



A RESEARCH PROPOSAL

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**by
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Abstract

Housing affordability is not researched well in Ethiopia. However, the topic is important due the fact that_____. This research report assesses the affordability of private residential developments in Addis Ababa and delineates factors that contribute to their affordability. Literatures related to concepts of housing affordability; household income levels; housing prices and mortgage financing, etc are reviewed.

The research studies examined revealed that the combination of high population and high urban growth rates coupled with a high prevalence of urban poverty have placed massive strain on Ethiopian cities. Accordingly, the critical urban issue is: lack of healthy, affordable housing for all sectors of the urban population. This is especially true in Addis Ababa as it has a share of 23% of the country's urban population.

In Addis Ababa, there is strong housing demand as supply lags behind demand; conditions of existing houses worsen and the population is increasing. To date, the government housing program has only managed to build only about half of the demanded units. It has, therefore, become increasingly imperative that the government should concentrate on reforming and managing the policy and legal framework in such a way as to create an environment for the private sector to provide housing.

However, private developers are motivated by profit; so what is the rationale for them to provide what is essentially a welfare service? The argument is that there are good business justifications for the private sector to be involved in the provision of affordable housing.

The data gathered and analyses made by the researcher allow the basic conclusion that the vast majority of private residential developments in Addis Ababa are not within reach of middle and low-income families. Generally speaking, housing affordability in the Addis Ababa is extremely low. That is, private residential

developments are unaffordable to people of modest means; and the results of this survey validate this perception to a large degree.

While free-market approaches to affordability are within the realm of possibilities, the supply of developers who pursue a multi-pronged strategy composed of creative financing, innovation and government support is limited. Certain level of affordability was, however, maintained by one developer, notably, Flintstone Homes. According to the survey, the main reasons why these developments have managed to retain some level of affordability are: efficient design, and marketing and operational excellence.

According to the findings of this research, housing affordability can be improved by the use of cost-effective building materials, or efficiencies that reduce costs, but the most important approach to designing affordability is the reduction of size—small lots and small housing units. Infrastructure costs generally decline as housing density increases; land costs also decline as the number of housing units is increased as government provides lease free 50m² per household. Therefore, the design of denser housing units with a greater mix of attached and multi-family units should be practiced by developers to substantially reduce housing prices.

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Acronyms

ACHPR - African Charter on Human and Peoples' Rights

AMI – Area Median Income

CBB – Construction and Business Bank

CSA – Central Statistics Authority

ERP – Economic Reform Plan

Economic Reform Program (ERP)

GDP - Gross Domestic product

HH – Household

HICE - Household Income, Consumption and Expenditure

IHDP - Integrated Housing Development Program

IDA - International Development Assistance

MDGs - Millennium Development Goals

MFIs – Microfinance Institutions

MoFED – Ministry of Finance and Economic Development

MoWUD – Ministry of works and Urban Development

PC - Per Capita

PHH - Per Household

PIR – Price to Income Ratio

PP – Per person

WM – Welfare Monitoring

WMU - Welfare Monitoring Unit

UDA - Urban Dweller's Association

UDHR - Universal Declaration of Human Rights

DECLARATION

I hereby declare that **Assessment of Affordability of Private Residential Developments in Addis Ababa** represents my original work, that all the sources I have used have been indicated and acknowledged as complete references, and that it has not been submitted before to any other institution for any other purpose.

Name: Tesfaye Misganaw Sisay (Student #: 72180196)

Signature

Date: January 2011

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CHAPTER I

1. Orientation

1.1 Introduction

With a per capita income of about 280 US Dollar, Ethiopia is one of the poorest countries in the world. The agriculture sector which accounts for the average 45% of GDP, is a source of livelihood for about 80% of the country's population (MoFED, 2010). With a population of about 79 million people, it is the second most populous country in Africa. Moreover, its population is growing rapidly at an annual growth rate of 2.6 per cent (CSA, 2007).

Addis Ababa, the capital city, is located almost at the geographic center of the country, with an estimated population of about 3 million (CSA, 2007).

The combination of high population and high urban growth rates coupled with a high prevalence of urban poverty have placed enormous strain on Ethiopian cities. This is especially true in Addis Ababa as it has a share of 23% of the country's urban population (CSA, 2007).

The urban poverty is manifested by persistently growing unemployment; poor quality dwellings and homelessness; increasing number of slums and squatter neighbors; congestion; lack of basic services and infrastructure. These factors combine to produce the critical urban issue: the lack of affordable, healthy housing for all sectors of the urban population.

Currently, in Addis Ababa, there is strong housing demand as a result of the mismatch between the expanding urban population and limited housing supply (Tefaye, 2007).

In recognition of the magnitude of the problem, the Ethiopian government has launched the Integrated Housing Development Program (IHDP) in 2004 which,

among other things, aims to increase the housing supply for the low to middle-income groups of population (MoWUD, 2004). Up on launching the program, the government was confronted with extremely high demand, and, to date, the program only managed to build about half of the demanded units (UN-HABITAT, 2010).

As housing supply lags behind demand, and housing conditions continue to worsen in the face of teeming urban population in the country, it became increasingly imperative that a new paradigm has to be adopted if the housing challenge is to be met. It is little surprise that faced with ever expanding cities, poor and dwindling financial resources and unimpressive performance of public provision, housing policy emphasis is shifting from state provision towards facilitation of private sector participation in housing development.

Enablement strategy to housing would prefer the government to assume the role of supporter in contrast to provider in the housing sector. Instead of embarking on the construction of dwelling units, the government is to concentrate on reforming and managing the legal, regulatory and financial policy framework in such a way as to create an environment for the people and the private sector to provide housing.

The requirement for private sector developers to make affordable housing or at least include a percentage element of affordable housing provision within all mixed use and residential developments over a certain threshold number of units was a contentious issue but has been accepted in most areas and situations by the private house building industry. However, private developers are motivated by profit and so what is the rationale for them to provide what is essentially a welfare service?

The argument is that there are good economic and business justifications for the private sector to be involved in the provision of affordable housing.

Private developers, however, have failed to deliver affordable housing units even for best paid professionals such as Engineers and Doctors. So far, their main target has

been building high-value, high-end homes for the few high income groups in and outside the country.

1.2 Statement of the Problem

The problem statement is given in terms of research questions as follows:

- Are the housing units being developed by private developers in Addis Ababa affordable? If so, what factors contribute to their affordability?

1.3 Objectives of the Research

The prime objectives of this paper are:

- To assess the conceptions of housing affordability, namely, the definitions and measures of housing affordability;
- To assess the housing conditions in Addis Ababa;
- To determine if private real estate developers are providing affordable housing units in Addis Ababa; and
- To characterize those private developments that are affordable and delineate the factors that to contribute to their affordability.

1.4 Scope and Delimitation of the Study

This study is limited to assessing the affordability of residential housing units in Addis Ababa that are developed by private developers. Both international and local developers doing business in Addis Ababa are included in the study. This paper does not deal with housing affordability generally in Ethiopia and the commercial and government housing development programs in Addis Ababa.

1.5 Importance of the Study

The findings of this research will add to the relevant body of knowledge regarding affordability of private residential developments in Addis Ababa. The study can be used as an input by private developers who seek to craft a business model that is capable of developing affordable housing schemes to sufficient and sizable base of customers. It can also be used to shed light on measures that can be taken by key stakeholders, namely; government, private developers and home buyers, for increasing affordability of housing units.

1.6 Outline of the Research Report

This research report is organized as follows. It starts with the front matters first and then follow the main chapters.

Chapter one discusses about the background of the study, objectives of the study, statement of problem, scope and delimitation of the study and importance of the study.

Chapter two, which contains the literature review provides a brief description of the key concepts and definitions on the housing affordability; assesses housing conditions in Ethiopia in general and Addis Ababa in particular; and provides theoretical and practical approaches that can be employed in developing affordable housing by private developers. Accordingly, the previous related studies have been critically analyzed in this chapter of the research report.

In chapter three, the research methodology used for this research report is explained in sufficient detail. It explains the research design, the sample selection, data collection, measuring instruments and data analysis techniques used in the research report.

Chapter four incorporates data analysis and the findings of study. It also contains interpretation of the findings.

Finally, chapter five brings together the research from the previous chapters, forms conclusions and makes recommendations for future research and future policy and practice.

1.7 Assumptions

The basic assumptions for the research are:

Assumption 1: All citizens want to have housing that can fulfill their basic shelter and social requirement.

Assumption 2: Sufficient land is available for the private real estate developers from Addis Ababa City Administration for use for residential housing development. Moreover, developers are able to acquire the land when they request without much of red tape from the government.

Assumption 3: The answers for the questions given by the respondents are considered to be true. It is, therefore, assumed that there was no causal ambiguity and cognitive biasness in respondents' response.

Assumption 4: Household income data is not available. Nevertheless, household expenditure data for 2005 is gathered by Central Statics Agency of Ethiopia. The researcher has assumed that household income is equal to household expenditure. That is, households spend all their income.

Assumption 5: The income of the residents of the country in general and Addis Ababa in particular is assumed to grow proportionally with the growth of the country's economy.

CHAPTER II

2. Literature Review

In first part of this chapter, the researcher reviewed related literatures on the concepts of affordable housing and its measurement. Later, assessments of housing conditions in Ethiopia as well as the housing sector in Addis Ababa are made in sufficient detail.

2.1 Affordable Housing: Concepts and Measures

2.1.1 Concepts of Housing

Housing is a very important aspect in life. It is a multi-dimensional concept. It has been defined differently by different people depending on the emphasis and focus of analysis. The basic definition is housing as shelter and the provision of human needs.

- The Oxford Dictionary (1987) defines a 'house' as a building for human habitation. While 'housing' is 'dwelling houses collectively, provision of these shelter or lodging'.
- The United Nations however defined housing not simply as shelter, but also as a means of creating communities, giving great emphasis on the functions which housing has to perform (United Nations, 1978). According to the United Nations, housing is a means which should perform a double function: the interior, one of providing a place where a household of different age, sex, education, occupation, intellectual modes and values can meet in harmony; and the exterior, one of providing meeting grounds for groups of households and for the healthy and enjoyment enrichment of their lives and the life of the community.
- A committee of experts on the public health aspects of housing convened by WHO defined housing as '... the residential environment, neighborhood,

micro-district or the physical structure that mankind uses for shelter and the environments of that structure, including all the necessary services, facilities, equipments and devices needed or devised for the physical and mental health and social well-being of the family and the individuals (United Nations, 1977).

- Rapoport (1968) highlighted the concept of housing from a different perspective. According to him, the house is an institution, not just a structure created for a complex set of purposes. As building a house is a cultural phenomenon, its form and organization are greatly influenced by the cultural milieu to which it belongs.
- In economic terms, housing is considered as a commodity which has a market value and can be bought and sold. Through housing is reflected a person's economic standing and his affordability to attain a certain level of quality of life. Housing is also considered as a security which a person owns for the benefit of one's future.

2.1.2 Concepts of Housing Affordability

One can trace the root of academic studies on housing affordability to the 19th century studies of the household budget which generally argued for “one week's pay for one month's rent” (Hulchanski, 1995, p. 471). That is, it was envisaged that families can and should spend about one-fourth of their income for shelter.

Housing affordability is more than just a personal trouble experienced by individual households. It has implications not only for housing but also for employment, health, labour market performance, finance, community sustainability, economic development and urban and regional development (Michelle et al, 2005).

Various types of housing affordability conceptions can be identified. Among these, two are prominent (Quan & Robert, 2009). According to the first conception, affordability is concerned with securing some given standard of housing at a price or

a rent which does not impose, in the eyes of some third party (usually government), an unreasonable burden on household incomes. This approach is more frequently employed.

The second type defines housing affordability by the adequacy of the residual income remaining for other household needs after deducting housing expenditures. This is residual income approach. In the residual income approach, housing is considered affordable when people can adequately consume both housing and non-housing goods.

Quan & Robert (2009) further breakdown affordability and view it in at least three different ways. Accordingly, distinction is drawn between the concepts of purchase affordability, repayment affordability and income affordability. Purchase affordability considers whether a household is able to borrow enough funds to purchase a house. Repayment affordability considers the burden imposed on a household of repaying the mortgage. Income affordability simply measures the ratio of house prices to income.

