

*Full Length Research Paper*

# **Assessment of housing demand and feasibility of establishing real estate business in Ethiopia**

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**Ethiopia's fastest growing urban centers are challenged by highly growing level of demand for housing. The essential question is how can the country provide housing units in an efficient and affordable fashion to accommodate growing demand from businesses and individuals for diverse uses? Thus, the target of this study was to assess housing demand and therefore the viability of establishing real-estate business in Ethiopia. Data were collected by review of related literature and documents like proclamations, regulations, directives and government housing plan and procedures. The finding indicates that, even as there are no proper information on new houses constructed or new residential construction permissions issued every year, World-Bank 2019 file propose that call for brand spanking new city housing a characteristic of recent city family formation and the need to improve the present housing stock in a way exceeds the contemporary delivery of housing. Accordingly, an estimated 1.2 million housing backlog exists only in the capital city, Addis Ababa, with a projected demand of 655,800 housing units during 2015-2025, far exceeding the estimated annual supply of housing of about 165,000 units nation-wide. The main challenge to the sector is lack of access to affordable land and therefore the widely practiced market-oriented land management system. To conclude, a close look at the government policy and existing mismatch between supply-demand for housing in the country reveals that the sector is viable for businesses to engage in.**

**Key words:** Demand, developer, supply, housing, real-estate, business.

## **INTRODUCTION**

Ethiopia is one of the most populous countries in the world with the current projection of 110 million people. Ethiopia's economy has been growing rapidly over the last 10 years, averaging 10.3% a year from 2006/07 to 2016/17. More specifically, construction and services sector accounted for several of the expansion within the last twenty years (World Bank Group, 2019). The construction sector in Ethiopia, which accounted for 12.5% above the overall GDP in 2018, has continued to

grow yet remains legitimately developed. Since the liberalization of the country's economy in year 1991, some effort has been made by the government towards expanding the role of the private sector within the economy. The affirmative actions taken by the government to encourage the private sector is not limited to change in economic policy only, it is also backed by rules and regulations. Thus, the housing demand has been supplied by both the private and public sectors even

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if unable to meet the ever growing demand because of people mobility from rural to urban areas. Theoretically, it is assumed that, housing is one amongst the three most indispensable human needs. In line with the world organization Universal Declaration of Human Rights (UDHR) 1948, "Everybody has the right to a typical living adequate for the health and well-being of himself and of his family, including food, clothing, housing and treatment." Thus, in order to address the growing demand for the basic need of the society, it requires the involvement of private real-estate businesses on top of the efforts made by the government and other stakeholders.

Although Ethiopia was considered one amongst the littlest urbanized countries on the continent, this has been rapidly changing. The speed of urbanization, which was 5.8% between 2007 and 2012, is estimated to be 5.1% within the amount between 2012 and 2037 (World Bank Group, 2019). Major cities like capital of Ethiopia, Adama and Hawassa have noted growth rates of 4.5, 8.3, and 8.9%, respectively. Ethiopia features varied history of internal migration and population redistribution. In previous decades, migration was shaped by political and economic transitions and instability. Taking into account the impact of famine, political survival strategies, and robust cultural identities, population movement (both rural-rural and rural-urban migration) in Ethiopia has been profound (Paul and Emily, 2010). Such movements and/or migration have accelerated urbanization in Ethiopia particularly within the capital city of Ethiopia. Of course, urbanization could also be a phenomenon which is observed everywhere in the world whether the nation is developed or developing. However, the impacts of such movement will be very significant for developing a country's social needs, mainly the housing sector. For example, the urban growth rates of Ethiopia will move from an urbanisation rate of 20.4 – 22% recorded in 2017 to a projected 38% by 2037, which is significant. On the other hand, Ethiopia's cities are characterized by little formal planning, an organized road network and widespread informal housing.

The increased number of housing need in Ethiopia mainly in Addis Ababa, the capital city, has become a challenge. As a solution for the larger housing demand, different housing approaches and policies are introduced by the government, like integrated development Program (IHDP). The IHDP is that the prominent current approach of the Ethiopian Government to unravel the housing challenge to low and middle-income sections of the society whether or not it is effective as intended. For over a century, the rapidly growing Ethiopian capital has been unable to provide both adequate and sufficient housing, particularly for its low and middle-income citizens. Reflecting Addis Ababa's general housing history, a series of studies conducted in accordance with Addis Ababa's planned revision during the primary 2000s, declared a vast shortage of housing units – predominantly

for low-income residents – and a generally poor condition of the prevailing housing stock. Similarly, more than 95% of the total housing units were identified as single-story shelters, showing substantial deficits regarding sanitation, cooking, and personal hygiene facilities (Paul and Emily, 2010). Such mismatch between quality housing supply and demand for housing in Ethiopia could even be treated as an opportunity for private sector interested in hitching the important estate business, particularly construction of homes.

