

## RENT ARREARS AND THEIR IMPLICATIONS IN PUBLIC HOUSING

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**ABSTRACT:** The need for housing occurs in tandem with the ongoing urbanisation process. Rapid urban growth has created a factor attracting the rural population to converge in urban areas due to job opportunities available. This scenario has caused the demand for housing to escalate in line with the migration pattern but unfortunately, the existing supply was unable to fulfil demand for housing. The lack of housing especially for the lower income groups has forced the government to intervene in solving the problem by, amongst others, building public housing for these groups. Housing policies formulated have given ample allowance to the lower income groups either to own such housing or merely to rent. Public housing offers a level of prices and rentals that are much lower than the real market. Unfortunately, this privilege has been abused by the occupants. Their failure to pay rent has caused a lot of pressure to the government namely the housing management to tackle the issue. Rent is a form of revenue to the management to be utilised in carrying out management operations on public housing. If rent collection could not be fully implemented, problems will occur that will not only impact the management but will also have to be borne by the tenants themselves. This paper will discuss in detail the implications of rent arrears from the perspectives of both the management and the residents themselves.

**Keywords:** Public Housing, Public Housing Management, Rent Arrears and Implications of Rent Arrears

### 1. PREFACE

Housing problems are not only faced by developing countries; in fact this problem is also manifest in developed countries such as the United Kingdom (England) and the United States of America. Various factors contributed towards the housing shortage amongst which are wars, rapid rates of population increase, changes in demographic patterns and urbanisation factors. Urbanisation has caused a surge in housing demand especially from the lower income groups. These groups face difficulties in obtaining affordable and comfortable housing in the existing housing markets. Their difficulties have gained the government's attention to try to solve the problem by providing public housing. This commendable step by the government reflects its caring attitude towards the under-privileged lot while simultaneously aiming at solving housing woes. The provision of public housing can be divided into two types; either for ownership or for rent. This paper will only look into public housing provided by the government for the purpose of rent.

This paper is divided into four main sections whereby preface will briefly discuss the existing housing woes scenario as explained earlier. The public housing section will discuss the definition of public housing; the parties responsible for the provision and management of public housing; who are eligible for public housing occupancy; the importance of rent collection and the significance of rent arrears festering in public housing at national or international contexts. The implications of rent arrears section will discuss in detail the implications of rent arrears from the perspective of housing management as well as the residents'. The ensuing discussion will impress upon the reader the importance of rent collection which makes up a portion of the finance to be utilised for public housing management. Low rent collection clearly pose a pressing problem on housing management since the implications has to be borne by both parties. At the onset, low rent collection only impacts the management but in fact the effect of failure to pay rent has to be borne by residents as well who continue defaulting on rent payment despite knowing the negative implications. An overall conclusion for this paper will be discussed at the closure of the problem discussion.

## **2.0 PUBLIC HOUSING**

### **2.1 Definition Of Public Housing**

Various terms have been used to define public housing. According to the Dictionary of the English Language (2000), the general term usually applied for public housing is housing owned by the government for the occupancy of the lower income groups as rental rates charged are at nominal levels only. Sulong (1984) in his writings has emphasised that public housing may be referred to as either low cost housing; government housing; cheap housing or lightning (speedy) housing. Meanwhile Mohd Razali Agus (1992) wrote that public housing is also known as low cost housing whereby the provision of public housing facilities is fulfilled by the federal and state governments to enhance the affordability of these houses for purchase and tenancy by the targeted income groups. According to Mohd Razali, the construction of public housing has commenced since 1971 targetting those earning RM1,500 or less per month (Mohd Razali Agus, 2005).

From the context of international public housing, public housing is more widely known as social housing hence, social housing is also interchangeably referred as public housing. In overseas countries such as England and The Netherlands, when researchers mention public housing or social housing in their

writings, they are understood to mean public housing. There are also terms like “Council Housing” or “Council Estate” that are used to denote public housing in the United Kingdom. The terms used will depend upon the historical role played by the local authorities entrusted with managing public housing. The operations of public housing are sub-divided into two parts; one part managed by the local authorities while the other part is managed by a non profit-motivated housing organisation. These organisations may be known as “Housing Associations” or “Registered Social Landlords” (RSL). Registered social landlords are required to register their organisations with the Housing Corporations that are legal bodies empowered to distribute government subsidies and required to operate within pre-determined guidelines (Whitehead, 2007). In France, public housing is known as *habitation a loyer modere* (HLM) or housing with medium rate rentals. These housing complexes are housing subsidised by the government (Levy-Vroelant and Tutin, 2007).