It is important to recognize that a proportion of dwellings are actually available for sale or for rent at any given time, plus newly built dwellings coming on stream constitute housing supply. Equally, a proportion of households plus newly forming households who are actively seeking a home at any one point in time constitute effective demand – those who want and are able to afford to rent or buy.

There may also be ‘pent-up’ housing demand, from people who would like to rent or buy a home but are unable to do so. The main reason for this is affordability, although there can also be housing on the market that is affordable to a range of households but is not desirable or suitable (Cambridge Centre for Housing and Planning Research, 2009).

2.1.3 Measures of Housing Affordability

For the majority of households in countries with high homeownership rates as well as for policy makers tracking homeownership affordability, housing affordability is about homeownership affordability.

The researcher looks first at the two main approaches to measuring affordability: a general indication of whether house prices are affordable in relation to incomes; and a more specific measure of whether particular housing is affordable to certain groups e.g. key workers (Cambridge Centre for Housing and Planning Research, 2009).

The first approach of measuring affordability using house prices to income ratios approach gives a general indication of whether house prices are affordable in relation to incomes. This indicator is often termed as the house price to income ratio (PIR).

This is the most frequently used measure of affordability. Most attempts to actually operationalise the concept of affordability—mainly by banks, real estate institutes and government agencies—focus on the median due to its simplicity and ease of understanding (Quan and Robert, 2009).

Accordingly, the most widely used and cited indicator of home ownership affordability is the median house price to median income ratio. Its use is recommended by the World Bank and the United Nations; the ratio is available on the UN-HABITAT database and it is also tracked for 265 metropolitan markets in six countries by the Demographia International Housing Affordability Survey (Performance Urban Planning, 2009). Moreover, most indices consider that 26 – 30 per cent of median monthly income is allocated for housing expenditure or monthly mortgage repayment for the median house.

The second approach to measuring home ownership affordability is measuring whether housing is affordable to different household groups. This measure is used,

for example, when determining the proportion of new homes that need to be affordable.

2.2 The legal framework of the right to housing

2.2.1 International law

One can find the right to housing recognized in different international and regional and national human rights instruments either directly or indirectly.

At global level, the right to housing came into existence in 1948 with the adoption of the Universal Declaration of Human Rights (UDHR) thereby joining the body of international, universally applicable and universally accepted human rights law (Janka, 2007). After the adoption the UDHR, many other international human rights treaties have recognized the right to housing as human right.

At regional level, the major African human rights document, the African Charter on Human and Peoples' Rights (ACHPR), does not expressly provide for the right to housing. Nevertheless, the African Commission on Human and Peoples' Rights (the Commission) adopted the approach of generous and purposive interpretation which led to the development of the doctrine of *implicitly guaranteed rights*: reading rights which are not expressly recognized by the ACHPR "into" it. Luckily, the right to housing is one the two such rights read 'into' the ACHPR by the Commission.

Ethiopia ratified all the three instruments. By virtue of article 9(4) of the Ethiopian Constitution, therefore, they are integral part of the law of the land thereby creating the obligation to realize the right to housing.

2.2.2 The Ethiopian Constitution

The Ethiopian Constitution does not mention the right to housing as a human right at all. But article 41(3) states that every Ethiopian national has the right to equal access to publicly funded social services while article 41(4) imposes obligation on the state to allocate its ever increasing resources to provide to the public social services.

Similarly, article 41(5) of the Constitution imposes duty on the state, within the available means, to allocate resources to provide assistance to the physically and mentally disabled, the aged and the children who are left without parents or guardians. Further, article 90(1) mentions housing as one of the guiding policy principles.

So, under article 41(3) and (4), the *publicly funded social services* to which all Ethiopian nationals have the right to equal access and which the government is obligated to provide can be interpreted to include housing services. Under article 41(5), the term *assistance* can be interpreted to include housing provisions if the category of people mentioned are in need of them. Under article 90(1), *housing* itself is expressly mentioned. Hence, the issue of housing is apparently covered by these provisions. Nevertheless, none of these provisions create justifiable right to housing. Article 41(3) does not grant any independent right to housing in particular and to social services in general rather than simply guaranteeing *equality* of access *if* there are publicly funded social services including housing. Articles 41(5) and 90(1) also do not impart any right to individuals but impose duty on the government. Hence, the provisions, in reality, do not solve the issue of the right to housing.

But the fact that the right to housing is not expressly mentioned in the Constitution does not mean that none of the human rights the Constitution expressly recognizes has the right to housing as its inbuilt element. In fact, there are certain provisions which allow the right to housing to be read 'into' themselves. This attempt to situate the right to housing in the Constitution itself is important particularly in Ethiopian context where relying on international law, albeit they become integral part of the law of the land upon their ratifications, before the judiciary is almost impossible. Before commencing the reading 'into' work, it is important to pay a brief attention to article 13(2) of the Constitution for it facilitates reading the right to housing 'into' other constitutional rights. It reads:

The fundamental rights and freedoms specified in this Chapter shall be interpreted in a manner conforming to the principles of the Universal Declaration of Human Rights,

International Covenants on Human Rights and international instruments adopted by Ethiopia

This provision supports efforts to read impliedly recognized rights 'into' expressly recognized constitutional rights. Because when there are ambiguities, interpretation in accordance with international instruments is required of the body interpreting the Constitution on the bill of rights.

2.3 Assessment of the housing conditions in Ethiopia

The housing sector is a key component of the urban economy. As an asset, housing is important, making up significant portion of the reproducible wealth in most countries. Housing is also a major motivation for household saving and significantly influences household consumption. Moreover, it affects inflation, labor mobility, and the balance of payments. Thus, the housing sector must be seen and managed as a key part of the overall economy.

This study focuses on Addis Ababa, but highlighting the general picture of the housing conditions in urban Ethiopia is important to appreciate the extent of the problem.

Most of the urban centers in Ethiopia are small roadside towns. In spite of the long history of urbanization in the country, the overwhelming majority of these towns came into existence after the mid-1940s. Those towns suffer from high rates of unemployment and poverty and the overwhelming majority of their economically active labor force depends on various types of informal activities for their livelihood (UN-HABITAT, 2007).

The 2007 population and housing census showed that the total number of urban households in the country exceeded the total number of housing units by approximately 128,310, or about 4 per cent of the total urban households in the country. In that same year, 24 per cent of the urban housing stock had six or more residents per unit.

Moreover, housing conditions in urban Ethiopia are such that the overwhelming majority of available residential units are poorly constructed and very much lacking in quality. For instance, as shown in the 2007 population and housing survey, about 82 per cent of all urban housing units in the country are made of wood and mud, and 66 percent have earthen floors.

Regarding size, the overwhelming majority of urban housing is small, with one- and two-room shelters accounting for 46 and 28 per cent respectively of all urban housing units. Besides, as many as 28 per cent of urban housing units have no toilet and 27 per cent are without kitchens. Only 3.4 per cent of the units have indoor plumbing, with some 14.3 per cent relying on non-tap water sources (CSA, 2007).

These figures are national averages and indicators vary across regions and between cities and towns. However, the fact remains that, housing conditions (quality and availability) in urban Ethiopia as a whole are very bad.

2.4 Assessment of the housing sector in Addis Ababa

In this section, situation analysis on housing conditions and housing demand in Addis Ababa; key players in housing development; land provision and supply; construction materials availability and price; tenancy status; infrastructure access and cost; and housing finance will be discussed to enable better understanding of the housing sector in Addis Ababa.

2.4.1 Situation Analysis of housing conditions in Addis Ababa

Rapid urbanization, one of the greatest socio-economic changes during the last five decades or so, has caused the growth of squatter and informal housing all around the rapidly expanding cities of the developing world (UN-Habitat, 2010).

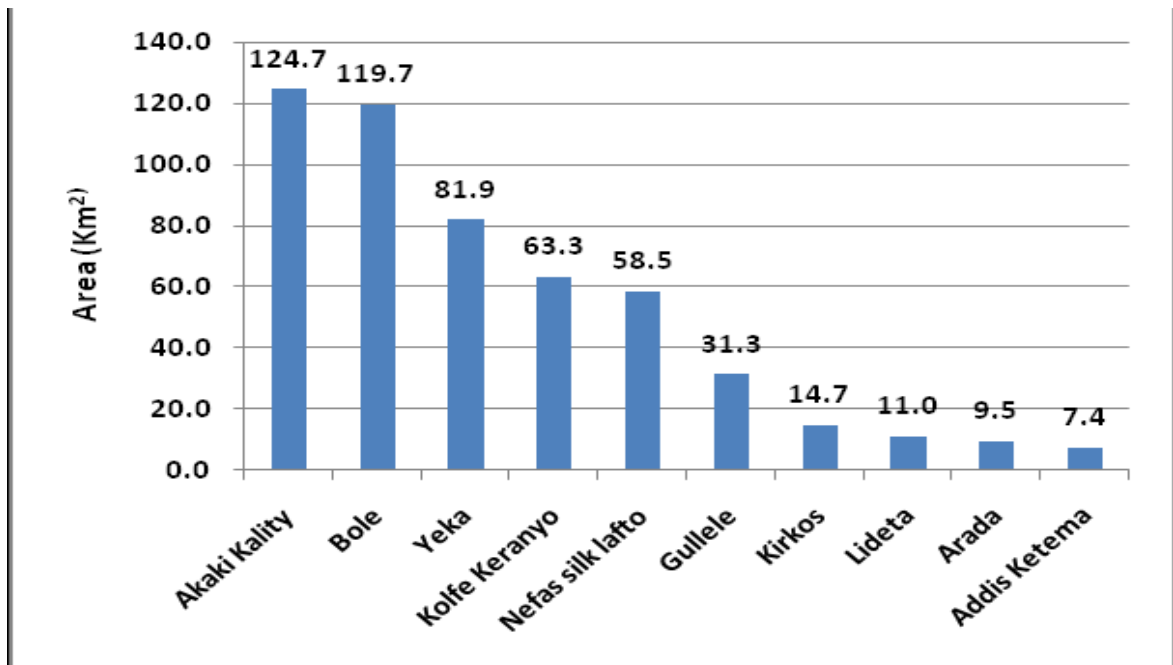
Despite having one of the lowest proportions of urban population in the world at only 16.7 per cent, Ethiopia is rapidly urbanizing at a high annual growth rate of 3.5 per cent. Addis Ababa, the capital city, dominates the urban hierarchy with a population

of 2,739,551 holding 23 per cent of the total urban population in the country (CSA, 2007).

Addis Ababa is the capital city of Ethiopia which occupies an area of 522 square kilometers has an estimated 3 million inhabitants. The city is sub-divided into ten sub-cities, each of which has an average population of around 300,000 people.

The three largest sub-cities by population are Kolfe Keranio (with 463,417 inhabitants), Yeka (374,583) and Nefas Silk Lafto (341,743). In terms of land area, the largest sub-cities are Akaki Kality, Bole, and Yeka each of which covers an area exceeding 80 square kilometers. Population densities vary considerably among the sub-cities, with Addis Ketema and Arada showing the most densely populated neighborhoods while Bole and Akaki Kality are the least densely populated sections of the city.

Figure 1.1: Sub cities of Addis Ababa and their respective size in KM2



One of the continuing challenges posed by unprecedented urbanization in the developing countries is the provision of adequate housing. Although population growth shows the demand for housing, the rate of increase in households is believed to provide a direct measure of potential housing demand. The 2007 census showed that the total number of urban households in Addis Ababa exceeded the total number of housing units by approximately 26,134, or about 4 per cent of the total urban households in the city.

Given this increase, the city's housing demand is increasing. Accommodating this increased demand will require additional housing development and construction in the city.

According to estimates by the Ministry of Works and Urban Development (2008), the housing deficit in Addis Ababa alone is about 300,000 units. The housing deficit in Addis Ababa is not just measured by the large number of units that are required today; it is also observable in the quality of the housing stock and the extremely small sizes of most available dwelling units.

What is even more worrying in this regard is that the problem has worsened between the two recent census surveys. For instance, the proportion of single-room dwelling units in Addis Ababa has risen from 33 per cent in 1994 to 39.4 per cent in 2007 (CSA, 2007: CSA, 1994). This is a serious cause for concern, according to CSA (2007) the average household size is 4.1 individuals, as the poor, who make the bulk of the population, typically tend to have large families.

