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EXAMINATION OF FACTORS THAT LEAD TO RENT DEFAULT ON SELECTED RESIDENTIAL PROPERTIES IN AWKA, ANAMBRA STATE

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ABSTRACT

Rent is a return expected from real estate investment. This can flow annually or monthly. Rent default is non-payment of rent by the tenant to the property owner as at when due. This directly or indirectly will affect the goal of the investment. It is the aim of this study to examine factors that lead to rent default in residential properties in Awka, Anambra state. The research adopted the field survey approach and made use of interviews, personal discussions and well-structured questionnaires as its instrument of data collection. Questionnaires were distributed to practicing Estate Surveyors and Valuers in Awka, practicing lawyers in Awka and tenants of 10 selected 2-storey residential properties of which a total of 273 questionnaires were distributed and 248 were retrieved. The data collected were duly presented in tables and analyzed using frequency, percentage and simple mean. The study revealed that rent default in residential properties in Awka metropolis, Anambra State is as a result of bad economic condition of the country, lack of proper management of the property and unforeseen circumstances. Selection of suitable tenants and proper management of residential properties could reduce the menace of rent default in the study area. Installment payment of subsequent rent should be allowed so as to enable the tenant pay the rent with ease.

Keywords: Rent, Rent Default, Residential Properties, Awka

1.0 Introduction

Shelter is one of the basic necessities of man. This basic necessity can be satisfied in two ways. By either occupying one's own property (owner occupier) or by renting from another person (Dabara, Okunola, Odewande & Okorie 2012).The huge capital outlay required for real estate development has made owning one's house out of reach for many people. Therefore, they are left with no other option than to rent other people's property in order to satisfy their need for shelter. However, a very important motive of residential real estate investors is to secure optimum returns

which commonly take the form of rent. Consequently, two classes of urban residents have emerged, the landlord and the tenant. Rent refers to a certain amount of money paid periodically by the tenant to the landlord in consideration for the occupation and use of the landlord's property. Payment of rent as at when due remains undoubtedly the major obligation of the tenant in the landlord and tenant relationship as contained in the tenancy agreement. Rent default is one of the major challenges encountered by investors in real property development. This is because when a tenant does not pay his rent as at when due he reduces the possibility of the property owner achieving the goal behind such investment which is maximum returns. Rent default by tenants in residential properties has been observed to be on the increase in Awka. Property managers have observed that after the payment of the initial rent of one or two years and having met the terms, conditions and requirements stipulated in the tenancy agreement, many tenants default in payment of subsequent rent, this scenario affects the investment expectations of the property owners. This may be as a result of the following factors which includes economic factors, job security, commitments, health issues, commitments, refusal of installment payments, rent review. The landlord's interest being the priority of the property manager with respect to ensuring that the landlord reaps optimum return on his property, we were being compelled sometimes to receive rent on installment basis from the tenants. However, efficiency in the recovery of rent arrears from defaulting tenants on leasehold properties depends on efficient management based on good lease term and effective control.

2.0 Literature Review

2.1 Residential Properties

These are type of real properties that are occupied in order to provide shelter for the occupants and serves as a habitation for them (Aina and Somefun 2007). Examples of residential properties are bungalow, duplex, semi-detached, storey-building, selfcontained, bed-room flat be it 1, 2, 3 and so on. That a property is rented out by the owner to tenants in order to earn income, does not make that property a commercial property, the difference between commercial properties and residential properties is in the use. Commercial properties are used for business purpose such as offices, shops. While residential properties are strictly for human habitation, a place of rest and living after the business of the day.

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2.2 Contractual Obligation

A lease is a contract between the landlord and the tenant the former relinquishes his interest in a property to the latter for a specific period usually for a determined use. All contracts create rights and obligation, the relationship existing between a landlord and a tenant is that of contract for one to allow the other for a consideration to use his property for a specific purpose and period. It is important that the use of the property and the duration of these lease plus other rights and obligation be clearly spelt out in the lease agreement.

Most misunderstanding emanating from contracts are due to lack of clarity or purpose and mis-interpretation of terms of the agreement. In Nigeria most tenancies are not properly documented neither are they legally binding contracts.

2.2.1 Obligations of a Tenant

- To pay rent on the day and in the manner specified in the tenancy agreement.
- To pay all utility bills such as water rates and electricity bills consumed during the occupation of the premises in question.
- To repair and keep all things in the demised premises in a good and tenantable manner.
- To obtain a written consent from the landlord before carrying out any alteration in the demised premises.
- Not to use or permit any part of the premises to be used for any illegal or immoral purposes.

