

Affordable housing in Ethiopia

TRAIDE Ethiopia

Ethiopia has a diverse range of housing types, reflecting both the urban–rural divide and varying levels of economic development across the country.

There is a stark urban–rural disparity in terms of housing standards and quality. In urban centres, the range of housing options is diverse, extending from government-sponsored high-rise condominium apartments to informal settlements often characterized by substandard living conditions. Additionally, the housing spectrum includes luxury flats, homes, and villas, catering to different segments of the population, highlighting the dynamic nature of urban development and the varying levels of accessibility and affordability in the housing market.¹

In contrast, rural housing predominantly consists of traditional dwellings made from locally sourced materials like mud, wood, and thatch, often lack modern amenities, contributing to a stark urban-rural disparity in housing standards and quality.

The real estate sector in Ethiopia is growing, with 125 registered companies operating in the field as of 2018. These companies, in collaboration with government initiatives, are contributing to urban densification and providing some affordable housing options to improve living conditions in impoverished urban areas. However, despite these efforts, there remains a significant housing deficit, leading to a lack of affordable housing and substandard living conditions for a large portion of the population.²

The demand for urban housing in Ethiopia remains high, with projections indicating the need to build 471,000 new houses per year from 2015 to 2025, and 486,000 new houses per year from 2025 to 2035. This underscores the ongoing challenge of bridging the urban housing gap and raising housing standards throughout Ethiopia.²

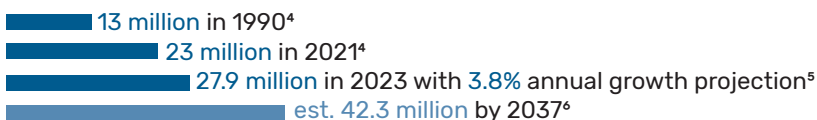
FACTS AND FIGURES

Population: **123 million** (2022)
2nd largest in Africa after Nigeria³

- High fertility rates
- Natural population expansion



Urban population growing



The overall rate of urbanization is estimated to intensify, reaching a notable increase in urban dwellers by 2034, with 30% of the country's population residing in urban settings by 2028.⁶

-  Lack of affordable housing
-  Substandard living conditions
-  70% of housing stock needs complete replacement, is overcrowded and has poor amenities⁷
-  High rental costs, especially in Addis Ababa and nearby
-  Rapid urbanisation, urban household formation

Urban housing demand in Ethiopia is outpacing supply

Housing supply trends

- Housing supply est. **165,000 units annually** (2007–2013)
- It has fallen significantly **short of demand**, with government efforts failing to provide affordable housing to meet the rising demand.
- Private developers, cooperatives and individuals primarily **target the high-end market**.
- The formal private real estate sector's contribution to housing supply is minimal, with **informal construction dominating** the landscape.

Housing demand trends

- Rising per capita income due to economic growth is driving urbanisation and increasing housing demand.
- Housing affordability is a major issue due to high construction material and land prices, exacerbated by an underdeveloped housing finance system.
- Post-COVID-19 household income growth driving demand for improved housing.



US\$1,020 per capita gross national income³



Estimated demand for urban houses
471,000–486,000 annually (2015–2035)⁹



The construction industry is expected to grow
>8% annually until 2026

Affordability

0.2
Affordability index

This index measures a person's ability to afford an item compared to their income or the average income for their country or region.¹⁰

42.3
Cost of living overall index

The overall index reflects the general cost of living.

11.6
Local purchasing index

The local purchasing index specifically compares local prices to international ones.¹¹

Mortgage market: Interest rates, number of providers



Housing market financing:

23% through mortgages **%**
77% financed informally
(through relatives, friends and savings groups)

Consistently high mortgage interest rates:
avg. 5.48% (1995–2023)¹²



Currently, there are **only two**

- banks** that offer mortgages:¹³ **Icon**
 - Selam Bank
 - Goh Betoeh Bank S.C. (since 2021)

Underdeveloped market with limited number of mortgage providers and stringent collateral requirements

Affordable financing options for purchasing housing are inadequate



The requirement by financial institutions for **large down payments and substantial collateral** make the access to mortgage loans difficult for many, especially those with limited financial resources.



