ARE YOU RENT READY?

Are you a home-owner who wants your house to earn for you? If yes, here is what you should consider before you rent it out

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KNOW THE LAW:

The importance of this cannot be overstated. Every state has laws in place to govern issues like security deposits, evictions, etc. "Take the case of registration of rental agreement, which for less than 12 months, is not mandatory under the Registration Act, 1908. However, the Maharashtra Rent Control Act, 1999, makes registration for any rent agreement mandatory in the state of Maharashtra. In case the landlord fails to register the rent agreement, he may have to pay a penalty of Rs 5,000, and even imprisonment up to three months," says SN Verma, senior partner, Singhania and Co, a Mumbai-based legal firm.

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DO THE MATH:

From an investment point of view, the first thing to look at when deciding to rent out your house is to do the math. How do you decide what rent to charge or how much money you would have to spend on fixing up the place?

"The rent amount for a property should be at par with the market rate because quoting too high will automatically put off potential tenants. However, if the home up for rent is fully equipped and furnished as well as is in an area with a balanced social and work life, premium rates can be charged as per the extent of amenities offered. The rental can also be determined depending on the agreement tenure because longer lock-in periods in the agreement can be adjusted with a lower first-year rental," says Manju Yagnik, vice-president, NAREDCO (Maharashtra).

ADVERTISE YOUR HOUSE:

In today's day and age, marketing your rental property is easier with new technological developments. And advertising your house can make the process of finding tenants easier. "Online platforms are in sync with the present needs and provide multiple services/options with ease. As tenants do not have time to visit each and every property, they can visit these platforms and get all the details at the click of a button. The landlord can upload pictures of the house on these platforms; the service is usually free on many websites," says Pandey. To this, Yagnik adds, "Today, finding tenants online is a much quicker and more rewarding process than what marketing used to be back in the day. Amid new technological mediums, newspapers still have a grip on consumers; however, online classifieds and communities on Facebook and WhatsApp are also helpful in generating referrals."

THE RIGHT RATE:

Pandey says that in India, the rental yield generally ranges between 2.5 per cent and 3.5 per cent of the capital value. "But, being a diversified market, the rental yield varies significantly within the city as well as depends on location and amenities." Additionally, Pradeep Aggarwal, chairman, ASSOCHAM National Council on Real Estate, Housing and Urban Development asserts that finding out what is the prevailing rent rate helps. "If your home is well-furnished, then you can always ask for a premium rental, but then you might have to wait a little longer. For independent houses or villas, the rents of nearby properties can be taken into account. The minimum rent should give at least three-five per cent of the value of the house annually," says Aggarwal.

ON PAPER:

A rental contract is only as good as the terms outlined in the document, so as a landlord, you need to give serious thought to the information and rules included. Yagnik mentions:

➜ "Details of both parties – tenant and landlord must be mentioned; amount for rent, deposit alongside the maintenance, etc should also be noted;

➜ Tenants should also discuss and clearly define the date/timelines of rent payment and check if penalties are applicable in the event of delays;

➜ Deposits and payment instruments (such as post-dated cheques) being handed over to the landlord should be documented. Having the Model Tenancy Act at hand has made making of rental agreements easier and clearer for both parties."

TAX IMPLICATIONS:

Under the Income Tax Act, 1961, income earned from renting out a property is taxable. Verma explains, "The amount considered for taxation of such property is the market rent of the property, i.e. the potential income that can be generated out of the rent from the property and not the actual rent of the property. However, if the actual rent is more than the market rent of the property, then the tax will be levied on the rent actually received. It is only the owner, who is taxed for rent received. If the amount of rent is more than Rs 2.4 lakh in a year, then the tenant is under an obligation to deduct the tax at source (TDS) and remit the same to the government, and should provide to the landlord a certificate to this effect."

DON'T OVERLOOK INSURANCE:

Your existing home-owner's policy will most likely not cover you if you rent out your property. Ensure that you have the occupation certificate of the building in which the property is situated. Also ensure that your building/house is insured against significant risks such as fire, etc.

WHY REGISTER?

→ Registering a rent agreement secures the property and safeguards the rights of both the parties in case of conflicts;

→ Before registering the document, it is necessary to pay the stamp duty payable on the rent agreement. The stamp duty depends on the rent amount, security deposit and duration of the rent agreement;

→ If stamp duty is not paid on rent agreements, it will attract a penalty up to four times the deficient portion of the stamp duty payable;

→ Moreover, if the rent agreement is not stamped adequately, it will not be admissible in evidence before a Court of Law.

PICS: iSTOCK