHUA), has been trying to persuade state governments to bring about rental reforms and as part of that three different model tenancy agreements were proposed in 1992, 2011 and again in 2015. In 1992, the Central Government proposed a model rent control legislation, which was meant for and circulated to all states. The model Act proposed modification of some of the existing provisions on inheritance of tenancy and prescribed a rent level beyond which rent control could not apply. The New Delhi Rent Control Act that was passed in 1997 was based on this but failed to be notified due to resistance from traders who were sitting tenants. Due to the state level policies and local political climate, reforms in the rental housing sector remained a work in progress since, nearly the past 25 years. A case in point is a 2016 incident when the Maharashtra government proposed to free residential properties bigger than 79 square metres (847 square feet) and commercial properties bigger than 50 square metres (540 square feet) from rent control, which faced severe backlash from various stakeholders. As a result, the draconian Maharashtra Rent Control Act could not be repealed, and this proposal was subsequently withdrawn.

Archaic rent control acts

The Rent Control Act, first introduced in India in 1948 with the objective to counteract the inequality of bargaining power between landlords and tenants created many market distortions which proved detrimental for the rental housing market to flourish in India. The Government of India envisaged eliminating the exploitation of tenants by the landlords and land being a state subject, the states adopted it in their own way. The regulations outlined in some of the state-enacted rent control acts prevented landlords from charging market-based increase in rents and tenants in cities such as Mumbai kept paying rents at rates that were frozen years ago. Unable to evict defaulting tenants, landlords have allowed their buildings to either deteriorate or collapse. It comes as no surprise that more than half of the rented units in Mumbai are in a dilapidated state with a worn-out façade. Investments in new rental housing stock is almost negligible in the city. The Rent Control Act and other pro-tenant legislations have disincenitised rental housing for landlords in India and they have started distrusting the state machinery to protect their rights. As a result, there has been a decline in the supply of formal rental housing and increase in informal housing arrangements. While some states have repealed the Rent Control Act, there are still many where several amendments are required.

Landlord and tenant equation; a legacy of dispute

The landlord-tenant relationship in India has always been a very sensitive subject and despite tenancy and rent-related laws in Indian states, conflicts do arise between the two. Each state has identified certain grounds for legal eviction of tenants by landlords but in cities where it is difficult to find a rental home, violation of tenancy laws is commonplace. The tenancy laws in India are popularly perceived as “pro-tenant” but there have been many landmark judgements upholding the rights of landlords in cases related to eviction of tenants. The case with landlords staying in other cities or abroad and giving their properties to tenants to protect the premises from illegal occupation or trespassing is even more sensitive as they are away from the scene for prolonged periods. In the event of litigations, there is a long-drawn legal process with expensive legal costs which deters landlords from giving their properties on rent in the first place. The risk of property litigations in cases of conflicts is a major deterrent which has made the rental market unattractive for property owners.

Challenges for landlords

Fear of illegal possession by tenants
Frequent demands of tenants with respect to structural maintenance becomes a bone of contention
Upkeep of the premises along with common areas of access
High property tax to be paid as renting is a commercial activity
Risk of long-drawn legal battle
High transaction costs
Dependence on brokers
Cumbersome registration process

Challenges for tenants

Fear of untimely eviction
Bias in renting properties to certain population groups
No control over security deposit demands
Disputes with respect to property maintenance
Restrictions related to lifestyle habits due to difficult landlords
High transaction costs

No rental housing industry body

In the absence of a national rental housing industry body to govern all rental housing related matters and bring stakeholders together, encourage dialogue with government, enhance awareness on rental housing matters, there is no organised marketplace for rental housing in India. Other industry bodies such as Confederation of Real Estate Developers Association of India (CREDAI) or National Real Estate Development Council (NAREDCO) champion various industry related causes from time to time and pursue the cause of the housing industry. Since there is no organised rental housing industry body per se, the vacant properties available for rent do not get documented or enlisted centrally, which reduces the net annual rental income for landlords and there is no concentrated effort between private players to work on a mandate to promote the rental housing cause in the country.
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Policy review – Draft Model Tenancy Act, 2019

Property is a State subject and therefore most states have their own rent control laws which govern inter alia the letting-out of premises. Most state rent control laws came into force post the Second World War with the specific purpose of preventing exploitation of tenants by landlords, in markets that then had scarce housing stock. In some states like Maharashtra and Karnataka, the rent control laws were overhauled around 1999–2000. Despite such an overhaul, rent control laws in Maharashtra and Karnataka appear heavily biased in favour of tenants, giving little relief to landlords for already tenanted premises. The prevalent rent control laws also do not encourage landlords to rent out premises on tenancy without any fear of truant tenants continuing to occupy the premises after rightful termination of the tenancy.

