

Assessment of Rental Default in Abuja Residential Private Rented Sector

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Abstract

This study assessed the rate of rental default and factors influencing rental default in the residential private rented sector in Abuja. The data for this study were gathered with questionnaires administered to resident Estate Surveying and Valuation firms in Abuja. A total of one hundred and ten (110) were retrieved out of one hundred and forty-eight administered questionnaires representing 74.3%. The data gathered was analysed using descriptive statistics. The study revealed that the rate of rental default varied between property types and locations. The study showed that the average rate of rental default for a room self-contained, 2-bedroom, 3-bedroom, 3/4-bedroom bungalow, and duplex apartments between 2017 and 2019 were 36.6%, 32.76%, 30.01%, 27.5%, and 18.34% respectively. The study further revealed that the average rate of rental default in phases one, two, three, four, and five in the study area between 2017 and 2019 were 13.67%, 19.8%, 25.22%, 35.8%, 28.68%, respectively. Also, the study revealed that amongst the factors influencing rental default in the study area, poor tenant selection, current economic condition, tenant behavioural attitude, and low income ranked 1st, 2nd, 3rd, and 4th, respectively, with mean scores of 4.41, 4.35, 4.32 and 4.30. The study recommended that practising Estate Surveyors and Valuers consider the factors mentioned above in tenant selection to achieve an investor's investment objective. Furthermore, investors in the study area should focus more on phases one and two for real estate investment.

Keywords: Estate Surveyors and Valuers, Residential Private Rented Sector, Property, Rent, Rental Default and Tenant.

Introduction

Shelter is one of the vital needs of man. This need can be satisfied in two ways: by occupying one owned by you (owner-occupier) or by renting from another person (Dabara, Okunola, Odewande & Okorie, 2012). The rural-urban drift, uncontrolled population growth and low level of income have restricted many people with the option of renting apartments when they move to cities in search of jobs or greener pasture. This has resulted to continuous need for private investors to fill the gap for the provision of accommodation (Adebisi, Oletubo, Alade and Ekpekpe, 2017). Renting of apartments could also be attributable to higher land and housing prices in central cities compared to the countryside. Considering the peculiar qualities of real estate investment and the

sustainable pressure on the housing market, people now look at housing as not a mere provision of shelter but as an investment option. Numerous benefits are accrued from real estate investment, and the most notable of them is 'optimum returns' (Kemiki, Ayoola, Ojetunde, Ogunbanjo & Kuma, 2018). These returns may come either as regular income streams or a lump sum, depending on whether the subject property is put for letting or is sold out-rightly (Abiola, 2014). In achieving the investment objective of an investor/owner, an adequate property management schedule must be put in place for such real estate investment.

However, over the years, default in rental obligation has hindered property owners/investors from achieving the investment objectives, leading to mortgage

default and delays in financing routine maintenance and repairs (Olukolajo, Ogungbenro & Adewusi, 2018). Where a letting agent is involved, apart from deprivation of fees for services, the competence as a professional is at stake (Olukolajo, Ogungbenro & Adewusi, 2018). Failure to pay rent is the most frequently committed breach by tenants and is the most common cause of eviction (Oni, 2011).

Gbadegesin and Oletubo (2013) opined that Nigeria's private rented sector has no legal instrument that outlines the criteria to adopt while selecting tenants. Furthermore, studies have highlighted bad economic conditions, frequent rent review, deteriorating dwelling unit features and lack of proper budget as factors responsible for rent in arrears across Nigeria (Kemiki et al., 2018). These factors pose a significant threat to private rented sector sustainability. It has become the slogan of investors and would-be investors to say that building for investment purposes is a share waste of money, as tenants do not pay rent. The ripple effect of tenants not paying as when due may not be limited to low accommodation quality. However, with an increase in dis-interest in residential property investment, the gap between accommodation supply and demand in the private rented sector may continue to widen, and rental prices may artificially skyrocket. This is not farfetched in Abuja residential property market, as observation reveals that the demand for accommodation exceeds the available supply.

