

# ATBU, Bauchi Proceedings

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## EXAMINATION OF RENTAL DEFAULT BY COMMERCIAL PROPERTY OCCUPIERS IN MINNA, NIGER STATE, NIGERIA.

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### ABSTRACT

*The effect of rental defaults by commercial property occupiers cannot be over-emphasised, as the rate of default is increasing at an alarming rate. Rental default arises when occupiers of commercial properties fail to carry out their obligation of fulfilling the financial requirements as when due. This phenomenon has led to several issues on the part of the property managers and property owners, including delays in mortgage payments, poor maintenance, and a host of other problems. This study investigates the prevalence of rent defaults among owners of commercial property in Minna, Niger state, to stop this unsightly occurrence of rental default and related attendance concerns in commercial buildings. This is done to give property owners in the study region more authority over their decisions. The study used a survey methodology in which 311 residents of 38 purpose-built retail complexes (PBSC) received questionnaires via simple random distribution. The received data was examined using percentage and frequency distribution. The results depicts that 52% of the respondent pay their rents as at when do and 48% defaults in the in payment, this shows that the rent default amongst tenants of PBSC in study area is fair.*

**Keywords:** Rent Default, Commercial Property, Property Owners/Managers, Tenants

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## INTRODUCTION

### Background to the study

The commercial property market is an important sector of the property market. All over the world, commercial property houses most economic activities, especially in metropolitan services centres. This market plays a crucial role in creating employment and providing returns for the owners (Liu et al., 2016). Among the benefits of commercial property is its ability to stimulate the economy and increase the Gross Domestic Product (GDP) (Brown & Petersen, 2015). Commercial properties are built to create continuous income through renting, leasing, or price appreciation. It constitutes a significant part of property markets and is used as an investment medium that provides revenues to its holders based on value. It also has clear evidence of income that can be analysed as returns on investment and can be sold in the property markets (Bello, 2006).

However, maximum returns in property investment, particularly regarding commercial property, can only be realised when there is full occupancy, total rent collection, an excellent physical condition of the building and a low rate of tenant turnover (Mwathi & Karanja, 2017). Like every other type of investment, commercial property has its fair share of challenges when put to use to generate revenue which one of the challenges faced by property owners is rent default. Rent default is a failure by tenants to pay rent or meet up with payment of rent as when due (Dabara et al., 2017). Tenants usually pay rent at specified rates and times per agreements or contracts signed between a landlord or property manager and the tenant, referred to as leases (Ouma, 2015). Inability, delay or failure to pay rent as and when due, as specified in the tenancy agreement, refers to rent default. Rent default makes it difficult for property owners and managers to harness their returns (Jones, 2017). Rent payment remains an obligation of tenants to their landlords. According to Akogun and Ojo (2013), rent default has been a significant challenge to the management of real estate property (commercial property). These properties often face challenges of rent defaults by tenants as most tenants are found to default in rent payments based on the lease agreement (Kemiki et al., 2017). Tenants quickly make initial payments; however, subsequent rents become a nightmare (Dabara et al., 2017).

In the property market, the default in rental obligation can hinder the property owner from attaining the investment objectives, mainly to recoup the return from the investment, thereby leading to default in the mortgage, delays in financing routine maintenance and repairs, among others (Olukolajo et al., 2015). Where a property manager is involved, apart from deprival of fees for services, the



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competence as a professional is at stake as this makes the agent or managing firm appears incompetent in carrying out their duties as agreed upon with the property owner. This scenario can affect the investment expectations of property owners and breeds conflicts among stakeholders in the rental housing sector (Olukolajo et al., 2015). Thus, examining the level of rent default is one of the primary steps towards addressing rent default issues in the commercial property market. Hence, this study investigates the level of rent default by commercial property occupiers in Minna, Niger State.

## LITERATURE REVIEW

Akogun and Ojo (2013) explores the causes and method of tenant eviction in property management practice in the Ilorin metropolis, Nigeria, to provide a solution to reducing its incidence. The study retrieved data from the registered estate surveyors and valuers in the study area using questionnaires. Data were analysed mainly with descriptive statistical techniques such as frequency distribution tables and percentages. The findings disclosed that rent default was the primary reason for tenant eviction, which accounted for 57.66%. The study further recommended guidelines for the policymaker that would help solve the above challenges.

Obayomi (2014) examined the effect of rent default on property management experience in Ile Ife. The study adopted questionnaires for retrieving data and a descriptive tool such as frequency tables, bar charts and percentages to analyse and present all relevant data. The study's results revealed that rent default often leads to conflicts between landlords and property managers, resulting in property owners withdrawing their property from the managerial care of the property manager.

Thambu (2019) analysed the effects of rent default on real estate investment return in Nairobi County. The study used an explanatory research design to achieve the purpose, and 26 registered real estate firms were considered. The data obtained from the registered real estate were analysed using the component factor and regression analysis. The analysis of the respondents' data shows that the inability to meet maintenance requirements is solely due to rent default.

