

# Performance, Challenges and Prospects of Real Estate Financing in Addis Ababa: Micro- and Macro Economic Implications

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## Abstract

This paper mainly examines the performance, challenges and prospects of real estate financing in Addis Ababa with a micro and macro outlook. It employs descriptive analysis and affordability analysis and forwards the followings findings: In the first place, homelessness is a big problem in urban areas; it has been estimated that 57 percent of the residents in Addis Ababa are able to access housing service by rent while 36 percent of them has their own houses. In general, 80% of the residents in Addis Ababa are homeless or reside in substandard housing. Since the onset of market oriented economy, real estate development has been encouraging as the private and foreign investors involved along with the government investment in the sector. However, there are daunting challenges in connection with financing. In particular, the problems of land management, low construction capacity, inadequate infrastructure, poor borrowing capacity, prices escalation, low affordability are worth mentioning. These highly marginalized the poor from accessing to housing service in spite of the current aggressive move of the government. These moves also contributed for the existence of macroeconomic instability, leading to higher inflation rate and dwindling foreign currency reserve position along with other causative factors. Hence, the government has to lay down a fertile ground and enabling real estate policy by intersecting the interests of private and financial sectors in wise way, keeping away the aggregate economy from unprecedented disturbance due to extensive investment and over building as compared to the size of the economy.

## Keywords

Real Estate, Price Escalation, Condominium, Project Cost, Affordability

Received: December 17, 2014/ Accepted: January 08, 2015 / Published online: January 23, 2015

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## 1. Introduction

The majority houses in Ethiopia are built of mud or mortar and have thatched or tin roofs and 89% of the population is living in substandard housing. Since the onset of market oriented policy in 1992, the government expenditure on construction accounts for 8.7 percent of the total economic service outlays in the period 1992-2004, relatively higher than the average record, 5 percent, in the socialist regime.

The Commercial Bank of Ethiopia in particular also became the major financier of real estate investment for the poor.

However, many argue and fear that the ongoing real estate financing development can cause financial sector crisis due to the absence of good collateral, and instability of income, and lack of credit information. Long maturity of bank loans may also lead to risk of default. Much of the risks are also

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emanated from the characteristics of land and real estate as well as the level of development of the economy. Real estate developers and lenders would expose to have various risks when the government unexpectedly changes land-use regulations, property right policies, and city standards. These problems can be aggravated as there is no clear market price and mismanagement real estate development, possibly lead to finance turmoil with ripple effect in the economy. This also affects borrowers' affordability, the banks' profitability, the macroeconomic stability and borrowers' effective demand. As a result of the constriction lags, it distorts the feasibility study which the lending institutions undertaken to grant loans, and entails additional cost escalation through time

The problems associated with real estate financing have been incessantly increasing through time while even the government put its endeavour to reduce the problems. Hence, the objective of this paper is to examine the performance, challenges and prospects of real estate financing at micro- and macro level using descriptive techniques of analysis.

## 2. Real Estate Development Practices in Ethiopia

The Socialist government (1975-1991) had directly involved in the supply of real estates and set cooperatives housing delivery system. The government used to provide land, building materials, and housing finance on a subsidized manner. And, it issued real estate proclamation number 47/1974, by which the government nationalized all urban lands and extra houses, hence the role of the private sector in real estate development was limited, but the public sector was gloomy.

After the overthrow of the socialist regime in 1991, the

current government has introduced a more of market oriented approach that rehabilitates the private sector's role in real estate development. A series of policies were also enacted on a gradual basis in which it removed subsidies on housing materials and setting interest rate on housing loans at market rate, the government has thus drawn the urban and leases holding proclamation in 1993, which clearly delineate holding permit provision; with a maximum duration of 99 years and a minimum of 50 years. In 2002, the government issued a new proclamation (proclamation No. 272/02) that repealed the former and introduced new articles that were not incorporated before.