2.2.2 Obligations of Landlord

- Keep external structure of the property in good repairs, including Iicences access roads, the gardens, the lawn, etc.
- Always observe the covenants contained in the lease agreement.
- Periodically undertake external decoration of the property.
- Clear and light all stairways and areas of common use.

- lnsure the demised premises to the full value thereof with an insurance company of good repute against loss or damage by fire etc

2.3 Concept of Rent

Aibangbee (2004) as defined rent as periodic payment made by a tenant to the landlord in respect of using or occupying his land or landed property. The tenant makes this payment to the landlord in consideration for the right granted to the tenant under the lease. The rent is usually expressed as an annual sum/payment but may also be payable weekly, monthly, quarterly, half yearly or yearly or at any other agreed interval of time. The rent is a fixed amount subject to review at stated intervals.

2.3.1 Characteristics of Rent

- Rent must be an agreed sum by parties
- Rent must be for a definite period of time
- Rent must be for specific space or area in the building
- Rent should be paid as and when due.

2.4 Rent Default

Rent default is simply the inability of tenant or occupier to pay rent as at when due. The following are factors that lead to rent default. Default in payment of rent by a tenant can make a landlord to seek forfeiture of the premises, whereupon they can let it out to a new tenant and prevent further financial loss. When a tenant fails to comply with the lease agreement, the landlord may seek eviction of the tenant to terminate his rights to use the property. (Onyejiaka, J.C., Chinagorom, J.C. & Ndive, P.C., 2019)

2.4.1 Factors That Lead to Rent Default in Residential Properties

Economic condition: Unfavorable economic atmosphere in the country at a particular point in time contribute to rent default. In Awka, cases involving rent default and inability to continue paying rent as at when due is mainly attributed to hardship as a result of bad economic atmosphere in the country. During this period, the contraction of employment in the economy and reduction

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in the real income affects the general population as whole a especially the middle and low-income earners and this in turn affects the ability to pay rent by the tenants.

Poor Management of the property: Property management entails ensuring that a property is in a good state of repair to command the highest rent it should. This is to protect the interest of both the landlord and the tenant. Like any other physical asset, the value of buildings tends to depreciate with time. Meagre maintenance culture among landlords or their agents can significantly increase the rate of depreciation of a building consequently affecting its value and quality (Addo, 2014).

Income inequality/poverty rate: Income is simply a household disposal income in particular year. Poverty rate is the ratio of number of people whose income falls below the poverty line. Poverty is fundamentally linked to the issue of how resources are distributed and redistributed in an economy. Nigeria has a high level of income inequality and consequently has high poverty rate. This makes low level income earners to default greatly in the payment of their rent.

Tenant Satisfaction: when a tenant is satisfied with the accommodation he is to pay for, he would go to any length to ensure that he pays his rent in due time, but when he is not satisfied he will be reluctant to pay and most times will be waiting for the landlord to take actions against him.

Unemployment or having a poor quality (i.e. low paid or precarious) job: The situation of a tenant being unemployed or having a low paid job limits the tenant's access to a decent income and brings about rent default by such tenant.

Commitments: The tenant might have been into several commitments eg business, property development, family issues etc which sometimes requires large sum of money to solve, such tenants may likely default in rent payment as a result of such heavy burden on his income.

Health issues: This is another critical factor that leads to rent default. When a tenant falls sick and consequently becomes unable to go to work, especially when the sickness is long term, he probably becomes unable to have to have access to income(especially wage earners)and may find it difficult to pay his rent when due. Prolonged sickness by a member of the family especially the bread winner falls under this category.

Challenges in Property Maintenance: Among the reasons why tenants default on their obligation to pay rent is when they believe that the property is not maintained according to the

agreed conditions. However, most tenants misuse this reason as they only use it as defense for not paying their rent, but most often than not, it is only because they are unable to honor their obligation to pay their rent. Nonetheless, other tenants may have real maintenance issues that require timely solution.

Job security: This is the probability that an individual will keep his or her job; a job with a high level of security is such that a person with the job would have a small chance of losing it. A tenant who lost his job may be as a result of unsecured nature of his job may be unable to pay his rent as at when due and may definitely be in default of his rent payment till he finds another job.

Retirement: Some tenants may after retirement, find it difficult to pay their rent as at when due, especially those that does not have any other source of income.