Ayodele *et al.* (2020) examined the coronavirus outbreak's impact on tenants' ability to pay for residential houses in Bauchi, Nigeria. Data from 493 tenants on their rent-paying ability from January 2019 to April 2019 was compared against the rent-paying power of the same tenants from January 2020 to April 2020. The

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Furthermore, the analysis relieved that the coronavirus outbreak does not significantly impact tenant rent-paying obligations, as rent defaulters have not risen to an alarming rate despite the prevalence of COVID in the study area. However, the study recommended that the government assist the few tenants that could not pay their rent due to the COVID-19 diseases pandemic. Likewise, the landlord and the tenants should share the burden of the rent payments. The study also suggests that the government prevent tenants from being evicted from their houses during the pandemic.

## STUDY AREA AND METHODOLOGY

The study area is Minna, the capital city of Niger state. The study area housed two local government areas, namely Bosso and Chanchaga. Figure 3.1 shows a map of Niger state showing Bosso and Chanchaga. Minna had an estimated population of 3,950,249, according to the last census. Additionally, Minna hosts around 65% of the state's commercial operations. The city is endowed with naturally fertile ground that promotes the growth of crops, including cotton, ginger, Guinea, yam, and corn. Additionally, the city supports gold mining, cattle breeding and commerce, and shea nut processing (Ministry of Lands and Housing Minna, 2020).





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## METHODOLOGY

The study adopted the quantitative research approach, which involves collecting empirical data. The primary data used for the analysis were gathered through questionnaires administered to property managers of all purpose-built shopping complexes with the basis that all sampled properties must have been in existence and functional for not less than three years.

The estimated population for the study includes 38 commercial shopping complexes. Essential information was gathered from the property manager on the mode of payment and duration of rent payment across the 38 shopping complexes based on the record at hand.

A total number of 311 occupants were examined in the complexes. The collected data were screened and cleaned before analysis using the excel tool and then subjected to descriptive analysis using frequency and percentage.

## RESULTS AND DISCUSSION

### Mode of Rent Payment

Table 4.1 shows the mode of rent paid by tenants of PBSC, 51% of the respondents said they pay their rent with bank transfer, 47% pay their rent using bank transfer and cash, and the remaining 2% said they pay their rent hand to hand (cash). During the fieldwork, the study observed that even with the advancement of technology, some tenants still prefer the traditional method of paying rent (cash payment).

**Table 4.1: Mode of Rent Payment**

Mode of Rent Payment	Frequency	Valid %
Bank transfer	160	51%
Both	146	47%
Hand to hand (cash)	5	2%
Total	311	100%

### Duration of Rent Payment

Most of the occupants of the PBSC pay their rent annually, which amounted to 99%, while few pay their rent bi-annually, 0.9% and only 0.1% pay rent monthly. On the analysis of the duration of rent to be paid by occupants of commercial property tenants, the study disclosed that most rents were made annually, which shows that in Minna, rent is usually made yearly. Just a few make rent payments

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every bi-annually and monthly as agreed by both the owner/manager of the property and the tenant. Table 4.2 shows the details of the rent payment.

**Table 4.2: Duration of Rent Payment**

Duration of Rent Payment	Frequency	Valid %
Annually	307	99%
Bi-annually	3	0.9%
Monthly	1	0.1%
Total	311	100%

## Level of Rent Payment

Table 4.3 shows the level of rent default. The rent default among purpose-built shopping complexes revealed that 52% pay their rent as and when due, while 48% pay later than the due date, which shows that the rent default amongst tenants of PBSC in the study area is slightly high.

**Table 4.3: Level of Rent Payment**

Level of Rent Default	Frequency	Valid %
Payed	163	52%
Default Rent	148	48%
Total	311	100%

## CONCLUSION AND RECOMMENDATIONS

This research has employed a descriptive approach to estimate the level of rent default by commercial purposive built shopping complexes in Minna, Niger State, Nigeria. This is to provide empirical evidence on the level of rent default by the tenant of shopping complexes in Minna. The study concluded that rent default amongst tenants is fair in Minna. This implies that many tenants in the study area are putting effort into paying their rent as at and when due. It also shows a good relationship between the property managers/owner and tenants. In addition, the study recommends that property managers and landlords give tenants three-month notice before the expiration of their rent. Furthermore, it is recommended that all tenants should fill out the tenancy agreement form before handing over the properties, as this will reduce the rate of rent default amongst tenants in the study area. There should also be a background check of the tenant before handing over the property, as some tenants are quick to pay the initial rent but also give one reason or the other in the subsequent rent payment. Lastly, if a



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tenant fails to meet up with the agreement provided in the tenancy agreement without any genuine reason should be made to face the law (rent tribunal). This will also help reduce the rent default rate as no tenant would like to be taken to court when they know they have failed in their obligation as agreed.

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