Due to natural increase or migration effect and other factors, housing problem has become one of the areas that call for the attention of the government. This being the case, the government has recently put particular focus on urbanization and housing development for urban dwellers. Building condominium houses at reasonable cost for low and medium income earners is a case in point. The industrial policy of the country also boosts the construction industry, creating employment opportunities and banking business.

The recent aggressive move towards public and private housing investment and a revision of governing rules could have multi-dimensional impacts on the economy, to mention few: Opening the market for foreign investors (like Chinese) and private investors, particularly the Diaspora; Capacitating the construction abilities of institutions through training, establishing advisory bodies and revising the minimum requirement of contractors; and commercial banks have also various credit strategies granting a long term loans for real estate developers and banks have a mandate to foreclose without court's interference if loans default.

Table 1. Number and Capital of Investment Projects Approved by Sector

Capital in Mn. Birr	Fiscal Year as at June 30						
	2001	2002	2003	2004	2005	2006	2007
Total Investment							
No. Project	679	801	1,217	2,225	2,872	5,859	6,471
Investment Capital	8,523	9,190	13,438	21,220	36,467	80,036	96,540
Real Estate							
No. Project	24	23	45	100	167	2,345	2,568
Investment Capital	1,209	114	365	947	4,126	10,633	24,517

Source: Ethiopian Investment Agency

Recently, the housing development and finance became the joint responsibility of the Ministry of Housing and Urban Development, private investors and banks. Many private investors have engaged in real estate investment at large. The government has also established the Ethiopian Housing Cooperative agency to encourage the Diasporas. In effect, the growth rate and share of real estate development have been

increasing, indicating booms in the real estate development.

Since 2006, the government has given focus on building condominium housing projects for the benefit of low and moderate income group households. Condominium houses have been constructed with total cost of Birr 1.3 billion in seven towns across the country, including the capital city. The Ministry of Work and Urban Development has planned

for budget year 2007 to construct 400,000 houses in 30 towns with a budget of Birr 24 billion, intended for medium and low income earners. The participation of the private investors has been increasing over time. According to the Ethiopian Investment Agency's (EIA) 2007 report, real estate investment projects owned by foreigners worth of over Birr 4.8 billion were registered, while investment by domestic investors amounted to Birr 5.4 billion. During fiscal year 2006, the gap between local and foreign investment in the sector was over 2.2 billion Birr, which significantly dropped to Birr 0.6 billion in 2007. For the period of 1992-2006, the total number of real estate developers licensed by EIA reached 1,667 with a total capital of Birr 31.9 billion, of which, 87% is under pre-implementation, indicating that how far it is behind the country's expectation and there would have many obstacles and inherent problems that bogged down the real estate development.

**Table 2.** Status of Real Estate Projects (1992 – Oct. 2007) - in Billion of Eth. Birr

No.	Domestic and Foreign	Licensed Project Capital	Percentage share
1	Operational	1.7	3
2	Implementation	2.3	7.00
3	Pre-implementation	27.9	87
	Total	31.9	100

Source: Ethiopian Investment Authority

### 3. Addis Ababa's Real Estate Market

Addis Ababa is facing multi-dimensional problems, inclusive of housing problem and urban poverty, according to the priority set by the city's Administration. The inner part of the city embraces 80% of the total housing stock, with old, dilapidated, substandard and overcrowded houses. Of these houses, 23.9% have no toilet, 26.2% have no kitchen and 90.4% lack bathing facilities and the average household size is 5.1.

According to the Welfare monitoring survey, 97 percent of the building are non-storied, 13 percent are made of stone and bricks while 21 percent made of cement and concrete floor. 31 percent of them have only one room, 29 percent of them has two rooms. 57 percent of the population can access house by rent and 36 percent of the society has their own houses in the capital city of Addis Ababa. The main housing related challenges are sever housing shortage, led to the expansion of informal settlements, while unemployment is estimated at 40% and about 50% of the population lives in poverty (AACAA, 2005). The major factors affecting the supply side and impeding the efforts to meet the ever increasing demand for both residential and commercial

buildings are the following:

Land provision procedures and the lease tenure system are not enabling investors to implement their projects easily. Lack consistency and systematic approaches also aggravates the problems associated with the absence of sufficient land provision at demand. Even after its provision, land is also excluded from collateral valuation, simply because it is state owned. Providing land for imprudent applicants also causes considerable problems, leading for having a large number of developers tried to get a license even when they do not have enough capital. As a result, buildings under construction are always taking too long period till they are being inhabitable and characterized by protracted problem of poor capacity and extended legal framework and procedures. The construction capacity of the country is limited to meet the required level of demand due to various reasons. The existing contractors are few in number and mostly lacks the required expertise and quality, and are not well organized and equipped with the necessary construction instruments; and supply of construction materials, like cements and metals are limited below the required level, entailing more foreign currency to import hence exacerbating the deterioration of the country's foreign currency reserve position.

**Table 3.** Selected Indicators for Housing Characteristics in Addis Ababa

No.	Particular	Percentage share
1	Non-Storied	97
2	Multi Storied	3
3	Stone, Bricks	13
4	Cement/Concrete	21

Source: SCA, Welfare monitoring survey (2000)

On top of the existence of inadequate infrastructure, the demanders of the houses have poor borrowing capacity. As a result of lower per capita income and their earning capability, many of the potential customers are not able to obtain the required level of loans for real estate development. Accordingly, low and middle level income earners, particularly those of government employees, have been wiped out from the loan market.

**Table 4.** Price Indices for House Rent, Construction materials, water, Fuel and power

Period	Yearly average				
	Index	Growth rate	Period	index	Growth rate
2001/02	103.8	3.6	2004/05	123.2	9.3
2002/03	106.1	2.2	2005/06	139.1	12.9
2003/04	112.7	6.2	2006/07	168.9	21.5

Source: NBE annual bulletin

Following higher global demand for construction materials, there are dramatic price escalations in the domestic economy. This makes the project value of buildings expensive and

discourages private investors in real estate development. Moreover, as the price hike for construction materials entails unusual and huge amount of project cost per meter square, the required level of borrower’s own contribution increased remarkably. For instance, the price for construction materials has been soaring in 2005 at an astonishing rate (Table 4). The price indices reached to 103.8 in 2001/02, and increased by 63% within five years. It became 168.9 in 2006/07.

In particular, the domestic prices of selected construction materials like cement, iron sheet, hollow concrete, bricks and sand went up, This is attributed mainly to the price rise at the global market, and demand expansion and market distortion in the domestic economy. For instance, the price of cement per bag increased from Birr 44.5 in 2003 to Birr 111 in September 2006 (Table 5) and reached Birr 176 at the end of February 2008 (Table 5).

**Table 5.** Country Level Average Prices of Construction Materials (In Birr)

Item	2003	2004	2005	2006
Cement/bag	44.5	48.96	63.4	111
Corrugated Iron sheet (02mm) per sheet	33.7	34.81	40.33	69
Wood for house constructed on per piece	6.45	6.75	7.15	18
Hollow concrete block (20*20*40cm)per piece	2.52	2.65	2.98	4.2
Bricks (25*12*6) per piece	1.28	1.48	1.73	2.15
Sand(metric cube)	81.2	92.51	99.96	150
Windom Glass(50*50*3) per piece	17.5	17.74	19.04	NA
Paint(4kg)	58.3	60.5	60.2	66.3

Source: CSA, various reports

Regarding the demand side, the population of the country is estimated to be 73 million in 2007, 64 million are living in rural areas, and Addis Ababa accounts for 2.7 million. In absolute terms, the total population of Addis Ababa increased from about 2.08 million in 1994 to 2.7 million in 2007, claiming comparable number of houses. The population growth rate and dependency ratio were 2.7% and 84.3, respectively, at national level. Mainly, dependency level as a major source of urban migration and the higher growth rate of household than the population growth rate are pushing the demand for houses to increase. According to the 1999/00 Household income, Consumption and Expenditure survey in the urban Ethiopia, 87.8% of the total population spends between 2000 and 12,599 Birr per annum. However, 35.9% of the total income of urban households goes to food (and for Addis Ababa it was 33.4%). This is followed by expenses (17%) for rent, energy, water and construction materials. What the left over amount (47.1%) is allotted for all other needs. Of which, the share for building a house is dismal so that it could not meet the required level of bulky capital for building.

