

RENTING GUIDE FOR HOME OWNERS

Welcome to NRI Rentals renting guide. This guide has been designed to explain the key facts you need to know about becoming a landlord. By the end, you should have a good understanding of what's involved. However, NRI Rentals team will be happy to answer any additional questions you may have.

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Why rent your vacant property

We understand that your real estate property is your single largest investment, and you may want to avoid the hassles associated to rent it. However, keeping your property vacant and locked does not necessarily mean it will remain safe and you stress free.

If you hire us, obviously you don't have to worry about any of these. We are specialist in managing absentee landlord properties and convert them into rent earning assets.

Here are some of scenarios owners of vacant properties find themselves in....

Owners give keys to someone staying in the same apartment complex or same building, same floor – but they might use it without your permission as "extra" flat.

While others give keys to close relatives, they might take liberty of being "close" to you and use property without your permission. Typically close relatives give excuses such as "it is matter of two days, just need to keep unwanted furniture", "daughters marriage, need for one night so that family members can sleep.

Furnished / Semi Furnished apartments create problems in cleaning efforts, and if flat remains close for extended time, the furniture goes stale.

Vacant properties tend to develop major maintenance problems as minor ones, tend to remain unattended or get ignored.

They are more prone to unauthorized/illegal use and encroachment, more so when it is known that owners are out of India.

Appointing a professional agency to rent and manage your rental

If you have kids, chances are you go for a professional nanny or babysitter. So why choose a local real estate agent who does everything from residential/ commercial buying and selling to renting. Choosing a generalist for the job will be a headache and will prevent you from maximizing your annual rental income.

It is advisable not to market your available rentals to multiple local agents, as they do residential renting as a sideline business and are not aware about the intricacies and concepts of rental management, rental income taxation and rental yields.

In the last 10 years, the number of NRI residential property owners has doubled and most of them choose to keep it locked.

In parallel more high quality corporate tenants insist that their rental property be managed and do not want to deal directly with absentee landlords.

Finding the right rental management firm is critical when it comes to complete rental management of the property. The use of a rental management company can be beneficial as they are able to look after the receipt of the rent, deal with ad hoc tenant queries, get essential maintenance work done using their own network of trusted contractors and carry out regular inspections of the property.

There must be a connection, understanding, and good communication between the property owner and the agent. There are lots of things that need to be kept in mind while renting, you want an agent who is on top of his game and is a specialist.

Setting a Rental Price for your property

This is possibly where most owners make a mistake. Professional Rental agencies see homes every single day. They know the neighborhoods and the going rates. Get a market evaluation from the agent and understand what is a fair rental price for your home in today's market.

Factors that impact the rental rates of a residential house

Location – Demand for rental homes vary from city to city and even from neighborhood to neighborhood.

Condition – Tenants are looking for properties that have updated features and are very clean. Things like fresh paint, working appliance in good conditions are a big draw. How will your property stand apart from the others available in the neighbourhood.

Availability – Prospective tenants want to see properties that are vacant and completely ready for them to move in. Properties that are vacant and 'rent-ready' will rent much more quickly

Market Demand – The time of the year, overall economic condition and real estate prices have a great impact on how quickly a property will rent. There is less demand for rental housing in the monsoon.

Higher the property rates, more is the demand for rental apartments

Understanding returns of Rental Properties

There are two ways property owners tend to earn through property - capital growth and rental income growth. Mumbai has traditionally been viewed as a safe haven for residential property investment, offering exceptional capital appreciation with a average rental yields. Let's take a look at these in more detail.

Capital Growth

When a property increases in value over time, it is known as 'capital growth'. Capital growth, also known as capital appreciation, has been unprecedented in recent times, but the value of property does go up as well as down, and of course the economy and local conditions surrounding the property have a big effect. Keeping a time frame of 10 years, you can safely expect a 12-15% growth in capital values for residential properties in Mumbai, on an annualized basis.

Rental Income

Rental income is what the tenant pays you - hopefully this will grow over time too, as it is linked to the capital value of the property. For residential properties, gross annual rental returns can be between 3%-6%.

If you add up the returns from residential renting, it can be anything between 15-21% per annum.

Pointers

Allow for empty periods Don't assume the property will always be occupied with a rent paying tenant. Budget for a month each year when the property will remain empty known as 'void period'. Focus on Net Annual Rental Income and not on Monthly Rental Income.

Case 1: If focus is on maximizing monthly rental value. Rent out price of the property at Rs. 60,000/- p.m. The property is expected to be rented out in 60 days.

Monthly Rental	₹ 60,000/-
Time vacant	60 days
Annual Gross Rental Income	₹ 60,000/- (p.m.) * 10 months = ₹ 6,00,000/-
Expenses incurred on property	
Society Maintenance	₹ 4,000/-(p.m.) * 12 months = ₹ 48,000/-
Property Tax	₹ 2,000/-(p.m.) * 12 months = ₹ 24,000/-
Utilities (60 Days)	₹ 1,000/-(p.m.) * 2 months = ₹ 2,000/-
Maintenance/ Cleaning	₹ 3,000/- (p.m) * 2 months = ₹ 6,000/-
Total Annual expenses	₹ 80,000/-
Net Annual Rental Income (12 Months Period)	₹ 5,20,000/-

Case 2: If focus is on maximizing annual rental income. Rent out price of the property can be dropped to Rs. 55,000/- p.m. The property is expected to be rented out in 15 days

Monthly Rental	₹ 55,000/-
Time vacant	15 days
Annual Gross Rental Income	₹ 55,000/- (p.m.) * 11.5 months = ₹ 6,32,500/-
Expenses incurred on property	
Society Maintenance	₹ 4,000/-(p.m.) * 12 months = ₹ 48,000/-
Property Tax	₹ 2,000/-(p.m.) * 12 months = ₹ 24,000/-
Utilities (15 Days)	₹ 1,500/-(p.m.) * 15 Days = ₹ 500/-
Cleaning	₹ 3,000/- (p.m) * 15 Days = ₹ 1,500/-
Total Annual expenses	₹ 74,000/-
Net Annual Rental Income	₹ 5,58,500/-

By reducing the monthly rental rate by ₹ 5000/- per month you have increased your Net annual rental income by ₹ 38,500/-

Costs associated with Rental Properties

You will also need to budget for a number of necessary costs. It's worth highlighting what these costs are so you can budget for them. This is especially important as ultimately you must look at the net cash flow from the property.