Though a few studies have assessed the rate of rental default in some Nigerian cities, this study assesses rental default in the Abuja residential property market to establish rental default rate amongst residential property types in various locations in Abuja.

Abuja is the capital city of Nigeria located in the centre of the country within the Federal Capital Territory (FCT). It is a planned city and was built mainly in the 1980's, replacing the country's most populous city of Lagos as capital on 12 December 1991. Abuja's geography is defined by Aso Rock, a 400-meter (1,300 ft.) monolith left by water erosion. At the 2006 census, the city of Abuja had a population of 776,298, making it one of the ten most populous cities in Nigeria. According to the United Nations, Abuja grew by 139.7% between 2000 and 2010, making it the fastest growing city in the world. As of 2015, the city is experiencing an annual growth of at least 35%, retaining its position as the fastest growing city on the African continent and one of the fastest growing in the world. As at 2016, the metropolitan area of Abuja is estimated at eight million persons, placing it behind only Lagos, as the most populous metro area in Nigeria. The increasing population in Abuja has led to increased demand for shelter and increased pressure on the residential private rented sector. This has made the Abuja residential private rented sector boom over years, hence becoming an area of interest.

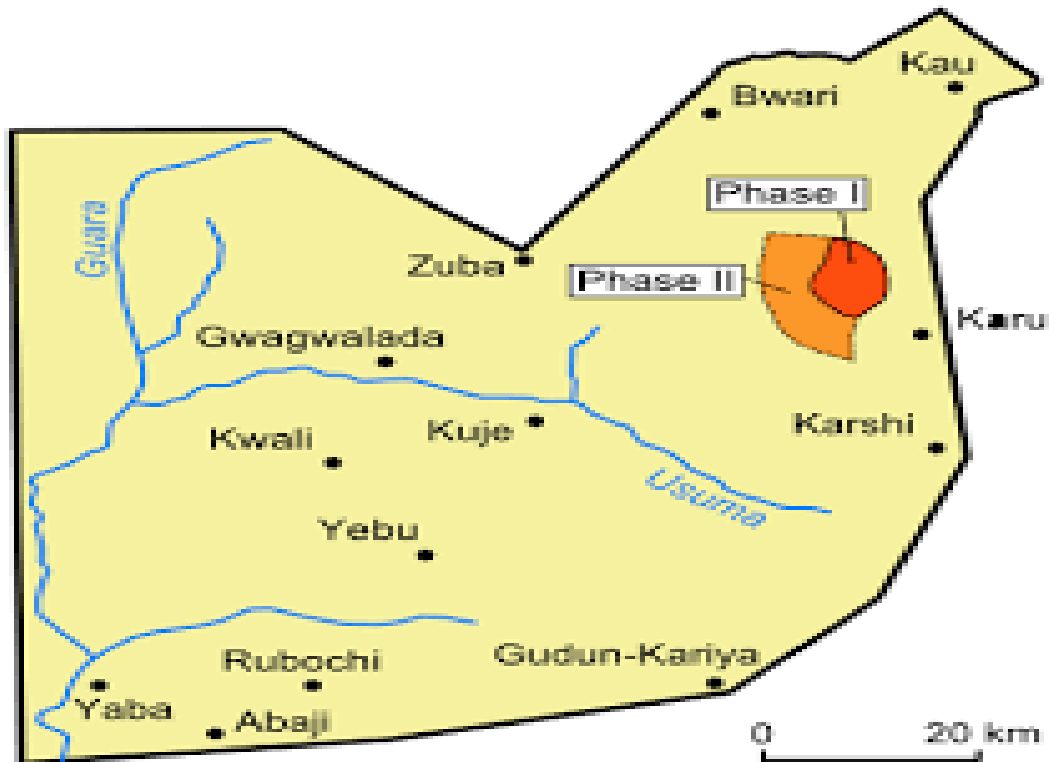


Figure 1: Map of Abuja showing the various phases

Literature Review

Default in rent payment is a significant risk threatening lease agreement and investment in rental properties, and it is the most common reason for termination of lease (Aedes, 2010). Stenberg, van Doorn, and Gerull (2011) observed that 85% of evictions in Sweden result from rent arrears, while 34,000 households were in rent arrears in Amsterdam in 2009. Akogun and Olatoye (2013) estimated that 60.17% of respondents, Estate Surveyors and Valuers in Ilorin property market have had to eject tenants from residential properties owing to rent default and Oni (2010) refers to non-payment of rent as a fragrant breach of a tenancy agreement. A study carried out by Olukolajo and Adewusi (2018) revealed that 28.4% of the sampled tenants within the Akure metropolis defaulted in rent payment. The study further noted that while landlords frowned at tenants' resistance to an upward revision of rent and undue delay in payment, tenants, on the other hand, detest unreasonable interval between rent revisions, non-consultative and a high gap in rent revision.

Gbadegesin and Ojo (2012) undertook a study to investigate the nature and dimension of non-compliance with lease agreement obligations in the private rental housing market between property managers, tenants, and landlords to identify challenges in rental housing lease administration in Nigeria's emerging rental market. The researcher elicited data from practising estate surveyors and valuers who manage rental properties on behalf of owners and tenants who occupy rental housing within Lagos state. Using a theoretical model in the context of five lease agreement obligations, data collected were analyzed using descriptive and inferential statistics (one-sample t-test, independent t-test and correlation). The study revealed that economic circumstances (economic factors) are considered the major vulnerable factor that causes acts of non-compliance. Also, defiance against "covenant not-to-sublet" and "prompt rental payment covenant" are the two most non-compliance attitudes (precipitation events) observed from both actors. There is a correlation among all

