



INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS

Open Access, Refereed Journal Multi Disciplinary
Peer Reviewed Edition :

www.ijlra.com

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Avinash Kumar



Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship. He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi. Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi. He has qualified UGC - NET examination and has been awarded ICSSR - Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and learning.

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ISSN

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CALL FOR REFORM: RENT CAPPING OF COMMERCIAL PROPERTIES IN DELHI*

AUTHORED BY - ISHITA BHARDWAJ,
Law Department, Christ (Deemed to be) University, Delhi NCR, India.

Abstract

This paper explores the effects of current rent regulations in Delhi, mainly how the Delhi Rent Control Act has hindered landlords from setting rents at market rates if they were previously below Rs. 3500. The author shall focus on the background and necessary provisions of the Model Tenancy Act of 2021. The paper seeks to outline the effects of Rent Capping. The researcher aims to strike a balance between landlords' rights and tenant protection within the jurisdiction of Delhi. Despite this progressive legislation, the Model Tenancy Act hasn't been implemented in practice at this time in Delhi, questioning its enactment and ramifications. The author shall examine the effect of implementation of the Model Tenancy Act in Delhi. This paper shall focus on demarking the consequences of repealing the rent-capping practices. Finally, the analysis further delves into the projected surge in tenancy cases that may result from the implementation of the new act.

Key Words: Rent-capping, Model Tenancy Act, Landlords, Tenants, Rights, Implementation

Introduction

The Delhi Rent Act, has long been a contentious piece of legislation, shaping the dynamics of rental property in the National Capital Territory of Delhi. For decades, it has played a pivotal role in regulating rent levels, particularly for properties with rents below Rs. 3500. However, this legislation has faced significant criticism, mainly from landlords who argue that it hampers their ability to set rents at market rates and manage their properties efficiently.

In response to these concerns and the changing landscape of urban housing in India, the Model Tenancy Act was introduced as a central law, aiming to replace all state-level rent control acts. This new legislation was meant to eliminate the rent cap and act as guidelines on which new state laws were to be enacted. As per the Subject lists given under Schedule VII, Rent is a matter of State list. This means that the center has no power, whatsoever, to pass legislations affecting or

regulating Rent. If such a legislation is passed, then it is upon the discretion of the Legislative Assembly of the states to adopt such laws. The law is a model and it is up to the state to adopt. But, each state has its own rent act to regulate the rental market. This shift towards deregulation is expected to have far-reaching consequences for both property owners and tenants in Delhi.

The Delhi Rent Act was originally introduced to provide protection to tenants by regulating rent levels and preventing arbitrary evictions. Under this legislation, properties with monthly rents below Rs. 3500 were subject to stringent rent control measures, which effectively froze rent levels at rates established decades ago. While this was intended to safeguard tenants from exorbitant rent hikes, it created a dichotomy in the rental market. Landlords found themselves unable to charge market-based rents, leading to concerns about the maintenance and upkeep of properties, especially in prime locations within the city.

Over the years, these concerns grew, and calls for reform became increasingly prevalent. Landlords argued that the rent control laws hindered their ability to cover maintenance costs, adequately invest in their properties, or realize fair returns on their investments. This led to a heated debate between tenant rights advocates and property owners, creating a longstanding impasse in Delhi's rental sector.

Recognizing the need for a more balanced and modernized approach to rent regulation, the Indian government introduced the Model Tenancy Act of 2021. This landmark legislation sought to replace existing state-level rent control acts, including the Delhi Rent Act, with a central framework that would provide more autonomy to property owners. One of the most significant changes brought about by this act was the elimination of rent capping for properties previously subject to the Rs. 3500 thresholds.

This shift towards deregulation marked a departure from the long-established rent control regime in Delhi. Property owners celebrated the newfound freedom to set rents at market rates, aligning their earnings with property values and prevailing market conditions. However, this newfound freedom raised concerns among tenant advocacy groups, who worried about potential rent hikes and displacement. But, the Model Tenancy Act of 2021 is dovetailed to the vision of 'Housing for All' by 2022, and aims to "balance the interests and rights of both the landlord and tenant; to create an accountable and transparent ecosystem for renting the premises in a disciplined and efficient manner".

Delhi Rent Control Act and Model Tenancy Act- An Overview

In this section, I shall discuss the initial need and background in which Rent Capping was introduced and purpose of the legislature behind such practices. Further I shall discuss the

relevant provisions relating to Rent Capping Practices as given under the Delhi Rent Control Act of 1958. Lastly, I shall discuss the projected consequences which may result from repealing of the Delhi Rent Control Act.