Whitehead and Scanlon (2007) through studies done on European countries such as The Netherlands, Austria, Denmark, Sweden, England, France, Ireland, Germany and Hungary; have suggested that the term public housing can only be differentiated by the following categorisations:

- i) Ownership – non profit organisations or local authorities
- ii) Who built these dwellings?
- iii) Is it true that rental is at below market rate?
- iv) Financing and subsidies
- v) The objectives of social housing development

Their studies revealed that not all countries select public housing occupants based on particular selection criteria to determine applicant eligibility. Cases in point are Austria and Sweden who open public housing applications to any household that applies. England and The Netherlands have classified lower income groups as the groups that fulfil the main criterion for occupying their public housing (Whitehead and Scanlon, 2007).

In short, it can be concluded that public housing means housing provided by the government for the lower income groups. All matters pertaining to public housing are managed by the public housing management comprising state or local governments. The federal government only assist the state or local governments by giving subsidies or financial assistance in the form of loans or grants to execute

public housing management. These government subsidies have resulted in lower public housing rental as compared to the real markets.

Public housing provided by the government consists of two types namely housing meant for ownership and the other type meant for tenancy. Public housing developed by the government provides a chance for the lower income groups to occupy comfortable housing at affordable rentals. The development of public housing for tenancy provides a stepping stone for occupants towards house ownership once their financial status have improved (Siegert, 2004). The provision of public housing by the government was made on the premise that one day the occupants of these houses will be able to afford their own dwellings with improved finances.

### **3. THE IMPORTANCE OF RENTAL**

Rental payment is an obligation that must be fulfilled by tenants to their landlords. This obligation is enshrined in the tenancy agreement. Tenants must pay rental to the management or landlords either on a monthly basis or weekly basis as agreed in the tenancy agreement (Sethu, 1986). An occupant can only occupy a dwelling or building through the payment of rental to the landlord or to the housing management. Rental is a form of revenue received by the public housing management. This rental income is then used to pay all costs pertaining to the management and maintenance activities as well as to repay loans provided by the federal government (Audit Commission, 2003b). Lapidés (1992) iterated in his book that late rental payment will reduce the funds to pay for expenses and the provision of services by the public housing management (Lapidés, 1992).

It is clear that the payment of rental impacts greatly on the public housing management in maintaining the houses owned by them. Too bad the recalcitrant attitude of some tenants who refuse to pay rental to the public housing management has indirectly hampered the smoothness of public housing management operations. If no mitigation steps are taken to address this situation, it will portray a poor image of the public housing management and the occupants themselves.

#### **3.1 The Problem Of Rent Arrears In Public Housing**

The problem of rent arrears faced by public housing management is not only a third world phenomenon but it is also rampant in developed countries. Various

approaches have been employed by the housing management bodies to overcome the recurring rent arrears problem in public housing. The Audit Commission & Housing Corporation in England and Wales reported that local authorities in the United Kingdom and Wales are burdened with rent arrears amounting to £647 million where on average, every local authority faces rent arrears of £2 million (England Audit Commission & Housing Corporation, 2003). Meanwhile, tenants occupying public housing managed by the Housing Association of England were found to default in rental payment up to £231 million during the period 2001/2002 (England Audit Commission & Housing Corporation, 2003). Rent arrears in Scotland also posed a major portion of the problems faced by local authorities and registered social landlords (RSLs). It was reported that until 31<sup>st</sup> March 1999, local authority housing rent arrears was £37.2 million whilst those of registered social landlords was at £6.8 million. These were the findings of a joint study conducted by the Scotland Homes and Accounts Commission in June 2000. Reports published by the Audit Commission of Wales until March 2003 revealed that rent arrears incurred by their existing and past public housing tenants amounted to £34.5 million; which equals the third largest amount that must be spent by local authorities and housing associations to manage these public housing (Griffiths, 2004).