vulnerability elements and precipitating events, while a significant relationship was observed between subletting covenant and all vulnerability elements.

Sani and Gbadegesin (2015) analyzed the causes of rental default in Kaduna metropolis. The study identified landlords' failure in their repair obligation of properties as chief among factors that contribute to a tenant defaulting in rent payment. Other identified factors are a lack of flexibility in landlords' instruction and policy on rent collection, instability in tenants' income, lack of effective tenancy legislation and deficiency in tenancy management. The study further observed that almost all the tenants of urban rental housing become problematic when it is time to pay their rent.

Tenant selection is fundamental to rental housing investment (Oni, 2011; Gbadegesin and Ojo, 2013). Careful and critical evaluation of selection criteria at arm's length is crucial to avoid the ugly experience of defiance even from both parties.

Methodology

The data for this study was obtained from registered and practising Estate Surveyors and Valuers who are members of the Nigerian Institution of Estate Surveyors and Valuers, Abuja branch and are duly registered with the Estate Surveyors and Valuers Registration Board of Nigeria (ESVARBON). In the record book, there are 148 Estate Surveyors and Valuers in Abuja. The entire population was adopted as the sample size as suggested by Isreal (2003) in Adebisi, Ezeokoli, Oletubo and Alade

(2015) which noted that the entire population is best sampled in small population of less than 200 to achieve a desirable level of precision. Out of the One hundred and forty-eight questionnaires administered to the registered and resident Estate Surveying and Valuation firms in Abuja, one hundred and ten (110) were retrieved representing 74.3%. This suggests a good level of response, thus giving sound footing for further analysis. Frequency distribution table, mean and weighted mean score were adopted to analyse the data gathered from the study.

Data Analysis and Discussion of Results

This section of the study presents the analysis of data collected from the study area and the discussion of results. The analyses were structured to assess rate of rental default of various accommodation types in various locations and factors influencing rental default in the study area.

Note: The locations are grouped into phases to have a wider look at the general situation of rental default in the Abuja private rented sector as follows;
Phase 1 (Maitama and Wuse II)
Phase 2 (Mabuchi, Jabi and Gwarimpa)
Phase 3 (Lokogoma and Galadimawa)
Phase 4 (Lugbe and Kuje)
Phase 5 (Gwagwalada, Chika and Kuchigworo)

Table 1 shows that majority of the respondents; totalling about 87.0% witnessed rental defaults on properties in their management portfolio. This has further established a good basis for this research.