The country's rapidly increasing population and quick rate of urbanization continues to place significant pressure on housing, particularly among the poor. Lower income families face two main obstacles to owning homes: lack of reasonable and quality housing stock, and the difficulty of obtaining housing finance. As a result, currently the unmet housing demand only in the capital city, Addis Ababa, is estimated at approximately 1.2 million. From the housing supply perspective, the government's IHDP contributes the most important role to the housing stock within the country, followed by privately built houses by individuals. Still, the important estate sector is in its infancy stage and thus contributes little. On housing, notwithstanding the relative success of the IHDP, it is time that the Ethiopian government transforms its role from controlling housing delivery to enabling the market to deliver at an impressive scale by encouraging private sector to participate. This can be realized by eliminating binding limitations facing the private sector on either side of the housing value chain which could be a key part of a market-enabling approach. Accordingly, and also thanks to the failure of IHDP, the government of Ethiopia is revising its policy to enable the private sector affix the industry.

These days, government policy also encourages assets developers through the facilitation of developed land, strengthening the system for ensuring property rights, supporting the developers to utilize local materials, marketing and establishing opportunities of debate for sustainably solving problems and encouraging the investors. Ethiopia's housing sector is characterized by substantial shortages, both quantitatively and qualitatively. The demand for brand new housing far surpasses the pace of housing supply within the country. Compared to the sub-Saharan African countries, Ethiopia displays one in every of the most levels of urban population living in informal settlements (World Bank, 2015). As per the World Bank Group 2019 report, Ethiopian government should introduce affordable housing requirements and strengthen existing incentives for developer built affordable housing. Both local and foreign companies may be encouraged to have interaction within the market. Moreover, allowing foreign investors to form joint-ventures with local real-estate developers or builders will provide technical capacity, external capital and increased output. In general, the private business in the property market of constructing building for both

commercial and residential purpose is projected to grow in the near future so as to address the ever growing housing demand. However, no organized study was conducted to examine the demand for housing and the viability of the sector. Hence, the objective of this study was, to assess housing demand and the reasonableness of engaging in Real-Estate Business in Ethiopia.

## **MATERIALS AND METHODS**

In order to address the objectives of the study, the researcher used secondary sources of data which was collected through review of related literature and relevant documents such as Ethiopian government proclamations, regulations, directives and policy and procedures/plans; Reports of World-Bank Group; Planning and Development Commission; Access Capital magazines, and Addis Ababa City Structure Plan. Documentary analysis was used to make analysis of the related literature and the relevant secondary records and the result has been presented using tables followed by the relevant narratives to interpret them.

## **RESULTS AND DISCUSSION**

### **Housing supply in Ethiopia**

Since 2005, the country has been implementing a large-scale housing program which aims to decrease the housing supply deficiency and improve the living standard of the urban low-income and middle income families through the development of high-rise condominium houses supplied with basic services. Condominium housing program contains a positive significant effect on wealth of family, approximated by a wealth index including housing quality, use of durables and access to services, and on annual total education expense of households per attending child (Mahder, 2013). The study of IHDP which was undertaken in 2006 showed that the housing shortage within the populated area of the country is 900,000 out of which 450,000 was found in Addis Ababa alone (Addis Ababa AACA, 2006). The town administration has introduced the condominium housing program within the city to boost the housing condition and to unravel the housing scarcity. Particularly in the capital of Ethiopia, 37.92% of housing units are rental houses owned and administered under the government (federal government and regional administrations). Individual renters have also significantly contributed to unravel the housing difficulty by providing rental house. Within the capital city, 25% of the housing stock is informal settlement. Moreover, the non-slum families of the town are estimated only between 0.9 - 15.8% (UN-Habitat, 2004). On the other hand, 35% of housing stocks are privately owned in urban centres of the country whereas in the capital city, 42% housing stock is owned by private. Since the year 2005, the majority of housing supplied within the country's main cities has been through the IHDP, closely followed by individual,

self-built housing, private sector, and municipalities. However, the private sector assets developers have up to now played a limited role within the housing sector.

Data on the housing supply on a year-on-year basis is scarce, and tiny data is accessible regarding the assorted forms of housing units constructed annually. The estimated rate of annual housing supply (flow) is about 165,000 units nation-wide between 2007/2008 and 2013/2014. This can be often outpaced by the estimated demand of 471,000 and 486,000 units annually till 2025 and 2035 respectively. IHDP can be a large-scale approach to addressing this housing shortage. But it's criticized it for its failure to meet the resident's need and expectation starting from design till the implementation or delivery stage. On the other hand, estimates from the WMS/ HICE 2016 survey which indicates that approximately 72% of households in large cities board dwellings constructed out of "wood and mud" (chika). Informally-constructed housing dominates the housing stock. Access to services in informally built housing is worse than in other housing options, which is especially true of informally constructed dwellings on the urban periphery. A study conducted in 27 cities in 2014, showed that the IHDP supplied the foremost houses (52%) followed by informal house building (31%), individual self-built housing (2.5%), land (0.3%) and municipalities, 0.3% (World Bank, 2019). Of course, the contribution/share of real-estate within the general housing stock/supply in metropolis (4%) is far greater than that of its share national wise (0.3%).

