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RENT CONTROL IN INDIA: ITS ECONOMIC EFFECTS
AND IMPLEMENTATION IN BANGALORE

by

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The views presented herein are those of the author(s), and they should not be interpreted as reflecting those of the World Bank.
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Recent research on rent control has demonstrated that rent control differs greatly in its effects from place to place, depending on the specific provisions of the rent control laws, their enforcement, and market conditions. This paper describes the housing market of Bangalore, India, with particular reference to rent control. Relevant literature, both on Indian rent controls and on rent controls in other countries, is also surveyed. A companion paper is being prepared which presents quantitative estimates of the costs and benefits of rent control in Bangalore.
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1. INTRODUCTION

As in the rest of the world, the rent control legislation in India owes its origin to the two World Wars. Originally conceived purely as a temporary measure of regulation, its perpetuation to the present day has been dictated by the continuing, or, in fact, aggravating, housing shortage in the country. With active industrialization and consequent urbanization, the Indian housing market has been characterized by a rapid growth in demand. Such a rapid growth in housing demand is not adequately met by supply due to shortage of building material and lack of adequate financial resources needed for housing investment. Most of the residential stock is under private ownership as the initiative for residential housing investment lies primarily in the private sector. Further, there are government controls on urban land use through various legislations such as Urban Land Ceiling and Regulation Act, Land Acquisition Act, and Development Authority Act. In such a context, rent control, far from being used as an evolutionary or adaptive, legislative process, has tended to degenerate into a static device, with standard, base-state provisions being extended in application from time to time and from place to place.

The purpose of this paper is to survey the implementation of rent control in a particular urban housing market, Bangalore City. Located in south central India, Bangalore is the seventh largest city in India, with a population of approximately 3 million in 1986. In addition, Bangalore is one of the fastest growing large cities in India, with an average annual growth rate of seven percent per year in the last decade.
The focus of this paper is a careful description of the rent control laws in Bangalore, their enforcement, and a review of literature on Indian rent control, and selected other literature on rent control. A companion paper is being prepared which will present econometric estimates of the costs and benefits of rent control, and which will make recommendations for changes in current policies based on these estimates.

This paper is organized as follows. The next section describes the legal framework of Bangalore rent control. However, actual effects on housing markets depend on how the laws are enforced, so Section 3 then describes the current implementation of those laws. Section 4 and 5 survey relevant literature on rent control, in India, and in other countries, respectively. The concluding section describes the likely effects of rent control in Bangalore, in light of the preceding sections. This concluding section will suggest hypothesis which will be tested in the companion empirical paper.
II. THE LEGAL FRAMEWORK OF BANGALORE RENT CONTROL

Several temporary legislations were enforced in the 1940s and early 1950s to cater to war time and post-war housing crisis in different parts of the country. Examples are the Bombay Rent Restriction Act, 1939; Bombay Rents and Hotel Rates and Lodging House Rates (Control) Act, 1944; Bengal House Rent Control Order, 1942; Bengal Hotels and Lodging Houses Control Order, 1942; Calcutta House Rent Control Order, 1942; Calcutta Rent Ordinance, 1946; West Bengal Rent Control (Temporary Provisions) Act, 1950; etc. Designed to protect urban tenants from escalating rents and hotel rates, these enactments showed varying geographical coverage, and each succeeding legislation was a refinement over the previous ones.

Rent control in the country assumed some measure of permanence with the introduction of the Bombay Rents, Hotel and Lodging House Rates Control Act, 1947. True to the federal spirit, Housing was included as a State subject in the Indian Constitution. As a result, it fell to the lot of the State Governments to frame their own Rent Control Laws. So, subsequent legislations were brought into force in different parts of the country—all of them broadly similar in their general thrust and tenor, except for some minor and specific variations.

Rent control came into effective operation in almost all the States in the country by 1975.

Confining attention to the focus of this paper, viz., residential housing, the main objectives of the legislation, as are apparent from a reading of the preamble in the various acts, can be stated as follows:

(a) to control letting rates and letting operations so as to protect the tenant from various hardships;
(b) to assist persons belonging to "priority" groups, such as state and central government employees, members of the State Legislative or Parliament, in their search for desirable rented accommodation;

(c) to prevent indiscriminate eviction of tenants by unscrupulous landlords;

(d) to lay down obligations and duties of landlords vis-a-vis maintenance and upkeep of their rented properties; and

(e) to protect the landlord from tenants who default in paying rent or misuse the premises.

However, to gain a clearer understanding of the policy behind the law, one has to read the statements of objectives and reasons given by the Government to the Legislature at the time of passing the concerned law. In the absence of a survey of such statements covering all laws and in all states, one has to be content with the above list.

The provisions in the various Acts corresponding to these objectives, cover: (i) control over letting and leasing of vacant buildings; (ii) determination of "standard" or "fair" rent; (iii) providing rights to tenants against unreasonable and improper recovery of possession of tenanted premises by landlords; (iv) correspondingly, providing landlords with some rights of recovery of premises for self-occupation and remodelling; (v) giving rights to tenants in respect of repairs and maintenance of the premises, and avoidance of harassment in respect of services and utilities; and

(vi) correspondingly, giving certain rights to landlords for timely receipt of rents and protection against unauthorized subletting and misuse of premises.

Salient features of various provisions of the Karnataka Rent Control Act (1961) that may be taken as representative of several Acts in force in the country, may be identified as follows:
1. **Letting and Leasing of Vacant Buildings**

The Act stipulates that every landlord should, within 15 days after the building becomes vacant by his ceasing to occupy it or by the termination of a tenancy or by eviction of the tenant or by the release of the building from requisition, or otherwise, inform the Rent Controller about the vacancy (Government of Karnataka, 1984). No person may occupy, let or otherwise use any building without such intimation to the Rent Controller. Where these conditions are not complied with, the landlord may be punished with fine ranging from RS.50 to RS.1,000 and his unit is brought under the purview of rent control. The Rent Controller employs his own vigilance staff to bring such cases to his notice.

In these matters, buildings which are less than five years old, and residential buildings with monthly rent less than RS.15 are exempt from the purview of rent control.

The Controller, by order served on the landlord, directs that the vacant building be given to the landlord for his own use and occupation or on lease to such public authority or person as he may think fit. No order of leasing may be passed by the Rent Controller in favour of a person not being the landlord, or any member of whose family owns a residential building in the same city or town or village in which the vacant building is stimulated.

Where the vacancy of any building is required to be intimated to the Rent Controller, but is not so intimated and given on rent at the discretion of the landlord, the Controller may direct the tenant to vacate the building and take possession of it for allotment according to the Rent Control Rules.

2. **Determination of "Fair" or "Standard" Rent**

Fixation of "fair rent" is taken up by the Rent Controller only on receipt of an application for the same from a landlord or tenant of any
building in respect of which the fair rent has not been fixed either before or after the coming into operation of the 1961 Act. In fixing the fair rent of a building constructed before April 1947 the Controller gives due regard to prevailing rates in the locality for the same or similar accommodation during the 12 months prior to April 1, 1947, to the rental value as entered in the property tax assessment book of the local authority and to other circumstances of the case, and he may allow an increase not exceeding 50 percent of such rate or rental value. For buildings constructed after April 1, 1947, fair rent is taken as the rental value of the building in the year of its construction, as entered in the property tax assessment records; or, when such records are not available, fair rent is computed at 6 percent per annum, of the cost of construction and the market value of the site as at the time of commencement of construction. Buildings constructed and let out after August 1, 1957, enjoy a "rent holiday" period of five years, when the fair rent would be the rent first agreed upon between landlord and tenant.