The structural features of the bulk of the housing stock in Addis Ababa similarly suggest that the housing problem is much worse than estimated housing deficits indicate. The structural condition of most of the existing units is so poor that any long-term use is difficult to imagine.

For instance, according to the 2007 national census the walls of some 77 per cent of housing units in Addis Ababa are made of mud and wood (known as "chika") houses.

With poor building standards and lack of proper foundations, most chika units age quite rapidly. As a result, a substantial proportion is always in need of major repairs while a sizable number are so old and in such poor shape that they are only fit for demolition.

Another indicator of the poor quality of most residential units in Addis Ababa is that roofs are almost invariably made of corrugated iron sheets (CSA, 2007) that make a vast and unpleasant rusty blanket in the central and older parts of the city.

A further appropriate indicator of worryingly poor quality of housing units in the city is that 40 percent of all the units have mud or earthen floors. Official data also show that a 22 per cent have no ceiling whatsoever, and 20 per cent of the housing units do not have kitchens. Moreover, those housing units that do not have any type of toilets constitute 14 per cent of the total housing units in the city while 81 per cent of the houses do not have bathrooms (CSA, 2007).

2.4.2 Land provision and housing supply

Access to land and its affordability are formidable obstacles to housing development by the private sector in Addis Ababa as land is an important component of housing development process. Land and urban policy measures implemented by the previous and current governments have their impacts on the performance of the housing sector.

The housing sector has been subjected to a variety of interventions over the past. During the first half of the twentieth century, land and housing in Ethiopia were controlled by a select few individuals and groups who owned and tightly controlled land and housing development.

In 1974, the land and housing situation significantly changed as a result of the change of government. In July 1975, all urban land is nationalized in an effort to force

a fairer distribution of wealth across the country. Moreover, the Derg intervened with incentives like:

- Land allocation without charge;
- Subsidy of building materials; and
- Making mortgage loans available at lower interest rates than the market.

Consequently, the rental price for low-cost housing has been significantly reduced. The low rental rates resulted in little to no investment in housing which led to a further deterioration of housing quality. Housing supply was controlled by the centralized government. Nevertheless, it was drastically insufficient to meet the large demand.

Following overthrow of the 'Derg' by the Ethiopian People's Revolutionary Democratic Front in 1991, the government has sought to introduce a more market-orientated approach to housing development. With the introduction of the urban land lease holding proclamation in 1993, the government defined leasehold as the tenure form of choice. In addition to the land lease law, other measures include:

- Subsidies on the sale of building materials have been removed,
- Interest rates for housing construction have been set at the market rates, etc.
- Lease holding are made through auction and negotiation.

This led to the market rate interest and price of construction materials making the cost of owning a house ever more expensive.

The land delivery system in Addis Ababa is still very much underdeveloped. Housing production is impeded primarily by a severe shortage of serviced residential plots. Moreover, low supply of serviced residential land in relation to demand has pushed land prices beyond the reach of the large majority of the city dwellers (UN-HABITAT, 2010).

2.4.3 Key Players in Housing Development

According to Addis Ababa City Government, 2004 as cited in Haregewoin (2007) the main suppliers of housing in Addis Ababa are the public, cooperatives, individuals (formal), real estate developers and the informal sector. The dominant player in housing development is the state as it controls the majority of the rental accommodation and influences the supply of new housing units through active involvement in material production and importation, land supply, development of condominium housing and housing finance.

The Government has taken the decision that low income housing development should primarily be undertaken by the public sector. This is a subsidized initiative to make houses affordable to the target group. The programme was pioneered by the Addis Ababa City Government with support from GTZ in 1996. Addis Ababa has established the Housing Development Project Office (HDPO) as a semi-autonomous agency to supply housing at low and affordable cost. This is an ambitious plan to redevelop the kebele housing, by the construction of 4 storey walk-up blocks of flats for sale as condominium units. The aim was multi-faceted:

- to speed up supply of low-cost housing for the poor;
- to densify and “renew” prime urban land;
- to boost the building/construction industry, and pump cash into the economy by generating employment opportunities for the poor; and
- to redevelop the existing run-down kebele housing and the residents into the new flats, thereby freeing up the land area for the construction of more new housing. Other kebele residents would be moved into this housing.

The Government’s plan to provide affordable housing to low- and middle-income through the condominium project has not been without problems, and the programme

is increasingly coming under scrutiny because of doubts as to whether this scheme will provide sufficient affordable housing for the low and very low income groups. According to Meheret (2008) the concerns are:

- Lately, there have been sharp rises in prices of construction materials such as iron, cement, wood and other building materials. While this has not put a dent on the construction industry in the short-to medium term, its long term consequences and particularly its effect on the supply and demand for housing have yet to be seen.
- Although unit prices were set at the original estimate, many units are occupied by higher income households who can afford to pay full price “at one go” or a “larger down payment”. This means that moderate-income families are benefiting from the scheme intended for poor and low-income households. The Government has not officially admitted the problem but they are aware that this is primarily caused by escalating costs of construction, which has rendered housing unaffordable for the poor;
- Many people have found it very difficult to adapt their living patterns to multi-storey living. Whether for this reason, or the opportunity for windfall profits, many families move out and sub-let their dwellings to higher income families. The gap between the amount paid by the official allottee and the rent he can charge can be as much as five times.

The Government is aware of the potential contribution of the private sector towards easing the housing problem and aims to encourage its participation in the housing industry (Meheret, 2008). As a result, private real estate developers have increasingly been involved in the construction of standard housing units, mainly for the middle and high income groups. To make housing affordable, the Federal government has been helping private developers through incentives, for example, giving free land to real estate developers to build rental housing for low-income

families and also facilitating the supply of essential infrastructure, like water, roads, telephone and electricity services, etc. However, the efforts were to no avail.

The real estate market in Ethiopia is underdeveloped. Factors limiting the growth of the sector are the fact that there is only a single government-owned bank, i.e. the CBB, operating in the real estate, particularly housing, sector. For a long time, private banks have not been lured into the market due to risk factors in short-term financing, less profitability, and lack of experience.

As a result of the government policy concerning land values, and the fact that a free market does not really exist, it is exceedingly difficult to establish a 'real' market price to determine the value of a residential unit. This increases the risk of mortgage lending.

All this has meant that the real estate market and mortgage financing in Ethiopia have a long way to go before they reach the standard of many sub-Saharan countries.

The Government sees one of its roles as the principal provider of land for housing construction by co-operatives at subsidized prices. The Government also provides basic facilities, such as water, electricity, sewerage, telephone, etc. to reduce cost and make the houses affordable to the target group. Low and moderate income earners have been the main beneficiaries of housing cooperatives.

2.4.4 Construction materials availability and price

Building material industry and materials for housing construction are important to the housing sector in Addis Ababa. There are key issues that merit mention in the enablement of this sector. These include ensuring that the local building materials industry is in production and produces suitable and affordable building materials, and resolving the effect of broad economic reforms on building materials.

The public sector dominates the production of core building materials like cement, reinforcement bar, etc. in the country. There is high demand and low availability of core construction materials mainly due to low production rates. As a result, prices tend to increase (Tesfaye, 2007).

The price of cement, the most important input for housing construction and one of Ethiopia's main manufactured products, for instance, has experienced turbulent conditions in recent years.

- In 2007, the cement factories in the country couldn't cope up with the growing demand and as a result there was severe shortage of cement and consequently the price skyrocketed. In an attempt to alleviate the problem, the government allowed the importation of cement by the private sector on *franco valuta* basis - using their own foreign currency sources.
- In April 2009 the government banned private sector imports of cement after a period of about two years.
- On May 8, 2009 directive from the Ethiopian Electric Power Corporation instructing the nation's two largest cement producers, Mughher and Messobe, to close for a month due to severe shortages in power supply. A week after the decision, cement prices rose by about 30 per cent.
- On May 1, 2011, two of the country's largest cement producers have increased the price of cement by 60 per cent.

These very unsettled conditions being witnessed reflect Ethiopia's still limited supply of domestic cement as well as its fast-growing demand. Currently, the total cement production in the country is about 2.8 million tons per annum. There are, however, about 15 cement factories under construction that are expected to start production in the coming few years and increase the cement supply of the country.

Table 2.1: Cement Production in Ethiopian (Tons)

Plant Name	Maximum Capacity	PPC	OPC	Total
Muger Cement	900,000	775,000	89,000	864,000
Messobe Cement	900,000	845,000		845,000
National Cement	300,000	300,000		300,000
Jemma Cement	240,000		200,000	200,000
Abyssinia Cement	150,000		100,000	100,000
Midroc Dejen	90,000		90,000	90,000
Red Fox Intl	150,000		150,000	150,000
CGOCC Cement	150,000	100,000		100,000
Total	2,880,000	2,020,000	629,000	2,649,000

Source: Ministry of Trade and Industry and Access Capital Research Estimates (as of May 2009)

Imported cement has recently supplemented Ethiopia's domestic production and provided some degree of relief. According to estimates made by Access Capital (2009), imported cement has amounted to nearly a third of domestic production in recent years (or about 840,000 tons of imported cement in 2008 compared to an estimated production of 2,400,000 tons in 2007). Incorporating imported volumes, Access Capital estimates that cement consumption has risen by an average of 30

percent per year during the past four years, well above the growth rates seen during this period for both overall GDP growth (around 11 percent) and for construction sector growth (around 10 percent).

By way of comparison, Ethiopia's cement consumption growth was roughly four times growth in global cement consumption (which has risen by only 7 percent in recent years). Reflecting low supply and rising demand, cement prices have been on a steady upward trend for quite some time.

Table 2.2: Cement Consumption in Ethiopia (million tons)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Consumption estimate	0.82	0.82	0.97	1.04	1.17	1.81	2.00	2.50	3.2
Consumption Growth rate (%)		0.0	18.3	7.2	12.5	54.7	10.5	25.0	27.0

Source: Access Capital

Despite expected growth in cement supply, growth in demand is also brisk. This is mainly due to large-scale public sector infrastructure projects and private sector construction activity for residential and commercial housing developments.

The current per capita production of 33 kilograms in Ethiopia is among the lowest in the world and well below levels found in, say, China - 800 kgs per capita - and India - 125 kg per capita (Access Capital, 2009).

The current price of construction materials is higher than it was a few years ago, owing to demand led inflation, increased production costs, increased charges for production inputs like electricity, the increased cost of imported inputs like fuel, finishing materials like Aluminum, electrical materials, sanitary materials, etc. In summary, lower availability and the high cost of construction materials inhibit the supply of housing by driving up their selling price.

2.4.5 Regulations and Building Restrictions

Use of wooden and mud bricks in any form for housing in the capital city, Addis Ababa is strictly forbidden. Prohibition of the use of wooden houses and mud bricks for the construction of houses in the capital city, Addis Ababa cannot be appropriate in a city where close to three quarters of the population are poor. Materials that meet health and environmental requirements should be permitted in the construction of houses and local housing designs.

Planning regulations and building codes should reflect the socio-economic, cultural and technological contexts of development in the country. It is necessary to review the regulations and codes since they should foster rather than negate private housing initiative.

2.4.6 Tenancy status

Tenure refers to the arrangements under which an individual occupies their living or business quarters. A housing unit is said to be owner occupied, if the occupant household owns it and it is free from rent. Similarly, a housing unit is considered as rented if the household living in it pays rent.

According to data obtained from population and housing census (2007) the distribution of households by tenure in Addis Ababa is such that a 35 per cent of households live in rented houses from private households and 24 per cent live in

rented houses from *Kebele* while those live in their own houses account for 33 per cent.

It must be noted here that government-owned rental units are, for the most part, in poor condition due to decades of disrepair and neglect – the major factor being extremely low, fixed rents (Tesfaye, 2007).

Table 2.3: Addis Ababa City Administration Housing Units by Type of Tenure: 2007

Type of Tenure							
All Housing Units	Owner Occupied	Rent Free	Rented from Kebele	Rented from House Renting Agency	Rented from Organization	Rented from Private Household	Occupied difference Rent
628,986	205,196	37,293	148,645	11,388	3,281	222,384	799
100%	32.6%	5.9%	23.6%	1.8%	0.5%	35.4%	0.1%

Source: CSA (2007)

2.4.7 Infrastructure access and cost

The provision of residential infrastructure can encourage housing development and supply. It not only enhances the values of houses and hence makes a site attractive to house developers, but also ensures orderly development which will prevent poor environmental situation caused by lack of environmental infrastructure services.