Cooperatives have historically been the mainstay and the first form indicate that 28.2% of Addis Ababa's total housing stock is created by cooperatives, while the World Bank puts it at of non-government formal housing, although support has waned in recent years. Between 1996 and 2003, UN Habitat estimates 50% of the formal housing stock. However, rough estimations from the world Bank's spatial analysis and household survey combined with Welfare Monitoring Survey (WMS) and Household Income and Consumption Expenditure Surveys (HICE) (2016) estimates show that the share of housing made up by cooperatives has likely dropped. Many cooperative housing is found in Addis Ababa's peripheral areas. Cooperatives, nonetheless, primarily serve middle-income and upper-income groups. Additionally, cooperative housing tends to be of an advanced quality, with superior quality building materials and greater access to basic services compared to the opposite type of housing in Ethiopia. Although proper policy attention is not given, Ethiopia's rental housing market is large, with many secondary dwellings on existing plots filling the availability gap. Supporting the WMS/HICE - 2016 survey, the majority of households in large cities across Ethiopia are tenants. Tenants in large cities constitute 59.8% of households (this figure includes 20.4% kebele and government rentals), while owner-occupants constitute 32.6% of households. Additionally,

estimates shows that up to 19% of households in the metropolis, Adama and Mekelle loan a neighborhood in their dwelling to a unique household.

As presented in Figures 1 and 2, the share of households that pay rent has progressed significantly to 13.4% overall. The size of individuals who board rent-free accommodation has however reduced from 8% in 2011 to a few in 2016. On the other hand, there is a major difference between rural and urban area in terms of ownership. Most (94.3%), rural households live in their own houses but only 39.7% of urban people live in their own houses. Generally, the share of rented houses in both rural and urban area resident is significant. This corroborates the fact that most residents live in either paid or free rented houses. Compared to the rural areas, residents in urban areas ownership of property had been declining during the year 2004 to 2016.

Even if not significant, many rural residents live in a rented house which shows ample need for housing in rural areas as well. Non-government constructed formal housing stock makes up an insignificant percentage of the housing stock compared to the formal units constructed by government entities. As per Ministry of Urban Development and Construction (MUDC) estimates, individually constructed formal housing, cooperatives, and housing constructed by private land developers make up approximately 18.3% of the complete housing stock across Ethiopian cities. The low share of housing supplied by formal land developers (0.3%, country-wise) is reiterated by an IBRD assessment of housing from 2005, which estimates that land contributes approximately 1.3% of the formal housing stock in capital. Currently, housing constructed by private real-estate developers' likely supplies the richest families as formal housing sits at the best of the household consumption level and housing affordability pyramid (World-Bank Group, 2019). This shows the actual fact that the globe needs the involvement of the real-estate businesses.

### **Demand for housing in Ethiopia**

Ethiopia encompasses a varied history of internal migration and population relocation. Taking into consideration the impact of famine, political survival strategies, and powerful cultural identities, population movement (both rural-rural and rural-urban migration) in Ethiopia has been profound and has thus accelerated the necessity for houses in urban areas. The extent of the necessity for social services and infrastructure like housing depends, among others, on the scale of the population and its rate. The population of Addis Ababa will reach approximately 4.4 million at the tip of the plan period, 2027 (Lia, 2017). Since urbanization is inevitable mainly in light of the transition the country is making from a primarily rural towards an urban-based economy, one in every of the direct challenges is

“how to supply reasonable and suitable housing within a liveable environment”. As presented in Table 1, in 2019, urban population for Ethiopia was 21.2%. Over the last 50 years, urban population of Ethiopia grew substantially from 8.6 to 21.2% rising at an increasing annual rate that reached a maximum of 2.44% in 2008 and decreased to 2.23% in 2019. Housing trickiness is more prominent in urban areas than in rural areas. Thus, urbanization can cause the rise of slums, informal settlements, insufficient housing and homelessness, if not managed properly.

As revealed in 2019 by the UN Economic Commission for Africa (ECA), urbanization in Ethiopia is growing and is estimated to triple, with urban population projected to exceed 42.3 million by 2037. Such growth in urbanization within the country generally, and in Addis Ababa particularly, has been creating housing deficit. Addis Ababa's housing sector has been a time-honored challenge. For over a period, the speedy growth of Ethiopian capital city, Addis Ababa has made it challenging to supply both adequate and enough housing, particularly for its low income inhabitants. Reflecting on the city's general housing history, a series of surveys conducted in accordance with Addis Ababa's plan revision during the first 2000s, declared an infinite deficiency of housing units – predominantly for low income residents. Moreover, over 95% of total housing units were identified as single-story housings, showing significant shortages regarding sanitation, cooking, and private hygiene amenities. As per Lia (2017), the demand for housing during the Addis Ababa planning period (2017-2027) is forecasted, taking into consideration six important variables, namely:

- i) Existing stock of houses,
- ii) Population growth,
- iii) Backlog of houses,
- iv) Dilapidation,
- v) Overcrowding,
- vi) Conversion and contingency.

