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Sustainable Low Income Housing Delivery in Nigeria: Rent to Own Model

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Abstract- Nigeria being the most populated country in West Africa region is faced with numerous challenges including housing delivery. Existing housing stock are by far short of expected number while the population of the country is geometrically increasing without a corresponding increase in housing delivery even though there are deliberate policies instituted to ameliorate housing problems. This article is predicated on the overview on Nigeria's housing delivery journey using a policy and document review technique. The research concluded that a rent-to-own model is a workable strategy to adopt by Nigerian government whose interest to improve low income housing is objective and resolute to alleviate sufferings of the low income earners whose savings could hardly grow within a reasonable time frame to purchase a property from the open market on a cash and carry basis as is the tradition in the country.

Keywords- Sustainability, Housing Delivery, Low Income, Rent to Own.

I. INTRODUCTION

Housing is the second most important need of mankind after food but have become a mirage in Nigeria right from independence and have remained a lingering problem with persistent promises from successive Governments. Researches were conducted and scholars have identified financing as a major predicament towards housing delivery despite the existence of mortgage institutions. This is due to its huge capital outlay requirements mostly beyond afford of medium/low income earners who are the major targets. (Agola 1998).

Consequently, efforts are concentrated towards improving housing financing leading to establishment of Nigeria Mortgage Refinancing Company (NMRC) to supplement funding of residential mortgages as well as promoting availability and affordability of good housing to Nigerians through improved liquidity within mortgage institutions. Its driving force evolved from private sector orientation and participation consisting of commercial banks, primary mortgage banks, insurance companies, private equity investors and international finance institutions through the Federal Ministry of Finance by raising long-term funds from both domestic and foreign capital markets to fund development of affordable housing to Nigerians (CBN 2009).

NMRC is not limited to funding arrangements but also in land titling and land registration, speed up governor's consent and eliminate impediments to proper functioning of the housing sector. Pioneering program of NMRC begun with development of mass housing schemes by private developers in conjunction with the Federal Mortgage Bank of Nigeria and other institutions on the basis of Rent to Own Model for low income participants to rent a home over 15-20 years and own the property at the end of that period. The concept is expected to deliver thousands of new housing stocks into available national housing stock on a single digit interest rate to beneficiaries. (Okonjo-Iwela 2014).

Rent-To-Own model permits participants to live in the property while paying a proportion towards purchasing the property at a fixed price within a specific period of time (usually one to five years). Prerequisite of the contract require participants to make a nonrefundable deposit often included as part of a down payment at the end of the lease term in addition to monthly rent payment often termed as additional amount called a rent credit paid into an escrow account during the lease period. This amount is added to the deposit and used as part of the down payment at the end of the lease term thereby hiking the rent slightly above the market rate while the excess is considered as built savings towards eventual purchase option. At the end of the lease term, the tenant is offered right of first refusal to purchase the property at the agreed price, or walk away and forfeit the deposit. If the tenant is unable or unwilling to exercise the option to buy, the owner is then free to rent or sell the property to another buyer, or to restructure the contract.

II. THE PROBLEM

UN projections and study by Urban Demographics Panel of the US National Academy of Sciences (NAS) estimated demographic growth in developing countries at 2 billion new urban residents by 2023 (sanusi 2003) in addition to existing number of 1 billion people currently living in slums thereby increasing demand for infrastructure and housing in developing countries with about 90% in 48 countries, with Nigeria inclusive. According to Ajanlekoko (2001), African cities are growing at an unprecedented rate with a rising pressure on government to provide housing and infrastructural facilities for the people without corresponding government response to match demand with simultaneous provision of adequate housing and infrastructure.

Aribigbola(2008) and Ndubueze(2009) opined that, factors responsible for mis-match between required and what is provided are complex, interrelated and interconnected ranging from inadequate financial resources to low capacity in the public sector to implement many projects. To deal with these challenges, new approaches that must involve collaboration among number of stakeholders must be explored thus Public-Private Partnerships (PPP) is a prominent form of collaboration as practiced in other countries (Bennett 1998).

Ogunsemi and Abiola- Falemu (2006) categorically affirmed that about 70% of Nigerian population are very poor and are either homeless or live in shanties and batchers, while Adedokun (2006) stressed that poor and middle-income group are immediate victims of housing problem since a person's income determines his abilities to satisfy his needs including housing while Okupe (2000) posited that over 90% of Nigerian housing stocks are developed through informal means with majority within the low-income group, yet Moss (2003) describe Nigerians to have poor saving culture.

III. CONCEPT OF RENT-TO-OWN MODEL

The concept of rent-to-own model begun in the United Kingdom and continental European countries under the hire purchase model. One of the first rent-to-own retail stores was established in 1933 operating as a radio rental business while the United States begun the practice of rent-to-own businesses in the 1950s and 1960s. Rent-to-own agreements are not especially difficult to set up. As Neil B. Garfinkel in Opkala (1994), explained it, “You are basically negotiating two deals at the same time”, Related Rent Now, Buy Later In a typical contract, a lessee negotiates the lease and also locks in the right to buy a home at a predetermined price within a specific period, usually one to three years while required to make a nonrefundable deposit.

Rent is sometimes set above the prevailing market rates, and the excess amount is credited toward the purchase, almost like a forced savings plan. If the purchase option expires without a sale, the owner is free to sell to someone else. But in some instances, the owner or developer may be willing to renegotiate the sale price, especially if prevailing property values have appreciated. As with any real estate transaction, both parties need to exercise due diligence. The seller, for example, will have to determine that a renter will be qualified to buy during the option period, and the lessee must ensure that a home is available for sale and not on the brink of foreclosure or encumbered by liens.

