

## **House Rent Hiking and Its Impact on the Life of City Dwellers: A Study on Badda Area of Dhaka City**

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### **Abstract**

*This paper explains the causes of house rent hiking and its impact on the city dwellers in Dhaka city. The study is mainly based on primary data that have been collected from 120 families through semi-structures questionnaire from Badda area of Dhaka city in Bangladesh. Some statistical tools like mean, standard deviation, hypothesis etc. have been used for analyzing the data in this study. The study reveals that the house rent increases rapidly without any legal reason and decreases the real income of the tenants and also adversely affects on savings of tenants as well as investment. According to the view of houseowners, the reasons of increasing house rent are: (i) increasing cost of living and (ii) increasing the maintenance cost of the house, but according to the view of the tenants the main reason for increasing house rent is that the other house owners have increased the house rent and they are just following it. Ultimately, this study came up with some recommendations to the policy makers/government that they should take some steps for maintaining all the provisions of the existing House Control Act so that house rent cannot increase without legal reasons.*

**Keywords:** Tenants, House Owners, House Rent Control Act, House Rent, Inflation, Standard of Living.

### **Introduction**

The fixed income city dwellers comprising both middle and lower middle class households are in real trouble to tackle the rising house rent in Dhaka city. Most landlords (house owners), in the recent years, have increased their rentals in the excuse of increase in price of the essential commodities, construction materials, holding tax and cost of the utility services.

The fixed and low income households are the worst sufferer affected by the frequent increase of house rent. It appears that there is hardly any control of house rent in absence of effective government measures. There is absolutely no authority to monitor the robust growth of house rent. Also there is no effective law to protect the rights of the tenants. The existing laws related to house rent contain a lot of inconsistencies in terms of implementations and application. Both landlords and tenants are ignorant about the law in general. The law is biased towards the landlords in particular. The tenants are vulnerable to various exploitations made by the landlords in absence of effective rent control instrument. There is no effective body to protect the rights of the tenants. Landlords in Dhaka city increase house rent at regular interval. There is no specific

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law as to when and to what extent it can be increased. Any rent related case is to be finalized within three months in the Court of Rent Controller, but it has not happened so far. In practice the Assistant Judges of any area are appointed as ex-officio Rent Controller.

The law also mandates both landlords and tenants to sign a written house rent agreement. But many landlords do not comply with such provision. Some of them, among those who comply, do not provide original deed of agreement for tenancy to the tenants; instead they are provided with a photocopy. The tenants can not avail any legal protection from any court of law in absence of original deed agreement, as such photocopy is not accepted in the court. Many landlords do not provide appropriate money receipt upon receipt of rent. Few do not provide original utility bills, rather sometimes avail undue advantages to impose personal consumption of utilities on to the tenants. Some even do not repair the fittings on non-functioning and perform periodical maintenance.

Most landlords demand a substantial amount of advance money as security deposit from the tenants before renting off a house. But legal provision allows only receiving rent of one month in advance. Even after paying such advance, if in any case the tenant fails to pay one month rent in time within seven days of the scheduled date, the court declares the tenant as rent defaulter and passes order to pay the rent generally within next 15 days. If it is not paid, the court asks the law enforcing agency to take appropriate action so that the tenant vacates the house. In case the rent seems to be more to the tenant, the court will entertain this complaint only within six months of occupying the house. There are some other inconsistencies may have regarding house rent hiking in Dhaka city. So, the present study is focused on this issue of house rent hiking and its impact on the city dwellers.

### Literature Review

Bangladesh has almost become a city state with Dhaka as its capital, in which the house rent has increased nearly 285 percent during the last 18 years, according to a survey conducted by the Consumers' Association of Bangladesh (CAB).

Year	1991	2001	2002	2003	2004	2005	2006	2007
% Increase in House Rent	23	17.4	13.49	8.4	9.96	7.89	14.14	21.68

Source: [www.consumerbd.org](http://www.consumerbd.org)

The above table shows that a jump over 23 percent in house rent was witnessed in 1991 and the trend continued later on. It was increased by 17.4 percent in 2001, 13.49 percent in 2002, 8.4 percent in 2003, 9.96 percent in 2004, 7.89 percent in 2005 and 14.14 per cent in 2006. Further it has increased average by 21.48 percent only in 2007. Separately in the same year, 21.68 percent has increased for building accommodation, 18.57 percent for semi-building accommodation, 23.33 percent for tin shed house, 26.98 percent for mess accommodation and 16.88 percent for

slum dwellings. On an average, nearly 50 percent of monthly income of a household is spent on house rent. However, ideally it should not exceed 20 percent of income of any household. The high influx of population for the purpose of employment in Dhaka city has created the disparity between demand and supply, which has in fact caused increase in house rent. There is no specific statistics for Dhaka city regarding total number of landlords as well as tenants. But there are around 0.2 million holdings located in Dhaka City Corporation (DCC) area. Almost 90 percent of about 15 million people in Dhaka city make their living on tenancy. The growing influx of people and shortage of houses have resulted in an opportunity to the landlords to increase the house rent. The prerogative enjoyed by the landlords due to lack of legislative provision also allows them to develop a cartel to increase house rent.