More specifically, these variables refer to:

- i) the number of housing units currently in use;
- ii) housing that will be needed to accommodate new family formation (which is a function of population growth);
- iii) housing units to be constructed to meet the current backlog;
- iv) housing units to be demolished due to their dilapidation;
- v) housing units that will be needed to address overcrowding; and
- vi) housing units that will be converted into other uses, and contingency.

Thus, as indicated in Table 2, considering these elements/

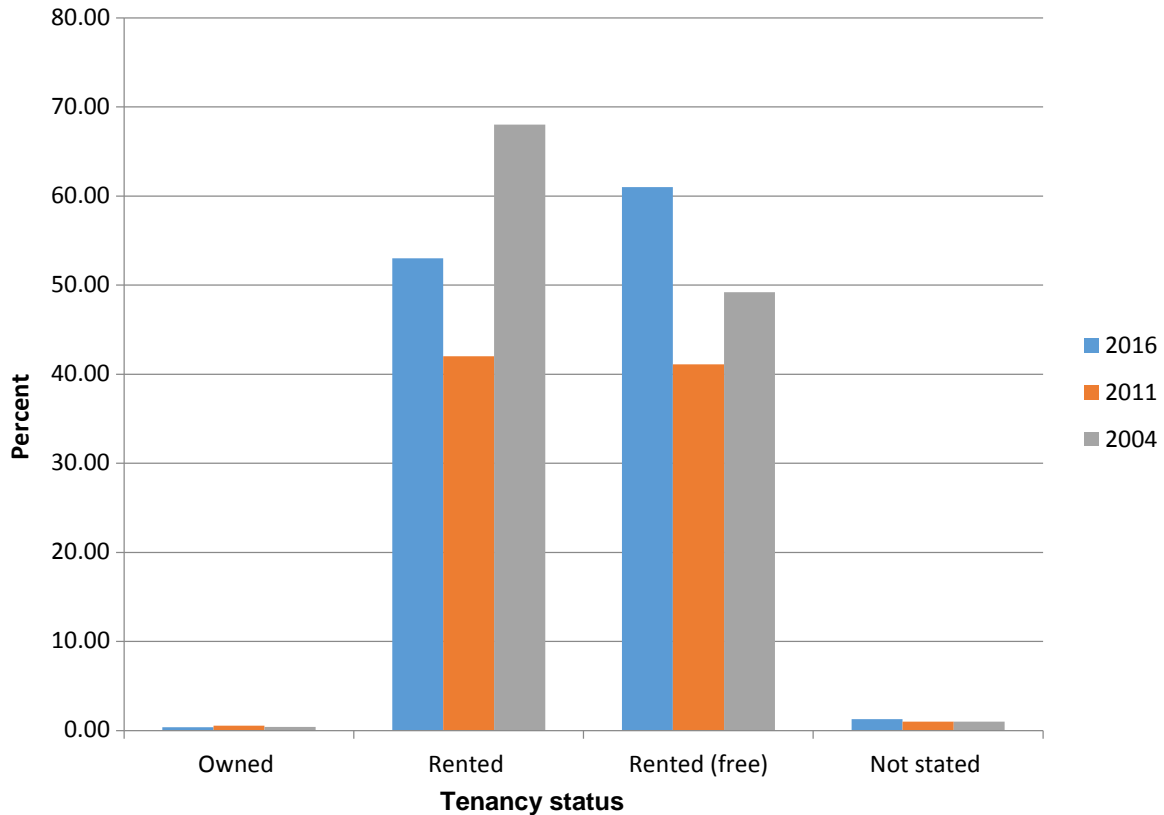


Figure 1. Tenancy statuses of Ethiopian urban residents during 2016, 2011 and 2004.

factors, the total number of housing units that have to be built during the ten years within Addis Ababa is projected to be 1,172,195, which is approximately 1.2 million houses (Lia, 2017).

On top of estimating the magnitude of housing requirements, a crucial question to ask is “how to create 1.2 million housing units by 2023?”; and a part of the solution to the question lies on appreciating the government’s position towards housing as per its policy documents like GTP-II, the broader national urban development policy and therefore the more specific housing policy. The overall direction that is stipulated in these documents focuses on the subsequent five “guiding principles”:

- i) Affordability,
- ii) Social mixity,
- iii) Compact development (vertical development rather than sprawl) and strong government intervention in the delivery,
- iv) Improvement in quality of housing stock and living environment through upgrading and renewal, and
- v) Linking employment creation efforts with housing programs.

