

## RENT PAYMENT OPTIONS AND THE WAY FORWARD FOR A DEVELOPING ECONOMY

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### Abstract

*This Paper examines the debate on the options to be adopted in rent payments by tenants occupying some types of properties especially in developing economies. It considers the historical and various approaches to rent payment, the various methods and options of rent payment along side with their merits and demerits. The various types of rents are also discussed with suggestion on the best method of rent payment and possible implementation strategies to be adopted especially in a developing economy like Nigeria.*

Keywords: Rent, Rent Payment, Developing Economy

### Introduction

Rent payment practices differ all over the world. Historically, when the majority of the world economies was largely agrarian in nature, rents were paid at the end of the harvest period to the owner of the land who lease out land to tenant for planting of agricultural products (Kemp, 1998; Chen, 2003). Rents were paid in kind by way of giving agricultural products to the owner of land at the end of every harvest period. By implication, the rent was paid as many times as crops were harvested at the end of the farming season and not at the beginning of a lease period as is often the case today.

As the society develops, different practices evolve ranging from weekly, bi-weekly, monthly, quarterly and yearly payment of rent as the situation or condition warrants (Satsangi, 1998). While rent payment in earlier times were largely restricted to payment of rent for usage of agricultural land, rent is today paid for multiple of reasons ranging from residential, recreation, industrial and commercial property uses (Sobba et al 2008). While it was easy to pay rent on land leased out for agricultural purposes at the end of the harvest period, people have started questioning the feasibility and rationality of paying rent on landed property at the beginning of the lease period and paying of rent 1-3 years in advance as is currently the practice in Nigeria (Keating, 1998, Crook, 1998). There is increasing clamour that rents on residential, industrial (factories, warehouses, workshops) and commercial property (especially shops, offices and stores) should be paid on a monthly basis. In Nigeria recently, a non-governmental body, 'Socio-Economic Rights and Accountability Project' has supported the plan by the Attorney General of the Federation to legislate and criminalise the payment of rent in advance. In a recent publication, it was indicated that the federal government is advocating that just as salaries of workers are paid monthly, owners of property should not demand more than a months rent in advance (Adetokunbo, 2008).

This paper will therefore examine historical developments with respect to rent payment and the options that have become the practice thus far. It will throw light on the problems associated with each method and suggest ways of making rent payment less burdensome to the tenants while at the same time take into consideration the desires of the landlords.

### Study Area

The paper is limited to rent payment on residential and commercial properties. The survey is carried out in six selected states of the federation namely Kaduna, Jos, Minna, Lagos, Ibadan and Akure. The cities were purposively selected to achieve the set out objective of this paper. Specifically, three states each were selected from the north and south of the country so as to achieve geographical spread in data collection for the study. Furthermore, there is clear evidence that these cities have experienced increased in developmental activities largely because they are all capital cities of their states. The developments taking place are from both the public and private sectors that have responded to increase in demand for residential and commercial properties in the cities. Activities in the land market have been on the rise to meet up with increasing demands for living accommodation and spaces for commercial activities. The state governments have responded in each of the cities by way of building residential and commercial structures and allocating vacant plots of land to investors to provide new buildings.

### Aim and Objective of Study

The study seeks to investigate the various rent payment options in practice in selected location in Nigeria with the aim of advising on the most feasible options in the light of the evolving economic environment. The objectives sets are

- (i) to investigate the historical developments and issues surrounding rent payment
- (ii) to identify the different rent payment options in practices in selected locations in Nigeria
- (iii) to highlight the advantages and disadvantages of the different approaches to rent payment
- (iv) to recommend the most feasible rent payment approach in the light of the prevailing economic situation in Nigeria

### Methodology

The study was carried out using both primary and secondary sources of data. The list of secondary data sources consulted is adequately documented at the end of this paper. The primary data was obtained using questionnaires and conducting personal interviews on occupants and landlords of residential and commercial properties. A total of six hundred questionnaires were administered with one hundred shared in each of the selected cities of Kaduna, Jos, Minna, Lagos, Ibadan and Akure. The one hundred questionnaires were shared equally between occupants of residential and commercial properties in each of the selected cities. On the whole, 93.5% of the questionnaires were filled and returned. In addition, five estate surveying firms were selected randomly from the registered list of practising firms in those cities.

