

## FACTORS AFFECTING HOUSING AFFORDABILITY IN ETHIOPIA

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### Abstract

Housing has been at the crux of urban discussions all around the world. It has been always held as a parameter qualitatively as well quantitatively to define the course of development as well as the success of development of an urbanization process. Addis Ababa the capital of Ethiopia as well as the headquarters of the African union is one of the most rapidly urbanized city in the African Sub Saharan region. But housing has always been a challenge from the time of its establishment as the capital of Ethiopia. The Government of Ethiopia is always reviewing as well as revising new policies based on the context of affordable housing. But sadly to mention there is no model which describes the Ethiopian housing affordability context. This study tries to establish a theoretical model for housing affordability in Ethiopia. The study adopts case study methodology through which it establishes experience from the African counterparts to study the affordability model in African region. The study draws comparative approach testing each variables of affordability with existing data sets that are available from Ethiopian statistic agencies. The study finds out that there is a varying degree of impact of different factors such as population, family size and inflation in terms of affordability indices. Also it is clearly seen that economics plays the biggest pivotal role in affordability determination in housing supply. Also the economics is majorly impacted by number of family members with income, number of dependents, Lack of regular employment and job availability.

**Keywords:** Affordability, Housing, housing condition, socio-economic

## INTRODUCTION

### 1.1 Affordability

Affordability has been investigated, and its definition and perception have been modified, and it is generally acknowledged that affordable housing does not require households to pay more than they can afford (Keare & Jimenez, 1983, p. 4). Affordability implies that people can and want to spend on housing because capability implies income and willingness indicates choice (Cotton, 1991).

Affordability has been studied and its definition and perception have been refined and is generally agreed that affordable housing does not force households to spend beyond their; capability and willingness to spend ((Keare & Jimenez, 1983, p. 4). Capability implies income and willingness alludes to choice (Cotton, 1991) so affordability implies that people can and want to spend on housing.