Current national housing policies of Nigeria like that of Malaysia do not emphasize on affordability of formal low cost houses since there are no laws, sections or guidelines regulating prices of low cost housing with their design mostly reflectingwestern culture consideredas tantamount to that of beneficiaries thus in variance with indigenous culture as well as family background and size thereby falling short of local requirements and satisfaction (Tin 2001).

Successive governments have developed and implemented a number of housing policies with varying strategies to address housing deficit particularly the low-income groups (LIGs) but have recorded limited success (Drakkis-Smith 1981, Agbola 1990, Awotona 1990, Ogunshakin and Olayiwola 1992, Okpala 1992, World Bank 1993, Pugh 1994, Ogu 1999, Ikeojifor 1999, Ogu and Ogbuozobe 2001). Nigerian governmentis considering recommendations of international agencies as World Bank to refrain from direct role in housing and adopt market driven policies (World Bank 1993 and Sandhu & Aldrich 1998) to avoid likely exclusionist trend among low income groups in the developing countries (Baken and Van 1993, Ortiz 1996 and Mukhija 2004). However, Organized Private Sector (OPS) have more attention to housing the upper-and medium-income groups neglecting the low income group for inherent tendency of profit maximization (Ikeojifor 1997,Keivani and Werner 2001 and Aribigbola 2008).

IV. USING A RENT-TO-OWN TO BUY

The lease-purchase offers homeownership opportunities to consumers who cannot qualify for a loan from any source, but are prepared to pay themselves. The bet is that before the option period expires, they will qualify for the mortgage they need to enjoy the purchase option. They have the opportunity to rebuild their credit and accumulate savings while living in the house. Even though it is costly, the right to exercise the option is of value to the buyers.

If there is something seriously wrong with the house, neighborhood or neighbors the buyer can cut losses by withdrawal.A major threat to the buyer is contractual provisions providing an option to nullify the option to purchase for failure to pay the rent on the first five days of the month. Such provisions are most likely to appear in the contracts used by developers or firms who own multiple homes (Guttentag 2013).

V. USING A RENT-TO-OWN TO SELL

Most home sellers want a cash sale, but for those prepared to hang on to the property awhile longer, the benefits can be compelling. Buyers unable to become owners in any other way will generally be willing to commit to a future price at which the property could be sold today.

While the deal may fall through, the seller pockets the potion fee and rent premium. The seller also continues to enjoy tax deduction on his mortgage interest payments during the option period (Guttentag, 2013).

VI. AN OVERVIEW OF NIGERIA MORTGAGE FINANCING

Nigeria mortgage refinance company (NMRC) is a company driven on private sector orientation consisting of commercial banks, primary mortgage banks, insurance companies, private equity investors and international financial institutions through the ministry of finance with primary purpose of developing primary and secondary mortgage markets. The company is expected to raise long-term funds from both domestic capital market and foreign markets to provide accessible and affordable housing to Nigerians in Nigeria (Sanusi 2003).

Its main focus centers around funding residential mortgages as well promoting the availability and affordability of good housing to Nigerians through increased liquidity in the mortgage market. The lunch of the NMRC and the initiative to open up housing sector may be difficult without directed efforts at improving land titling and land registration, speed up governors' consent, element visible impediments negating proper functioning of the sector. Lunch of the NMRC was not a ceremony without commitment as development of mass housing by private developers in conjunction with Federal Mortgage Bank of Nigeria and other institutions was institutionalized on the basis of rent-to-own a home within an average period of 20years.

According to Ayere (2014), The NMRC's goal is to act as a catalytic and focused advocate to address the issues of standardization and effective risk management. The NMRC's standards will promote efficiency and mitigate the legal operational risk inherent in mortgage lending by ensuring quality collateral, adequate property titling, property registration and enforcement of mortgage liens and maintenance of efficient collection process for up to 20 or 30 years.

VII. CONCLUSIONS

It is clear that rent-to-own model is a workable strategy to adopt by every government whose interest to improve low income housing is objective and resolute to alleviate sufferings of the low income whose savings could hardly grow within a reasonable time frame to purchase a property from the open market on a cash and carry basis as is the tradition in the country. Alternatively, since National Housing fund is equally aimed at facilitating individual housing, private developers could be made to access funds from the funds on strict conditions to build and allocate to interested applicants whose contributions are also pulled to the national housing fund so that they are relieved of annual rent payment that will never make them home owners no matter the length of tenancy.

Regulatory bodies should insist on realistic low lending rate peggedon single digit to be indirectly friendly on low income earners as it a determiner of eventual total cost of development and disposal to applicants. This is in addition to Cooperative formations for self-help contribution as reported byJolaoso, Odebiyi and Musa (2008) who sees it as a viable sources of mobilizing substantial capital for financing low income housing as a means of integrating informal funding Mechanism into the formal sector under the supervision of the mortgage institutions.

It is recommended that civil/public servants desirous of getting financed by NMRC in the new mortgage scheme must fully key into the Integrated Personnel and Payroll Management System (IPPIS) platform. Some of the additional requirements are that mortgage repayments must be made by deduction from income at source to help reduce credit risk and improve investor confidence in the mortgage sector.

The article therefore concludes that, Rent-To-own Model is capable of easing the problem of low income housing with imaginableprospect of mobilizing large number of participants since contributions are made on monthly basis taking the form of rent with additional rent premium serving as payment to set off capital for the property being occupied.

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