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ON THE PROBLEM OF SUBLETTING.

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ON THE PROBLEM OF SUBLETTING.

Is Subletting a Problem.

That subletting exists should not in itself be a problem, but rather a sign of a healthy property market with active entrepreneurs - per se - a prerequisite for economic development.

That subletting is a problem nevertheless, is claimed by public authorities and others who engage in building subsidised housing - per se - a prerequisite for social development.

It is not difficult to understand how the entrepreneurs can exploit the housing situation as it is in Kenya today by subletting a subsidised flat or house, in part or in full, when the difference between the actual rent and the market rent is 200% and above.

In some societies the problem of subletting of subsidised housing would not arise, as the implementation of rates and regulations regarding occupancy are fairly simple to enforce due to highly developed registration systems and the social environment in general.

Can the problem be controlled.

In Kenya, the cost of enforcing such regulations would be very high, because it would literally mean checking on every single subsidised household every day in order to see that only the rightful tenants lived there. The problem of visitors staying for more than a day would complicate the counting and be an infringement on personal freedom and peace.

A spot check, as an alternative, would be wrought with the same difficulties of deciding who were paying guests and who were visitors and would therefore not solve the problem.

But the problem has to be solved, because exploitation of people in clear need of shelter by those who have been allocated subsidised housing completely defies the purpose of the subsidy. And one cannot rely on the exploited to inform on the exploiters, since, in the circumstances, they have a mutual interest in keeping quiet. The same applies to rent control anywhere.

Can the problem be solved.

If we assume that subletting is done because the margin between subsidised rent and market rent (1) is too wide (200%+) then an obvious solution to the problem is to eliminate that margin or reduce it considerably. This can easily be done administratively - without loss of the subsidy - by adding the difference between market rent and subsidised rent to the persons salary and let him pay market rent for his housing, - thus a subsidised rent would no longer exist.

An example to illustrate:

A person is receiving sh.400/- per month plus a house (costing £600) at a subsidised rent of sh. 80/- per month. Because the market rent of such a house is, say sh.200/- he goes and lives somewhere in poorer accommodations at, say sh.100/- per month, sublets his subsidised house at the market rent and gets sh.100/- profit.

If, instead of a subsidised house, he got an extra sh.120/- as part of his salary and were subsequently charged sh.200/- in rent for the allocated - but sublet - house, the employer would no longer need to view subletting as a problem, since he would be economically covered and the employee still subsidised. If the latter still wants to occupy his poorer accommodation he will get the same gross income as before and he too will not view subletting as a problem

It is only fair that one who is subsidised should be able to convert this subsidy to cash by choosing cheaper accommodations than he is entitled to. Also, if both a

(1) The term "economic rent" is used here to mean: That rent which would depreciate the full cost of the house in accordance with prevailing commercial loan terms. If to this amount one adds the opportunity cost, then the "market rent" is arrived at, as the term is used here.

man and his wife are employed with entitlement to housing either from the same or different employers, it is to be expected that one of the entitlements should be converted to cash. This would also tend towards a fairer distribution of housing space.

If, however, the employee needs to occupy the allocated house for reasons such as space requirements, then he is in no worse position as before, rather he would tend to view the sh. 200/- he is now using for housing as a possible economic rent for a house worth £800 (over 10 years at 8%) or for a house costing £600 (similar to the one he occupies) leaving him an extra income of sh.50/-. Or he could choose any solution between the two getting a better house and an extra income. The advantages hold for the person renting accommodations at sh.100/-.

The problem is now obviously one of finding the funds to provide the employee with financing, - even on commercial terms, which he could now afford. This would create an incentive for him to build his own house, - and that in itself has many advantages apart from adding to the total supply of houses with a tendency to lower the market rent. The problem of subletting would now not be a matter of concern, in fact, instead of a problem, it would be that opportunity for enterprising individuals to build low-cost houses, which is so badly missing in the present situation. It is taken for granted that subsidised houses are allocated on the basis of such criteria as salary scale, seniority and need (number of children) it is therefore clear that the big family would receive a higher compensation than the small, ceteris paribus, and consequently be able to afford to build a bigger house or sublet fewer rooms.

Getting back to the problem of providing finance for employees the employer would in the new situation, where he is no longer obligated to provide housing, be induced always to charge the market rent for his houses from employees or anyone interested, meaning that his return on investment in staff housing is becoming liquid.

He could take a further step and sell the houses to his employees by letting their rent payments be equivalent to their monthly instalments. The inducement for such action should be the fact that he rids himself of the maintenance cost and, more significantly perhaps, of the administrative cost involved in bearing the responsibility for allocating houses.

If these incentives for providing financing for employees and their housing needs are not sufficient for the employer, it is conceivable that Government could provide tax incentives for firms which are either building houses or making them or the funds for them available to employees.

Advantages:

In conclusion, then, the advantages of subsidising the individuals directly rather than providing housing at subsidised rents are:

1. The problem of enforcing a rule against subletting is eliminated.
2. The distribution of families in houses according to size will be better.
3. Construction of new homes is encouraged increasing the total supply of houses.
4. Home ownership is encouraged with all that it implies in stability.
5. The cost of administration and maintenance of housing is transferred to the market rate.
6. The potential capital gain on houses will go to the employee rather than to the employer.

The two last advantages only hold in case of complete discharge of the houses.