Prospective Applicability of MTA

1. Registration under MTA

1.1 In its applicability, the Draft MTA is framed as a prospective legislation, covering in its scope premises let out for residential, commercial and educational use.

1.2 The MTA introduces a mechanism for information of all tenancy agreements executed after commencement of the MTA, to be provided to the Rent Authority constituted under the MTA (“Rent Authority”).

1.3 The purpose of such information could be to maintain a record in respect of tenancy agreements thereby bringing about greater transparency in the letting of residential and commercial premises and bringing such tenancies within the scope of the MTA. Pertinently, the only consequence of failure to register a document with the MTA, as aforesaid, is that the agreement will not be received as evidence. However, there is no provisions in the MTA which renders it difficult for landlords/tenants to invoke provisions of the MTA on account of their failure to provide information of creation of the tenancy to the Rent Authority.

1.4 MTA requires all tenancy arrangements to be in writing and the landlord and tenant are required to jointly inform the Rent Authority, in the format prescribed, in respect of any premises let on rent and provide a copy of the tenancy agreement to the Rent Authority, within 2 (two) months from the date of execution.

1.5 Upon receipt of information, as aforesaid, MTA requires the Rent Authority to provide a unique identification number to the transacting parties and upload details of the tenancy agreement on its website.

1.6 MTA provides that information provided, as aforesaid, shall be taken as evidence of facts relating to tenancy and matters connected therewith and in absence of any statement of information, the agreement shall not be received as evidence of the facts in any court of law.

1.2 Effect of non-applicability to premises already rented out:

1.2.1 The MTA being a prospective legislation does not provide protection to those landlords who have already rented out their premises and are under severe strain by reasons of the rents paid by tenants not being linked to market rates.

1.2.2 The social environment has changed from when the original rent control laws were enacted and now, and the protection, which at one time was necessary to be given to tenants, is not only no longer necessary but also not conducive to a modern-day real estate market.

1.2.3 Due to the protection afforded under the prevailing rent control laws, tenants have been occupying these premises for generations and paying paltry rental sums to the landlords who are left with no option or recourse. Therefore, in order to truly institutionalise the rental market, a mechanism needs to be evolved to bring premises which have already been given on rent, within the scope of the MTA with an intent that these premises are also driven by market rates and practices.

1.2.4 Ideally, landlords of such premises would like the law to provide that such tenants must execute fresh registered tenancy agreements which specifically set out and govern the landlord-tenant relationship in accordance with provisions of the MTA, including payment of rent at the prevailing market rates, failing which they must vacate and handover possession of the premises to the landlord. Such provisions would be rather harsh.

1.2.5 Many tenants would not be able to afford to pay the market rental rates of the
premise and would therefore, be unwilling to accept a position that is to their commercial detriment. Therefore, in order to truly open-up the rental market, it is imperative for the government to formulate a way to balance social welfare of tenants and the economic factors which drive the rental market, which coupled with the balanced protection afforded to landlords and tenants under the MTA will provide impetus to rent out their vacant premises which has hitherto been lacking.

2.1.2 The grounds for termination:

2.1.2.1 The landlord and tenant have failed to agree to the rent payable as agreed under the tenancy agreement;

2.1.2.2 The tenant has not paid in full the rent and other charges payable for 2 (two) months, and fails to pay such amounts with interest for delayed payment (as may be specified in the tenancy agreement or prescribed), within 1 (one) month of a notice of demand issued by the landlord to the tenant in this regard;

2.1.2.3 The tenant has after the commencement of this Act, parted with the possession of whole or any part of the premises without obtaining the written consent of the landlord;

2.1.2.4 The tenant has continued misuse (by way of encroachment of additional space, or use of premises which causes public nuisance or damage to the property, or is detrimental to the interest of the landowner, or uses the premises for immoral or illegal purposes) of the premises even after receipt of notice from the landowner to stop such misuse;

2.1.2.5 The premises or any part thereof are required by the landlord for carrying out any repairs or building, rebuilding, undertaking additions / alterations / demolition for change of its use as a consequence of change of land use by the competent authority;

2.1.2.6 The tenant has given written notice to vacate the premises and in consequence of that notice, the landowner has contracted to sell the accommodation or has taken any other step, as a result of which his interests would seriously suffer if he is not put in possession of the premises.

