

## CHAPTER XIV

### INCOME FROM HOUSE PROPERTY

In this chapter revised estimates of income from 'house property' sector are presented with a brief description of the methods followed, source material used and the limitations of these estimates both in respect of the present official series described in paragraphs 2.198 to 2.202 of the Final Report (1954) of the NIC and in respect of the revised series presented in this chapter. The contribution from 'house property' to national product has been reckoned as net rental income originating in the ownership of residential dwellings<sup>1</sup>. The rental income from the non-residential dwellings, on the other hand, has been allowed to appear in the operating profits of the enterprises owning their own buildings or hiring the same from households. Accordingly the net rental figures have been derived from the corresponding gross rental figures by deducting from the latter all current expenses on repairs and maintenance and depreciation charges. The existing data on the number of residential dwellings, average rent per dwelling, cost of repair and maintenance and depreciation can be hardly regarded as adequate for preparing satisfactory estimates of net rental income from the 'house property' sector.

2. The first step, therefore, is to have an annual estimate of the number of dwellings separately for the urban and rural areas. The basic source of these data is the decennial census, though its use presents considerable difficulties because of lack of uniform definition<sup>2</sup> of a house for different parts of the country as well as over different census enumerations upto 1951. Further, any projection of the number of houses, purely on the basis of census data<sup>3</sup>, cannot be expected to give satisfactory estimates particularly in a period of planned economic development<sup>4</sup>. The usefulness of the approach gets further restricted due to the fact that the census definition of a house usually differs from the one adopted for purposes of tax statistics by the municipal authorities. The latter treats a house as an entire building whereas the census defines a house as a dwelling with a separate main entrance. In any case there is no strict one-to-one correspondence between the two. As the ultimate object is to estimate the number of houses strictly corresponding to the amounts collected as rates or taxes on house property, not much use can be made of the census number of houses. In view of such difficulties, therefore, the procedure involving the assumption of treat-

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<sup>1</sup> No distinction has been made between the owner-occupied and tenant-occupied residential houses. As no data of all-India validity are at present available on the proportion of owner-occupied houses to tenant-occupied houses, it is not possible to work out separately the magnitude of imputed rental income. As imputation is done on the basis of tenant-occupied houses, which are dimensionally likely to be smaller, the possibility of the overall estimates being on the lower side cannot be ruled out.

<sup>2</sup> 'Owing to the diverse local conditions in India, it was considered inadvisable in the censuses earlier to 1951 Census, to prescribe a general definition of house for the whole of India' etc.—Note on the definition of 'house' and 'household' adopted in the Indian Census, brought out by the Registrar General of India.

<sup>3</sup> For 'conventional' series, the number of houses in the rural and urban areas were estimated for any given year by logarithmic interpolation using the census figures of 1941 and 1951. The implicit annual rates of growth for urban and rural areas are reproduced in Appendix 14.1.

<sup>4</sup> The pace of construction of houses in urban areas, for example, during the periods of First and Second Plans, has been very rapid though specific statistics indicating the same are not available at present.

ing a census house on par with the municipal building calls for revision. Accordingly the estimates of 'gross rental' have been arrived at by using the available data on (i) average rental per person and (ii) estimated population rather than figures of average rental per house and the estimated number of houses. These estimates were separately worked out for rural and urban areas and the details are given in the subsequent paragraphs of this chapter.

2.1. *Urban house property*: The available published statistics on property tax do not contain comprehensive information on the number of buildings, the size of population and the relationship between the house tax and rental value corresponding to the amounts of tax collected by various municipalities. Data collected earlier by the NIC from about 97 municipalities related to the year 1949. Subsequently, as a result of increased rates of urbanisation, there has been substantial increase in rents and their relationship with assessed tax rates. A fresh survey was, therefore, undertaken by the NIU to collect such information from all the municipalities, in all numbering 1679<sup>5</sup> which existed on 31st March, 1959. Complete returns were, however, received from only 299 municipalities in various States. Data so collected related to population, number of buildings, amounts of tax collected, monthly rent assessed and expenditure on repairs and maintenance for three years, viz. 1955-56, 1957-58 and 1958-59. Figures of population furnished by the municipalities, however, related to the year 1951. These 1951 figures of population were, however, adjusted to the years 1955-56, 1957-58 and 1958-59 by applying the observed<sup>6</sup> geometric rate of growth (over the decade 1951-61) of urban population in a State to each reporting municipality within it.