Purpose and Need for Rent Capping in Delhi

The purpose of the legislature while drafting the Delhi Rent Control Act was to protect tenants from exorbitant rent hikes and ensure their right to continued occupation of their premises. The Delhi Rent Control Act was enacted in 1958 to address the prevailing concerns of tenants who were facing arbitrary evictions and rent increases that were beyond their means. It mainly protected tenants from exorbitant rent hikes and ensure their right to continued occupation of their premises. The Delhi Rent Control Act imposed rent control measures, particularly for properties with rents below Rs. 3500, which effectively froze rent levels at rates established decades ago. The Act sought to regulate rent levels and provide tenants with a framework for resolving disputes with their landlords.

The Delhi Rent Control Act imposed restrictions on landlords' ability to evict tenants without valid reasons or appropriate notice periods. It also required landlords to provide specific reasons for eviction, such as non-payment of rent, willful damage to the property, or violating the terms of the tenancy agreement. The Delhi Rent Control Act introduced rent control measures, particularly for properties with rents below Rs. 3500, which effectively froze rent levels at rates established decades ago. This was intended to safeguard tenants from excessive rent hikes due to market fluctuations or landlords' desire to capitalize on property value appreciation.

The Delhi Rent Control Act extended a measure of security to tenants by making it difficult for landlords to terminate tenancies without due cause. This provided tenants with the assurance of continued occupation of their premises, enabling them to plan for long-term stays and build a sense of stability. While primarily focused on protecting tenants, the Delhi Rent Control Act also recognized the need to balance the interests of landlords. It allowed landlords to increase rents in certain circumstances, such as when the property value had significantly increased or when the tenant failed to maintain the property adequately.

The Delhi Rent Control Act aimed to strike a delicate balance between protecting tenants' rights and safeguarding landlords' interests. It was a significant piece of legislation that played a crucial role in shaping the rental market in Delhi for decades. However, its rent capping measures and strict eviction regulations have also been criticized for stifling investment in rental housing and hindering market efficiency.

The introduction of the Model Tenancy Act in 2021 has introduced a new era of rent regulation

in India. The Model Tenancy Act seeks to modernize and streamline the rental landscape, addressing the concerns of both landlords and tenants while promoting a more balanced and transparent rental market. The Model Tenancy Act aims to strike a more equitable balance between the rights of landlords and tenants, providing a framework for resolving disputes and ensuring a fair and efficient rental ecosystem.

Rent Capping and Rent Capping practices in Delhi

Rent capping practices in Delhi are regulations that limit the amount of rent that can be charged for certain types of rental properties. These practices have been in place for several decades and have been a source of contention between landlords and tenants.

Under the Delhi Rent Control Act, the rent for properties with rents below Rs. 3500 can only be increased by 10% every three years. If the landlord has incurred any expenditure for any improvement, addition, or structural alteration in the premises and the cost of the improvement, addition, or alteration has not been considered in determining the rent of the premises, they may lawfully increase the standard rent per year. Landlords have argued that rent capping has prevented them from keeping up with rising property costs and has made it difficult to maintain their properties. Tenants have argued that rent capping has made it more difficult to find affordable housing, especially in prime locations.

Impact of Rent Capping

In this section I aim to discuss the adverse impact of rent capping on landlords and tenants in detail. The implementation of rent capping has had a significant impact on both tenants and landlords in Delhi. Therefore, I feel it is imminent to discuss the impact of such rent capping. Further, I shall discuss ways in which the rights of landlords and tenants can be balanced. Lastly, I shall discuss the consequences of repealing of such rent capping practices with the implementation of the Model Tenancy Act, provided that the state chooses to adopt and incorporate its guidelines into the Delhi Rent Control Act.

Impact of Rent Capping on the Landlords and Tenants

Rent capping has had several positive impacts on the tenants in Delhi. It has protected tenants from exorbitant rent hikes. Rent capping has prevented landlords from raising rents too quickly, which has helped to keep housing affordable for tenants. The Delhi Rent Control Act through its rent capping provisions ensured security of tenure of tenants as it made it more difficult for landlords to evict tenants without justified causes. This has provided tenants with a greater sense of security and stability. The author further submits that Rent capping has encouraged landlords

to better maintain their properties, as they are unable to simply raise rents to cover the costs of repairs and maintenance.

Rent capping has also had various negative impacts on landlords in Delhi. It has made it difficult to recover costs as the rate or return from such properties is very low. The cost of maintaining the property far exceeds the rent which is received. Rent capping has made it difficult for landlords to recover the costs of repairs, maintenance, and property taxes. This has led to some landlords neglecting their properties. Moreover, rent capping has discouraged investment in properties, as landlords have been reluctant to invest in properties when they cannot recoup their costs through rent increases. Landlords have faced reduced flexibility in managing their own properties as it has made it difficult for landlords to increase rents to match market rates or to evict tenants who are not paying rent.