2.2 Three-tier redressal mechanism provided under the MTA

RENT AUTHORITY
● An officer, not below the rank of Deputy Collector is to be the Rent Authority,

Appeal from orders of the Rent Authority to lie before the Rent Court

RENT COURT
● To be notified by the state government and comprise two members

Appeal from orders of the Rent Authority to lie before the Rent Court

RENT TRIBUNAL
● To comprise a Principal Appellate Member and two other members

The need for an effective and speedy redressal mechanism in the rental market cannot be overstated. The MTA provides a much-needed independent mechanism specially engineered to deal with issues pertaining rental premises which will provide a respite to courts which are presently already over-burdened with these litigations.

The appointment of a Rent Authority is not a novel introduction. In fact, Delhi and West Bengal both provide for appointments of Controllers which are designated to hear disputes under the Rent Control Act. However, the State of Maharashtra, for example, does not have a specific rent controller and under Section 41 of the Presidency Towns Small Causes Courts Act, 1882, all disputes pertaining to landlord-tenant relationships are to be heard by the Court of Small Causes. This places additional burdens on the Small Causes Court, which is already hearing matters of lease governed by the general law, i.e. the Transfer of Property Act.

Therefore, the establishment of the separate rent controller in all states could go a long way in providing a speedy redressal to both premise owners and tenants alike. Having said that, the MTA does provide a second appeal to the Rent Tribunal, which would result in further protracted litigation.

The MTA provides that the Rent Court or the Rent Tribunal shall endeavour to dispose of case as expeditiously as possible, which shall not be more than a period of 60 days. Whereas an appeal to the Rent Tribunal from the order of a Rent Court, shall be disposed of within a period of 120 days from date of service of appeal on the respondent. While this does repose some faith in landlords and tenants alike, interestingly, the MTA does not provide any timeline within which
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Rent Authority is required to dispose off cases. This ambiguity must be addressed, and a definitive timeline must be mandated within which the Rent Authority is required to hear and dispose off cases.

2.2.5 Section 35 of the MTA provides that subject to any rules that may be made, the Rent Court and the Rent Tribunal shall not be bound by the procedure laid down by the Code of Civil Procedure, 1908 but shall be guided by the principles of natural justice and shall have power to regulate their own procedure.

2.2.6 Pertinently, the MTA does not provide that the Rent Court and the Rent Tribunal shall not be bound by the rules and procedure laid down in the Indian Evidence Act, 1827. For quasi-judicial authorities such as the Rent Court and Rent Tribunal must be freed from the strict rigours of evidence in order to truly provide the speedy redressal that the MTA seeks to achieve.

2.2.7 Despite the timelines provided under the MTA, the three-tier redressal mechanism and appeal provisions may result in protracted and costly litigation for both parties. The MTA lacks provisions which can mitigate this and suitable provisions for reducing appeals needs to be considered. For example, at both stages of appeal, i.e. before the Rent Court and the Rent Tribunal, a provision for pre-deposit of an ad-valorem amount must be mandated which will prevent frivolous litigations from being filed.

2.2.8 Further, punitive and prohibitive costs ought to be imposed on litigants who have needlessly filed proceedings before the Rent Authority, Rent Court or Rent Tribunal as the case may be.

Codification of Law relating to Leave and License agreements

3.1 Due to the protection afforded to tenants under the prevailing rent control laws, premises’ owners turned to leave and license arrangements to avoid the applicability of the rent control laws. This not only has a lower stamp duty implication but also removes the umbrella of protection the rent control laws provide to the occupant of the premises.

3.2 The inherent nature of leave and license agreements and tenancy agreements are very different. On the one hand, a tenancy arrangement contemplates a transfer of interest in the premises and on the other hand a leave and license agreements contemplate a mere grant of permissive rights to use and occupy the premises.