The Acts in some states have incorporated provisions to increase fair rents periodically, from the frozen base-year levels, e.g., West Bengal and Haryana. More progressively, the Tamil Nadu Act (1960) introduced an amendment (1973) to determine fair rent for new properties on the basis of cost of construction plus market value of the site as at the time of application for fair rent fixation.

As a rule, rent control legislation does not recognize sub-tenants and licensees in estimation of fair rent. Since it operates "in rem" and not

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1/ The 6 percent rate of return may be compared with the following rate of return figures prevailing in the year 1962, around the time the 1961 legislation was enacted. The rate of return on riskless central government securities was 4.50 percent. The average rate of return on variable dividend industrial securities was 6.93 (Reserve Bank of India, 1964).
"in personam", the fair rent determined in respect of a property is not influenced by user-type, but rather by capital value only. Fair rent thus becomes an attribute of the property once it is fixed.

Uniformly, "fair rent" as determined by the Rent Act and not "hypothetical rent" as defined in the various municipal Acts is used as the basis for assessment of properties. Insofar as this is based on capital value only, the value of occupation to the user is not recognized. In West Bengal, the fair rent for new structures is determined as a percentage, per annum, of the cost of construction plus the market value of land plus half the total amount of municipal rates and taxes payable per annum in respect of the premises.

3. Protection from Eviction

Eviction clauses are tilted heavily in favor of the tenant and there are stringent procedures and litigational delays involved even where the landlord is desirous of vacant possession for self-occupation.

Grounds for tenant eviction are: (a) failure on the part of the tenant to clear rent arrears; (b) erection of any permanent structure on the premises without the landlord's consent; (c) misconduct on the part of the tenant, (d) unlawful sub-letting by the tenant; (e) construction or acquisition of another building by the tenant; (f) major repairs to be undertaken by the landlord, and (g) genuine appeal by the landlord for self-occupation.

4. Recovered Premises

Premises may be recovered by the landlord on any of three counts: recovery for repairs, for own occupation, and for demolition and reconstruction. The tenant's right to re-entry is protected in all three cases. Besides, the tenant enjoys first priority for tenancy in the new or
modified structure. Safeguard against misguided recovery of tenanted premises by landlords have been provided under the Act. For example, if the landlord does not move into the recovered premises within three months, or if he relets the unit to any other tenant within a year, he may be moved by a Court order to place the original tenant in occupation on the original terms and conditions.

5. Repairs and Maintenance

Every landlord is bound to keep the building in reasonably good repair, besides ensuring essential services like water, electricity, lights in passages and on staircases, lifts and conservancy or sanitary facilities. Where the landlord fails to make the repairs himself and deduct the cost of such repairs from the rent, up to a maximum of 1/12 of the rent payable by him in that year. Where the cost of repairs exceeds this amount, the tenant may prevail upon the landlord through a court order.

The rent control legislation affects different segments of the rental residential housing market differently. Based on the applicability of the provisions of the Rent Control Act in Karnataka State, the following segmentation of the rental market is identified. First, there are rented houses that are either allotted by the Rent Controller and/or whose "fair rent" is fixed by the Rent Controller. Second, there are rented houses which could come under the provisions of letting and leasing of vacant residential houses or fair rent fixation, but are not actually controlled by the Rent Controller in regard to these provisions. Third, those rented houses that do not come under the purview of the letting and leasing or the fair rent fixation provisions of the rent control legislation. For convenience, the first type of rental housing units are termed strictly controlled residential housing units, the second type are termed partially controlled units, and the
last type are termed un-controlled units. The provisions regarding the rights of landlords and tenants are applicable to all the three types of residential units.
III. IMPLEMENTATION OF RENT CONTROL IN BANGALORE CITY

The Mysore House Rent and Accommodation Control order was first promulgated in 1941 in the old princely state of Mysore, and was subsequently replaced by an Act in 1951. In those parts of the present Karnataka State which were formerly parts of old Bombay, Madras, and Hyderabad States (a consequence of reorganization of States in 1956), the rent control enactments had even a longer history. After the reorganization, the various Acts in force in the different parts of the Karnataka State were repealed and the Karnataka Rent Control Act (KRCA), 1961 was enacted (Government of Karnataka, 1984). Thus, the main objective of the KRCA of 1961 was to consolidate and unify the provisions of different state legislations. Rules were also framed under the Act, prescribing inter alia, the procedures and priorities for allotment of vacant houses, and for fixation of fair rents.

The discussion and inferences presented in this section on the implementation of the Rent Act are based on (i) Karnataka Rent Control Act, 1961; (ii) informal interviews with a purposive sample of households (20 households); and (iii) informal interviews with a Rent Controller and a few government officials associated with the implementation of the Act.

The Act is divided into seven parts which are selectively made applicable to different areas in the State, depending on the level of urbanization of the areas concerned and local needs. In the case of Bangalore City, all the seven parts are applicable to areas within the city corporation limits and areas within a radius of three kilometres from those limits.

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2/ 1 - preliminary; 2 - lease of buildings; 3 - provisions regarding rent; 4 - deposit of rent; 5 - control on eviction of tenants and obligations of landlords; 5.a - special provisions; 6 - hotels and lodging houses; 7 - miscellaneous.
Parts II and III regarding lease of buildings and fair rent do not apply to buildings constructed after August 1, 1957, for a period of five years from the date of construction of such buildings. The law applies to any building or hut or part of a building or hut other than a farmhouse let or to be let separately for residential or non-residential purposes.

By the end of December 1983, the Act had undergone eight amendments, through the Acts 14 of 1969, 16 of 1970, 31 of 1975, 26 of 1976, 66 of 1976, 3 of 1978, 13 of 1980, 17 of 1983 and 6 of 1984. Some of these Amendment Acts merely extended the duration of the law for a further period of five years. Amendments involving substantial changes in the law were made on the basis of experience, either to remove operational difficulties or to take into account reasonable complaints of both tenants and landlords, voiced in the State legislature as well as outside it.

The responsibility of implementing the various provisions of the Rent Control Act is vested in the Rent Controller, the Civil Court (e.g., in Bangalore, the Small Causes Court), and the prescribed authority. Lease of building, fixation of fair rent, increasing the rent, eviction, giving possessions as also conversion of residential buildings to non-residential buildings are the functions entrusted to the Rent Controllers who are the executive officers of the State Government and enjoy quasi-judicial powers. The Rent Controllers have been designated as prescribed authorities for the implementation of certain provisions of the Act brought into force through later amendments.

Bangalore City has two Rent Controllers, one for the city area and the other for the Cantonment (civil) area, coming under the Deputy Commissioner, Bangalore District, respectively. The House Rent Controller (city area) and the House Rent Controller (civil area) have a field force of five Revenue Inspectors each.
Adjudication of disputes between tenants and landlords relating to payment of rent, recovery of possession, and provision of services are within the jurisdiction of Civil Courts.

**Lease of Buildings**

Under the provisions of the Rent Control Act, whenever a house which is more than five years old becomes vacant, the landlord must give intimation of the vacancy to the Controller within fifteen days, who, in turn, starts the process of allotment of the house to a tenant, according to the Rent Control Rules. In practice, landlords seldom give such intimation to the Controller, unless they feel compelled to do so due to various reasons. One of such reasons may be the fear that informants such as tenants vacating a rental unit, prospective tenants, middlemen, or the general public may report the vacancy to the Controller and the landlord may be penalized. Rent Controller's vigilance staff, responsible for keeping track of the vacancies are, quite often, under pressure to ignore house-vacation they come across. The pressure may be exerted through monetary incentives from landlords and unauthorized tenants, or through political or bureaucratic influence.