**Table 6.** Domestic Expenditure in Birr per Household/ annum (National Level) - 1999/00

Household Income	Economic Variables			
	Income	Expenditure	Total Receipts	All Payments
Below 2,000	25.6	8	20.8	6.6
2,000-12,599	72.1	87.8	76.6	86.4
12,600or more	2.3	4.1	2.7	6.9

Source: CSA

For the largest part of the population whose monthly income ranged from Birr 166 to Birr 1049 are not in a position to build a house through either borrowing from banks or saving from their income due to poor and transitory income sources, unless and other wise there have an extra injection by donation or other sources. Strengthening the above argument, the 70% and 82.5% of total households at both country level and urban level, respectively (Table 7), spend more than their income, indicating that most of the households’ demand for housing is curtailed by their limited affordability due to lower income.

**Table 7.** Percentage Distribution of Households by Income and Expenditure Inequality

Income and Expenditure	Reporting Level		
	Country Level	Rural	Urban
Income = Expenditure	20.7	22.3	11.0
Income< Expenditure	70.0	68.0	82.5
Income> Expenditure	9.3	9.7	6.5

Source: CSA

The demand for commercial buildings is directly affected by the macroeconomic instability has faced challenges from the galloping inflation and plummeted foreign currency reserve position, which turns out the private sectors’ investments to be in traps, attributing to price escalation, resource constraints, weak effective demand, higher living costs, and market distortions.

## 4. Housing Affordability Analysis

Cost estimates to build a house vary according to the type and size of the buildings. By smoothing out the variability, the average project costs per meter square are presented from two sources. It is obvious that the Addis Ababa City Administration has attempted to mobilizing funds and building condominium houses at various sub city centers with estimated project cost/ M<sup>2</sup> of Birr 800, Birr 1200 and Birr 1500 for residential buildings made by mud, concrete block and Brick, respectively( Table 9).

According to the project cost estimation, the most commonly concrete and brick houses would cost Birr 48,000 and Birr

60,000 for 40 M<sup>2</sup>, respectively, while they would reach Birr 90,000 and Birr 112,500 for 75 M<sup>2</sup>, respectively, despite the City Administration made a special treatment and utilizing cost effective materials aiming at the poor and the middle income groups. Nonetheless, data from EIA and CBB market

survey suggests that cost per M<sup>2</sup> could be Birr 2,050, 2,650, and 2,900 for villa residential building made of mud, concrete, and brick, respectively. The project costs estimation for various buildings at the market, excluding subsidy, are presented in Tables 9 and 10.

**Table 8.** Project Cost per Meter Square by Addis Ababa City Administration

Types of Material	Cost per M <sup>2</sup>	Plot area (M <sup>2</sup> )						
		40	45	50	60	75	105	175
Mud	800	32,000	36,000	40,000	48,000	60,000	84,000	140,000
Concrete Block	1,200	48,000	54,000	60,000	72,000	90,000	126,000	210,000
Brick House	1,500	60,000	67,000	75,000	90,000	112,500	157,500	262,500

Source: Addis Ababa Civil Society Urban Renewal Study: 2005

**Table 9.** Project Cost Estimation for Various Building Types, per M<sup>2</sup>

Types	Costs per M <sup>2</sup>			Plot Area (M <sup>2</sup> )				
	Lower	Upper	Average	60	75	105	175	300
Residential Villa								
Concrete	2,500	2,800	2,650	159,000	198,750	278,250	463,750	795,000
Brick	2,800	3,000	2,900	261,000	217,500	304,500	507,500	870,000
Residential (G+1)	2,500	3,000	2,750	165,000	206,250	288,750	481,250	825,000
Residential (G+2)	3,000	4,500	3,750	225,000	281,250	393,750	656,250	1,125,000
School (G+2)	1,500	2,000	1,750	105,000	131,250	183,750	306,250	525,000