3.3 The Maharashtra Rent Control Act to some extent deals with the rights of a licensee. However, the MTA is altogether silent on leave and license arrangements. This is perhaps the most significant aspect of the MTA as pan India, leave and license agreements are the preferred mode of monetizing premises primarily due to archaic laws relating to tenancy. As the draft of the MTA evolves, it would be worthwhile to include an elaborate code to cover leave and license arrangements.

Relevance of MTA qua Co-working Spaces

4.1 The concept of ‘co-working’ (for commercial premises) has evolved, given the needs of the modern-day rental market. Several foreign and domestic players have shown considerable interest in this concept. In case of ‘co-working’ spaces, such players acquire rights to use large premises from the premise owners and monetise their investment by dividing the area into smaller spaces, which are permitted to be used by end users for short defined periods. In certain cases, customers utilize the space for as short a term as 1 (one) day.

4.2 Players operating in the ‘co-working’ space incur substantial capital expenditure not only in locating and acquiring large spaces but also in their retrofitting, refurbishment and renovation to bring the spaces in line with its international standards. Considering the substantial costs involved, foreign entities are apprehensive to acquire premises on a mere leave and license basis from the premises owners and would prefer acquisition of more concrete interest in the premises (by way of a lease or under a rental arrangement) in order to secure unhindered functioning of their business model. Premises-owners are however apprehensive to grant any rights in the nature of tenancy or lease due to the imbalance in the protection afforded to tenants under the prevailing rent control laws.

4.3 In such circumstances, if the objective of the MTA to provide equal protection to the tenant and the landlords is achieved, it will encourage landlords to provide more concrete rights to such entities desiring to operate in the ‘co-working’ space.

The MTA goes a long way in balancing the scales between landlords and tenants alike. However, in order to truly institutionalise and revive the rental market more thought and debate is required to evolve the MTA into a meaningful, holistic and comprehensive piece of legislation.
institutionalising the rental housing market in india, 2019

section 4

bringing the stakeholders together

whilst the draft MTA envisages to create a legal framework to bring harmony to landlord-tenant relationships, there are several areas from the perspective of both where the MTA provides no or limited clarity which can create challenges in its implementation. Borrowing from the learnings in case of RERA implementation, to bring rental housing reforms, clarity on the below areas is required. This will ensure seamless and timely implementation of this Act and help create an effective rental housing eco-system in the country. This can be done only when the role of different stakeholders are clearly outlined.

ambiguities in the draft model tenancy act, 2019

from landlord’s perspective

- As part of Section 16, dealing with the tenant to look after the premises, it states that the premises’ contents including fixtures and fittings to be kept “reasonably habitable” with regards to its condition at the commencement of tenancy and the normal incidence of living. It does not specify any parameters to be taken into consideration for “reasonably habitable” condition and remains ambiguous.

- Rental revision percentage should have been capped to avoid disputes with landlords.

- Section 23 (2), pertaining to default in making any refund of the amount of advance rent that the landlord has omitted or failed to refund, does not specify the rate at which the landlord is liable to pay interest which can be a bone of contention with tenants going forward. The rate of interest payable in this situation would be governed by the provision of the tenancy agreement executed between the parties.

- Section 25, pertaining to holding of additional structures as part of improvement to premises or new construction, can be misused by landlords to try and evict tenants due to bias.

from tenant’s perspective

- Preparatory workshops to brainstorm several clauses, sub-clauses and regulatory structure envisaged must be conducted parallelly in different regions such as East, West, North and South. This will to reduce the gestation period involved and minimise instances of dispute arising from interpretation of law. This will help the states to be well prepared for the outset for preparing the state level policies and promote the rental housing vision in the country.

