

Rent Default and Residential Properties: Construction Portfolio for Real Estate Investors in Uyo, Akwa Ibom State, Nigeria

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ABSTRACT

This study examined rent default in residential properties in Uyo, Akwa Ibom State, Nigeria with the aim of identifying the types of properties with higher rent default so that real estate investors can be guided in their construction portfolio. The population for the study comprised 48 practicing estate surveying and valuation firms in Uyo. A total of 427 residential properties which the tenants defaulted in rent in the property management portfolio of the firms were selected for the study. Descriptive statistics which included percentage and mean, and inferential statistical tools which include Analysis of Variance (ANOVA) and regression were used to analyse the data collected. The result revealed that self-contained which constituted 33.5% of the total rent default. By property type, 2-bedroom flats had the longest duration of rent default as tenants owed rent for average of 16 months. By year, year 2018 is when the longest duration of rent default was experienced as tenants owed for 15 months on the average. The study concluded that self-contained had a higher frequency of rent default than other residential properties while 2-bedroom flats took a longer time before rent was renewed. The study therefore recommends that investors should be careful in their real estate portfolio to avoid the risk of concentrating many of one types of residential property especially self-contained and 2-bedroom flats in the portfolio. Also, much attention should be given to professional selection of tenants.

Keywords: *construction portfolio, real estate, rent default, residential properties,*

1.0 INTRODUCTION

In Nigeria, the housing sector is hungry for investment because of the huge deficit observed in the sector as Olukolajo, Ogungbenro and Adewusi (2018) opined that the housing shortfall in Nigeria is estimated at between 12-16 million housing unit requiring a mortgage finance conservatively put at between 15-20 trillion naira. Ayodele, Kumo, Ochepe and Haruna (2020) stated that as a result of the high rate of rent default in Nigeria urban centers, many real estate investors are not so keen investing in real estate any longer. Aedes (2018) as cited in Olukolajo et al (2018) found that default in rent payment is the principal risk that is threatening property investment. Olukolajo et al (2018) asserted that the high rate of rent default in Nigeria is a disincentive to massive investment in rental housing among prospective investors. Daramola and Aina (2004) opined that default in rent payment may be caused by the financial constraint of many Nigeria workers who spend more than 40% of their income on housing. These financial burdens on the workers which affect their rent payment capacity possess a lot of risk to real estate investors. This risk to real estate investor is complicated as Akogun and Ojo (2013) estimated that 60.17% of Estate Surveyors and Valuers practicing in Ilorin property market evict tenants from residential properties because of defaulting in rent payment.

In a time like this when the housing deficit in Nigeria is on the increase and real estate investors are facing increasing risk of rent default, they may be discouraged to invest further in real estate and if this happens, the housing situation in Nigeria may aggravate because of the general notion that the risk of rent default is high whereas the rate of rent default might vary among the different types of residential properties. Having considered that the rate of rent default may vary among residential properties, there is a need to evaluate the rent default trend across the residential properties type so that investors can be guided in the type of residential real estate investment since housing is a necessity.

Sani and Gbadegehin (2015) stated that rent default is a major challenge facing private rental housing providers in Nigeria. They identified failure of landlords in

their repair obligation of properties as the primary factor that contributes to tenants defaulting in rent payment. Olukolajo *et al.* (2018) asserted that the high rate of rent default in Nigeria is a disincentive to massive investment in rental housing among prospective investors. They concluded that the strongest predictor of rent default tendencies was household size and they recommended that landlords and their agents should intensify efforts in screening tenants without any sentiment. Daramola and Aina (2004) concluded that default in rent payment may be caused by the financial constraints of many Nigerian workers who spend more than 40% of their income on housing. It points to the fact that some Nigerians exceed their financial limits on housing and this constrains them to default in rent payment. Aedes (2010) as cited in Olukolajo *et al.* (2018) found that default in rent payment is the principal risk that is threatening property investment.

Dabara, Anthony, Olusegun and Elenjo (2017) stated that the most critical factor influencing rent default is unemployment/retrenchment and this might not be unconnected with economic recession experienced in Nigeria. Moss (2013) found that affordability, disputes over quality of housing units, confusion over the type of tenure and the prevailing culture of entitlement on the part of tenants form part of the major reasons for non-payment of rent. Ayodele *et al.* (2020) stated that tenants that do not pay their rent with a grace space of one month after the expiration of the rent are considered defaulters and this is the common practice in all states in Nigeria. The study found out that the outbreak of the coronavirus did not significantly have an impact on tenant's rent payment obligation. Short, Minnery, Mead, Adukins, Peake, Fedrick, O'Flaherty (2003) stated that having access to reliable information about prospective tenant is very important if risk is to be evaluated as this will reveal the tenants' ability to afford the asking rent, capacity to pay as at when due and the likelihood that the prospective tenant will not damage the property. Clark and Pennington-Cross (2016) observed that landlords are subjected to more tenant risk when only a single tenant occupies the whole building. This suggests that risk concentration in housing is higher when a landlord has one tenant occupying his property because once the tenant defaults in payment, the landlord receives no rent.