Rent Controller system was first introduced in this subcontinent during the British rule. Rent Control Act was enacted for the first time in 1943 (Block, 2002). It was amended in 1953 in the then East Bengal of united Pakistan. As a continuation to this, the latest amendment was made back in 1991, which is known as Premises Rent Control Act 1991. There are total 36 sections in this act.

As per the law, house rent should be assessed at 15 percent of the total cost of land and construction for a premise, which is in fact ignored in most of the cases. The law also says that the landlord cannot increase the rent unless the house has been remodeled or renovated. Increase of house rent should not be based on only cost of land and construction of house, but should also include the depreciation value of the house. It should be determined on the basis of location, space, amenities and present market price; and also separately for commercial and residential areas.

In India, house rent is charged based on the standard provision devised by the local authority. In Delhi it is to be maximum 10 percent of construction cost and market price of land based on historical values, not as per current market value. Their rent also decreases according to the life of property. In Pakistan it is practiced as per mutual agreement of both landlords and tenants at the interval of every three years of tenancy (Arnott, Richard, 1995). In the USA, the Neighborhood Councils settle any dispute related to house rent between landlords and tenants following the process of alternative dispute resolution (Baird, 1980). Those Councils act as innovative forums for all community stakeholders as quasi city entities that affect the lives of the citizen.

Economists are virtually unanimous in concluding that rent controls are destructive. In a 1990 poll of 464 economists published in May 1992 issue of the *American Economic Review*, 93 percent of the U.S. respondents agreed, either completely or with provisos, that "a ceiling on rents reduces the quantity and quality of housing available (Richard et al, 1992). Similarly, another study reported that more than 95 percent of the Canadian economists polled agreed with the statement (Walter and Walker, 2002)). The agreement cuts across the usual political spectrum, ranging all the way from Nobel Prize winners MILTON FRIEDMAN on the "right" to their fellow Nobel laureate GUNNAR MYRDAL, an important architect of the Swedish Labor Party's WELFARE state, on the "left." Myrdal stated, "Rent control has in certain Western countries constituted, may

be, the worst example of poor planning by governments lacking courage and vision (Walter and Edgar, 1995). His fellow Swedish economist (and socialist) Assar Lindbeck asserted, “In many cases rent control appears to be the most efficient technique presently known to destroy a city—except for bombing (Assar Lindbeck, 2004). Cities like New York have clearly not been destroyed by rent control is due to the fact that rent control has been relaxed over the years (Ken Rosenblum, 1996). Rent stabilization, for example, which took the place of rent control for newer buildings, is less restrictive than the old rent control. Also, the decades-long boom in the New York City housing market is not in rent-controlled or rent-stabilized units, but in condominiums and cooperative housing. But these two forms of housing ownership grew important as a way of getting around rent control.

However, some information is available about house rent hiking for finding out the impact on the life of the city dwellers at Dhaka in Bangladesh. In this paper an attempt is therefore made to identify the potential impact of the life of the city dwellers for house rent hiking.

### **Objectives of the Study**

The main objective of the study is to analyze the causes of house rent hiking and its impact on the life of the city dwellers.

The secondary objectives are as follows:

- To show the economic consequences of house rent hiking
- To make a rank among the causes of house rent in Dhaka city
- To provide some suggestions for overcoming house rent hiking

### **Hypotheses of the Study**

- i.  $H_0$ : There is no specific reason for increasing house rent.
- ii.  $H_0$ : Most of the landlords/tenants do not know about House Rent Control Act, 1991.
- iii.  $H_0$ : Most of the landlords are not interested to make agreement with tenants.

### **Methodology of the Study**

The study is an investigative and inclusive one, which has been directed by collecting and analyzing data. Both primary and secondary data have been collected for the study. Secondary information was collected from published books, journals, websites etc.