The overall impact of rent capping on tenants and landlords in Delhi is mixed. It has had some positive impacts on tenants, such as protecting them from rent hikes and providing them with greater security of tenure. However, it has also had some negative impacts on landlords, such as making it difficult for them to recover costs and discouraging investment in rental housing.

Securing the Rights of Tenants & Landlords

The future of rent capping in Delhi is uncertain. The Model Tenancy Act of 2021 proposes to replace the Delhi Rent Control Act and eliminate rent capping practices. However, the Model Tenancy Act has not yet been implemented in Delhi.

It is necessary to strike a balance between the interests of landlords and tenants when making decisions about rent capping. Rent capping should be implemented in a way that protects tenants from rent hikes while also providing landlords with a fair return on their investment.

The current provision for rent enhancement by 10% every 3 years is insufficient when looked at the rate by which the economy grows every year. Therefore, the author suggests implementation of rent stabilization mechanisms to allow for gradual rent increases over time, while still protecting tenants from sudden and excessive rent hikes. Tenant advocacy groups could be strengthened to provide tenants with support and representation in disputes with landlords. The quantum of enhancement of rent should be changed from 10% by conducting market studies and surveys. This will enable in tipping the scales towards giving equal rights rather than in a particular party's favor.

Therefore, implementing a balanced approach to rent regulation can be said to be the need of the hour. Moreover, by promoting alternative housing solutions and having a balanced rent regulation, it is possible to create a more equitable and sustainable rental market in Delhi that

benefits both landlords and tenants.

Repealing of Delhi Rent Control Act

The Delhi Rent Control Act of 1958 has been repealed and replaced by the Model Tenancy Act of 2021. The Model Tenancy Act has been enacted in some states, but not yet in Delhi. The repeal of the Delhi Rent Control Act is a significant development in the rental market in Delhi, and it is likely to have a major impact on both landlords and tenants.

The Delhi Rent Control Act was enacted in 1958, and its provisions are no longer relevant in today's rental market (Godbole, 1999). For instance, the Delhi Rent Control Act does not allow landlords to increase rents in line with market rates. The Delhi Rent Control Act has strict eviction rules which have made it difficult for tenants to move to new properties, as they have to provide a long notice period and can be evicted for a variety of reasons, even if they have not broken their tenancy agreement. This has made it difficult for tenants to find better-quality housing or to move closer to their workplaces or schools.

The rent capping and eviction rules of the Delhi Rent Control Act have helped to protect tenants from displacement, as landlords have been less likely to evict tenants when they know that they cannot easily re-rent the property. This has helped to ensure that tenants have long-term security of tenure. Further, the act has ensured that housing is more affordable for tenants, as landlords have been prevented from increasing rents too quickly. This has been particularly beneficial for low-income tenants. The old act also established a Rent Controller system to resolve disputes between landlords and tenants. This has provided a mechanism for tenants to challenge evictions and rent increases that they believe are unfair.

The Model Tenancy Act is intended to modernize and streamline the rental laws in India. It aims to provide a more balanced and transparent rental market, addressing the concerns of both landlords and tenants.

Consequences of repealing Rent Capping practices on Tenants and Landlords of Delhi

Repealing rent capping practices in Delhi could have a significant impact on both tenants and landlords. While deregulation may lead to increased supply of rental housing and more efficient allocation of resources, it is feared that it may lead to rent hikes and displacement of tenants.

The most immediate and likely consequence of repealing rent capping would be an increase in rents. As landlords regain their freedom to set rents at market rates, they may choose to raise rents significantly, especially in areas with high demand. This could make it difficult for low-income tenants to afford the same properties for their livelihood. Rent increases would therefore lead to displacement of tenants, particularly those in neighborhoods with high market rates. As landlords

raise rents, tenants may be forced to move to more affordable areas, potentially disrupting their communities and access to essential services.

The repeal of rent capping could also reduce the security of tenure for tenants. Without rent caps in place, landlords may be more inclined to evict tenants who are unable to afford rent increases or who are not up-to-date on their rent payments. This could create a sense of instability and anxiety among tenants.

Further, deregulation could encourage landlords to invest more in rental properties, as they would have more flexibility to set rents and recoup their investments. This could lead to an increase in the supply of rental properties, which could help to alleviate the current shortage of affordable properties on rent. With the ability to set rents at market rates, landlords could potentially earn higher profits on their rental properties. This could incentivize more individuals and companies to invest in rental housing, further expanding the supply of housing options.