2.2. The available data were then classified into four broad population size groups and all-India weighted averages worked out in respect of rental per person for each group separately, weights being in proportion to the estimated State-wise populations of 1961 within each size-group<sup>7</sup>. The estimates of average rental per person are reproduced in Table 14.1.

TABLE 14.1. AVERAGE URBAN RENTAL PER PERSON BY POPULATION SIZE-GROUPS

| towns having<br>population | (in Rs. per year) |                |                |
|----------------------------|-------------------|----------------|----------------|
| (1)                        | 1955-56<br>(2)    | 1957-58<br>(3) | 1958-59<br>(4) |
| below 20,000               | 20.53             | 20.43          | 21.16          |
| 20,000 to 49,999           | 24.85             | 26.60          | 26.89          |
| 50,000 to 99,999           | 25.22             | 26.74          | 26.45          |
| 100,000 and above          | 46.64             | 48.31          | 50.42          |
| average all* size-groups   | 33.63             | 34.85          | 36.00          |

\* Weights assigned in proportion to 1961 population (urban) in each size-group.

<sup>5</sup> Number of municipalities addressed and number of municipalities reporting are given in Appendix 14.2.

<sup>6</sup> '1961 Census Provisional Totals' published by the Registrar General, India (Table IV, pp. 8-9)

<sup>7</sup> For Gujarat, Kerala, Maharashtra and Rajasthan the break-up of urban State population by size-groups was not available completely and as such the same were obtained by applying the all-India proportions.

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As the *ad hoc* survey referred to above did not cover the years 1956-57 and 1959-60, the per capita gross rental figures for these two years were estimated in the following manner. For the year 1956-57 the average rental per person was interpolated between the figures of 1955-56 and 1957-58. For 1959-60, however, the same was estimated by projecting the 1958-59 figures of rental per person on the basis of observed average rate of increase in rentals over the period 1955-56 to 1958-59. Estimates of gross rental per person thus worked out are Rs. 34.24 and Rs. 36.79 for the years 1956-57 and 1959-60 respectively.

2.3. The gross rental income for the urban sector as a whole has been arrived at by applying the per capita rental figures to the total estimated population in urban areas. The all-India total population figures for each of the inter-censal years (viz. 1955-56 to 1959-60) were arrived at by making use of 1941, 1951 and 1961 (provisional) census population figures. The corresponding estimates of urban population were worked out by applying the respective estimated proportions<sup>8</sup> of all-India rural/urban population ratios to the total population figures. In this context, however, it may be added that there is some lack of comparability in respect of the definition of urban area used during the three censuses and as such the rural urban proportions for the inter-censal years used in the revised estimates may undergo some revision when fuller data are available with consequential change in the gross rental figures. The estimates of rural population have been derived as residue from the total all-India population and the urban population figures.

2.4. As the rental value assessed by the municipalities for purposes of levying property tax is likely to be underestimated considerably, the gross rental income derived on the basis of tax statistics and the estimated population would call for an upward adjustment. On the basis of a recent case study conducted in Kerala<sup>9</sup> the under-assessment in house tax works out at 23.4 per cent in municipal areas and 35.7 per cent in rural areas, the latter being subject to tax by the village panchayat. However, we have not made any adjustment on this account as in a large number of cases in urban areas, a part of a house might be used as a shop or premises of an enterprise for which portion the rent accruing is included in the operating surplus of such an enterprise. Besides, there may be a number of buildings in urban areas which are exclusively used for non-residential purposes<sup>10</sup>. As the total rent assessed by the municipalities include such buildings also, the per capita rental figure as worked out here might have been somewhat lower than estimated on the basis of the available municipal reports. We have, therefore, assumed that this underestimation of rental value of residential portion might be offset by inclusion of the rental values of non-residential portions of urban 'house property'.

<sup>8</sup> These rural/urban ratios were calculated by estimating the population of these inter-censal years separately for rural and urban areas by assuming the geometric rates of growth over the decade 1951-61 and applying the same to 1951 population figures.

<sup>9</sup> 'Potentialities of Local Taxation with special reference to Property Taxes'—a case study of Kerala by Prof. V. R. Pillai, a paper submitted to the Panel of Economists, Planning Commission.

<sup>10</sup> Information on this aspect was furnished by some of the municipalities replying to our questionnaire; the percentage of wholly non-residential buildings to total buildings on the basis of this information worked out at 16.