### **Study Population**

Populations of the study were house owners, care takers of houses and tenants of the Badda area in Dhaka city. This place is situated in Dhaka Zila, Dhaka Division, Bangladesh, its geographical coordinates are 23° 46' 0" North, 90° 26' 0" East and its original name (with diacritics) is Badda. This is the moderate cost of living area of Dhaka city which represent the average scenario of the whole Dhaka city. There are many schools, colleges, hospitals and three private universities located surrounding in this area. That is why, the researchers select the region for the study.

**Sample Size**

Data were collected from 120 respondents that were approximately 12% of whole populations (40 house owners/care takers and 80 tenants) from Badda area in Dhaka city for finding out the real scenario of house rent hiking in Dhaka city.

**Time of Survey:** The survey was conducted during the month of June, 2015.

**Sampling Technique**

Systematic random sampling technique has been used for collecting sample and sample interval was 5 to 10 in different residential areas of Badda in Dhaka City.

**Data Collection Tool:** Structured questionnaire

**Analysis of Data**

The quantitative method has been used for this study. Data have been analyzed by using various statistical tools. Descriptive as well as statistical analysis has been done in the study. Mean, Standard Deviation, and Hypotheses have been used for analyzing data.

**Data Analysis and Findings**

**Background Information :** Out of 120 respondents 80 were tenants and 40 were house owners or representative of house owners (care takers). The age of the respondents ranging from 18 to 30 was 40%, ranging from 31-40 was 23%, ranging from 41-50 was 17% and above 50 was 20%. (Table: 1). The study reveals that 50 percent tenants have been living in the same house ranging 1-3 years while 25% living 3-5 years and rest of the 25% have been living in the same house more than 5 years (Table: 2). Tenants staying at the same house are no longer lengthy because of the following reasons: i) Increasing house rent (46%) ii) Staying closer to workplace or children's educational institutions (35%) and iii) Other reasons (19%) (Table: 3).

**Agreement about House Rent:** As per the rule of house Rent Control Act, agreement regarding house rent is mandatory. But the study found that 56% respondents did not make any agreement about the house rent at the time of renting the house, on the other hand 44% respondents said that they have made the house rent agreement. It is to be noticed that 70% house owners said that they made house rent agreement with the tenants and also 70% tenants said that they did not make house rent agreement with house owners. So there is a contradictory picture about this agreement from the both sides (Table: 4). That is why, the researchers tried to find out why they are reluctant about agreement and found that 45% were not interested for making any agreement, 25% thought that agreement was unnecessary, 20% did not know about the agreement provision of law and rest of 10% thought that there was no tradition for agreement (Table: 5).

**Acquaintance about the House Rent Control Act:** The study found that most of the respondents (84%) did not know about the house rent control act. 87 % respondents said that they did not follow any provision of the house rent control act while 13 percent said that they tried to follow

this. The study also found that 93% tenants and 80% house owners did not follow any provision (Table: 6).

**Month of Advance:** According to house rent control act, the house owners can receive one month rent at best as an advance. Among the total respondents 58% said that they provided 1 month advance and 29% said that they gave 2 months advance. This figure supports tenant's responses but contradicts with house owners. The study found that 50% and 37% tenants gave 1 and 2 months advance during the time of renting the house respectively while 75% house owner said that they took advance of only one month and 13% took for two months (Table: 7).

**House Rent Increase Scenario:** As per the rule of house rent control act, the house owners are not allowed to increase the house rent without legal reasons. Among the total respondent, 80% said that house rent increased at least once in a year and only 17% replied that it rises after two years (Table: 8). Most of the respondents (71%) said that house rent increased generally 1%-10%. But their (62%) income increased 1-10% which indicate that all of their increasing income expense for giving house rent and real income does not increase at all. It reduces the standard of living of the city dwellers. The correlation between income and house rent expenditure is 0.89 which indicates that there is a strong correlation between income and house rent expenditure specially the correlation is very high in lower level people instead of higher. (Table: 9)

**Causes of House Rent Hiking:** According to house rent control act, house owner can increase the rent only for two reasons i.e. i) Increase of rent for improvements and supply of furniture by the landlord ii) Increase of rent on account of payment of taxes. But the study found that there are several reasons for increasing house rent such as i) Increasing the cost of living, ii) Increase because other house owners increase, iii) Increasing maintenance cost of house, iv) Announcement of new pay scale by the government, v) Increasing the government tax on house rent, vi) Increasing because of improvement of house and vii) there is no specific reason. The researchers have made a rank among the causes of house rent hiking. According to the view of the house owners, the first reason is i) Increasing the cost of living, and second is iii) Increasing maintenance cost of the houses, but according to the view of tenants the first reason is ii) Increase because other house owners increase, and second is i) Increasing the cost of living, and third reason is vii) There is no specific reason and from the view of both house owners and tenants, the reasons for increasing house rent from the first to the last is as like as the above serial (Table: 10).