Often, even at the Rent Controller's level, influence and other considerations play a part in keeping the vacant house outside the Rent Controllers' net. Many times, the landlords abstain from reporting a vacancy, by claiming that the house has been given to a paying guest, converted into a lodging house, or, is under a mortgage with possession. The landlords then ensure that the field staff accept the claim without verification. Even when the house vacancy has been reported, the Rent Controller has initiated the proceedings for its allotment; the landlords often manage to gain their own ends. One common method is to declare, in collusion with the Rent Controller, the rent of the house at a figure which is even higher than the market rent of
uncontrolled units of similar type. In such a case, usually, the Rent Controller does not get any application for allotment, and feels free to permit the landlord to lease out the unit to a tenant of his own choice.

Another method pertains to the "directive", an order which compels the Rent Controller to allot the house to a given person. Where there is a big difference between the market rent of the house and the fair rent likely to be fixed for it, the landlord has a strong incentive to prevent the issue of a directive. This incentive can be as strong as the efforts of the eligible applicants to secure a directive. Influence and money come into play in such cases at the level of the State Government. Yet another way is to enter into a collusive litigation with the outgoing tenant in a Civil Court and obtain a decree which could, under favorable circumstances, force the hand of the Rent Controller to allow the landlord to retain possession of the vacated house.

Furthermore, even when a landlord is actually caught in the act of violating any of the injunctions of the Act, he goes scot-free, since no action is taken to file a criminal prosecution against him by the police department. In the rare cases where the police authorities are moved to file a prosecution, it is alleged that the judicial system tends to levy negligible penalties, and even these are often avoided by offering bribes to the staff of the judicial system. Thus, violation of law does not seem to bring down any effective punishment on the defaulter.

Where a landlord has failed to save his unit from the ambit of Rent Control at the levels of the Revenue Inspectors and the Rent Controller, he appeals against the Rent Controller's allotment to the district court, provided he is prepared to go through the exacting process involved. The Rent Controller's decision on allotment may be and is, in many cases, revoked.
Here, the main considerations are, choice of tenant, fixation of fair rent, and requirement of landlord for self-occupation of the unit, etc.

The proportion of houses, finally allotted to tenants through the Rent Controller, to the total housing stock turns out to be a small fraction. Based on enquiries made from Rent Controller and other knowledgeable officials of the state government, in the year 1984, the proportion for Bangalore City is estimated at about 2 percent or even less. According to a sample survey conducted in 1974, 62.8 percent of the total households in the city lived in rented dwellings (Prakasa Rao and Tewari, 1979). This percentage would be at least 65 percent in 1984. Out of this, the houses that do not come under the purview of Part II of the Act for allotment through the Controller, may be about 45 percent; about 15 percent being less than 5 years old; about 10 percent because of monthly rent of less than RS.15; and about 20 percent because of the reason that the present tenant occupied the house at the time when it was less than 5 years old. Thus it is estimated that while, according to the provisions of the Act, about 20 percent of houses should get allotted through the Rent Controller, in practice, it takes place in only about 2 percent of the cases.

In the year 1983-84, in Bangalore City, about 2,600 cases were notified. Of these, only about 40 percent could be allotted by the Controller. The rest of the units could not be allotted because of several reasons such as landlords requested for self-occupation, landlords proved that the houses were not vacant, etc.

In 1976, the Karnataka State Government passed an Act (Act 66 of 1976) encouraging both the landlords and the tenants to voluntarily declare unauthorized or illegal occupation contravening the provisions of the Rent Control Act. Special provisions were made in the Act, incorporated as
Part V-A, to regularize such voluntary declarations. The procedures laid down for the regularization of the declaration are so perfunctory that the order of regularization can be reversed easily in appeal to higher authority. Indeed, the High Court has already ruled that regularization on the strength of a unilateral declaration by the tenant, without giving a hearing to the landlord (which seems to be permitted in the present wording of the Act), cannot be sustained. But regularization can be ordered with the consent of parties, and this seems to have been done in many cases. However, the law has yielded a very large number of declarations in Bangalore City, and the great majority of them seem to be lying with the House Rent Controllers without attention ever since they were received.

Procedure for Allotment

On receipt of the intimation of the vacancy of a residential building, the Controller fixes a date for hearing the case, and publishes the intimation on his notice board for the information of all persons who may be desirous of applying for the house. The Controller also intimates the date of the first hearing to the landlord. On receipt of this notice, the landlord has the option to apply to the Controller to allow occupation of the house for his own use. Such application for personal occupation has to be considered by the Controller along with the claims of other applicants for allotment. The Controller also makes a report to the state government, addressed to the officer who is authorized by the state government to issue directives under the Act, giving particulars of the vacancy and the date for which the case stands posted. If a directive is issued by the authorized officer in favor of any public authority or any officer of the state government or the central government, the controller complies with it regardless of the applications before him.
In cases where a part of the building is to be leased, the Controller gives due regard to the customers, manneers and social conventions of the persons occupying the remaining portions of the building, as urged by the landlord or other person in possession, insofar as those not opposed to law, public order, morality or health.

An applicant for a rent-controlled unit is eligible for allotment only if he is a resident of Bangalore and if he or his family members do not own or possess a house in the city.3/

On confirmation of eligibility, potential applicants must get themselves registered at the concerned House Rent Control Office. Prescribed forms with fixed denominations of court fee stamps are available for the purpose. Only registered persons can apply for houses notified vacant by the Controller.

An applicant for a house notified as vacant by the Rent Controller must fill a second form accompanied by the required court fee stamp. He must also pay a month’s rent as deposit at the time of application. He may apply for any number of units notified, but on separate application forms and with separate deposit amounts.

Allotment of any unit is subject to the priority list, which effectively acts as a norm for allotment. The priority in allotment favors members of the state legislature, members of Parliament, employees of the State and Central Government, Employees of the public sector etc. (Table 1), and is limited to those persons whose household income is not more than 10 times the rent of the concerned unit. Based on data obtained from Rent Controller’s office, it is estimated that about two-thirds of the total allotment in the recent years have gone to Government servants.

3/ Until the Act was amended in 1976, there were no restrictions against making allotments to persons owning residential buildings in the same city.
**Table 1: Order of Priority in Allotment of Residential Buildings**

<table>
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<th>Order of Priority</th>
<th>Public Authority/Person</th>
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<tr>
<td>1</td>
<td>Direction holder</td>
</tr>
<tr>
<td>2</td>
<td>Government of Karnataka (for any Minister, Judge of the High Court or Tribunal, Members of the Legislature, the Presiding Officers of the Legislature, Deputy Presiding Officers, Government Whips of both the Houses, Members of any Committee or Board or Corporation or its employees)</td>
</tr>
<tr>
<td>3</td>
<td>Central Government (for its employees)</td>
</tr>
<tr>
<td>4</td>
<td>Any person who vacates the Government residential accommodation or who has been evicted from Government buildings</td>
</tr>
<tr>
<td>5</td>
<td>Any person who has been served with notice for termination of tenancy under the proviso to clause (b) of Section 21-A</td>
</tr>
<tr>
<td>6</td>
<td>Any person who has been ordered to be evicted under Clause (h) of Sub-Section (1) of Section 21</td>
</tr>
<tr>
<td>7</td>
<td>Any other public authority for providing accommodation to its employees</td>
</tr>
<tr>
<td>8</td>
<td>Members of the State Legislature or Parliament</td>
</tr>
<tr>
<td>9</td>
<td>Officers employed under the State Government</td>
</tr>
<tr>
<td>10</td>
<td>Officers employed under the Central Government</td>
</tr>
<tr>
<td>11</td>
<td>Officers employed under any public authority</td>
</tr>
<tr>
<td>12</td>
<td>Honorary Medical Officer employed in Government Hospitals in the area in which building is situated</td>
</tr>
<tr>
<td>13</td>
<td>Part-time Professors or Lecturers employed in the Government Colleges in the area</td>
</tr>
<tr>
<td>14</td>
<td>Persons employed in any Bank</td>
</tr>
<tr>
<td>15</td>
<td>A member of any Committee, Board or Corporation constituted by the Government of Karnataka and who is required by virtue of his position as such member to reside in the area</td>
</tr>
<tr>
<td>16</td>
<td>Any person employed in Indian Institute of Science Indian Council of Agricultural Research, and Council of Scientific and Industrial Research</td>
</tr>
</tbody>
</table>

*Note: Priority 9 to 16 are applicable only if the person concerned is not in possession of any alternative accommodation.*
It is very common for influential parties to lease out their own houses (outside the ambit of the Act) in the city at fancy rates, and get a rent-controlled unit allotted for themselves. The provision of the Act prohibiting allotments of houses in favour of such persons, introduced by an amendment in 1976, has not been enforced effectively. Only the District Court, and not the Rent Controller, is empowered to evict an allottee in the event such a violation is discovered.