Source: CBB market survey report, collected from the Ethiopian Investment Agency

**Table 10.** Project Cost Estimation for higher Storied Buildings, per M<sup>2</sup>

Types of Materials	Costs per M <sup>2</sup>			Plot Area (M <sup>2</sup> )				
	Lower	Upper	Average	50	60	75	105	175
Simple Storage	1,500	3,800	2,850	132,500	159,000	198,000	278,250	463,750
Apartment to 4stores	2,500	3,800	3,150	157,500	189,000	236,250	330,750	551,250
Tower Building	2,800	4,500	3,650	182,500	219,000	273,750	383,250	638,750

Source: CBB market survey Reported to Ethiopian Investment Agency

**Table 11.** Borrowing Capacity of Households, assuming 8.5% interest rate per annum

Annual Income	Monthly Income	One third of income	Loan Period in years		
			10	15	20
Below 2,000	166	55	4,463	5,619	6,376
2,000-12,599	1,049	350	28,201	35,508	40,292
7,299, on average	608	203	16,345	20,581	23,353
	1,500	500	40,325	50,775	57,615
	2,500	833	67,208	84,624	96,025
12,600 and more	3,500	1,167	94,092	118,474	134,435
	4,500	1,500	120,975	152,324	172,845
	6,000	2,000	161,300	203,098	230,460

Source: Own computation and see annex one

**Table 12.** Borrowing Capacity of Selected Households, at 4.5% interest rate per annum

Annual Income	Monthly Income	One third of income	Loan Period in years		
			10	15	20
Below 2,000	166	55	5,339	7,233	8,746
2,000-12,599	1,049	350	33,736	45,708	55,268
7,299, on average	608	203	19,553	26,493	32,033
	1,500	500	48,240	65,360	79,030
	2,500	833	80,400	108,933	131,717
12,600 and more	3,500	1,167	112,560	152,507	184,403
	4,500	1,500	144,720	196,080	237,090

Source: Own computation and see annex one



However, consequent to the rise in the international market prices of commodities (mainly oil and construction materials) the project cost per square meter has been incessantly increasing through time and would be more than what is reported here. On top of this, the capacity to borrow from banks varies depending on borrowers' monthly income, loan life and interest rate. The nature of income should have permanent nature considering the longer period, implying those who have transitory income could not have any access to credit. Based on available data, attempt was made to compute the borrowing capacity of selected monthly income without excluding the transitory income part), assuming nominal annual interest rates of 8.5% and 4.5% ;and results are depicted in Tables 12 and 13, in that order. Accordingly, the lower and middle level household's borrowing capacity is relatively better at an interest rate of 4.5%, but still not sufficient to finance the existing rising costs of construction materials.

Given the income and expenditure patterns of households, the amount of money that goes to housing expenditure should be determined in order to assess their housing affordability. According to the 1999 Household Survey Abstract, Ethiopian households save some 4% (Addis Ababa being 3.2%) of their total earnings. In rural Ethiopia, households save 3.6% of their total earnings, while the saving component for urban households is 5.2% of their total earnings. This indicates that the lower the level of household savings, the lower will be the level of investment for housing. Considering their disposal income, project costs and borrowing capacity, the capacity of urban households either to build or to purchase houses is below the required level of project cost for the intended buildings. For instance, at 8.5% interest rate and 50m<sup>2</sup> plot area, as estimated by Addis Ababa City Administration, only the higher income group with a

minimum monthly income of Birr 1,500 can afford the building (made of HCB) cost of Birr 60,000 in 20 years loan period or a household whose minimum monthly income of Birr 2,500 can afford it for ten years. Even at the lower interest rate (4.5%) for buildings of the same plot land, the middle level income group with a minimum of Birr 1,049 and the higher income group with a minimum of Birr 1,500 can afford the project cost of the building for 20 years and 15 years, respectively.