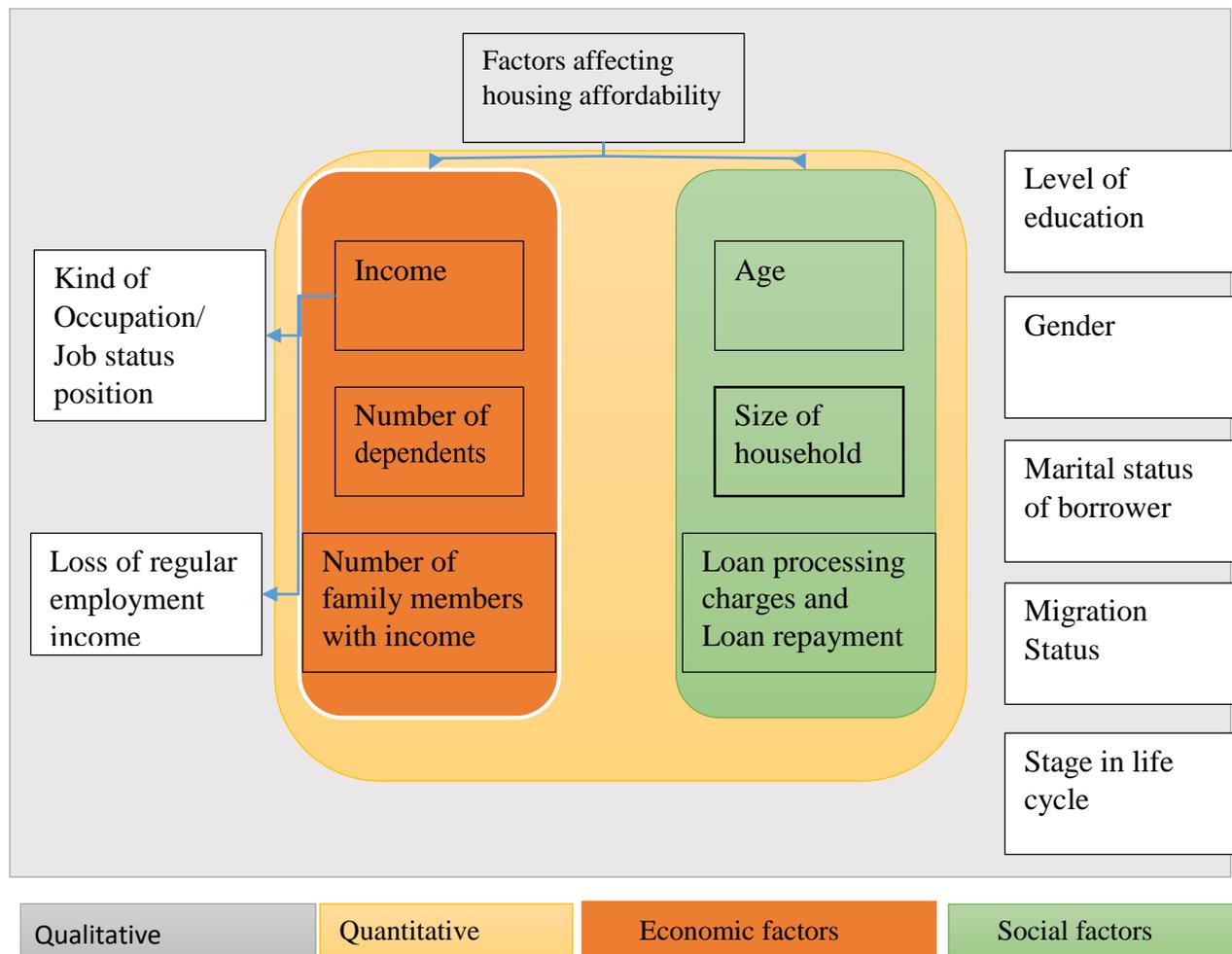
### 1.1.1 Qualitative vs. quantitative

The qualitative method of analysis aids us in determining how we can analyze the affordability of a housing unit using a single number, allowing us to quickly prove or determine a person's ability to buy a specific type of housing provided he meets certain requirements. The qualitative quantities, on the other hand, may be included by default.

Income, age, household size, number of family members with income, number of dependents, size of household, loan amount, loan-to-value ratio, loan processing fees, and loan repayment time are all quantitative components of affordability.

Gender, marital situation, stage of life, level of education, type of occupation/job status or position, and loss of regular employment income are all qualitative components of affordability.

**Table 1: Relationship depiction of factors affecting housing affordability**



### 1.1.2 Ethiopian view on affordability

Housing affordability, which is compatible with a wide range of income levels among city residents, requires special attention. Some measures were taken by housing supply agencies to meet the needs of low-income groups, but they failed. Based on previous experiences, it is recognized that housing prices tend to rise as demand for housing rises, making the supply unaffordable for the low-income group, which makes up the majority of Ethiopia's population.

### 1.2 Existing theory's on housing affordability

On affordable housing research in Saudi Arabia, Thomas Hojrup, Mary Douglas, a British anthropologist, and Pierre Bourdieu, a French sociologist, wrote three theories on housing affordability (Ashraf, Salama, 2006).

In his book, Thomas Hojrup proposed the concept of life-mode (Hojrup, 2003). He claims that cultural-relational dialectics constrain our values and that our values are a consequence of cultural life modes (Hojrup, 2003). He aimed to resolve the issue of clashing cultural values when they are brought together. Self-employed life mode, wage earner life mode, and career oriented life mode are the three life styles he introduced.

- The first mode is self-employed, in which the means of production are owned and housed. As a result, the house serves as both a living and a working environment, with no distinction made between working time and space time.
- The second mode is wage-earner, in which the home is either viewed as a key recreational location or as a location where important spare-time activities are carried out.
- The third paradigm is career-oriented, in which the house should ideally reflect personal advancement in terms of position, social prestige, and previous and recent experiences.