In consonance with those positions, Addis Ababa City

Plan (2017-2027) has developed five goals and specific strategies to realize each goal. One in every of the goals involves increasing the housing stock within the city with particular concentration on affordable housing. The Plan adopts two sorts of strategies: the primary one is associated with assembly of cheap houses. The share of the low income group which represented 80% in 2002 has declined to 66% in 2012 and is anticipated to travel further right down to 35% when the country achieves the center income status by 2023 (Lia, 2017).

As shown in the Figure 3, in the near future the potential demand for housing from the middle-income group will reach 50% of the total housing demand, which is significant compared to the upper and lower income groups.

Demand for formal housing is robust, as demonstrated by the extraordinary subscription rates for IHDP and other government housing, and the exciting rental and secondary markets within IHDP blocks. Many IHDP beneficiaries rent out their units. Results from the World Bank Housing Survey indicate that there are a significantly higher proportion of private tenant households (53%) versus owners (41.6%) in IHDP compared to any other type of housing. The large demand for formal housing is also proved by the premium households that are willing to pay for an IHDP unit on the

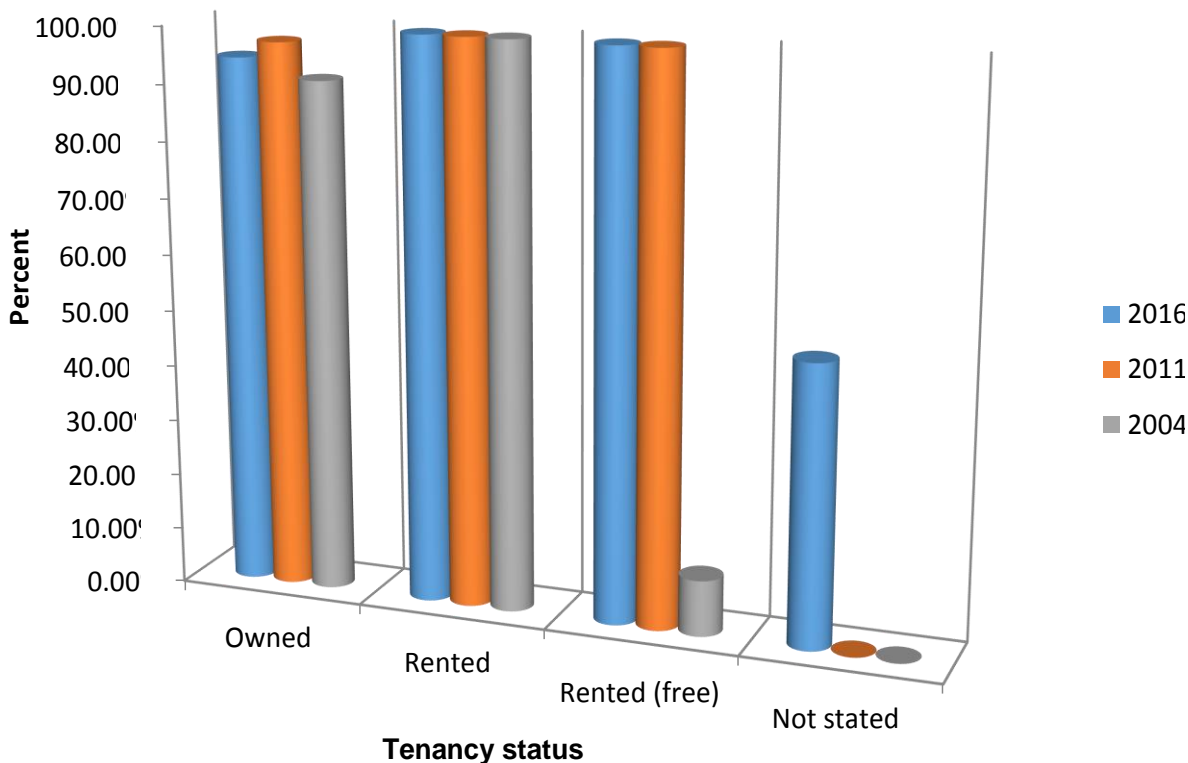


Figure 2. Tenancy statuses of Ethiopian rural residents during 2016, 2011 and 2004.

secondary market. Households will pay over five times greater than the original lottery winner when buying an IHDP unit. Government policy and involvements in recent years have focused on ownership and IHDP. As a result, over 383,000 condominium units have been constructed and disseminated under IHDP between 2004 and 2017/2018. Despite the rate at which houses are being built and transmitted to owners/buyer, supply is incapable of meeting demand. IHDP’s impact in terms of number of units built is significant, but sources indicate that government’s ability to produce roughly 25,000 to 35,000 housing units at a maximum per year means that it is incapable of handling demand. Given that between 2004 and 2016, only 280,000 houses were transferred, this implies only 28% of the total demand, or just over 2% per annum, has been met (World-Bank Group, 2019).