Initiatives such as the Industrial Construction Technologies in Ethiopia project are promoting low-cost prefabricated and wood-frame housing technologies, as well as exploring the use of sustainable materials such as straw bales and bamboo.⁸

POLICY CONTEXT: INITIATIVES TO MITIGATE THE ISSUE

The Ethiopian government has set in motion several initiatives and housing projects to address the housing crisis. These entail building low-cost housing units that are designed to be affordable for low-income families.¹⁴⁻¹⁸

THE 10-YEAR PERSPECTIVE PLAN (2020/21-2029/30)

4.4 million new home



80% private sector involvement

- Construction of 600,000 homes near industrial parks
- Setting a density standard for 2.8 million homes
- Rural housing standardisation



URBAN LAND DEVELOPMENT CORPORATION (ULDC) HOUSING PROJECT

A market-driven approach to tackle urban land and housing demand



Affordability through **market segmentation**, **finance expansion**, and **inclusive governance models** for the housing sector

REAL ESTATE DEVELOPMENT PROJECT

- Affordable housing programmes
- Urban renewal projects
- Infrastructure development, particularly targeting underserved communities



Job creation



Housing options



Economic growth

THE ADDIS ABABA HOUSING PROJECT

Plans to build **1.2 million** housing units over the plan period with an estimated investment of **Birr 268 billion**.

- Annual average investment of Birr 26.8 billion
- Emphasizing **sustainable development**, green compact design, and the provision of **social amenities and infrastructure**



MICRO AND SMALL ENTERPRISE HOUSING PROJECT

This project supports affordable homeownership and job creation by providing **financial and technical support** to families constructing their own homes, stimulating the construction sector and micro-enterprises.



KEY STAKEHOLDERS

In the Ethiopian housing sector, a diverse group of stakeholders collaborates and contends with various challenges to meet the housing needs of the population. These stakeholders include:

- **Government entities and policy makers** such as Ministry of Urban Development and Construction, Addis Ababa City Administration and Ethiopian Construction Authority, who set housing policies and urban planning initiatives, facing challenges of urbanisation and sustainable development.
- **Local NGOs and agencies** such as UN-Habitat, Habitat for Humanity, World Bank, who work to align housing initiatives with government policies through awareness raising, funding and collaboration.
- **Private sector** (real estate developers, MSE Housing Project), who tackle market dynamics and regulatory challenges, while the MSE project focuses on empowering low-income groups, and dealing with resource and skill limitations.
- **Financial institutions** (such as Commercial Bank of Ethiopia, microfinance institutions), who provide crucial financing, balancing risk, and accessibility for underserved populations.



CHALLENGES AND RISKS

UNMET DEMAND AND THE SUPPLY GAP: The supply of affordable housing units is failing to meet increasing demand, causing high rental costs for many urban residents, and leaving many individuals and families without adequate housing options.

LACK OF ACCESS TO CONSTRUCTION RAW MATERIALS: Housing construction heavily relies on essential raw materials, such as cement and rebar. However, shortages and the high costs of these materials pose substantial challenges, hampering the construction of housing units, escalating housing prices and delaying projects.

LIMITED ACCESS TO FINANCE: A significant portion of the population lacks access to formal financial services, including mortgage loans. This limits the ability of many people to purchase homes, even when affordable housing units are available.

INFORMAL SETTLEMENTS: There has been a growth in informal settlements in urban areas, often lacking basic amenities such as water supply and sanitation and characterised by poor living conditions.

INFLATION AND FOREIGN CURRENCY SHORTAGES: High inflation and foreign exchange shortages have caused economic challenges, leading to problems in importing necessary raw materials for construction. This has disrupted construction schedules, increased costs, and made housing less affordable for the average person and family.

INADEQUATE STANDARDS, QUALITY AND SKILLS: The lack of standardised practices and skills in the construction sector compromises the safety and durability of houses, impacting the overall quality of housing.

SOCIO-ECONOMIC DISPARITIES: Current housing delivery approaches do not adequately address the capacity of low- and middle-income individuals and families to access affordable housing, exacerbating housing inequality.

HIGH CONSTRUCTION COSTS: Construction costs, including materials and labour, are rising steadily, resulting in developers struggling to provide low-cost housing options. The reliance on imported modern materials also presents challenges, such as high costs, supply chain disruptions, and transportation issues due to infrastructure limitations.

LACK OF ADEQUATE INFRASTRUCTURE AND SERVICES: Many affordable housing developments lack adequate infrastructure and services, such as roads, water supply and sanitation. This can reduce the liveability and attractiveness of such housing units.