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2.5. To arrive at the net rental figures, deductions are made from the total gross rental income on account of (a) current expenditure on repair and maintenance and (b) depreciation. The data on proportion of repair and maintenance to total rental for the revised series is based on the information received from the municipal boards in this connection. Accordingly the cost of repair and maintenance works out at 8.33 per cent of the rental income assessed (one month's rent). The estimate of depreciation has been worked out on the broad assumptions, viz. (i) that the average<sup>11</sup> life span of an urban house is 75 years and (ii) that the average rental value of an urban house forms 10 per cent of its total value. Overall rate of depreciation thus works out at 13.33 per cent of the annual rental value of a house. No deductions are considered necessary for the amount of house tax paid by the household to the government as the same has now been treated as a direct tax; this, however, marks a conceptual departure from the procedure adopted by the NIC.

3. *Rural house property* : There is dearth of statistical data required for estimation of the rental income from rural house property. Limited data on average current value of a house are available in the (i) Bench-mark Survey Report of the PEO (Planning Commission), (ii) The Rural Credit Survey Report of the RBI and (iii) certain unpublished records of the NSS. These results, however, differ considerably from source to source partly due to the difference in the definition of a house adopted and partly due to the varying reference periods. It has not, therefore, been possible to make use of these data directly for estimating the value of rural houses for any of the recent years. There are a large number of panchayats in the rural areas which levy house tax. A special questionnaire was prepared by the NIU and sent round to all the panchayat departments of the State governments with a view to obtaining the information from them in respect of population, number of houses, amount of house tax collected and the basis of taxation of houses within areas under the jurisdiction of the panchayats. The response to this enquiry was, however, very poor. Only three States, viz. Maharashtra, Gujarat and Mysore furnished information on some of the above aspects. From this enquiry, however, it was possible to frame some estimates of 'average rental per person' in rural areas. Comparing these with the corresponding figures for urban areas of the three States, the rural/urban ratio in respect of average rental per person worked out roughly as 1 : 4. In the absence of any other reliable information on average rental per person for rural areas, use has been made of the above ratio to estimate the average rental per person in rural areas. The rest of the methodology adopted remains the same<sup>12</sup> as in the case of urban house property sub-sector except that the average life of a rural house was assumed to be 40 years<sup>13</sup> which gives depreciation rate as 25 per cent of the annual rental value.

<sup>11</sup> Adopted from 'Estimates of Capital Formation in construction activities'—note prepared in connection with capital formation in the private sector for consideration of the Advisory Committee on National Income.

<sup>12</sup> Keeping in view the practice prevalent in rural areas, where the labour needed for setting up any construction is generally self-contributed, the deduction for repair and maintenance has been made at 66 p.c. of the urban rate which works out at 5.56 p.c. (rounded off to 5.0 p.c.) of the rental value.

<sup>13</sup> cf. Final Report of the NIC (para 2.202, sub-para 4.).

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3.1. Just as gross rental per person is likely to be underestimated in the urban areas, the same may hold true of the rural rental as well. As stated earlier (para 2.4) the case study in Kerala on the subject suggests a percentage of 35.7 as the extent of under-assessment of rural rental income. On the other hand, there would be portions of rural buildings which might be used for non-residential purposes<sup>14</sup> such as grain storages, cattle sheds etc. Instead of making any adjustment on each of the two counts we have assumed that the errors would mutually cancel out.

4. Data on household gross rental expenditure on tenant-occupied dwellings have been collected in various family living surveys<sup>15</sup>. But these results cannot be used directly for framing estimates of gross rental value of all residential dwellings. The NSS results on per capita consumer expenditure on house rent were also studied in this connection. Due to wide variations in these figures from round to round (vide Appendix 14.3 to this chapter) and the fact that the total expenditure figures derived on this basis would relate only to the tenant-occupied houses, which form an insignificant part of the rural residential houses, these have not been found useful for preparing the global estimates. The pocket-schedule on housing conditions canvassed as part of the NSS schedule on 'consumer expenditure' does, however, provide information on a number of essential items such as (i) proportion of households residing in owner-occupied houses, (ii) average monthly rent paid by a household occupying a rented house, (iii) average expenditure per household on repair and maintenance of owner-occupied house etc. It is, therefore, likely that the present estimates may undergo further revisions as soon as these data become available.

5. The estimates of net rental income from the rural and urban 'house property' sector, derived as described above, are presented in Table 14.2.