Fixation of Fair Rent

The order of allotment in respect of a building, issue by the Controller, specifies the rent at which the building is to be leased to the allottee. This rent should not be less than:

(i) the fair rent, if any, fixed for the building; or
(ii) the rent last paid, if any fair rent has not been fixed; or
(iii) rent determined by the Controller on the basis of the rental value of the building as entered in the property tax assessment book of the local authority, if no rent was last paid; or
(iv) rent determined by the Controller on the basis of the prevailing rates of rent in the locality for similar buildings for similar circumstances, if no property tax has been assessed.

If the rent specified in the order is not the fair rent, the tenant or the landlord are entitled to apply for fixation of fair rent. Only on receipt of such a request from the landlord or the tenant, the Controller holds an inquiry as he thinks fit, to fix the fair rent for the building. The factors to be taken into account in determining fair rent are, the prevailing rates of rent in the locality for similar accommodation and circumstances,
rental value as entered in the property tax assessment book of the Bangalore City Corporation, and the circumstances peculiar to the case, including any amounts paid by tenant in addition to rent.

For buildings constructed before April 1, 1947 the fair rent was sought to be fixed at rates prevailing during the twelve months prior to April 1, 1947. In the case of later constructions, if the rental value does not exist in the municipal records, the fair rent may be calculated on the basis of 6 percent per annum of the aggregate amount of cost of construction and the market value of the land component on the date of commencement of the construction. In the case of buildings constructed after August 1, 1957, the provisions of fixation of fair rent do not apply for a period of first five years. The provisions are applicable in all other cases irrespective of whether the buildings are allotted by the Rent Controller or not. In practice, where after the stipulated holiday of 5 years, a rental unit comes up for fair rent fixation, in general, rent received when first let out is taken as the fair rent.4/

Fair rent remains fixed till such time as the landlord files a new petition with the Rent Controller for enhancement of rent, and goes through the process of hearing.

During the informal interviews, most of the respondents (landlords, tenants, officials) agreed with the view that, under the rent control rules, the Controller enjoys a lot of discretionary power in regard to fixation of fair rent. Rent Controller, on the other hand, felt that because of the lack of documentary evidence with his office in respect of previous rent, cost of

4/ This provision of the law encourages the landlords to demand as much rent as possible during the rent control holiday period of first five years of construction.
construction, prevailing rents in neighbourhood etc. of a building included under the rent control administration for the first time, the information as supplied by the landlord provides the only basis for determining fair rent.

Reassessment is almost never done in practice. Procedurally, the landlord may apply for an increase in fair rent where some additions, improvements, or structural alternations in the unit have been carried out at landlord's expense or where the rate of tax or cess payable by the landlord is enhanced. However, only rarely such cases appear before the Rent Controller, as landlords who have no incentive even to carry out minimum necessary repairs in their rent-controlled units, seldom think of making any improvement in the structure, and property tax rate increases are very unusual. There is no provision under the Act to allow an increase in fair rent on the plea of increases in cost of living.

Fair rent of a majority of rent-controlled units, allotted during the past five years, is estimated to be in the range of RS.200 to 500 per month. But, in the case of units where fair rent was fixed in the earlier period, a majority fell in the rent category of less than RS.200 per month.

Recovery of Possessions and Evictions

Of the sixteen grounds on which a landlord can file a suit for recovery of possession, the most commonly used ones by the landlords are, default in payment of rent, unlawful subletting, and request for self-occupation. In cases of eviction on the ground of default in rent payment the tenants are, usually, let off on payment of rent as per Court order. One of the sections of the Act requires all landlords to issue receipts for rent received from tenants. In practice this is very rarely observed, and landlords often use the situation to their advantages in Court cases on default of payment.
Sub-letting of rented premises, in part or the whole, is not allowed under the Act, but this is very common practice among tenants holding lease for a long time. Such tenants who had taken the premises on lease a longtime hack, while moving their residences to other areas, instead of vacating the premises, sub-let the same at a rent much higher than what they pay to the landlords. The wide prevalence of sub-letting is a reflection of the Court's delay in deciding landlords' suits on the ground of unauthorized subletting.

All tenants, including those who had taken lease of a house at the time when it was less than five year old, and continue living in the same house, enjoy protection against eviction. Moreover, if a landlord of a house not allotted through the Controller asks the tenant to vacate the house, the vacancy has to be intimated to the Controller for allotment as per the Act. Therefore, landlords of houses which are more than 5 year old prefer to keep the old tenants in the houses, mainly, to avoid the allotment through Controller and fixation of fair rent as per the Act. The tenants of such units, usually, agree to an occasional small raise (once in three to five years) in the rent which lies in between the market rent and the rent-controlled rent, with countervailing assurances from the landlord as to proper maintenance. This situation prevails more in the cases where the landlord and the tenant share a building so as to have cordial relations.

Rent Controller's responsibility stops with allotment. No further monitoring is done by the Controller's Office in respect of allotted buildings. Once the tenant moves in, there is no guarantee of regular payment of rent. The landlord may appeal against irregular payment or nonpayment of rent to the District Court. This becomes time-consuming, the protracted procedures could and do put the landlord to severe hardships, sometimes for years on end.
From the landlords' side, the most common method of harassment of tenants is to cut off or withhold essential supplies and services such as, water supply and electricity. Also, the landlords deliberately neglect maintenance of such rental buildings and thus, force the tenants either to live in unsatisfactory conditions or to carry out necessary repairs and maintenance at their own cost. The reasons for such an attitude of the landlords are, firstly that the Act's procedures for increase of rent, from prevailing low levels, involve protracted litigation in civil courts which could prove unprofitable in the end, and secondly very often landlords who want the house for self-occupation look upon the practice of harassment as a short-cut to recovery of possession instead of the courts.

It is often believed that the powers vested with the judiciary could lead to effective administration of justice. But the elaborate and highly time consuming procedures of the Courts lead to heavy backlogs in disposal of cases, and consequent postponement of relief even where such relief is considered urgent. Further, the House Rent Controller is seen as a comparatively junior officer in the administration, more often than not unqualified in knowledge and experience to don the discretionary mantle attached to the office. As such, decisions in matters of importance are suspected to be more the dictates of political and other superiors than the logical conclusions on merit (D'Souza, 1981).