**Challenges of real estate business**

A real estate business may be a company that is involved in converting a thought on paper to something having physical substance, tangible-assets. The ultimate goal of real-estate is to construct a building for commercial and/or residential usage so as to make profit. In general, a real-estate developer is one of the designers of the project during which case they will either be involved within the construction of building. And thus, in doing so,

real-estate developers face variety of challenges. Numbers of things that worsened/challenged the housing supply conditions in Ethiopia and Addis Ababa especially include:

i) Lack of access to affordable land and therefore the widely practiced market-oriented land management system (Tesfaye, 2007). Mainly, the vacant plots of lands which will be leased by the town administration that are best situated are hard to seek out if not very expensive. And it is often justified with reference to the capital requirements and tied-up capital, until these commercial properties begin to give yields.

- a) Lack of diversified housing delivery systems;
- b) Absence of a strong and affordable housing construction industry; and
- c) Absence of diversified housing financing system;
- d) Particularly among the urban poor, limited access to decent and affordable housing has driven fast growing informal and squatter settlements within the city.

ii) A recent report on land by Access Capital indicates that there are variety of challenges within the real-estate sector in Ethiopia. The key impediments confronting the investors in the country include, but are not limited to these factors only:

- a) The existing land policies which exclusively gives the

**Table 1.** Urbanization in Ethiopia during 2008 to 2019.

Date	Value	Change (%)
2019	21.2	2.23
2018	20.8	2.23
2017	20.3	2.23
2016	19.9	2.25
2015	19.4	2.26
2014	19.0	2.28
2013	18.6	2.29
2012	18.2	2.40
2011	17.7	2.40
2010	17.3	2.42
2009	16.9	2.42
2008	16.5	

Source: <https://knoema.com/atlas/Ethiopia/Urban-population>

**Table 2.** Estimated housing need (2013-2023).

Population in 2023	Address new family formation	Replace dilapidation	Address Backlog	Contingency (20%)	Total needed
4,408,656	207,015	269,814	500,000	195,366	1,172,195

Source: Addis Ababa City Structure Plan (2017-2027), Lia (2017).

ownership right to the government only, making transfer  
 c) Insufficient and/or poor infrastructure and lack of real-estate financing particularly for the private sector as a result of the absence of specialized banks in the country such as the mortgage bank and investment bank. The financial sector of the country is dominated by the depositor banks, mainly the commercial banks which are primarily meant for petty loan.

iii) Similarly, consistent with Zerayehu and Kagnev (2015), there are daunting challenges in reference to financing. Especially, the issues of land management, low construction capacity, inadequate infrastructure, poor borrowing capacity, prices escalation, low affordability are worth mentioning.

iv) The other challenge that faces commercial enterprise in Ethiopia is ineffective demand. Not all demand and willingness to possess residential house among the general public mean real marketplace for the important estate sector. This is often because only effective demand can serve as real market to the world.

v) On top of this, data from the Planet Bank's 2019 Doing Business report indicates the value and time implications of land development in Ethiopia - in terms of both

a) the simple obtaining of construction permits and  
 b) of registering property might deter the availability of

latest housing.

Accordingly, Ethiopia ranks 144 out of 180 countries in terms of registering property, and 168 out of 186 countries when it involves handling construction permits. Although the length of time required to get construction permits in Ethiopia is slightly superior compared to that of other sub-Saharan countries (134 days versus 145.7), the value is relatively high (14.4% of building value, versus 8.8% in sub-Saharan countries and 1.5% in OECD countries).

vi) Moreover, in most of the developing countries generally and especially in Ethiopia, the supply of other building materials and therefore the introduction of advanced construction technology are considerably limited. For-example, the value of obtainable materials is extremely expensive and its share is about 70% of the entire cost of the development (Tameru, 2009).

vii) Other challenge for companies in Ethiopia generally and real-estate in particular involves shortage of foreign currency. The foreign currency shortage has affected several businesses in all sectors of the economy. Some people have even been forced to shut down their businesses. Previously, during a media briefing, the country's former Prime Minister Hailemariam Desalegn made it clear that the existing foreign currency shortage will not be solved in the near future.