Landlords would also have greater flexibility in managing their properties, including the ability to set rent terms and conditions, conduct background checks on tenants, and evict tenants who breach the terms of their tenancy agreements.

The overall impact of repealing rent capping practices in Delhi would depend on how the deregulation is implemented and how the market responds. While there could be some benefits for landlords, such as increased investment and flexibility, tenants could face significant challenges, including rent hikes, displacement, and reduced security of tenure.

Implementation of the Model Tenancy Act

In this section, I shall discuss upon the effect of implementation of the model tenancy act in delhi and how the act changes the rights of the landlords and tenants. We shall further discuss the status of rental property cases and the effect on the courts burden of cases if the model act is adopted in the National Capital Region of Delhi. Further the act has only been given a prospective effect and no retrospective effect. Therefore, the act doesn't apply to the properties having rent of below 3500 Rs which was set decades ago and continues to be a meagre amount.

The Model Tenancy Act of 2021 is a comprehensive legislation that aims to reform and modernize India's rental laws. The Model Tenancy Act was enacted by the central government and is intended to replace the existing state-level rent control acts, including the Delhi Rent Control Act of 1958.

Effect on the Rights of old and new Tenants and Landlords

The implementation of the Model Tenancy Act of 2021 in Delhi will have a significant impact

on the rights of both landlords and tenants.

Landlords will have greater flexibility in setting rents, as the Model Tenancy Act eliminates rent capping practices. This could allow landlords to charge higher rents for properties in high-demand areas, potentially leading to increased profits. Landlords will have greater control over their properties, as the Model Tenancy Act allows them to conduct background checks on tenants and establish clear terms and conditions for tenancy agreements.

The Model Tenancy Act could improve rent collection by providing a more streamlined dispute resolution process and clearer eviction rules. This could reduce the number of unpaid rent cases and make it easier for landlords to evict tenants who are not paying rent.

Looking from the perspective of the tenants, we may see that the Tenants may face rent hikes, particularly in areas with high demand, as landlords are no longer bound by rent capping restrictions. The repeal of rent capping could make it easier for landlords to evict tenants, potentially reducing their security of tenure. Tenants may need to rely more heavily on legal recourse to resolve disputes with landlords, which could be time-consuming and costly.

Effect on courts and rent control procedure in Delhi

The implementation of the Model Tenancy Act of 2021 in Delhi is likely to have a significant impact on the courts and rent control procedures in the city.

The Model Tenancy Act is expected to reduce the number of pending rent control cases in Delhi. This is because the Model Tenancy Act establishes a more streamlined dispute resolution process, including the creation of Rent Authorities and Rent Courts to handle landlord-tenant disputes. These new bodies are expected to be more efficient than the existing rent control courts, which are currently overburdened with cases.

The Model Tenancy Act is also expected to simplify rent control procedures in Delhi. The Act provides clear guidelines for rent increases, evictions, and other landlord-tenant matters. This should help to reduce the number of disputes that arise and make it easier for landlords and tenants to resolve their issues without resorting to litigation.

The role of courts in rent control matters is likely to diminish under the Model Tenancy Act. This is because the Act establishes a comprehensive framework for resolving landlord-tenant disputes outside of the traditional court system. However, courts will still play a role in enforcing the Model Tenancy Act and adjudicating appeals from Rent Authorities and Rent Courts.

Despite the potential benefits of the Model Tenancy Act, there are some potential challenges that could arise from its implementation in Delhi. One challenge is the need to ensure that the new Rent Authorities and Rent Courts are adequately staffed and trained. Another challenge is the

need to educate landlords and tenants about the new procedures and their rights under the Act.

Overall, the implementation of the Model Tenancy Act is expected to have a positive impact on the courts and rent control procedures in Delhi. The Model Tenancy Act is designed to streamline dispute resolution, simplify procedures, and reduce the burden on the courts. However, careful implementation and education will be necessary to ensure that the Act is effective in achieving its goals.

It is important to note that the Model Tenancy Act has only been given prospective effect, meaning that it does not apply to existing tenancy agreements. This means that properties with rents below Rs. 3500 will continue to be governed by the Delhi Rent Control Act until the existing tenancies expire.

Consequences of retrospective and prospective implementation

Retrospective and prospective implementation are two different ways of applying a new law or policy. Retrospective implementation applies the new law or policy to events that occurred before the law or policy was enacted, while prospective implementation applies the new law or policy only to events that occur after the law or policy was enacted.