Table 1: Repondent's Opinion on Rental Default

	Feedback	Frequency	Percentage
Do you have cases of rental default in your management portfolio	Yes	96	87.0
	No response	14	13.0
	Total	110	100.0

Source: (Field survey, 2021)

Table 2 further revealed that a room self-contained apartment, two-bedroom, three/four-bedroom apartment, three/four-bedroom bungalow and Duplex ranked first, second, third, fourth and fifth respectively in terms of prevalence of rental default with mean scores of 3.86, 3.63, 3.36, 3.24 and 2.68 respectively. This could be attributable to the fact that the highest three ranked accommodation types are the most sought for in the private rented sector.

Table 3 further presented the rate of rental default of various residential property types across the various locations between the year 2017 and 2019.

Table 3 revealed that phase one had the least rate of rental default across residential property types, as this could be attributable to the income level of residents residing at phase one as compared with other phases. Also, the study revealed steady increase in the rate of rental default between 2017 and 2019 and this could be attributable to poor economy in recent time, as supported by Olukolajo et.al. (2018), Sanni and Gbadegesin (2015) and Oni (2011) that one of the factors responsible for rental default is the income level of the tenants. The economy has gone bad in recent time, that a lot of people are out of job, employers including federal government agencies are not paying as when due, amongst others.

Table 2: Respondent’s Opinion on Rental Default in Various residential Property Types

Property	Very Often	Often	Neutral	Not Often	Not at All	Weighted Mean Score	Rank
A room Self-contain	44	24	25	17	-	3.86	1
2 bedroom flat	26	42	17	25	-	3.63	2
3/4 bedroom flat	15	40	25	30	-	3.36	3
3/4 bedroom bungalow	11	39	25	35	-	3.24	4
Duplex	8	15	21	66	-	2.68	5

Source: (Field survey, 2021)

TABLE 3: RESPONDENTS' OPINION ON AVERAGE RENTAL DEFAULT IN VARIOUS RESIDENTIAL PROPERTY TYPES AT VARIOUS LOCATIONS

A room self-contain		2 bedroom flat				3 bedroom flat				3-4 bedroom bungalow				Duplex					
Yr	Phase	RD%	Yrly Av RD %	Yr	Phase	RD%	Yrly Av RD %	Yr	Phase	RD%	Yrly Av RD %	Yr	Phase	RD%	Yrly Av RD %	Year	Phase	RD%	Yrly Av RD %
2017	1	6.5	30.37	2017	1	9.23	31.38	2017	1	20.72	27.76	2017	1	20.72	26.68	2017	1	12.26	16.5
	2	10.17			2	10.67			2	23.08			2	24.78			2	14.53	
	3	26.58			3	24.48			3	32.65			3	32.63			3	22.7	
	4	43.33			4	58.76			4	34.02			4	27.78			4	12	
	5	40.59			5	43.75			5	30.43			5	25.4			5	11.76	
2018	1	8.7	33	2018	1	10.29	32.13	2018	1	21.37	29.16	2018	1	23.83	28.06	2018	1	13.04	17.45
	2	11.86			2	10.98			2	23.27			2	23.78			2	16.59	
	3	31.25			3	28.43			3	34.13			3	32.63			3	22.09	
	4	45			4	54.13			4	37.37			4	37.47			4	14.82	
	5	43.56			5	46.43			5	32.86			5	27.4			5	11.76	
2019	1	12.24	40.35	2019	1	15.49	34.78	2019	1	28.67	33.12	2019	1	28.43	31.58	2019	1	17.6	21.28
	2	18.03			2	22.92			2	28.8			2	30.4			2	20.12	
	3	34.48			3	29.81			3	38.41			3	31.58			3	26.92	
	4	50.83			4	52.06			4	49.41			4	36.37			4	16.67	
	5	47.11			5	45.05			5	36.62			5	37.2			5	12	

Source: Field Survey (2021)

NB: RD = Rental Default, Yrly AVRD = Yearly Average Rental Default

Table 3 further revealed that duplex residential property type had the least rate of average rental default, as it's a luxury product mostly occupied by people with high income because of the high rental value it commands. Also, for all residential property types, excluding duplex residential property type, phase one is the most attractive destination hub in terms of lease performance, using rent payment as when due as yardstick.