Informal interviews with a sample of landlords and tenants showed that, as far as possible, both the landlords and the tenants try to avoid getting into the legal tangles on issues arising out of their differences, mainly to avoid the inordinate delays and problems associated with the litigation procedures.
Government officials, when interviewed on the issue of undue delays in redressal of grievances and pendency of cases in Courts and before the Controller, attributed the same to complicated legal practices and procedures and inadequate supporting staff required by the Courts and the Controllers. As on April 1, 1981, about 9,000 cases, under the Act, were pending in Small Causes Court, Bangalore.
IV. A REVIEW OF THE LITERATURE ON RENT CONTROL IN INDIA

Though rent control came to India about 45 years ago, a survey of the literature reveals a lack of analytical indepth studies on the subject. The literature may be broadly classified into two kinds--those which are mostly critical evaluations of the various rent control provisions, and a relative minority which deal with empirical examination of the several hypothesized effects of rent control. While it seems to be generally conceded that the ill-effects of rent control may or may not actually be in operation, there seems to be a near-unanimous opinion that the good effects of rent control, in terms of the social roles or objectives originally envisaged, are far from realization. Most of the literature touches upon the basic provisions of the different Acts, in varying degrees, and deals with the shortcomings of rent control intervention in furthering socio-economic goals.

For a general review of rent control legislation in the country, Datta (1972) and Khatkhate (1975) are noteworthy. Datta contends that rent control, by ignoring the two basic tests of capacity (in terms of profile) and needs (in terms of family characteristics) applicable to any equitable redistributive scheme, falls short of its avowed objective of protecting low-income tenants. On the same score, inequity may also tend to arise as between landlord and tenant. It may be pointed out here that Datta seems to have imputed an objective to rent control which it did not possess. Rent control was never meant to be an equitable redistribution device. In that the objective was to protect tenants, rent control could imply an income redistribution by acting as a subsidy to the (protected) tenant class from the landlord class. Further, as both landlord and tenant classes are subject to segmentation, the welfare implications to different types of tenants and
landlords are not necessarily the same. On an aggregative level, the income classification and proportions of these different sub-classes may have to be analyzed before valid conclusions could be drawn.

Datta reasons also that, based as it is on only date of tenancy and date of completion of property, rent control has an inbuilt bias in favor of old tenants at the expense of recent migrants and mobile tenants, and in favor of relatively new construction and against old buildings. He argues further that rent control is a partial subsidy tied to consumption of housing space, and may, therefore, distort the consumer budget, forcing the tenant to occupy more space than he might wish. 5/ Recent interviews with officials concerned in the case of Bangalore City reveal that even within the controlled housing market, there is a clear case of demand outstripping supply, thus supporting the hypothesis that the tenant is not enjoying the maximum-utility combination of dwelling attributes—for, besides consumption of space, quality and location factors may also be distorted. Even where the tenant does begin with a higher level of housing services than desired, the fact that maintenance of rental units is not monitored under rent control and so the landlord neglects maintenance could imply that a higher rate of depreciation would bring housing services in line with rents over some period of time.

Datta finally recommends a more general subsidy package for the low-income bracket, tailored to consumption of most basic necessities, including shelter. The administrative implications of such a scheme would need to be examined. Definitional problems apart, identification of the low-income groups and the kinds of housing services that would fulfill their needs, the

5/ As Olsen (1972) points out, rent control could distort the consumer budget also in the other direction, i.e., forcing a tenant to consume less space than he might wish.
financial resources and the extent of coordination required, and the sheer moral or social commitment involved, would all entail staggering tasks.

Khatkhate, in recognizing the failure of rent control as an intervention mechanism, suggests that a modified regime of rent control rather than a one-shot repeal of the law, is in order. She alleges that the practice of freezing standard rent at some historical level would both decrease the capital stock in housing through accelerated deterioration, and restrict fresh investment in housing in favor of better alternatives. State intervention in housing construction would then become necessary on a major scale, further accentuating resource constraints. In the existing context, rent control would also fail to protect, since either the tenant himself would have to bear the maintenance expenditure for his unit, or he would be forced to move out due to sheer wear and tear of his unit, thereby forfeiting his privileges under rent control. An interesting recommendation follows from his analysis, that, rather than set an absolute level of rents, some norm of rate of return on invested capital may be introduced, with allowance for maintenance expenditure. Such a normative rate of return cannot be exceeded, and will be tied to the value of capital declared by the owner. Property tax assessment would act as a control against declaration of an inflated value. Moreover, capital valuation may be updated once in five years, to allow for price changes and to eliminate administrative ambiguity. Increases in property values due to such updating could be used specifically for low-cost public housing schemes.

While the scheme suggested by Khatkhate is not without its virtues, some thought may have to go into its practical underpinnings. Water-tight

6/ This may not hold under the quite plausible assumption that tax rate is less than the allowed rate of return on capital.
assessment procedures would have to be evolved if the scheme is to serve its purpose. Norms may have to be identified for investment in different kinds of housing, and how exactly they would be tied to maintenance expenditure may need to be spelled out precisely. Updating of capital values once in five years would actually be a running year-to-year expenditure, with huge administrative requirements. Such expenditure may or may not be superior to that on subsidized mass-housing, but it remains a sound idea at least in principle, and may be justified if there is a corresponding increase in tax revenues. Where increases in tax revenues from such quinquennial updating are to be recycled for public housing schemes, the implications for municipal administration are worth a thought; how will they deal with incremental costs of municipal services of tax collection? Further, at the individual level the landlord would lose through such capital value increments, to the extent of the additional tax but he would make good the loss through the normative rate of return on the increased capital value. As to the individual tenant, it could only mean a rise in rent level every five years, the extent of which depends on the various attributes of the house, and such increases in rent are not necessarily accompanied by increase in income to absorb the same. This would cause considerable hardship to the old and fixed income tenants.

Mohan (1982) identifies the monopsonist power of the tenant in a controlled situation, and argues that it could lead to artificial increases in rentals of new houses, but restricting supply of existing vacant property. As a result, rent control possibly protects only those tenants "who happen to have been tenants for a long time". As regards the negative effect of rent control on maintenance of existing buildings, Mohan moots a housing finance system with provision for house repair expenditure in general. However, the logistics of such a scheme are not spelled out by the author.
Making a transition to the empirical genre of writings a few significant studies were sponsored by the National Buildings Organization (NBO), Government of India. These studies focused on the effect of rent control on housing investment, in the cities of Hyderabad, Delhi and Calcutta (NBO 1965, 1968). Rajadhyaksha's (1973) studies of Bombay and Ahmedabad limited themselves to the adverse effects of rent control on property values and municipal revenues.

The Delhi study by the NBO sampled 200 houses from all private residential houses constructed during 1951-1965 in the urban areas of Delhi covered by rent control. Tenants and owners were interviewed separately, besides officials and administration personnel. Regarding the provisions of the Delhi Rent Control Act, 1958, it was noted that the Rent Act covered residential accommodation only, and that it clashed directly with other special enactments like the Delhi Slum Area Act, 1956, over the issue of eviction of tenants. This was seen to hamper development and renewal of the slum areas in the city. Another egregious feature of the Delhi legislation was the provision for compulsory lease or acquisition of vacant property by the Government, for allotment to government offices and staff, embassies and their personnel, etc. Major lacunae identified in the legislation per se related to the protection of tenants twice over—both by general and by special law—and the lack of a systematic quantitative basis for allocation of housing space according to family needs. Also, new owners were given a rent holiday period of five years, thereby discriminating against old owners.

Older units do, in general, provide lower levels of housing services. Hence, even in an uncontrolled market, older units rent for less than new units. The empirical question to be answered is whether rent control further increases the size of this age-price discount, discriminating in favor of tenants of controlled units with a long tenancy tenure. (Malpezzi, 1986).
Empirical analysis suggested that residential construction in Delhi as a whole, rose continuously from 1951-1965, with a marked step-up during the rent holiday period 1961-1965. The study erroneously concludes from this evidence that rent control has not had a negative effect on the rate of residential construction in the private sector. A possible contradiction may be identified here—the fact that residential construction actually showed acceleration during the rent holiday 1961-1965 could itself imply some dampening influence of rent control. Unless factors other than rent control that affect residential house construction are considered in detail one cannot shed much light on this topic.