- A major provision related to “revision of rent”, identified under Section 9 (1) under the MTA stipulates that the rent increase between the landlord and the tenant shall be as per the terms set out in the Tenancy Agreement. Whilst there is a clear indication in subsequent clauses regarding the maximum amount that can be charged as security deposit in case of residential and non-residential properties, the fixation of rent and its revision has been left to the Rent Authority, subject to an application by the landlord or tenant. In cases where the Rent Authority decides to arrive at a different percentage increase for similar-sized properties in same locations, it will increase instances of litigation going forward. It would have streamlined the process had the maximum percentages for rental revision been capped.

role of central government

- Due to the dissimilarity in the RERA implementation at state level, some states are currently well regulated in terms of handling real estate disputes between developers and homebuyers while others are still struggling to get the basics regarding RERA Authority, registrations and dispute resolutions right. As a result, in case of RERA, there is an ex post facto course correction. It is a good learning and in case of the MTA, the roll-out should be in form of a “process” rather than “a hurried guided policy document” to send the right message to states at an early stage before they craft state level laws. This will help avoid dilution of the framework.

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- Unlike RERA, where an implementation timeline was initially outlined clearly, The Draft Model Tenancy Act, 2019, in its current form, remains silent on the “time frame” involved for state level implementation. This is a critical area and should be addressed.

- The Central Government should create an online database at the state level enlisting all the vacant properties and help states to develop economically viable rental housing models such as...
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Rent-To-Own schemes, Rental Voucher Schemes and Public-Private Partnership (PPP) Models to cater to the masses for providing rental housing for all income segments and improving the existing quality of rental housing.

- Incentivise conversion of vacant houses/properties by rental management companies or rental housing operators such as co-living operators, student housing providers and serviced apartment operators for use under rental housing stock. This can be done by providing them tax concessions on capital expenditure incurred to renovate the property, property tax exemptions and subsidised rates for water and electricity. This will help to bring this unused stock for utilisation into the mainstream rental housing market.

Role of state government

- Create the state level Model Tenancy laws in consultation with urban local bodies post the roll-out by the government and “repeal” the State/UT Rent Control Act, if currently applicable.
- Create an online portal enlisting all vacant properties with all necessary details such as location, district, plot size, carpet area, number of floors, number of flats / apartments / independent houses / any other premises. Develop strategies to utilise this vacant stock in consultation with urban local bodies, developers and other stakeholders to come up with suggestions for a time bound action plan.
- Work in consultation with urban local bodies to retain the Centre’s vision for creating an effective rental housing eco-system.
- Formulate regulations for creation of institutions to operate, maintain and manage rental housing stock.
- Facilitate and promote the creation of dedicated Rental Management Companies (RMC) to streamline operation, maintenance and management of large-scale rental housing projects.

Role of urban local bodies

- The urban local bodies should identify the target demographic pool and their total requirement for rental housing with the support of state governments to arrive at different buckets of rental housing which will suit requirements of various categories of tenants since a “one size fits all” approach will not work for meeting all rental housing requirements.
- Develop city level online portals focussed on rental housing development, identifying vacant stock and promoting central and state level schemes pertaining to rental housing.
- Allocate land at subsidised rates for market-based rental housing projects to incentivise private developers to venture in this much neglected area.
- To develop innovative PPP models for creation of rental housing stock based on local dynamics.

Role of private sector participants

- Greenfield developments - Besides the conventional thinking on sale only model for residential development business, they should also consider rental model in this segment of business.
- Brownfield developments - Private developers should identify the ready-to-move unsold residential stock in different projects and consider part of it, mainly near education hubs and employment hubs such as IT corridors, industrial or manufacturing belts and newly identified urban agglomerations and market that exclusively for rental housing for a pre-defined time.
- Creating the marketplace - Unsold properties which are ready-to-move in, can be listed under a common portal at a city level by developers under a Rental Housing Authority. Such a portal can be maintained by the urban local bodies and they can act as intermediaries in helping to find tenants.
Creating a rental housing marketplace

While home ownership has been encouraged in India, rental housing has been neglected for decades. With the implementation of the MTA in the offing, the legal structure regulating the landlord-tenant relationships and speedy adjudication of landlord-tenant disputes will provide for an efficient eco-system for creation of a rental housing market in India. From an Indian context, there are two opportunities that can be looked at parallelly to create a formal rental housing marketplace which will be attractive in the long-term and encourage institutional investments in the long run.