Retrospective implementation can have several consequences, both positive and negative. Retrospective implementation can be used to address past injustices or harms that were caused by outdated or unfair laws. For Instance, a new law that prohibits discrimination against a particular group of people could be applied retroactively to provide compensation to victims of past discrimination. Retrospective implementation can help to promote uniformity in the law by ensuring that all cases are treated the same, regardless of when they occurred. This can be particularly important in cases where the law has changed significantly over time.

However, retrospective implementation can also have several negative consequences. Retrospective implementation can be perceived as unfair, as it can impose new obligations or liabilities on people who acted in accordance with the law at the time of their actions. This can lead to a sense of injustice and resentment. Retrospective implementation can be difficult and impractical to implement, particularly if it involves applying a new law or policy to a large number of past events. This can be time-consuming and costly, and it may be difficult to gather the necessary evidence to adjudicate cases.

Prospective implementation also has several consequences, both positive and negative. Prospective implementation is generally considered to be more fair than retrospective implementation, as it does not impose new obligations or liabilities on people for actions that they took in the past. Prospective implementation is generally easier to implement than retrospective

implementation, as it does not require applying a new law or policy to past events. This can be less time-consuming and costly, and it may be easier to gather the necessary evidence to adjudicate cases.

However, prospective implementation can also have several drawbacks. Prospective implementation may not have an immediate effect on addressing past injustices or harms. This can be frustrating for victims of past wrongs, and it may not provide the same level of deterrence as retrospective implementation.

The decision of whether to implement a new law or policy retrospectively or prospectively is a complex one that should be made on a case-by-case basis. There are both potential benefits and drawbacks to each approach, and the best approach will depend on the specific circumstances of the law or policy in question. In general, prospective implementation is likely to be more acceptable than retrospective implementation, as it is generally considered to be fairer and more certain. However, there may be cases where retrospective implementation is necessary to address past injustices or to provide a strong deterrent effect.

The Model Tenancy Act of 2021 is a comprehensive legislation that aims to reform and modernize India's rental laws. The Model Tenancy Act is intended to replace the existing state-level rent control acts, including the Delhi Rent Control Act of 1958. Retrospective implementation of the Model Tenancy Act would mean that the act would apply to all existing tenancy agreements, including those that were entered into before the act was passed. This would have a number of consequences, both for landlords and tenants.

Landlords would be able to increase rents on existing properties, even if the rents are currently below the market rate. This could lead to significant rent hikes for some tenants. Additionally, landlords would be able to evict tenants more easily than under the current laws. Tenants could face significant rent increases if the Model Tenancy Act is implemented retrospectively. Additionally, they could be more easily evicted from their homes. Although it would be unfair to tenants who entered into tenancy agreements under the existing laws. Additionally, it is argued that retrospective implementation would create uncertainty and instability in the rental market.

The current rent control laws are making it difficult for landlords to invest in rental properties, which is leading to a decrease in the supply of rental housing. Prospective implementation of the Model Tenancy Act would mean that the act would only apply to new tenancy agreements. Existing tenancy agreements would continue to be governed by the current laws until they expire. This would have a number of consequences, both for landlords and tenants.

Landlords would not be able to increase rents on existing properties until the current tenancies

expire. Additionally, they would not be able to evict tenants more easily than under the current laws. But Tenants would not face rent increases until the current tenancies expire. Additionally, they would be protected from eviction under the current laws. Additionally, the prospective implementation would avoid creating uncertainty and instability in the rental market.

Proponents of prospective implementation argue that it would not do enough to address the current shortage of affordable housing. They argue that the provisions of the Model Tenancy Act would only apply to new tenancy agreements, which would do little to increase the supply of rental housing.

Conclusion

The decision of whether to implement the Model Tenancy Act retrospectively or prospectively is a complex one with no easy answers. There are strong arguments to be made on both sides of the issue. Ultimately, the decision of whether or not to implement the Model Tenancy Act retrospectively should be made on a case-by-case basis, considering the specific circumstances of each tenancy agreement.

In addition to the above arguments, it is important to consider the potential impact of retrospective implementation on the courts. Retrospective implementation could lead to a surge in litigation as tenants challenge rent increases and evictions under the new laws. This could further overwhelm the courts and delay the resolution of existing cases.

Overall, the decision of whether or not to implement the Model Tenancy Act retrospectively is a difficult one with no easy answers. There are strong arguments to be made on both sides of the issue. Ultimately, the decision should be made carefully and after careful consideration of all of the potential consequences.

Declaration of conflicting interests

The author declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author received no financial support for the research, authorship, and/or publication of this article.

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