#### Hypotheses Analysis

##### Hypothesis 1: There is no specific reason for house rent hiking

From this statement, some values have been attained which weighted average is 3.27, standard deviation 1.29 and the calculated z value is 1.48 where critical z value is 1.96 and N= 120. (Source: Table: 11). Here, calculated Z value is less than critical z value. So, null hypothesis is accepted and alternative hypothesis is rejected. It indicates that there is no specific reason for house rent hiking.

**Hypothesis 2: Most of the landlords/tenants don't know the House Rent Control Act, 1991**

From the second statement, some values have been attained which weighted average is 3.32 standard deviation 1.30 and the calculated z value is 1.89 where critical z value is 1.96 and N= 120. (Source: Table: 11) Here, calculated Z value is less than critical z value. So, null hypothesis is accepted and alternative hypothesis is rejected. It indicates that most of the landlord/tenant doesn't know the house rent control act, 1991.

**Hypothesis 3: Most of the landlords are not interested to make agreement with tenants**

The third statement shows that weighted average is 3.31, standard deviation 1.38 and the calculated z value is 1.64 where critical z value is 1.96 and N= 120. (Source: Table: 11) Here calculated Z value is less than critical z value. So null hypothesis is accepted and alternative hypothesis is rejected. It indicates that most of the landlords are not interested to make agreement with the tenants.

**Economic Impact**

Economic theory tells that when general price level increases more than the income, peoples' real income decrease, purchasing power decreases, standard of living falls, aggregate demand falls and ultimately country's GDP decreases. Study reveals that 90% tenants income increase 1-10% per year while only house rent increase 1-15%, clearly it can be said that per year tenants pay to their homeowners more than their total income growth. When house rent increases all other product price also increases as rent is one kind of input price. As a result general people face a continuous increase in the price level that is called inflation. There is no doubt that inflation reduces the purchasing power, they purchase less goods and services than the previous or they have to reduce their savings and allocate more to the consumption for keeping the same level of standard of living. Due to higher rental cost and excessive increasing rate per phase, maximum portion of people's income goes to the landlord's hand. Ultimately the following economic impacts have to face the economy if concern authority cannot curb the excessive increase in house rent, these are - i) Due to more expenditure on housing to maintain the same level of standard of living peoples' savings fall, as a result aggregate savings of country fall. ii) Inadequate savings upsurgs the interest rate and decrease overall investment of the country, iii) Lower investment bring higher unemployment, iv) High accommodation cost accelerate inflation and v) finally country's macro-economic stability will hamper drastically.

**Conclusion and Recommendations**

**Conclusion:** This study has been affianced for the causes of house rent hiking and its impact on the city dwellers in Dhaka city. The study obtained the opinions of 120 families from Badda area of Dhaka city through a survey to find the causes of house rent hiking in this area. The study found that house rent is increasing at a rapid rate over time and decreases the real income of the tenants. It also adversely affects the savings of the tenants as well as investment. Finally, this study came up with some recommendations to the policy maker for taking appropriate policy to control house rent hiking in Dhaka city as well as Bangladesh. The main limitation of the study is to deliberate only 120 families for collecting data. Some other limitations are: the study

contemplates only Badda area of Dhaka city and only three hypotheses are examined. So if those limitations are overcome, the findings consequence may be different.

**Recommendations:** The specific recommendations of the study are as follows: i) Government should update and reshape the existing House Rent Control Act-1991 and take some immediate actions for proper controlling the house rent for smooth economic development, ii) Government should take some steps for maintaining all the provision of law such as house rent agreement must be done, advance cannot be taken for more than one month, house rent cannot be increased without legal reasons and without the consent of proper authority etc. and iii) Both the house owners and the tenants should be conscious about the house rent and house rent control act. They have to make an agreement before renting the house.

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## Appendices

**Table: 1 Age of the respondents**

Age	No of Respondents	Percentage
18-30	48	40.0
31-40	27	22.5
41-50	21	17.5
50>	24	20.0
Total	120	100.0

Source: Survey

**Table 2: Length of Living of Tenant in the same House**

Years of Living	No of Respondents	Percentage
1-2	16	20
2-3	24	30
3-4	12	15
4-5	8	10
5>	20	25
Total (Tenants)	80	100

Source: Survey

**Table 3: Causes of frequent changing house:**

Causes of changing house	No of Respondents	Percentage
Increasing house rent	37	46
Staying closer to workplace or children's educational institutions	28	35
Other reasons	15	19
Total (Tenants)	80	100