Part utilisation of stressed assets with no takers specifically for rental housing

Utilisation of complete or under-construction projects under RERA where homebuyers have exercised their right to claim refund of the amount paid along with interest, as may be prescribed; and compensation in manner as provided under RERA, from the promoter. In instances where the promoter’s failure to give possession of the apartment, plot or building, in accordance with the terms of the agreements of the sale or due to insolvency on account of suspension or revocation of his RERA registration number, and the homebuyer opts out of the project, such assets can be auctioned by the presiding body, such as the National Company Law Tribunal (NCLT) or others, first to, developers, private rental housing operators or urban local bodies. Several developers, especially in NCR, such as Amrapali, Jaypee and Unitech, where insolvency proceedings and liquidation of assets are underway, have many homebuyers who are tired after years of litigation and activism. They have given up hopes of home ownership and have asked for their funds to be refunded. While a stressed asset fund has been created by the government, properties ready for possession can be marketed for rental purposes exclusively at competitive rates to attract tenants. As BTR is a service-driven housing solution, such developments can solve the housing shortage in locations well connected by public transport, that would otherwise be unaffordable to end-users, if the location is right to support the population density.

Rental housing models in India

Though the rental housing phenomenon is still evolving in India, rental housing models are a vital component of the mainstream housing market across the globe. From an Indian context, these two rental housing models can be adopted to bring rental housing to the forefront and attract institutional investments.

Build To Rent

Build To Rent (BTR) refers to private rented residential properties, which are constructed specifically for the purpose of renting, rather than sale. As the name suggests, this type of construction refers to purpose built residential inventory to cater to the needs of all kinds of renters. BTR developments is an emerging sub-market in United Kingdom and Australia’s private residential market. Such developments are typically owned by institutional investors such as large pension funds or insurance funds and are managed by rental operators. Just like any other residential project, location is a key factor. As BTR is a service-driven housing solution, such developments can solve the housing shortage in locations well connected by public transport, that would otherwise be unaffordable to end-users, if the location is right to support the population density. With the financial firepower of investors supporting them, private developers in India can unlock high-value sites in financial or technological hubs, education hubs, research and development hubs or near transit corridors for BTR developments. Suburban sites near metro corridors which incentivise developers with higher floor area ratio (FAR) for developments near the transport corridor belts, can be good locations for proposed BTR developments and will find ready tenants. The impending regulation of the tenancy laws provides an opportune time for developers to venture into this space.

A BTR model can also work well with a Special Purpose Vehicle (SPV) in partnership with urban local bodies or with public sector bodies under Ministry of Housing and Urban Affairs through PPP models or through joint development agreements between parties to share the development risk. If land parcels held by different government departments or publicly held enterprises can be unlocked at competitive rates and offered to private developers for BTR developments, it can help generate long term returns from the development and help builders generate cash flows in times of low residential sales volume. Due to high development costs, such BTR developments can work only for large-scale developments, as smaller projects will not be able to support the operational cost.
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Key takeaways for striking the right balance for a perfect BTR model

Development
- Planning approach
- Land value
- Construction finance
- Profit and risk
- Right location
- Design

Operation
- Customer service
- Rental income and security
- Sustainability
- Amenity and services revenue
- Running costs
- Letting costs
- Sink fund

Investment
- Government funding
- Equity and Debt funding
- Gross to Net Income
- Yields
- Expected returns

Advantages of BTR

As a Developer
- Steady income
- Faster absorption rates
- Economies of scale
- Deposit against property
- Government backed incentives

As a Tenant
- Easy moving process
- Building communities
- Professionally managed
- Guaranteed tenure
- Better standard of living

As an Investor
- Capital gains
- Residual Income
- Lesser risk through forward funding
- Minimal management involved

Source: Knight Frank Research
In the real estate context, Rent To Own (RTO), also known as Rent To Buy or rental purchase is a terminology used for specialised documented real estate transactions which is very popular in the residential sector in many countries globally, especially the United Kingdom, parts of Europe and the Middle East and Africa. The RTO contract is a legal document for property which consists of clauses for rental and future sale at a predetermined price (at the time of drawing up the agreement) within a time frame, which is typically either between 1-3 years or 3-5 years. Under an RTO contract, the owner or developer agrees to sell the house to the renter in future. During the rental period, a portion of each monthly rental payment is credited to an escrow account which is utilised for down payment against the purchase price when the time comes. The renter or prospective buyer also provides an up-front deposit that can be utilised for down payment if the purchase option is exercised. For the agreed period of 3 or 5 years, the renter lives in the house and makes rental payments, while also utilising this time to save up for the down payment in future. At the end of the lease term, the renter is offered the first right of refusal to purchase the property at the agreed sale price or walk away. If the tenant decides to not exercise the option to buy, the owner or developer is then free to rent or sell the property to another buyer, or to restructure the contract. In such an instance, the deposit already paid is forfeited by the owner/developer as per the terms of the agreement.