Table 1: Questionnaires Administered on Commercial & Residential Property Owners/Occupiers

	No. of Questionnaire administered to Commercial Property owners	No. of Questionnaire Returned by Commercial property owners	No. Of Questionnaire administered to Residential Property owners	No. of Questionnaire Returned by Residential Property owner
Kaduna	50	46	50	47
Jos	50	48	50	48
Minna	50	50	50	44
Lagos	50	46	50	46
Ibadan	50	45	50	48
Akure	50	45	50	48
Total	300	280	300	281

% Response	93.33%	93.66%
Overall % Response to the 600 questionnaire administered		93.50%

Source: Author's Fieldwork, 2007

#### Concepts and Definitions of Rent

Rent has been defined variously as payment, usually monthly, for use of space or property or consideration paid for the right to use and possess property (Priemus, 1998). It is the profit in money, provisions, chattels, or labour, issuing out of lands and tenements in consideration for its use (Balchin, 1996a). A rent somewhat resembles an annuity except that while rent is issued or paid over land, the latter is a mere personal charge. Siegel (1968) observed that "rent is what you get for letting the house, which labour made, or the land, which God made, being used by people who may need it more than you do". It is the periodic payment made to a lessor in consideration for the rights granted to the tenant under the lease (Oni, 2008). Rent is the price paid for use of land/improvement.

Rent from the real estate perspective could simply be defined as "the amount paid for the use of land and/or improvements or for the use of capital good". It is a payment or series of payments made by the lessee to an owner for use of some property, facility, equipment, or service. Usually, It is an amount fixed by contract, made by a tenant at specified intervals in return for the right to occupy or use the property of another (Walker, 2008). Except in the case of very short tenancies, the rent is normally expressed as an annual sum or payment made weekly, monthly, or half yearly or at any other agreed interval. To the tenant, it is often seen as that payment he reluctantly makes to his "shylock" landlord for the use of his "decrepit" house or office space. That is, the price paid for use of land and or improvements on land (Tucker, 2009). According to kuye (2000), it is a periodic payment for the use of another person's property. This payment could be weekly, monthly or yearly depending on the terms and conditions of the tenancy. It is a fixed periodic payment made by a tenant or occupant of property to the owner for the possession and use thereof, usually by prior agreement of the parties (Barton, 1998). According to Davies (2006), rent is a payment made by a tenant at intervals in order to occupy a property (Anas, 1997).

#### History of rent payment

The payment of rent started back in England under the feudal system. In this system, the king owned all land, and his tenant were entitled to hold only those portions of the land allotted by him under conditions imposed by him, (Turner, 2004). Various forms of tenure were developed for specific services required of the holder of lands. The earliest form of service was by knights, involving allegiance and military service to the overlord (landlord) and through him to the king. Later, in lieu of rendering military service, freehold tenants were permitted to make money payment as 'socage' to the overlords who were levied at irregular intervals. 'Socage' payments were abolished by statutes in the reign of Charles II, king of England, and were replaced by annual payments of fixed sum, or a certain amount of produce, as rents. Tenants making such payments were then said to hold their land by 'free and socage tenure'. Such tenants took oath of loyalty to the overlord but were relieved of any military obligations (Balchin, 1996b).

The mode and manner of payment of rent is greatly determined by the nature of the economy (Charles, 2000). In a buoyant economy, the agent can ask and get virtually whatever the client wants and the manner of payment in terms of duration i.e. either weekly, monthly or even annually (Arnott, 1997). For example in Nigeria in the 1970's when the economy was buoyant and landlords were making lots of money, collecting rents of up to five years in advance was common. But from about the late eighties, depression set in, with properties remaining vacant

for long. The situation did not change immediately until democratic governance sets in 1999 and vacant properties started being occupied more quickly either by buying, selling or leasing. In many advanced countries, the system of workforce and their mode of payment also matter a lot in the determination of the type and duration of rent payment option in place (Baar, 1998, Pollakowski, 1997)). In the United Kingdom, workers are either paid on a daily basis, weekly, twice monthly or on a monthly basis (Heffley, 1998). Whereas in many countries including most African countries where workers are paid monthly, rents tends to follow a different pattern. This could therefore explain why daily, weekly and bi-monthly rents are uncommon.

#### Survey of Different Rent payment Practices in Selected Locations in Nigeria

There are different rent payment options that are in practice in different areas depending on the circumstances that encouraged such practices. This study investigated the common rent payment practices in the six cities in Nigeria

##### (i) Multiple-years payment

This is a practice whereby rent is paid ahead of time for many years. Before the occupiers are allowed possession of premises, they are required to pay up-front rent for two or more years depending on the circumstances that may dictate such payment. In the period around the 1999 when the economy was booming and demand for rentable apartment was very high, investigation carried among practicing Estate Surveyors and Valuers revealed that property owners especially in Abuja, Lagos and Port Harcourt among others experienced many cases of landlord insisting on advance payment of rent for at least two years (Adetokunbo, 2008),. In some cases, rent of up to five years were demanded and paid for in advance. Advance rent payment arrangements of this nature are referred to as leasing or lease arrangement and it is prevalent mostly among high income earners, top executives and professionals. Many government agencies that took up leases of premises also paid multiple rents as they claimed that it ensures security of tenure over the property being occupied.