Overall, the average rate of rental default in Abuja is enough of discouragement for investors and would be investors in the residential private rented sector, as it is becoming a regular say that tenants do not pay rent. This may result to dis-investment in the residential private rented sector, which may result to provision of low quality accommodation, accommodation shortage and in turn, artificial skyrocketing of rental values and eventually increase in the number of homeless people.

Table 4 revealed the factors influencing rental default in the study area. Poor tenant selection, current economic situation, the

behavioural attitude of tenants, low income, affordability, and large family size ranked 1st, 2nd, 3rd, 4th, 5th, and 6th with mean scores of 4.41, 4.35, 4.32, 4.30, 3.97 and 3.85 respectively. The result in Table 4 above corroborates the findings of Oni (2011) and Olukolajo et al. (2018) on the factors influencing rental values of residential properties in Lagos and Akure respectively. The findings may not be out of tone, as observation revealed that landlords and professional property managers somewhat still get it wrong in tenant selection due to impatience, not following the appropriate procedure for proper tenant selection and less emphasis on tenants' behavioural attitudes. Also, the impact of Covid 19 cannot be underestimated on the economy and the finance of individuals, including the occupants of the private rented sector in Abuja, which has made rent payment somewhat difficult. The least ranked factor is the continuous increase in rent, as some professional property managers don't necessarily wait for a minimum of two to three years for rent review.

Table 4: Respondent's Opinion on Factors Influencing Rental Default in Study Area.

Factors	SA	A	U	D	SD	WMS	Rank
Affordability	46	38	8	10	8	3.97	5
Large family size	42	34	13	17	4	3.85	6
Low income	59	34	8	9	-	4.30	4
Low level of satisfaction from accommodation facility	27	36	27	20	-	3.63	7
Current economic situation	55	38	17	-	-	4.35	2
Incessant increase in rent	21	13	30	34	12	2.97	11
Poor tenant selection	68	29	6	4	3	4.41	1
Landlord tenant relationship	30	31	16	28	5	3.48	9
Poor management by property manager	30	42	12	17	9	3.61	8
Behavioral attitude of tenant	46	53	11	-	-	4.32	3
Landlord's attitude	25	34	9	30	12	3.27	10

Source: (Field survey, 2021)

SA = Strongly Agree, A = Agree, U = Undecided, D = Disagree, SD = Strongly Disagree and WMS = Weighted Mean Score

Conclusion and Recommendation

This study assessed the factors influencing rental default and the rate of rental default in the Abuja residential private rented sector, Nigeria. The study revealed that amongst the factors influencing rental default in the study area, poor tenant selection, current economic condition, tenant behavioural attitude, and low income ranked 1st, 2nd, 3rd, and 4th, respectively, with mean scores of 4.41, 4.35, 4.32 and 4.30. This study further revealed that phase one had the least rental default rate while phase five had the highest rental default rate in Abuja's residential private rented sector. Duplex residential property type had the least rental default rate, while a room self-contained apartment type had the highest rental default rate in the Abuja residential private rented sector. Therefore, it is important that practising Estate Surveyors and Valuers consider the factors mentioned above in tenant selection to achieve an investor's investment objective. Furthermore, investors in the study area should focus more on phases one and two for real estate investment opportunities. Also, the result gotten from this study reveals that investment in room self-contained and duplex apartments should be avoided in the private rented sector because of the high rate of rental default experienced in these apartment types.

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