Mary Douglas established four different sub-cultures in his book (Douglas, 1996) in 1996. These are competition and individualism, isolation and avoidance of social restrictions, equity and negotiation, and hierarchical groups. These subcultures have a direct bearing on how cheap housing conditions can be comprehended and studied. When considering this theory on cheap housing, housing typology in terms of house size, house integration into the neighborhood and community, and overall house image are all key considerations.

The theory of Pierre Bourdieu, published in 1984, introduced three fundamental terms for comprehending the concept of lifestyle: habitus, position, and distinction (Bourdieu, 1984). Past experiences and established preferences, as well as socio-behavioral routines, are referred to as habit. Position refers to what agents have in terms of various types of capital, and he refers to persons and institutions as agents. Being distinct and unique are two aspects of distinction. This understanding can be linked to affordable housing research, particularly when developing mechanisms of inquiry into what housing environments people have lived in and what housing environments people would like to live in in the future; inquiry into issues that reflect people's past experiences as well as

future social practices and preferences. It is clear that the three theories are founded on diverse sets of interests in relation to various areas of living. Therefore,

Horus' theory can be categorized as a work-based theory, Douglas' theory as an attitude-based theory, and Bourdieu's thesis as a status-based theory. All are intended to have a significant impact on people's perceptions of cheap housing in both physical and social dimensions. As a result, they should be included in any investigation aimed at generating knowledge concerning affordable housing.

### **1.2.1 Factors affecting affordability**

The external and internal factors that affect house affordability can be split into two categories:

External factors- Factors that influence the cost of housing, such as land acquisition costs, infrastructure on and off-site, planning, design, borrowing rates, and government subsidies.

Internal factors affecting affordability are mostly related to the target group's socioeconomic situation ((Kamete, Quest for Affordability, 2001, p. 32)). The size of the household, the family structure, requirements, customs, aspirations and priorities, career prospects, vocation types, and income and expenditure patterns can all influence this.

According to (Kamete, Quest for Affordability, 2001, p. 32), a community's desire to pay is determined by its social character, whereas its ability is determined by its economic character.

#### **Factors from within:**

- Occupation Type (Job Status/Position)

People in professional/ management positions, such as doctors, architects, engineers, bank managers, and lawyers, who are employed in public institutions/ organizations, are able to receive private projects within their specialty, which allows them create extra revenue. These individuals lack financial stability and are unable to purchase a home.

- Loss of a regular source of income

Individuals whose job contracts have been cancelled or who have retired are likely to face financial difficulties as a result of the lack of regular employment income.

- The level of income

Because income is linked to long-term security, an individual's motivation to rent or own a property will be determined by his or her income level. The difference between these two is that low-income individuals do not have long-term financial security.

- Size of the family

The size of the household will influence the family's spending habits and thus affect affordability. Larger families are more likely to spend more of their money on food, education, transportation, and health care, making it more difficult to pay for housing. The

quantitative variable 'household size' is defined and measured as the number of family members within a nuclear family.

- Dependents' number (outside the nuclear family)

An increase in the number of members of the extended family (such as siblings and aging parents) living in a household will likely raise the volume of the household's income, reducing the household's ability to pay for its housing services.

- Age

Younger people in cities are tenants at some point in their lives; renting is a common aspect in people's lives while they are younger. According to a UN-HABITAT study, tenants are younger than owners; their families are also smaller; and the arrival of children frequently pulls families from renting to ownership (UN-HABITAT, 2011). Due to the fact that their children have moved out and the house is too big for them, or for financial reasons, the elderly prefer to rent.

- Gender

So far, males have had superior job and income-generating prospects than females, and male-headed homes have been more affordable than female-headed households. However, as more women acquire access to education and work opportunities, this tendency is beginning to shift, ensuring that they have enough money to pay for housing.