Rent review: Rent review is a mechanism used to adjust the rent paid by a tenant to the current market price level with the sole purpose of protecting the landlord against inflation. A tenancy agreement that does not include rent review as one of it's clauses is deficient and incomplete. When a rent is reviewed, it probably does not reduce but increases. At this stage some tenants find it difficult to pay the new rent may be as a result of the fact that the rental value of the property was within the carrying capacity of their income as at the time they acquired tenancy of the property, especially salary earners whose salary may not have increased at the time of the rental value increase brought about by rent review. Such a tenant will probably find it difficult to pay his rent as at when due thereby leading to rent default. Landlords should notify their clients of their intention to increase rent and communicate the reason and justification of doing so (Ayemoba, 2017).Therefore, landlords must be careful when they undertake rent reviews to avoid future default cases. Careful consideration includes undertaking market studies understand current trends, and market rates. The property developers may also undertake a known pattern for review within the lease agreement for tenants to be able to understand when signing the agreement (Ogutu, 2013).

low levels of education and skills: This limits people's ability to access decent jobs to be able to develop themselves and meet up with their rent payment responsibility, thereby defaulting in payment of rent.

The size and type of family: large families and lone parent families tend to be at greater risk of rent default because they have higher costs and may probably have lower income. This situation equally results to rent default.

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Unforeseen circumstances: A good example of this circumstance is the global widespread of covid-19 pandemic that caused a lot of damages to the world's economy. During that period, the unfavourable economy that emerged as a result of the pandemic made many companies to downsize their workforce so as to be able to afford salaries of the staff and ensure continuous functionality of the company, many people lost their jobs, businesses experienced great setback as a result of the pandemic.

2.5 Proficient Means of Rent Recovery

The most prudent approach to take to is to entrust the process to a rental management professional who will advise and make all the necessary arrangements.

Issuance of demand notice: The demand notice is a document issued by the landlord or an agent of the landlord to notify the tenant that the rent is due and request the rent. The letter outlines the rent due, the due date, and any late fees incurred by the tenant. A demand notice is often the first step in a landlord's attempt to evict a tenant who habitually fails to pay their rent on time. The landlord may either send this letter in person or through his/her authorized agent. Note that the landlord's agent must be someone who has been authorized by the landlord under a Power of Attorney or a Letter of Authorization to act on behalf of the landlord in performing certain specific obligations. (Julius, 2013).

Office Interviews: If a tenant fails to respond to letters reminding them to pay their rent and clear their arrears they are requested to attend the estate office for an interview. Interviews are an essential part of arrears recovery work. Face to face contact provides the property manager with the opportunity to investigate the reasons for non-payment and decide the appropriate recovery strategy. The key points of the interview together with details of any agreement reached must be confirmed in a letter to the tenant concerned.

Home Visits: Are an alternative and/or additional to the above stages and are available to those who either do not have the ability to attend an office interview, do not respond to correspondence or who are elderly or vulnerable. The outcome of the visit and any agreement reached should be confirmed in writing.

Telephone calls (including to mobile phones): Are an alternative and/or additional to the other recovery strategies mentioned above where a tenant has failed to respond to arrears letters, attend interviews or where home visits have been unsuccessful.

Another means of rent recovery is to seal the property/apartment: This is usually done after the issuance of demand notice and allowing a specified period of time for the tenant to respond, say 14 days, depending on the terms of the lease agreement. After this period, the landlord's agent proceeds to the apartment and locks it up until the tenant pays the rent.

Eviction: This shall only be considered as a last resort if all other action has failed. In stating the above the property manager must take all necessary effective action as early as possible and ensure that at all times control is exercised over the situation.

3.0 Research Method

This research adopted the field survey approach. The population of this study comprises Practicing Estate Surveyors and Valuers in Awka having a total number of 65 which was obtained from the Nigerian Institution of Estate Surveyors and Valuers secretariat, Anambra state branch. office Awka branch located at Aroma junction, Awka, practicing lawyers in Awka having a total number of 200 which was obtained from the Nigerian Bar Association Anambra state branch and occupants of 10 selected 2-storey .The total number of population of the study is 865 persons, and the sample size is 273 persons. To be able to present data in summary form and therefore make the analysis more purposeful, data was presented in tables and analysed using percentage, frequency and simple mean.