Furnishing Costs

If you plan to rent your house as a fully furnished apartment, it would cost anywhere between 3 to 6 Lacs in furnishing a 3BHK apartment. The incremental increase in rent tends to cover this expense in 2-3 years. Also, be prepared to re-decorate every 6-7 years.

Repair and Maintenance

Things break down and need to be maintained over time. You will need to allow a percentage of the rent to cover this. Allow 10% of the rent each year for maintenance. The type, age and condition of the property will obviously have an effect on repairs and maintenance of the property,

Incidental Expenses

Expenses for securing the rental of your property would involve registering the rental agreements. Cost associated for a 12 month rental agreement is approx. Rs. 6000/-, which includes registration fee, document scanning fee, stamp duty agent commission and stamp duty.

Broker Fee

Fees vary from agency to agency. Try and sign up with a firm that charges you on a monthly basis, and does not take fees upfront, in the assumption that the tenant will pay rent for the entire 12 months. What if the tenant is forced to relocate after 6 months?

Understanding Taxation of Rented Property Income

As a landlord, you'll have to declare your income and costs

You'll find that the tax laws are actually quite generous in allowing you to offset a large number of costs including the interest payments on your loan.

Non residents & Residents earning rental income are taxed at progressive rates. In case of co-ownership, of property both parties are taxable separately

Taxable income is computed on the basis of the actual rental value of the property, or the government-determined rental value, whichever is higher. A standard deduction of 30% is granted for repairs and collection charges. Interest payments relating to loans used for the construction, acquisition, and repairs of the property are also entirely deductible.

This can be a bit more complex so if you need to know more, you are advised to consult a tax consultant. We will be happy to provide you with one.

Tax Example: Rent

Non-resident Individual monthly rental income ¹		50,000	100000	150000
Gross Rental Income		600,000	1,200,000	1,800,000
Less Municipal/ Property Taxes ²		-48000	-72,000	-96,000
Net Annual Rental Value		552,000	1,128,000	1,704,000
Less Costs Deductable (30%) ³		-180,000	-360,000	-540,000
Less interest charged on Home Loan (No ceiling)		-50,000	-200,000	-500,000
Taxable Rental Income		322,000	568,000	664,000
Income Tax Rates ⁴				
Up to INR180,000	nil	-	-	-
INR 180,001 – INR 5,00,000	10%	14200	32000	32000
INR 5,00,001 – INR 800,000	20%	0	13600	32800
Over INR 800,000	30%	0	0	0
Total Income Tax		14200	45600	64800
Additional Taxes				
Surcharge ⁵	10%	1420	4560	6480
Education cess ⁶	2%	284	912	1296
Annual Income Tax Due		15904	51072	72576
Tax Due as % of Gross Income		2.65%	4.26%	4.03%

DISCLAIMER: The information contained above is marketing material only and is not written tax advice directed at the particular facts and circumstances of any person and should not be relied upon. We encourage you to discuss your particular situation with an independent tax advisor. This information was last updated on September 1, 2011.

Handling marketing of your vacancy

Newspaper advertising is more expensive & less effective than ever before
Internet Over 60% of all renters in Mumbai begin their search on-line.

- Include interior and exterior photos
- Try for one pictures of each room
- Over 65% of persons looking to rent search more than 2 web-sites for houses. So list your home on as many sites as possible.

Getting a good tenant

Some people try to find a tenant without using an agent. If you are lucky enough to know of reliable tenants, that's great. If not, finding and managing tenants can be expensive, time consuming and hard work. Be ready to be on call for showings to potential tenants.

An agency will save you time by showing potential tenants around your property, which is great if you haven't got the time to handle calls, stay in for viewings and respond to emails.

To save time for both yourself and your agent, be clear with your agent about the profile of tenant you will be happy with, are non-veg, smokers, bachelors an issue for example?

Managing the showing of your property

Property showings done with potential tenants without proper planning is like going for a job interview without preparation.

Underestimating Cleaning Up: It may seem obvious, but scheduling showings done with potential tenant to see an unkempt house is like going on a job interview without being suitably attired. How can the employer notice your fantastic talents and skills if they're hidden underneath a sloppy exterior?

If you can't take the time to have a house tidied up before the showing, the potential tenant will quickly move on to the next home on their list

Lingering During Showings: Yes, we all want a 1st hand feel of the potential tenant, but hanging around during the showing is not a good idea. Landlords who tend to linger during showings often make the potential tenant uncomfortable.

The family intending to rent would like to have time to explore the home at their own pace and without feeling any pressure.

For fully furnished apartments, they want to sit on the bed, sofa, use the toilet. However, the chances of them doing that with the landlord present are unlikely.

If you have hired a professional agency, you can get all the details of the showing from your agent. That's what you're paying your agent to do. Let them do their job. Make sure that your agent has all the advantages and any additional features that make this home stand out to rent.