6. Comparison with conventional estimates : Table 14.3 presents the two sets of figures of net income from 'house property' sector according to the revised and the conventional methods of estimation. Unlike estimates for urban house property, the estimates are fairly close in the case of rural 'house property'. In the former case, however, the revised estimates work out much lower than the conventional estimates. This is mostly due to two reasons, viz. (i) in the conventional series no allowance was made for depreciation of urban houses and (ii) the estimated figure of urban per capita rental, according to current available data, works out much lower than the figure implicit in the conventional series where the total gross rental figure in a given year was estimated by projecting 1950-51 figure by relating it to the movement in the number of houses in urban areas during the decade 1941-51.

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<sup>14</sup> In their paper entitled 'Estimates of Tangible Wealth of India, M. Mukherjee and N.S.R. Shastri have assumed two-thirds of the rural house property to be purely residential whereas the non-residential (i.e. one-third) is supposed to cover sheds, and a part of house used for protective purposes. This paper was submitted by the authors to the International Association for Research in Income and Wealth (5th Conference, August, 1957).

<sup>15</sup> Instances are the NSS Socio-Economic Surveys, the Middle Class Family Living Surveys and the Working Class Family Living Surveys.

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Table 14.2. INCOME FROM HOUSE PROPERTY  
(at current prices)

| items   | 1955-56 | 1956-57 | 1957-58 | 1958-59 | 1959-60<br>(preliminary) |
|---|---------|---------|---------|---------|--------------------------|
| (1)   | (2)     | (3)     | (4)     | (5)     | (6)                      |
| <i>rural</i>                                    |         |         |         |         |                          |
| 1. population (in lakh persons)                 | 3230    | 3292    | 3357    | 3425    | 3496                     |
| 2. average rental per person (Rs.)              | 8.41    | 8.56    | 8.71    | 9.00    | 9.20                     |
| 3. total rental (Rs. lakhs)                     | 27164   | 28180   | 29239   | 30825   | 32163                    |
| 4. depreciation (25% of item 3)                 | 6791    | 7045    | 7310    | 7706    | 8041                     |
| 5. repairs and maintenance<br>(5.00% of item 3) | 1358    | 1409    | 1462    | 1541    | 1608                     |
| 6. net rental income (Rs. lakhs)                | 19015   | 19726   | 20467   | 21578   | 22514                    |
| <i>urban</i>                                    |         |         |         |         |                          |
| 1. population (in lakh persons)                 | 683     | 699     | 716     | 733     | 751                      |
| 2. average rental per person (Rs.)              | 33.63   | 34.24   | 34.85   | 36.00   | 36.79                    |
| 3. total rental (Rs. lakhs)                     | 22969   | 23934   | 24953   | 26386   | 27629                    |
| 4. depreciation (13.33% of item 3)              | 3062    | 3190    | 3326    | 3518    | 3683                     |
| 5. repairs and maintenance<br>(8.33% of item 3) | 1913    | 1994    | 2079    | 2198    | 2301                     |
| 6. net rental income (Rs. lakhs)                | 17994   | 18750   | 19548   | 20672   | 21646                    |
| total net rental income (Rs. lakhs)             | 37009   | 38476   | 40015   | 42250   | 44159                    |

TABLE 14.3. COMPARISON OF REVISED ESTIMATES WITH CONVENTIONAL\* ESTIMATES

| year                  | (at current prices) |       | (in Rs. lakhs) |
|-----------------------|---------------------|-------|----------------|
|                       | rural               | urban | total          |
| (1)                   | (2)                 | (3)   | (4)            |
| 1955-56               |                     |       |                |
| revised               | 19015               | 17994 | 37009          |
| conventional          | 19866               | 25768 | 45634          |
| 1956-57               |                     |       |                |
| revised               | 19726               | 18750 | 38476          |
| conventional          | 20580               | 27073 | 47653          |
| 1957-58               |                     |       |                |
| revised               | 20467               | 19548 | 40015          |
| conventional          | 20886               | 27963 | 48849          |
| 1958-59               |                     |       |                |
| revised               | 21578               | 20672 | 42250          |
| conventional          | 21080               | 28788 | 49868          |
| 1959-60 (preliminary) |                     |       |                |
| revised               | 22514               | 21646 | 44159          |
| conventional          | 21422               | 30139 | 51561          |

\* In conventional estimates house tax was regarded as an indirect tax and was deducted from the net rental income. In the revised series no such deduction is made as house tax. It is regarded as a direct tax on income from 'house property'.