4.0 Data Presentation and Analysis

In this section, all data collected were systematically presented and analysed**.** Data was collected through questionnaires and interviews. Each questionnaire contains structured questions to help get responses from the respondents and their views as to the subject matter. The data obtained from the survey were critically analysed using percentage, frequency, sample mean and presented in tables below.

4.1 Analysis of Questionnaire Response Using Percentage and Frequency

The questionnaire was distributed to the following group of people in the study area; Practicing Estate Surveyors and Valuers in Awka, Landlords, Practicing lawyers in Awka and occupants residential property. Two hundred and seventy three (273) questionnaires were distributed which implies that the sample size was 273. Two hundred and forty eight (248) were retrieved while twenty five(25) were not retrieved. The table below shows the number of administered and retrieved questionnaires.

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Table 1: Administered and Retrieved Questionnaire

Administered and Retrieved	**Frequency (f)**	**Percentage (%)**
Retrieved	248	90.8
Not Retrieved	25	9.2
Total (Distributed)	273	**100**

From Table 1, 248 of the administered questionnaires were retrieved and this represents 90.8% of the distributed questionnaires while 25 were not retrieved which constitutes 9.2% of the administered questionnaires were not retrieved. This indicates a very high rate of return of the research instruments.

Table 2: Gender distribution of respondents

Gender	**Frequency**	**Percentage (%)**
Male	166	66.9
Female	82	33.1
Total	248	100

Table 2 shows that with respect to gender, 66.9% of the respondents are male while 33.1% are females

Table 3: Educational Qualification of respondents

Qualifications	**Frequency**	**Percentage (%)**
SSCE	42	16.9
OND	25	10.1
HND	54	21.8
B.Sc.	75	30.2

M.Sc.	42	16.9
Ph.D.	10	4.1
Total	248	100

Table 3 shows that 42 respondents(representing 16.9% of the respondents)are SSCE certificate holders,25 respondents(representing 10.1% of the respondents)are OND certificate holders,54 respondents (representing 21.8% of the respondents) are HND certificate holders, 75 respondents (representing 30.2% of the respondents) are B.Sc. certificate holders, 42 respondents (representing 16.9% of the respondents) are M.Sc. certificate holders, and 10 respondents(representing 4.1% of the respondents) are Ph.D certificate holders.

4.2 Analysis of Questionnaire Responses Using Sample mean

SECTION B: RESEARCH QUESTIONS

Table 4: Responses on factors that lead to rent default in residential properties in Awka metropolis, Anambra State?

S/N	Statement	SA	A	D	SD	Mean	Decision
1	Poor management of the property by the property manager	128	90	17	13	3.34	Accept
2	Economic condition	176	52	20	0	3.63	Accept
3	Tenant's satisfaction	23	52	102	71	2.11	Reject
4	Unforeseen circumstances	141	89	13	5	3.48	Accept

Table 4 shows that most of the items are accepted with a mean score above 2.5 which indicates that majority of the respondents agreed that factors that lead to rent default in residential properties in Awka metropolis, Anambra State includes poor management of the property by the property manager, economic condition, and unforeseen circumstances. However, only few of the respondents agreed that tenants satisfaction is one of the factors that lead to rent default, therefore it was rejected.

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Table 5: Responses on measures taken to ameliorate rent default in residential properties in Awka metropolis, Anambra State?

S/N	Statement	SA	A	D	SD	Mean	Decision
1	Proper management of the property by the property manager	102	77	43	26	3.03	Accept
2	Selection of suitable tenants	144	82	15	7	3.50	Accept
3	Accepting payment on installment basis	122	40	52	30	2.99	Accept
4	Allowing a longer duration of time before rent review	93	138	17	0	3.31	Accept

Table 5 shows that all the items are accepted with a mean score above 2.5 which indicates that these measures taken to ameliorate rent default in residential properties in Awka metropolis, Anambra State are accepted. The respondents agreed that proper management of the property by the property manager, selection of suitable tenants, accepting payment on installment basis and allowing a longer duration of time before rent review are suitable measures taken to ameliorate rent default in residential properties in Awka metropolis, Anambra State.

Table 6: Responses on strategies for rent recovery in Awka metropolis, Anambra State?