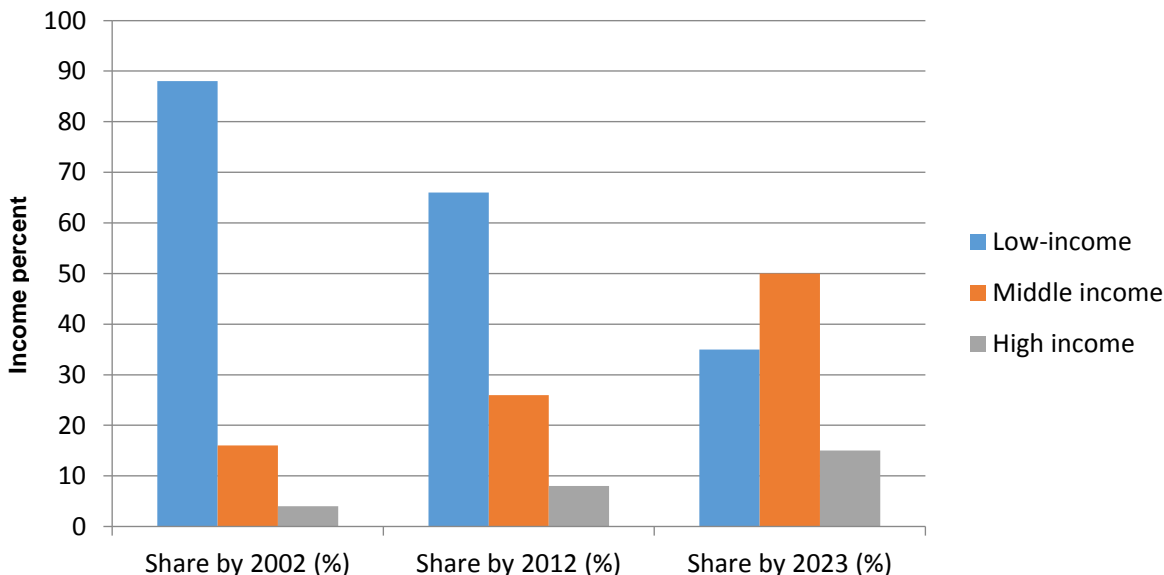


Figure 3. Distribution of households Demand by income group.

**Opportunities of real-estate business**

Real estate sector in Africa has been experiencing a powerful growth. Currently, 400 million African people live in urban zones, which are 40% of the population; 50 years ago, this was around 3% and will be 1.2 billion in 2050 (60%). Finding a home for one’s family may be a necessity for folks, and an obligation for the African government. The African diaspora represents significantly 30 million people worldwide. They send 40 billion dollars annually to their native country. This money is usually used for emergency help for families, as well as for investment. To those in diaspora, land is the first investment item, underscoring the desire to own an accommodation in their home country. The speed of urbanization is directly proportional to the demand for houses. It is expected that as a rustic becomes more urban, more houses are going to be needed to accommodate the increasing population in urban centers.

- i) The practice, however, does not support this, thus, the acceleration in urbanization is not owing to supply of adequate affordable housing. This is often one among the explanations for the event of informal settlements, which give housing to most low-income groups (UN-HABITAT, 2002). Hence, if real-estate developers aggressively engage in housing business, they will maximize their market share through the economies of scale.
- ii) Similarly, following failure of the government to deliver its 40/60 condominium projects on time, which is expected to reach targeted customers within the middle income category as compared to those in 20/80 and 10/90, that is expected to create a plus for personal

- developers and real-estate, the government did not honor the contract it entered into by providing the homes even for the one-hundredth of the people that have met the complete payment requirements for 40/60 housing package.
- iii) On the contrary, demand for residential houses in Addis Ababa has continued to rise over the past few years. More Ethiopians are relocating to town putting pressure on the government to satisfy the housing demands. Nevertheless, the private sector has really stepped up a bit to cater for a few of the demand, especially demand for high-end residential houses. The private sector has been experiencing impressive steady growth as more and more affluent Ethiopians demand for high-end houses. Private sector developers like Access land and Jackross Ethiopia are always on the frontline when it involves the important estate market within the country. These private land developers have managed to form billions of birr by selling both high end and low-cost residential houses to many Ethiopians.
- iv) Moreover, the condominiums often lack water which has become a true challenge for those living in them. In other words, lack of proper ways of handling garbage has left many areas within the condominiums crammed with mountain piles of rubbish which occupy areas designated for public parking.
- v) As per the Addis Ababa City Structured Plan (2017-2027), the government has proposed the various approaches/options to deliver housing as shown in the Figure 4. The share of commercial enterprise in housing sector may reach 15%, which is a chance for firms who are looking forward to hitch the industry.
- vi) As regards the experience sharing discussion held at Addis Ababa on November 2017, Flintstone Engineering





Figure 4. Proposed housing delivery options.

Share Company founder and Chief Executive Officer, said “There are enormous opportunities within the construction sector in Ethiopia”. Such as:

a) Taking into consideration the national decision to be implemented then, the CEO said that there would be big opportunities then and people’s opportunities might be worth 400 to 500 billion birr. This presents numerous opportunities to the private sector to take advantage of, and hence the latter must prepare to utilise it.

b) An important consideration is the incontrovertible fact that the government features a decision to modernize and industrialize 8000 kebeles, and undertakes activities in accordance thereupon. This creates further tons of opportunities for the land sector (Addis Business, November 2017).

c) Moving on to more opportunities within the sector, the CEO indicated the massive number of individuals pouring into Addis Ababa from different parts of the country. There is a requirement to also design low-cost houses for this section of the society, he added.

vii) A report on land by Access Capital issued in 2016 indicates that there are varieties of opportunities within the estate sector market in Ethiopia. The four potential market segments for the real-estate are:

- a) Commercial-center developments;
- b) Residential building, including apartments, focused on middle income groups;
- c) New developments based on innovative and cheaper construction materials; and

d) Business parking developments.