##### (ii) Annual Payment

This kind of rent payment covers only a period of one year. Rent payments of this nature which do not exceed one year duration are termed tenancy agreement. This payment commences from the date the tenancy agreement is signed and terminates twelve months later on the last day preceding the date the lease agreement was signed. It normally takes effect from any date agreed between the owner or his agent and the proposed occupier of the premises. During the course of this study, it was observed that most rents in Nigeria last for a duration of one year particularly with respect to most commercial properties, and residential accommodations especially two bedrooms, three bedrooms, Duplexes, maisonettes, terrace houses and large palatial apartments.

Table 2: Observed prevalent rent payment options on residential properties in selected cities in Nigeria

Type of Residential Property in the selected cities	No. of Questionnaire Administered	No. of Questionnaire Returned	Weekly	Monthly Rent payment	Quarter-ly Rent payment	Bi-annually Rent payment	Annual-ly Rent payment	Multiple years Rent payment
Tenements	50	47	-	25	-	-	22	-
1 Bedroom Flats	50	48	-	-	-	-	48	-
2 Bedroom Flats	50	44	-	-	-	-	48	-
3 Bedroom Flats	50	46	-	-	-	-	48	-
Duplex/Maisonettes	50	48	-	-	-	-	40	8

Total

300

281

Source: Author's Fieldwork, 2007

From Table 2 above, it is evident that most accommodation types ranging from 1 bedroom flats upward pays their rent mostly on a monthly basis. Most landlords are not prepared to accept rent less than for a year. It was further observed that in some cities such as Abuja, Port Harcourt and Lagos, two years rent payment in advance is a common demand at the commencement of a lease. This fact was revealed following personal interviews with practising estate surveyors and valuers

The advantages and disadvantages of rent payment on an annual basis include the fact that the landlord is assured of a lump sum of income which can be used for other investment or project. The tenant is also given some little breathing space before the next rent become dues. However, monthly rent payment is blamed for the long list of rent defaulters and the high rate of litigation in our rent tribunals (Anas, 1997)

(i) Bi-annually

This is a case where rent is paid in advance twice in a year for a period covering six months. This is not a common practice in Nigeria and none of the result from the field survey as shown in Table 2 shows this trend. However, 11% of the respondents in Figure 1 indicate that they would prefer to pay their rent bi-annually if not on a monthly or quarterly basis

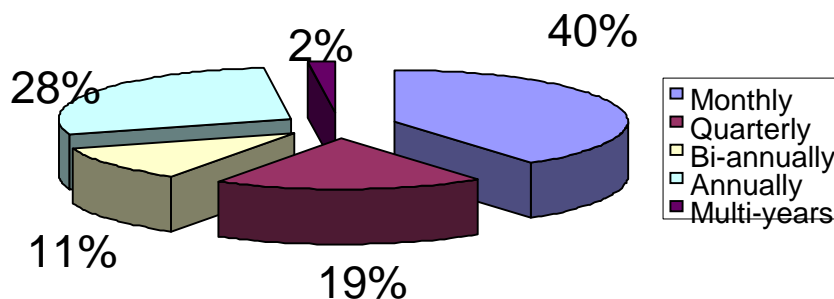


Figure1: Opinion on How Regularly Occupiers of Properties Want to Pay Their Rent

Source: Author's Fieldwork, 2007

According to the survey, the advantage that will result from this is that it will reduce the pressure on tenant and reduces the rate of rent default as compared to when rent is paid annually. Practicing surveyors who are reluctant to take up the responsibility of collecting rent weekly or monthly found this option more attractive. They argued that collecting rents bi-annually or for a longer period is administratively less cumbersome and cheaper for them than when it is done weekly, quarterly or monthly.

(i) Quarterly

This is a case where the rent paid in advance covers a period of three months. The result in Figure 1 shows that 19 % of the respondents would like rent to be paid quarterly as it relieves them of the burden of raising a lump sum of money to pay to the landlord and provides them with more ready income for meeting their other pressing financial commitments. As for the landlords, paying rent for a shorter duration like in this case make carrying out of repairs to the building more difficult as most maintenance activities need large amount of money. Payment of money monthly is therefore said to slow down the rate and frequency at which repairs are

carried out. Most of the estate surveyors interviewed opine that non-payment a lump sum rent is a disincentive to investment in real estate particularly in developing economy where real estate finance is so scarce.