Source: Survey

**Table 4: Agreement about House Rent:**

Agreement	No of Respondents	%	No of Respondents (H. Owners)	%	No of Respondents (Tenants)	%
Yes	52	44	28	70	24	30
No	64	56	12	30	56	70
Total	120	100	40	100	80	100

Source: Survey

**Table 5: Why they don't do the agreement**

Why no	No of Respondents	%	No of Respondents (H. Owners)	%	No of Respondents (Tenants)	%
No Need	30	25	10	25	20	25
Not interested	54	45	16	40	38	47.5
Don't know the law	24	20	8	20	16	20
No tradition	12	10	6	15	6	7.5
Total	120	100	40	100	80	100

Source: Survey

**Table 6: The House Rent Control Act**

Know the law	No of Respondents	%	Follow any provision	No of Respondents	%
Yes	19	16	Yes	16	13
No	101	84	No	104	87
Total	120	100	Total	120	100

Source: Survey

**Table 7: Advance Rent Collection**

Advance	No of Respondents	%	No of Respondents (H. Owners)	%	No of Respondents (Tenants)	%
No Advance	10	8.33333	2	5	8	10
One Month	70	58.3333	30	75	40	50
Two Month	34	28.3333	5	12.5	29	36.25
Three Month	4	3.33333	2	5	2	2.5
More Than 3 Month	2	1.66667	1	2.5	1	1.25
Total	120	100	40	100	80	100

Source: Survey

**Table 8: The phase of the increase the House Rent**

Years	No of Respondents	%	No of Respondents (H. Owners)	%	No of Respondents (Tenants)	%
2 times in a Year	3	2	1	2.5	2	2.5
Every year	95	80	27	67.5	68	85
After 2 Years	21	17	11	27.5	10	12.5
After 3 Years	1	1	1	2.5	0	0
Total	120	100	40	100	80	100

Source: Survey

**Table 9: Correlation between income and house rent expenditure.**

Income	Expenditure	$x - \bar{x}$	$y - \bar{y}$	$(x - \bar{x})^2$	$(y - \bar{y})^2$	$(x - \bar{x})(y - \bar{y})$
3	2	-10	-9.2	100	84.64	92
8	6	-5	-5.2	25	27.04	26
13	10	0	-1.2	0	1.44	0
18	12	5	0.8	25	0.64	4
23	15	10	3.8	100	14.44	38
65	45			250	128.2	160

Source: Survey

NB: The value of Income and expenditure are in use as mid value (i.e.  $r = 0.89$ )**Table-10: Rank on the Causes of House Rent Hiking**

	Variables	Total	Rank	Tenant	Rank	H. Owner	Rank
i	Increasing the cost of living	266	1	210	2	69	1
ii	Increase because other house owners increase	364	2	200	1	149	3
iii	Increasing maintenance cost of house	383	3	296	3	102	2
iv	Announcement of new pay scale by the government	486	4	332	5	158	4
v	Increasing the government tax on house rent	563	6	400	6	178	5
vi	Increasing because of improvement of house	700	7	488	7	230	6
vii	There is no specific reason	546	5	296	3	241	7

Source: Survey

**Table 11: Test of Hypotheses**

SN	Variables	$\bar{x} - \mu$	$\sigma_x$	Calculated Z value	(5% level of significance) Critical z value	Result $H_0$
1	There is no specific reason for house rent hiking	0.175	0.117829	1.485203	1.96	Accepted
2	Most of the landlord/tenant doesn't know the house rent control act, 1991	0.225	0.118534	1.898187	1.96	Accepted
3	Most of the landlords are not interested to make agreement with tenants	0.208	0.126818	1.642777	1.96	Accepted

Source: Survey

From the above table the Hypotheses are tested by using differences between the observed mean and expected mean. The calculated Z values on above table are determined by using the following formula:

$$Z = \frac{\bar{x} - \mu}{\sigma_x}$$

**Where,**

Z= Calculated value

$\bar{x}$ = The mean value of each variable

$\mu$ = The expected mean of each variable

$\sigma_x$ = Standard deviation of each variable

At 5% level of significance, the critical value of z for two tailed test is =  $\pm 1.96$ . If the computed value of z is greater than +1.96 or less than -1.96, then reject  $H_0$ , otherwise accept  $H_1$ . Moreover, the above table represents that 03 variables are accepted that means there are no significance differences among 03 variables. And weighted average is calculated by using the following formula.

$$\text{Weighted average} = \frac{SA \times 5 + A \times 4 + N \times 3 + D \times 2 + SD \times 1}{\text{Total} \cdot \text{Number} \cdot \text{of} \cdot \text{respondents}}$$