**Summary**

***Housing supply and demand in Ethiopia***

i) The housing sector that engages in supply of housing stock to the city’s residents has been in a long-standing strain.

ii) The study of Integrated Housing Development Program (IHDP) undertaken in 2006 indicated that the housing deficit in the urban area of the country is 900,000 out of which 450,000 comes from Addis Ababa (Addis Ababa AACA, 2006).

iii) At the beginning of the year 2000, the city’s nearly 4 million inhabitants had a housing supply backlog of about 300,000 units.

iv) These numbers show the housing supply shortage in the city and are oftentimes characterized by poor conditions.

v) A study conducted in 27 cities in 2014, showed that out of the total housing supply in the country:

- IHDP supplied the most houses (52%). followed by
- Informal house building (31%),
- Individual self-built housing (2.5%),
- Real estate (0.3%) and
- Municipalities (0.3%).

vi) Actually, the contribution/share of real-estate in the overall housing stock/supply in Addis Ababa (4%) is

- much greater than that of its share national-wise (0.3%).
- vii) Most of the existing housing stock is low quality.
  - viii) “Approximately 72% of households in large cities live in dwellings constructed out of ‘Wood and Mud’ (chikka), while about a quarter of households live in housing constructed out of ‘Cement or Stone’ (World Bank, 2019).
  - ix) Government’s four plan years of 2014/15 to 2017/18, it was planned to construct 400 thousand housing units, out of which the construction of more than 150 thousand housing units was completed.
  - x) Still an estimated 1.2 million housing backlog (World Bank, 2019) exists in the country with a projected demand of 655 800 housing units during 2015-2025 (Korea Development Institute, 2018, far exceeding the estimated annual supply of housing of about 165,000 units nationwide between 2007/2008 and 2013/2014 (World Bank, 2019).
  - xi) This shows the fact that the sector needs the involvement of the private real-estate businesses.

### ***Challenges and opportunities of real estate business***

A number of factors worsened/challenged the housing supply conditions in Ethiopia and Addis Ababa in particular, such as:

- i) Lack of access to affordable land and the widely practiced market-oriented land management system (Tesfaye, 2007).
- ii) Lack of diversified housing delivery systems;
- iii) Absence of a robust and affordable housing construction industry;
- iv) Absence of diversified housing financing system;
- v) Particularly among the urban poor, limited access to decent and affordable housing has driven fast growing informal and squatter settlements in the city.
- vi) The other challenge that faces real-estate business in Ethiopia is ineffective demand. Not all the demand and willingness to have residential house among the public mean real market for the real estate sector.
- vii) Similarly, shortage of foreign currency is one of the challenges of real-estate business in Ethiopia.
- viii) On the other hand, the sector has a number of opportunities both for existing and new real-estate business. Such as:
  - a) Urbanization of the country in general and Addis Ababa in particular as discussed earlier in the demand analysis section.
  - b) Failure of the government to deliver its 40/60 condominium projects on time, which is said to have targeted customers in the middle income category in comparison to those in 20/80 and 10/90, a situation that is said to have created an advantage for private developers, real-estate.
  - c) As per the Addis Ababa City Structured Plan (2017-2027), the government has proposed the different

approaches/options to deliver housing. Accordingly, the market share of real-estate business in housing sector may reach 15% (increase by 11%).

### **Conclusion**

Ethiopia’s fastest growing urban centers are challenged by an extraordinary level of demand for housing. How can the country provide housing units in an efficient and affordable fashion to accommodate growing demand from businesses and individuals for diverse uses? The objective of this study was to access the housing demand as well as the practicality of establishing real-estate business in Ethiopia, particularly in and around Addis Ababa. As presented in the World Bank Group 2019 report, government should introduce affordable housing requirements and strengthen existing incentives for developer built affordable housing. Moreover, both local developers and foreign investors should be encouraged to participate in the market. Of course, the advancement of real estate business has an affirmative impact over the general economy of the country since it boosts the need for different inputs such as labor and materials. Such spillover effect of the sector has helped the country to scope a double digit economic growth over the last five years (Access Capital, 2010). Even if the real-estate business is a young sector, it has been contributing a lot to the growth of the country’s economy. However, regardless of its contribution, there were no organized studies which address the overall feasibility of the housing sector to the real-estate developers in Ethiopia context. The finding shows that, while there are no good statistics on new homes built or new residential building permits issued each year, World-Bank (2019) report suggest that demand for new urban housing – a function of new urban household formation and the need to upgrade the existing housing stock – far exceeds the current supply of housing. Moreover, as per the projection of housing in Addis Ababa during 2017 to 2027, the contribution of real-estate developers will reach 15% from its current supply of less than 4% of housing in Addis Ababa. To conclude, a close look at the government policy and existing mismatch between supply-demand for housing in the country, reveals that the sector is viable for businesses to engage in.

### **CONFLICT OF INTERESTS**

The author has not declared any conflict of interests.

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