## (ii) Monthly

Monthly rent payment is rent that is paid usually at the beginning of the lease period to cover a thirty day period or such number of days that equals to a month. The investigation carried out shows that rent payment of this kind is more associated with low income earners such as tradesmen, junior civil servants, unskilled lowly paid factory workers and such other group of people who occupies single room apartments popularly refers to as tenement buildings. The survey carried out shows that the group that clamour for monthly payment of rent do so largely because they claim that their income comes in ones in a month and that the income is relatively small and takes a large chunk of their monthly earnings. Salaries and wages in most third world countries and Nigeria in particular are paid on a monthly basis. This reason possibly explains why there is great clamour for rent to be paid on a monthly basis. In Figure 1, 40% of the respondents would rather wish that rent is paid on a monthly basis. Table 4 also gives other reasons normally advanced by those advocating for monthly payment of rent

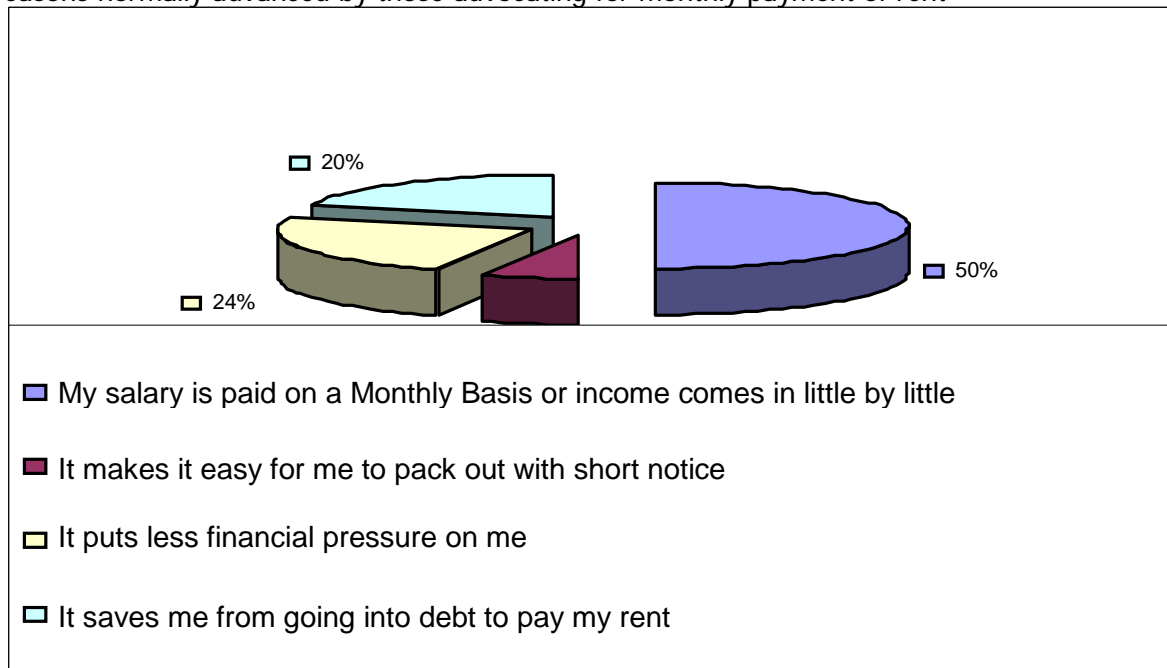


Figure 2: Opinion on Why occupiers prefer to pay their Rent on a Monthly Basis

Source: Author's Fieldwork, 2007

From Figure 2, it is also clear that paying monthly put less pressure financially on the property occupier and helps them in avoiding unnecessary debts.

## (i) Weekly

Weekly rent payment covers only a period of seven days. It is not a common practice to pay rent weekly in Nigeria even though it seems to have some advantages which include timely payment to landlord, lower rate of rent default, tenants can easily pack out at short notice and movement from one accommodation to the other at short notice. In addition rent collected provides easy and steady spendable income to the landlord. However, the disadvantages include problems of administering and collecting rent over such properties and the way the rent comes



in trickles to the landlord. Most landlords are not favourably disposed to weekly payment of rent. None of the respondents indicate any preference for weekly payment of rent.