According to the estimation made by second source, (considering marketing concept),for instance, only households whose income is above Birr 4,500 per month can afford building project cost of Birr 160,000, (60 m<sup>2</sup>) at 8.5% interest rate for twenty years and / or at 4.5% interest rate for fifteen years loan. So, the income holder of Birr 3,500 per month would also afford the same project cost of the building at 4.5% interest rate for 20 years loan period. In addition, such lower affordability level could be aggravated by the higher consumption for food (35%), of rent, energy and water (17%), and the lower level of saving (4%), while the maximum borrowing capacity is one-third of their income (33%).

## 5. Real Estate Finance

All commercial banks are engaged in providing credit to economic sectors, including real estate development at their distinct capacities. Including loan to central government, the total outstanding loan balance during 1994/95 was Birr 7.07 billion, which increased to Birr 39.6 billion in 2005/06, grew by nearly fivefold. Of which, they extended housing and construction loan of Birr 755 million and Birr 3.7 billion in 1994/95 and 2005/06, respectively (Table 13).

**Table 13.** Outstanding Loan Balance and Housing Loan (in Mn. Birr)

Outstanding Loans and Advances	Fiscal Years						
	1994/95	1995/96	1996/97	2002/03	2003/04	2004/05	2006/07
Housing and Construction	755	1,131	1,452	1,954	2,039	2,218	3,790

Source: National Bank of Ethiopia, various issues

Since the onset of a market oriented economy in 1991, investment activities by the private sector have been stimulated, while the government has made efforts to create conducive and encouraging investment climate. The government's investment on infrastructure development, such as power, telecom, roads, etc encourages the intensification of business activities. The presence of unexploited market and potential investment areas, entry barriers for foreign banks, booming in real-estate development, availability of

advanced technology, stimulating competition, changing Diaspora's culture to invest home and the fact that Addis Ababa is a diplomatic centre and capital city of Africa are all front opportunities for booming in housing investment and pushing up its demand.

The country has faced some sort of threats hampering the onward movement of housing finance: the global economy turbulence on the one hand and the deteriorating ability to borrow and pay on the other. With the housing collapse

lowering spending, USA, in effort toward off recession and help banks with fragile balance sheets, has been cutting interest rates since the fall of 2007. But this time, credit expansion is not flowing into housing construction, but rather into commodity speculation and foreign currency, resulting in stoking rather than a recovery. Prices have jumped to historic high and the dollar has depreciated to historic lows. This turbulence has been transferring into the world through to the extent that foreign banks hold bad US mortgages on their balance sheets by securities market in the globe. In this regard, (as when America sneezes, the rest of the world gets cold), the Ethiopian economy can be directly on and indirectly exposed to the shock through imported inflation in prices (mainly of construction material, food, petroleum, and depreciated dollar value, while most of foreign currency in Ethiopia pegged against US dollar). However, the effect of the global economic turbulence may not bring about a similar impact on Ethiopia as it does on other developed and developing countries. This is because the Ethiopian economy is characterized by a lesser openness, no financial market that disseminating the ongoing global disturbance, and the existence of gap between the demand for and the supply of houses.

In addition to these, the ongoing construction materials price escalation like cement, and metal sheet, shortage of domestic cement supply, uprising of general inflation, poor affordability of the household and deteriorating purchasing power of money, limited foreign currency position, marginalizing mass salaried and lower-middle income group from getting bank loans are the major threats for investors and commercial banks. The situations narrowed bankable society, particularly in credit, to the highest income groups and Diasporas. Even many of the capable investors are not yet confidently treated in granting long-term loan for housing development.

