

## **BACKGROUND NOTE ON MODEL TENANCY ACT (MTA)**

As per Census 2011 around 110 lakh houses were lying vacant in urban areas. One of the main reasons for non-availability of these houses for rental purpose is the existing rental laws of the States/UTs, which discourage renting. There is a segment of population especially migrants, who prefer rented accommodation as it offers affordability and flexibility with low entry and exit cost with option to live near their 'place of work'. The share of urban population has increased to 31.16% in 2011 as compared to 27.82% in 2001 and further urban population projected to be >50% by 2050. A significant portion of this increase can be attributed to the migration to urban areas for various purposes such as education, employment, business, healthcare and better quality of life. People also migrate from one area of the city to another area.

Accordingly, in line with the vision of Hon'ble Prime Minister of 'Housing for All' by 2022, MTA has been prepared with the objective of balancing the interests and rights of both the landlord and tenant; and to create an accountable and transparent ecosystem for renting the premises in a disciplined and efficient manner. It will enable creation of adequate rental housing stock for various income segments of society including migrants, formal and informal sector workers, professionals, students etc.; increase access to quality rented accommodation; and enable gradual formalisation of rental housing market. It will help overhaul the legal framework with respect to rental housing across the country. It is expected to give a fillip to private participation in rental housing sector thereby addressing the huge housing shortage.

Existing States rental laws have long drawn legal provisions which result in lengthy litigation to resolve disputes. A ceiling on rent has further reduced the quality and quantity of rental housing stock, resulting in low rental yields, which dissuade homeowners from renting premises. This has made rental housing financially unattractive resulting into informal sub-standard rental market lacking basic amenities. Further, the affordability to own a house is a challenge especially for low-income households. Therefore, it is imperative to promote rental housing to help in bridging this gap.

MTA will enable unlocking of vacant premises for rental purpose and create a vibrant, sustainable and inclusive rental market. MTA will promote growth of rental market thereby attracting investment and promote entrepreneurial opportunities in the rental housing sector.

**Salient features of Model Tenancy Act:**

- (i) After commencement of MTA, no premises to be rented except by an agreement in writing on mutually agreed terms;
- (ii) MTA to be applicable to residential and commercial tenancies;
- (iii) MTA to be applicable to whole of the State/UT i.e. urban and rural areas;
- (iv) Rent to be fixed by mutual agreement between landlord (lessor) and tenant (lessee);
- (v) MTA to be applicable prospectively and the existing tenancies shall continue to be governed by the respective extant rental laws of the States/UTs;
- (vi) MTA to provide for a fast-track quasi-judicial mechanism for adjudication of disputes;
- (vii) MTA to be applicable to all tenancies with no monetary threshold;
- (viii) The terms of agreement shall be binding upon successors of landlord as well as tenant for the remaining period of the tenancy agreement.
- (ix) Sub-letting is not permitted without execution of supplementary agreement between landlord and tenant.
- (x) If the term of tenancy ends at the time when locality (where rented premises is situated) experiences any *force majeure* event, the landlord shall allow the tenant to continue possession of premises for one month from the cessation of such *force majeure* event on the same terms of prevailing tenancy agreement.
- (xi) Security deposit for residential premises shall not exceed two months' rent and in case of non-residential premises it shall be as per the terms of tenancy agreement subject to a maximum of six-months' rent. Security deposit shall

be refunded by the landlord at the time of taking over vacant possession of the premises, after making due deductions, if any.

**(xii)** Recovery of possession of premises by the Landlord on certain grounds.

**(xiii)** Landlord is entitled for double the monthly rent for the first two months and thereafter, four times of the monthly rent in case of default by tenant to vacate the premises after termination of tenancy.

It is expected that State tenancy laws based on draft Model Tenancy Act will be beneficial for both landlords and tenant, thus providing a win-win situation. The provisions of MTA emphasis on supremacy of rent agreement, executed between the parties on mutually agreed terms, which will minimize the possibility of disputes and in case of any dispute, same shall be resolved quickly through the speedy dispute redressal mechanism prescribed in the proposed legislation.

Given the far reaching impact of the proposed legislation, public/stakeholders are hereby requested to send their comments/suggestions on the draft Model Tenancy Act, attached herewith by 31<sup>st</sup> October 2020.

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