S/N	Statement	SA	A	D	SD	Mean	Decision
1	Issuance of demand notice	131	100	17	0	3.50	Accept
2	Home visits	92	74	53	29	2.92	Accept
3	Sealing the property	27	38	112	71	1.63	Accept
4	Court action	63	92	57	36	2.73	Accept

Table 6 shows that most of the items are accepted with a mean score above 2.5 which indicates that majority of the respondents agreed that issuance of demand notice, home visits and court action are strategies for rent recovery in Awka metropolis, Anambra State .However, only few of the respondents agreed that sealing the property is one of the strategies for rent recovery in Awka metropolis, Anambra State.

Table 7: Responses on efficiency in recovery of rent arrears from defaulting tenants may be attributed to the following factors

S/N	Statement	SA	A	D	SD	Mean	Decision
1	Efficient management of the property by the property manager	72	100	51	25	2.88	Accept
2	Tenant's fear for court action	107	96	32	13	3.20	Accept
3	Good relationship between landlord and tenants	54	76	83	35	2.60	Accept
4	Tenants fulfilling obligation to pay rent as contained in the tenancy agreement	81	127	32	8	3.13	Accept

Table 7shows that all the items are accepted with a mean score above 2.5 which indicates that efficiency in recovery of rent arrears from defaulting tenants may be attributed to efficient management of the property by the property manager, tenant's fear for court action, good relationship between landlord and tenants and tenants fulfilling obligation to pay rent as contained in the tenancy agreement.

Table 8:Responses on strategies for handling a difficult tenant?

S/N	Statement	SA	A	D	SD	Mean	Decision
1	Unilateral rent increase	62	110	52	24	2.85	Accept
2	Termination of his/her tenancy agreement	65	70	73	40	2.65	Accept
3	Sue the tenant to court	72	101	48	27	2.88	Accept
4	Eviction	80	132	27	9	3.14	Accept

Table 8 aboveshows that all the items are accepted with a mean score above 2.5 which indicates that unilateral rent increase, termination of the tenancy agreement, taking the tenant to court and eviction are accepted strategies for handling a difficult tenant.

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Table 9: Responses on challenges usually encountered by occupants of residential property?

S/N	Statement	SA	A	D	SD	Mean	Decision
1	Difficulty in payment of rent	63	121	43	21	2.91	Accept
2	Poor maintenance of the property by the landlord/ his agent	96	109	32	11	3.17	Accept
3	Lack of timely response to the tenants complaints	70	123	40	15	3.00	Accept
4	Harsh landlord-tenant laws	57	81	70	40	2.62	Accept

Table 9shows that all the items are accepted with a mean score above 2.5 which indicates that difficulty in payment of rent, poor maintenance of the property by the landlord/ his agent, Lack of timely response to the tenants complaints and Harsh landlord-tenant laws are accepted as challenges usually encountered by occupants of students hostel.

5.0 Summary of Findings, Conclusion and Recommendation

5.1 Summary of Findings

Rent default by tenants of residential properties in Awka metropolis Anambra, State is as a result of bad economic condition of the country, poor management of the properties by their owners/their agents and circumstances that might be beyond the tenant's control. Selection of suitable tenants into the property and efficient management of a property has been observed as the most suitable measures to reduce rent default by tenants of residential properties in Awka metropolis, Anambra State. The most suitable means of recovering arrears of rent is by issuing demand notice and visiting the tenants in the property. The study also shows that the most suitable means of treating a difficult tenant is by evicting the tenant from the property. Poor management of the property was observed as the main challenge faced by tenants of residential properties in Awka metropolis, Anambra State.

5.2 Conclusion

Default in payment of rent by tenant to landlord, is an issue that keeps surfacing in real property investment and management. The issue is sometimes the fault of the landlord and some other time it may be the tenants fault, but most of the time, it is as a result of poor economic condition has it was made obvious by the study. This is because, in the ranking of the need of man, shelter ranks third after food and clothing. Therefore, man most times will have to satisfy his need of food and clothing first before considering to pay rent and a situation whereby the resources are not enough, the tenant will definitely default in payment of rent. But this rent can be paid in instalment to make it easier for the tenants to pay in order to reduce the case of rent default.

5.3 Recommendations

After successful completion of the study on "Examination of factors that lead to rent default in residential properties in Awka metropolis", the researcher made the following recommendations.

i. A careful selection of tenants through investigation, interview and screening should be conducted before accepting a tenant into the property.
ii. Managing the property in the most efficient manner so as to give the tenants the services they require.
iii. Payment of at least two (2) years rent advance at the commencement of tenancies to hedge against possible future defaults upon renewal.
iv. Instalment payment of subsequent rent should be allowed so as to enable the tenant pay bit by bit.

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