Moreover, the rate of construction will not depend solely on rent control for its operation. The general growth pattern of the city of Delhi, the burgeoning employment opportunities, and the high returns to be realized in such a situation, would all go to increase total housing construction, notwithstanding the negative impact of rent control. To study its effect on rental housing may be more in order.

Rent control was also seen to exercise very little influence on the nature of occupancy or tenure status of new houses in the formal sector. Among the houses that came up in 1961-1965, 8 percent were found to be occupied solely by tenants, 41 percent of the houses were shared between tenants and owners, while 51 percent were completely owner-occupied. This was in line with the historical trend towards owner occupancy in Delhi.

Since a portion of the period under scrutiny in this case corresponds to the rent holiday—some of the houses sampled were constructed in 1961-1965, and the Delhi Act provides a five-year “rent holiday” for
buildings rented out/constructed after June 9, 1955, where fair rent would be
the rent agreed upon when first let--the sampling may have been too narrow to
truly reflect the impact of rent control on tenure status. However, the
figures reveal that over 40 percent of the landlords built houses partly for
themselves and partly for the rental housing market.

The study calculated the economic rent (the concept of economic rent
used is not defined, though) for single-room units at Rs.28 per month, while
78 percent of the households in urban Delhi were found to be paying rents less
than Rs.26 per month. Accordingly, it was recommended that a majority of the
population needed subsidized or low-cost housing, rather than rental
protection; the subsidy forthcoming under such a scheme could be the
difference between economic rent and afforded rent--affordability being
loosely defined in terms of family income and rent actually paid.
Difficulties in determining "afforded rent" and the financial implications to
government are the serious practical problems under this recommendation.

The study could not mobilize information on the standard of
maintenance or on the extent of conversion of rental units into the sale
market. As a corollary to the earlier comment on tenure status, it may be
argued that the effect of rent control may be analyzed over a longer period
and on an aggregative level. An attempted analysis of the effect of rent
control on tenant mobility does not seem very conclusive.

On an average, tenant turnover, as reported by owners, was found to
occur once in ten years, but tenants reported an average shift once in five
years. This difference in reporting between owners and tenants could be a
result of under reporting of vacancies by the owners. This was based on the
pattern for 1951-1965. The low rates of mobility were associated with the
dominance of professional and salaried class in the city of Delhi.
Finally, expansion of the uncontrolled sector in the high-rent segment and in areas with low pressure of occupancy was suggested, as also a bolstering of the rent control machinery, especially the maintenance of a complete official roster of all rent-controlled houses in the city.

In the case of Calcutta study by the NBO, the level of investment in housing was studied for the period 1951-1966, measured alternatively by number of houses constructed, total floor area, number of units (flats), and aggregate investment. This was matched against rental value and the rate of return measured. The analysis revealed that return on investment was an important determinant of housing investment. For Calcutta, the rate of return was found to be a U-shaped curve, implying a higher rate of return for low and high investment. Construction was accordingly polarized in favor of high-rent units, with increasing scarcity for the medium ranges. The West Bengal Premises Tenancy Act (1956) contributed directly to this tendency by stipulating that the annual (controlled) sent for new construction would be 6 3/4 percent of construction cost and market value of land, because the normal rate of return for houses in the low and high ranges is less than 6 3/4 percent. In terms of total volume, the impact of rent control on housing construction was found not significant. Once again it must be said that this study did not consider all the factors that determine residential house construction. Thus it cannot claim that the effect of rent control on housing construction was found not significant. The study also revealed limited awareness on the part of tenants, regarding the various provisions of Rent Control. One basic amendment to the Rent Act was put forward to separate

R/ It is possible that low-rent or low-income units escape controls, and that high income tenants are able to supplement the quoted rent by informal payments.
"vacant lands" from the definition of "premises" in the clause on eviction of tenants, as this was seen to hamper fresh construction.

Rajadhyaksha (1973) took the instances of Bombay and Ahmedabad to gauge the effect of rent control on municipal revenues through under-assessment of properties. The methodology followed in the two cases was broadly similar. Unit letting rates were worked out according to locality, age (old or new), and use-type. Similar properties were aggregated over localities to yield an average letting rate for a type of property.

In the case of Bombay, it was estimated that, because of the use of "standard rent" for assessment purposes, the Bombay Municipal Corporation lost Rs.18.45 crores annually. Important reasons included: the exclusion of sub-tenants and licensees from the assessment procedure; static "standard rents" in the face of mounting municipal expenditures; determination of rental solely on the basis of capital value of property, with no cognizance of the use to which it was put; and, non-use of the method of comparison in assessing owner-occupied, unlet or vacant properties. Besides, rent control led to collection of premia by the outgoing tenant, and by the landlord from the incoming tenant. In this latter case, the landlords acceptance of premium could also imply a lower contractual rent than the standard rent, thus adding to tax evasion. The study revealed that "let out" cases were fast being taken over, for new constructions, by owners, licensees and members of co-operative societies.

For Ahmedabad, a 100 percent improvement in municipal revenues was deemed possible if property assessment was not tied to the "standard rent"
provisions of the Rent Act. 9/ Owner-occupied properties seemed to enjoy favorable treatment, with rateable values at roughly 50 percent of tenanted property values. The study does not describe the mode of assessment, or the reasons for such discrimination. One possible reason can be suggested. The revenue officials assessing the property values have a tendency to undervalue property not yielding rental income and over-value property that yields rental income. Underhand dealings were supposedly active, in the form of premia collection, collection of excess rent as liquid cash, and absorption of tenant as a business partner, especially for industrial properties. Since, in Ahmedabad, the annual value of a property is tied to the user, the survey showed a marked difference in average letting rates between residential and commercial uses, for both old and new properties. Having been in the erstwhile State of Bombay till 1969, Gujarat came under the Bombay Rent Control Act, 1947, and the Bombay Provincial Municipal Corporation Act, 1949. The latter Act had originally recognized the value of occupation to an occupant, and had provided for apportionment of property tax payment between landlord and tenant, in cases where premises were sub-let or the rent charged for assessment was greater than the rent paid by the tenant. Subsequent amendments annulled this provision, however. The study makes a plea for a return to the earlier arrangement, where the tenant's share of the property tax could be the difference between the hypothetical rent and the standard rent of his unit.

Determination of hypothetical rent could prove a thorny issue, and leave scope for administrative ambiguity. The tenant's readiness to pay part of the property tax cannot be assumed, and measures to cope with resistance on this account may need to be devised.

9/ Strict adherence to rateable value based on market rent and not standard rent, will impose severe financial strain on fixed income landlords and tenants. It must be noted that urbanization has a tendency to increase property values at growth rate much higher than growth rates in incomes of the persons in fixed income group.
Paul (1972) provides an insight into an entirely different aspect of the rental housing market. He attempted a cost-benefit analysis of subsidized housing policies, both rental and hire-purchase, of selected State Housing Boards. Studying the rental schemes of the Gujarat Housing Board (GBH), he classified tenements by investment cost and listed the actual number of tenements and the average investment per tenement for all categories. To gauge the efficacy of the subsidy scheme, the following measures were computed: (a) GHB's return on investment, i.e., the annual subsidized rent less repairs, per tenement, as a percentage of the cost per tenement, and (b) Planned Rate of Subsidy, i.e., the difference between economic and subsidized rent, per tenement, as a percentage of economic rent. Interestingly, while the rate of return on the government's investment was (understandably) uniformly low (4.6 percent to 5.2 percent) except for the highest slab of schemes (9 percent), the planned rate of subsidy was found to be progressive, i.e., the rate of subsidy increased with cost of tenement and economic rent. A thorough review of the policy framework, as regards both allocation and pricing, is therefore suggested. The study could also have investigated the rate of construction of different tenements and matched it with the requirements in each class.