From the foregoing literature review, it is noticed that a lot of studies have been carried out within and outside Nigeria on issues of rent default to determine the factors responsible for rent default, understand the impact of rent default on real estate investment, tenants' characteristics, rent default tendencies, etc. However, we have observed from the review that many of the studies in Nigeria were conducted in the northern, south-west and south-east parts of Nigeria with little focus on south-south-zone, especially in Akwa Ibom State. Secondly, the studies could not point to the rate of default among the residential property types. Having identified this research gap, this study was conducted in Uyo, Akwa Ibom State to examine the rent default tendencies among the different types of residential properties in Uyo, which has a lot of potentialities for real estate investment because of her peaceful nature, availability of large span of undeveloped land, a favourable topography, growing population and infrastructural development.

3.0 METHOD

This research work was conducted on Uyo, the capital of Akwa Ibom State, Nigeria. The study adopted survey research design. The target population for this research work comprised the forty eight (48) estate surveying and valuation firms practicing in Uyo. One of the functions of estate surveying and valuation firms is property management which include selection of tenants for vacant properties as well as managing existing leases/tenancies. Many of these firms by way of practice use "Acquaintance form or know your tenants form" to collect information from the prospective tenants and some of the information include gender, employment status, income level, household size, tenancy history, marital status, etc. The firms keep records of the tenants rent payments/ defaults. Copies of questionnaire were used to collect these information from the estate firms on tenants rent defaults from the residential properties in their management portfolio. Data were collected on 427 residential properties which constituted tenants with rent default in the management portfolio of the estate firms. The data collected were analyzed using both descriptive and inferential statistical tools which included percentage, mean, regression and ANOVA.

4.0 RESULTS AND DISCUSSION

Table 1: Rent default by property type

Type of Property	Frequency	Percent
1-bedroom bungalow	13	3.0
1-bedroom flat	30	7.0
2-bedroom bungalow	50	11.7
2-bedroom flat	59	13.8
3-bedroom bungalow	50	11.7
3-bedroom flat	53	12.4
Maisonette	29	6.8
Self-contained	143	33.5
Total	427	100.0

Table 1 presents the results of the type of residential properties which the tenants defaulted in rent payment. From the result, 427 properties defaulted in rent payment. The residential properties involved were 1-bedroom bungalows which constituted 3% of the total rent default, 1-bedroom flats which constituted 7% of the total rent default, 2-bedroom bungalows which constituted 11.7% of the total rent default, 2-bedroom flats which constituted 13.8% of the total rent default, 3-bedroom bungalows which constituted 11.7% of the total rent default, 3-bedroom flats which constituted 12.4% of the total rent default, maisonette which constituted 6.8% of the total rent default and self-contained which constituted 33.5% of the total rent default.

From the result in table 1, self-contained had the highest number of rent default. This result can be attributed to the fact that because of the size of self-contained, it is possible to have many self-contained in a real estate investment portfolio than other types of residential properties because the cost of constructing one unit of 3-bedroom bungalow may be equivalent to the cost of constructing three units of self-contained so real estate investor can easily invest in self-contained. As opined by Clark and Penning-cross (2016), the risk is higher when a landlord has only one tenant so instead of one tenant in 3-bedroom bungalow, it may be better having three



tenants in self-contained. Secondly, the major occupants of self-contained are students who are mostly dependent on other people like parents, guardians, sponsors, etc for their rent payment so since they are dependent, there is that tendency of default if the sponsors do not send the rent on time. Also, if rent expires when students are on holidays, they may not renew up until the school resumes and they return to school.

Table 2: Mean comparison across property types

Type of property groups	Duration default	Groups
2-bedroom flats	15.864	a
3-bedroom flats	8.170	b
1-bedroom flats	7.933	b
1-bedroom bungalows	7.846	b
Self-contained apartments	7.643	b
3-bedroom bungalows	5.56	c
Maisonettes	5.103	cd
2-bedroom bungalows	4.360	d

The same letter in the column means no significant difference

Table 2 presents the mean comparison of rent default across the residential property types. From the table, the result shows that the length of default on 2-bedroom flat is significantly higher than on the other types of residential properties. For 2-bedroom flat, it took about an average of 16 months which is a year and 4 months for tenants to renew their which they defaulted. This trend can be attributed to the fact that this type of property is often occupied by couple who are starting life new and this new phase of life can affect their income because of additional responsibilities like wedding expenses, child birth, new furniture, etc. With this, there is that tendency for rent default if not properly managed.