Provisions for the supply of badly needed infrastructure and services, such as roads, water and telephone, etc. are missing elements in the urban development policy of

the Ethiopian Government (Meheret, 2008). This has undermined efforts of the private developers to supply affordable housing. In many housing projects, it has now become common to find many housing construction projects underway before essential services and infrastructure are put in place.

In Addis Ababa, infrastructure and basic urban service provision is low. The majority of Kebeles have access to water and electricity but they have limited access to adequate sanitation systems. The sewerage network is small covering only 3 per cent of the city's area (UN-HABITAT, 2010).

2.4.8 Housing finance

Pre-1974, urban land and housing was largely in private hands primarily owned and controlled by a small class of aristocrats.

During 1974-1991, the Housing and Savings Bank was the only state bank lending money for housing construction, repair and extension subsidized rates.

In September 1994, following change of government, the Housing and Saving Bank became the Construction and Business Bank (CBB) and is established as a universal bank to cater banking services, mainly financing loans for construction, repair, modification and acquisition of residential and nonresidential buildings.

Moreover, in 1991 the policy of highly subsidized residential housing supply is abolished. As a result, a market-oriented system to housing development is introduced and a major effort to respond to housing demand and supply according to the dictates of the market is launched.

Furthermore, banking and insurance were opened up to private sector participation. However, by law, they are restricted to Ethiopian nationals. This has generated a non-competitive financial market structure.

Currently, there were three state-owned banks, and nine private banks. The largest bank is the government-owned Commercial Bank of Ethiopia accounting for 47 per cent of the total capital in the banking system.

Penetration by the formal banking institutions into the urban housing finance market has been by and large minimal over the past four decades. Two decades ago, almost two-thirds of the urban population in the capital could not afford to borrow from the only formal sector financial institution offering mortgage loans at that time. On the other hand, many households that can afford to borrow under CBB terms choose to rely on traditional interest-free loans from friends and relatives or rely on personal savings for house construction (PADCO, 1998).

The mortgage market in Ethiopia is not well developed. The absence of such a market has impeded the emergence of either savings institutions or long-term financing facilities in the country.

The overall low levels of penetration from the formal housing finance sector are the result of both government policy and cultural preference. On the one hand, high interest rates, stringent collateral and other impeding requirements for mortgage loans from the CBB and its predecessor have historically excluded a certain percentage of the urban population (Meheret, 2008).

Because of the risk factor and shortage of capital for investment in the housing sector, the contribution of the emerging and fast expanding private banking system in providing long-term housing finance is insignificant.

This does not, however, mean that the demand for formal mortgage loans is low. Rather, it indicates that the demand for housing finance will continue to be satisfied by both formal and informal channels. Moreover, as more and more urban households are integrated into the wage economy and the banking system, the traditional aversion to borrowing from institutions which charge interest will probably decrease, shifting more effective demand over to the formal financial sector.

As noted above, the CBB effectively has a monopoly for residential mortgage lending. However, according to the bank's annual report (2009), the commercial sector is still the largest borrower. Rather, the number of loans extended for the construction of residential houses has declined over time. The followings are described as major reasons for the decline in the report:

- poor and weak supply of plots of land for housing construction;
- increase in the cost of construction materials;
- increase in the minimum own contribution required by the CBB from borrowers;
- low fund and capital base of the CBB.

Table 2.4: Loan Approval Performance of the Construction and Business Bank 2004/05 - 2007/08 (in million US \$)

Type of Loan	2007/08	2005/06	2004/05
Building Construction	9.1	14.1	26.6
Residential	5.5	9.3	7.2
Commercial	3.6	4.8	19.3
Business Loans	2.7	4.0	4.1
Short term	0.3	0.5	1.1
Medium term	2.4	3.5	3.0
Overdrafts	1.6	1.1	3.1
Total	25.2	37.3	64.5

Recently, government banks like the Commercial Bank and the Development Bank have joined the mortgage market but only in the commercial construction sector. The same is true of the emerging private bank sector. There is limited involvement in residential mortgage by public and private banks because of perceived high risk and shortage of experience.

In recent years, micro-finance institutions (MFIs) have become increasingly important players. Since micro-finance institutions are viewed as effective mechanisms for poverty reduction, the loan policy of MFIs lays down that preference should be given to poor rural farmers and microeconomic activities of rural and urban communities with small cash requirements.

Micro-finance institutions offer a potential area for intervention as a source of finance for the poor and low-income. According to information obtained from the Association of Micro-finance Institutions in Ethiopia, some relatively big micro-finance institutions have started extending small loans for housing.

2.5 Household Income and Expenditure of Addis Ababa Residents

2.5.1 General

The level and distribution of poverty in Ethiopia is extensive. According to the results obtained from the 1995/96, 1999/2000 and 2004/05 Household Income, Consumption and Expenditure (HICE) surveys and Welfare Monitoring (WM) survey of the Central Statistical Agency, about 44 per cent of the total population are found to be below poverty line (CSA, 2007).

The country together with development partners, as a result, has put poverty reduction strategies high on the agenda and working firmly on the implementation program since the beginning of this decade. With firm dedication to reduce poverty, the government has prepared its poverty reduction program.

In light of the plan to reduce poverty over time, a strong system of monitoring and evaluation has been put in place. Consequently, the issue of welfare monitoring in the country arose as part of the Economic Reform Program (ERP). The ERP strongly underlies to see the effects of the reform program on poverty and building the analytical capacity of the government to monitor and evaluate such effects. To this end, the government has established a Welfare Monitoring System.

The Central Statistics Agency and Welfare Monitoring Unit (WMU) of Ministry of Finance and Economic Development has been the key actors in the Monitoring and Evaluation system in place by way of producing, analyzing and disseminating poverty related data and results.

The HICE and the WM surveys provide fundamental information for the designing and monitoring and evaluation of the country's poverty reduction strategy. The two surveys are inseparable and provide basic data that reflect the standard of living of households, individuals and the society as a whole.

The HICE survey basically reflect the income dimension of poverty while WM survey aims at providing socioeconomic data that reflect the non-income dimension of poverty. The HICE survey provides statistics on income, consumption and expenditure of households and WM survey provides basic indicators on the various socioeconomic areas including health, education, nutrition, access to and utilization and satisfaction of basic facilities/services and related non-income aspects of poverty.

The most recent HICE survey published by CSA is in 2007 and contains the HICE survey results of 2004/05. Moreover, the report concentrates only on the household consumption expenditure part.

2.5.2 Concepts and Definitions

Urban Centers - in principle is defined as a locality with 2000 or more inhabitants. In this survey, however, for practical purposes an urban centre includes the following regardless of the number of inhabitants.

- All administrative capitals - regional capitals, zonal capitals and *wereda* capitals;
- Localities with Urban Dweller's Association (UDAs) not included in (i),
- All localities which are not included either in (i) or (ii) above having a population of 1000 or more persons, and whose inhabitants are primarily engaged in non- agricultural activities.

Urban Dweller's Association, *Kebele* - is the lowest administrative unit in an urban centre with its own jurisdiction. It is an association of urban dwellers formed by the inhabitants, and usually constitutes a part of the urban centre.

Household - Constitutes of a person or group of persons, irrespective of weather related or not who normally live together in the same housing unit or group of housing units and who have common cooking arrangements.

Consumption Expenditure - is defined as total expenditure incurred by the household or any of its members and includes expenditure on consumption as well as non-consumption commodities. The following major groups are included in the household's consumption expenditure.

- Food and Non-Alcoholic Beverages;
- Alcoholic Beverages and Tobacco;
- Clothing and Footwear;
- Housing, water and fuel and power;

- Furnishing; Household Equipment and Maintenance,
- Health;
- Transport and communications;
- Recreation, Culture and Education; and
- Miscellaneous Goods and Services, such as personal care and personal effects.

Total Expenditure - In household expenditure surveys total expenditure is defined as all household consumption expenditures as well as non-consumption expenditures. That is, all expenditures listed under consumption expenditure plus other expenditures such as remittance paid, deposit, interest paid, insurance premium, loans given out, repayments of loans made, pension and other contributions, donations, fines and related legal expenses, income tax, purchase of lottery tickets and gambling expenses, 'Ikub' payments, 'Idir' contributions, operating cost of household economic enterprises, and other similar payments.

Household income - is a measure commonly used by governments and private institutions, that counts the income of all residents over the age of 18 in each household, including not only all wages and salaries, but also such items as, regular rental receipts, as well as any personal business, investment, or other kinds of income received routinely. The residents of the household do not have to be related to the head of the household for their earnings to be considered part of the household's income. As households tend to share a similar economic context, the use of household income remains among the most widely accepted measures of income.

Income Quintiles - is a method to measure the household income of residents, ranking them from poorest to wealthiest, and then grouping them into 5 income quintiles (1 being poorest and 5 being wealthiest), each quintile containing approximately 20% of the population. Households are often divided into quintiles

according to their gross income of expenditure. Each quintile represents 20%, or one fifth, of all households.

Social class - Household income is one of the most commonly used measures of income and, therefore, also one of the most prominent indicators of social class. Household income and education do not, however, always reflect perceived class status correctly. The class structure may not exactly match the distribution of household income.

Median income - divides households in the country evenly in the middle with half of all household earning more than the median income and half of all households earning less than the median household income. Median income is the amount which divides the income distribution into two equal groups, half having income above that amount, and half having income below that amount. The median is considerably lower than the average, and provides a more accurate representation of income a group.

2.5.3 Overview of Per Capita Expenditure of Addis Ababa Residents

Table 2.5 below shows that the average per capita total expenditure for 2004/05 is 99.8 US\$ at country level, with average expenditure per capita levels for those in highest quintile being 117% greater than those in the lowest expenditure quintile. Such expenditure levels show an increase from previous survey years - the annual average of all payments per person at county level was 77.59 and 83.05 US\$ in 1995/96 and 1999/2000, respectively.

Table 2.5: Total per Capita Expenditure in US\$ disaggregated by Place of Residence and Survey Year - Country Level, 2004/05

Place of Residence	1995/96	1999/2000	2004/05
All	77.59	83.05	99.8
Rural	71.19	73.18	91.6
Urban	112.87	141.22	149.1

Table 2.6 below presents the disaggregation of the per capita expenditure for 2004/05 by item grouping and expenditure quintile for Addis Ababa obtained from the 2004/05 HICE survey by Central Statics Agency of Ethiopia (CSA, 2007). This allows trends associated with expenditure patterns across all income quintiles to be identified.

The total per capita expenditure of Addis Ababa City residents in 2004/05 is estimated to be 151.37 US\$. This value significantly varies across the five quintiles. The per capita expenditure of the first quintiles is US\$ 67.45 while that of the fifth quintile is Birr 228.99 exhibiting a difference of 240%.

It can be observed from table 2.6 below that food and non-alcoholic expenditure tends to account for the highest expenditure group with average per capita expenditure of US\$ 51.40, with the lowest quintile on average spending 38.96 US\$ per annum and the highest quintile spending an average of 60.40 US\$.

Apart from food, housing, water and fuel account for the second largest component of expenditure with an average of 36.24 US\$ per person per annum.

Table 2.6: Expenditure per Capita in US\$ disaggregated by major expenditure group and quintile - Addis Ababa, 2004/05.

	Expenditure Quintiles					
	1	2	3	4	5	All
Food and Non Alcoholic Expenditure	38.96	40.16	45.45	47.00	60.40	51.40
Alcohol and Tobacco	0.25	0.39	0.41	0.56	0.77	0.59
Clothing and Footwear	3.30	4.53	5.87	7.45	13.82	9.43
Housing Water Fuel Energy	13.02	12.75	15.42	16.66	61.46	36.24
Furnishing Household Equipment and Maintenance Goods and	4.03	4.92	6.28	7.78	22.52	13.65
Health Medical Treatment	0.43	0.69	0.83	0.94	2.39	1.51
Education	1.50	2.11	2.92	3.26	7.21	4.73
Other (transport, communication, miscellaneous)	4.66	6.14	9.23	13.39	41.94	24.27
Total	67.45	73.12	88.47	99.72	228.99	151.37

A further focus on the disaggregated groups by quintile, providing a summary of the percentage contributions to the overall expenditure of individuals, comprised from the aforementioned main categories is given in Table 2.7 below (CSA, 2007).