The same scenario happens in French public housing where it was found that 500,000 occupants had to be evicted due to non payment of rental. The same thing happened in Italy resulting in 600,000 public housing tenants being threatened with eviction actions due to the problem of rent arrears incurred by them (<http://www.habitants.org/article/articleview/1449/1/276>). In New York it was found that 150,000 tenants were faced with the possibility of loss of homes due to rent arrears problems. The Family Homelessness Prevention Report New York published in 2003 indicated that house rent expenditures of New Yorkers exceed 50% of household incomes (Feerick et al., 2003).

What about the public housing rent arrears scenario in Malaysia? Rent arrears in the Malaysian public housing are often the topic of discussion amongst public housing management bodies. Additionally, newspaper reports also exposed issues related to rent arrears faced by public housing management. However, some public housing managements refuse to divulge the exact amount of rent arrears faced by them to the public. It was reported that in 1990 tenanted public housing in Johor had a rent arrears liability of RM2,637,507 (SUK Johor, 1993). Public housing in Perak was reported to incur hire purchase housing instalment and rent arrears

amounting to RM40,058,980.25 (SUK Perak, 1993). Berita Harian reported that public housing rent arrears in Pulau Pinang in 2004 was in excess of RM5.78 million (Berita Harian, 2004) while public housing in Kedah recorded rent arrears of RM17 million (Mariani and Marina, 2003). Rent arrears of public housing owned by the Kuala Lumpur City Hall were reported to be RM22.3 million (DBKL, 2006).

The foregoing discussion clearly revealed that rent arrears are losses that must be faced by public housing management bodies. What should be the focus of attention now are the implications posed by this problem if no meaningful mitigation measures are implemented by public housing management to control it from continually occurring. The ensuing discussion will focus in detail on the implications of rent arrears on public housing management and occupants.

#### **4. IMPLICATIONS OF RENT ARREARS**

The implications of rent arrears may be broadly categorised into two; firstly is their implications on the housing management and secondly is their implications on the tenants or the community as a whole.

##### ***(I) The Implications Of Rent Arrears On The Landlords***

This section will discuss in detail the implications of rent arrears on the public housing management which may be itemised as follows:

##### ***(a) Investment***

The revenue received through rent collection may be utilised by the housing management towards upgrading works in providing more comfortable dwellings. All maintenance activities involve costs such as costs of purchasing all equipments and services for the purpose of maintenance and management works. In the event of any repairs that need to be done on the building under maintenance, the rent collection revenue of that building will go towards the repairs budget utilised by the housing management or the federal government. Conversely, if rent collection could not be done, the subject building will fall into disrepair because the housing management do not have adequate funds to ensure that their buildings remain in a good state of repair. This will reflect poorly on their investment in the provision of comfortable dwellings to occupants (Griffiths, 2004, Associations, 2003, Audit Commission, 2003b). In a study conducted by Hegedus and Mark (1994), it was

found that public housing is frequently synonymous with congested and dilapidated housing (Hegedus and Mark, 1994).

***(b) Quality of services***

Rent collection will enhance the quality of services offered by the housing management. This is because the management need not focus their energies on rent collection tasks; therefore their time and effort will be better spent towards enhancing more proactive customer service. Rent collection revenue may also be used towards realizing staff training programs in efforts to improve the housing management efficiency and effectiveness in handling all activities relating to housing. The opposite will happen if rent collection could not be fully conducted as without sources of income, the management would not be able to improve their quality resulting in services that are at the same standard or even worse, at deteriorating standards (Griffiths, 2004, Evans and Smith, 2002a, Evans and Smith, 2002b).

***(c) Repayment of federal loans***

Rental income received by the landlords enables them to utilise this income to pay back loans received from the federal government. High rent arrears faced by the housing management will result in high debts liability towards the federal government (Evans and Smith, 2002a, Evans and Smith, 2002b).

***(d) Sold units***

This scenario is common in various developed countries such as The United Kingdom, The Netherlands, Germany, Hong Kong and Denmark where a number of social housing has undergone housing management transformation from government-owned to privately-owned. This is due to opinions that public housing in these countries were not well managed as evidenced by increased management costs and compounded by high rent arrears suffered by these public housing management bodies. The lack of public housing let to the poor has further increased these groups' inability to access formal housing provided by the government (Griffiths, 2004, Mwangi, 1997, Evans and Smith, 2002a).