- Relationship status

The marital status of a household has a significant impact on its affordability. (Bujang et al, 2010) found that as a person enters married life, his or her affordability is likely to decrease due to the potential that the increased number of household dependents will cause more income to be spent on them. As a result of these options, they will be less able to afford to buy a property with a larger price tag. If the spouse has some money, though, the scenario may be different, as the household's affordability is likely to improve.

- Number of income-earners in the family/number of income-earners in the family

According to (Bujang et al, 2010), the number of household income earners is a factor that has a favorable relationship with housing affordability. This suggests that if a household has a larger number of income earners, the dwelling will be cheaper. As a result, if both the husband and wife have incomes, their affordability will likely improve as opposed to if just one has income.

- Educational attainment

According to (Linneman and Megbolugbe, 1992) in (Bujang et al, 2010), the challenge of affordability, particularly among lower and middle-class households, is attributable to their low levels of employment skills and education. They stated that the amount of education

determines the money made by people, which, in turn, determines the level of affordability in owning a home.

- Phase of the Life Cycle

Rental accommodation and shared living are the principal options in the early stages of life. Students, recent migrants, low-wage laborers, manufacturing workers or professionals, and newly married couples all fall into this category. And, unlike renters, people who live in shared residences have the option of living with friends, coworkers, or relatives who will provide them with shelter.

- Status of Migration

Many new migrants to a city live with relatives or as tenants in someone's home at first; many never acquire homes in the city because they do not intend to stay there. They frequently acquire property in their homelands after being enacted and continue to rent in the metropolis.

### 1.3 Establishing the affordability model through various experiences in Africa

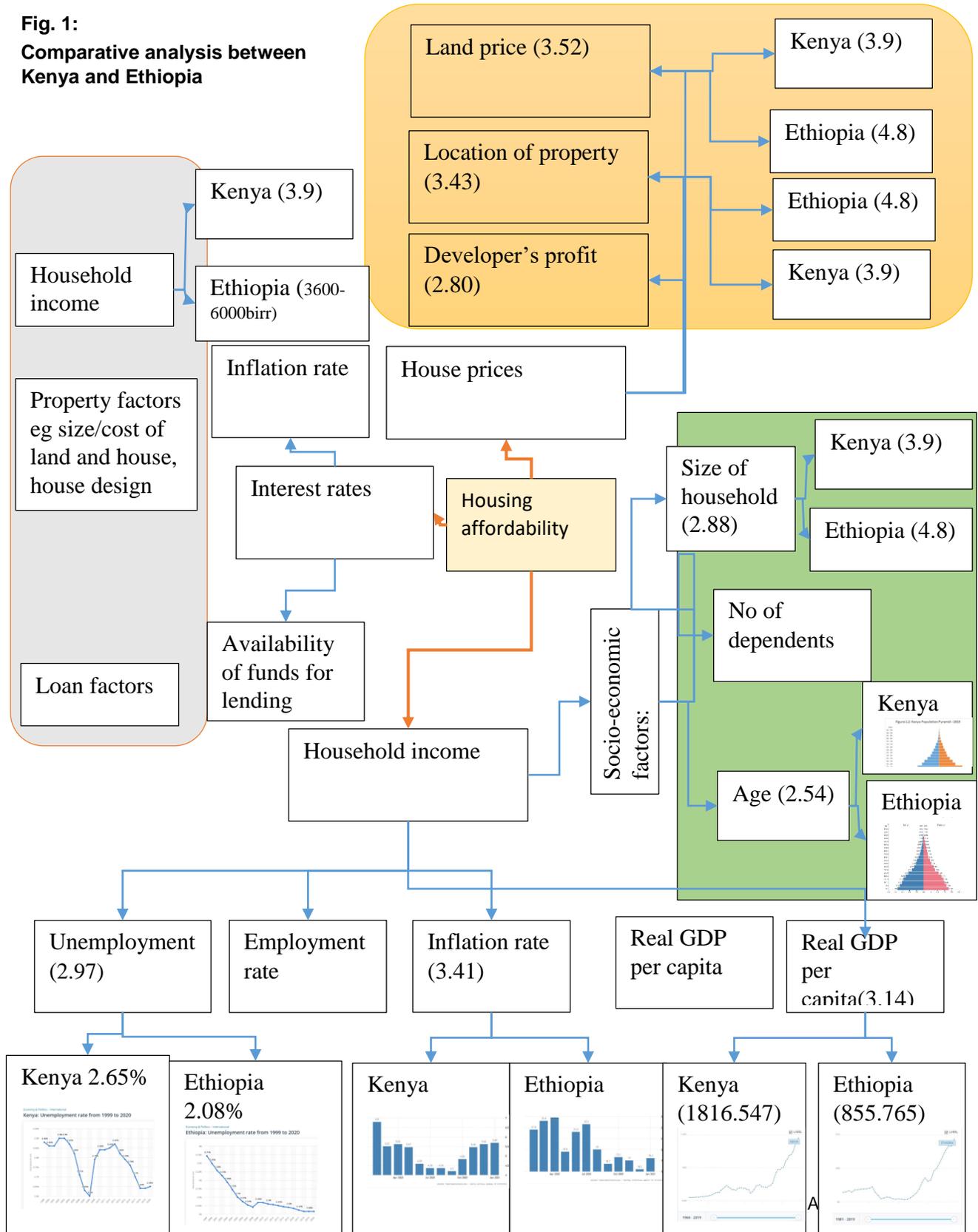
#### 1.3.1 Comparative analysis between Kenya & Nigeria with Ethiopia:

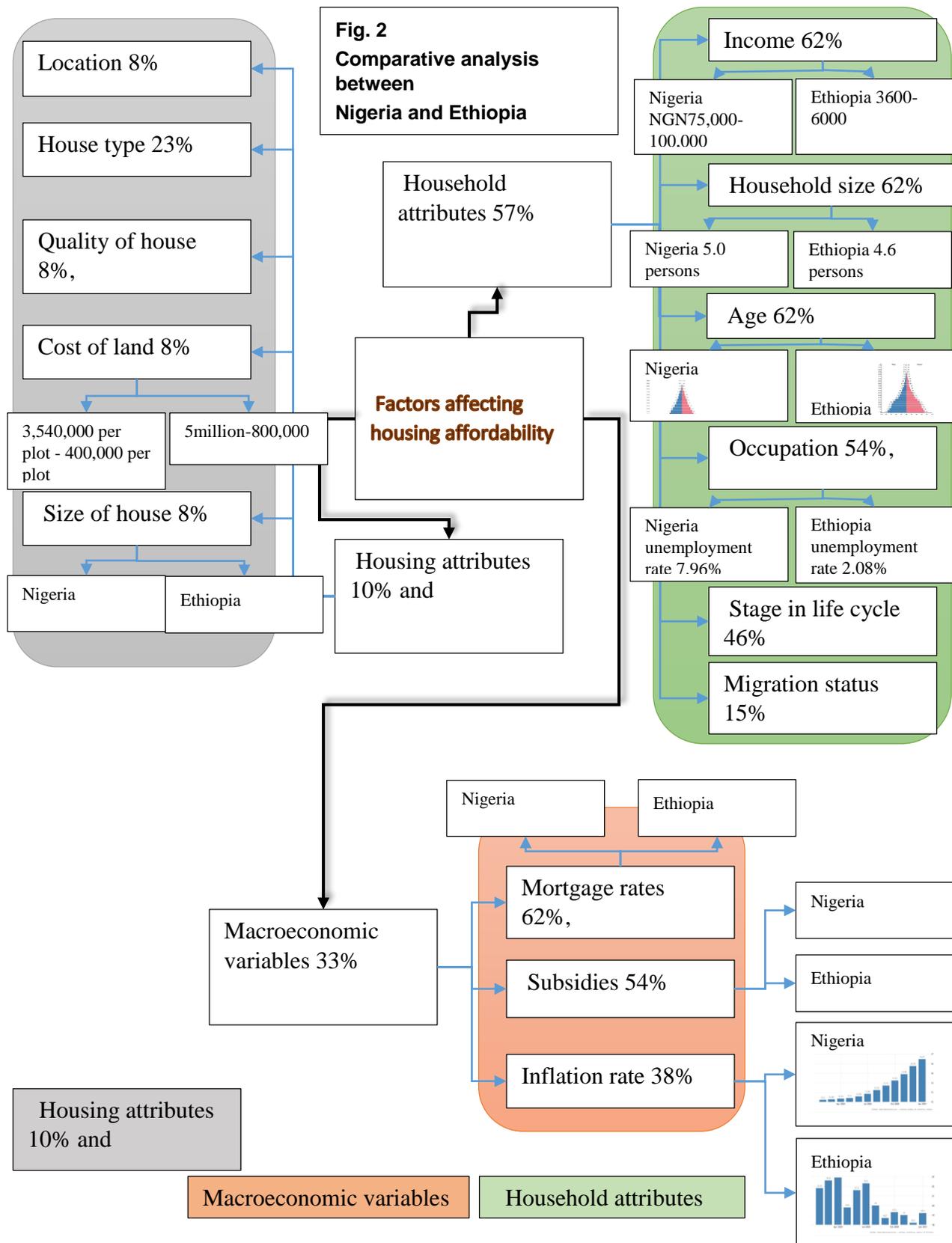
**Table 2: Factors affecting housing affordability in Kenya & Nigeria**