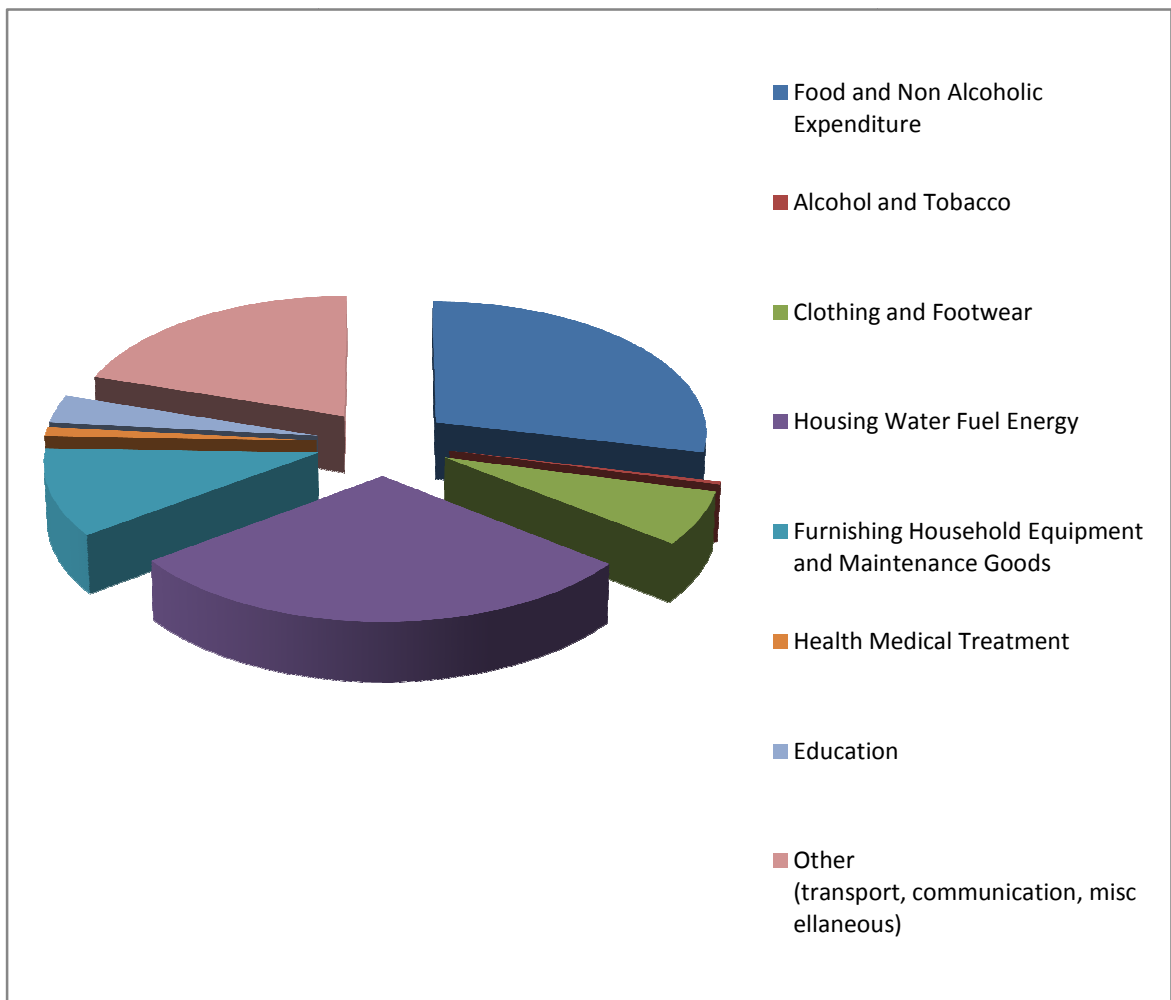
Table 2.7: Expenditure per capita disaggregated by major expenditure group and quintile , in 2004/05- Addis Ababa, in per cent age contributions

Expenditure Group	Quintiles					
	1	2	3	4	5	All
Food and Non Alcoholic Expenditure	57.8	54.9	51.4	47.1	26.4	34.0
Alcohol and Tobacco	0.4	0.5	0.5	0.6	0.3	0.4
Clothing and Footwear	4.9	6.2	6.6	7.5	6.0	6.2
Housing Water Fuel Energy	19.3	17.4	17.5	16.7	26.8	23.9
Furnishing Household Equipment and Maintenance Goods and Services	6.0	6.7	7.1	7.8	9.8	9.0
Health Medical Treatment	0.6	0.9	0.9	0.9	1.1	1.0
Education	2.2	2.9	3.3	3.3	3.2	3.1
Other (transport, communication, miscellaneous)	7.0	8.4	10.4	13.4	18.3	16.0

The largest expenditure grouping is food and non-alcohol expenditure with 33.96 per cent and apart from food, housing, water and fuel account for the second largest component of expenditure with 18 per cent. The percentage substantially varies across the five quintiles.

Accordingly, food and non alcoholic expenditure comprises a far higher percentage of quintile 1 individuals expenditure (57.76 per cent) compared with individuals in quintile 5 (26.38 per cent).

Figure 2.1 Percentage of Expenditure groups of Addis Ababa Residents, 2004/05



CHAPTER III

3. Research Methodology

This chapter first briefly discusses the research methodology employed in the study. Besides, it describes the research design, research approaches, study population, data collection and analysis strategies employed to answer the research question. The methodology employed here is descriptive analysis where the sources of the data are both primary and secondary data. Basic statistical tools are employed in the analyses of the data.

3.1 Survey Research

According to Kotzar et al (2005), research design is defined as the plan and structure of investigation and the way in which studies are put together. Cooper et al (2003) also define research design as the process of focusing on the researcher's perspective for the purpose of a particular study.

In this study, the researcher used descriptive survey research design. According to Leedy et al (2005) descriptive survey involves acquiring information about one or more groups of people by asking them questions and tabulating their answers. Leedy et al (2005) further explained that the ultimate goal of survey research design is to learn about a large population by surveying their representative sample, summarizing them using statistical tools.

The main reasons for select descriptive survey approach were that:

- It is the most economical method of obtaining information via email and postal service from a sample that is geographically widespread area (Leedy et al., 2005).
- Descriptive survey study is not time taking to collect data from large populations.
- Drawing inferences about a particular population from the responses of the sample would be possible.

The next task was to design research instruments and questionnaire. Therefore, this approach was used to extract the information, understanding and experiences of the people and companies about:

- The household income and expenditure of Addis Ababa residents. This data is then used to determine the median per capita income of Addis Ababa residents. Moreover, the median per capita income of the different income quintiles (groups) is also determined;
- The prices of housing units in Addis Ababa currently being developed by private developers. From these data the median price of the housing units and the least cost housing units in each development determined.
- Characteristics of those developments that were affordable and the factors which contributed to their affordability.

3.2 Research population and sample

According to Diamantopoulos (2004), a population is a group of items that a sample will draw. A sample, on the other hand, refers to a set of individuals selected from an identified population with the intent of generalising the findings to the entire population. A sample is drawn as a result of constraints that make it difficult to cover the entire research population (Leedy et al., 2005).

For this research, list of developments to be included in the study were first determined. All residential developments were assessed and some that were not in the realm of the research question were excluded. Accordingly the following projects were excluded:

- Projects that had direct government involvement, such as condominium housing projects were excluded from the analysis in order to focus on market-rate housing.
- Small projects that consisted only of a few buildings;

- projects that are only commercial with no residential component in their package;
- projects that are already completed; and
- Projects that had not yet started.

3.3 Data Collection Method

Data analyses depend on both the objectives of the study and the nature of the variables in the data collected. Descriptive statistics involve summarizing and describing quantitative information in meaningful ways. For example, frequency distribution, measures of central tendency and data variability to present quantitative descriptions and describe the basic features of the survey data. Inferential statistics were also used to make conclusions beyond the description of data collected.

The selected private residential development projects will then be surveyed for product and sales information. The survey will use a two-pronged approach to locating prices of units and identifying factors of affordability: face-to-face interviews, and information posted on the web. A questioner survey will be used to collect data on product information.

3.4 Types of data

Both primary and secondary data were collected for the study.

- Primary data were collected from the private residential real estate developers in Addis Ababa. The survey on real estate developers was carried out for collecting data related to price of their products, the features of their products and amenities offered in their developments.
- Secondary data obtained from Ethiopian Central Statistics Agency, Addis Ababa City Land Administration, Ethiopian Ministry of Finance and Economic development, UN- Habitat, and other data collected by other governmental as well as nongovernmental organizations and scholars has been used to supplement the primary data.

3.5 Data Analysis

Data analyses depend on both the objectives of the study and the nature of the variables in the data collected. The goals of the survey inquiry in this research were:

- To determine the median per capita income of Addis Ababa residents in general and the median per capita income of the different income quintiles (groups);
- To find the prices of all the housing units available for purchase in all the selected private developments in Addis Ababa and use the results for determining the median price of the housing units;
- To better understand the characteristics of those affordable developments and obtain additional information about each project. Accordingly respondents were requested to identify variables that they perceived to contribute to affordability of the housing developments
- To find the price of the least expensive unit available for purchase in the private developments, of whatever size. The information obtained in this regard were used for determining the least affordable units in each private development and to measure the extent of their affordability to different income groups of the city's society.

Information on income were also gathered from latest available Central statistics Agency's Household Income, Consumption and Expenditure Survey (HICE) in order to relate the price of developments with Area Median Income (AMI) for Addis Ababa. Estimation of purchasing power was made based on the assumption that 26-30 per cent of those incomes will be housing expenditures and a fixed rate mortgage of 12 per cent for 20-30 years.

First, the area median income was compared with the median price of private developments and the overall affordability was determined. Next, for any given income, the estimate was made of the maximum loan amount it would qualify. This amount was

then compared with the least cost unit of each development to calculate a measure of affordability of individual developments to different income groups of the city's society.

This was followed by gathering of additional information on the characteristics of each projects of those developments determined to be affordable. In this regard the respondents were requested to identify variables that they perceived to contribute to affordability of the housing developments - design (number, type of units, mix of units, and material to be used); methods of construction; and other factors they believed were contributing to their relative affordability.

3.6 Validity and Reliability

3.6.1 Validity

According to Leedy et al (2005), validity is the ability of an instrument used to measure what it is designed to measure. They further explained two basic questions: does the study have sufficient control to ensure that the conclusions the researcher draw are truly warranted by the data? And, can the researcher use what he has observed in the research situation to make generalization to the population beyond that specific situation? The answers to these two questions address the issues of the content validity, internal validity and external validity.

Content validity

In order to check content validity for the descriptive survey studies, Leedy et al (2005) suggests three tactics: using multiple sources of evidence, establishing chain evidence and having key informants reviewing draft of the study report. By taking these tactics into account, the researcher constructed the main research framework upon published and acknowledged theory.

Internal validity

The internal validity of a research study is the extent to which its design and the data it yields allow the researcher to draw accurate conclusions about the relationships within the data. In this regard, the respondents were well informed with the covering letter

about the ethical issues such as confidentiality of the information they provide and brief description of research objectives was also given to them. They also gave their consent and the researcher believes that the questionnaires were free from ambiguous words/phrases.

External validity

External validity is related to the extent to which the findings from one research can be applied to other similar situations. In other words, how the conclusions drawn can be generalized to other contexts (Leedy et al., 2005). To increase the external validity and the generalizability of the results of the study, the researcher used a representative sample.

3.6.2 Reliability

According to (Cameron et al (2005), reliability is a measure of the extent to which the result of the research can be repeated with the same result if the research is replicated. Furthermore, it states that in order to increase reliability, the researcher should use the same template as far as possible and use static methods.

The researcher believes that this study is reliable since the respondents are selected based on practice and involvement in the business and have, therefore, given credible answers. Furthermore, ambiguous terms were not used in questionnaires to avoid confusion.