INEFFICIENT GOVERNMENT POLICY AND CAPACITY: While the Ethiopian government has made efforts to address the housing shortage through initiatives such as the Integrated Housing Development Program, challenges remain in terms of policy implementation and capacity.

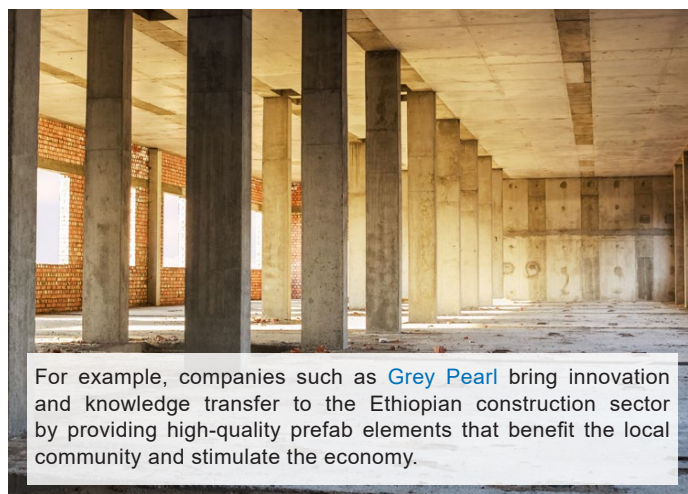
These challenges impact the housing market significantly. The high cost of modern materials drives up housing prices, making housing less affordable, while supply challenges often delay construction projects, limiting housing supply and placing further pressure on increasing prices.

FORESEEABLE OPPORTUNITIES

The Ethiopian housing sector, particularly the affordable housing sub-sector, presents numerous opportunities for the private sector.

1. LOCAL MANUFACTURING OF BUILDING MATERIALS

A. Prefabricated building materials: Leveraging local materials and labour to manufacture sustainable and high-quality prefabricated wall panels, floor slabs, structural beams, stairs, pile caps, and columns offers diverse options to reduce construction time and save costs. Reusing formwork and moulds reduce environmental impact and waste, cuts costs, and enhances design flexibility by integrating easily with materials such as steel or timber, creating a safer work environment.



For example, companies such as [Grey Pearl](#) bring innovation and knowledge transfer to the Ethiopian construction sector by providing high-quality prefab elements that benefit the local community and stimulate the economy.

B. Circular building materials from plastic waste: With around 386,000 tons of plastic waste generated annually and 76% of the total generated waste ending up in landfill, Addis Ababa faces a considerable waste management burden.¹⁹ Most landfill sites lack proper management systems and often function as open dump sites, leading to environmental degradation, public health risks, and contamination of soil and water sources.

By recycling plastic waste into sustainable building products such as bricks, tiles and panels, these materials can be used for building walls, floors, roofs, and other structural elements in housing developments. Companies can effectively address sustainability challenges and gain a competitive edge in the market.

C. Bamboo building materials: Given Ethiopia's expansive bamboo forests, one of the largest in Africa, there is a significant opportunity to leverage this underutilized resource for sustainable construction. Bamboo, with properties comparable to timber, steel, and concrete, offers a promising alternative for various building elements such as flooring, arches, roofs, window frames, doors, and beams.²⁰ Utilizing bamboo can not only simplify construction methods through the prefabrication of structural components but also facilitate the densification of vertical housing units. Most notably, the adoption of bamboo in construction could result in substantial environmental benefits, including a potential reduction of 840 tons of CO₂ emissions, positioning it as an eco-friendly solution that supports both rural and urban development initiatives.

2. TRAINING AND LICENSING PROGRAMMES

Through collaboration between construction companies, local Technical and Vocational Education Training Centres (TVETs) and local construction workers, companies can offer specialised training and consultancy programmes, thus contributing to workforce development via training and licensing programmes. One example is Habitat for Humanity, which has been involved in various housing projects and community development initiatives in Ethiopia, partnering with local TVETs to offer specialised training programmes for construction workers, focusing on safety measures, sustainable construction practices and project management.