Kenya		Nigeria		
Affordability factor	Mean rating of importance ( a 4- point scale)	Affordability factor		Mean rating of importance (on 100% scale)
Loss of regular employment income	3.73 (93.25)	household attributes  57%,	income	62
Loan amount	3.70 (92.5%)		household size	62
Interest on loan	3.66 (91.5%)		age	62
Construction cost	3.54 (88.5%)		occupation	54
Land value	3.52 (88%)		stage in life cycle	46
Location of property	3.43 (85.75)		migration status	15
Inflation rate	3.41 (85.25)			
No. of dependents (outside nuclear family)	3.24 (81%)			
No. of family members with income	3.21 (81%)	housing attributes	location	8
Job status	3.20 (81%)		house type	23
GDP per capita	3.14 (78.5%)		quality of house	8

Loan-to- value ratio (LTV)	3.05 (76.25%)	10%	cost of land	8
Rate of unemployment	2.97 (74.25%)		size of house	8
Type of mortgage instrument	2.90 (72.5%)			
Household size	2.88 (72%)			
Loan term	2.87 (71.75%)			
Developer's profit	2.80 (70%)			
Property transfer cost	2.78 (69.5%)			
Mode of loan re payment	2.60 (65%)			
Age	2.54 (63.5%)		macroeconomic variables 33%	subsidies
House design	2.53 (63.25%)	Inflation rate		38
Marital status	2.50 (62.5%)			
Exchange rate	2.48 (62%)			
Level of education	2.22 (55.5%)			
Land size	2.04 (51%)			
House size	1.92 (48%)			
Political climate	1.66 (41.5%)			
Mortgage insurance premiums	1.52 (38%)			
Performance of alternative markets	1.52 (38%)			
Loan processing charges	1.42 (35.5%)			
Penalties on arrears	1.35 (33.75%)			
Gender	1.34 (33.5%)			

**Fig. 1:**  
**Comparative analysis between**  
**Kenya and Ethiopia**





#### 1.4. Findings & Discussion:

Kenya to Ethiopia:

Based on this analysis Ethiopia and Kenya have some similar characteristic for instance the population pyramid of both country are very similar both having most of their population at the younger age grope. Unemployment rate of Ethiopia and Kenya is very clothe to one another which is 2.08 and 2.65 respectively however the population size of Kenya is almost half of the population of Ethiopia ranking 54,581,787 people with a house hold size of 3.9 persons per house hold. And Ethiopia has population size of 114,963,583 and house hold size of 4.8 persons per house hold this indicate that the impact of household size is more prominent in Ethiopia than Kenya .the inflation rate in Kenya is only 5.69% in 2021 but in Ethiopia the inflation rate is 19.21% this is to show that the inflation rate has more impact in the Ethiopians housing affordability than Kenyan.