3.7 Ethical Issues

According to Leedy et al (2005), there are a number of key ethical issues that protect the rights of research participants. These are protection from harm, informed consent, the right to privacy and honesty with professional colleagues. The principle of informed consent requires that respondents not be forced to participate in research. In this study, the participants were well informed about the nature of the study and participation was on voluntary basis.

CHAPTER IV

4. Research Findings

This chapter presents the results of the analysis of the data obtained from the respondents and secondary data obtained from other sources. The results are divided into two groups: Descriptive statistics of the household income and expenditure of Addis Ababa residents; and Descriptive statistics of the price of private residential developments in Addis Ababa.

4.1 Household Income in Addis Ababa

Information on household income of Addis Ababa residents was gathered in order to determine the median household income and relate it to the median housing price as well as the least-cost entry housing unit in private residential developments in Addis Ababa.

As it is an extremely expensive endeavor to collect representative household income or expenditure data by the researcher, the realistic option was to use the latest available household income, expenditure and consumption survey. Accordingly, the researcher purchased the latest available Household Income, Expenditure and Consumption Survey of the year 2004/05, published in 2007 by the Ethiopian Central Statistics Agency.

However, there is no available household income data of Addis Ababa residents in this data. The income measurement is, therefore, based on the expenditure data obtained from the 2004/05 household Income, Consumption and Expenditure survey by the Central Statistics agency.

It is assumed that all of the income earned by the Addis Ababa residents will be expended i.e. household income is assumed to be equal to household expenditure. The disaggregation of per capita expenditure for 2004/05 by item grouping and expenditure quintile for Addis Ababa obtained from the 2004/05 Household Income, Consumption and Expenditure Survey (2007) is presented in Table 4.1 below.

Table 4.1: Expenditure per Capita in US\$ disaggregated by major expenditure group and Expenditure quintile - Addis Ababa, 2004/05.

	Expenditure Quintiles					
	1	2	3	4	5	All
Food and Non Alcoholic Expenditure	39	40.2	45.5	47	60.4	51.4
Alcohol and Tobacco	0.25	0.39	0.41	0.56	0.77	0.59
Clothing and Footwear	3.3	4.53	5.87	7.45	13.8	9.43
Housing Water Fuel Energy	13	12.8	15.4	16.7	61.5	36.2
Furnishing Household Equipment and Maintenance Goods and	4.03	4.92	6.28	7.78	22.5	13.7
Health Medical Treatment	0.43	0.69	0.83	0.94	2.39	1.51
Education	1.5	2.11	2.92	3.26	7.21	4.73
Other (transport, communication, miscellaneous)	4.66	6.14	9.23	13.4	41.9	24.3
Total	67.5	73.1	88.5	99.7	229	151

Source: HICE survey by Central Statics Agency of Ethiopia (CSA, 2007).

Accordingly, maintaining the assumption that the per capita expenditure of Addis Ababa residents in 2004/05 was equal to their per capita income for the same year, the researcher determined the 2004/04 household income. It is depicted in table 4.2 below.

Table 4.2: Per capita income of Addis Ababa Residents in 2004/05 by expenditure quintile, in US\$

	Expenditure Quintile					
	1	2	3	4	5	All
Per capita Income	67.5	73.1	88.5	99.7	229	151

The researcher has further assumed that household income has grown in the same rate as the economy. Accordingly the current, 2010/11, per capita income was estimated by using the 2004/05 per capita income values in table 4.2 above and

adjusting it by the growth of the economy and inflation over the years. To this effect, the Gross Domestic Product (GDP) growth rate at current prices is used instead of the GDP growth rate at constant prices to account for the inflation.

According to the data published by Ministry of Finance and Economic Development of Ethiopia (2011), the rate of growth of the gross domestic product (GDP) at current prices is as depicted in Table 4.3 below.

Table 4.3: GDP growth rates, in %, of the Ethiopian Economy at current prices for the years 2004/05 – 2010/11

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
GDP growth (%)	23.6	30.6	44.4	35.1	14.2	33.5

Source: www.mofed.gov.et

Thus, the total per capita income for 2005/06 fiscal year will be, US\$:

$$= (\text{total per capita income for 2004/05}) \times (1 + \text{the 2004/05 GDP Growth at current prices})$$

$$= 151.37 \times (1 + \text{GDP growth at current prices})$$

$$= 151.37 \times 1.236$$

$$= 205.68 \text{ US\$}$$

By using the same analogy as above, the researcher has estimated total per capita income of Addis Ababa residents in 2010/11 by multiplying the 2004/5 per capita income with the income growth factor for the six consecutive years from 2004/05 up to 2010/11.

The income growth factor for the six consecutive years from 2004/05 up to 2010/11 is:

$$= (1.236) (1.306) (1.444) (1.351) (1.142) (1.335)$$

$$= 4.81$$

Thus, the per capita income of the Addis Ababa residents for the year 2010/11 has grown by 481 per cent over the past six years.

Hence, the per capita income of the Addis Ababa residents (all quintiles expenditure) for 2010/11 fiscal year will be, US\$:

$$= 151.37 \times 4.81$$

$$= 726.73$$

The per capita income of the 1 expenditure quintile for 2010/11 fiscal year will be, US\$:

$$= 67.45 \times 4.81$$

$$= 323.76 \text{ US\$}$$

The per capita income of the 2 expenditure quintile for 2010/11 fiscal year will be, US\$:

$$= 73.12 \times 4.81$$

$$= 350.98 \text{ US\$}$$

The per capita income of the 3 expenditure quintile for 2010/11 fiscal year will be, US\$:

$$= 88.47 \times 4.81$$

$$= 424.66 \text{ US\$}$$

The per capita income of the 4 expenditure quintile for 2010/11 fiscal year will be, US\$:

$$= 99.72 \times 4.81$$

$$= 476.16 \text{ US\$}$$

The per capita income of the 5 expenditure quintile for 2010/11 fiscal year will be, US\$:

$$= 228.99 \times 4.81$$

$$= 915.96 \text{ US\$}$$

Summary of the estimate of the per capita income of Addis Ababa residents for 2010/11 categorized by expenditure quintiles is presented in table 4.4 below.

Table 4.4: per capita income of Addis Ababa residents aggregated by expenditure quintile, 2010/11, in US\$.

	Expenditure Quintiles					
	1	2	3	4	5	All
Per Capita Income (US\$)	323.76	350.98	424.66	476.16	915.96	726.73

Table 4.4 above shows that the average per capita income of Addis Ababa residents for 2010/11 is 726.73.8 US\$, with average per capita income for those in the highest quintile being 915.96 US\$ and while those of the lowest quintile is 323.76 US\$. Moreover, these income levels demonstrate the fact that that the highest quintile (5th quintile) average per capita income is 183% higher than the lowest quintile (1st quintile) average per capita income depicting a wide gap in income.

The incomes determined in table 4.4 above are per capita incomes of Addis Ababa residents in 2001/11. However, houses are owned by households, not by individuals. Thus, it is considered that members of a household combine their incomes to pay for their expenses in general and their housing and utilities expenses in particular.

Accordingly, to determine housing purchase capacity, the most important parameter is the household income, not per capita income. Thus, the researcher has estimated the household income of the different expenditure quintiles based on the per capita income, population size and household size.

Estimate of the population size and number of households in Addis Ababa for the 2004/05 across the five quintiles is depicted in Table 4.5 below (CSA, 2007). Based on this information, the average number of persons per household in each quintile is calculated in table 4.5 below. This will be used as a basis to calculate the average household income in each quintile.

Table 4.5 Population estimates and number of house

Item	Expenditure Quintiles					
	1	2	3	4	5	All
Population	220,135	285,498	341,775	474,092	1,118,265	2,439,765
No of Households	71,139	65,892	74,356	89,452	192,604	493,443
Number of Persons per Household	3.1	4.3	4.6	5.3	5.8	4.9

Source: The 2004/05 Household income, consumption and expenditure survey, CSA

Household income is the multiplication of the per capita income and the number of persons per household in the respective expenditure quintile group. Accordingly, the per capita income of Addis Ababa residents determined in table 4.4 will be multiplied by the number of persons per household determined in table 4.5 to calculate the household income. Accordingly, the 2010/11 household income of Addis Ababa by the expenditure quintiles is calculated and presented in table 4.6 below.

As indicated in the introduction of this chapter, one of the objectives of this research paper is to determine the median family income of Addis Ababa residents. However, as detail income data of the different households is not available, the 3rd quintile household income is considered as the median family income. Thus, the Median Family Income of Addis Ababa in 2010/11 is estimated to be 1,953.44 US\$. This income will be used as a basis to assess the overall level of affordability of the housing units developed by private residential developers in Addis Ababa.

Table 4.6: Summary of per capita Income, Number of Persons per Household and household Income of Addis Ababa Residents, 2010/11.

Expenditure Group	Expenditure Quintiles					
	1	2	3	4	5	All
Per Capita Income (US\$)	323.76	350.98	424.66	476.16	915.96	726.73
Number of Persons per Household	3.1	4.3	4.6	5.3	5.8	4.9
Household Income (US\$)	1,003.66	1,509.21	1,953.44	2,523.65	5,312.57	3,560.98

Summary of the percentage contributions of the housing expenditure group to the overall expenditure of Addis Ababa residents for the 2004/05 is given Table 4.7 below (CSA, 2007).

The income a household left over after they have paid need for basic living expenses other than housing costs gives a more accurate picture of affordability than the overall household income ratios.

One way of establishing the “spare” money a household has is to reduce the income by an amount they are assumed to need for basic living expenses. The other way is to reduce the household income obtained in table 4.6 above by the percentage of housing and utilities expenditure from the total. The researched has employed the second approach.

Thus, the percentage of per capita housing and utilities expenditure from the total per capita expenditure for 2004/05 is obtained from Household Income, Expenditure and Consumption Survey and presented in table 4.7 below (CSA, 2007).

Table 4.7: Expenditure per capita of the housing expenditure aggregated by quintiles, in 2004/05- Addis Ababa, in per cent age contributions

	Expenditure Quintiles					
	1	2	3	4	5	All
Housing & utilities expenditure proportion from total Income (%)	19.3	17.4	17.5	16.7	26.8	23.9

Source: 2004/05 Household income, consumption and expenditure survey, CSA

It is evident from table 4.7 that lower income households are only able to afford smaller proportions of their income on housing without facing difficulties. This is mainly due to the fact that higher proportion of their income is spent on food and other related expenses.

The researcher has assumed that 2004/05 proportion of housing and utility expenditure from the total expenditure will not change in 2010/11. Thus, the same per capita expenditure proportions of the housing expenditure group indicated in table 4.6 above is used for 2010/11.

Accordingly, the 2010/11 housing and utilities per capita expenditure of the first quintile in Addis Ababa, for example, will be multiplication of the total per capita Expenditure for the first quintile in 2010/11 and the percentage contribution of the Housing and Utilities from the total per capita expenditure for 2010/11. The same will be done for the other quintiles. Summary of Housing and Utilities per capita expenditure for 2010/11 is calculated and presented in table 4.8 below.

Table 4.8: Expenditure per Capita on the Housing and Utility Group by Expenditure Quintile - Addis Ababa, 2010/11, in US\$

Expenditure Group	Expenditure Quintiles					
	1	2	3	4	5	All
Household Income (US\$)	1,003.66	1,509.21	1,953.44	2,523.65	5,312.57	3,560.98
Housing & Utilities expenditure proportion from total Income (%)	19.3	17.4	17.4	16.7	26.8	23.9
Housing and utilities per Household expenditure (US\$)	193.71	262.60	339.90	421.45	1,423.77	851.1

Thus, the 2010/11 average housing and utilities household expenditure of the first expenditure quintile in Addis Ababa was estimated to be 851.1 US\$. There is substantial difference in the level of housing expenditure across the five quintiles. Accordingly, the housing expenditure of the lowest expenditure quintile is 193.71 US\$ while that of the highest expenditure quintile is 1423.77 US\$ exhibiting a wide difference of 339%.

4.2 Housing Prices of Private Residential Developments in Addis Ababa

A survey of housing prices in Addis Ababa was carried out by the researcher focusing more specifically on the question of affordability of private residential developments. An additional goal of the survey was to characterize those developments that were found to be relatively affordable and to delineate what factors seemed to contribute to their affordability.