3. BIOBASED BUILDING MATERIALS CO-FUNDED BY CARBON CREDITS

Utilising locally cultivated fibres such as bamboo, sisal and jute present an opportunity to reduce carbon emissions compared to traditional materials, offering a more sustainable alternative. By implementing reforestation methods and sustainable practices, such as agroforestry, these biobased materials can help offset emissions and potentially earn carbon credits. Transferring knowledge and technology related to sustainable construction practices involves training local workers in the use of biobased materials and implementing best practices for carbon offsetting and sustainable building design.



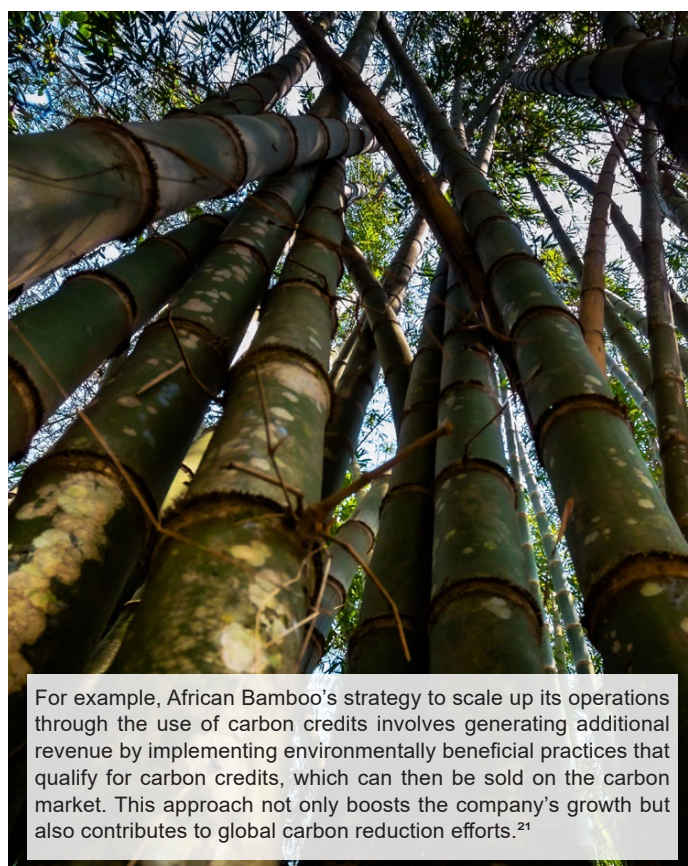
For instance, the [Kubik](#) project exemplifies this approach's success. It converts plastic waste into modular building materials, which are then used to construct affordable and durable housing. This project has demonstrated not only environmental benefits by reducing waste but also economic viability through cost savings and new job creation, thereby showcasing the potential for both innovation and profitability in the recycling sector.

Photo: <https://froyelhand.com>



For example, companies such as [African Bamboo](#) have forestry and production operation facilities in Ethiopia and logistics sales points in the Netherlands. The company manufactures and exports bamboo-based composites to Europe and USA and is exploring partnerships to manufacture bamboo flooring. Other initiatives, such as Addis Ababa's earmarking of a plot for a US\$60 million Africa Bamboo Centre, indicate significant investment in the industry for job creation and industrialisation.

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For example, African Bamboo's strategy to scale up its operations through the use of carbon credits involves generating additional revenue by implementing environmentally beneficial practices that qualify for carbon credits, which can then be sold on the carbon market. This approach not only boosts the company's growth but also contributes to global carbon reduction efforts.²¹

4. CONSTRUCTION AND ENGINEERING CONSULTANCY

Affordable housing initiatives can utilise consultancy services specialising in innovative construction methods and sustainable building practices, e.g. by introducing advanced construction techniques such as modular housing and prefabrication to expedite building processes and reduce costs, and by integrating green technologies, materials, and energy-efficient designs to promote environmentally friendly housing solutions. For example, a US-based architecture company, Eastern Corporation, has expressed a desire to build affordable houses and engage in manufacturing in Ethiopia.

5. SUSTAINABLE WASH SOLUTIONS

Incorporating eco-friendly designs and energy-efficient practices into housing projects reduces ecological impact and enhances appeal. Technologies such as greywater recycling and rainwater harvesting tackle water scarcity, while solar power and sustainable WASH solutions, such as low-flow fixtures and decentralised wastewater treatment, cut costs and improve living conditions. For example, UN-Habitat collaborates with local and global partners to promote sustainable urban development, including affordable housing initiatives.¹²



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