Inflation rate, house hold size

Nigeria to Ethiopia the population size, household size, age distribution seem to be very close to one another this means the impact of this factors could be very similar in Ethiopia as well. However occupation, unemployment rate, inflation rate are very different in Nigeria unemployment rate is 7.96% of the population which is 16,704,368.53 people from a population of 209,853,876 .however in Ethiopia we have 2.08 %un employment rate 2,391,242,526 people from a population of 114,963,583 are an employed. This means the unemployment impact on affordability is smaller than that of Nigeria. And the inflation rate of Nigeria according to national bureau of statistics, Nigeria 2021 has increased from 12.26 in 2020 -16.49 % 2021 and the inflation rate of Ethiopia has decreased from 22.6%in 2020 - 19.21% 2021 this shows that the impact of inflation rat is relatively lower than Nigeria.

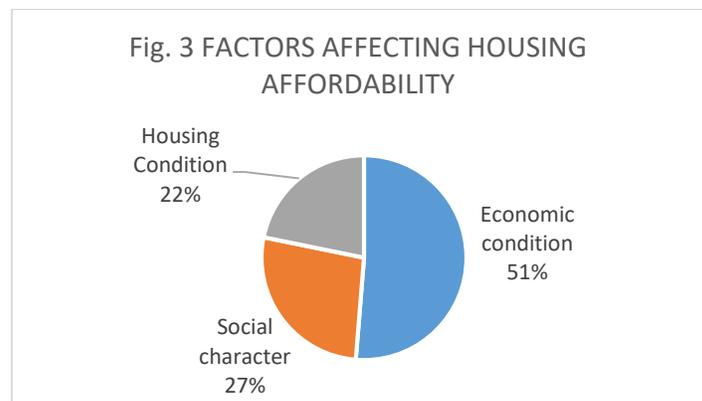
**Table 3: Framework for Ethiopian affordability established through the comparative statements:**

			Ranking of criteria					Total
			Most significant (100%)	Significant (80%)	Moderately Significant (60%)	List significant (40%)	Not significant (20%)	
<b>Economic condition</b>	Income	100	✓					800 (72.72 %)
	Number of family members with income	80		✓				

	Number of dependents (outside the nuclear family)	80		✓				
	Job status	80		✓				
	Loss of regular employment income	100	✓					
	Unemployment rate	60			✓			
	Mortgage rates	60			✓			
	Gross domestic product (GDP) per capita	60			✓			
	Exchange rate	60			✓			
	Subsidies	40				✓		
	Inflation rate	80		✓				
<b>Social character</b>	Age	60			✓			420 (70%)
	Household size	100	✓					
	Level of education	80			✓			
	Stage in life cycle	60			✓			
	Marital status	60			✓			
	Migration status	60			✓			

Housing Condition	Location	80		✓				340 (68%)
	House type	80		✓				
	Quality of house	60			✓			
	Cost of land	60			✓			
	Size of house	60			✓			

#### 1.4. CONCLUSION:



- It can be clearly seen that the from the cases of Nigeria & Kenya that Ethiopia differs on the context of social character mainly through factors such as family size, number of dependents and their level of education.
- It can also be theoretically established that housing condition contributing in the affordability factor is a major concern because already Ethiopia has established housing supply policies much before their counterparts Kenya & Nigeria.
- But one thing can be clearly established that the economical aspect is the major contributor for establishing the housing affordability for African continent in general.
- Theoretically it can be concluded that the affordability model of Ethiopia can be used for application giving weightage to different conditions as below:
  - a. Economic conditions: 51%
  - b. Social Character: 27%
  - c. Housing condition: 22%

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