The first step was to determine what projects to include in a list of private residential developments in Addis Ababa. Projects that had direct government involvement, such as condominium projects, were excluded from the analysis as the focus of the research is private developments and market-rate housing. Other types of projects were also eliminated for obvious reasons: small projects that consisted only of a few buildings; projects that were only commercial, such as “town centers” with no residential component; projects that had not yet started; and products already sold and substantially completed.

A further paring down based on other factors (e.g., those with only rental units, as the purpose of the research report is to assess purchase affordability) resulted in a final list of 33 projects from six real estate development companies. These projects were then surveyed for company, sales and product information. All of these projects are located in and around the vicinity of Addis Ababa. The companies surveyed were:

1. Gift Real Estate PLC
2. Access Real Estate S.Co.
3. YoTEK Real Estate PLC
4. Flintstone homes PLC
5. Habesha Real Estate PLC
6. Afro-Tsion Real Estate PLC

The goal of the survey inquiry was:

- To find the median housing price of private residential developments in Addis Ababa; and
- To find the price of the least expense unit available for purchase in the development, of whatever size.
- To better understand the characteristics of those private developments determined to be affordable.

As the median household income is the amount which divides the household income distribution into two equal groups, its comparison with median housing price will enable assessment of the overall affordability of the private housing developments.

As the purpose of the survey is to discover level of affordability of private residential developments in Addis Ababa, obtaining data on least cost entry was also an important of inquiry. It was done because it important to assess the affordability of the least-cost units of each private development project to certain portions of the city's residents.

Accordingly, data for a total of 6 major private residential real estate developers was obtained, with a response rate of 100%. The survey was conducted between August and October 2011. The questions, responses and analyses of the responses are given below.

Further information was obtained for those developments that were determined to be relatively affordable. Information was obtained for these developments including additional information on the specifics of their designs.

Question 1: How many residential real estate projects are you currently developing in Addis Ababa?

Table 4.9: Total number of residential development projects in Addis Ababa currently being undertaken

Company	Company					
	Afro-Tsion	Gift	Access	YoteK	Flintstone	Habesha
No. Projects	1	3	19	2	5	3

Currently, there are a total of 33 private residential development projects in Addis Ababa which are being undertaken by six private real estate developers. Of which, the lions share, 57%, of projects are being undertaken by Access real estate, one of the youngest real estate developers in Ethiopia.

Question 2: What types of houses you are offering to customers?

Table 4.10: Type of houses developed by the real estate companies

	Company					
	Afro-Tsion	Gift	Access	YoTek	Flintstone	Habesha
Villas	√	√	√	√	√	√
Apartment		√	√	√	√	√
Town house		√		√	√	

According to data obtained from the survey, there are three types of houses offered to customers in Ethiopia:

- Villas – The plot area of villas varies from 200 – 1000m². They are usually presented in single-story, two-story and three story buildings. The main feature of villas is that they are situated in distinctively separate plots.
- Apartments – are self-contained residence situated with other similar units in multi story building built to accommodate 12- 40 families. Apartments are usually available in studio, single-bed room, two-bed room and three-bed room units.
- Townhouses/ row houses – are houses that are semi-detached or in a row of similar houses.

All of the real estate companies depicted above have villas in their product offerings. All of the developers, except Afro-Tsion real estate, offer apartments to their customers. However, only Gift, YoTek and Flintstone offer town houses to their customers.

Question 3: What is the no of housing units currently offered for sale by your company?

Table 4.11: Number of housing units currently offered for sale by the developers.

Type of Housing Unit	Company						
	Afro-Tsion	Gift	Access	YoTek	Flintstone	Habesha	All
Villas	60	257	60	50			427
Apartment	-	99	570	154	470	265	1,558
Town house	-	20		108	60		188
All Housing Units	60	376	630	312	530	265	2173

The total no of private residential housing units currently available for sale in Addis Ababa were found to be 2,173. Table 4.11 below displays that more apartments housing units are available on sale than any other types of houses followed by villa and town houses respectively. Apartment housing units constitute 72 per cent of all the housing units while the villas and apartments form 20 and 9 per cent, respectively.

Among the residential housing units developed by private developers in Addis Ababa and currently on sale, Access real estate contributes the largest 29 per cent while Afro-Tsion real estate contributes the least 3 per cent.

Question 4: What is the price of the different housing units offered for by your company, in US\$?

The price of each housing unit developed by the six surveyed developers in Addis Ababa is listed in table A.1 up to table A.6 in Appendix A. Moreover, the housing prices in ascending order are presented in table A.7

According to the survey, the housing prices range from a lowest of 11,471 US\$ apartment by Flintstone Homes to the highest of 688,235 US\$ of a villa by gift real estate exhibiting extremely high price ranges.

The median residential housing price in Addis Ababa will be the price of the middle of the 2173 houses i.e. the price of the 1087th house. Accordingly, median price of residential housing units currently on sale by the private developers in Addis Ababa is determined to be 58,760 US\$.

Question 5: What is the price of the least cost housing unit in your developments, in US\$?

The six real estate developers are asked to identify the least cost developments in all of their residential housing development projects. Thus, six least cost houses are identified from the six real estate companies. According to the survey, the least cost housing unit of all developments is the apartment unit offered by Flintstone Homes with a price of 11,471 US\$, followed by the least cost of that of Habesha real estate with a price of 23,588 US\$.

There is a huge price difference in the least cost housings offered by the six real estate companies. There is 1,387 per cent price difference between the lowest least cost housing unit of Flintstone Homes and the highest least cost housing unit of Gift real estate.

Table 4.12: Response of real estate companies on their least cost development in their project, US\$

	Company					
	Afro-Tsion	Gift	Access	YoTek	Flintstone	Habesha
Cost of Least Cost Housing Unit (US\$)	170,588	24,707	55,294	56,471	11,471	23,588

Question 6: Do you consider affordability as a strategy in your product offerings? Do you consider that your products are affordable to the middle class? If yes, what factors seem to contribute to your products' affordability?

Table 4.13: Response of real estate companies on their consideration of affordability in their product offerings

	Company					
	Afro-Tsion	Gift	Access	YoTek	Flintstone	Habesha
Response	yes	yes	yes	yes	yes	yes

All of the private developers surveyed responded that they consider affordability in their product offerings i.e. they intend to make their products affordable, at least theoretically.

As can be seen in table 4.14 below, however, none has declared that their product is affordable. Five out of six companies have declared that they think their product is partially affordable to the median income earning resident of the city while only one, Gift real estate, acknowledged that its products are not affordable at all.

Table 4.14: Response of developers on their own assessment of the affordability of their products

	Company					
	Afro-Tsion	Gift	Access	YoTek	Flintstone	Habesha
Response	Partially	No	Partially	partially	partially	partially

To better understand the characteristics of those developments that have maintained some level of relative affordability without direct public subsidy for housing had been further asked. Accordingly, their responses are synthesized and presented as follows.

Representatives from each development were contacted and asked for more specific details about their developments—how they were designed (number, type of units, and how they were mixed), and what factors they believed were contributing to their products' relative affordability.

The affordability of these projects was based on some combination of local housing market conditions and project cost savings that were able to be passed on to home buyers.

Most of the relatively affordable projects were essentially located in suburbs or predominantly rural areas with little built-up suburban development in the immediate vicinity.

Affordable developments ranged significantly in terms of size and density. Project densities were relatively high compared to standard residential areas found in many other developments. Besides, the relatively affordable projects offered a substantial degree of housing type mix. The majority offered a variety that included condos, townhomes, and single-family units.

According to the survey, other factors that have contributed to the partial affordability of their products include:

- Efficient design of housings – design of housing units that can render sufficient service in minimal space requirements, specification of materials that are readily available and cost less;
- Operational excellence in the marketing and constructing the products –
- Effective utilization of man power, equipment and materials;
- Provision of preference on type of finishing materials according to the customer's choice and financial capacity;

- Adoption of appropriate construction technologies
- Minimizing profit margins;

Question 7: Are there any incentives from the government for offering affordable products?

All the real estate developers surveyed responded that the government has offered them incentives for developing affordable products. According to the companies, the government provides 50m² of plot free from lease payment for every household i.e. every household is entitled to 50m² of free land in any housing development.

Accordingly, if a company manages to offer smaller size plots to higher number of households, it will get the number of households multiplied by 50 m² land free of lease payment. This will, in effect, reduce the cost of housing units and make them more affordable.

Question 8: What constraints do you face in your effort to make your products affordable?

Real estate developers have listed a number of factors that constrain their effort to make their products more affordable.

- Limited financial capacity on their part;
- Very limited availability, and at times unavailability, of financial institutions that can provide mortgage facilities for home buyers;
- Lack of well developed and cost – efficient construction technologies and practices in the country;
- High and continuous escalation of the price of construction materials, equipment rates and wages;

- Lack of reliable Household Income, Consumption and Expenditure (HICE) and Welfare Monitoring (WM) survey data to ensure that design and price are appropriate; to establish Area Median Income (AMI);
- Resistance of designers and suppliers to innovate and come up with low cost designs and materials;
- Lack of trust by customers that houses will be designed and be safe and functional.

4.3 Affordability of Private Residential Developments in Addis Ababa

When a household is making a decision to purchase a property one constraint may be their access to the mortgage they require. Mortgage lenders will factor in the size of the borrower's deposit and the associated loan to value ratio.

The researcher has estimated the purchasing power of households on the basis of their income. An estimate was made of the maximum loan amount which the different income groups of Addis Ababa residents would qualify.

The researcher has assumed that the household income will grow at a rate similar to the growth of the economy. Then, the researcher has calculated the present value of all the future deposits using the following formula, variant of Gordon Model, to estimate the present value of the all future settlements.

Considering 20 and 25 years as mortgage settlement years; an annual interest rate of 12% on the borrowed money and constant income growth rate of 10%; the present value of depositing the income allocated housing and utilities expenditure is estimated and presented in table 4.15 below.

$$PV = P \times \frac{(1+r)}{(r-g)} \times \left[\frac{1 - \frac{(1+g)^{n+1}}{(1+r)^{n+1}}}{(1+r)^{n+1}} \right]$$

V = Present value of the all the future deposits made;

P = Amount of deposited as a settlement for mortgage loan; in this case, the housing and utilities expenditure of the different expenditure quintiles;

r = Annual mortgage interest rate; 12%

g = constant growth of the; 10%

n = number of years deposited; 20 and 25 years

Table 4.15: Present Value of 20 and 25 years of mortgage settlements of the different expenditure quintiles

	Expenditure Quintile					
	1	2	3	4	5	All
Household Housing and utilities expenditure per annum (US\$)	193.71	262.6	339.9	421.45	1,423.77	851.1
Present Value of 20 years mortgage	2,255.2	3,057.2	3,957.12	4,906.5	16,575.5	7,208.3
Present Value of 25 years mortgage	2,895.3	3,925.0	5,080.4	6,299.3	21,280.6	12,721.1

Table 4.15 depicts that that the median family earner, the third expenditure quintile group, can only afford houses whose prices are about US\$ 3,957.12 for 20 years mortgage loan and US\$ 5,080.4 for 25 years mortgage loan.

On the other hand, as demonstrated in table 4.11, the median housing price of private developments in Addis Ababa is about 58,760 US\$.

Accordingly, an income of around 58,760 US\$ is needed to be able to afford to purchase the median house while median income with 25 years mortgage loan is only able to buy 5,080.4 US\$.

Therefore, it can be concluded that the residential housing units in Addis Ababa developed by private developers are generally unaffordable.

Comparing the least cost unit in each development to what a given salary in each local area would likely be able to afford, the following affordability levels were found:

- Only 100 out of 2,173 private residential developments in Addis Ababa or 4.6 % were affordable to someone making the Area Median Income with a 25 year mortgage; Only 370 out of 2,173 private residential developments in Addis Ababa or 17 % were affordable to the fifth expenditure quintile group with a 25 year mortgage loan; these affordable houses are developed by Flintstone Homes,
- All the other five private real estate developers surveyed failed to build houses affordable any of the income groups of Addis Ababa.