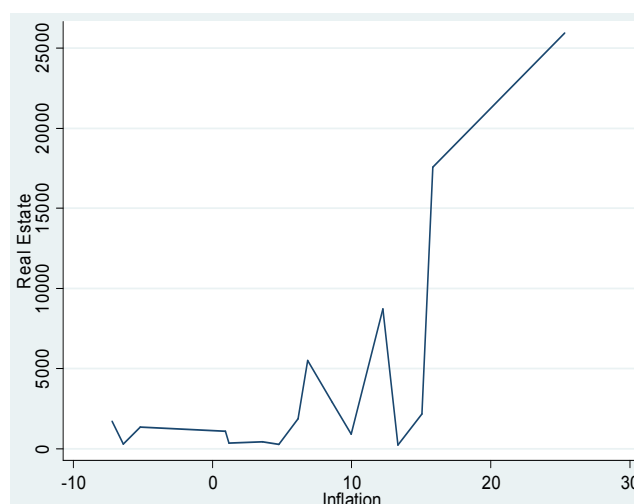
## 6. Construction and Real Estate Investments and Macroeconomics Instability

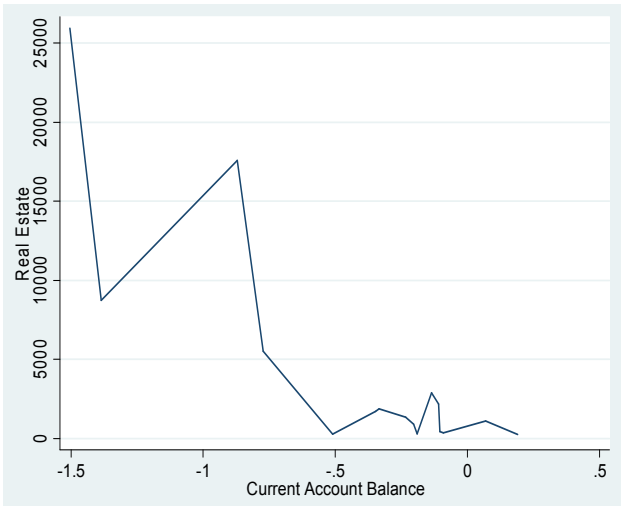
Until recently, inflation in Ethiopia has been low relative to other sub-Saharan African countries with historic level of 21% in 1991- 1992, owing mainly to sever drought and political instability. Historically, inflation in Ethiopia was structural by nature; the rate of inflation has been low when the performance of the agricultural sector, the mainstay of the economy, is good. Generally, inflation was high during drought and famines periods and where there was war. However, the recent inflationary spiral has been unusual, in the sense that it has been steadily soaring and creeping up despite good harvest of agricultural produces. The general

inflation reached 37.2% as of September 2008, while food inflation was 51.8%. The country earns foreign exchange from export of goods and services. As per NBE report, the foreign currency earnings from export sector reached to USD 1.4 million as of June 30, 2008, increasing 23.6% from the preceding year. Even though, it have exhibited a remarkable growth magnitude but dominantly at a decreasing rate, mainly due to inherent structural problems in tradable goods as well as price and demand volatility and stiff competition in the international market.

Similarly, the foreign currency inflow from net service income (mainly from travel, transportation, investment income, and government) has registered a fluctuating performance ranging between USD 110.7 million and USD 246.2 million during the reviewing period. The major reason for this fluctuating trend could be variability in the country's performance in conference tourism depending on the frequency of international meeting held like China-African Cooperation Forum, Tokyo International Conference for African Development, and the African-Caribbean and Pacific countries, European Union joint parliamentary assembly, the African Union Heads of State, and the Pan African parliamentary.

The statistical test for the association ship between expenditure on real estate and inflation rate can be captured by the coefficient of correlation. This indicates that the correlation between inflation rate and real estate investment is positive and accounted for around 70 percent at 5 percent level of significance. However, association ship between real estate investment and current account balance is negatively correlation and accounted for 83 percent at 5% level of significance. These two correlation coefficients reveal that the expenditure on real estate has been deteriorating the current account balance and aggravating the inflation rate at higher level, leading to macroeconomic instability. This is also confirmed graphically as follows.





Source: Own estimation

## 7. Concluding Remark

A large number of houses in Ethiopia are built of mud or mortar, accounting for two thirds of all housing units, and have thatched or tin roofs. Almost 89% of the population is living in substandard and 80% of the residents in Addis Ababa are also homeless and /or live in substandard houses.