#### Payment of Rent on Commercial Properties

One of the other issues investigated in this research is the occupier's preferences in payment of rent on commercial properties. It was observed that apart from those tenants occupying small shops and stores, most commercial property occupiers prefer paying rent at least annually or for a longer period. The reason why that is so is provided in Figure 3 below

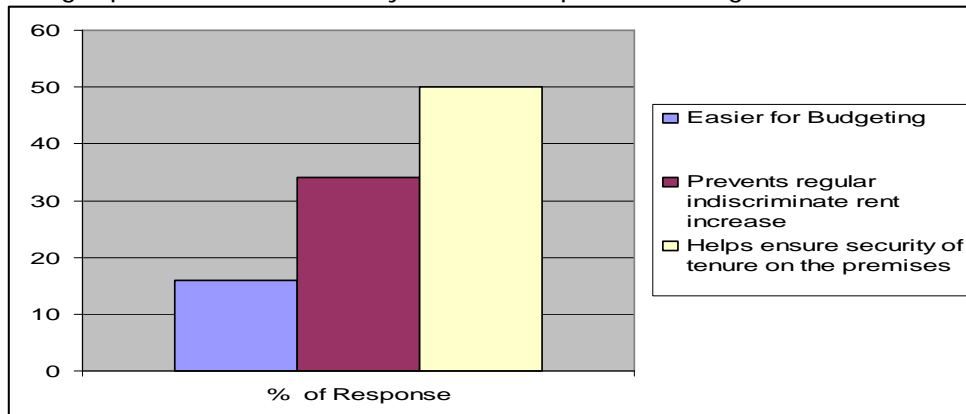


Figure 3: Opinions on why tenants prefer to pay their Rent on the Commercial Property Annually or for a longer period

Source: Author's Fieldwork, 2007

From Figure 3, it can be seen that paying rent well in advance over commercial properties to some extent guarantees indiscriminate increase in rent. At least 34 % of those interviewed are concerned about regular increases in rent and 50% are much more concerned with the way advance payment of rent helps secure the premises for future business use. Property owners most times wait till the end of the lease before ejecting their tenants. Therefore, most tenants said that they will rather pay annually to guarantee and secure their tenancy.

#### Suggestion on the method of rent payment to adopt in Nigeria

With what have been discussed earlier, it can be seen that among the methods used in rent payment in Nigeria, the annual rent payment surpass all other methods even though the low income earners and even other categories of tenants prefer monthly or other shorter rent payment period. The reason why this option is preferred has also being articulated in this paper. It is therefore evident that the general consensus among occupiers of residential and commercial properties in Nigeria is for there to be a review of the rent payment options as a way forward. But, legislating on this by the government may not be visible rather there should be a dialogue between all the stakeholders with the objective of persuading landlords to move towards collecting shorter period rents instead of demanding advance multiple years rent from tenants.

For Nigeria to attain a greater height of development like other foreign countries, a people friendly rent payment option which promotes the greater good of the large majority should be considered for possible adoption through consensus rather than legislating to bring it into effect. At the same time, real estate agencies should be empowered to make real estate finance available so as to speed up access to developmental funds to increase the total housing stock. More houses will eventually force down high rent and discourage multiple lump rent payment and collection. This paper is therefore suggesting that monthly rent payment and other shorter periods should be encouraged so as to reduce rent default by the low-income earners. The primary reason for this suggestion is because most of our people are monthly salary earners and

salaries and wages are relatively small. Furthermore, the greater percentage of the Nigerian populace is presently still leaving below the poverty line (Ifediora, 1993). Annual payment of rent should be encouraged only on certain categories of properties so as to alleviate suffering of a larger percentage of our people and reduce unnecessary litigation which results when there is rent default.

#### Implementation Strategies and Recommendations

For the proposed suggested method of rent payment to be feasible, the following implementation strategies are recommended for adoption.

- (i) Government should set up a high power committee to look into the issue of rent payment situation in the country with the aim of determining the challenges faced by people in paying their rents.
- (ii) Thereafter, the government should embark on serious sensitisation of both landlord and tenant to encourage short term rent payment which seems to be the option preferred by most people in the selected cities and the whole country in general. This approach of encouraging the stakeholders is preferred as passing a law to that effect may be counter productive as was the case with rent control laws that were introduced in time past

#### Conclusion

This write up has examined the various rent payment options practice in Nigeria and suggestions have been put forward on the need for a better tenant friendly and landlord acceptable modality of rent payment. It suggested that all stakeholders should be encouraged to embrace shorter duration rent payment options. It considered the various rent payment options, their advantages and disadvantages and finally advocated for the need to encourage monthly rent payment option especially with respect to residential and commercial type of properties.

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