Gupta (1985) presents a wide-ranging study of urban housing in India, including analysis of urban housing demand and supply in India, and the role of slums in the urban context. On the supply side, the effects of rent control are discussed among several other determinants.

Kumar (1982) suggests a micro-economic analysis of housing demand and supply in India, in contrast to the aggregative approach of the past. He, in turn, provides pointers for future research on rent control—(a) study of the occupational and income distribution of tenants of houses that come under
rent control; (b) the extent of enforcement of rent control, in terms of how many houses are actually controlled and how many are potentially subject to control; and, (c) an econometric analysis of the rental market to estimate distribution of tenant-owner benefits under three comparative regimes--

(i) with the present rent control system, (ii) with a modified rent-control system to allow updating of rents periodically, and (iii) with abolition of rent control in favor of a subsidized rental scheme, where only a "welfare rent" based on income, household size, etc., would be payable by the tenant, the difference between the market rent and subsidized rent being met by the Government.
V. RENT CONTROL - SOME THEORETICAL CONSIDERATIONS

The foregoing review of the Indian literature on rent control would seem to define the Indian effort as directed mainly at either institutional analysis or empirical testing, so much so that the necessary theoretical rigour in the background is found wanting. In the context it may be worthwhile to look at some of the studies in the non-Indian context on the subject of rent control, which could shed light on salient theoretical points.

Olsen (1972) develops and tests an econometric model aimed at measuring the extent and distribution of costs and benefits from rent control, and how tenant benefits from rent control are influenced by family characteristics. He assumes a controlled market for housing services, an uncontrolled market for housing services, and a market for non-housing services. The two latter markets are in turn assumed to be in perfectly competitive long-run equilibrium. Olsen suggests that typical families living in controlled housing are seen to pay a lower price for housing services than the uncontrolled price, and to occupy units emitting a lower level of housing service than in the uncontrolled market. Then, while rent control makes possible a greater consumption of non-housing goods by the controlled tenant, to the extent of the difference in controlled and uncontrolled rents, such tenant benefit is reduced by a decrease in consumption of housing service under rent control. Again, under rent control, there is no guarantee that the tenant will secure a unit embodying the desired level of housing service, so that there is no guarantee of the tenant reaching his demand curve under rent control. Olsen points out that his model excludes other attributes that rent control could distort, like condition of unit, and location, which may be critical factors in the consumer's housing decisions.
Olsen identifies present and past owners of controlled units, and taxpayers in general, as parties bearing the costs of rent control. If, during any period, the landlord were unable to vary the quantity of housing service embodied in his unit, he would be willing to pay the difference between controlled and market rents for his unit, to keep it out of rent control during the period. But rent control can change both revenue and operating cost streams, so that the landlord can react to rent control by controlling his maintenance and repair inputs, thereby affecting the quantity of housing service offered under rent control.

Olsen cites Friedman & Stigler (1946), Grampp (1950), Grebler (1952) and Phelps, Brown & Wiseman (1964), who show the interplay between the attributes of space and condition or quality; whereas most controlled tenants would prefer less spacious quarters in better condition, some would prefer larger and lower-quality units. Further, he cites a number of studies including those of Paish (1950) and Turvey (1957) to make the point that rent control could distort locational preferences of tenants, by creating incentives for people to continue staying where they are.

Olsen also refers to several relevant factors not included in his model, such as:

(a) that controlled rent need not reflect the occupant's cost of housing, since supplementary payments and search costs are largely hidden costs. Besides, there is no evidence of improved maintenance under rent control, in which case the tenant may have to upgrade his unit himself;

(b) since rent control increases the risk-premium attached to housing investment, the cost of producing housing investment, the cost of producing housing services in the uncontrolled market may be higher
under rent control, thus imposing long-run costs on tenants of uncontrolled housing.

(c) that the implicit assumption, to justify rent control, that landlords are wealthier than tenants, need not hold. Johnson (1951) provides indirect evidence to refute the assumption.

(d) that rent control leads to highly random redistribution of wealth, through unequal effects on equally-situated parties (landlords, controlled tenants and uncontrolled tenants).

In his draft paper, Malpezzi (1985) sets out to review earlier models and related empirical work on the effects of rent control, their distribution, and the effects on household mobility. Rent control is placed first in a simple comparative static framework, where it could be treated either as a simple price control or as an expenditure control, and then in a dynamic perspective.

To view rent control as a simple price control with no dynamic price adjustments would imply that the price per unit of housing service charged by landlords is reduced by fiat. Then, the outcome would depend largely on supply elasticity. Assuming that long-run supply elasticity is infinite, the model would predict that no housing is produced in the long run, under rent control.

To circumvent this obvious incongruity, recourse is taken to the expenditure control approach, where rent control limits the price-quantity combination of housing service rather than price alone. In such a case, rent control can foster adjustments in the quantity of housing service supplied through variations in maintenance and repair inputs, over a short period. Over a longer period, the model predicts that such a decrease in quantity supplied will result in a return to long-run market supply price, by virtue of the fixed-expenditure condition.
Malpezzi reviews Moorehouse (1972) for a dynamic analysis of rent control. Moorehouse analyzes the optimal choice of maintenance inputs by value-maximizing landlords, under the assumptions of (a) a three-input production function (capital, current inputs at some exogenous fixed rate, variable maintenance inputs), and (b) geometric physical depreciation of the unit, where rent control freezes nominal rents during an inflationary period, the time path of real rents would decline by the rate of general inflation less the rate of depreciation not offset by maintenance. Then, since in a competitive market with general inflation, rents must also rise to achieve dynamic equilibrium, rent control transfers the onus of adjustment on maintenance.

Malpezzi goes on to studies on other aspects of rent control. Johnson (1951) studies the distribution of income in the USA. Data limitations precluded comparison of the income distributions of renters as against landlords, but rental income was examined by income class. Found to be more important a source of income to lower-income households, rental income increased in absolute terms with income class, but decreased as a proportion of total income. This was taken as indirect evidence that landlords as a class are not necessarily richer than the tenant population.

Studying length-of-tenure discounts and mobility rates, with and without rent control, in southern California, Clark and Heskin (1982) found that, under rent control, tenant mobility decreased, except for the youngest group of renters. Length-of-tenure discounts were found to increase under rent control, with the differences larger for lower-income households.

Boersch-Supan (1983) found similar patterns, in constructing a detailed micro-economic model of a housing market under a rent control regime which froze real rents, lifted whenever a new household moved in. This could be plausible from the tenant side, with straightforward support from rent control law.
Applebaum & Gilderbloom (1983) studied the supply of housing through new construction, and used their results to argue for rent control as part of a larger housing strategy. Median rents for several U.S. metropolitan areas were regressed on a variety of determinants, including the percentage of housing stock built in the last five years. A strong positive correlation was found between rents and new construction activity. This led Applebaum and Gilderbloom to argue that new construction, rather than lowering prices by increasing supply, may instead bid up housing prices both by replacing older the cheaper stock and through a price-leading effect on existing units. Malpezzi identifies that median rents were confused with housing prices, and that the model used suffered from a more basic simultaneous specification—whereas new construction could cause increase in price, higher prices in turn could stimulate new construction over a considerable period due to sluggish adjustment in the housing market. Malpezzi argues that new units do rent for more than old ones, but they also provide a larger quantity of housing services.

