Evaluating The Financial and Other Implications of Lagos' Multi-Year Prepaid Property Leases

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Abstract

Real estate investment decisions are rationally made. Thus, the parties to a transaction, whether buying, selling or letting, come to agreement upon the conviction that value will be directly received in exchange. This indicates a uniformity of intention and expectation. However, Lagos lettings usually result in an unequal exchange of value. This occurs where a lessor demands and receives multi-year prepayments which deliver direct and premature value while the lessee effectively receives deferred value. This paper evaluates the practice, financial consequences and other implications of such leases. The findings are that the practice is financially disadvantageous to the tenant, but not to the landlord; has the potential to reduce tenants’ savings capacity, investible funds and productivity in the economy; slows down the home ownership growth rate, and effectively worsens the housing deficit; and does not promote the well-being, human and social development of tenants. The paper makes two recommendations: first, the deployment of suasion to discourage the practice; and secondly, massively increasing housing supply through multi-pronged public sector interventions to effect the attenuation, and hopefully elimination, of the market conditions which created, and have sustained, multiple rent prepayments.  

Keywords: Income redistribution; Landlord and tenant, Lagos real estate market; Market failure; Rent prepayment