***(e) Image erosion***

High rent arrears portray a negative image of landlords to other paying tenants. From their perspective, although rent is being paid, the quality of services expected could not be improved due to lack of budget. The implications are not only

on the recalcitrant tenants but the dutiful tenants will also be negatively impacted. The services provided are common facilities that must be shared amongst all the public housing occupants (Evans and Smith, 2002a). Rent collection is often an indicator of the housing management's efficiency in carrying out their functions (E.Paris, 2006).

***(f) Increase in management costs***

The solution to rent arrears cases usually result in increased costs that must be borne by the management. The management has to bear high legal fees to enable court actions to be taken on errant tenants. Lengthy time frames are also expended to better understand the problems faced by tenants who fail to pay rent and this incurs manhours losses to the management (Griffiths, 2004, Audit Commission, 2003b).

***(g) Rental hikes***

Public housing rental hikes are rampant in developed countries like England and Hong Kong. Rent has to be increased to overcome rising management costs due to prevailing rent arrears. Rental hike is a burden on all tenants as it impacts not only the recalcitrant tenants but also punctual tenants who dutifully pay their rents (Evans and Smith, 2002a).

The implications of rent arrears faced by public housing tenants are as follows:

***(li) The Implications Of Rent Arrears On The Tenants Or The Community***

***(a) Dilapidated Housing***

The failure of the management in increasing their revenue has resulted in the failure in sustaining investments to provide comfortable housing. The physical conditions of the housing could not be effectively maintained thus the houses will be run down; creating an uncomfortable ambience among public housing occupants. It is therefore not surprising that public housing are often labelled as slums (Audit Commission, 2003b, Evans and Smith, 2002b).

***(b) Effects On Health***

Findings of a number of studies conducted in England revealed that tenants who defaulted on their rental payment are often under a lot of stress. Their



recalcitrant ways have proven to be detrimental to their health as they are constantly in fear and under considerable stress. This condition has contributed to marital tension amongst this type of tenants (Nixon and Hunter, 1996, Griffiths, 2004, Audit Commission, 2003b).

***(c) Debtor Culture***

The lack of firmness shown by the management in handling rent arrears has caused these errant tenants to feel that rent collection is not the main agenda in the public housing management's scheme of things. This situation will create dissatisfaction amongst rent-paying tenants which, in the long run will cause a proliferation of an unhealthy culture that will influence other tenants' attitude towards the importance of paying rent to the housing management. A study conducted by Ford and Seavers (1998) found that some tenants treat rent as an interest-free debt; that is they will use their money on other priorities before paying rent to the housing management (Ford and Seavers, 1998).

***(d) Eviction Actions***

The liability to pay rent by a tenant to the landlord is an obligation that must be prioritised above the other liabilities. Failure to pay rent by tenants gives a right to landlords to withdraw the accommodation facilities provided to tenants as per the tenancy agreement mutually signed by both the tenant and the landlord. Such eviction actions will expose tenants to a state of homelessness (Audit Commission, 2003a, Audit Commission, 2003b, Nixon and Hunter, 1996, ODPM, 2005). Most cases of homelessness are caused by rent arrears incurred by the respective tenants. Generally, public housing tenants come from low socio-economic backgrounds and are susceptible to becoming homeless. Studies done by the English Communities and Local Government Department in 2007 found that rent arrears figured prominently among the causes of homelessness in most European countries (Fitzpatrick and Stephens, 2007).

Various implications have to be borne by public housing tenants as a result of failing to pay rent. Such failure impacts negatively on these tenants whether directly or otherwise.

**5. CONCLUSION**

The grim picture painted above clearly shows that failure to pay rent not only has a negative impact on the public housing management; in fact public housing

tenants also lose. The housing management could not invest in the effective management and maintenance of public housing resulting in discomfort and dilapidation of public housing. It is therefore not surprising that public housing is often labelled as ghettos or slums. Rent arrears problems faced by public housing management have clearly hindered their management operations as inadequate sources of finance negate the provision of quality services to occupants.

Inefficient maintenance and management will create dissatisfaction amongst public housing occupants which, in the long run will impact negatively on the occupants. Failure by the management to immediately attend to complaints of defects or repair works due to lack of funds will in turn cause discomfort to the tenants. Hence the polemic of who loses when rent arrears occur may best be summed up by saying there's no winners; everybody lose! The management could not enjoy a veritable rental income whilst the tenants could not occupy comfortable accommodation as should be if rentals are duly paid.

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