Ozanne & Thibodeau (1980) examined the relation between housing prices, not rents, and the age of the housing stock. A positive relationship was reported, between rental housing prices and the percentage of the housing stock built before a specified period. This positive relationship seems to be counter-intuitive. One interpretation of this finding could be that the prices of rental units could move up with urbanization and urbanization would be associated with a greater percentage of housing stock built before the specified period. Malpezzi notes that such relationships are very long-run ones and may, therefore, not invalidate rent control intervention altogether. He moots a more explicit analysis of lags in housing market behavior.
VI. EFFECTS OF RENT CONTROL

Given the above specific feature of the Karnataka Rent Control Act it is desirable to examine empirically the validity, or otherwise, of various hypothesis regarding the effects of rent control. A number of the hypothesis have already been indicated in the literature review section earlier. Some of the effects worth examining in the Indian context are discussed below.

The economic effects of rent control could be said broadly to emanate: (i) from the reactions of landlords both to the risk of loosing the freedom of choice of tenant and to actual clamping down of a controlled rent, (ii) from the reactions of tenants enjoying the protection and benefits due to the legislation, and (iii) reactions of tenants in uncontrolled units who have to pay higher premium rents due to the presence of rent control. In the Indian context, despite the lack of an orderly institutional framework for housing investment and construction, the housing market does remain an important component of the individual investor's asset portfolio, characterized as it is by both capital gains and a running stream of rental returns. The predominance of construction activity in an overall scenario of urbanization and development leads to the greater possibility of capital gains and housing may yet be the best hedge against general inflation. Rent control would, therefore, play upon the operation of the housing market through its effect on the relative desirability of housing investment vis-a-vis other forms of investment. When there are several sources of "black money" housing investment could emerge as a preferable investment portfolio to conceal some of the "black money".
1. **Withdrawal of Existing Rental Stock**

Since rent control reduces the stream of rental incomes to the landlords some of them will attempt to withdraw the housing units from the residential rental market. The alternatives open to the landlord are (i) consuming more housing services than what he would have consumed without the rent control legislation, (ii) selling the unit and making capital gains which may be better invested in alternative assets. In the latter event it is quite likely that the new purchaser uses the (housing) unit either for his own occupation or puts it for non-residential use. It can also be noted that rent control affects the land use pattern. Residential housing units are physical assets which yield both capital gains and rental income. Increasing urbanization creates more capital gains and reduced flow of rental incomes, the latter being attributable to an increase in the probability of such units coming under rent control. The capital gains arise mainly due to the potential alternative commercial uses to which such properties can be diverted. The rent control legislation can thus accelerate the process of conversion of space from residential use to commercial use, thereby reducing the stock of rental units.

2. **Activation of the Parallel Economy**

As pointed out earlier, landlords and tenants of a very large proportion of rented houses that should have come under rent control, are able to circumvent the main provisions of the Rent Control Act. This has been possible through invisible transactions, both between landlords and tenants and also possibly between landlords or tenants and the rent control administration.
It is possible that rent control produces an impact by its very presence even when the law is scantly implemented. Nervous house-owners as well as hard pressed tenants, both wishing to avoid the law, strike deals warily and with a heightened sense of mutual trust, because of their respective fears of the law. The tenant believes that he has no chance before the Controller because of the competition for the allotment and also because of the prevailing practice of many allotments to government employees through directions. The house owner is afraid that an allotment by the Controller would result in a very low rental income. So it suits both parties to strike a pragmatic balance outside the law. The overall effect of such uneasy contracts would be to keep the uncontrolled rents above the level of controlled rents.

Considering the magnitude of difference in returns between partially controlled and controlled rents, the incentive for landlords to surreptitiously evade rent control is strong. In doing so, they are willing to terminate their dealings with the administration to the extent of some capitalized value of such difference in returns. Tenants of such partially controlled houses are likely to treat their rent as payment for some of the attributes of their dwellings, and part with some informal considerations such as, lumpsum payments, expenses on maintenance and repairs, so as to retain the convenience of consuming some other attributes, such as convenient location, larger rooms, etc.

3. **Forced Increase in Rents in the Partially Controlled Market**

Analysis of the extent of rent control enforcement and implementation shows that the strictly controlled segment of the market is very small, and the excess demand so generated spills over to the partially controlled market, thereby leading to a larger increase in rents there than would have occurred with no rent control.
4. **Decrease in Maintenance and Repair Expenditures**

Under rent control the landlord's return on his unit is independent of "operating investment" or expenditure inputs. He has, therefore, no incentive to spend money on the upkeep of the unit. Such expenditure is then probably shifted to the tenant, thereby reducing the tenant's benefit from rent control. In any case, accelerated deterioration of stock becomes a distinct possibility. Evidence suggests that there is no check by the Rent Control Administration on the state of the controlled stock.

5. **Decrease in Municipal Revenues**

So long as property taxation is based on frozen, historical, rent levels, or as is more often the case, linked to the "fair or standard rent" control, municipal revenues are likely to fall short of the full potential of revenue that could arise from a taxation system linked dynamically to property values. Remedial actions in this respect would have to take into account judicial pronouncements regarding the relationship between rent fixed by rent control and the annual rental value adopted for municipal taxation.

6. **Decrease in Production of New Rental Housing**

It can be argued that, all other conditions remaining the same, rent control reduces the attractiveness of rental housing investment vis a vis other elements of an investment portfolio. However, it is very difficult to estimate the extent of shortage in rental housing that is attributable to the rent control legislation. This is because the supply of rental housing units is affected by many factors and some of these factors move together (or are strongly intercorrelated) making it extremely difficult to isolate their individual effects. As an example, it may be noted that scarcity of urban land and the associated increased urban land values in and around the central parts of the city are strongly associated with an increasing proportion of
rental housing units in those parts being brought under rent control. It is difficult to isolate the effects of rent control and increased land values on the housing supply, as both of them have similar effects and both factors move together.

7. **Tenant Mobility and Location**

Restricted enforcement of rent control would imply limited choice to tenants, leading to sub-optimal location. The benefit derived from actually having procured a controlled unit (offsetting past and potential search costs), and the benefit from reduced and frozen rents, could hamper tenant mobility, and thereby probably affect the functioning of the labour market.

8. **Welfare Impact on Tenants**

Those tenants who are in strictly controlled units are able to devote a relatively smaller proportion of their total consumption expenditure on housing. This could change their portfolio in favour of other goods, thereby increasing the effective demand for those goods. Also, they may tend to get more housing space than what they would choose freely at the rents prevailing, lending either to inefficient use of space or to practices like sub-letting, non-residential use etc. As pointed out earlier, the allottee is also likely to get less housing space. Positing that tenants in strictly controlled units are an absolute numerical minority, it may be inferred that the welfare implications of these factors are not likely to be significant. Serious concerns arise, however, when unnecessary liberality is shown in allotment and rent fixation to an easily identifiable group of tenants such as, say, senior and influential government officials, who wield bureaucratic and political strength.
9. **Welfare Impact on Landlords**

Tenant protection under rent control affects the smaller owners - those who were either forced to let out their units owing to job constraints, or had built house as a hedge against retirement and old age. Eviction being difficult in the circumstances, the welfare implications to such parties are very real. Rent Control adds to the risk involved in investment in new construction. This additional risk factor, coupled with the magnitude of investment, could imply that only the richer classess, equipped with black money and therefore the economic backing to circumvent the law, may participate in new rental construction.

The effects described above must be viewed within the overall development framework in which rent control is implemented. It must be recognized that institutional factors, and those arising from the general urbanization trends for particular towns or cities, such as, growth patterns, land ownership and development constraints, building by-laws, public housing programmes, housing finance, and availability of building materials and their price levels, too have a bearing on the housing situation.
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