RTO schemes work well in certain sub-property types within the residential market and are typically successful during housing market downturns. They became popular during the late 2000s period of global financial crisis. In many Indian cities, where developers are severely stressed due to lack of funding for operational sustenance, such RTO schemes can prove to be very beneficial for both buyers and developers for ready-to-move in unsold stock if there is a legal framework around it. The legal framework surrounding the RTO schemes can be introduced along with the Draft Model Tenancy Act, 2019 implementation to make the private rental market more appealing to tenants with a possibility of asset ownership at a later stage. The Housing and Urban Development Corporation Limited (HUDCO) had launched an RTO scheme in India on similar lines for salaried public / government sector employees, specially at the lower rung to act as a financing partner for government agencies willing to provide housing to its employees but the reach of such schemes was not far and wide and kept the larger tenant or end-user base out of its purview. If the private developers can participate in the RTO schemes and there are Central Government guidelines to regulate this space, they will prove particularly beneficial for developers to dispose of assets which are overpriced and not finding takers.

Residential apartments and villas priced in the category of above INR 10 million to 30 million can largely benefit from this mechanism.

Advantages of RTO

As a seller
- Steady rental revenue
- Less or no void periods
- Minimum risk
- Better tenants
- Minimal maintenance
- Fixed purchase price
- Full control over the home
- No middle-men
- Bigger target group

As a buyer
- Immediate possession
- Equity growth
- Minimal maintenance
- Fixed purchase price
- No middle-men
- Minimum additional expenditures
- Bigger target group

Source: Knight Frank Research
Way forward

Since the beginning of the current decade, the completion of numerous residential projects got delayed in India and many are now nothing but abandoned sites. As a result, investors who had taken up equity in these projects burned their fingers terribly. From a 60% share in total investment in Indian realty in 2011, the share of residential sector declined to 24% by the end of 2017 and nosedived further in the subsequent years. Many investors, unable to recover their initial investment, let alone any gains, soon started to shun the risk associated with investing equity into residential development projects and invest via debt or structured debt instruments. Over a period, residential assets no longer held investor interest and they shifted the focus to other asset classes. Unlike the office or warehousing assets, which the institutional investors have been lapping up, the residential market has not seen any traction given the changing regulatory environment and the lack of investible assets. Since rental housing has been a much-neglected sphere, India does not have any residential stock specifically developed to incentivise investments in this space. With the impending rollout of the Model Tenancy Act, 2019, there are bright chances for the rental housing market to not only get regulated but also attract institutional investors to participate in quality assets in form of BTR or RTO stock. This will provide a new asset class to diversity investment risk too.

Unlike many developed markets, where Apartment Real Estate Investment Trusts are a lucrative asset class, the Indian real estate market is yet to mature before such an investment landscape can develop and the Draft Model Tenancy Act, 2019 is the first step in that direction. While the Draft Model Tenancy Act, 2019 is yet to be implemented and evolve thereafter, its impact to revitalise the rental housing sector cannot be underestimated. From a fundamental standpoint, housing is a non-discretionary product. People will need homes in good times and bad. Coupled with the millennial population coming of age, housing unaffordability and changing perception about home ownership, the pool of renters is only expanding. Rental housing reforms in India will help develop a large residential stock to cater to all categories of renters – luxury, mid-segment and affordable. During prosperous times of the economy, the landlords/developers benefit from raising rents, whereas during tough economic conditions, home purchases decline, which is again, good news for apartment owners. During recessionary periods, credit gets tight or expensive making it difficult to buy a home, which again works in the landlord/owner’s favour. Rented residential properties offer a nice combination of cyclicity and safety and once a critical mass of this stock develops in India, it can develop in the long term as an income yielding asset class for establishing Apartment Real Estate Investment Trusts as well.
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