To tackle this problem, many real estate developers, individuals, public and foreign investors have been engaging in the business. During the incumbent government, there have been 1,667 registered real estate developers since 1992, with corresponding capital outlays of Birr 11.9 billion and Birr 20.9 billion by foreign and domestic developers, respectively. From the total investment capital registered on various sectors, real estate development took an average share of 10% during the period 2000/01-2006/07. Besides, since 2005, public investment by regional governments have highly involved in housing development with a 9.3 billion bank loans.

Even though all actors have been dedicative, the extent of housing developments are constrained mainly due to the existence of inefficient land provision, poor construction capacities and price escalation, while the demand for houses is stuck, primarily by deteriorating household's affordability. These situations are exacerbated due to relatively limited financial availability from commercial banks. In effect, these interlinked problems have been interacted each other, leading to vicious circle that reinforce and reduce the housing development in general and real estate development in particular. Together with, both global and domestic macroeconomic shocks, like relatively weak foreign currency position, could make the housing development (and its loan access) fluctuating with the pace of swinging economic performance.

Regarding the demand side, it is fairly strong and continuously growing overtime, one million houses are to be demanded, of which the 400,000 houses are highly desired along with the sever housing problems. This is due to the fact that almost all the factors that affect demand, such as population, urbanization and economic growth are positively affecting. Hence, the concerned bodies have to consider each of them and take the following suggestions in combination.

As can be seen in the discussion, almost the lower and middle income holders are not able to afford the astonishingly increasing project cost during the recent periods of inflation. So, lending to this group would not be recommendable and make them delinquents unless and otherwise they highly contribute more than the requested minimum level from side income and other sources, and when the banks may provide the loan below the market interest rate, or for prolonged loan period. Safely, the concerned bodies have to stare at the higher income group (households) and the Diaspora who are able to pay back the loan properly in the range of their borrowing capacities. The credit policy directive that limits the Banks' capacity for granting a long-term loan has placed imposition attitude on the facilitators from business/ market oriented discretion. So, the Banks' has to consider the prevailing situations and open a room for flexibility, synchronization with other banking products, various and widen options in lending housing loan.

The state owned bank, commercial bank of Ethiopia, has a plan of granting Birr 9.3 billion loan of condominium houses at seven cities in the country, intended to benefit the lower and middle income groups. Even though the fund secured for condominium house is relatively less risky (because it has been approved with the guarantee of the government), borrowers' capacities are not likely to afford the required payment so that the bank has to put close follow up on the issues.

Depending on the purpose, housing loan classifies in residential and commercial building which consists houses to rent for residence, office, supermarket etc, while depending on ownership, it categorized private building, real estate developer, public and foreign buildings. And, it can be classified as buildings in Addis Ababa and others on the basis of location (market oriented approach). Hence, risks also associated with each type are different, like their returns are various at the spot. To this end, as theoretical literature advices, the interest rate should be set according to the level of risks and returns on the projects.

In general, there is unmet demand for houses in Addis Ababa and diverging from the supply over time. The banks, therefore, should reconsider unaddressed market opportunities from both community development and



business perspectives in the sphere of existing natural challenges. However, this should not compromise the capacity of the banks in deposit mobilization and the state of its loanable fund magnitude, with a close follow up on the states of the economy that would generate risks:

- The ongoing price escalation and its unpredictability affect project costs, borrowers' affordability, monthly loan repayment, building finishing time, and occupancy rate;
- In the subsequent, it entails larger gestation and loan period that would urge the bank to extend additional loan, and to reschedule the loans frequently. And, during these periods, the fund availed to the borrowers will not be collected in intended time so that extended collection and longer periods could expose the bank to further liquidity problem and credit risk;
- The bank has to consider the volatilities of the economy in line with recurrent drought, imported inflation and the like. Because, variables that have direct and indirect influences on the private investments could disturb banking business.
- Legality and sustainability of title deed and ownership of houses and leased land plots is not that clean as a result of corruption and rent seeking behavior which is likely to bring about potential risks to the financing institution.

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