CHAPTER V

5. Discussion, Conclusion and Recommendation

The last chapter of the research report discusses the key findings and their relation to the research questions. Furthermore, conclusions and recommendations are drawn on the assessment of the affordability of the residential housing units developed by private developers in Addis Ababa.

5.1 Discussion and Conclusion on the Research Findings

The research question is:

- Are the housing units being developed by private developers in Addis Ababa affordable? If so, what factors contribute to their affordability?

With a per capita income of about 280 US Dollar, Ethiopia is one of the poorest countries in the world. With a population of about 79 million people, it is the second most populous country in Africa. Its population is growing rapidly. Addis Ababa, the capital city has estimated population of about 3 million (CSA, 2007).

Housing conditions in urban Ethiopia are such that the overwhelming majority of available residential units are poorly constructed and very much lacking in quality. Although population growth shows the demand for housing, the rate of increase in households is believed to provide a direct measure of potential housing demand. Accommodating this increased demand will require additional housing development and construction in the city.

The structural features of the bulk of the housing stock in Addis Ababa similarly suggest that the housing problem is much worse than estimates housing deficits indicate. As a result, a substantial proportion is always in need of major repairs while a sizable number are so old and in such poor shape that they are only fit for demolition.

The current price of construction materials is higher than it was a few years ago, owing mainly to: demand led inflation; increased production costs;; the increased cost of imported inputs like fuel, finishing materials like Aluminum, finishing materials; etc.

Provisions for the supply of badly needed infrastructure and services, such as roads, water and telephone, etc. are missing elements in the urban development policy of the Ethiopian Government (Meheret, 2008).

Penetration by the formal banking institutions into the urban housing finance market has been by and large minimal over the past four decades. The overall low levels of penetration from the formal housing finance sector are the result of government policy. Moreover, because of the risk factor and shortage of capital for investment in the housing sector, the contribution of the emerging and fast expanding private banking system in providing long-term housing finance is insignificant.

The data gathered and analyses made by the researcher allow the basic conclusion that the vast majority of private residential developments in Addis Ababa are not within reach of middle and low-income families.

Generally speaking, housing affordability in the Addis Ababa is extremely low. Private residential developments are unaffordable to people of modest means; and the results of this survey validate this perception to a large degree.

As a result of the supply deficit and high household formation rate, the demand for housing is extremely high. However, due to the fact that household incomes are low, effective demand is low. On the other hand, high land cost, hike in the cost of construction materials has pushed the price of housing units beyond the reach of the city's residents.

While free-market approaches to affordability are within the realm of possibilities, the supply of developers who pursue a multi-pronged strategy composed of creative financing, innovation, government support, and self-determination is limited.

Certain level of affordability was, however, maintained by one developer, notably, Flintstone Homes. The affordability of some of Flintstone's houses was mainly due to

cost savings that were passed on to home buyers. According to the survey, the main reasons why these developments have managed to retain some level of affordability are:

- Design of small units - the ability to design and build smaller, denser housing units. This was possible through the use of efficient designs that maximize space utilization while maintaining function and aesthetics.
- Operational excellence - the incorporation of housing efficiencies in terms resource utilization and marketing products were also likely to have a hand in keeping costs down.
- Reduced expected profit margin.

5.2 Recommendation

The recommendations are categorized into the four groups: namely: Recommendations to the Government, Private real estate Developers and Home Buyers and recommendations for further research.

5.3.1 Recommendations to the Government

- Ethiopia does not have any specific housing legislation which creates right to housing or obligation to realize the right to housing or protect people against acts contravening their right to housing. Yet, for meaningful realization of the right to housing, such legislation is desirable and even sometimes indispensable. Certainly, the right to housing cannot be relatively realized through legislation alone. Nonetheless, such legislation is a starting point to guarantee the realization of a right. Therefore, it is recommended that Ethiopia enacts specific housing law which creates favorable environment that enables the right to housing.
- Currently only the government has been engaged largely for the development of affordable housing and infrastructure. However, it is clear that housing needs in

Ethiopia are far greater than what can be provided for by government only. There is, therefore, a need to explore alternative approaches to the development of affordable housing in which private sector investment is a major player. The private sector can best execute, direct, and manage the production of housing units, but it is the government that must enable, facilitate, and regulate the process.

- Government intervention is needed to make funds available for investment at an affordable rate and garner available financial resources better. Access to low-interest rates on borrowed funds is essential for the success of affordable housing development. Moreover, government should enact laws that allow home buyers to take long-term borrowing at low interest rates.
- The provision of supporting infrastructures for the housing development projects is a crucial factor for delivery of affordable housing. In order to prevent emergence of developments without infrastructure, and to attract private housing developers, it is important to ensure that prospective residential areas are well provided with basic infrastructure. Availability of infrastructure enhances the residential quality of a locality and increases the market value of a property.
- Housing enablement strategy in Ethiopia should necessarily address the issue of building materials. The production and use of local building materials should be encouraged.
- Government should facilitate the large scale production of key construction inputs like cement, reinforcement bars, aluminum, aggregates, etc by attracting investment through the provision of land, loan and other incentives. This will help to close or narrow the gap between demand and supply of construction materials and ultimately lower their price.
- Targeted policy strategies should be adopted to ensure that cement companies in the country operate efficiently and reduce prices. The raw material for cement (limestone, Aluminum Silicate) is 100% locally sourced.

- As the proprietor of all Ethiopian land, federal, state and local governments should facilitate the land acquisition process for developers willing to invest in low-cost housing. Free, easy, and speedy distribution of land will significantly reduce project costs and make the investment more attractive to the private sector.
- Government should revise and relax codes that prohibit the use of locally available construction materials.

5.3.2 Recommendation to Developers

- Developers should offer affordable products to the middle class of the city's residents to make their customer base broad and sustainable.
- Housing affordability can be improved by the use of cost-effective building materials, or efficiencies that reduce costs, but the most important approach to designing affordability is the reduction of size—small lots and small housing units. Infrastructure costs generally decline as housing density increases; Land costs also decline as the number of housing units is increased as government provides lease free 50m² per household. Therefore, design of denser housing with a greater mix of attached and multi-family housing units should be practiced by developers to substantially reduce housing prices.
- Developers should make efforts to use construction techniques and processes that enable reduction in cost and construction time while improving quality.
- Furthermore, developers must establish effective incentive system for spurring innovation of construction techniques.
- Developers must make sure that the products they present to the market fulfill at least the minimum quality requirements. The houses should be designed to give the minimum facilities that a house basically should have.

5.3.3 Recommendation to the Home Buyers

- Homebuyers must make the necessary effort to identify those developments that give them maximum benefits with the minimum possible cost when they buy houses. This will attract developers with affordable products to the market and consequently housing prices will be lower;
- Home buyers must develop the culture of saving certain amount of their income to avoid the difficulty of obtaining the first down payments when they purchase houses.

5.3.4 Future Research Recommendation

- The topic of affordable housing is not well researched in Ethiopia. Thus, further research needs to be undertaken to give the chance for the authorities to enact effective policies that enable producing enough affordable housing units to meet the demand.
- Further research into the constraints which affect the delivery of affordable units by the private sector should also be considered as this may help to establish solutions to the barriers and find effective ways to overcome them.

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Appendix 1: Housing Prices

Table A.1 Housing prices for Access Real Estate

No of Units	Price, in US\$	Type of House
80	55,294	Apartment
20	58,824	Villa
370	73,529	Apartment
120	79,412	Apartment
40	205,882	Villa

Table A.2 Housing prices for Afro-Tsion Real Estate

No of Units	Price, in US\$	Type of House
16	170,588	Villa
44	200,000	Villa

Table A.3 Housing prices for Flintstone Homes

No of Units	Price, in US\$	Type of House
50	11,471	Apartment
50	11,706	Apartment
220	17,353	Apartment
50	20,294	Apartment
50	23,235	Apartment
50	29,118	Apartment
60	46,765	Town Houses

Table A.4 Housing prices for Gift Real Estate

No of Units	Price, in US\$	Type of House
16	24,707	Apartment
16	43,713	Apartment
67	58,760	Apartment
20	63,868	Town Houses
14	99,504	Villa
18	145,257	Villa
24	152,271	Villa
24	184,775	Villa
12	187,401	Villa
34	194,152	Villa
34	223,626	Villa
13	270,912	Villa
10	270,912	Villa
17	278,969	Villa
16	301,196	Villa
12	365,888	Villa
3	381,498	Villa
8	395,851	Villa
8	586,765	Villa
10	688,235	Villa

Table A.5 Housing prices for Habesha Real Estate

No of Units	Price, in US\$	Type of House
60	23,588	Apartment
40	39,706	Apartment
165	56,176	Apartment

Table A.6 Housing prices for YoTek Real Estate

No of Units	Price, in US\$	Type of House
154	56,471	Apartment
108	73,668	Town Houses
10	117,050	Villa
10	120,547	Villa
7	129,253	Villa
23	140,192	Villa

Table A.7 Housing prices in ascending order

Number of Houses	Cumulative Number of Houses	Housing Price (US\$)	Developer
50	50	11,471	Flintstone
50	100	11,706	Flintstone
220	320	17,353	Flintstone
50	370	20,294	Flintstone
50	420	23,235	Flintstone
60	480	23,588	Habesha
16	496	24,707	Gift
50	546	29,118	Flintstone
40	586	39,706	Habesha
16	602	43,713	Gift
60	662	46,765	Flintstone
80	742	55,294	Access
165	907	56,176	Habesha
154	1061	56,471	YoTek
67	1128	58,760	Gift
20	1148	58,824	Access
20	1168	63,868	Gift
370	1538	73,529	Access
108	1646	73,668	YoTek
120	1766	79,412	Access
14	1780	99,504	Gift
10	1790	117,050	YoTek

Table A.7 (Continued)

10	1800	120,547	YoTek
7	1807	129,253	YoTek
23	1830	140,192	YoTek
18	1848	145,257	Gift
24	1872	152,271	Gift
16	1888	170,588	Afro-Tsion
24	1912	184,775	Gift
12	1924	187,401	Gift
34	1958	194,152	Gift
44	2002	200,000	Afro-Tsion
40	2042	205,882	Access
34	2076	223,626	Gift
13	2089	270,912	Gift
10	2099	270,912	Gift
17	2116	278,969	Gift
16	2132	301,196	Gift
12	2144	365,888	Gift
3	2147	381,498	Gift
8	2155	395,851	Gift
8	2163	586,765	Gift
10	2173	688,235	Gift

Appendix 2

Cover Letter

Date: _____

To: _____
Addis Ababa

Dear Sirs,

I am a final year master of business leadership (MBL) student at the University of South Africa (UNISA) Graduate School of Business Leadership (www.sblunisa.ac.za). Currently, I am conducting a research as partial fulfillment of the requirements for the Master's Degree in Business Leadership (MBL). The topic of the research that I am conducting is "*Assessment of affordability of private residential developments in Addis Ababa*".

So, I would appreciate if you could assist my research by completing the attached questionnaire. Estimated time to complete the questionnaire is 20 minutes.

Your response will be treated confidentially and the anonymity of the company and respondents is assured. If you would like to get a copy of the executive summary of the research report, please indicate on the questionnaire.

Thank you in advance for your assistance. Please do not hesitate to contact me, should you require further clarification.

Yours faithfully,

Tesfaye Misganaw
Cell phone: 0911525896/0911443281
Email: 72180196@mylife.unisa.ac.za or Tesmisg@yahoo.com
P.O.Box: 7808, Addis Ababa

QUESTIONNAIRE

1. Company General Information

1.1 Name of the Company: _____

1.2 Annual Turnover of the Company _____

1.3 Number of Employees of the Company _____

2. Marketing Related Information

2.1 How many residential real estate projects are you currently developing in Addis Ababa? _____

2.2 What types of houses you are offering to customers?

2.3 What is the no of housing units currently offered for sale by your company?

2.4 What is the price of the different housing units offered for by your company, in US\$? _____

2.5 What is the price of the least cost housing unit in your developments, in US\$? _____

2.6 Do you consider affordability as a strategy in your product offerings? Do you consider that your products are affordable to the middle class? If yes, what factors contribute to your products' affordability? _____

2.7 Are there any incentives from the government for offering affordable products? _____

2.8 What constraints do you face in your effort to make your products affordable? _____