There was no significant difference in the length of rent default among 3-bedroom flat, 1-bedroom flat, 1-bedroom bungalow and self-contained as all of them had about 8 months on the average as the duration of rent default. 2-bedroom bungalow had the shortest length of rent default which was about 4 months on the average.



Table 3: Mean comparison by year

Year	Duration of Default	Group
2018	15.20	a
2021	9.556	b
2016	8.792	bc
2014	8.625	bc
2017	8.0	cd
2020	7.472	d
2012	6.30	e
2013	6.25	e
2015	6.167	e
2019	5.067	e

The same letter in the column means no significant difference

Table 3 presents the mean comparison of rent default duration by year. From the result in table 3 which examined how long it took tenants to renew their rent after expiration. The result revealed that in year 2018, it took many tenants the longest time to renew their rent which they defaulted. On the average, it took some tenants about 15 months which is one year and three months to renew their rent after expiration of the tenancy. This result can be attributed to the fact that in years 2016-2017 we had economic recession in the country which affected Uyo and as initial rent payment is majorly for two years, the post effect of the recession may have affected the tenants whose tenancies expired in year 2018 as they may not have had enough savings in years 2016 and 2017 because of the economic misfortune. Some tenants may have lost their jobs during the recession period which is in line with the conclusion of Daraba et al (2017) that unemployment/ retrenchment is the critical factor influencing rent default. This is a pointer to the fact that from the table, year 2021 which is immediate post COVID-19 year (2020), there was a sharp increase in the duration of rent default which suggests that COVID-19 pandemic which affected the economy may have affected tenant's ability to timely renew their rent payment. As seen in table 3, on the average the shortest duration of rent default was 5 months which occurred in year 2019. The longest duration of rent default was 15 months which occurred in year 2018. There was no significant difference in the duration of



rent default in years 2012, 2013, 2015 and 2019 as they all had average rent renewal period of about 6 months.

Table 4: Analysis of variances in rent default by property type and by year

	Df	Sum Sq	Mean Sq	F value	p-value
Type of residential property	9	4923.0	547.0	77.0526	<0.001
Year	9	1230.8	136.75	19.2632	<0.001
Residuals	381	2704.7	7.10		

Table 4 presents the result of Analysis of Variance (ANOVA). The result in table 4 shows significant differences in rent default based on type of residential property and year. The P-values which were 0.001 and 0.001 for type of residential property and year respectively revealed the significant differences as both values were less than the 5% level of significance.

Table 5: Regression of rent, household size and rent default

	Estimate	Std. Error	t-value	p-value
Intercept	90.055	0.458	17.781	<0.001
Rent	-0.00003	0.000002	-1.457	0.146
Household size	-0.054	0.1524	-0.352	0.725
Adjusted R-squared	0.01014			
F-statistic	3.182			
p-values	0.0425			

Table 5 presents the regression result of rent default for residential properties. The regression result gives the intercept value of 90.055 which means that without the effect of rent and household size, rent default would be 90.055 unit. The P-values for rent and household size are both greater than the level of significance ($p > 0.05$); this means that none of the two factors has a significant effect on rent default, the adjusted R-squared value of 0.01 means that only 1% in the rent default was explained by rent and household size. The remaining 99% is explained by the factors not considered in the model.

5.0 CONCLUSION

The study examined rent default on residential properties in Uyo, with a view to identifying the pattern of default among the property types over a period of time. The findings of the study revealed that self-contained had the highest percentage (33.5%) of rent default and this may not be unconnected with the fact that this type of property is mostly occupied by students who are dependent on sponsors. The result also revealed that 3-bedroom flats had the longest duration of rent default as some tenants owed the rent as long as 16 months before they could renew. From the findings, year 2018 is when the longest duration of rent default occurred as some tenants owed rent for as long as 15 months before they could renew. This could be attributed to the effect of economic recession of 2016-2017 which some tenants may have lost their jobs.

Following from the findings, we recommend that investors should be careful in their real estate portfolio to avoid the risk of concentrating so much on one type of residential property especially self-contained and 2-bedroom flats which had the highest default by frequency and duration respectively. Investors should also be professional in tenants selection to avoid default.

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